

# Scaling up Finance for the Sustainable Development Goals: The role of development banks

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UNCTAD Summer School

“Money, finance and debt: Old debates, new challenges”

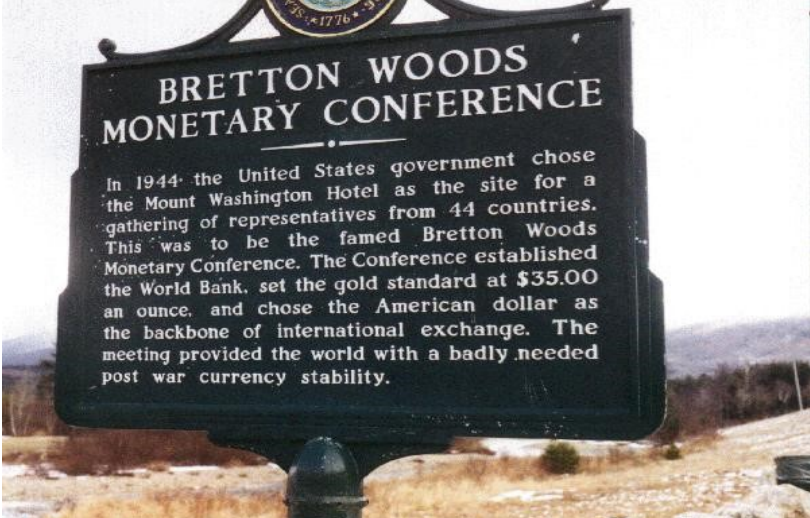
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UNITED NATIONS  
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# Over 70 years since Bretton Woods: New Players in Development Banking



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## Outline of presentation

1. Comparing new MDBs: AIIB and BRICS bank
2. Some features of new MDBs
  - i. China's experience in national development banks (NDBs)
  - ii. Potential role of 'special fund' mechanism
3. China's overseas investment funds
4. What makes new MDBs different from existing MDBs?
5. Conclusion: achievement of SDGs?

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## Addis Ababa Action Plan

### On bridging the infrastructure gap:

- Main outcome was to establish “global infrastructure forum”, to meet periodically to improve alignment and coordination among established and new infrastructure initiatives
- For example, the World Bank’s **Global Infrastructure Facility (GIF)** has total funding size of \$84.4 million
- But, China is the largest contributor with \$20m
- Other main contributors are: Australia (\$18.6m), Canada (\$15.8m), World Bank (\$15m), and Japan (\$15m)

