

ПРИКЛАДНОЙ АНАЛИЗ

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POTENTIAL ROLE OF THE NEW DEVELOPMENT BANK AND ASIAN INFRASTRUCTURE INVESTMENT BANK IN THE GLOBAL FINANCIAL SYSTEM

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This article focuses on the two recently established multilateral development banks (MDBs) dominated by emerging economies: Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB). The authors explore the main economic and political incentives that lie behind the creation of these institutions, examine challenges and opportunities they are likely to face, and provide a forecast of their loan portfolios growth in the coming years. The forecast includes two scenarios: basic and optimistic, and is based on the analysis of NDB and AIIB differences from traditional banks, and potential benefits and challenges they can bring. The methodology used for assessment allows projecting the financial capacity of the two banks based on their announced shareholder capital and likely financial performance determined by membership, governance arrangements and other factors, and takes into account recent developments in both banks.

Based on the forecast, the authors conclude that in ten years the new banks will be able to provide infrastructure financing at the level of traditional institutions working in the area. In order to develop in accordance with the optimistic scenario, the new banks should adhere to their basic alternative principles, but also rely on the experience of traditional banks in areas where they have proved their effectiveness. These include exchange of experience on selection of projects, social and environmental safeguards, and monitoring results. Apart from addressing the global infrastructure gap, the new banks could also stimulate traditional ones to reform their governance and change operational modalities and thus become more responsive to developing countries' interests.

Key words: multilateral development banks, New Development Bank (NDB), Asian Infrastructure Investment Bank (AIIB), BRICS, global financial architecture, investment, infrastructure.

Multilateral development banks (MDBs) are institutions that provide financial support and professional advice for economic and social development activities in developing countries¹. MDBs play a crucial role in supporting international development and eliminating poverty [Faure 2015].

¹ World Bank. Affiliates. URL: <http://go.worldbank.org/CGC782MDY0> (accessed: 05.11.2016).

The existing MDB system was launched shortly before the end of World War II, in 1944, when representatives of 44 Allied nations gathered at the Bretton Woods Conference. The International Bank for Reconstruction and Development (IBRD) was established as one of the pillars of the new system, with the main task to finance the post-war reconstruction of European nations². Upon completion of this mission, the IBRD focused on assisting developing countries. The process of creating other multilateral development institutions can be divided into three periods [Wang 2016].

The first period coincided with the decolonization wave of mid-1950s to mid-1970s. The World Bank Group (WBG) was created with the IBRD in its core. It included the International Finance Corporation (IFC) established in 1956 to mobilize private investment for development³, and the International Development Association (IDA) set up in 1960 to provide grants or interest-free loans to the poorest countries⁴.

Apart from the WBG, several regional development banks were created in these two decades, including the Inter-American Development Bank (IDB) in 1959⁵, the African Development Bank (AfDB) in 1963⁶, the Asian Development Bank (ADB) in 1966⁷, and some other major banks, each responsible for promoting economic and social development in respective regions, similar to the IBRD in terms of their governance mechanisms and operational policies, and dominated by developed Western countries.

The second period is associated with the Soviet Union disintegration and fall of communist regimes in Central and Eastern Europe. The European Bank for Reconstruction and Development (EBRD) established in 1991 to promote market economy in these countries⁸ became the last of the major “traditional” MDBs.

Thus, all previous waves of establishing new MDBs were related to major shifts in the global economic or political landscape. More than 20 years later, the growing demand for infrastructure financing, insufficient potential of “traditional” MDBs to respond to this demand and their terms of funding conditionality, as well as developing countries’

² International Bank for Reconstruction and Development Articles of Agreement (2012). URL: http://siteresources.worldbank.org/BODINT/Resources/278027-1215526322295/IBRDArticlesOfAgreement_English.pdf (accessed: 05.11.2016).

³ IFC Strategy & Business Outlook FY17-19: Responding to Economic Volatility. International Finance Corporation (2016). URL: <http://www.ifc.org/wps/wcm/connect/8d21e87d-8406-4686-94a9-495577291a2c/FY17-19+IFC+SBO+Redaction+Final.pdf?MOD=AJPERES> (accessed: 05.11.2016).

⁴ Articles of Agreement. International Development Association (1960). URL: <http://ida.worldbank.org/sites/default/files/IDA-articles-of-agreement.pdf> (accessed: 05.11.2016).

⁵ Agreement Establishing the Inter-American Development Bank (1996). URL: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=781584> (accessed: 05.11.2016).

⁶ Agreement Establishing the African Development Bank (2011). URL: <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Legal-Documents/Agreement%20Establishing%20the%20ADB%20final%202011.pdf> (accessed: 05.11.2016).

⁷ Agreement Establishing the Asian Development Bank (ADB Charter) (1994). URL: <https://www.adb.org/sites/default/files/institutional-document/32120/charter.pdf> (accessed: 05.11.2016).

⁸ Agreement Establishing the European Bank for Reconstruction and Development (1991) URL: <http://www.ebrd.com/documents/comms-and-bis/pdf-basic-documents-of-ebrd-2013-agreement.pdf> (accessed: 05.11.2016).

aspiration for a greater influence in the global economic governance reflecting their shares in the world economy led to the creation of the New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB). Focused on infrastructure and sustainable development and controlled by emerging market economies, these banks are sometimes referred to as institutions of the new type that can “help rebalance multilateral development finance away from western dominance” [Reisen 2015].

