CHAPTER 4

Promoting Development Bank Complementarity in Asia

Xianbai Ji

Introduction

The centralised global economic architecture built on the foundation of the key Bretton Woods institutions is undergoing structural shifts with the emergence of new regional and non-traditional institutions (Rana 2014). In the field of international development financing, the decentralisation process manifests itself partly in the successive founding of regional multilateral development banks (MDBs), which are formed by a group of countries to stimulate economic and social progress in developing countries by mobilising international finance and developmental knowledge. For the past decades, the World Bank Group has played the leading role in fighting poverty and raising standards of living worldwide, but it is also becoming overly rigid, aloof, bureaucratic and dominated by the interests of the developed, non-borrowing shareholding countries (Wihtol 2014). By contrast, regional development banks in which developing countries

X. Ji (✉)
School of International Studies, Renmin University of China, Beijing, China
e-mail: xbji@ruc.edu.cn

P. B. Rana and X. Ji (eds.), *From Centralised to Decentralising Global Economic Architecture*, https://doi.org/10.1007/978-981-19-2041-7_4

are both clients and shareholders are trumpeted to be responsive, flexible, innovative and apolitical (Griffith-Jones et al. 2008).

While regional institutions indeed have brought relief to some of the pressing concerns afflicting countries in need of foreign development assistance, they also pose new challenges to the already complex ecosystem of development finance. For one, development solutions prescribed by regional banks should strive to be coherent globally to spur positive spillovers. For another, regional MDBs should not undercut each other by triggering off unhealthy competition. These two challenges are intimately intertwined—MDBs cannot serve as building blocks of an efficient global system unless there are sufficient synergies among themselves. Given the anarchic environment in which international bureaucracies operate (Grieco 1988) and MDB's tendency to expand mandates over time, a feature known as "mission creep" (Prada 2014), coordination and cooperation between regional banks based on such principles as additionality, complementarity and comparative advantage should be consciously promoted.

In this context, it is worthwhile to examine the increasingly crowded development finance landscape in Asia, where traditional donors have been the World Bank and its regional spinoff, the Asian Development Bank (ADB). The issue of donor coordination, or lack thereof, surfaced with the advent of the Asian Infrastructure Investment Bank (AIIB). While many efforts have been devoted to encouraging vertical collaboration between the World Bank and ADB, this chapter aims to shed light on the horizontal relationship between ADB and the AIIB and make recommendations on how the two Asian MDBs can promote coordination at the institutional level, cooperation at the portfolio level and co-optation at the project level. It argues that there are relevant lessons to be drawn by Asian institutions from their European counterparts. The European experience is relevant and informative. After all, for more than two decades, Europe was the only continent that is home to two leading regional MDBs—the Luxembourg-based European Investment Bank (EIB) and the London-headquartered European Bank for Reconstruction and Development (EBRD).

Data for this chapter were collected mainly from the four MDBs' corporate publications, press releases, project databases, websites and other publicly available literature. In terms of outline, the chapter is structured in the following manner. The next section provides an overview of the four MDBs concerned. The third section discusses how to smoothen inter-institutional coordination through tri-partite development partnership. Sections four and five elaborate on the experiences in Europe, and prospect in Asia, of nurturing complementary loan portfolios in terms of sectoral distribution and geographical coverage, respectively. Section six zooms in to the project level and explains why co-financing could be the first step towards a congenial inter-bank relationship in Asia. The last section concludes the chapter.

Overview of the Four MDBs

European Investment Bank

The EIB is the world's oldest regional MDB and the largest multilateral lending institution by volume. It was created in 1958 by the Treaty of Rome and now operates under a general mandate of supporting sound and sustainable investments within the European Union (EU) and beyond in the long-term interest of the 27-nation bloc.

Presiding over a total subscribed capital amounting to €248.8 billion ($280.6 billion), the EIB Group, consisting of the EIB and the European Investment Fund (EIF) dedicated to micro, small- and medium-sized enterprises (MSMEs), lent €66.1 billion ($74.6 billion) in 2020. To put the figures in context, the World Bank's capital base is $199.5 billion, and its disbursed loans in the fiscal year 2020 were $54.4 billion. As the EU's lending arm jointly governed by the EU's member states, the EIB's core business is to serve the EU's internal objectives including balanced growth, economic integration and social cohesion. But around 10% of its annual investment is allocated to operations outside the EU to fulfil Brussels' foreign policy and international development priorities.

To the extent that the EIB is a statutory body of the EU, its decision-making procedure follows the double majority principle instituted by the Lisbon Treaty. For a decision to be adopted at the EIB, a favourable vote of the majority of the board members and the majority of the subscribed capital are required. In certain policy areas, a qualified majority—18 votes and 68% of the capital—is mandatory. However, in practice, consensus decision-making has been the norm.

European Bank for Reconstruction and Development

The EBRD was founded in 1991 to be arguably the first post-Cold War multilateral institution. The historical mission of the EBRD was to assist former communist countries from Central and Eastern Europe and ex-Soviet Republics to transit from command to free market economies. Over the past decades, the EBRD has earned a reputation for its expertise on decentralisation, de-monopolisation, de-regulation, privatisation, legalisation and non-traditional development intervention in areas such as nuclear safety and de-commissioning (ADB 2016c; Robinson and Bain 2011). It is owned by 71 countries, the European Commission and the EIB. With an authorised capital pool of €30 billion ($33.8 billion), the EBRD's financing totalled €11 billion ($12.4 billion) in 2020. The EBRD's operation can be found in 30 economies from central Europe to central Asia and the southern and eastern Mediterranean.