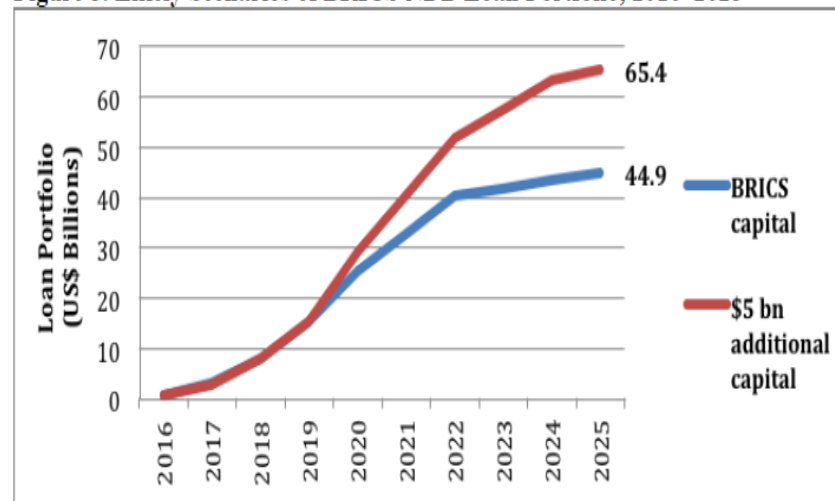
# 1. Comparing New MDBs

	 <b>New Development Bank</b>	 <b>ASIAN INFRASTRUCTURE INVESTMENT BANK</b>
Official Launch	July 2015	January 2016
Headquarters	Shanghai	Beijing
Largest Shareholder	Equal among BRICS	China (32%)
Credit Rating	AAA (domestic, China)	AAA (international)
Total Lending (\$billions)	3.4	4.2
Total Number of Projects	13	24
Member Countries	5	84
Countries Invested	5	12
Target Sectors (% , value)	Renewable energy and environmental (74% )	Infrastructure (100%) <i>of which: energy (45%)</i>
Staff (# people)	130 (end-2017)	100 (end-2016)
Authorized capital (\$bn)	100	100
Subscribed capital (\$bn)	50	-
Callable capital (\$bn)	40	80
Paid-in capital (\$bn)	10	20

## 2. Some Features of New MDBs

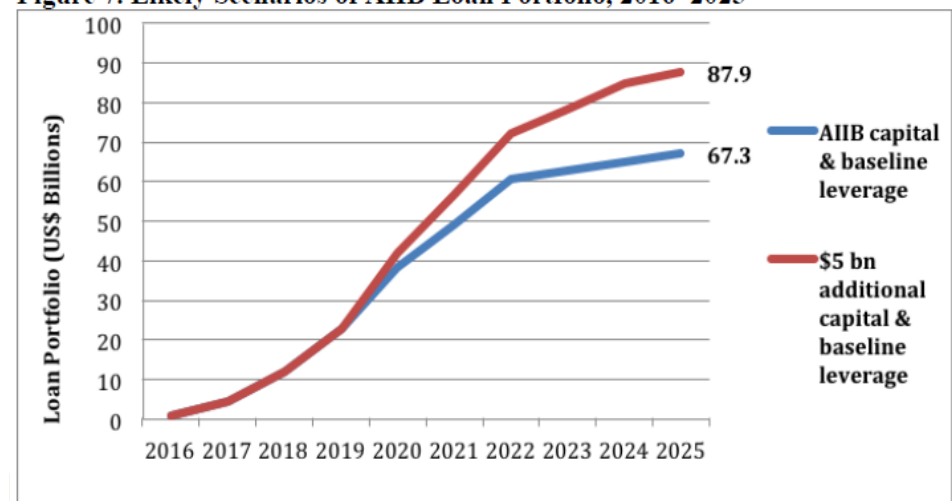
- Existing studies estimate lending scale of *new MDBs* by generalizing assumptions based on operations of *existing MDBs*

Figure 5. Likely Scenarios of BRICS NDB Loan Portfolio, 2016–2025



Source: Calculations by Judith Tyson, ODI

Figure 7. Likely Scenarios of AIIB Loan Portfolio, 2016–2025



Source: Calculations by Judith Tyson, ODI

## i. China's Experience with CDB

- Mid-1990s, CDB was bailed-out in late-1990s. Today, it is world's largest national development bank (by assets), and China's largest bank for foreign investment and financing
- CDB benefits from high-grade country credit rating, and implicit guarantee from government
- CDB issues long-term bonds purchased by state-owned banks that consider them as assets with 'risk-free' returns on depositors' funds
- Chinese policy-makers often invoke the term “**exploration**” (*tansuo* 探索) to explain their experience in domestic development finance