This article explores the new MDBs, discusses the main economic and political incentives that lie behind their creation, examines challenges and opportunities they are likely to face, and provides a forecast of their loan portfolios growth in the coming years.

ORIGINS OF THE NEW DEVELOPMENT BANKS

At the Fortaleza BRICS summit in July 2014, the presidents of five countries signed the Agreement on the New Development Bank⁹. A few months later, on 24 October 2014, more than 20 Asian nations signed a Memorandum of Understanding on the establishment of the Asian Infrastructure Investment Bank¹⁰. The establishment of these institutions with an apparent leadership of emerging economies was perceived as a challenge to the “Bretton Woods global financial order led by the World Bank, IMF and regional multilateral development banks” [Humphrey 2015b]. However, the new institutions birth is the result of economic processes and the response by the NDB and AIIB founders to the demand for infrastructure finance rather than the desire to oppose the existing system.

The main cause for the establishment of new MDBs is persistent lack of investment in infrastructure, especially in developing countries. In the next 15 years, global demand for new infrastructure could reach more than USD 90 trillion [Global Commission on the Economy and Climate 2016]. Other estimates show that annual demand for additional investments in sustainable infrastructure will amount to USD 3 trillion [Standard & Poor’s Ratings Services 2014]. Importantly, a considerable share of the demand for infrastructure investment concentrates in the Asia-Pacific region [Global Commission on the Economy and Climate 2014], reaching up to USD 2.3 trillion, or three quarters of the global figure [Bhattacharya, Romani 2013].

At the same time, according to UNCTAD estimates, world investment in infrastructure in recent years amounted to approximately USD 1 trillion per year, demonstrating a significant financing gap [Griffith-Jones 2014]. The total portfolio of projects financed by major “traditional” MDBs in all areas, not just in infrastructure, in emerging market economies and developing countries is about USD 700 billion. Each year, they make available about USD 100 billion in new investment [European Political Strategy Center 2015], with only USD 40 billion aimed at addressing infrastructure gap [Humphrey 2015a]. Moreover, the share of infrastructure investments by major MDBs fell sharply in 1990—2000s and only slightly increased thereafter (see fig. 1).

⁹ Agreement on the New Development Bank. BRICS (2014). URL: <http://www.ndb.int/download/Agreement%20on%20the%20New%20Development%20Bank.pdf> (accessed: 05.11.2016).

¹⁰ History of AIIB. Asian Infrastructure Investment Bank. URL: <http://euweb.aiib.org/html/aboutus/introduction/history/?show=0> (accessed: 05.11.2016).

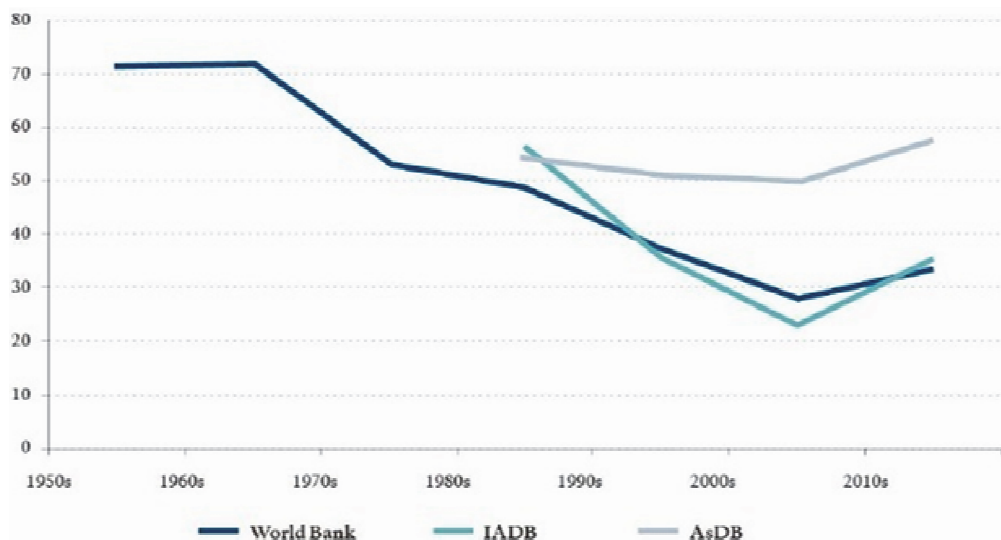


Fig. 1. Share of infrastructure investments by major MDBs, 1950—2013 [Humphrey, 2015b]

The second cause for the new MDBs establishment is a wide imbalance between emerging economies' positions as locomotives of global growth and their representation in traditional international financial institutions, including MDBs. For instance, China's share in the IBRD votes is 4.65 %¹¹, while its share in the global economy exceeds 16 % [IMF 2016]. In addition, reforms aimed at addressing such imbalances are implemented very slowly. The IMF voice and governance reforms agreed in 2010 are a good example.

Finally, founding the new banks emerging countries pursue their national interests by resorting to the NDB and AIIB funds and their capacity to mobilize finance. For example, the Chinese Belt and Road Initiative may benefit from the establishment of the AIIB, as it focuses on connectivity and economic cooperation among China and other Eurasian countries [Lin 2015]. Notably, the bank's inaugural four projects approved by its Board of Directors in June 2016 will be implemented in the countries located along the Belt and Road Initiative route. Accumulation of large reserves in the NDB and AIIB founding members, especially in China, provided an additional impetus for the new institutions establishment. Previously, these reserves accumulated in sovereign wealth funds were mainly invested in bonds and other financial instruments nominated in developed countries' currencies and providing relatively low yields [Griffith-Jones 2011].

