Catalyzing the Contribution of the New Development Bank and the Asian Infrastructure Investment Bank to the Sustainable Development Goals
South-South Ideas

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Acknowledgements

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Abbreviation and Acronyms

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<th>Abbreviation</th>
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<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<tr>
<td>CSO</td>
<td>Civil Society Organization</td>
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<td>EMDC</td>
<td>Emerging Markets and Developing Countries</td>
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<td>G7</td>
<td>Group of Seven</td>
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<td>MDB</td>
<td>Multilateral Development Banks</td>
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<td>NDB</td>
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Executive Summary

The New Development Bank and the Asian Infrastructure Investment Bank models of multilateral development finance bring to life an Asian approach to South-South cooperation that relies on infrastructure development to catalyze industrialization, spur economic growth, and ultimately help countries to achieve Sustainable Development Goals. Despite their different governance, operational models, and approaches to financing development, the portfolio of the two banks converge in the 2030 Agenda for Sustainable Development while adhering to their mandate to finance infrastructure and sustainable development projects in emerging markets and developing countries. The strategies towards this twin goal seem fairly similar with the two banks focusing on affordable and clean energy, water management and sanitation, and other infrastructure projects to increase domestic and intra-regional connectivity, competitiveness, trade and investments. While the intentions are clear, it is not until development results are assessed and knowledge networks are established that the real contribution of the two new multilateral development banks to the Sustainable Development Goals can be verified.
1. Introduction

In July 2014, the leaders of Brazil, Russia, India, China and South Africa agreed to establish the New Development Bank (NDB). In October of the same year, China and 20 other Asian countries signed an agreement establishing another new multilateral development bank, the Asian Infrastructure Investment Bank (AIIB). The NDB and the AIIB resulted from the frustration of emerging markets and developing countries (EMDCs) with the Bretton Woods institutions, especially that these institutions have been long-controlled by the Group of Seven (G7) industrialized nations (Chin, 2016; Hellmann et al., 2014; Reisen, 2015; Vazquez et al., 2017; Wang, 2019; Humphrey 2020).

In 2009, the leaders of Brazil, Russia, India and China (the “BRIC Countries”) committed to advance the reform of international financial institutions to reflect the shift in economic power. According to the Joint Statement by the leaders of the BRIC Countries, “the emerging and developing economies must have greater voice and representation in international financial institutions, whose heads and executives should be appointed through an open, transparent, and merit-based selection process.” The Joint Statement added that a reformed financial and economic architecture should be on based democratic and transparent decision-making, a solid legal basis, compatibility between national regulatory institutions and international standard-setting bodies, and strong risk management and supervisory practices (BRIC, 2009). These complaints increased as the economic weight of many EMDCs has grown sharply without this being reflected in their voting power in traditional multilateral development banks (MDBs). Traditional MDBs have also marginalized infrastructure in their portfolios by prioritizing policy lending targeted at institutional reforms in developing countries and restricting investments in infrastructure particularly after the 2008 global financial crisis. The shortfall in international lending accentuated EMDCs infrastructure needs and further motivated the creation of the AIIB and the NDB.

The declared aim of the two banks of mobilizing resources to fill the trillion-dollar infrastructure gap and promoting sustainable development in EMDCs also reflects the aspirations of an international development architecture that emerged with the adoption of the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, and the Paris Agreement in 2015. It is against this backdrop that the NDB and the AIIB claim to differ from traditional MDBs with their attention directed to financing sustainable development and infrastructure projects, in addition to rejecting political lending conditionality, and maintaining a lean and flat organizational structure to reduce administrative costs and streamline decision-making.

China plays a “prominent role in both the NDB and the AIIB, hosting their headquarters and acting as an important financial backer” (Wang, 2019). This prominence, however, does not necessarily mean the two banks are driven only by China’s economic and political interests. For example, although it is natural to expect China to hope that the new development banks will fund Belt and Road projects, there is as yet no evidence of either AIIB or NDB lending directly to the initiative. Instead, China has relied on its national state-policy banks, the Export-Import Bank of China and China Development Bank, and its state commercial banks to fund Belt and Road projects and other infrastructure development initiatives outside China (Chin and Gallagher, 2019).