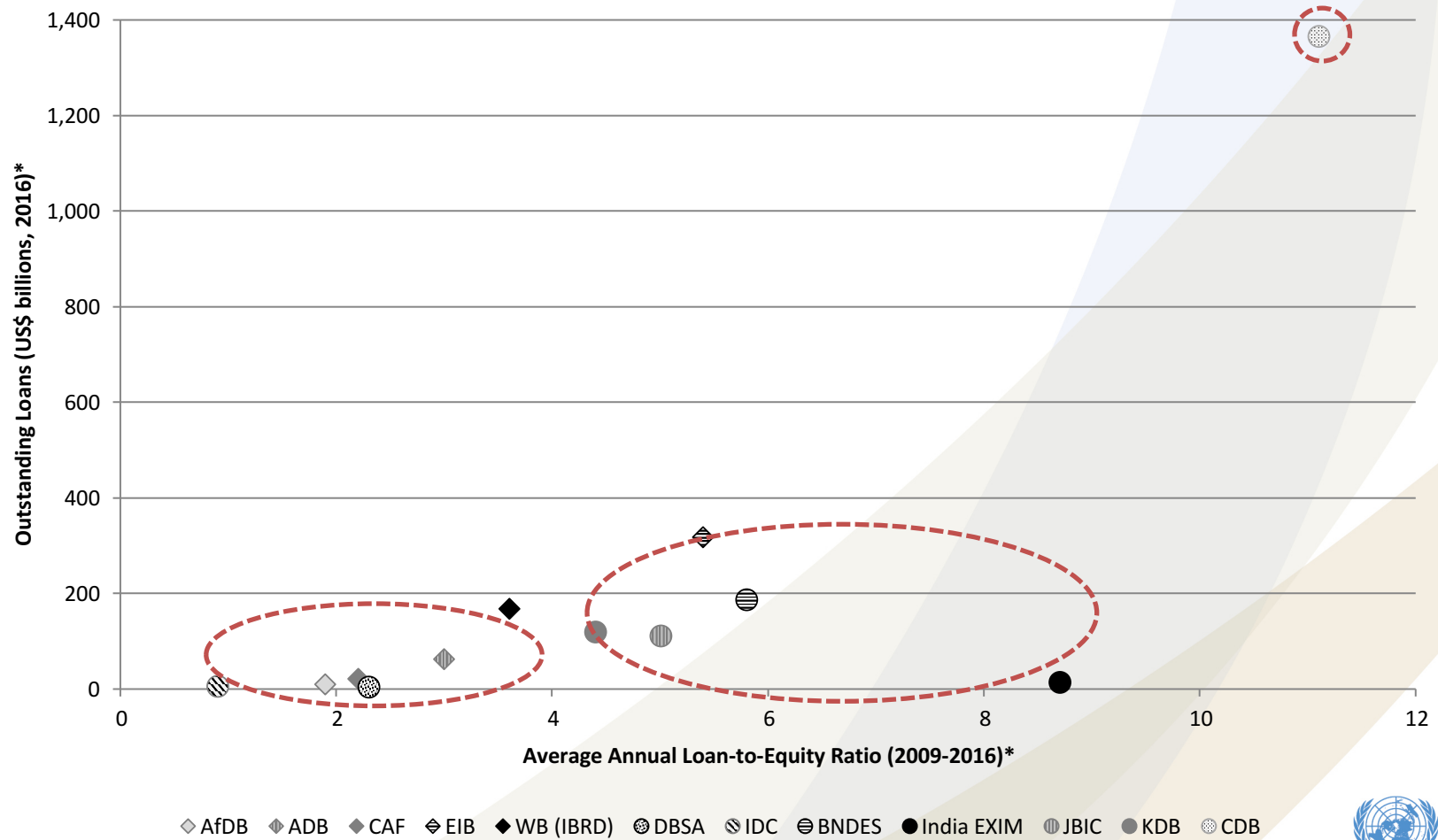
## Loan-to-Equity Ratios, Selected MDBs

	2009	2010	2011	2012	2013	2014	2015	2016	Annual average
AfDB	1.6	1.7	1.9	2.0	2.0	2.1	2.0	n/a	1.9
ADB	2.6	2.7	2.8	3.0	2.9	3.1	3.3	3.6	3.0
CAF	n/a	n/a	2.3	2.4	2.3	2.2	2.1	2.1	2.2
EIB	5.3	5.7	5.7	5.4	5.2	5.6	5.2	5.4	5.4
World Bank (IBRD)	2.9	3.3	3.4	3.6	3.6	3.8	3.9	4.3	3.6

*Source:* Authors' elaboration based on balance sheets' information from MDB annual reports.



