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Using COVID-19 as opportunity: the role of the AIIB's leadership in its strategic adaptation to the pandemic

Giuseppe Zaccaria 

Department of Political Science, Maastricht University, Maastricht, The Netherlands

ABSTRACT

The COVID-19 pandemic led to a steep rise in demand for COVID-recovery lending and a decrease in capacity for infrastructure borrowing in many countries struggling to cope with its economic effects. This has presented a significant challenge to the Asian Infrastructure Investment Bank (AIIB), as its project pipelines had been developed mainly for traditional infrastructure lending. This paper examines the strategies employed by the AIIB to adapt to the COVID-19 pandemic. The findings showcase how its institutional leadership effectively employed its authority, resources, and leadership competences to push for an adaptive response strategy. This was achieved by pitching a response based on the expansion of the AIIB's operational scope beyond traditional heavy infrastructure lending and the introduction of new policy instruments for funding COVID-recovery projects. The AIIB also engaged in collaborative partnerships with other MDBs to access their project pipelines and expertise. Thanks to these efforts, the AIIB not only managed to cope with the challenge, but its leadership also ensured the institution would come out of the pandemic having opportunistically benefited from it. The findings speak to the scholarship on IO resilience and bureaucratic politics. The analysis relies on official documents and original data from 20 interviews with IO officials and experts.

KEYWORDS International Organizations; International Public Administrations; Asian Infrastructure Investment Bank; Multilateral Development Banks; COVID-19

Introduction

The China-led AIIB has faced various struggles since its inception, such as US contestation (Curran, 2018; Yang, 2016; Freeman, 2019), skepticism and membership hesitancy by Western states (Thomas & Hutzler, 2015; Wei & Davis, 2015), as well as significant competition due to institutional overlap

CONTACT Giuseppe Zaccaria  g.zaccaria@maastrichtuniversity.nl

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with the World Bank and other Multilateral Development Banks (MDBs) (Brands, 2018; Perlez, 2015; Wilson, 2019). The AIIB has so far managed to cope with those challenges, yet the global COVID-19 pandemic proved an additional obstacle to its consolidation within the international development arena.

The pandemic led to a relative decline in infrastructure-borrowing demand by countries struggling to recover from its economic effects (AIIB, 2020a, 2021, 2022b; World Bank, 2020a, 2021b). As a young institution with the mandate to focus mainly on infrastructure investment (AIIB, 2015a), the clients' switch in demand was perceived as a significant challenge by the AIIB's leadership, as the institution lacked the necessary policy focus and tools for addressing this (AIIB, 2022b). Moreover, the presence of significant competitors (e.g., World Bank) with broader policy focus and high functional, resource, and geographic overlap with the AIIB, meant it struggled to secure projects soon after the pandemic hit (AIIB, 2019, 2020a, 2022b).

From the institution's viewpoint, the fear was that the AIIB would lose its momentum in developing its project pipelines, expertise, and credibility, thus slowing its consolidation within the global lending arena. Moreover, there was a real chance for the AIIB to be caught up in the Sino-American rivalry over the pandemic, as experienced by various IOs such as the UNSC and, especially, the WHO (Ogden, 2020; Smith & Fallon, 2020; Zhao, 2021). As a high-ranking official in the AIIB senior management team stated, by March 2020 the leadership was very concerned by the pandemic's impact on clients and was fully aware of its potential consequences (Interview #8).

Surprisingly, since April 2020, the AIIB has managed to secure a larger number of projects on a yearly basis than in pre-pandemic years (AIIB, 2022b). Most of these projects are COVID-recovery-based. As of March 2022, the total number of approved COVID-recovery projects had reached 46, amounting to more than \$11.5 billion (AIIB, 2022d). This is more than the combined value of all the loans provided by the institution from its inception to the start of the pandemic. How can this outcome be explained? Through what strategies did the AIIB's leadership manage to adapt the institution so effectively to the COVID-19 pandemic challenge?

Relying on data obtained through primary sources (e.g., AIIB reports, minutes of meetings, etc.) and 20 interviews with MDB officials, state representatives, and international development experts, the analysis reveals how the AIIB's leadership devised and implemented an opportunistic adaptation strategy. The investigation sheds light in particular on the role of the AIIB's president, who with the support of senior management, employed their authority, bureaucratic resources, and leadership competences effectively to: (1) recognize the challenge posed by the COVID-19 crisis, examine solutions, identify institutional constraints, and balance member state interests; 2) strategically

formulate a response consisting of the expansion of the AIIB's scope and project pipelines beyond traditional heavy infrastructure lending and the introduction of a new policy instrument, the Covid-Recovery Fund (CRF); (3) secure support through agenda-setting and framing the pandemic as a significant challenge to the institution; and (4) effectively implement the response.

To muster member state support, the AIIB's leadership framed the response proposal as necessary for addressing the immediate needs of clients and in the interest of members. The proposal was pitched as an imperative solution for assisting developing and low-income members whose economies were suffering from the pandemic's effects, and as a blueprint for the AIIB's turn towards long-term sustainability, business-sector development, supply-chain stability, and resilience investment. The institution also strategically relied on collaborative partnerships with other MDBs to gain expertise and access to client networks for building its own capacity and operational know-how beyond traditional infrastructure projects.

The article contributes to the IR literature on IOs by offering new insights on the role of institutional leadership in the process behind an entrant IO's response strategies. Recent studies on IO resilience have examined challenges and institutional outcomes in IOs by focusing mainly on states and neglecting IO response strategies (Debre & Dijkstra, 2021a; Eilstrup-Sangiovanni & Hofmann, 2020; Hopewell, 2020; Ikenberry, 2018; Kruck & Zangl, 2020; Lake, Martin, & Risse, 2021; Mearsheimer, 2019; Schweller & Pu, 2011; Sinha, 2021; Vestegard & Wade, 2015). Studies on IO bureaucratic politics also often view IO bureaucracies as single units, and neglect the specific role of IO institutional leaders or the conditions that facilitate or restrict their ability to shape response strategies (Bauer & Ege, 2016; Chorev, 2012; Eckhard & Ege, 2016; Ege, 2020; Eckhard et al., 2021; Jinnah, 2010; Knill & Bauer, 2016; Knill et al., 2019; Kreuder-Sonnen, 2019). Less attention has also been paid to the leadership abilities of IO executive heads.