The EBRD differs from other regional banks in four crucial ways. First, the EBRD has an outright political mandate to promote multi-party democracy, political pluralism and rule of law. Second, the EBRD's financial assistance is heavily skewed in favour of private sector clients and entrepreneurial initiatives, while the bulk of other MDBs' assistance is directed towards sovereign loans and government-backed operations. Third, the EBRD adopts the business model of a commercial investment bank characterised by high-risk taking appetite, rather than that of a conventional aid-oriented, not-for-profit development bank. The EBRD raises funds on international capital markets and follows a market-based pricing policy, compared to the EIB's risk-based policy. Lastly, the EBRD's ratio of paid-in capital is the highest among all major MDBs.

Asian Development Bank

The Manila-based ADB was established in 1966 under the auspice of the United Nation's Economic Commission for Asia and the Far East (Krishnamurti 1977). The plan to create an international financial institution (IFI) in East Asia was endorsed by the United States and Japan, which subsequently became the bank's largest shareholders and donors. ADB's mission is to reduce poverty in the Asia Pacific region through inclusive economic growth, environmentally sustainable growth and regional integration (ADB 2008). It is owned by 68 countries which contribute to its $151.8 billion equity pot. In 2020, ADB's operations climbed to a historic high of $48 billion, including $27.0 billion financed on COVID-19.

ADB is in many ways a regional replica of the World Bank—it is consciously modelled on the World Bank in terms of stated mission, governance and activities (Lesage 2013; Asher and Mason 1973) It is the only regional bank that shares the World Bank's mandate to end extreme poverty and has a similar weighted voting system to reflect members' capital subscriptions. ADB operates with a soft lending window of Asian Development Fund (ADF) for its poorest and most debt-stricken and a hard window of ordinary capital resources (OCR), mirroring the World Bank Group's separation of the concessional International Development Association and the non-concessional International Bank for Reconstruction and Development. In addition, both the World Bank and ADB are pioneers among international organisations of using rating system to evaluate the impact of country programmes and investment projects (Sasaki 2012).

Asian Infrastructure Investment Bank

The AIIB is the youngest MDB, having officially opened its doors in 2016 for a specific purpose: to "foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors". Led by a veteran international finance technocrat Jin Liqun, the bank is headquartered in Beijing. The initial subscribed capital of $100 billion is contributed by 57 founding members. By the end of December 2020, the AIIB had collected $32 billion liabilities and members' equity.

Like the EBRD , the AIIB was launched at a historical turning point—the fall of the Berlin Wall for the former (Jakobeit 1992) and the increasing confidence of China as it rises to become the second largest economy in the world for the latter—against the headwinds of American oppositions. The United States boycotted the establishment of the AIIB (Tang 2015) and gave the bank a wide berth after failing to convince others to turn down Beijing's invitations. Following the lead of the United Kingdom, key American transatlantic and trans-Pacific allies, except Japan and Canada, had all flocked to sign on to the AIIB, ignoring repeated diktats from Washington.

More significantly, the pace at which the AIIB gathers momentum indicates that China may have gained an upper hand in the competition against the United States over how best to address the world's development bottleneck in the twenty-first century. Once spearheading two mega-regional free trade agreements—the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership—the American prescription was to lower behind-the-border trade barriers through reciprocal free trade agreements (Ji 2021; Ji and Rana 2019). China, alternatively, believes in slashing logistic impediments and creating new trade routes through infrastructure development to prop up the low-flying world economy. As AIIB President Jin had put it, establishing the AIIB is not about "the amount of assets we can build up" but "the new approach we would like to try" (Jin 2015). The successful launch of the AIIB can be understood as a vote of confidence in China's more broad-based agenda.

A comparison of the four MDBs is summarised in Table 4.1.

Tri-Partite Coordination

In line with the legalistic European approach, European development banks have a tradition of formalised cooperation. In March 2011, the EIB and the EBRD set out their latest framework for effective cooperation outside the EU to govern their relations. The rationale for opting for a tri-partite memorandum of understanding (MOU)—as opposed to traditional bi-partite ones—by inviting the participation of the European Commission (EC) is manifold.

First, the triangular partnership with EC chairmanship introduces a hierarchical dimension into an otherwise horizontal relationship, thereby reinforcing equality between the EIB and the EBRD. The three parties created a steering committee with EC chairmanship to oversee "the overall coordination and supervision of institutional and operational cooperation, to share experience and to maximise synergies in policy support, financing, and grant funding". The partnership also entrusts the EC to serve as an impartial arbiter should misunderstandings arise or aggressive competitions for EU resources occur. The interlocutor in Brussels is the Director for Finance and Coordination with EIB Group, EBRD and IFIs under the Directorate-General for Economic and Financial Affairs.

