

# INFRASTRUCTURE FINANCING: THE NEW DEVELOPMENT BANK (NDB) AND ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

**Andrey SHELEPOV**, Advisor of the International Relations Department of the Russian Union of Industrialists and Entrepreneurs (RSPP); Researcher of Center for International Institutions Research (CIIR) at the Russian Presidential Academy of National Economy and Public Administration (RANEPA)

## MULTILATERAL DEVELOPMENT BANKS. WHY HAVE THE NEW BANKS EMERGED?

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 multilateral development banks (MDBs) was caused by several reasons, including imbalances between the positions of the leading developing countries and emerging economies in the global economy and their roles in traditional international financial institutions; a significant lack of investment in the maintenance of existing infrastructure and new infrastructure construction around the world, particularly in developing countries; along with concerns about the ability of the existing MDBs to respond effectively to this challenge.

The main factor facilitating the effectiveness of the project financing model involving multilateral development banks is their ability to maintain a stable volume of lending without any additional contributions by shareholders (apart from the initial paid-in capital). MDBs are also attractive for borrowers because high credit ratings usually allow these banks to raise funds at low costs on capital markets, making their loans more affordable. In addition, along with financial support, MDBs often provide technical assistance and participate in project preparation activities.

At the same time, given the current conditions, MDBs do not fully cope with their tasks because of two factors. Firstly, MDBs' capabilities are not sufficient to meet the rapidly growing demand for investments in large-scale infrastructure projects around the world, especially in developing countries, where the demand is estimated to reach up to USD2.3 trillion annually.<sup>1</sup> At the same time, actual investments in recent years totaled about USD1 trillion,<sup>2</sup> indicating the existence of a substantial financing gap. The elimination of this deficit through private sector investments is difficult due to complexities associated with assessing risks and protection from them in developing countries.

<sup>1</sup> Bhattacharya A., Romani M. Meeting the Infrastructure Challenge: The Case for a New Development Bank. Presentation prepared for the G-24 Technical Group Meeting, 21 March. [http://g24.org/wp-content/uploads/2014/03/Session-4\\_2.pdf](http://g24.org/wp-content/uploads/2014/03/Session-4_2.pdf) (accessed 17 February 2017)

<sup>2</sup> Griffith-Jones S. A BRICS Development Bank: A Dream Coming True? UNCTAD Discussion Paper, no 215. [http://unctad.org/en/PublicationsLibrary/osgdp20141\\_en.pdf](http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf) (accessed 17 February 2017)

Moreover, MDBs, which are better able to minimize these risks, have recently reduced the share of infrastructure investment in the total volume of their operations in favor of lending in other areas. As a result, the annual volume of financing made available for infrastructure projects by major MDBs in recent years has not exceeded an average of USD40 billion,<sup>3</sup> while the total amount of their investment reached USD100 billion.<sup>4</sup>

Secondly, major MDBs were created at a time when the global economic order was based on the dominance of the developed countries of Europe, the United States and Japan (the IBRD was established in 1945, the Asian Development Bank (ADB) in 1966, the African Development Bank (AfDB) in 1963, and the Inter-American Development Bank (IDB) in 1959). These countries maintain their leading role in the abovementioned MDBs, actually having control over their decision-making mechanisms. Reforms aimed, inter alia, at addressing imbalances between the growing weight of developing countries and emerging economies in the global economy, and their disproportionately weak positions in the MDBs are implemented very slowly. As a result, lending conditions of major MDBs are often unfavorable for developing countries, making infrastructure financing a challenge.

These reasons set forth emerging economies ideas to establish new development financing institutions, taking into account their interests and at the same time using the experience generated by traditional MDBs. The accumulation of large reserves in these countries, especially in China, became a further impetus for the creation of new institutions. It should be mentioned that these assets are usually placed in sovereign wealth funds and invested mainly in the financial instruments of developed countries with relatively low yields.

The combination of these factors led to an active discussion of the idea of establishing new development banks that could contribute to financing the required investment, especially in infrastructure, supplementing the resources of existing MDBs, by major emerging economies, primarily in the framework of BRICS.