Nor do the two new China-backed MDBs represent a single Chinese model of multi-lateral development finance. According to Ye (2017), the NDB has taken a localized approach to development finance that favours partnerships with national financial institutions, the use of country systems, as well as the purchase of goods and recruitment of staff from member countries. This contrasts to the more internationalized approach taken by the AIIB that prioritizes co-financing with established MDBs and the application of standards directly, in addition to being open to the purchase of goods and recruitment of staff from all over the world. What can be reasonably argued is that both the NDB and the AIIB represent a distinctive Asian approach to South-South cooperation (SSC) that utilizes foreign direct investments (FDI) and loans, emphasizes trade and industrialization, and leans towards “hard infrastructure” financing (Mulakala and Wagle, 2015; Chaturvedi and Mulakala, 2016).

Several studies have pointed out the similarities and differences between the NDB and the AIIB mainly on operational issues like constitution (Chin, 2016; Hellmann et al., 2014; Reisen, 2015; He, 2016; Wang, 2017; Wang, 2019; Zhu, 2020), membership and decision-making processes (Wang, 2019; Zhu, 2020; Humphrey, 2020), funding and resource mobilization (Wang, 2019; Humphrey, 2020), environmental and social sustainability (Wang, 2019; Humphrey, 2020) and partnerships (Wang, 2019). Other studies have looked into substantive issues like the respective NDB and AIIB approach to sustainable infrastructure and sustainable development (Vazquez et al, 2017; Vazquez and Chin, 2019; Humphrey 2020). These will be further discussed later in this paper. However, existing literature is inadequate when it comes to comparing how the two banks deliver their mandate on infrastructure and sustainable development and contribute to the 2030 Sustainable Development Goals (SDGs).

How do the NDB and the AIIB define their approach to financing for development? How do these approaches contribute to the achievement of the SDGs? This paper argues that despite the differences, the two banks follow a common underlying Asian approach to SSC by emphasizing infrastructure development as a means of increasing domestic and intra-regional connectivity and creating economic and political interests. For example, although it is natural to expect China to hope that the new development banks will fund Belt and Road projects, there is as yet no evidence of either AIIB or NDB lending directly to the initiative. Instead, China has relied on its national state-policy banks, the Export-Import Bank of China and China Development Bank, and its state commercial banks to fund Belt and Road projects and other infrastructure development initiatives outside China (Chin and Gallagher, 2019).

This paper is organized in four sections. The first section discusses some of the main operational differences between the NDB and the AIIB that indicate the emergence of...
two distinct models of multilateral development finance. The second section examines how, despite the differences, the two banks reflect a single “Asian” approach to SSC that relies on infrastructure development to catalyze industrialization, spur economic growth, and ultimately help countries achieve Sustainable Development Goals. The third section analyses the extent to which the NDB and the AIIB specifically contribute to the achievement of the SDGs of member countries. Lastly, section four assesses the role of knowledge in NDB and AIIB strategies and how the two banks could exploit knowledge networks to enhance their contribution to the SDGs beyond lending.

2. Two Emerging Models of Multilateral Development Finance

The NDB and the AIIB differ significantly in terms of governance, operational models, approaches and strategies. This section highlights five differences between the two new multilateral development banks that suggest the emergence of two distinct models of multilateral development finance.

With regards to governance, the two banks have adopted distinct shareholding models. The NDB is controlled by the BRICS countries, which must maintain 55 percent of the total shares. Non-borrowing countries as a group cannot exceed 20 percent of the total shares and no single new member can exceed seven percent (NDB, 2014). In the AIIB, the main requirement is that regional members hold at least 75 percent of capital stock. Since most of these countries are emerging or developing, it would be reasonable to argue that the AIIB (like the NDB) should also be led by them. This is a major difference from traditional MDBs, and has inspired the creation of the AIIB and the NDB.

The two banks are also distinguished from one another by their decision-making model. The NDB is governed by the principle of equality in decision making, with its initial subscribed capital and voting power evenly distributed among the five BRICS countries. Each of these countries subscribes US$ 10 billion of the bank’s capital and has 20 percent of the votes (NDB, 2014). Ordinary matters are decided by simple majority while specific matters are decided by an affirmative vote by four of the BRICS countries concurrent with two thirds of the total voting power. In the case of the AIIB, each member voting power is tied to the number of shares it holds, making the AIIB a hierarchical organization dominated by the countries that contribute the largest amount. By prioritizing equality over hierarchy, the NDB sets itself apart from the AIIB and the traditional MDBs. Given that EMDCs retain the majority of AIIB shares and voting power, the Asian bank would stand closer to the NDB compared to traditional MDBs also in terms of decision-making (this will point be further discussed in the next session).