These four causes defined almost simultaneous decisions of developing countries and emerging economies to establish the NDB and AIIB, reflecting their aspirations for a greater role in global governance and responding to demand for infrastructure development.

¹¹ IBRD subscriptions and voting power of member countries. URL: <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRD-CountryVotingTable.pdf> (accessed: 05.11.2016).

DIFFERENCES FROM “TRADITIONAL” MDBS: ADVANTAGES OR CHALLENGES?

New MDBs are different from traditional ones in terms of their basic characteristics, which reflect the role emerging economies play in the new institutions. For instance, the NDB and AIIB headquarters are located in Shanghai and Beijing respectively, whereas traditional banks are headquartered in developed countries. The main purpose of the NDB is to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies”¹², The AIIB aims to “foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia”¹³. Though their functions and purposes are similar to those of traditional MDBs, the new banks make a clearer focus on infrastructure.

Governance and voting power

The new banks have less stringent requirements for acceding members. The only limitation in the NDB is the need of the Board of Governors positive decision on accession. AIIB membership is open to all states which are members of the IBRD or ADB, i.e. almost all countries in the world. In contrast, for instance, IBRD membership is conditional to preliminary accession to the IMF. Nevertheless, with the caveat that the NDB and ABII formation still continues, the number of their member is smaller than in traditional MDBs: the NDB includes five states and AIIB-57 (after ratification of the Articles of Agreement), while the IBRD membership has expanded to 189 countries.

Distribution of votes among members also differs in traditional and new MDBs. The simplest mechanism is used in the NDB, where votes are equally distributed. The AIIB uses a combination of basic votes, share votes and Founding Member votes — the mechanism that is similar to the one practiced by major traditional MDBs. However, equally distributed basic votes among members in the AIIB make up 12 % of the total, whereas, for instance, in the IBRD this figure is only 5.55 %¹⁴. Thus, both new and traditional institutions, except the NDB, adopt mechanisms providing for votes for all member countries, regardless of their participation in the share capital. Such arrangements limit the concentration of votes among advanced economies. Still, the share of votes guaranteed for less developed members in the AIIB is larger than in most traditional MDBs.

Another important indicator is the distribution and the minimum share of votes required for making decisions within MDBs. In most cases, decisions in the NDB are made on a simple majority of votes. Such rules preclude the dominance of any of the member countries. In addition, the use of a special majority in solving the most important issues ensures the founders’ leading role in many traditional MDBs. In the AIIB currently the countries with high total subscriptions and voting power have more influence,

¹² Agreement on the New Development Bank. BRICS (2014). URL: <http://www.ndb.int/download/Agreement%20on%20the%20New%20Development%20Bank.pdf> (accessed: 05.11.2016).

¹³ Asian Infrastructure Investment Bank Articles of Agreement (2015). URL: <http://euweb.aiib.org/uploadfile/2016/0202/20160202043950310.pdf> (accessed: 05.11.2016).

¹⁴ IBRD Articles of Agreement: Article V. URL: <http://go.worldbank.org/K4AY7Z56R0> (accessed: 05.11.2016).

as the decisions on most important issues are adopted by a super majority, i.e. three quarters of votes representing not less than three-fourths of the total voting power of the members. Thus China alone with its 26,1 % total votes can block such a supermajority. However, in future Chinese influence is expected to reduce as a result of the membership expansion [Humphrey 2015b]. On the contrary, in the WBG the US with 16.65 % of votes actually has a veto power¹⁵, and in the ADB decision-making is largely dependent on the position of Japan and the US, which jointly account for more than 25 % of votes¹⁶.

Overall, votes in the new MDBs are more equally distributed compared to traditional ones [Faure et al. 2015]. Still, the impact of individual members on decision-making in both types of institutions is largely connected with their financial capacities and, consequently, shares in institutions' capital [Ujvari 2016].

Working principles of governance structures in the new MDBs are markedly different from the traditional ones. In particular, the NDB and AIIB presidents can be representatives of only founding members or regional members, respectively, while the WB Board of Governors can consider candidates who are nationals of the Bank's membership. Boards of Governors and Boards of Directors of both banks are also dominated by their founders [Ujvari 2016].

Another important feature of the NDB and AIIB compared to traditional banks is their compliance with the principle of cost minimization. In particular, members of the Boards of Directors of the two banks do not permanently work in Shanghai and Beijing respectively. This contributes to reducing staff costs and limiting the impact of directors on banks' activities. It also allows accelerating project evaluation and issuing loans, which is of paramount importance for the new banks. On the contrary, in traditional MDBs boards of directors often become the key decision-making centers for everyday activities. The new MDBs increasingly use electronic means of communication, and their meetings are organized "if needed"¹⁷. Limited number of employees is an additional factor of the NDB and AIIB effectiveness. Both institutions are expected to employ up to several hundred people, whereas the ADB has about 3,000 employees, and the World Bank — more than 10,000 [Asia Foundation 2016].

Capital and credit arrangements

Decisions on the original structure of MDBs capital play a significant role in their further development.