So far only a handful of studies have looked at IO bureaucracies and their responses to explain how they cope with challenges (e.g., Debre & Dijkstra, 2021b; Schuette, 2021). Debre and Dijkstra (2021b), for example, offered systematic insights on how 76 IOs tackled the pandemic during its first wave in 2020 and used it as an opportunity for scope expansion. However, they did not probe the causal influence of institutional actors. This article advances that research agenda by specifically highlighting the role of institutional leaders to explain their responses to challenges. It does so by building on previous insights to generate a distinct theoretical framework on the specific role of institutional leaders in the IO response process and the conditions that shape that role. It then applies that framework on a single IO case and zooms in on its institutional leadership's role in tackling the challenge of the pandemic over a span of two years.

Empirically, the case-study findings highlight the causal influence of the AIIB's institutional leadership in its response to the crisis, and reveal the key institutional tools and tactics it employed as well as its strong leadership showing in handling the response. The empirical findings also offer new insights into the institutional factors and processes behind the successful opportunistic adaptation of an entrant MDB striving to consolidate its position within a highly competitive and dense policy arena. They also highlight its agential qualities. Moreover, while the effects of the COVID-19 pandemic on IOs have been extensively researched, the empirical insights of this article reveal the often-neglected role of IO institutional leaders in handling that specific challenge. Finally, the factors under study here are not exclusive to the institutional context of the AIIB. They can be studied across IOs, as well as beyond the COVID-19 case.

The next section discusses the role of institutional features in shaping IO responses to challenges. Next, the response strategy devised by the AIIB's institutional leadership is analyzed, with a focus on how leadership proactiveness, institutional authority, and bureaucratic capacity allowed it to effectively achieve said strategy. The conclusion summarizes the findings and discusses their implications.

Theorizing the role of institutional leadership in IOs' adaptation to crises

To advance our understanding of the process behind IO responses to crises, this section first builds on recent insights from the IR literature to highlight how crises can present windows of opportunity for them to consolidate and expand. Second, the section relies on recent findings from the literature on IO resilience to offer a typology of response strategies that can help IOs navigate crises, and identifies adaptive strategies as a specific course of action necessary for IOs to opportunistically benefit from crises. Third, the section expands its framework with insights from recent studies on IO bureaucratic politics and resilience to reveal the critical role of institutional leaders in steering their organizations during crises, and theorizing the conditions and tools that allow institutional leaders to effectively shape IO response strategies towards opportunistic adaptation.

Throughout their existence, IOs often face crises. Crises can pose *challenges* to IOs by triggering (or exacerbating) gridlock, fragmentation, competition, loss of functions, and decreased overall effectiveness and legitimacy (Hale, Held, & Young, 2013; Hopewell, 2020; Lake et al., 2021; Mearsheimer, 2019; Stephen & Parizek, 2019; Zurn, 2018). As recent studies have pointed out, these processes can lead to unfavorable institutional outcomes, such as the decline and even dissolution of IOs (Debre & Dijkstra, 2021a; Eilstrup-

Sangiovanni, 2020, 2021). While IOs are often presented as very resilient (Strange, 1998), over a third of those in existence since 1815 have vanished, with regional, smaller, and entrant IOs (such as the AIIB) showing the highest mortality rate when challenged (Eilstrup-Sangiovanni, 2021).

However, not all IOs end up with unfavorable institutional outcomes. While they may present a challenge, crises may also present opportunities for IOs. Previous studies have shown how crises can be windows of opportunity for IO bureaucracies to push for change in organizational processes, policies, and necessary reforms that in ordinary times may not be as feasible to realize (Baumgartner & Jones, 1993; Boin, Stern, & Sundelius, 2016; Debre & Dijkstra, 2021b; Gerschewski, 2021; Hooghe, Lenz, & Marks, 2019; Kreuder-Sonnen, 2019; Olsson & Verbeek, 2018; Schimmelfennig, 2018). The short-term time horizons posed by exogenous crises, such as the global COVID-19 pandemic, require immediate reactions from institutions, thus allowing for emergency and extraordinary measures to be formulated and quickly implemented (Gerschewski, 2021; Jones, Kelemen, & Meunier, 2016; Kreuder-Sonnen, 2019; Olsson & Verbeek, 2018; Schimmelfennig, 2018; Stone, 2011). They may provide IOs with the opportunity to take a more prominent position within their issue area and policy environment at the expense of other competing IOs (Gardell & Verbeek, 2021).

To be able to navigate and capitalize on challenges such as those posed by the COVID-19 crisis, IOs first need to produce a *strategic response*. Their response can go in three directions: adaptation, resistance, or inaction (Debre & Dijkstra, 2021a; Heinkelmann-Wild & Jankauskas, 2022 Hirschmann, 2021). Adaptive strategies aim at accommodating pressures and changes in an IO's environment through operational and structural reforms, shifts in policies, and a recalibration of the institution's scope and policy instruments (Hirschmann, 2021; Mathiason, 2007; Xu & Weller, 2008). Resistive strategies focus on defending the institution through the contestation of challengers and discursive efforts to win external support from relevant actors, such as relevant domestic actors and NGOs (Bayerlein, Knill, & Steinebach, 2020; Schuette, 2021). IOs may also choose to ignore a challenge, remaining passive and anticipating its passing while other actors (such as influential members) take initiatives to protect the institution.

Resistance and inaction can be useful survival strategies for IOs to avoid risky measures, but adaptive strategic responses can help them go beyond survival and effectively use crises as an opportunity. By employing adaptive strategies, IOs can accommodate exogenous pressures and adjust themselves, thus resulting in institutional change. This paper specifically examines the *strategic expansion in policy scope* and the introduction of *new policy instruments* as forming an IO's strategic adaptation response. The policy scope of an institution defines the area in which it operates (Koremenos, Lipson, & Snidal, 2001). When policy scope is expanded, an institution may cover more policy

areas in practice. Policy instruments are the tools and mechanisms through which an institution operates in a specific policy area, such as through funding schemes, lending mechanisms, and research programs (Debre & Dijkstra, 2021b; Hooghe et al., 2019; Koremenos et al., 2001). Additional policy instruments allow an institution to increase the breadth of its operations within a specific policy area or expand its operations unto other areas.