With regards to operations, the AIIB has made a push for transparency and efficiency by publishing four sector strategies (energy, transport, water, and sustainable cities) and one draft strategy (information and communications technology) while the NDB has limited its sectoral approach to the overarching direction in its five-year corporate strategy. The reason for the difference could be because by opting to heavily borrow from the governance structure, policies, and operational frameworks of
established MDBs, the AIIB has been able to move relatively faster in its institutional setup compared to the NDB. This choice has given a clearer orientation to AIIB’s operations and value proposition compared to its Shanghai-based counterpart. The AIIB also makes available on its website a larger quantity of project information compared to the NDB, arguably making it more transparent. However, it can be argued that the AIIB is more innovative than the NDB in developing home-grown solutions to address environment and social management. It provides an overarching policy for addressing environmental and social management in operations and sets forth the key mandatory requirements with impacts into decision-making on, and preparation and implementation of, bank supported projects. 1

The NDB and the AIIB also differ in their approach to environmental and social safeguards. In the case of the AIIB, setting robust environmental and social safeguards was an essential condition for the European founding members to join the bank (Zhu, 2020; Humphrey, 2020). In September 2015, the AIIB launched its Environmental and Social Framework1 under heavy criticism by non-governmental organizations for its “lack of detail and enforcement mechanisms” and the “very short consultation process” (Liu, 2016; Wang, 2019). The NDB has received even harsher criticisms for publishing a less detailed Environmental and Social Framework2 six months later and for its excessively reliance on the social and environmental protection legal framework in the borrowing countries (“country systems”). This will be further discussed in the next section.

Finally, the two banks have adopted different partnership and co-financing strategies to compensate for their still limited experience and institutional capacity. While the NDB has redoubled its focus on its partnership with national development banks and commercial banks, the AIIB has opted to co-finance projects with traditional MDBs. According to Humphrey (2020), the decline in AIIB co-financing from 74 percent of projects in 2016 to 40 percent in 2018, and 33 percent in 2019 would indicate that the Bank “is growing more confident in its ability to take the lead in preparing projects” (Humphrey, 2020). While AIIB’s co-financing has allowed the bank to rely on the systems of other MDBs to mitigate project and financial risks and quickly disburse financial resources, the NDB approach would have helped staff to more quickly develop closer relationships with borrowers, strengthen their own capacity, and develop robust internal systems (Humphrey, 2020). However, the evidence to fully verify this hypothesis remains limited.

If there is one aspect in which the differences in governance and operational models, approaches, and strategies converge is in explaining how the NDB and the AIIB deal with SSC. The NDB is an emblematic case of SSC as it was constituted as a “borrowing country-led” (Zhu, 2020) development bank by EMDCs for EMDCs. Based on their own experience as recipients of foreign aid, the BRICS countries were keen to ensure that development funding provided by them is free of political conditionalities, members relate to each other horizontally as lenders and borrowers as well as equal shareholders, projects are demand-driven, and sovereignty and non-interference in domestic affairs are safeguarded through the use of country systems (Roychoudhury and Vazquez, 2016; Zhu, 2020). In the case of the AIIB, pressure from European founding members and international credit rating agencies have led the bank to follow a “shareholder-led” approach (Zhu, 2020) more similar to that of traditional MDBs. Like the NDB, however, EMDCs have also retained the majority of AIIB shares and voting power (approximately 67.5 percent and 58 percent respectively). This, coupled with the rejection of political conditionalities to lending, would take the bank closer to SSC principles like “Southern-led” and “non-interference.”