Table 4.1 Comparisons of properties of EIB, EBRD, ADB and AIIB

	EIB	*EBRD*	*ADB*	*AIIB*
Year established	1958	1991	1966	2016
Headquarters	Luxembourg	London	Manila	Beijing
Head	Werner Hoyer	Odile Renaud-Basso	Masatsugu Asakawa	Jin Liqun
Membership	27 EU member states	73 (including the EU and EIB)	68	104 (57 founding members)
Capital subscription	$280.6 billion (€248.8 billion)	$33.8 billion (€30 billion)	$151.8 billion	$100 billion
Paid-in capital ratio	9%	21%	5%	20%
Financing sources	Mainly international capital market borrowing through bond issuance	Subscribed capital, market borrowing and net income	Market borrowing, special funds and subscribed capital, theme bonds	Subscribed capital and borrowing through securities issuance
Standard & poor's credit rating	AAA	AAA	AAA	AAA
Main instruments	Loans, guarantees, micro-finance, equity investment and blended finance	Loans, equity investments, guarantees, co-financing, and syndicated loans	Loans, equity investments, co-financing, guarantees, grants, and technical assistance	Equity investments, guarantees, technical assistance and others
Top shareholders	Germany (18.8%), France (18.8%), Italy (18.8%), Spain (11.3%), Netherlands (5.2%), Belgium (5.2%)	United States (10.1%), France (8.6%), Germany (8.6%), Italy (8.6%), Japan (8.6%), United Kingdom (8.6%)	Japan (15.6%), United States (15.6%), China (6.4%), India (6.3%), Australia (5.8)	China (30.8%), India (8.6%), Russia (6.8%), Germany (4.6%), Korea (3.9%)
Developing/borrowing countries voting share	–	13.8%	33.2%	Regional = 76.3%
Key decisions	Double majority	80% majority	75% majority	75% majority

(continued)

Table 4.1 (continued)

	EIB	*EBRD*	*ADB*	*AIIB*
Board of directors	Non-resident	Resident	Resident	Non-resident
Mandate and mission statement	Contribute to the balanced and steady development of the internal market in the interest of the European Union	To promote transition to open, market-based economies in our countries of operation	To help our developing member countries reduce poverty and improve quality of life	Foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors
Safeguards and procurement policies	Charter of Fundamental Rights of the European Union Environmental and Social Principles and Standards	Ten different performance requirements ranging from biodiversity conservation to cultural heritage	Environmental, involuntary resettlement and indigenous peoples' safeguards	Environmental and social assessment and management, involuntary resettlement and indigenous peoples

Source Author's compilation of website information, Kawai (2015) and Engen and Prizzon (2018)

Second, the EC, as the executive arm of the world's largest development aid donor, the EU, can help scale up the interventions of the EIB and the EBRD when needed. The European development "troika" has blended their resources in schemes such as the Western Balkan Investment Facility for pre-accession countries, the Neighbourhood Investment Facility which channels aids to Southern and Eastern European countries and the Investment Facility for Central Asia (European Commission 2016). A related benefit is that the presence of the EC in the donor cooperation framework leads to a more optimal configuration of risk-sharing, boosting the EIB's and the EBRD's creditworthiness while reducing their fund-raising cost on international capital markets. For instance, pursuant to the External Lending Mandate of the EIB, the EU budget will provide guarantees against non-performing loans outside the EU (European Commission 2016).

In addition to leaning on the political authority and financial clout of "senior" institutions, the EIB and the EBRD have adopted the triangular mechanism for strategic purposes to ensure that their operations bolster the interests of, and the values espoused by, the EU. The majority of the EIB's external activity is conditioned by the region-specific mandates mapped out by the Council of the European Union and the European Parliament. Although the EU cannot control the EBRD directly, the EBRD enjoys close links to Brussels and has shown strong desires to deliver on EU priorities (Robinson and Bain 2011). A case in point is that the EBRD announced cessation of new investment activity in Russia shortly after Brussels imposed sanctions on Moscow, amidst escalating crisis in Ukraine in July 2014. Following Russia's "special military operation" in Ukraine in 2022, the EBRD swiftly offered financial resources to Ukraine for possible reconstruction and to countries affected by inflows of Ukrainian refugees.

The tri-partite framework has served European banks well, and there are good reasons for ADB and the AIIB to institutionalise a similar mechanism as well. The necessity of forging an Asian equivalent of European development troika could be better understood if one takes the volatile political dynamics in the Asia Pacific into account. It is no overstatement to assert that the relationship between the EIB and the EBRD is naturally amicable, whereas that between ADB and the AIIB is contentious from the outset. The EIB is wholly owned by the EU; the Commission, the EIB and the EU member states collectively own approximately two-thirds of the EBRD's capital. All presidents of the EIB and the EBRD have been EU citizens. In contrast, there is no cross-shareholding between ADB and the AIIB, and the largest shareholders of ADB—the United States and Japan—are the notable absentees from the AIIB's roster. In addition, each of the United States and Japanese voting shares at ADB is more than twice that of China, despite that China is the largest economy in the region and the American contributions to ADB are passive and diminishing (Okano-Heijmans 2015). Hence, the immense political needs to diffuse tensions between ADB and the AIIB—which encapsulate the underlying Sino-American/Japanese rivalry—call for constructive participation of neutral third-party international organisation, to play the role of the EC as leader (or an equal partner), for smoother donors' coordination. ADB and the AIIB should explore the possibility of entering into formal tri-partite MOUs with the World Bank, International Finance Corporation (IFC), the International Monetary Fund or United Nations Economic and Social Commission for Asia and the Pacific to coordinate their investment in countries and themes/sectors of common interest.