## **NEW DEVELOPMENT BANK. MAIN PARAMETERS**

At the Fortaleza summit on 15 July 2014, the BRICS leaders signed the agreement establishing the New Development Bank and announced the main parameters of its capital: initial authorized capital of USD100 billion and subscribed capital of USD50 billion distributed equally between the member states. The Agreement on the New Development Bank determined the basic parameters and aspects of its operations. All member countries had ratified the Agreement by the BRICS Ufa summit (July 2015). The Ufa Declaration stated that inaugural projects should be financed by the NDB in the first half of 2016.

The initial authorized capital of the NDB is divided into 1 million shares with a par value of USD100,000 each, which are available for subscription only by members of the Bank. The value of one share, i.e. USD100,000, is the minimum amount to be subscribed for participation. The initial subscribed capital of the Bank is set at USD50 billion. The subscribed capital is divided into paid-in shares and callable shares. The aggregate par value of paid-in shares is USD10 billion. Consequently, shares with a total par value of USD40 billion are callable. Each member of the NDB is obliged to subscribe to shares of

<sup>3</sup> Humphrey C. Challenges and Opportunities for Multilateral Development Banks in 21st Century Infrastructure Finance. [https://www.academia.edu/14934974/Challenges\\_and\\_Opportunities\\_for\\_Multilateral\\_Development\\_Banks\\_in\\_21st\\_Century\\_Infrastructure\\_Finance?auto=download](https://www.academia.edu/14934974/Challenges_and_Opportunities_for_Multilateral_Development_Banks_in_21st_Century_Infrastructure_Finance?auto=download) (accessed 17 February 2017)

<sup>4</sup> OANA. BRICS New Development Bank not to compete with other international financial institutions – president. <http://www.oananews.org/content/news/bussiness/brics-new-development-bank-not-compete-other-international-financial> (accessed 17 February 2017)

its capital stock. Initially five founding members subscribed to equal shares in the capital of the Bank (USD50 billion) that amount to USD10 billion.

The decision on equal stakes of the founding members in the NDB capital is based on the principle of equality among the BRICS countries and their desire to move away from the practice of traditional MDBs, where members with greater economic weight are usually entitled to higher capital shares (and thus have a greater influence in the institutions' governance). At the same time, this decision has led to a limitation of the NDB's capital, based on the potential of the smallest economy among the founding members — South Africa. As it was previously noted, large foreign exchange reserves in the BRICS countries were one of the factors favoring the NDB's establishment. However, their size in China is much larger than the figures in India, Brazil and Russia, which, in turn, greatly exceed South African reserves. Based on these figures, the Contingent Reserve Arrangement worth USD100 billion, which was created simultaneously with the NDB, provides for the following obligations of its participants: China — USD41 billion, Brazil, India and Russia — USD18 billion each, and South Africa — USD5 billion.<sup>5</sup>

The NDB has chosen the simplest way to link the countries' shares in capital and their voting power: the number of votes of each NDB member equals its number of subscribed shares (i.e. this figure is the same for all of the founding members and currently amounts to 100,000 votes). The NDB's attractiveness for potential member countries could increase if the bank adopted alternative mechanisms. For example, if it used so-called basic votes distributed equally among all members regardless of their contribution to the capital of the bank (this mechanism is used in the AIIB), the impact of countries' economic potential determining shares in capital on their abilities to influence the bank's decision-making process could be mitigated.

The dominance of founding members in the NDB is apparent and it is unclear whether it will be weakened in future. According to the Agreement on the NDB, BRICS countries share in its capital and, consequently, in the total number of votes cannot fall below 55%. Taking into account the NDB decision-making mechanisms, this limit virtually guarantees the veto power for BRICS countries.