Explaining IOs' ability in the immediate and short term to produce adaptive responses necessitates a focus on the role of IO institutional actors (Debre & Dijkstra, 2021b; Schuette, 2021). In ordinary times IO institutional actors may remain on the side-lines on important matters to avoid conflict with members and stakeholders, but in times of crisis they may take a more proactive and consequential role (Schuette, 2021). In such moments, it becomes imperative for IO leaders in particular to muster their resources and authority to formulate a response strategy and keep their IO alive. This is especially true when it comes to pushing adaptive response strategies. While resistance and inaction as response strategies require some institutional effort and influence on decision- and policy-making on behalf of institutional actors, adaptive responses require an almost activist approach characterized by strong commitment and strategically tailored interventions by IO leaders for pitching specific policies and promoting necessary institutional reforms and change.

Of course, it would be simplistic to assume that IOs act with total independence from member states. However, it would be equally simplistic to claim that they are completely dependent on the governments that fund them (Gardell & Verbeek, 2021). This two-sided nature of IOs—having their own bureaucracy and striving for agency, while being often under the influence of member states—is reflected in particular during crises. This is due to how crises entail a threat to various actors: within the IO's bureaucracy, executive heads and their secretariats will step up in defense of their institution, centralizing decision-making within the institution; within the membership, powerful and influential members will monitor the IO more closely to protect their interests (Gardell & Verbeek, 2021).

Therefore, and similarly to their counterparts at public agencies, IO institutional leaders can play a key role in strategically striking a balance between what they perceive as the institution's interests vis-à-vis powerful stakeholders when devising and pitching their response strategies. The resulting response strategy sets the course for how the IO will survive and benefit from the challenge. It is therefore imperative to focus on the causal influence of IO institutional leaders. For that, the remainder of this section merges insights from the IO resilience and IO bureaucratic politics literatures to specify both the tools and mechanisms that IO leaders employ to shape their response strategies as well as the institutional and leadership conditions that facilitate or restrict them in that process.

To be able to strategically formulate and implement adaptive responses to crises, IO leaders and their bureaucracies need to have sufficient *authority*, *bureaucratic capacity*, and *leadership competences*. A high degree of delegated institutional authority to the IO's leadership (whether represented by the president, director-general, secretariat head, etc.) is reflected by agenda-setting, policy-proposal, and decision-making powers. High bureaucratic capacity is represented by access to internal and external expertise, budget, senior managers, and support staff. Leadership competence is reflected by the degree of proactiveness and engagement with which IO heads approach a challenge, institutional constraints, and stakeholder demands. These features essentially condition the ability of IO leaders in successfully pushing for adaptive response strategies and achieving institutional change. The absence of enough authority, bureaucratic capacity, and competences entails an IO leadership that lacks the necessary arsenal of tools for shaping response strategies that allow for their IO to opportunistically adapt to crises, thus securing their survival and even benefitting from them.

First, IO heads and their secretariats should be delegated enough *authority* to be able to play a role in the response that their institution needs to produce when facing a crisis (Debre & Dijkstra, 2021a, 2021b; Heldt & Schmidtke, 2017; Hooghe et al., 2017). IO heads can play a consequential role through their agenda-setting powers, by means of which they can set decision-making agendas at the member-state/board level of their institution, engage with various relevant stakeholders, and use these to frame a crisis in a way as to promote consensus across the wider membership regarding the necessity of addressing it. IO heads may also use agenda-setting to exert their expertise and normative influence during such engagements to pitch adaptive reforms and policy changes for accommodating pressures from a crisis (Hirschmann, 2021). This is particularly useful when IO heads can actually propose adaptive policy initiatives and institutional change during such meetings, as they can use this opportunity structure to make proposals as part of their response to a crisis that could be tailored to also benefit the institution.

Moreover, IOs may be better at adaptively responding to crises in the immediate term if their heads are granted the authority to take emergency decisions (Debre & Dijkstra, 2021b). Institutional leaders hold a central role within their institutions, having access to extensive information, expertise, and connection with other institutional actors and actors outside the institution. The same can be said of IO heads. Their position provides them with a more complete picture of the context surrounding a challenge, and the operational capabilities and tools available to the institution for navigating it. Previous studies have shown how having decision-making power allows IO institutional actors to effectively employ their special position within the institution to streamline critical processes and urgent initiatives (Kreuder-Sonnen,

2019; Reinalda & Verbeek, 2004; Stone, 2013). For example, emergency decision-making authority provides IO heads with the ability to quickly initiate new projects and collaborative engagements with other IOs, temporarily allocate staff and budget for new policy initiatives, and call extraordinary meetings to engage directly with executive organs, member-state councils, and state and IO officials, to discuss and formulate emergency response policies.

Second, IO heads and their secretariats need to have the appropriate *bureaucratic capacity* to be able to effectively formulate and implement such adaptive responses (Bauer & Ege, 2016; Debre & Dijkstra, 2021b; Heldt & Schmidtke, 2017). It is not always the case that IOs' bureaucracies have the ability to effectively formulate a response to a crisis, nor is it guaranteed that they have the expertise to produce new policy initiatives and instruments. In that regard, IO heads leading strong bureaucracies with extensive expertise and strong access to a network of experts may be better at both formulating an adaptive response to a crisis while also taking the opportunity to initiate proposals within such response that are in the interest of their institution (Barnett & Finnemore, 2004; Bauer & Ege, 2016; Debre & Dijkstra, 2021b; Eckhard & Ege, 2016; Gray, 2018; Hawkins et al., 2006). Simply put, more institutional resources and bureaucratic mobilizing weight equate with more ease in preparing solutions for complex problems.