# Loan Levels and Gearing Ratios: Selected MDBs and NDBs



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## ii. AIIB Special Fund Mechanism

AIIB's articles of agreement permit, by super majority vote, a max. gearing ratio of **2.5** of the bank's "unimpaired subscribed capital, reserves and retained earnings included in its **ordinary resources**"

- Article 10 mentions that Bank operations consist of two types:
  - 1) Ordinary operations financed from **ordinary resources**;
  - 2) Special operations financed from **special funds resources**
- These two types of operations may separately finance elements of the **same** project or program
- (this provision not found in BRICS Bank AoA)
- Remainder of Article 10 establishes clear partition between ordinary resources and special funds resources

## Tapping Domestic and International Capital Markets?

- AIIB's institutional design appears to maintain a *de jure* loan-to-equity ratio aimed at safeguarding access to international capital markets
- Also creating a conduit that – in indirectly tapping China's domestic capital markets – allows for *de facto* infrastructure financing to be scaled-up above the statutory limit
- (AIIB planned its first international bond issuance in the second quarter of this year)
- China has also established a growing number of purpose-built national, regional and bilateral investment funds to provide **equity financing**

### 3. Selected China National, Bilateral, and Regional Investment Funds

	Name	Established	Scale (\$bn)	Chinese Investors	Other Investors
1	China-Africa Development Fund	2007	10	China Development Bank (CDB)	-
2	China-ASEAN Investment Cooperation Fund	2013	10	China Export-Import Bank (EXIM)	-
3	China-Central and Eastern Europe Investment Cooperation Fund	2013	1	China Exim	Hungarian Export-Import Bank
4	Silk Road Fund (SRF)	2014	40	SAFE, CIC, EXIM, CDB	-
	China-Kazakhstan Production Capacity Investment Fund	2015	[2]	SRF	-
5	China-LAC Cooperation Fund (Private Equity Fund)	2015	3	EXIM	-
6	China-LAC Industrial Cooperation Investment Fund (CLAIFUND)	2015	10	SAFE, CDB	-
	China-Brazil Production Capacity Cooperation Fund	2017	[20]	CLAIFUND and other Chinese institutions (\$15bn)	BNDES, Caixa Economica Federal (\$5bn)
7	China-Africa Production Capacity Cooperation Fund	2016	10	SAFE, EXIM	-
8	China-Russia Regional Development Investment Fund	2017	15.4	National Development and Reform Commission (NDRC)	-
<b>TOTAL</b>			<b>99.4</b>		