Besides global institutions, another set of candidates that could form one pole of the triangular partnership are regional institutions despite the observation that there is no overarching institutional equivalent to the EU in Asia, not least in terms of legitimacy, resource, authority and normative power. But the successful experiences of the Association of Southeast Asian Nations (ASEAN), as the lynchpin of East Asia regionalism and security architecture, prove that regional institutions are capable (and have a track record) of turning weakness into strength and leadership potential (Stubbs 2014).

Regional actors' participation in donor coordination will, on the one hand, anchor aid recipients firmly in the driver's seat, making sure that the loans and grants dispersed by ADB and the AIIB are demand-driven instead of supply-driven. They add value by adapting MDBs' "one-size-fits-all", prescriptive development approach to local realities as well. On the other hand, regional entities, which are charged to uphold the interest of the region as a whole, tend to have stronger incentives to minimise the negative cross-border or regional externalities of MDB's essentially country-focused development interventions. At its best, regional authorities could also help to check against the inherent political risk of development banks' investment and interventions, which cannot be adequately hedged by legal contracts, insurance or other financial instruments (Henisz and Zelner 2010).

Tri-partite partnerships are already taking shape, especially in South Asia. A consortium of the AIIB, the IFC and ADB was conceived to finance Pakistan's Diamer-Bhasha Dam. The South Asian Association for Regional Cooperation (SAARC), through the SAARC Development Fund (SDF), is also keen to form a Consortium of Financial Institutions for the Strategic Growth of South Asia involving ADB and the AIIB.

Sectoral Complementarities

There are a number of economic sectors in which both the EIB and the EBRD invest. Their sectoral division of labour is guided by the compartmentalisation of "areas of separate activity" and "areas of differentiated emphasis". In the first instances, the two banks are encouraged to monopolise certain sectors and thematic groups, while giving up other less core or competitive ones, on a path towards greater specialisation and strengthened organisational identity.

After years of interactions, conscious planning and institutional soul-searching, the EIB and the EBRD have developed complementary portfolios that reflect their core competencies and development priorities. The EIB has allocated more resources, in terms of the share in the overall portfolio, to credit lines, health and education, energy and natural resources and transport sector through on-lending, equity, guarantees and risk-sharing. The EBRD, on the other hand, ranks agribusiness including fishery and forestry, industry and information and communication technologies, services such as property and tourism and municipal infrastructure relatively higher on their agenda. In general, the EIB assumes greater responsibility in larger-scale projects as an institution that specialises in volume lending; the EBRD, in contrast, has a strong focus on smaller scale sub-sovereign investment, municipal infrastructure and trade facilitation often in secondary cities (European Commission 2016; Robinson and Bain 2011).[1]

When it comes to the areas of common interest, the emphasis is placed on differentiated intervention approaches and cooperation at the intersection of their operational strategies. In the financial sphere, for example, the EBRD provides support to SMEs directly, while the EIB focuses on providing support to the real economy through financial intermediaries.

[1] During 2010–2014, the average loan size of the EIB was €66 million per operation, while the figure for the EBRD was just €19 million (European Commission 2016).

In post-project evaluation, the EIB's key performance indicators prioritise quantifiable economic impact such as the number of jobs created by its interventions, whereas the EBRD continuously monitors the so-called second-order development effects such as skill-upgrading, gender equality, corporate governance and private fund mobilisation. As such, developing countries where the EIB's and the EBRD's operations overlap and complement benefit from both the quantity and the quality of economic growth.

ADB and the AIIB should follow suit and formulate differentiated yet complementary portfolios in line with their distinct mandates. ADB's goal is to work for an "Asia and Pacific free of poverty". The AIIB, which does not have the word "development" in its name, states in its Statute that its raison d'être is to promote infrastructure development. Hence, ADB and the AIIB could consider functional niching along the following three lines.

First, ADB should continue to take care of the social needs of developing Asia as the AIIB has no intention to do so (Kawai 2015). The AIIB's sectoral focus thus far is on energy, financial institutions and economic resilience. By comparison, ADB's internationally renowned expertise in social sector financing is one of the bank's most important strategic assets. It is telling that when ADB and the EBRD cooperated in Central Asian republics, their MOU specified that "ADB will cover social sector needs" while "the EBRD will take the overall lead in private sector activities". To tackle the demographic cliff that beleaguers many Asian economies in middle income traps, ADB is slated to double its assistance in education and health. ADB was quick to respond to the Coronavirus (COVID-19) pandemic. It announced a $20 billion comprehensive COVID-19 response package in 2020, mobilising $10.9 billion through co-financing arrangements from development partners and commercial sources in the same year. Besides, ADB takes to heart seven of the 17 Sustainable Development Goals adopted by the United Nations General Assembly by aligning policies and strategies with them. They are "addressing remaining poverty and reducing inequality"; "accelerating progress in gender equality"; "tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability"; "making cities more liveable"; "promoting rural development and food security"; "strengthening governance and institutional capacity"; and "fostering regional cooperation and integration".

