

Comparative Prospects of the New Development Bank and Asian Infrastructure Investment Bank in Addressing Infrastructure Financing Gap

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On 15 July 2014, at the Fortaleza summit, the BRICS leaders announced the signing of the Agreement on the New Development Bank (NDB). On 24 October 2014, 21 Asian countries signed a Memorandum of Understanding on the establishment of the Asian Infrastructure Investment Bank (AIIB). The almost simultaneous launch of these new MDBs was caused by several reasons, including a significant lack of investment in the maintenance of existing infrastructure, as well as the construction of new infrastructure around the world, particularly in developing countries; concerns about the ability of the existing MDBs to respond effectively to this challenge; imbalances between the positions of the leading developing countries and emerging economies in the global economy and their roles in traditional international financial institutions.

At the same time, the basic principles of financing through multilateral development banks are recognized as relatively effective, including by these countries. As a result, new institutions established on their initiative use business models typical of the traditional MDBs. However, some individual parameters of these two new banks differ. Despite the fact that both institutions have been established recently, peculiarities regarding their capital structure, governance and operations allow carrying out the analysis of their comparative prospects and thus assessing their potential effectiveness in addressing relevant objectives.

Based on the proposed forecast, one can hardly conclude that to establish the NDB and AIIB as "strong and respected international financial institutions, playing a leading role in the evolving international financial architecture" their founding members will need to make different efforts. Scaling up operations will be a challenge for both banks, as evidenced by the long history of "traditional" MDBs, for several reasons. These include the lack of relevant experience and need to accumulate best practices, which will take some time; potential difficulties in ensuring the adequate skills of staff and maintaining the quality of expert and technical assistance; the need to create a positive image to raise external funding; difficulties in establishing monitoring mechanisms related to environmental and social protection and financial supervision; the trade-off between finding their own operational niche and potential fragmentation of the development financing system through MDBs.

Given several common risks that the NDB and AIIB face, the banks need to actively engage with each other and cooperate with other MDBs in order to strengthen their positions in the global financial architecture. According to the forecast developed in the framework of this research, the total loan portfolio of the two banks could exceed USD 135 billion in 10 years.