Third, the framework goes beyond examining the formal authority and resources of IO leaders by zooming in also on their leadership competence to explain their ability to shape responses. In fact, possessing leadership authority and bureaucratic capacity alone does not guarantee that IO heads and their secretariats will be able to shape their IOs' adaptive responses and ensure that these include policy initiatives that benefit their institution. Aligning these factors towards producing an effective adaptive strategy also requires *proactive leadership competence* (Boin et al., 2016; Dijkstra, von Allwörden, Schuette, & Zaccaria, 2022). In addressing a challenge, IO heads need to first recognize and interpret the nature of the crisis, its impact on their IO, and the type of response strategies that is deemed as necessary (Gardell & Verbeek, 2021). IO heads then need to acknowledge the institutional constraints on their role and the hurdles that their adaptation proposals and response initiatives may face (Dijkstra et al., 2022). As such, leadership proactiveness in IOs is especially salient in relation to the formulation of response proposals that may face resistance from powerful members.

This is even more so the case in regional IOs where more often one or a coalition of states (e.g., the founding members, larger shareholders, etc.) hold preponderant influence (i.e. through shareholder votes, financial contributions, etc.) over the institution. As such, proactiveness reflects active engagement with influential members, establishing good relations with their representatives and officials in capitals, and balancing their demands with

the needs of the institution. Proactive leadership competence within the context of the AIIB's response to the COVID-19 crisis would translate into direct, active, and strategic engagement with state officials and representatives at the AIIB council level (Boards of Governors and Directors) by the institution's leadership (president and supporting senior management) aimed at ensuring that formulated solutions account for their interests. This way, the institution's leadership would guarantee avoiding resistance to proposed policies, which could ultimately result in inertia or at least inhibit effective adaptation and institutional change. Only then can the leadership effectively mobilize their authority and their bureaucracy's capacity toward formulating and implementing a feasible, effective, and beneficial adaptive response strategy.

In sum, the degree to which an IO can adapt to, and opportunistically benefit from, a crisis depends on whether its leadership and bureaucracy have the authority, capacity, and leadership competences to formulate and implement an effective adaptive response strategy. The next section applies this framework empirically to the case of the AIIB's response to the COVID-19 crisis.

Assessing the role of institutional leadership in the AIIB's adaptation strategy to the COVID-19 pandemic

Since the start of the COVID-19 pandemic, the AIIB has expanded its operational scope from mostly traditional heavy infrastructure lending to COVID-19 recovery financing through the creation of the Covid Recovery Facility (CRF), the allocation of budget and staff for it, and collaboration with other established MDBs (e.g., the ADB and the World Bank) for the development of expertise and pipelines to handle its new lending projects (AIIB, 2020a; World Bank, 2020b). The incorporation of these institutional changes and policy instruments into the AIIB's new Corporate Strategy for 2020–2030 in July 2020 essentially reflects the institution's adaptation and effective response to the Covid-19 crisis. How can this outcome be explained? Through what strategies did the AIIB's leadership manage to push the institution into adapting so effectively to the COVID-19 pandemic crisis and achieve institutional change? To answer those questions, the ensuing analysis relies mainly on the observations and views of current and former AIIB and World Bank officials, state officials, and experts in the field to trace the process from the start of the COVID-19 pandemic, the recognition of it as a threat by the AIIB, and the consequent response strategy formulated and ultimately implemented by the AIIB's leadership.

The rich original data was obtained through 20 semi-structured and focused interviews. All interviews were based on the condition of full anonymity, hence quotations from interviewees are identified with anonymous labels (e.g., 'Interview #1'). Interviewees were selected based on their position and experience. Interviews were conducted with current and former officials

from the AIIB based on their position and tenure within the organization during the period shortly preceding the COVID-19 pandemic up to the present. Officials that form part of the senior management cohort of the AIIB, particularly those who have been in office in the period during the COVID-19 pandemic, were interviewed to obtain their views regarding the perception of the threat of the pandemic to the workings of the institution, as well as the tactics and strategic planning involved in the institution's response. Current and former AIIB executive directors, as well as experts on the institution (e.g., researchers who performed consultancy for member states), were also interviewed to triangulate the data.

Additionally, interviews were conducted with former World Bank officials working in the AIIB (particularly high-ranking officials within the relevant cohort of the AIIB's management), as well as current officials at the World Bank, to obtain their side of the story on the two institutions' collaboration on COVID-recovery lending. All interviews were conducted between March 2021 and August 2022. The interview data collection, storage, protection, retention, and destruction procedures fully comply with relevant legislation and institutional protocols. Complementary data were obtained from primary sources, such as AIIB and World Bank annual reports (specifically for the years 2019, 2020, and 2021), as well as secondary literature.

The next subsection analyses the way the AIIB's leadership perceived and managed the threat of the COVID-19 pandemic crisis. After briefly showcasing how the institution provides its leadership with the capacity and authority to engage in crisis-response formulation, agenda-setting and policy-proposal at the executive level, the subsection analyses how the institution's leadership implemented effectively that response between March 2020 and March 2022.

The role of the AIIB leadership: recognizing the threat and opportunities of the COVID-19 crisis

In the case of the AIIB, *proactiveness* on the side of its leadership (namely the president and supporting officials from the senior management team) was the first key step in its initial acknowledgement of the threat posed by the COVID-19 crisis. Only after that could the leadership recognize the internal and external constraints and opportunities imposed on it and on the institution, and the array of feasible options available to respond to the crisis. In other words, without proactiveness, the AIIB's leadership would not have been able to strategically align its latent institutional powers with the constraints and opportunities provided by the crisis.

The first signals of the threat of the COVID-19 crisis were perceived by the AIIB's leadership in the early months of 2020 (Interview #8, #10). Very soon after the crisis started, the AIIB experienced a sudden decline in

demand for infrastructure projects by countries struggling to cope with the economic effects of the pandemic (AIIB, 2020a, 2021; World Bank, 2020a, 2021b, 2022a). This decline represented a challenge to all MDBs (Interview #6, #7), but it was especially significant for the AIIB, given that its focus was mainly on development lending in the traditional and heavy infrastructure sector in the Asia-Pacific region (AIIB, 2015a; Interview #13, #15, #16).