In both new banks, the initial authorized capital equals USD 100 billion. The initial subscribed capital in the NDB is set at USD 50 billion¹⁸, while in the AIIB 98.2% of au-

¹⁵ IBRD subscriptions and voting power of member countries. URL: <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf> (accessed: 05.11.2016).

¹⁶ Asian Development Bank 2014 Annual Report. URL: <https://www.adb.org/sites/default/files/institutional-document/158032/adb-annual-report-2014.pdf> (accessed: 05.11.2016).

¹⁷ Asian Infrastructure Investment Bank Articles of Agreement (2015). URL: <http://euweb.aiib.org/uploadfile/2016/0202/20160202043950310.pdf> (accessed: 05.11.2016).

¹⁸ Agreement on the New Development Bank. BRICS (2014). URL: <http://www.ndb.int/download/Agreement%20on%20the%20New%20Development%20Bank.pdf> (accessed: 05.11.2016).

thorized capital is subscribed by members¹⁹. The ratio of paid-in to callable capital is 1 to 4 for both MDBs. To compare, the IBRD subscribed capital exceeds USD 250 billion. 6% of these, or about USD 15.2 billion, are paid-in [Kapur, Raychaudhuri 2013]. In the Inter-American Development Bank, as of end 2015, the subscribed capital reached USD 156.9 billion, paid-in capital — USD 5.7 billion²⁰.

Thus, compared to major traditional MDBs, the NDB and AIIB have higher shares of paid-in capital in subscribed capital. At the same time, payment of subscriptions in the new banks has started only recently. In particular, in the NDB payments will be made every year in seven equal installments. As of 2016, all members have contributed a total of USD 750 mln²¹. In the AIIB, a similar approach is used, and payments are made in five equal installments. However, after the completion of payments in accordance with the established schedule, the AIIB paid-in capital will exceed the current IBRD amount, and the NDB's parameter will be higher than in regional MDBs (ADB, IDB and AfDB).

Alongside with the paid-in capital, MDBs generally use borrowed funds to finance their operations. The proportion between different sources of financing is illustrated by E/L (equity-to-loans) ratio [Humphrey 2015b]. As of 2014, the average E/L ratio for five major traditional MDBs (IADB, ADB, IDB, AfDB and EBRD) stood at 37.5 %, i.e. only about a third of the banks' operations were financed using their own funds. The IBRD was the most active among these banks in borrowing funds with the E/L ratio of 25.3 %. The EBRD ratio was the highest at 54.8 % [Moody's 2015].

These banks actively borrow on global capital markets. According to the IBRD, in the second half of 2015 it attracted USD 19.4 billion on capital markets. These borrowings were denominated in 17 currencies, indicating high investors' interest in the Bank's bonds²².

In addition to paid-in subscriptions, MDBs' equity includes reserves, which are often quite large. For instance, as of end-2015, IBRD accumulated reserves exceeded the contributions of its shareholders²³. From 1945 to 2013 the IBRD provided the volume of loans about 45 times higher than its paid-in capital, which demonstrates its activeness in attracting external financing [Ujvari 2016].

Overall, increase in NDB and AIIB resources to levels comparable with traditional MDBs is limited by three factors. First, payment of capital subscription will take several years in accordance with the agreed procedures. Second, the new banks have not yet

¹⁹ Asian Infrastructure Investment Bank Articles of Agreement (2015). URL: <http://euweb.aiib.org/uploadfile/2016/0202/20160202043950310.pdf> (accessed: 05.11.2016).

²⁰ Inter-American Development Bank 2015 Annual Report. URL: <https://publications.iadb.org/bitstream/handle/11319/7554/IDB-Annual-Report-2015-The-Year-in-Review.pdf?sequence=5> (accessed: 05.11.2016).

²¹ BRICS pay in 1st tranche of \$750 mn to BRICS Bank capital. New Development Bank. 14.01.2016. URL: [http://www.ndb.int/brics-pay-in-1st-tranche-of-\\$750-mn-to-brics-bank-capital.php](http://www.ndb.int/brics-pay-in-1st-tranche-of-$750-mn-to-brics-bank-capital.php) (accessed: 05.11.2016).

²² Management's Discussion & Analysis and Condensed Quarterly Financial Statements. International Bank for Reconstruction and Development (2015). URL: http://treasury.worldbank.org/cmd/pdf/IBRD_MDA_and_Financial_Statements_December_2015.pdf.pdf (accessed: 05.11.2016).

²³ Ibid.

accumulated sufficient reserves. Third, the NDB and AIIB still have to build their reputation to operate effectively in international capital markets. Despite these limitations, both banks aim to resort to capital markets. In July 2016, the NDB issued green bonds worth about USD 450 mln²⁴. The AIIB has not yet announced any decisions concerning external funding, however, the bank's President Jin Liqun highlighted investors' interest in the AIIB and noted that the bank will be able to attract up to USD 20—30 billion on the Chinese market²⁵.

Credit ratings will affect the prospects of attracting additional resources by the new MDBs. While traditional MDBs are assigned the highest ratings from the world's leading rating agencies [Faure et al. 2015], the new banks have not yet succeeded in this area. However, it is clear that both of them work in this direction. The NDB is currently choosing between the possibilities of obtaining the AAA or AA credit rating²⁶. The main difficulty for the new banks arises from the connection of their potential credit ratings with the state of the member economies, their sovereign ratings and investors' confidence. Thus, reduction of Russian and Brazilian sovereign ratings in 2015 is a negative factor for the NDB. At the same time, Chinese agencies China Lianhe Credit Rating and Chengxin International Credit Rating have assigned their highest ratings to the NDB.