Less questionable is the fact that both the AIIB and the NDB follow an Asian approach to SSC that emphasizes infrastructure development as a means of promoting domestic and intra-regional connectivity and competitiveness, fostering trade and investments, and helping countries to achieve the SDGs. This approach has been heralded by China and India, some of the most active countries in the establishment of the NDB (Zhu, 2020) and the largest shareholders of the AIIB, with 30.7 percent and 8.6 percent of total subscriptions and 26.6 percent and 7.6 percent of total voting power respectively. It would be a surprise if the two banks were not inspired by China and India’s development experience (Zheng, 2020). According to Lin and Wang (2017a, 2017b), China’s own understanding of development cooperation goes beyond Official Development Assistance (ODA) to combine aid with trade and investments, and to capitalize on the comparative advantages of the recipient countries. In line with this idea and China’s “Tao Guang Yang Hui” strategy of capital accumulation (Li Xing, 2017), Chinese development cooperation promotes the “structural transformation” of developing countries through continuous investments in technologies, industrialization, and hard and soft infrastructure (Lin and Wang 2017a, 2017b).

3. One Approach to South-South Cooperation

The BRICS countries were keen to ensure that development funding provided by them is free of political conditionalities, members relate to each other horizontally as lenders and borrowers as well as equal shareholders, projects are demand-driven, and sovereignty and non-interference in domestic affairs are safeguarded through the use of country systems (Roychoudhury and Vazquez, 2016, Zhu, 2020).

1 AIIB’s Environmental and Social Framework is a “system that supports the bank and its clients in achieving environmentally and socially sustainable development outcomes. It does so by integrating good international practice on environmental and social planning and management of risks and impacts into decision-making on, and preparation and implementation of, bank supported projects.” https://www.aiib.org/en/policies-strategies/framework-agreements/environmental-social-framework.html

2 NDB’s Environmental and Social Framework sets the core principles which govern the operations of bank on environment and social management. It provides an overarching policy for addressing environmental and social management in operations and sets forth the key mandatory requirements with respect to environment, involuntary resettlement, and indigenous peoples. https://www.ndb.int/wp-content/themes/ndb/pdf/ndb-environment-social-framework-20160330.pdf
The AIIB does not have a definition for sustainability and “has not yet released any indicator or benchmark related to sustainability and ‘has not committed to benchmarking’” (AIIB 2017; Vazquez and Chin, 2019). Nor do AIIB transport and sustainability strategies include indicators or targets related to emissions or renewable energy, although it outlines “a set of indicators that the bank would use to evaluate its performance should shareholders decide to set targets” (AIIB 2016; Vazquez and Chin, 2019). However, previous research indicates that the AIIB has not yet offered a definition for “green” bank in a way that can be measured and verified. Nor has it set operational targets related to green or sustainable projects (Vazquez and Chin, 2019; Humphrey, 2020). The AIIB energy, transport, and sustainable cities strategies, for example, express strong support for environmental and sustainability concerns but do not include indicators or targets. The AIIB energy sector strategy has no targets for carbon emissions or renewable energy, although it outlines “a set of indicators that could be used to evaluate its performance should shareholders decide to set targets” (AIIB 2017; Vazquez and Chin, 2019). Nor do AIIB transport and sustainable cities sector strategies include indicators or targets related to greenhouse emissions or environmental impact (AIIB 2018a, 2018b).

The NDB’s approach to sustainable infrastructure and represents an evolution from traditional definitions of the latter. According to the traditional definitions, sustainable infrastructure refers to the design, building, and operation of the structural elements that support the day-to-day functioning of society in ways that do not diminish the social, economic and ecological processes required to maintain human equity, diversity and the functionality of natural systems. The idea that sustainable infrastructure can bring about transformation means that societies, economies and the environment can benefit from additional positive impacts from projects rather than simply avoiding or diminishing negative impacts.

In 2019, the NDB annual report stated for the first time that the Bank “looks to expand the ‘do-no-harm’ to incorporate a more transformative approach to development.” Vazquez et al (2017) differentiate the “do-no-harm” from the “transformative” approach to development. The “do-no-harm” approach adopted by traditional MDBs “uses a framework of standards to safeguard against risks, down to the project level, with standards integrated into the project design and project implementation processes” (Vazquez and Chin, 2019). Traditional MDBs have tended to focus on safeguarding or avoiding, mitigating, and containing risks, and ensuring that the banks are “doing no harm” to the communities, environment, and stakeholders that would otherwise be adversely affected by the respective project if there were no safeguards. But safeguards can be limiting, as “they do not necessarily unlock transformative potential in development.” The transformative approach in its turn complements the “do-no harm” approach as it also encourages investment in infrastructure projects that consciously generate additional, positive environmental, social and economic spillovers for both the community and the environment (Vazquez et al, 2017).