## RAISING EXTERNAL FUNDS

Shortly after the launch of its operations the NDB began attracting funds from external sources. In March 2016 NDB President K. Kamath mentioned that in “6–8 weeks” the bank would issue bonds in the Chinese market. Borrowing in the Chinese market seemed to be the only possible alternative for the NDB, given that Chinese credit rating agencies gave their highest ratings to the bank, thus significantly reducing its cost of borrowing. At the same time, uncertainty about such borrowings remained due to relatively strict regulations in the Chinese financial market, as well as potential technical difficulties. Financing in local currencies in order to reduce transaction costs is one of the basic principles of the NDB's strategy. However, the mechanism of swapping funds received as loans in Chinese Yuan (RMB) into the currencies of four other BRICS countries was unclear.<sup>6</sup> Still, these problems were technical and thus had no significant impact on the bank's prospects for raising funds.

<sup>5</sup> Bank of Russia. On signature by BRICS central banks of the Operational Agreement in the framework of the Pool of Conventional Currency Reserves. [http://www.cbr.ru/eng/press/PR.aspx?file=07072015\\_162908eng2015-07-07T16\\_11\\_18.htm](http://www.cbr.ru/eng/press/PR.aspx?file=07072015_162908eng2015-07-07T16_11_18.htm) (accessed 17 February 2017)

<sup>6</sup> Joint site of Ministries of Foreign Affairs of BRICS Member States (2016). Brics Development Bank Pins Hope on China Bond Sale. <http://infobrics.org/blog/news/2016/03/14/11272/> (accessed 17 February 2017)

As a result, on 19 July the NDB announced the successful completion of its first issue of green bonds worth RMB3 billion (about USD448 million), with a five-year term and a nominal interest rate of 3.07 percent. The NDB became the first multilateral financial institution to issue green bonds in the interbank market in China. The total demand for the debut NDB bonds reached RMB9 billion, exceeding supply by about 3.1 times. More than 30 investors demonstrated their high level of interest in the new financial product. As K. Kamath mentioned, the bank was pleased with the investors' reaction on its first bond issue, which strengthened the confidence of its leadership in significant opportunities for raising funds in the BRICS national markets in addition to global capital markets.

Importantly, conditions for attracting funding in other BRICS financial markets are created. For example, on 11 March 2016, Russian Prime Minister Dmitry Medvedev signed a directive permitting the NDB and AIIB securities placement and circulation in the Russian Federation.<sup>7</sup>

However, in the future, to ensure that the cost and scope of raising capital remain acceptable, the NDB will need to obtain international credit ratings. As the Brazilian NDB Vice President Nogueira Paulo Batista informed, the bank is currently contemplating the possibility of seeking a credit rating of AAA or AA.<sup>8</sup> The decline of the sovereign ratings of Brazil and Russia in 2015 negatively affected the bank's chances of obtaining the highest rating. The complex system relevant agencies use to calculate their ratings takes into account a wide range of factors, including "the methods of managing risks, capital and funding,"<sup>9</sup> which may become an additional barrier. Also, at the moment it is difficult to assess the consequences of BRICS plans to establish its own rating agency, aimed at reducing the dependence of member economies on ratings issued by Western agencies.

## FIRST PROJECTS

In April 2016, the NDB approved its first loans for clean energy projects in four BRICS countries worth USD811 million. Brazil's development bank (Banco Nacional de Desenvolvimento Economico e Social) will receive the largest credit, worth USD300 million to build 600 megawatts of renewable energy capacity. The bank will also provide a USD250 million loan to India's Canara Bank, with USD75 million earmarked for 500 megawatts of renewable-energy projects. South Africa's Eskom Holdings SOC Ltd. secured a loan of USD180 million for power lines that can transmit 670 megawatts and transform 500 megawatts of renewable energy generation. China's Lingang Hongbo New Energy Development Co. will get USD81 million loan to fund 100 megawatts of rooftop solar power. Out of four projects the Chinese is the only one with a loan denominated in yuan. Other loans are denominated in dollars. The loans will run 12 to 20 years. It was also announced that more plans were at various stages of consideration in the NDB's pipeline.<sup>10</sup>

The first NDB project in Russia which aimed at hydropower development in Karelia was not approved at the same time as the four other member countries projects. According to the Russian Minister of Finance A. Siluanov, the delay was associated with "temporary technical obstacles," The news provoked a mixed reaction in the media speculating about