The AIIB currently has no international credit rating. However, participation of developed countries with high sovereign ratings (such as AAA of Australia and Germany)²⁷ will potentially help to improve investors' confidence.

In the area of financing standards and instruments, the new banks are drawing on the experience of traditional MDBs. At the same time, there are differences in sectoral focus and geographic priorities between the two groups. Thus, sectoral priorities of the new banks meet the immediate needs of potential borrowers, while the range of projects implemented by traditional MDBs is wider.

As for geographic priorities, both new banks intend to finance projects in their member countries in the near future. It is assumed, however, that in the longer term they will expand their geographical coverage, especially the NDB, given a strong need to improve its members' average credit rating. As a result, both banks have revealed plans to attract new members in 2017²⁸.

²⁴ BRICS bank issues RMB green bonds. The State Council of China. 20.07.2016. URL: http://english.gov.cn/news/top_news/2016/07/20/content_281475397923386.htm (accessed: 05.11.2016).

²⁵ AIIB says could rely on Chinese investors if ratings unfair. Reuters (2015). URL: <http://www.reuters.com/article/us-aiib-china-idUSKCN0RH27E20150917> (accessed: 05.11.2016).

²⁶ New Development Bank to Receive International Investment Rating by Q3, 2016 — Russia's Finance Ministry. URL: <http://www.ndb.int/new-development-bank-to-receive-international-investment-rating-by-q3-2016-russias-finance-ministry.php> (accessed: 05.11.2016).

²⁷ Credit Rating. Trading Economics. URL: <http://www.tradingeconomics.com/country-list/rating> (accessed: 05.11.2016).

²⁸ AIIB says more than 30 countries await membership. Asia Times. 25.03.2016. URL: <http://atimes.com/2016/03/aiib-says-more-than-30-countries-await-membership> (accessed: 05.11.2016).

The new development banks will likely face a high demand for financing from potential borrowers. Although they do not plan to provide interest-free loans similar to concessional windows of the leading traditional MDBs, they have an important advantage with regard to the terms of their lending. The new banks do not impose additional, non-financial, requirements on the borrowing countries, related to changes in their domestic economic policies, implementation of reforms, etc., often set by traditional development banks. This difference in their credit policies of the NDB and AIIB is one of the most important features that characterize the new MDBs as institutions seeking to ensure a more equitable international financial system based on the principle of respect for the interests of all member countries.

Basic loan conditions, i.e. direct costs of loans for borrowers, offered by the new MDBs, according to information available at the moment, are comparable or even more attractive than in traditional banks (however, an important caveat is that the new banks do not provide preferential long-term interest-free loans). For instance, the AIIB charges a fixed spread to LIBOR ranging from 0.75 % to 1.4 % depending on the average maturity of loans²⁹.

Another important feature is the new banks' intention to denominate their proposed borrowing instruments in national currencies of developing countries, whereas large traditional MDBs provide loans denominated in the most popular and stable currencies, including the US dollar, euro, Japanese yen and British pound. In addition, according to the NDB Articles of Agreement, in future an opportunity will be provided for countries to repay loans in their local currencies, even if they are not the same as the loan currencies³⁰.

Overall, the described differences from traditional MDBs in terms of governance, capital and financing arrangements can help the new development banks become “a valuable platform for... advancing reforms in the international financial and development architecture that favor developing and emerging countries in general” [Griffith-Jones 2014]. The next section aims to assess the NDB and AIIB potential loan portfolios, as well as their role in the international financing reform.

POTENTIAL ROLE OF THE NEW DEVELOPMENT BANKS: ADDRESSING INFRASTRUCTURE GAP AND STIMULATING REFORMS IN MULTILATERAL FINANCING

Given that the core mission of both NDB and AIIB is to provide sustainable infrastructure investment in member countries that will narrow the existing financing gap, it is important to assess their potential loan portfolios and compare them with infrastructure investments of traditional MDBs.

²⁹ Sovereign-Backed Loan and Guarantee Pricing. Asian Infrastructure Investment Bank (2016). URL: <http://www.aiib.org/uploadfile/2016/0226/20160226062223493.pdf> (accessed: 05.11.2016).

³⁰ Agreement on the New Development Bank. BRICS (2014). URL: <http://www.ndb.int/download/Agreement%20on%20the%20New%20Development%20Bank.pdf> (accessed: 05.11.2016).

Based on the analysis of NDB and AIIB differences from traditional banks, and potential benefits and challenges they can bring, two scenarios are examined: basic and optimistic. The methodology used for assessment is based on the work of Chris Humphrey projecting the financial capacity of the two banks based on their announced shareholder capital and likely financial performance determined by membership, governance arrangements and other factors [Humphrey 2015b]. However, recent developments in both banks are taken into account. The following common assumptions are used for the forecast under both scenarios.

As the demand for infrastructure investment is growing, the authors expect that the new banks will channel all resources available to finance their operations. At the same time, repayment of loans by borrowers is expected to be made on time. Taking into consideration the 3 to 7-year grace periods offered by the AIIB and NDB in the framework of projects approved to date, the new MDBs are assumed to accumulate a net income after four years of their operation.

Total shareholder equity of both banks is set to include members' contributions made in accordance with the agreed timelines and accumulated reserves. The assumed equity-to-loans ratios (E/L) for each bank under different scenarios allow make forecasts for the new MDBs loan portfolios. The E/L projections draw on the traditional MDBs experience as described in the section above.

