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# **AIIB and the Multinational Development Financing System: Complementary or Competitive?**

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## International Multilateral Development Financing System

International Multilateral Institution		Regional Multilateral Institutions	
WB	IBRD (International Bank for Reconstruction and Development )	Europe	EBRD (European Bank for Reconstruction and Development)
			EIB (European Investment Bank )
		Asia	ADB (Asian Development Bank )
	IDA (International Development Association)	Africa	AfDB (African Development Bank)
		America	IDB (The Inter-American Development Bank) CAF (Corporacion Andina de Fomento)



## **The initiative of AIIB:**

- 2-8 Oct.2013, Chinese government proposed AIIB initiative
- 24 Oct.2014, 21 founding members signed the MOU
- 12 Oct. 2015. 53 of 57 founding members signed the AIIB charter

## **Questions: The relationship of AIIB and existing MDBs**

- Complementary or Competitive?
- Conflict or Cooperation



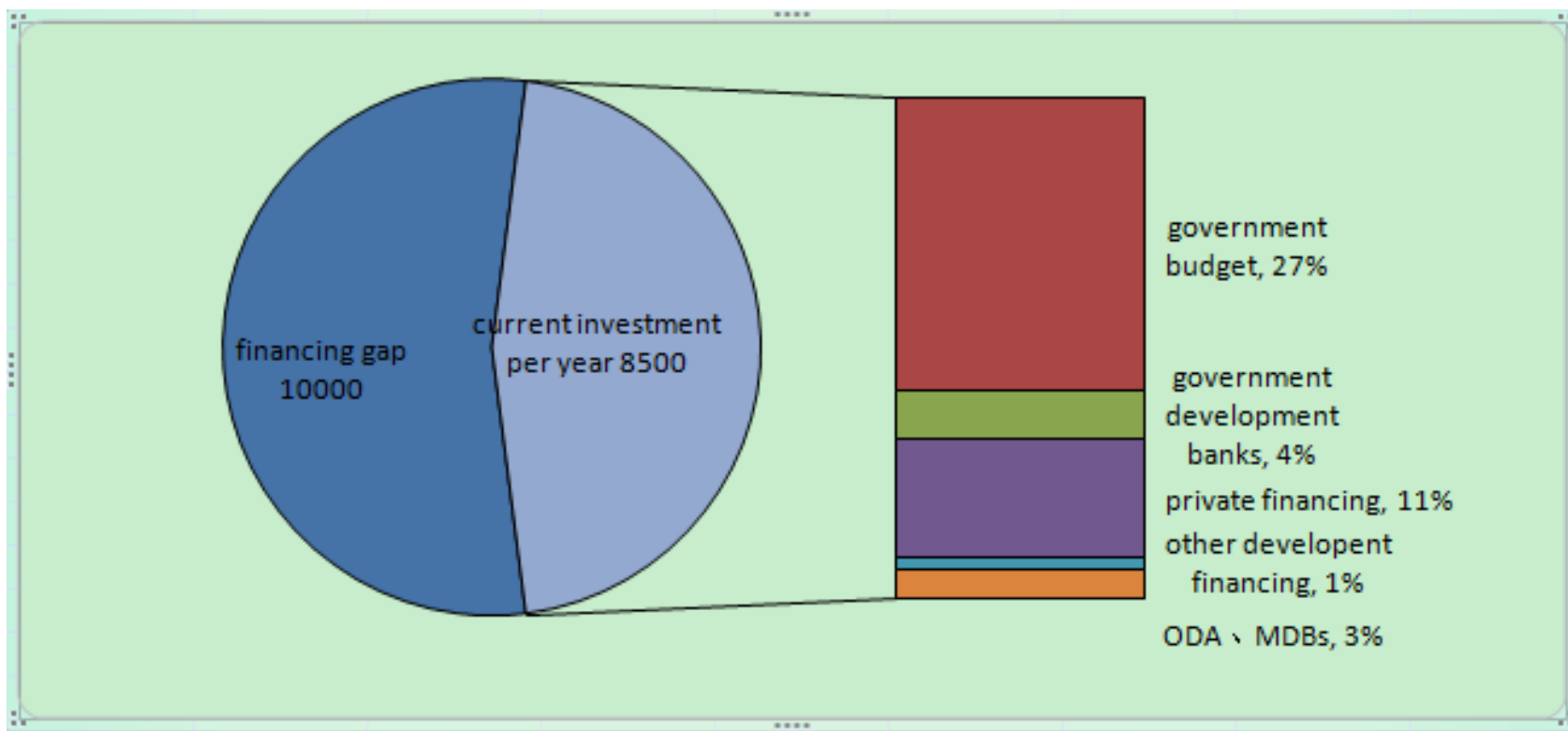
# AIIB and the existing MDBs

1. The financing demands in developing countries
2. The objectives and function
3. The effectiveness
4. The governance structure
5. The financial sustainability



## Infrastructure financing needs and current investment in developing countries(before 2020)

Unit: 100million USD、%



Note: Real price in 2008

Source: Based on Bhattacharya, Romani & Stern (2012) and Bhattacharya & Romani (2013)



## **The initiative of AIIB: to meet the development finance demand of Asian countries**

- The developing countries are facing financial and technical bottlenecks. for their growing infrastructure demand
- Because of the finance crisis, the public budget flow to infrastructure sector is decreasing.
- Infrastructure investment of the global private financial institutions mainly flow into developed countries.