According to the NDB General Strategy 2017-2021, “sustainable infrastructure” will be the NDB’s main focus, with approximately two-thirds of all financing commitments between 2017-2021 earmarked for sustainable infrastructure development (NDB, 2017). It adds that “traditional evaluation methods fail to account for numerous factors that have a major influence on a project’s viability and developmental impact in the medium and long-run.” The NDB, however, has not yet followed up with definitions, policies or instruments to realize this commitment in concrete terms. In 2018, during his opening address to the NDB 4th Annual Meeting in Cape Town, K.V. Kammath, confirmed that the bank has been focusing on the “development impact” of its lending through “more robust monitoring frameworks and measurement of contributions of projects to SDG commitments of member states.” The NDB understands, and is pursuing, sustainable infrastructure investment as projects that combine “do-no harm” standards (covered by the NDBs Environmental and Social Frameworks) with positive incentives that drive environmental, social and economic transformations (Vazquez and Chin, 2019). However, the NDB has not yet released any indicator or benchmark related to sustainability and “has proposed a methodology to evaluate emissions at the individual project level” (Vazquez and Chin, 2019). Reasons for this omission include the time required to build transversal teams with the adequate expertise and operational capacity.

The NDB General Strategy 2017-2021 in its turn broadly defines sustainable infrastructure as “infrastructure that incorporates economic, environmental and social criteria in its design, building, and operation” (NDB, 2017). In 2018, NDB former president K.V. Kammath reaffirmed the centrality of “sustainability” to the bank’s mission. According to K.V. Kammath, the NDB “would look at sustainability as an evolving lens as we transition from the past through a changing present towards a transformational future” (NDB, 2018). The idea of “transformation” is at the heart of the NDB’s approach to sustainable infrastructure and represents an evolution from traditional definitions of the latter. According to the traditional definitions, sustainable infrastructure refers to the design, building, and operation of the structural elements that support the day-to-day functioning of society in ways that do not diminish the social, economic and ecological processes required to maintain human equity, diversity and the functionality of natural systems. The idea that sustainable infrastructure can bring about transformation means that societies, economies and the environment can benefit from additional positive impacts from projects rather than simply avoiding or diminishing negative impacts.
been less clear about how it will generate medium and long-term positive development impact” (Vázquez et al. 2017, Humphrey, 2020).

Where do the AIIB and the NDB differ in terms of their approach to sustainable infrastructure? On the one hand, the AIIB is taking a “hybrid layered approach” to investing in sustainable infrastructure by relying on its environmental and social governance criteria to “safeguard against” while defining principles, guidelines and priorities in its sector strategies to catalyze positive transformative change (Vázquez and Chin, 2019). On the other, the NDB aims to avoid, mitigate or compensate for adverse impacts on the environment and social groups, in compliance with the standards set in the bank’s Environmental and Social Framework as well as relevant environment and social country systems. Where environmental or social risks are identified, mitigation measures are introduced before an investment can be taken further (NDB, 2019). Yet the NDB also tries to go beyond the “do no harm approach” to finance projects that help its member countries achieve transformative results. According to Humphrey (2020), “each project is screened for positive development contributions, which goes beyond direct financial calculations to a longer-term and broader assessment of economic, environmental and social impact.”

Besides the lack of clear definitions, indicators and targets to systematically support sustainability goals through its projects, the NDB and the AIIB approaches to sustainable infrastructure converge in the attention to the specific “needs, interests and appeals of developing countries” (Chin, 2016, 20). This means, for example, supporting gradualist, incremental steps toward a “low-carbon future” in certain contexts and “being sensitive to local developmental realities in moving from fossil fuels toward lower-carbon options, or even relying on carbon efficient oil- and coal-fired plants if they replace existing less efficient capacity, or if no viable or affordable alternative exists in specific cases” (Vázquez and Chin, 2019).