Under the basic scenario, the NDB is assumed to attract new members from the group of middle-income countries in need of infrastructure investment, such as Indonesia, Turkey or Nigeria. These new members will provide an increase in the bank's paid-in capital. Despite reports on negotiations with 10 or even 15 potential members, dominance of BRICS countries in the NDB governance and capital will likely prevent some of them from accession. As a result, it is assumed that several new members that will join the NDB in 2017 and 2018³¹ will provide an increase in its subscribed capital equal to USD 25 billion. Given the proportion between paid-in and callable capital, the former will thus increase by USD 5 billion. Additional subscriptions are expected to be paid in five equal installments of USD 1 billion starting from 2018.

Under the same scenario, the outlook for the AIIB paid-in capital increase is more favorable given its ambitious plans for attracting new members and potential additional subscriptions of existing members with large reserves, such as China. Consequently, additional AIIB paid-in capital is expected to reach USD 50 billion. The payment of new subscriptions by new and existing members is also assumed to be provided in five equal installments starting from 2018.

Given the NDB potential difficulties in attracting low-cost financing on capital markets while maintaining interest rates for borrowing countries comparable to or even lower than those offered by traditional MDBs, it is assumed to accumulate less reserves than the AIIB. Thus, the return to equity ratio illustrating the bank's net income is set equal to 3.5 % for the AIIB and 3 % for the NDB. As previously discussed, both banks are expected to accumulate net income starting from end 2019.

³¹ Anton Siluanov: BRICS Bank to determine the conditions for new members accession in 2017. Joint Site of Ministries of Foreign Affairs of BRICS Member States. 20.04.2016. URL: <http://infobrics.org/ru/blog/news/2016/04/20/13597> (accessed: 05.11.2016).

Finally, the new banks' prospects of attracting financing on capital markets are considered. Given the average E/L ratio of 37.5 % for major traditional MDBs, the same figure is used for making the AIIB loan portfolio forecast. Despite its active work on obtaining international credit ratings, the NDB will likely face less favorable terms of external financing. Thus, its E/L ratio is assumed to equal 54.8 % (the lowest figure of five major traditional MDBs).

Based on these assumptions, the AIIB loan portfolio is projected to grow steadily to reach approximately USD 97 billion in 2025 (see fig. 2).

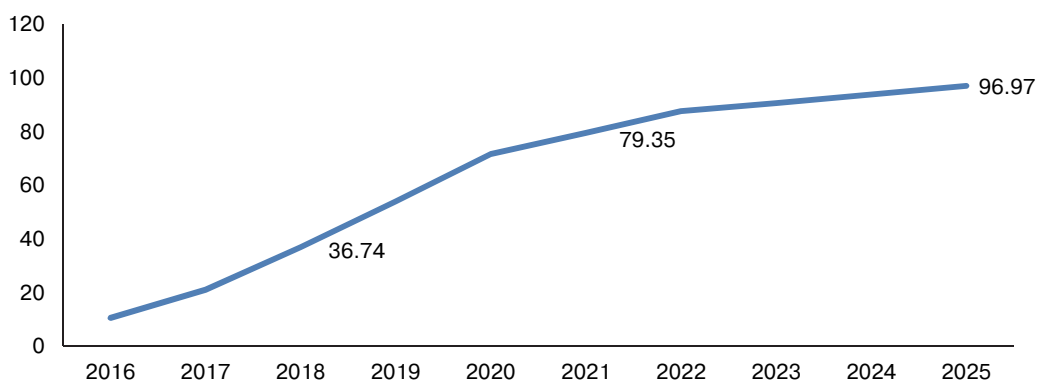


Fig. 2. Basic forecast of the AIIB loan portfolio growth, USD billion (authors' estimations)

Under the same assumptions, the NDB loan portfolio is forecast to exceed USD 31 billion by 2025 in the basic scenario (see fig. 3).

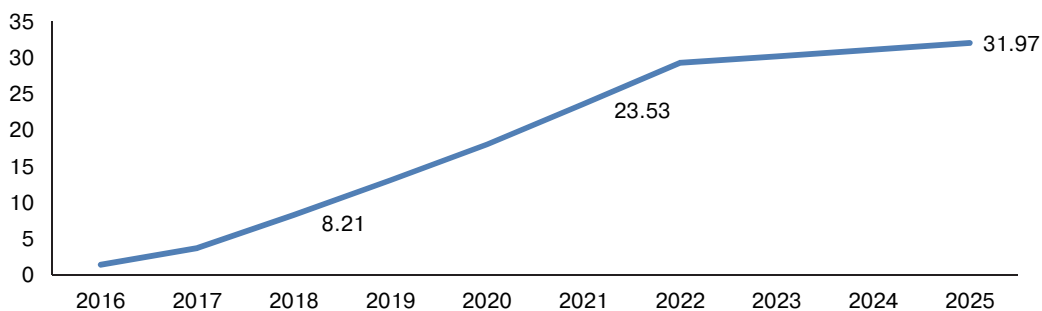


Fig. 3. Basic forecast of the NDB loan portfolio growth, USD billion (authors' estimations)

Proceeding from the same basic assumptions, the optimistic forecast takes a more positive outlook for the new banks' capacities to attract external funding. For the NDB, it is expected that more new members with substantial reserves will accede and therefore additional subscriptions will amount to USD 50 billion, or all the authorized capital not subscribed yet. In addition, if both NDB and AIIB succeed in getting high credit ratings from the world's leading rating agencies, the E/L ratio for the NDB may be set

equal to 37.5 %, while the figure for the AIIB could reach 25.3 % (the lowest ratio among five major traditional MDBs, meaning large borrowings on international capital markets).