## The Capital Structure and Lending Scale of MDBs

unit: 100 million USD, %

MDBs	authorize d capital	subscrib ed capital	paid-in capital	callable capital	paid-in /subscrib ed (%)	equity	lending outstandin g	equity/len ding outstandin g (%)
<b>IBRD<sup>[1]</sup></b>	2784	2328	140	2188	6.0	400	1540	26.0
<b>EBRD<sup>[2]</sup></b>	300	297	62	235	21.0	149	264	56.3
<b>EIB<sup>[2]</sup></b>	-	2432	217	2216	8.9	579	4281	13.5
<b>ADB</b>	1638	1628	82	1546	5.0	169	531	31.8
<b>AfDB</b>	1030	1004	46	958	5.0	90	178	50.3
<b>IDB</b>	1709	1709	60	1649	3.5	236	707	33.3
<b>CAF</b>	100	100	65	35	65.0	78	205	38.2
<b>AIIB</b>	<b>1000</b>	<b>500</b>	<b>100</b>	<b>400</b>	<b>20.0</b>			

Note: [1]data of IBRD is of June 2014, data of other institutions is of the end of 2013. [2]100 million EUR.

Source: annual reports of MDBs and the rating report of S&P, Fitch and Moody.



## 2. The Objectives and Function

### **MDBs**

- promote world economic growth and poverty reduction (core mission of the MDBs) (ADB)
- promote regional economic growth and integration (ADB, AfDB, CAF)
- promote the development of medium-sized and small enterprises (EIB, IDB)
- promote sustainable development (EIB, IDB, CAF)

### **AIIB:**

To boost Asian economic development, wealth creation and infrastructure connectivity through investment in infrastructure of Asia





## MDBs Lending Sectors

%

WB	EBRD	EIB	ADB	CAF	IDB	AfDB
1. Public Administration, Law, and Justice 22 2. <b>Transportation 17</b> 3. <b>Energy and Mining 16</b> 4. Water, Sanitation, and Flood Protection 11 5. Health and Other Social Services 8 6. Agriculture, Fishing, and Forestry 8 7. Education 8 8. Finance 5 9. <b>Industry and Trade 4</b> 10. Information and Communications 1	1. <b>infrastructure 20</b> 2. Finance 28 3. enterprise 31 4. energy 21	1. <b>infrastructure 65</b> ✓ transportation 20 ✓ Communications 31 ✓ water, swage treatment 10 ✓ urban development 4 2. Industrial service agriculture 25 3. Education 5 4. Health 5	1. <b>infrastructure 60</b> ✓ Transport and Information and Communication Technology 24 ✓ Energy 27 ✓ Water Supply and other Municipal infrastructure and Services 9 2. Finance 14 3. Multisector 8 4. Public Sector Management 6 5. Industry and Trade – 6. Agriculture and Natural Resources 5 7. Education 4 8. Health and Social Protection 3	1. <b>infrastructure 30</b> 2. finance 35 3. society and environment development 15 4. productive department 13 5. structural reform 7	1. <b>infrastructure, environment 32</b> 2. Development institution 29 3. social sector 37 4. integration and trade 9	1. <b>infrastructure 58</b> 2. Multisector 13 3. Agricultural and rural development 12 4. society 9 5. finance 8

Source: Annual Reports of MDBs



### 3. The effectiveness

#### Operating efficiency

- Not all MDBs can be operated efficiently. Some of the development project financing of the existing MDBs can not meet the actual situation of recipient countries. The design and implementation of loan projects needs to be improved.
- China and other developing countries have accumulated rich experience and capacity in infrastructure construction, which make AIIB have a better understanding of the real situation in borrowing countries, which will facilitate the project design and implementation.

#### Principles and standards

- The MDBs dominated by western developed countries emphasize the "process" of development aid with political conditions attached, which ignore the complicated history and reality of the environment in developing countries and is often unable to achieve the desired development results in these regions.
- AIIB based on South-South cooperation will respect the borrowing country's choice of development path and try to establish development financing standards which are more suitable for developing countries.



## 4. Governance structure

### Distribution of MDBs voting power unit: %

Distribution of voting power	WB	Regional MDBs					
	IBRD	IDB	EBRD <sup>[1]</sup>	EIB	ADB	AfDB	CAF
Non-borrowing countries	63.08	49.99	83.38	0.00	64.12	40.14	4.60
Borrowing countries	<b>36.92</b>	50.01	16.62	100.00	<b>35.88</b>	59.86	95.40
Non-regional members	-	15.94	36.87	0.00	34.87	40.14	4.60
Regional members	-	84.06	63.13	100.00	<b>65.13</b>	59.86	95.40

**Note:** [1] The voting power of EBRD includes those of EIB and EU.

**Source:** Web of MDBs.



## 5. Loan Terms and Financial Sustainability

- AIIB loan  $\sim$  "hard loan" of the traditional MDBs
  - IBRD loan of WB
  - OCR loan of ADB.
- **The lending rate**
  - financing cost (rating)
  - profitability of a MDB.

the rating of MDBs :

- other MDBs: AAA
- CAF: AA-(S& P; Fitch) ; Aa3(Moody)
- AIIB: ?