<sup>7</sup> Government of Russia. Government directive of 11 March 2016 № 413-r. <http://government.ru/docs/22164/> (accessed 17 February 2017)

<sup>8</sup> National Committee on BRICS Research. BRICS Panorama: BRICS Bank will seek for AAA or AA credit rating. <http://www.nkibrics.ru/posts/show/56b8517362726939ee080000> (accessed 17 February 2017)

<sup>9</sup> Ibid

<sup>10</sup> New Development Bank. BRICS Bank gives \$811 million in first round green energy loans. <http://ndb.int/brics-bank-gives-811-million-in-first-round-green-energy-loans.php> (accessed 17 February 2017)

its true causes.<sup>11</sup> However, on 20 July, on the eve of its first anniversary (i.e. the last day of its first official year of work), the NDB Board of Directors approved funding of the project for the construction of two hydropower plants with a total capacity of 49.8 megawatts in Karelia. The loan of USD100 million will have a 12-years term. Funds will be ultimately provided in RUB in two tranches of USD50 million each, through the Eurasian Development Bank (EDB) and the International Investment Bank.<sup>12</sup> The main reason for the NDB interest in such cooperation was the experience of these banks, their knowledge of national environment and, more importantly, the opportunity to use their resources for allocating funds in the national currency, which is one of the most important NDB principles.

In November 2016 the NDB Board of Directors approved two additional projects, namely, the Offshore Wind Power Project worth RMB2 billion in China and Madhya Pradesh Major District Roads Project worth USD350 million in India. The project in China has one of the largest installed capacities among similar projects in the country. It is estimated to generate 873 million kWh of electricity and to avoid 869,900 tons of carbon dioxide emission annually. In India, approximately 1,500 km of major district roads in the state of Madhya Pradesh will be upgraded.

Thus, seven projects approved by the NDB provide for investment in infrastructure in all BRICS countries. Their total funding is expected to reach USD1.5 billion. The nature of these projects shows that the NDB pursues a clear goal of financing sustainable infrastructure. Most of the projects are in the area of clean energy, but the approval of a road construction project in India suggests expanding the scope of the NDB activities. The need for the NDB to diversify its sectoral priorities is debated. Some researchers believe that diversification of the NDB operations will “foster its uniqueness and universality”,<sup>13</sup> while the opposite point of view cites the bank’s ability to accumulate expertise, develop working mechanisms and adopt advanced investment principles if the focus on infrastructure projects is maintained.

## **ASIAN INFRASTRUCTURE INVESTMENT BANK. MAIN PARAMETERS**

The initiative to create the AIIB was announced in October 2013 by Chinese President Xi Jinping and Premier of the State Council Li Keqiang. They specified that its main objectives would be to promote interconnectivity and economic integration in the region, primarily on the basis of cooperation with existing MDBs. Later, representatives of the AIIB stated that the bank would “work with its members, multilateral and bilateral development partners, private sector and civil society” to improve access to basic services, including a reliable power supply, efficient transportation systems, clean water, sanitation and modern telecommunications. Funding through the AIIB was expected to supplement and enhance the effectiveness of MDBs and other partners’ activities in these areas, as well as in rural infrastructure and agriculture development, environmental protection, urban development and logistics.<sup>14</sup>

Speaking at the Boao Forum for Asia in April 2014, Li Keqiang gave a start to consultations with partners in Asia and beyond on the preparations for the establishment

<sup>11</sup> Russian International Affairs Council. BRICS New Development Bank: results of the first year of operations. [http://russiancouncil.ru/blogs/mihail-lavrov/?id\\_4=2832](http://russiancouncil.ru/blogs/mihail-lavrov/?id_4=2832) (accessed 17 February 2017)

<sup>12</sup> New Development Bank. BRICS Bank to allocate \$100 mln for financing small-scale energy project in Karelia. <http://ndb.int/BRICS-banktoallocate100mln-forfinancingsmall-scaleenergyprojectinKarelia.php> (accessed 17 February 2017)