4. The Contributions of NDB and AIIB to the SDGs

How do the NDB and the AIIB contribute to the achievement of the SDGs? The adoption of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda on Financing for Development in 2015 gave new impetus to global efforts towards a more sustainable future. The new climate deal reached at the Conference of Parties 21 on Climate Change in Paris, further stressed the need for the world to embrace a new framework for long-term sustainable development. In addition, at the 2016 G20 Summit in Hangzhou, the Chinese Presidency emphasized the enhanced role of multilateral development banks in supporting sustainable economic development. The G20 Hangzhou Summit was the first time that the G20 underscored the importance of green finance and encouraged the subsequent growth of the green bond market. These undertakings have directly influenced and shaped the AIIB and the NDB.

In its first Annual Report (2016), the AIIB states its alignment to global policy by referring to “sustainable infrastructure” as infrastructure that supports countries to meet the SDGs (AIIB, 2016b). In line with the 2030 Sustainable Development Agenda, the AIIB also claims to address the three dimensions of sustainable development – economic, social and environmental – in a “balanced and integrated manner.” The AIIB also declared that it will abide by the “principles of sustainable development in its project identification, preparation and implementation in Asia and beyond.” In its first year of operation, the AIIB concentrated half of its lending on energy projects. The remaining half was channelled into projects in the transport (38 percent) and urban (12 percent) sectors. In its second year of operations, “energy” remained the main sector accounting for 43 percent of projects. The AIIB portfolio began to diversify with the approval of projects in the “water”, “financial” and “information and communication technology” sectors. From 2018 onwards, the “financial sector” became the largest at 31 percent in 2018 and 36 percent in 2016 of total AIIB lending. In 2019 and 2020 the increase in funding for projects in “other” sectors was driven mainly by the approval of six emergency loans to fight the covid-19 pandemic. According to the AIIB website, as of June 2020, the bank had built up a portfolio of 75 approved projects worth more than US$ 16 billion across seven sectors (Chart 1).
A mapping of AIIB projects against the SDGs reveals that 35 percent of AIIB projects directly support SDG 9 (build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation); 33 percent directly support SDG 7 (ensure access to affordable, reliable, sustainable and modern energy for all); 13 percent directly support SDG 6 (ensure availability and sustainable management of water and sanitation for all); and 8 percent directly support SDG 11 (make cities and human settlements inclusive, safe, resilient and sustainable) and SDG 3 (ensure healthy lives and promote well-being for everyone at all ages). The latter is mainly due to recent emergency support for the response of member countries to the covid-19 pandemic. Less than 2 percent of AIIB projects directly support SDG 13 (take urgent action to combat climate change and its impacts) and 15 (protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss). With regard to secondary SDG links, SDG 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent working conditions for all) accounts for 38 percent, SDG 9 for 30 percent and SDG 13 for 20 percent of AIIB projects. SDGs 1 (end poverty in all its forms everywhere), 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture), 6 (ensure availability and sustainable management of water and sanitation for all), 10 (reduce inequality within and among countries) and 11 (make cities and human settlements inclusive, safe, resilient and sustainable) represent less than 12 percent (Chart 2).

3 The AIIB 2019 Annual Report contains a mapping of projects against the SDGs produced by the bank itself. This mapping was not used in the study. Instead, the author opted to develop and apply one single methodology for both AIIB and NDB to maintain comparability and relevance of the findings.

4 This mapping of AIIB projects against the SDGs was done by the author based on project information available on the AIIB website.

In its second annual report, the NDB states that its members reaffirmed in the BRICS Summit Johannesburg Declaration, in July 2018, their commitment to “fully implementing the 2030 SDGs to provide equitable, inclusive, open, innovation-driven and sustainable development in the economic, social and environmental dimensions, in a balanced and integrated manner, towards the ultimate goal of eradicating poverty by 2030. The bank continues to support these commitments” (NDB, 2018). In its third annual report, the bank “reassures its focus towards supporting member countries to achieve their development aspirations, especially those articulated in the UN 2030 Agenda for Sustainable Development and the 2015 Paris Agreement on Climate Change” (NDB, 2019). In May 2016, the NDB Board of Directors approved the first set of loans worth US$ 811 million. Funds were earmarked for renewable energy projects, except for a road project in the state of Madhya Pradesh in India (Vazquez et al, 2017). The second tranche of projects broadened the scope of NDBs activities into areas like information technology and energy conservation, among others (Vazquez et al, 2017). According to the NDB website, as of June 2020 the NDB had built a portfolio of 50 approved projects worth more than US$ 17 billion.