Second, given the AIIB's exclusive focus on physical infrastructure, ADB could bring about complementarities by leveraging its in-depth expertise on non-physical infrastructure investment, making sure that the policy environment in aid-receiving countries supports the optimal functioning of the hard infrastructure structures including those financed by the AIIB. In this regard, strengthening borrowing countries' national capacity, through policy dialogues and other up-stream investment, is of particular relevance. ADB currently deploys around 10% of its loans to promote good governance by assisting developing country governments in policy areas like fiscal management, state-owned enterprises reform, fighting corruption and e-governance. In addition, ADB could facilitate the formation of a development-oriented, self-sufficient finance ecosystem to mobilise domestic savings in borrowing countries as "market-maker" and sow the seeds of local epistemic communities to take on country-specific development challenges as a "knowledge broker". In a nutshell, ADB's interventions should be done with the understanding that government is no substitute for market and public financing ought not to crowd out private investment and entrepreneurship. Aside from these elements, ADB has an indispensable role to play in building shock resistance infrastructure, disaster mitigation and social protection systems—which all fall out of the AIIB's business purview—for at-risk communities in the Asia Pacific. For example, ADB was held at high esteem by regional countries after it responded quickly to the Nepal earthquake and the Vanuatu cyclone in 2015.

Lastly, the two banks can specialise in projects of different scale, just as their European counterparts have done. Early signs suggest that the AIIB would only target "big ticket infrastructure projects", such as toll roads, hydropower plants, deep seaports and airports while having little appetite for irrigation systems, arterial roads or rural roads (Wall Street Journal 2015). Thus, ADB, as the region's "family doctor" (Okano-Heijmans 2015), could fill the gap via operations of smaller scale and provision of support to "bottom of the pyramid" projects (Prada 2014) in tandem with micro-finance organisations. It should be highlighted that the AIIB's pre-occupation with sophisticated infrastructure undertakings can become a potential strength of the bank as the lack of knowledge about financing and constructing complex infrastructure is a more pressing issue than just funding shortage (Xu and Carey 2015). As the AIIB gets up and running and learns by doing, its accumulated expertise and hands-on experiences are likely to help borrowers better determine which projects to fund, where to build major infrastructure and address potential risks and problems upfront. The AIIB could be further incentivised to disseminate its knowledge on platforms such as the International Infrastructure Support System —an initiative piloted by ADB—to help shape international best practices. The willingness of the AIIB to share real-world solutions on a peer-to-peer basis will underscore AIIB's (and, for that matter, China's) reputation as a responsible stakeholder in the international development community.

Geographical Division of Labour

The EIB is not just a *regional* bank for Europe; it also supports investment projects in some 160 countries throughout the world stretching from South Africa to Mexico. In terms of the geographical distribution of loan stock, the EIB's non-EU exposure stood at around 16.1% as of 31 December 2020. Although the pre-accession region still stood out as the most significant recipient in terms of lending volume, the largest number of new projects was found in the Africa, Caribbean and Pacific (ACP) countries, and Asia and Latin America (ALA) regions. In contrast to the EIB's global, omni-directional coverage, the EBRD has a discernible regional orientation, and it has operations in only 38 economies so far grouped in five regions: Central Europe and the Baltic States (9), South-eastern Europe (8), Eastern Europe and the Caucasus (6), Central Asia (8) and Southern and eastern Mediterranean (7).

Figure 4.1 shows a comparison of geographical breakdown of the cumulative investment committed by the EIB and the EBRD between 1991 and 2014. A geographical division of labour is evident. The EBRD is completely absent from investing in American and Oceanian countries, whereas the EIB has major portfolios in such countries as Brazil, Argentina, Ecuador and Papua New Guinea. Dictated by its founding mandate, the EBRD allotted a greater share of its financial resources to Europe, notably Eastern Europe, Caucasus and Russia. But as the boundary of the EU moves eastwards and some peripheral European countries, such as the Czech Republic, graduate from transition assistance, Central Asia emerges as the main destination of the EBRD's aid flows. Kazakhstan is the largest aid recipient, receiving some €6.6 billion over the last two decades. In contrast, the EIB's Asian operations concentrate in a handful of neighbouring Middle East countries like Turkey, Syria and

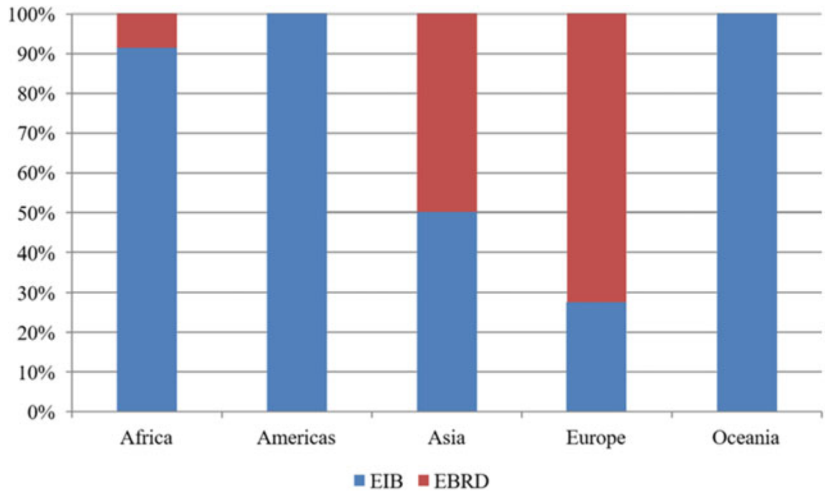

Fig. 4.1 Comparison of geographical composition of EIB's and EBRD's cumulative investment, 1991–2014. *Note* The grouping of countries is based on United Nations geoscheme (*Source* Author's calculations based on the EIB project database and EBRD's annual reports)

Lebanon.[2] In the Asia Pacific, around half of the EIB's lending operations are co-financed with ADB.