<sup>13</sup> Dzhagitjan J.P. Institutionalization of BRICS economic mechanism: advantages and risks for the New Development Bank. Den’gi i kredit, No. 6 (2015). [http://www.cbr.ru/publ/moneyandcredit/djagityan\\_06\\_15.pdf](http://www.cbr.ru/publ/moneyandcredit/djagityan_06_15.pdf) (accessed 17 February 2017)

<sup>14</sup> Asian Infrastructure Investment Bank. Who We Are. <https://www.aiib.org/en/about-aiib/index.html> (accessed 17 February 2017)

of the AIIB.<sup>15</sup> Initially it was assumed that the subscribed capital of the AIIB would amount to USD50 billion, but in June 2014 a proposal to double the capital was announced.<sup>16</sup> At the same time, consultations were launched with partners on participation in the AIIB as shareholders. India became one of the first countries invited.<sup>17</sup>

Similarly to the New Development Bank, the authorized capital of the AIIB amounts to USD100 billion divided into 1 million shares having a par value of USD100,000. The AIIB uses the same ratio between its paid-in capital and callable capital as the NDB (20 to 80).<sup>18</sup>

Other parameters of capital and votes distribution in the AIIB differ substantially from that of the NDB. The number of shares to which each AIIB member may subscribe is determined by the size of its respective economy in relation to other members on the basis of the weighted index (60% of nominal GDP and 40% of GDP based on PPP).<sup>19</sup> The mechanism of votes distribution in the AIIB is also more complex than in the NDB. The total voting power of each member is the sum of its basic votes, share votes and Founding Member votes (if the member is one of the AIIB 57 founding members). Basic votes are defined as those resulting from the equal distribution among all the members of 12 per cent of the total sum of votes. The number of share votes equals to the number of shares of the AIIB capital stock held by a particular member. In addition, each founding member is allocated 600 additional votes.

As a result, when all 57 prospective founding members ratify the Articles of Agreement, the vote distribution scheme in the AIIB will provide for almost 100-times difference between members in terms of their votes. At the same time, the gap between shares in the AIIB capital is much broader. Thus, using basic votes and Founding Member votes allows the AIIB, on the one hand, to attract countries with very limited financial resources as shareholders and, on the other hand, to demonstrate respect to such countries by giving to them more voting power compared to less complex vote distribution models.

The AIIB Articles of Agreement suggest that its regional members shall hold at least 75% of its subscribed capital. Similar “regional” restrictions are also adopted in the AIIB governance structure. For example, in its Board of Directors, 9 of 12 seats should be held by representatives of Asia and Oceania. However, these restrictions are explained by the AIIB’s regional focus, so they can hardly be considered as factors negatively affecting the potential participation of countries from other regions in its operations. As for China’s role, it ends up having de facto a veto power in voting on the most important issues, which are decided by a super majority requiring three quarters of the total number of votes (China accounts for 26.1% of votes). Originally, however, the country’s shares in the AIIB capital and voting power were expected to reach up to 50%. Actually, these figures are now much lower and in the future may fall further. Thus, the Chinese position promotes a favorable image of the Bank and can potentially help attract additional shareholders’ capital. The

<sup>15</sup> GBTIMES Beijing. China eyes closer Asia’s economic integration through Asian infrastructure bank. <http://gbtimes.com/china/china-eyes-closer-asias-economic-integration-through-asian-infrastructure-bank> (accessed 17 February 2017)

<sup>16</sup> Chinese alternative to the World Bank will get USD 100 billion. RBC, 25 June 2014. <http://www.rbc.ru/economics/25/06/2014/932610.shtml> (accessed 17 February 2017)

<sup>17</sup> The Hindu. China invites India to join Asian Infrastructure Investment Bank. <http://www.thehindu.com/todays-paper/tp-national/china-invites-india-to-join-asian-infrastructure-investment-bank/article6161311.ece> (accessed 17 February 2017)