To have an idea of the impact of the COVID-19 pandemic on development lending, the following statistics are illustrative: in the three months preceding the crisis (September 2019 to December 2020), the AIIB had provided 13 loans for infrastructure projects worth a total of \$2.2 billion (AIIB, 2019, 2022b); in contrast, in the following three-month period of January to April 2020, the number of loans reviewed and approved by the AIIB had been drastically reduced to a total of two, with a combined value of only \$260 million (AIIB, 2020a, 2022b). By March 2020 the leadership was concerned by the relative reduction (84%) in demand for loans between the two quarters and was fully aware of its potential consequences and that this was caused by a switch in clients' demand toward COVID-recovery lending (Interview #8, #10, #13).

The main fear was that the institution's project pipelines were not adequately developed for addressing the switch in demand (Interview #13, #16, #17). The immediate implication of the crisis was that the AIIB would see a temporary drop in its projects during the pandemic period, but the longer-term impacts of the crisis were the main source of concern (Interview #6, #18). As a nascent and growing organization, the first years of operations are crucial for the establishment of client-networks and recognition as a fully functioning and viable partner in the eyes of clients (Interview #6, #9, #12; Wilson, 2019). The presence of significant competitors in the field, such as the World Bank and the ADB, meant that the AIIB could find itself losing out in developing its client network in the Asia-Pacific (Interview #1, #6). The decline in the number of projects was perceived as threatening the momentum the institution had so far achieved in developing its project pipelines and expertise in practice since its inception in 2016 (Interview #6, #8, #15, #17).

The seeds of a response strategy to avoid that outcome were first planted during senior management meetings with the president between February and March 2020, where the initial idea pitched was to launch coordinated efforts with other MDBs (i.e. the World Bank and the ADB) to address the demand for COVID-recovery in the Asia-Pacific region (Interview #10, #13). These would be built on previous co-financing tools that the AIIB had already established and through which it had engaged in collaborative projects with the World Bank and would follow the same template: the AIIB would bring in the funding, while the World Bank would provide the project pipeline architecture and the client-network (Interview #8, #10, #12). For that purpose, the AIIB would rely on the expertise and experience that its

staff had acquired through several dozens of collaborative co-financing projects with the World Bank and the ADB (Interview #1, #2, #17).

Having acknowledged that a response to the crisis was necessary, the AIIB's leadership quickly began exploring avenues through which the institution could not only effectively adapt to the crisis, but also benefit from it in the long *durée*. The president, with the assistance and resources offered by the senior management team (comprising the five vice presidents and the general counsel) and the international advisory panel (which provides counsel on the AIIB's strategies and policies) began analyzing the possibility that the AIIB could build its own capacity for addressing non-traditional soft infrastructure demand by clients (Interview #8, #13, #18). This plan preceded the pandemic. In fact, there were prior discussions regarding the AIIB's operations on soft infrastructure (as opposed to traditional, heavy infrastructure projects). The pandemic opened the window of opportunity for this to be pushed forward.

The president and his senior management were aware that to secure growth during the pandemic period—not only in terms of client outreach but also in terms of project pipelines—the AIIB would need to recalibrate its policy scope and introduce new policy instruments in order to be able to engage more in non-traditional and soft infrastructure investment (Interview #8, #18). The president made it clear that the best approach was for the AIIB to adapt to the temporary change in its environment by acquiring new policy instruments that addressed clients' switch in demand (Interview #8, #16). To achieve this, the plan was framed as necessary for addressing those demands, and quickly evolved into an *adaptive* response strategy.

The AIIB leadership's early reaction to the COVID-19 crisis demonstrates how proactivity is necessary for not only recognizing a threat, but also analyzing and proposing possible solutions that ensure an institution survives and even benefits from a crisis, such as through scope expansion and the introduction of new policy instruments. However, institutional leaders also need to have sufficient levers of power within their institutions to be able to then proactively formulate and implement effective response strategies that allow for adaptation to crises. Not having enough institutional authority, competences, and capacity can inhibit such responses. As the next subsection demonstrates, the agenda-setting, policy-proposal, and decision-making powers enjoyed by the AIIB's leadership played a crucial role in the proactive formulation and implementation of the institution's response.

The role of the AIIB leadership: formulating and implementing an opportunistic adaptation strategy to the COVID-19 crisis

The institutional *authority* delegated to the president under the charter of the AIIB is represented in the dual role that the president holds as the chief

executive of institution and as chairman of the Board of Directors (AIIB, 2015a, AIIB, 2020a, 2022a; Lichtenstein, 2018). The president, with support from senior management, is authorized to prepare and allocate the administrative budget and arrange cooperation with other MDBs with approval from the Board of Directors (AIIB, 2015a). The Board of Directors also delegates authority to the president for designing and implementing Bank policies and decisions on operations (AIIB, 2015a). As such, the authority delegated to the president through the Board of Directors is relatively high as compared to other MDBs (Lichtenstein, 2018).

The adaptive response strategy envisioned by the AIIB's leadership required an expansion in the operational scope of the institution through the introduction of new financing and policy instruments as part of a novel Corporate Strategy. This entailed obtaining the support and consensus of the Board of Directors. In fact, while the president has wide-ranging powers within the AIIB, including the ability to engage in agenda-setting at council meetings (by chairing Board meetings) and propose new policies and projects, the articles of agreement of the institution require the approval of the Board of Directors for new policies and instruments to realize and new Corporate Strategies to be adopted (AIIB, 2015a).

The AIIB is a multilateral institution with a large membership. The AIIB's leadership was aware of the potential reluctance by European members for expanding the scope of the institution and pushing for new investment initiatives outside of the already existing operational framework of the institution (Interview #6, #8). This was due to initial concerns regarding the AIIB's de-facto commitments to established accountability and transparency (Hosli, Garrett, Niedecken, & Verbeek, 2021). However, the leadership was also aware that, in contrast to Western members, non-Western members and in particular low-income and developing states would be keen and supportive towards the institution recalibrating its policy framework and build the capacity for providing urgent covid-recovery financing (Interview #8).