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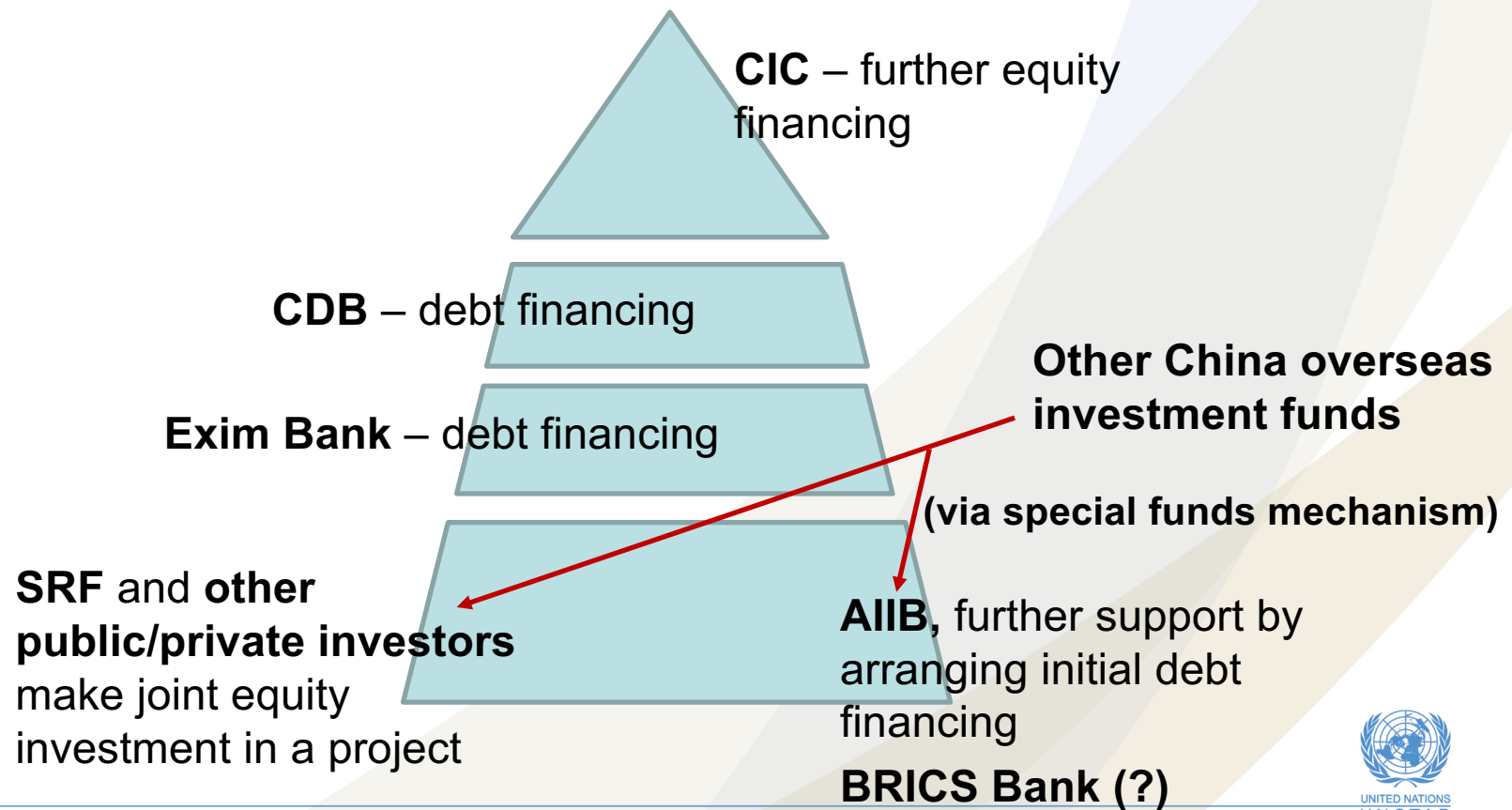
## 4. What makes new MDBs different?

At signing ceremony for the New Development Bank HQ, then-Finance Minister Lou Jiwei outlined **5 types of “innovations”** needed for multilateral development banking for the 21<sup>st</sup> century:

- i. **innovative development thinking***, that supports countries in pursuit of their own development models and greater South-South experience sharing;
- ii. **innovative business models***, that provide developing countries with custom-tailored support in finance, technology and knowledge;
- iii. **innovative organizational structures***, that are fit-for-purpose, allowing flexible and efficient operational procedures;
- iv. **innovative financing tools***, that expand financing channels;
- v. **innovative development practices***, that treat development as a dynamic process

- **AIIB's Jin Liqun:** “We must have creative spirit, and **neither clone the World Bank nor copy the ADB.**”
- Signals that Chinese policy-makers seek to experiment with **long-term non-concessional** development finance
- **PBoC Zhou Xiaochuan:** positioned the role of development finance as in between that of concessional and commercial finance, but “**slightly tilted**” toward the latter
- Not inconceivable that these various vehicles could selectively finance AIIB infrastructure projects through the special funds mechanism
- Especially as the Bank garners further expertise managing projects in different regional contexts