A mapping of the primary links between NDB projects and the SDGs found that 48 percent of the projects directly support SDG 9 (build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation), 26 percent directly support SDG 7 (ensure access to affordable, reliable, sustainable and modern energy for all), 16 percent directly support SDG 6 (ensure availability and sustainable management of water and sanitation for all), and 16 percent directly support SDG 13 (ensure availability and sustainable management of water and sanitation for all); and 4 percent directly support...
SDG 11 (make cities and human settlements inclusive, safe, resilient and sustainable), SDGs 4 (ensure inclusive and equitable quality education and promote lifelong learning opportunities for all), 13 (take urgent action to combat climate change and its impacts) and 16 (promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels) each accounts for 2 percent of NDB projects. With regard to secondary SDG links, SDGs 13 and 11 each indirectly correspond to 39 percent of NDB projects. SDG 9 indirectly corresponds to 12 percent of the bank’s projects. SDGs 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) and 3 (ensure healthy lives and promote well-being for all at all ages) each correspond to 4 percent while SDG 7 indirectly corresponds to 2 percent (Chart 3).5

The mapping of NDB and AIIB projects against the SDGs not only indicates convergence with the 2030 Agenda for Sustainable Development, but also adherence of the portfolio of the two banks to their mandate to finance sustainable development and infrastructure. The NDB and the AIIB strategies seem fairly similar with both banks focusing on affordable and clean energy (SDG 7) investments to improve infrastructure and accelerate industrialization (SDG 9) while reducing carbon emissions (SDGs 13); water management and sanitation (SDG 6) and other forms of infrastructure investments to increase sustainability of cities (SDG 11) and economic growth (SDG 8). These strategies also match the Asian development model based on heavy investments in infrastructure to accelerate industrial transformation, increase production, productivity and trade, and unleash rapid economic growth.

However, only after careful and detailed monitoring of the results of the AIIB and the NDB has been conducted will it be possible to assess the real contribution of the two new MDBs. In South Africa, doubts loom over NDB loans to the indebted energy company Eskom. The NGO community has been voicing its concerns on the threats that the expansion of the Durban port and the refurbishment of the Medupi coal-fired power plant pose to local communities in South Africa, including environmental degradation and increased carbon emission (Bond, 2019). In India, a road modernization project in Madhya Pradesh is implicated in land eviction and property destruction (BRICS Feminist Watch, 2019). Without clear definitions, indicators and targets, it becomes more difficult for MDBs to systematically promote and assess sustainability goals through their projects. According to the MDB joint declaration on SDGs and the Paris Agreement - to which both AIIB and NDB are signatories - MDBs shall “develop tools and methods for characterizing, monitoring and reporting on the results of our Paris-alignment activities” (MDBs 2018).

Initiatives by academia and civil society organizations (CSOs) that propose new assessment frameworks and tools (Vazquez et al, 2017; Bhattacharya et al, 2019) have already been initiated and should be further discussed (for example, while Vazquez et al propose a three-level framework to assess the degree of sustainability in NDB infrastructure projects that takes into account the development stages and needs of EMDCs, Bhattacharya et al propose a discrete policy and institutional framework to assess investments by G20 countries in sustainable infrastructure), streamlined, and eventually mainstreamed into the two new MDBs. Such initiatives could have an impact beyond helping the two banks assess the sustainability of their projects such as, for instance, allowing them to develop financial and non-financial instruments as for instance longer-term repayment and lower interest rates to incentivize clients to submit projects in line with the AIIB and the NDB understanding of sustainable development and infrastructure (Vazquez et al, 2017).