Under these optimistic assumptions, the AIIB loan portfolio is expected to reach about USD 143 billion (see fig. 4).

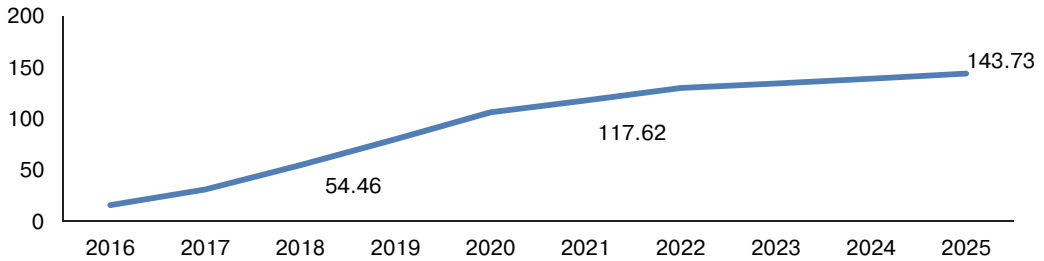


Fig. 4. Optimistic forecast of the AIIB loan portfolio growth, USD billion (authors' estimations)

The NDB portfolio in this case could grow in a larger proportion and almost double compared to the basic scenario. Still, it is likely to remain smaller than in the AIIB (see fig. 5).

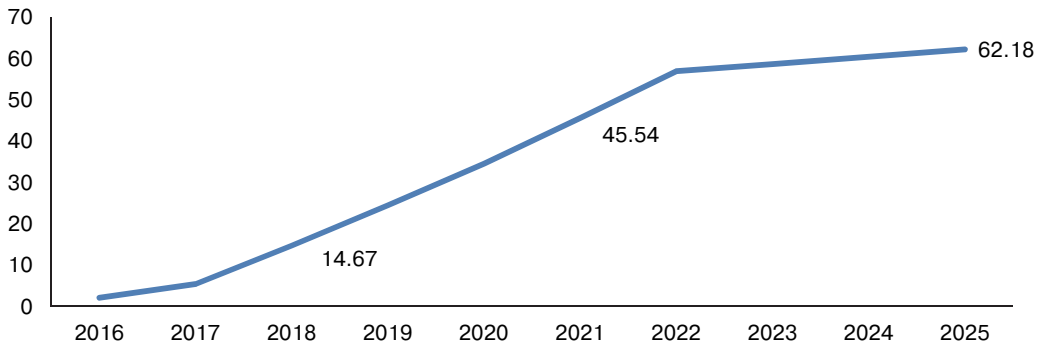


Fig. 5. Optimistic forecast of the NDB loan portfolio growth, USD billion (authors' estimations)

Despite the projected rapid growth, currently the loan portfolios of new and traditional development banks are very different in scope. For example, in FY 2015 the IBRD-approved operations totaled USD 23.5 billion³². On 15 April 2016, the NDB approved its first loans for projects in 4 BRICS countries worth USD 811 million, and then decided to finance the construction of two hydropower plants in Karelia worth USD 100 million. The AIIB is estimated to finance projects with a total worth of USD 1.2 billion in 2016³³. However, given that the new MDBs have only recently

³² World Bank Fiscal Year Data (2016). URL: <http://www.worldbank.org/en/about/annual-report/fiscalyeardata> (accessed: 05.11.2016).

³³ AIIB and World Bank sign first Co-Financing Framework Agreement. AIIB. 13.04.2016. URL: http://euweb.aiib.org/html/2016/NEWS_0414/99.html (accessed: 05.11.2016).

launched their operations, these results can be considered as success. Less than a year passed between the NDB and AIIB official launch and the start of their operations. This is an unprecedentedly short period in comparison with traditional development banks, where it takes about two years on average [Ujvari 2016].

In ten years, even under a less optimistic forecast, the NDB loan portfolio can exceed USD 31 billion, and AIIB — USD 96 billion. In case of favorable conditions for the new banks and strong confidence among investors, these figures can reach USD 62 billion and USD 143 billion, respectively. To compare, as of end-2015, the ADB loan portfolio reached USD 73 billion³⁴, and the IBRD — about USD 155 billion³⁵.

Given the NDB and AIIB aspiration for closer partnerships with commercial banks focused on infrastructure and other MDBs, signing of several documents specifying potential areas of this cooperation, including co-financing of projects, and details of projects already approved by the AIIB, it is expected that in future private and public investors will provide co-financing in equal proportions with the new development banks.

Another important implication of the NDB and AIIB establishment is that they can act as catalysts for the international financial system reform. Being a potentially strong alternative to the traditional MDBs, even without direct competition the new banks can stimulate them to reform governance and change operational modalities. In contrast to traditional MDBs, the AIIB and NDB promote greater equality among members in terms of their representation in capital, votes and governing structures. Thus, to preserve their legitimacy traditional MDBs will have to consider interests of the developing members. In addition, both new banks aim to be “lean, clean and green”³⁶. Their non-resident governing bodies meeting upon necessity and small staff provide a comparative advantage over traditional MDBs with substantial administrative costs. Therefore, compared with slower and less flexible IBRD and other old banks, the new MDBs could offer faster and seamless approval and implementation of projects, and greater overall efficiency of their operations. These competitive advantages are likely to cause changes in traditional MDBs and thus improve the general effectiveness of the multilateral development institutions system and development financing.