# Conceptual Infrastructure Project Financing Structure



## Policy vs. Project Conditionality

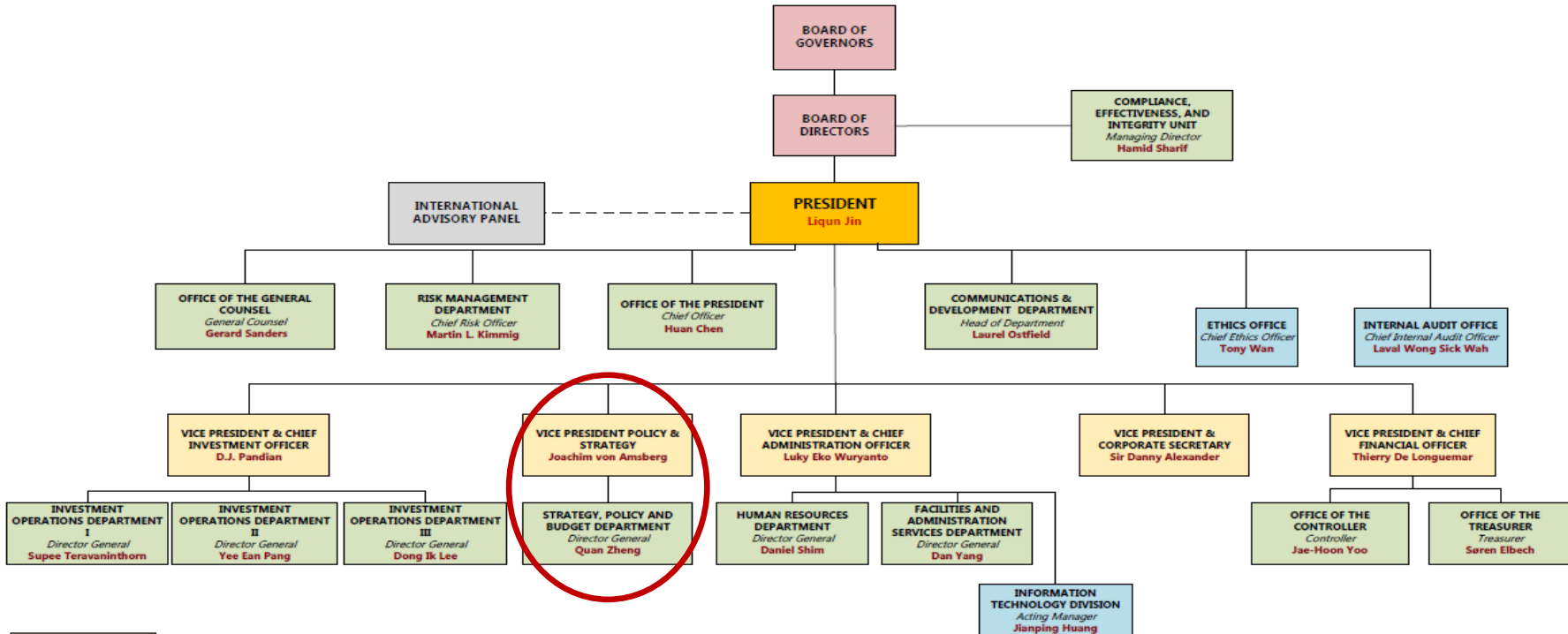
- No signs, thus far, that China is willing to engage in *policy conditionality* linked to overseas financing
- IMF/WB policy conditionality not part of China's own development experience
- Different approaches to mobilizing private sector finance:
- **WB's cascade/blended finance** approach, first seeks to mobilize commercial finance enabled by “*upstream reforms* where necessary to address market failures and other constraints to private sector investment at the country and sector level”.
- **AIIB** will “prioritize potential investments and sectors *based on their readiness* for private sector investment, regulatory regime and contractual arrangements, among other factors. The Bank will identify transactions where its public sector relationships can enable success, and success can be replicated”



# AIB: no Chief Economist

AIB Organizational Structure

Jan. 8, 2018



- GOVERNANCE
- PRESIDENCY**
- VICE PRESIDENCY
- DEPARTMENT
- DIVISION
- ADVISORY

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## 5. Conclusion: achievement of SDGs?

- Larger context of **Belt & Road Initiative**, as China's foreign economic policy (AIIB and BRI are not the same but significant overlap)
- In July, US announced "**Indo-Pacific Economic Vision**" to increase financing to countries in the region with \$113m in direct government investment, bolstered by investment agreement among **US, Japan, and Australia**
- Financial support also from proposed US development finance reorganization and to double spending cap to \$60bn for loans for US firms investing in overseas projects
- Consolidation of Overseas Private Investment Corp. (OPIC), the Development Credit Authority (DCA) of the US Agency for International Development (USAID); to create a new institution, **US International Development Finance Corp. (IDFC)**
- **Competition with China**, appears to be a prominent driver of US interest in development finance reform

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# World Bank Org. Chart



**Organizational Chart  
Effective July 27, 2018**