## The Sovereign Credit Rating of Part Founding Members of AIIB (2015)

	Country/ Region	S&P		Mody's		Fitch		TE Credit Rating	Expectation
		Rating	Expectation	Rating	Expectation	Rating	Expectation		
Regional Members	China	AA-	Stable	Aa3	Stable	A+	Stable	79	Stable
	Bangladesh	BB-	Stable	Ba3	Stable	BB-	Stable	40	Stable
	Singapore	AAA	Stable	Aaa	Stable	AAA	Stable	97	Stable
	Kuwait	AA	Stable	Aa2	Stable	AA	Stable	90	Stable
	Kazakhstan	BBB	Negative	Baa2	Stable	BBB+	Stable	63	Negative
	South Korea	AA-	Stable	Aa3	Positive	AA-	Stable	83	Stable
	Malaysia	A-	Stable	A3	Positive	A-	Stable	66	Stable
	Thailand	BBB+	Stable	Baa1	Stable	BBB+	Stable	62	Stable
	Philippines	BBB	Stable	Baa2	Stable	BBB-	Positive	54	Stable
	India	BBB-	Stable	Baa3	Positive	BBB-	Stable	47	Stable
	Indonesia	BB+	Positive	Baa3	Stable	BBB-	Stable	45	Positive
	Mongolia	B+	Negative	B2	Negative	B+	Negative	34	Negative
Non-regional Members	U.K	AAA	Negative	AA1	Stable	AA+	Stable	94	Negative
	Austria	AA+	Stable	Aaa	Stable	AA+	Stable	95	Stable
	France	AA	Negative	Aa2	Stable	AA	Stable	89	Negative
	New Zealand	AA	Stable	Aaa	Stable	AA	Positive	89	Stable
	Germany	AAA	Stable	Aaa	Stable	AAA	Stable	99	Stable
	Australia	AAA	Stable	Aaa	Stable	AAA	Stable	97	Stable
	Switzerland	AAA	Stable	Aaa	Stable	AAA	Stable	100	Stable



## The Revenue of MDBs

unit: million USD, million EUR

Index	MDBs	2009	2010	2011	2012	2013
net interest revenue per year	IBRD <sup>[1]</sup>	3789	2460	2451	2141	1939
	EBRD <sup>[2]</sup>	582	617	783	875	<sup>[3]</sup> 418
	EIB <sup>[2]</sup>	2242	2545	2872	2981	3006
	ADB	666	670	662	636	576
	AfDB	445	507	401	520	430
	IDB	1882	1904	1388	1531	1672
	CAF	215	188	189	226	188
reserve accumulation <sup>[4]</sup>	IBRD <sup>[1]</sup>	25670	25951	26351	26742	26889
	EBRD <sup>[2]</sup>	4409	6019	6288	7103	7419
	EIB <sup>[2]</sup>	26301	28566	30858	33598	36241
	ADB	10782	11933	12346	12323	12973
	AfDB	4029	4040	4048	4046	4237
	IDB	15441	15771	15488	13494	16307
	CAF	2262	2939	3122	3228	3875

Note: [1]The data of IBRD 2013 refers to the data from July 2013 to June 2014, the data of other institutions in 2013 refer to the data in calendar 2013.[2]million EUR; [3]data in June 2013; [4]including net income in the same year.

Source: Reports of MDBs and the rating organizations.



# Conclusion

## A. Complementation or Competition?

### 1. The AIIB will complement the traditional MDBs

- AIIB will mainly engaged in regional economic development and infrastructure connectivity through investment in infrastructure of Asia, which is somewhat different from those of the traditional MDBs.
- The lending capacity of the traditional MDBs is significant deficiency to the demand of infrastructure construction in development countries( including Asia).
- The traditional MDBs subject to Western values, providing development financing that are not suitable to the actual circumstances of the recipients very well, the design, implementation of projects and the disbursement rate of loan are to be improved.

### 2. AIIB will compete with the traditional MDBs to some extent

- AIIB will promote the democratization and diversification of international development financing system, raise the status of the emerging economies, developing countries and borrowing countries, based on south-south cooperation, promote the development benchmark more suitable to developing countries.
- AIIB will constitute competitive pressure to the traditional MDBs on priority areas of the business, lending capacity, lending conditionality, and so on .





## B. Conflict or Cooperation

AIIB and the traditional MDBs could cooperate and build a more effective, more efficient, more inclusive international development financing system.

1. AIIB could learn many things from the traditional MDBs (best practice standards, guiding principles, governance procedures, performance assessment standards )

2. There are many space for AIIB and traditional MDBs to cooperate: joint financing, alignment, harmonization and peer review of the projects...