As for Asia, ADB's activities are mainly taking place in East Asia and South Asia. Although China and India started to borrow from ADB only after 1986, they quickly become the two largest borrowers. Crucially, the bottom line is this—ADB's geographical focus embodies Japan's North–South maritime understanding of the Asia Pacific as an archipelagic power (Cook 2015).

By the same token, China is likely to project its East–West continental mentality to the AIIB's operations. Conceivably, the AIIB's Eurasian and African members along the New Silk Road Economic Belt and the Twenty-first Century Maritime Silk Road (collectively known as the "Belt and Road Initiative (BRI)") will feature prominently on its agenda (Rana and Ji 2020). Since the inception of the AIIB, Chinese Premier

[2] The EIB also has relatively large investment in India, China and Sri Lanka, while the EBRD does not.

Li Keqiang had instructed the Beijing-based bank to align development strategies it devises for potential clients with the priorities of the grand scheme of the BRI. A sensible strategy for the AIIB to begin with therefore would be to concentrate its firepower on bankable infrastructure projects in some 40 countries along the BRI routes that either are non-member of or do not borrow from ADB, such as Iran, Turkey and Saudi Arabia. Investing in those countries would also boost China's energy security, promote regional stability and spur economic development in its land-locked western provinces (Ekman 2015). ADB, on its part, should commit itself more to the development needs of its members who are not eligible to borrow from the AIIB. A welcome step taken is that ADB is establishing extended missions in the Pacific region (ADB 2016a) as none of these small and micro island states—which make up 13 of the 48 regional members of ADB —is founding member of the AIIB. In the longer term, however, it is paramount that ADB and the AIIB should cooperate with a view to integrate the "Chinese made" and "Japanese made" infrastructural networks to connect the whole of Asia Pacific.

Furthermore, there seems to be scope for the AIIB to strengthen pan- and inter-regional connectivity, in the light of ADB's ongoing efforts in facilitating intra- and sub-regional integration. Due to financing constraints and the perceived uneven distribution of benefits, cross-border infrastructures are usually not provided for by national governments (ADB 2006). In the past decades, ADB has been a key advocate, monitor and administrator of a plethora of cross-border infrastructure and institution-building initiatives in several sub-regions of Asia. It serves as the Secretariat for Greater Mekong Sub-region, Central Asia Regional Economic Cooperation and South Asia Sub-regional Economic Cooperation and as development partner/technical advisor for Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, Indonesia-Malaysia-Thailand Growth Triangle and Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area. Adding to these, ADB has since 2011 run a dedicated ASEAN Infrastructure Fund, with total equity contributions of $485.3 million, to enhance intra-ASEAN connectivity and facilitate the launch of the ASEAN Economic Community.

Not unlike their cross-national-border counterparts, cross-regional-border and pan-continental infrastructural networks tend to be under-developed, not least because they necessitate inter-governmental coordination and cooperation on a massive scale. However, with inter-regional trade on the rise and globalisation steadily marching forward, there is an urgent need to upgrade and build internationally integrated, inter-continental, intermodal transport and logistic networks (ESCAP 2013). It is, therefore, natural for the AIIB to take a leading and catalytic role in financing the six economic corridors that form part of the inter-continental BRI's overland route: New Eurasian Land Bridge, China-Mongolia-Russia Economic Corridor, China-Central Asia-West Asia Economic Corridor, China-Indochina Peninsula Economic Corridor, China-Pakistan Economic Corridor and Bangladesh-China-India-Myanmar Economic Corridor (CBBC 2015). Thanks to Russia's status as the AIIB's third largest shareholder, the AIIB is in a better position than ADB to finance the modernisation of the Trans-Siberian Railway and the construction of inter-continental proposals such as the Trans-Eurasian Belt.

Against this backdrop, Europe located at the other end of the Silk Road should take concrete steps to seize the opportunities offered by the AIIB and the BRI (Arduino 2016). There is a growing awareness in Europe that the new terrestrial and maritime links between Asia and Europe, planned, constructed and paid for in part by the AIIB, are conducive to Europe's search for new markets and trading partners. More profoundly, the AIIB's vision of an ever-closer Eurasia allows Europe to re-examine its relationship with Asia and decide—should Europe perpetuate its long-standing "generous but disengaged" attitudes towards the rapidly growing Asia (Okano-Heijmans and Waardenburg 2014), or ride on the wave of Asia's economic prosperity and political ascendance? European policymakers need to recognise that a strategically aligned and commercially inter-connected Eurasia has the potential to transform itself from the famous "missing link" in the triadic international economic structure to the core of the global financial and geo-economic map that is being redrawn. The successive adoptions of the "Connecting Europe & Asia: The EU Strategy" in 2018 and the Global Gateway in 2021, two Europe-centric infrastructure investment schemes, suggest that the EU might be interested in the great power competition in supplying the world with much needed infrastructure and connectivity.