Additionally, the NDB and AIIB focus on infrastructure and the rapid expansion of their operations in line with the presented forecasts could revive the traditional MDBs’ interest in infrastructure financing, thus complementing efforts of other multilateral institutions, such as the G20 which made infrastructure connectivity and promoting cooperation among different actors in the area one of its main priorities since Russia’s presidency in 2013, culminating in the launch of the G20 Infrastructure Connectivity Alliance during the Chinese presidency in 2016.

³⁴ Asian Development Bank Quarterly Portfolio Update as of 31 December 2015. URL: <http://www.adb.org/sites/default/files/institutional-document/181407/in60-16.pdf> (accessed: 05.11.2016).

³⁵ Information Statement. International Bank for Reconstruction and Development (2016). URL: <http://treasury.worldbank.org/cmd/pdf/InformationStatement.pdf> (accessed: 05.11.2016).

³⁶ China-Led Development Bank AIIB Will be Lean, Clean and Green, Says its President. The Wall Street Journal. 2016. URL: <http://www.wsj.com/articles/china-led-development-bank-will-be-lean-clean-and-green-says-head-1453479933> (accessed: 05.11.2016).

The NDB and AIIB have become the first major MDBs established since 1991, when the EBRD was created. The emergence of these new institutions provides an opportunity for successfully addressing two challenges: persistent global deficit of investments in creating new and maintaining existing infrastructure, and strengthening the representation and voice of developing countries and emerging economies in the global financial system, particularly in the area of financing for development.

Researchers often draw analogies between the new development banks and traditional MDBs, in particular the World Bank. Such comparisons are based on the commonality of objectives and geographical priorities of two groups of MDBs. This article demonstrates that despite some differences between the new and traditional development banks in their governance, capital and financing models, these two groups will cooperate and complement each other rather than compete. The new banks are still at the early stages of their development and are focused exclusively on financing infrastructure projects, while the leading traditional MDBs are typically active in several areas, and their investments in infrastructure on average constitute 30 % to 50 % of operations [Faure et al. 2015]. In addition, the new banks support the principles of sustainable and responsible financing, and seek to develop cooperation and exchange experience with other banks, especially in the AIIB case. Thus, the differences between the new and traditional MDBs are currently unlikely to give rise to any conflicts or increase direct competition.

Even in ten years the contribution of the NDB and AIIB will be insufficient to substantially narrow the gap in infrastructure financing. In this regard, the potential of the new banks can obviously be used most effectively if they cooperate with traditional MDBs. The documents of the two new banks provide for such cooperation. AIIB Articles of Agreement mention collaboration with other institutions as one of the main objectives of the bank³⁷, and most projects already approved are co-financed by traditional MDBs.

The new banks can act as catalysts for the international financial system reform and make traditional MDBs more responsive to the needs of developing countries. In order to develop in accordance with the optimistic scenario presented in this article, the new MDBs should adhere to their basic alternative principles, but also rely on the experience of traditional banks in areas where they have proved their effectiveness. These include exchange of experience on selection of projects, social and environmental safeguards, and monitoring results.

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³⁷ Asian Infrastructure Investment Bank Articles of Agreement (2015). URL: <http://euweb.aiib.org/uploadfile/2016/0202/20160202043950310.pdf> (accessed: 05.11.2016).

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НОВЫЙ БАНК РАЗВИТИЯ И АЗИАТСКИЙ БАНК ИНФРАСТРУКТУРНЫХ ИНВЕСТИЦИЙ: ПОТЕНЦИАЛЬНАЯ РОЛЬ В ГЛОБАЛЬНОЙ ФИНАНСОВОЙ СИСТЕМЕ

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В статье рассмотрены два недавно созданных многосторонних банка развития, в которых ключевые роли играют страны с динамично растущей экономикой — Новый банк развития и Азиатский банк инфраструктурных инвестиций. Авторы исследуют основные экономические и политические стимулы создания новых банков, анализируют возможности и вызовы, с которыми они могут столкнуться в процессе своего развития, а также предлагают прогноз роста их кредитных портфелей в ближайшие годы. На основе прогноза авторы приходят к выводу, что через 10 лет новые многосторонние банки смогут обеспечить финансирование инвестиций в инфраструктуру на уровне, сопоставимом с показателями традиционных институтов, работающих в данной сфере.

Для развития в соответствии с оптимистичным сценарием новые банки должны придерживаться своих собственных, отличных от традиционных банков, базовых принципов, в то же время используя опыт традиционных институтов в тех областях, где они демонстрируют эффективность. Немаловажно, что помимо содействия устранению глобального дефицита инфраструктурных инвестиций такая стратегия может стимулировать традиционные банки к реализации реформ управления и изменению операционных подходов с целью более полного учета интересов развивающихся стран.

Ключевые слова: многосторонние банки развития, Новый банк развития (НБР), Азиатский банк инфраструктурных инвестиций (АБИИ), БРИКС, глобальная финансовая архитектура, инвестиции, инфраструктура.

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