<sup>18</sup> Asian Infrastructure Investment Bank Articles of Agreement. [http://euweb.aiib.org/uplo\\_adfile/2016/0202/20160202043950310.pdf](http://euweb.aiib.org/uplo_adfile/2016/0202/20160202043950310.pdf) (accessed 17 February 2017)

<sup>19</sup> South China Morning Post. China to have 30 per cent stake, veto power under AIIB deal. <http://www.scmp.com/news/china/diplomacy-defence/article/1829342/aiib-deal-seals-chinas-big-stake-new-lender> (accessed 17 February 2017)

accession of major European economies to the AIIB confirms that China's strategy was the right choice, and their representatives' participation in the Bank's governing bodies, including as vice-presidents, shows that this strategy is still being pursued.

## RAISING EXTERNAL FUNDS

The AIIB's prospects for attracting external financing seem to be more favorable than those of the NDB. Currently the AIIB has no credit rating, but representatives of the "big three" global rating agencies are working on its assignment. The bank's president Jin Liqun mentioned that he hopes the rating agencies will make a fair decision. At the same time, even with a credit rating below the highest possible, AIIB, as a Chinese project, will always be able to attract up to USD20–30 billion in the Chinese market, and, as expected by Jin Liqun, this situation will ultimately have a negative impact on the reputation of the global agencies.<sup>20</sup> It is also important to note that the AIIB Articles of Agreement do not provide for rigid requirements regarding the use of national currencies in the bank's operations, thus further expanding its opportunities for borrowing.<sup>21</sup>

Obviously, the attractiveness of the examined MDBs for investors directly depends, inter alia, on sovereign ratings of their member countries. As of February 2017, BRICS countries had the following ratings assigned by Standard & Poor's: Brazil — BB, Russia — BB+, India — BBB-, China — AA-, South Africa — BBB-. At the same time, the largest AIIB shareholders after China, India and Russia had the following ratings: Germany — AAA, Korea — AA, Australia — AAA, France — AA.<sup>22</sup> Thus, the participation of leading non-regional economies in the AIIB significantly improves its potential for borrowing funds on favorable terms, which in turn should help reduce the cost of financing provided for projects and contribute to a faster growth and diversification of the bank's portfolio, compared to the NDB.

## FIRST PROJECTS

In June 2016 the AIIB held a meeting of the Board of Directors, as well as the first annual meeting in Beijing, where its four inaugural projects were approved.

Loans totaling USD509 million will help finance four projects: national motorway M-4 in Pakistan; road linking Dushanbe and Uzbekistan border; National Slum Upgrading Project in Indonesia; and power distribution system expansion in Bangladesh. Three of these projects will be co-financed by other MDBs. Only the project in Bangladesh is financed by the AIIB solely.<sup>23</sup>

In June 2016 the AIIB announced the hydropower plant construction project in Pakistan to be co-financed by the World Bank. The total funding will amount to USD823.5, with USD390 million to be provided by the World Bank, USD300 million by the AIIB, and USD133.5 million — by the national government.<sup>24</sup>

<sup>20</sup> Reuters. AIIB says could rely on Chinese investors if ratings unfair. <http://www.reuters.com/article/us-aiib-china-idUSKCN0RH27E20150917> (accessed 17 February 2017)

<sup>21</sup> Asian Infrastructure Investment Bank Articles of Agreement. [http://euweb.aiib.org/uplo\\_adfile/2016/0202/20160202043950310.pdf](http://euweb.aiib.org/uplo_adfile/2016/0202/20160202043950310.pdf) (accessed 17 February 2017)

<sup>22</sup> Trading Economics. Credit Rating. <http://www.tradingeconomics.com/country-list/rating> (accessed 17 February 2017)

<sup>23</sup> Asian Infrastructure Investment Bank. AIIB's Board of Directors Approves \$509 M Financing for its First 4 Projects: Power, Transport and Urban: Investments span South, Southeast and Central Asia. [https://www.aiib.org/en/news-events/news/2016/20160624\\_001.html](https://www.aiib.org/en/news-events/news/2016/20160624_001.html) (accessed 17 February 2017)