Project Co-Financing

The main modality for operationalising cooperation at the project level between the EIB and the EBRD is co-financing. The EC-EBRD-EIB Tri-partite MoU articulates that, to identify co-investment opportunities at the earliest possible stage, the EIB and the EBRD are obliged to exchange information on their pipelines of potential operations every 2 months. When implementing co-investment, the EBRD—staffed mainly by economists and financial experts—relies on the strong engineering and technical capacity of the EIB during joint appraisal missions, and the latter often authorises the former to follow up with municipalities on project proposals and monitor the progress of co-financed projects due to a shortage of local representatives (European Commission 2016). Mutual recognition of procedures and standards and development of shared diagnostic tools are also consciously pursued to streamline administrative procedures, speed up loan disbursement, reduce transaction costs and avoid duplications for clients.

Over the period 1996–2015, the EIB and the EBRD co-financed more than 80 projects on a project-by-project basis or under joint facilities. The EIB and the EBRD tend to co-fund large projects where the costs and risks are high and operations where the two institutions' policy objectives converge (European Commission 2016). Their first co-financing was to help Romania rehabilitate 224 km of national roads and commercialise national road administration in 1996. Country coverage has since then been expanded to more than 20 countries in Eurasia and North Africa. The war-torn Serbia, involved in 24 joint aid programmes, was the biggest recipient of co-financing from the EIB and the EBRD. Other notable beneficiaries include Albania, Moldova, Ukraine, Armenia, Bulgaria and Bosnia and Herzegovina. Close to half of the co-financed projects were found in the transport sector, and the rest of fund went to municipal infrastructure; leasing finance, financial intermediary deposits and other credit lines; energy and natural resources; information and communication technology; and manufacturing and service industry. The scope of co-investment is now broadened to reach projects that have climate change and environmental impacts.

In addition to co-funding, the EIB and the EBRD provide technical assistance to beneficiary countries together. An example is the Joint Assistance to Support Projects in European Regions programme, under which the EIB and the EBRD offer free specialist advice to European countries to help them prepare high-quality projects to be financed by EU structural funds. Each of the banks brings their own perspectives to the table, thus consolidating the common pools of intellectual resources. The cross-fertilisations of ideas and knowledge transfer that take place during joint provisions of technical assistance also spur policy innovations and promote mutual learning between the EIB and the EBRD.

Co-financing was identified by ADB and the AIIB as a step-stone towards an in-depth and all-round donor partnership in Asia. The AIIB has started searching for co-funding opportunities with ADB in such sectors as transport, renewable energy, urban infrastructure and water supply. The first ADB-AIIB co-financed project will be the $273 million worth motorway project—the 64-km-long Shorkot-Khanewal section of the M4 motor way in Pakistan—that runs close to the China-Pakistan Economic Corridor (Reuters 2016). Between 2016 and 2020, the AIIB and ADB co-financed 11 physical infrastructure projects (not counting COVID-19 related liquidity provision schemes) mainly in South Asia (see Table 4.2).

The attractiveness of co-financing in Asia can be ascribed to a host of intertwining factors. At the strategic level, co-investment could engender a political rapprochement between China and the countries that still have reservations against Beijing's leadership and the AIIB's standards. It is widely known that the US Congress would veto any attempt that tries to channel US taxpayers' money to a Beijing-led bank, but United States could still participate indirectly in the AIIB's corporate governance and investment activities through projects that the AIIB co-finances with ADB (or the World Bank). After gaining first-hand insights into how this new bank operates and what kind of project it lends to, the United States and other outliers could eventually embrace the AIIB and become full members in the long run.

At the policy level, co-financing helps align the safeguard policies, financial discipline and operational practices of the AIIB with international standards across the project cycle. Since 2009, ADB's Safeguard and Accountability Mechanism has provided that all co-financing partners have to honour its rules concerning safeguard, transparency, bankability and procurement. Similarly, the Co-Financing Framework Agreement between the World Bank and the AIIB requires the global institution to prepare and supervise the co-financed projects in keeping with its stringent policies and procedures. In a sense, co-financing is an instrument for existing MDBs to socialise the nascent AIIB. At the transaction level,

Table 4.2 Selected projects co-financed by AIIB and ADB

Country of operation	*Project*	*Sector*	*Co-financing arrangement*			*Financing type*	*Approved year*
			AIIB ($ million)	*ADB ($ million)*	*Other institutions ($ million)*		
Pakistan	National Motorway M-4 (Shorkot-Khanewal Section)	Transport	100	278	126	Sovereign	2016
Myanmar	Myingyan 225 MW Combined Cycle Gas Turbine Power Plant	Energy	20	152.2	90	Non-sovereign	2016
Azerbaijan	Trans Anatolian Natural Gas Pipeline	Energy	600	500	7500	Sovereign	2016
India	Transmission System Strengthening (Tamil Nadu)	Energy	100	50	153.5	Sovereign	2017
Georgia	Batumi Bypass Road	Transport	114	114	87.2	Sovereign	2017
Bangladesh	Natural Gas Infrastructure and Efficiency Improvement	Energy	60	167	226	Sovereign	2017
India	National Investment and Infrastructure Fund (I)	Multi-sector	6.87	7.61	32.5	Non-sovereign	2017
Pakistan	Karachi Bus Rapid Transit	Transport	71.81	235.00	196.52	Sovereign	2018