To secure support from the wider membership, the plan was framed as necessary for strengthening the institution's operational capacity for public health and social infrastructure sector operations, and more importantly, sustainable economic development and supply-chain stability investments. In fact, the AIIB's new investment considerations were explicitly proposed as a blueprint for investment frameworks focusing on long-term sustainability and supply-chain stability investment (AIIB, 2022a; Hosli et al., 2021). As such, the focus on health and social infrastructure, supply-chain stability, and economic recovery as part of an expanded policy scope for the institution represented more than just a benevolent measure aimed at assisting member states with economies that are particularly vulnerable to the effects of the COVID-19 crisis. It was also presented as being very much in line with

the geostrategic and global interests of its members and the Asia-Pacific region (Interview #6, #19).

The crisis, therefore, presented the perfect opportunity for the AIIB's leadership to push an expansive agenda at board meetings and persuade members to muster their voting power to support this initiative. To achieve that, the president, in his dual role as the executive head of the organization and the chair of board meetings, employed his *agenda-setting* and *proposal-initiation* powers to direct the attention of board members toward the crisis. Early in March 2020, the president employed his authority to convene extraordinary meetings with his senior management team to initiate an analysis of the impact of the COVID-19 crisis on the AIIB's operations and produced tentative proposals for solutions (Interview #8, #13, #17). This formed the backbone of what would become the adaptive response strategy of the organization, with the COVID-19 pandemic identified as a potential threat to the organization in terms of the establishment and further development of its project pipeline and client networks in the development lending arena (Interview #18).

On March 16th, 2020, the president chaired a Board of Directors' meeting, during which he ensured that the COVID-19 crisis would be a topic of priority for discussion and presented his and senior management's view on the matter to the board (AIIB, 2020d; Interview #16). Amongst other items on the agenda, including the impact of COVID-19 on staff meetings and the decline in loans approved, the president provided a summary of the expected consequences of the pandemic on international lending and on the operations of the AIIB in particular. The Board of Directors considered the president's view and delegated the task to his office of producing a strategy through which the leadership intended to tackle the effects of the crisis (Interview #17, #18). The president, with the support of senior management, compiled a report in which the organization's response to the crisis was detailed. The key elements included: the adaptation of the new Corporate Strategy 2020–2030 that would expand the AIIB's operational capacity within the parameters of the organization's charter through the creation of policy instruments and budgetary arrangements that would allow for its implementation in practice (AIIB, 2020b).

Negotiations on the conditions and parameters for this plan took place during meetings with the Board of Directors between April 1st and April 3rd, 2020 (AIIB, 2020e). The charter of the AIIB clearly emphasizes that the organization's scope of operations should focus on fostering economic development, wealth, infrastructure creation, and infrastructure connectivity within the Asia-Pacific region (AIIB, 2015a, 2019, AIIB, 2020a; Lichtenstein, 2018; Wilson, 2019). The charter also clarifies that these goals should be pursued operationally through infrastructure investment as well as investment in

other sectors that can impact productivity, economic stability, and development challenges broadly (AIIB, 2015a, 2019, 2020). The scope of operations provided by the charter is translated in practice through a variety of instruments that include not only infrastructure loans, but also Special Fund operations and financial and technical assistance for projects that impact infrastructure creation, connectivity, and economic development (AIIB, 2015a, AIIB, 2019, AIIB, 2020a; Lichtenstein, 2018).

As such, the AIIB's new Corporate Strategy was based on the logic that the organization's charter implicitly allows for operational coverage of non-traditional and soft infrastructure investment in areas directly linked to fostering infrastructure growth and connectivity, as well as special assistance for economic development and stability crucial for infrastructure creation (AIIB, 2020b; Interview #8, #13, #18). More specifically, the proposal within the Corporate Strategy 2020–2030 aimed at expanding the capacity and operational scope of the institution with an emphasis on economic recovery lending and emergency financial assistance, and health sector development. The proposal added two new policy instruments: a Covid-Recovery Facility (CRF) for financing public health sector development, covid-recovery assistance, and economic-recovery financing (AIIB, 2020a); and the Special Fund Window (SFW) under the CRF, which provides financial assistance through special interest rate buy-downs on projects specifically aimed for lower-income members experiencing economic downturns (AIIB, 2020a).

On April 16th, 2020, the Board of Directors reviewed the proposal with the additions to the new Corporate Strategy 2020–2030 (AIIB, 2020f; Interview #16). Crucially, the president's proposal emphasized the responsibility of the AIIB to address the needs of the membership, and especially in assisting the economies of vulnerable and developing member states (AIIB, 2020a, 2020b, 2020c). While China and the predominant majority of members welcomed the initiative, various European states had previously expressed their hesitation towards the expansion of the institution's operations and scope without clear and extensive review of the proposed normative frameworks and standards on which they would be based (Interview #18). The leadership's strategic framing of the problem and solution legitimized the initiative by putting the spotlight on the commitments and obligations of the institutions to members, effectively putting pressure on potentially reluctant members to offer their support (AIIB, 2020b, 2020c). The adoption of the CRF was pitched as not only allowing the AIIB to further expand its operations towards soft-infrastructure and focus on COVID-recovery in line with other MDBs, but emphasis was also put on its practical use being within the co-financing domain with peer multilaterals, in particular the ADB and the World Bank, thus ensuring budgetary support, promoting further institutional learning, and allowing for sharing potential risks (Interview #19).

The proposal therefore carefully balanced the institution's interests while navigating the divergent positions of the institution's stakeholders and thus securing the support of possibly skeptical members. The proposal was formally approved, and in the following extraordinary meeting on May 7th, 2020, the president was delegated the authority to initiate the operations of the CRF (AIIB, 2020b, 2020c, 2020g). Importantly, given the urgency caused by the COVID-19 pandemic, the president requested, and was granted, authorization prior to the approval of the new Corporate Strategy 2020–2030 by the Board of Governors at their yearly meeting scheduled in July 2020 (AIIB, 2022e; Interview #16, #18). Immediately following the authorization by the Board of Directors, the president, in his role as executive head and with the support of the senior management, began making budgeting, internal protocol, and operational arrangements to initiate the CRF (Interview #8, #10).

