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AIIB contribution to economic growth in Asia: opportunities and challenges

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Causes for establishing new MDBs

- MDBs play a crucial role in supporting international development and eliminating poverty [Faure 2015]
- Asia will need 8 trillion US dollars to address critical infrastructure needs by 2020 in order to maintain economic growth
- Imbalance between emerging economies' positions as locomotives of global growth and their representation in traditional MDBs (China's share in the IBRD votes is 4.65%, while its share in the global economy exceeds 16%)
- Traditional MDBs are often considered as slow and bureaucratic, deterring investment and building constraints for lending
- Developing countries and emerging economies agreed to establish the NDB and AIIB

AIIB differences from traditional MDBs. Votes and governance:

- Combination of basic votes, share votes and Founding Member votes, with basic votes making up 12% of the total (more than in traditional MDBs)
- China alone with its 27.5% total votes can block a supermajority. However, in future Chinese influence is expected to reduce as a result of the membership expansion
- Non-resident BoD. Meetings are organized “if needed”
- Clear management structure with a limited number of employees

AIIB differences from traditional MDBs. Capital and loan terms:

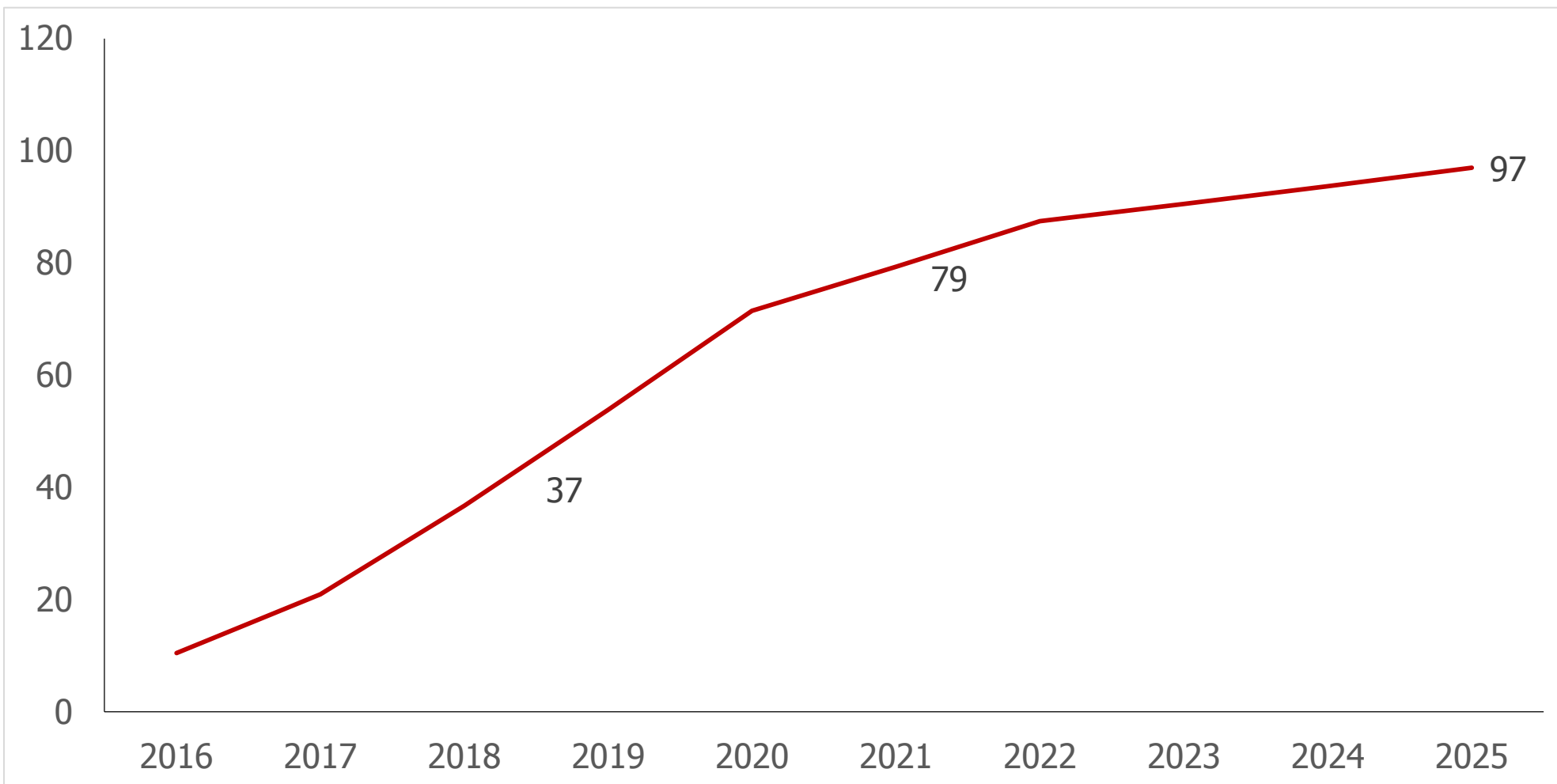
Capital:

- Higher ratio of paid-in to subscribed capital
- Paid-in capital will exceed the current IBRD level
- AAA ratings from three major global agencies
- Can easily borrow in the Chinese financial market, if needed

Loans:

- No interest-free loans similar to concessional windows of traditional MDBs
- No additional, non-financial, requirements on the borrowing countries
- Direct costs of loans for borrowers are comparable or even more attractive than in traditional MDBs

Forecast of loan portfolio growth:



Potential risks and ways to address them:

- Overlapping functions with other MDBs
 - Focusing on different borrowers
 - Focusing on different types of infrastructure
- Lack of transparency
 - Addressing transparency and corruption in recipient countries, with a higher weight of transparency factors in country performance assessments
 - Closely monitoring loan utilization through appropriate mechanisms
- Environmental and social standards
 - Further developing and using own environmental and social safeguards
 - Improving public awareness and social responsibility, for example through preferential loans for green projects

Conclusions:

- Even in ten years the contribution of the AIIB will be insufficient to substantially narrow the gap in infrastructure financing in Asia. Thus, the potential of the new bank can obviously be used most effectively if it cooperates with traditional MDBs
- AIIB AoA mention collaboration with other institutions as one of the main objectives, and most projects already approved are co-financed by traditional MDBs (16 out of 21, USD3.5 bln out of USD18 bln)
- The AIIB should adhere to its basic alternative principles, but also rely on the experience of traditional banks to address the abovementioned risks



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