Country of operation	*Project*	*Sector*	*Co-financing arrangement*			*Financing type*	*Approved year*
			AIIB ($ million)	*ADB ($ million)*	*Other institutions ($ million)*		
Bangladesh	Dhaka and West Zone Transmission Grid Expansion	Energy	200	300	250	Sovereign	2019
Maldives	Greater Malé Waste-to-Energy Project	Urban	40	73.39	37.74	Sovereign	2020
India	Delhi-Meerut Regional Rapid Transit System	Transport	500	1048	1900.7	Sovereign	2020

Source Author's compilation based on AIIB and ADB project databases co-financing accelerates initial phases of the AIIB's projects and reduces administrative costs in case the AIIB is induced to use existing, off-the-shelf financial products, which both existing donors and borrowers are familiar with.

Meanwhile, ADB counts on the AIIB to realise its ambitious co-financing target. ADB in its 2006 Financing Partnership Strategy made a promise that the growth of co-financing commitments would outpace that of ADB's own financing (ADB 2016b). The proportion of co-financing in ADB loans and grants approved annually more than tripled from 11% in 2007 to an average of 37% between 2012 and 2015. Adverse developments that limit ADB's co-financing capacity with other aid agencies in the future include banking culture differences (in the case of co-financing with the EBRD), non-existence or expiry of formal cooperation framework (e.g. the EIB), foreign aid budget cuts (e.g. the Australian Department of Foreign Affairs and Trade), shifting country priorities away from Asia (e.g. the British Department for International Development) and others (ADB 2016b). In this context, teaming up with the AIIB seems to be a natural choice to make. Nevertheless, it is important to note that joint financing should not be treated as an objective per se. Instead, a strategic understanding between ADB and the AIIB on how co-financing projects could serve as the nucleus for other areas of donor coordination and cooperation to maximise and aggregate the effectiveness and efficiency of their respective financing is of greater significance.

Concluding Remarks

With the AIIB maturing into a full-fledged multilateral bank, developing Asia will soon have two engines to propel its socio-economic take-off. But ADB and the AIIB cannot afford to walk on their own paths because running a multilateral organisation is no cheap business (Gehring and Faude 2014). Memberships of ADB and the AIIB overlap considerably. The over 40 countries that are party to both banks cannot logically have incentives to maintain, on a long-term basis, two regional development banks if they perform essentially identical tasks and serve the same group of countries. Had the EBRD not re-invented itself, acquired new resources or shifted its geographical scope eastwards in the face of the EIB's heightened spending in the European neighbourhood, it would have been shut down as a redundant actor (Jin 2015). Viewed in this light, promoting ADB -AIIB complementarities is not only desirable for avoiding short-term operational conflicts but essential for their long-term institutional survival.

That said, a line cannot be drawn arbitrarily between ADB and the AIIB to divide the responsibilities. This chapter, drawing in part on the collaborative experiences of the EIB and the EBRD, proposes four ways to enhance coordination and cooperation between ADB and the AIIB in order to reinforce the aid effectiveness and efficiency of each other. Specifically, it argues that ADB and the AIIB should form tri-partite coordination mechanism to promote mutual accountability and facilitate high-level policy dialogue, develop complementary portfolios in terms of sectoral exposure and geographical coverage, and co-fund projects to set the ball of cooperation rolling. More importantly, the resulting synergies will stitch the two development banks into an interdependent and coherent donor structure in Asia and beyond.

The key for ADB and the AIIB to materialise the performance-enhancing potential of their complementarities is mutual accommodation. ADB may deliberately shrink or withdraw development interventions in certain issue areas and countries where it has comparative disadvantages vis-à-vis the AIIB and invite the latter to take over. The AIIB, for its part, should enter the development business in a way that takes ADB's practices, preferences and existing client base into consideration. Admittedly, iterations of reciprocal adaption will necessarily come with a price tag (e.g. erosion of institutional sovereignty and identity), but enhanced donor coordination and refined comparative advantage will benefit Asia as a whole. In this regard, AIIB must understand that the 50-year-old ADB is certainly going to suffer from some structural inertia that prevents it from optimally and swiftly adapting to the new reality. The self-claimed "lean, clean and green" AIIB without historical baggage should, therefore, take the initiative to reach out to ADB, demonstrate willingness to make necessary adjustment and prove that its pledge to "complement and cooperate with the existing MDBs" is not just rhetorical.

Last but not least, a caveat is worth highlighting. This chapter is not a call for dismissing the value of healthy inter-institutional competition, as long as they do not escalate into open confrontation. Benign competition in a controlled manner could prevent the formation of a "cartel of good intentions" (Easterly 2002), forcing ADB to lower cost and the AIIB to raise quality in a "race to the top". A balance between collaboration and competition will have to be struck by ADB and the AIIB in their search for appropriate places in the global development finance community.

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