On the budgetary side, the president employed his delegated powers to allocate a budget of \$5 billion for an initial duration of eight months (until April 2021) to the CRF subject to review by the Board of Directors if requested (AIIB, 2022d). These arrangements could be modified/renewed, when necessary, through the extraordinary CRF-related decision-making powers delegated to the president, as the facility was designed to be flexible and adaptive to the diverse emergency economic needs of clients (AIIB, 2020b, 2020c, 2022d).

On the operational and protocol levels, the president employed his decision-making powers to initiate the transfer of staff from various AIIB departments into the CRF unit for the functioning of the CRF project pipeline (Interview #8, #16). These were handpicked from amongst staff that had prior experience working with other MDBs (in particular the World Bank and the ADB) on the procurement, review, and implementation of collaborative (co-financing) projects, especially in areas of health sector development and special financial assistance to lower-income states (Interview #8, #16).

Additionally, CRF project teams, under the supervision of the president, were tasked with initiating contact with partner MDBs for co-financing arrangements (AIIB, 2020b; Interview #8). The status of the World Bank as the premier source of development knowledge in the field has made it a natural go-to for this (Interview #8, #10). The AIIB also worked with the ADB on various projects. These collaborative partnerships preceded the COVID-19 pandemic. The institutions had previously engaged in various co-financing partnerships, where, as one World Bank official put it, the 'idea has been that the World Bank would bring the knowledge and the AIIB would bring the resources' (Interview #4). In other words, the World Bank acted as the hub of expertise, held a norm-setting role, and provided the project pipelines, while the AIIB provided the funding for the projects. These strategic partnerships have been crucial for the development of AIIB's own expertise and project

pipelines, providing AIIB staff with the knowledge and indirect training necessary for engaging with the type of projects that the CRF focused on, such as social infrastructure and health sector development projects (AIIB, 2020b).

The role of the AIIB leadership: outcome and summary of adaptive response strategy to the COVID-19 crisis

The CRF project pipeline thus began operations and the first financing projects were officially kickstarted under the auspices of the new Corporate Strategy 2020–2030 (AIIB, 2020a, 2022e). Demand was soaring, and the AIIB quickly found itself providing over \$5.3 billion in loans to its clients in the form of 13 financing projects (AIIB, 2020a). This represented a 20-fold increase in the value of loans provided as compared to the pre-CRF operations in 2020. Of the 13 projects, 12 were specifically focused on COVID financing, totaling \$5.2 billion. Some of these lending projects were purposed for national COVID-19 programs, such as the \$250 million project that was started on June 22nd with Indonesia. The vast majority of the lending however has been allocated for emergency response projects, such as the COVID-19 Active Response and Expenditure Support (CARES) projects in India (May 28th for a total of \$750 million) and in the Philippines (June 16th for \$750 million).

Between July 13th–16th, 2020, the president chaired meetings with the Board of Directors and the Board of Governors during their Fifth Annual Meetings, where the CRF operations and the new Corporate Strategy 2020–2030 were reviewed (AIIB, 2020h, 2020i, 2021). Approval and formal adoption into the AIIB were achieved with the consensus of all the members of the Board of Governors. The Board of Governors also voted with consensus for the re-election of the president for a second term. Immediately thereafter the president employed his decision-making authority to expand the budget of the CRF to \$20 Billion (AIIB, 2022c). As of March 4th, 2022, the total number of COVID-recovery projects approved under the CRF had reached 46, amounting to more than \$11.5 billion (AIIB, 2022d). To give context, in the four years from the start of the AIIB's operations until the creation of the CRF instrument, the institution provided a total of \$9.8 billion in loans, which is 17% less than the exclusively CRF-denominated loans the institution has provided ever since (AIIB, 2020a, 2022d).

As the analysis of the case of the AIIB's strategic response to the COVID-19 crisis has showcased, not all crises result in a negative institutional outcome for IOs. In line with the theoretical argument of this article, the analysis highlights how exogenous crises may present both challenges and opportunities for IOs. In fact, the COVID-19 crisis, which resulted in a sudden shift in clients' demand from infrastructure-focused to COVID-recovery lending, was

first perceived as a challenge to the AIIB's leadership. However, the crisis also proved to be an effective driver for institutional change, catalyzing a response strategy that involved expanding the operational capacity and scope of the institution (for non-traditional soft infrastructure financing within the Corporate Strategy 2020–3030) by introducing new policy instruments (CRF and SFW).

The AIIB's leadership was aware that, despite heavy infrastructure lending having been the main focus of institution at its inception, the institution would invariably benefit from expanding its operational scope and would become more competitive against other rivaling MDBs in the development arena if it expanded its capabilities and project pipelines for soft infrastructure financing. This shift in policy scope may not have been on top of the institution's agenda before the crisis. However, the COVID-19 pandemic provided the opportunity window to re-imagine organizational processes, initiate policy changes, and implement necessary reforms that redirected the institution's future in line with the leadership's vision.

Part of the reason why this change was achieved is the short-term time horizon posed by the global COVID-19 pandemic, which required immediate reactions from IOs and their bureaucracies. As the case study illustrated, this immediacy allowed the AIIB's leadership to employ its delegated powers and implement extraordinary measures that facilitated the formulation and quick implementation of its response strategy, thus streamlining the process that led to institutional change. The findings also echo previous results showing how other IOs have responded to the COVID-19 crisis proactively, expanding their scope, taking on new tasks, initiating new policy instruments, and ultimately achieving institutional change as part of their adaptive strategies (Debre & Dijkstra, 2021b).

Importantly, the case study lends empirical support to the theoretical propositions of this article regarding the role of leadership in how IOs can react opportunistically to crises. More specifically, the ability of the AIIB's leadership to actually play a role within the institutional process that led to adaptation was made possible by the wide delegation of authority, competences, and institutional capacity enjoyed by the president and his senior management. The AIIB's president was able to influence discussions at the Board level through his *agenda-setting* powers, by means of which meeting agendas were tailored so as to focus on the crisis. Through such meetings, the president was able to present a view on the crisis that promoted consensus regarding the necessity of addressing it. The president was also able to *propose* and justify policy initiatives that it perceived as imperative solutions to tackling the crisis.