<sup>24</sup> Asian Infrastructure Investment Bank. Pakistan: Tarbela 5 Hydropower Extension Project. <https://www.aiib.org/en/projects/approved/2016/pakistan-tarbela-5.html> (accessed 17 February 2017)

In end-September 2016, the AIIB approved its 6th project, construction of the Combined Cycle Gas Turbine (CCGT) power plant in Myanmar. The AIIB will contribute USD20 million to the project co-financed by the ADB and IFC.<sup>25</sup>

In December 2016 three additional projects were approved: a railway system preparation<sup>26</sup> and a port zone construction in Oman,<sup>27</sup> and a gas pipeline construction project in Azerbaijan.<sup>28</sup>

The AIIB projects have several common features: they provide for infrastructure investment in countries along the Silk Road Economic Belt; they are based on initiatives by respective national governments; most are co-financed by other MDBs; they provide for a relatively small AIIB financial contribution. The AIIB contribution in their framework will reach USD1.73 billion, while their total value exceeds USD12 billion.

Thus, the AIIB has demonstrated rapid progress from its formal establishment to approving inaugural projects. To a large extent this may be explained by previous work on these projects by other MDBs, now acting as co-financers, or recipient countries.

## CONCLUSION

The establishment of the NDB and AIIB was a response to the growing demand for infrastructure financing in developing countries, the leading emerging economies' aspirations for a greater role in international financial institutions and the need for the efficient use of reserves accumulated in these countries.

Already at the stage of establishment, differences in the new MDBs basic parameters and policies emerged which can significantly affect the speed and scale of their development in the future. The analysis of these factors shows that conditions for increasing the loan portfolio — the main indicator of MDBs' operations — are more favorable for the AIIB than for the NDB. The main factors are broader geographical representation in the AIIB membership, coordination of its activities with China's priorities, and active participation of other international financial institutions, states and private sector representatives in project financing. The AIIB advantages are highlighted by its active work on expanding the loan portfolio which currently includes nine projects.

However, 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 MDBs financing system.

<sup>25</sup> Asian Infrastructure Investment Bank. Myanmar: Myingyan Power Plant Project. <https://www.aiib.org/en/projects/approved/2016/myingyan-power-plant.html> (accessed 17 February 2017)

<sup>26</sup> Asian Infrastructure Investment Bank. Oman: Railway System Preparation Project. <https://www.aiib.org/en/projects/approved/2016/oman-railway-system.html> (accessed 17 February 2017)

<sup>27</sup> Asian Infrastructure Investment Bank. Oman: Duqm Port Commercial Terminal and Operational Zone Development Project. <https://www.aiib.org/en/projects/approved/2016/duqm-port-commercial-terminal.html> (accessed 17 February 2017)

<sup>28</sup> Asian Infrastructure Investment Bank. Pakistan: Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP). <https://www.aiib.org/en/projects/approved/2016/trans-anatolian.html> (accessed 17 February 2017)

Nevertheless, in a short period of time, the new development banks have managed to launch their operations, which in the near future are likely to make a meaningful contribution to the bridging the infrastructure financing gap. If their development is successful, the two new institutions can channel resources of developing countries and emerging economies to address development needs, especially in infrastructure; facilitate integration of these countries into the global governance system on acceptable terms; respond to current economic and political realities to a greater extent as compared to “traditional” MDBs; and provide incentives for the full implementation of urgent, but delayed governance reforms of other international institutions. The Joint Declaration of Aspirations on actions to support infrastructure investments adopted by major MDBs provides operational targets for the new banks in 2017 and 2018: USD2.5 and 3.5 billion for the AIIB, and USD2–2.5 and 4–5 billion for the NDB. A significant proportion of the NDB loans and almost all AIIB funds will be allocated for projects in the Asia-Pacific countries. Thus, the new banks will make a significant contribution to addressing the priorities of the Asia-Pacific regional institutions, especially in the areas of clean energy, infrastructure and transport interconnectivity, and help facilitate sustainable economic growth.