Furthermore, the AIIB's leadership widely and consistently employed *their delegated decision-making powers* for the formulation and implementation

of its response strategy. This was used first for calling extraordinary meetings to engage directly with Board members and senior management to discuss the crisis and formulate a response. The president also used delegated decision-making powers for allocating staff and part of the institution's budget for the new policy initiative and for recalibrating in practice the institution's policy focus, as well as initiating engagements with other MDBs to form collaborative responses to the crisis.

Throughout all these steps, the *proactive* leadership style of the president was also crucial in aligning the leadership's powers and resources with institutional constraints and balancing member state interests in producing an effective adaptive strategy. This was evident not only at the early stages of the crisis, when the president and senior management proactively discussed the nature of the crisis, analyzed its impact on the AIIB, and reviewed possible forms of response strategies necessary for addressing it. The leadership's proactiveness was also evidenced in later stages when formulating and presenting that response to the Board of Directors before implementing it in practice through the consistent use of their delegated authority, competences, and capacities.

What direction the AIIB will take in the future and whether the CRF will remain only an emergency-assistance mechanism for the COVID-19 crisis or represent the first step toward a wider policy focus for the institution remains to be seen. What is clear nevertheless, is that thanks to the crucial role of the AIIB's leadership in its response, the institution has not only survived the crisis, but has come out of it as a more consolidated MDB with an expanded operational capacity and presence in the Asia-Pacific and beyond.

Conclusion

Commentators and academics alike were quick to suggest that the COVID-19 pandemic was going to accelerate the decline of the liberal international order, particularly by further weakening the institutions that operate under its umbrella. However, and in line with a few previous studies on the subject (see for example: Debre & Dijkstra, 2021b), this article has focused on showcasing how IOs may be able to cope with exogenous crises such as the pandemic, and how this ability is contingent in great part on the authority, leadership competences, and bureaucratic capacity of their leadership. As the findings suggest, crises can present opportunities to IOs to expand their scope and achieve institutional change through adaptive response strategies, goals that may not be feasible in ordinary times and in the absence of the urgency imposed by crises.

Significantly, this case study highlights the relevance of agenda-setting, policy-proposal, and decision-making powers as crucial tools for IO leaders

in playing an effective role in the formulation and implementation process of response strategies to crises. The AIIB's leadership effectively employed these levers of power to present the crisis as a threat to the institution at plenary meetings with Board members, engineer consent regarding the need for a response, formulate and justify the direction that such response should take (expansion of scope and introduction of new policy instruments), and implement the necessary measures for realizing it. Finally, the proactiveness of the AIIB's leadership was essential in its initiative towards acknowledging the threat and consequences of the COVID-19 pandemic, the opportunities that it lay ahead of the institution as a driver for institutional change, and in recognizing and balancing the interests of the institution vis-à-vis those of the stakeholders.

These findings speak to the IR literatures on IO bureaucratic politics and IO resilience (Debre & Dijkstra, 2021a; Eckhard & Ege, 2016; Gray, 2018; Hirschmann, 2021; Knill & Bauer, 2016; Strange, 1998). The article advances our understanding of IO responses to challenges by theoretically delineating and shedding light on the role of IO institutional leaders, and revealing in particular the importance of leadership competence (as reflected by proactive leadership) by IO heads in handling crises. The empirical findings also contribute to our understanding of the relevant institutional factors and processes behind the successful and opportunistic adaptation of new and consolidating institutions (such as the AIIB) in highly competitive and dense policy environments.

An important corollary of the findings is that strengthening the authority and competences of IO leaders (decision-making and agenda-setting powers of secretariat heads, presidents, director generals, etc.) and guaranteeing sufficient institutional capacity for their bureaucracies (resources, staff, access to expertise, etc.) is imperative for ensuring that they can effectively tackle exogenous and cross-border crises, and guarantee that they not only secure their survival but also make institutional gains from them.

Moreover, the empirical findings also contribute specifically to research on MDBs. The COVID-19 challenge did not affect only the AIIB but all MDBs broadly. In fact, other MDBs (such as the ADB) also had to tackle the effects of the pandemic. However, as recent studies have shown, over a third of IOs in existence since 1815 have vanished, with regional, smaller, and entrant IOs (such as the AIIB) showing the highest mortality rate when challenged (Eilstrup-Sangiovanni, 2021). The AIIB's relatively new presence within the arena, its vulnerability to the crisis due to its focus on infrastructure lending, and the institutional and policy initiatives that it had to undertake to respond to the challenge, make this a particularly interesting case to study.

Future research, based on a comparative cross-examination of different IOs in various policy areas, may expand our understanding of the institutional

as well as extra-institutional conditions and factors that strengthen or weaken IOs' and their leadership's ability to defend their organizations from crises and even achieve opportunistic outcomes. Future research could also examine whether and why adaptive strategies achieved by IOs as a response to the COVID-19 crisis have led to permanent institutional changes and policy recalibrations beyond the pandemic period or have only represented temporary fixes. Finally, future research could shed more light on the role of leading institutional actors in the effectiveness of response strategies of other entrant and emerging power-led IOs to challenges stemming not only from transboundary and exogenous crises, but also endogenous challenges stemming from global power shifts and state rivalries.

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ORCID

Giuseppe Zaccaria  <http://orcid.org/0000-0002-3668-549X>

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Appendix: Interview list

Interview #	Interview date	Interviewee's position
(1)	19/03/2021	World Bank official
(2)	24/03/2021	World Bank official
(3)	25/03/2021	World Bank official
(4)	06/04/2021	World Bank official
(5)	07/04/2021	Former World Bank official
(6)	21/10/2021	Researcher/Expert
(7)	08/11/2021	Researcher/Expert
(8)	16/11/2021	AIIB official
(9)	24/11/2021	Researcher/Expert
(10)	26/11/2021	AIIB official
(11)	12/12/2021	Former AIIB staff
(12)	06/12/2021	Researcher/Expert
(13)	08/12/2021	IO official
(14)	18/03/2022	World Bank official
(15)	04/04/2022	World Bank official
(16)	06/04/2022	IO official
(17)	07/04/2022	AIIB official
(18)	31/05/2022	AIIB official
(19)	08/07/2022	Researcher/Expert
(20)	01/08/2022	Researcher/Expert