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5 This mapping of NDB projects against the SDGs was done by the author based on project information available on NDB website

6 Presented at the 1st NDB-CSO meetings in October 2017, the report “Building Sustainable Infrastructure for 21st Century Sustainable Development: Lessons and Opportunities for the BRICS-led New Development Bank,” offered a working definition of ‘sustainable infrastructure’ and outlined a model to assess the sustainability of NDB’s projects. The definition and the model expanded on the ‘do no harm’ approach typically adopted by IFIs to complementarily incorporate a more ‘transformative’ approach towards development (see discussion the previous section). Following the recommendations of the report, the Bank started to develop indicators to assess the sustainability of its projects as announced during a meeting with CSOs on the sidelines of the 3rd Annual Meeting in May 2018. The result of the NDB effort to assess project sustainability and contribution to the SDGs, however, remains unknown.
5. Catalyzing NDB and AIIB Contribution to the SDGs: The Role of Knowledge Networks

This last point showcases the need for both the AIIB and the NDB to examine how knowledge networks can best support them in assimilating, developing and systematizing development experience in order to guide operations, inform policy, and enhance contributions to the SDGs.

These networks build on the experience of traditional MDBs, national development banks, the UN system, the private sector, academics, CSOs and practitioners in developing and developed countries as they further benefit from the interactions among them and their own networks. This is particularly relevant if the NDB and the AIIB are to maintain their commitment to a lean and flat organizational structure, and remain agile in sourcing development solutions wherever they are.

In its 2016 Annual Report, the NDB claimed that the bank “seeks to complement the existing efforts of multilateral financial institutions, regional financial institutions, regional financial institutions and other agencies” and “intends to disseminate knowledge gained with its development partners.” The NDB 2017-2021 General Strategy went one step further by announcing the NDB’s willingness to contribute to knowledge sharing among BRICS and other EMDCs, and eventually become a platform for South-South cooperation. According to the NDB 2019 Annual Report, “since its inception, the bank aims to develop and provide practical, specialized expertise in sustainable infrastructure development, including the areas of project design, regulatory issues and financing arrangements.” But apart from stating the relevance of knowledge and knowledge networks in its strategy and policy documents, the NDB has not yet taken more concrete steps towards the implementation of these goals.

This can be seen in NDBs engagement with CSOs. Although civil society groups from the BRICS countries have on specific occasions interacted with the Bank, direct engagement with NDB’s leadership have taken place on an ad hoc basis and mostly upon the request of civil society organizations themselves. The NDB 2017-2021 General Strategy mentions that interaction with CSOs can help the bank to “broaden its knowledge on how to embed sustainability criteria in infrastructure projects, taking into account local-level perspectives and sector-based standards.” Yet, the bank has been criticized for having failed to respond to requests for information from CSOs and giving the impression that it is not prepared to meaningfully engage with them.

The AIIB appears to have moved faster in terms of institutionalizing knowledge, as seen in the creation of the role of “Senior Learning and Knowledge Specialist,” the “International Advisory Panel,” and the “Complaint Handling Mechanism.” The bank also hosts regular consultations with civil society groups and other actors on different corporate policies and frameworks to help the bank to continuously learn from its experience and strengthen its development practice. This seems to be in line with recommendations for the bank to take an incremental approach to knowledge - though less ambitious than the NDB’s intent to take a leading role in the debate on development policymaking in the 21st century, as announced by the new NDB president, Marcos Troyjo, at the 12th BRICS Summit.

On the eve of the 2020 G20 meeting in Saudi Arabia, Troyjo confirmed that the NDB will “strengthen collaboration and partnerships with other multilateral development banks and development institutions by actively participating in forums such as the G20 and BRICS, so as to rethink and revamp development policy, and help countries make the most effective use of the international financial architecture.” He added that “the NDB will strive to be a platform for cooperation, by playing an increasingly important role in bringing economic players together, facilitating knowledge sharing and promoting innovation among the BRICS countries and other emerging markets and developing countries” (Troyjo, 2020).

According to Griffith-Jones (2016), while the ambition for the new development banks should be to establish themselves as an alternative knowledge bank on core development questions, they should begin with a “narrower focus on all relevant aspects of infrastructure.” Knowledge creation could cover practical aspects such as project design, implementation and financing as well as broader issues such as sustainable development policymaking in the 21st century, as announced by the new NDB president, Marcos Troyjo, at the 12th BRICS Summit.

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6. Conclusion

The NDB and the AIIB models of multilateral development finance exemplify an Asian approach to South-South cooperation that emphasizes trade and infrastructure investment to catalyze industrialization and economic growth. However, there are significant differences between the two new multilateral banks in terms of how they realize their mandate on sustainable infrastructure financing. On the one hand, the AIIB follows a "hybrid layered approach" based on the bank’s environmental and social governance criteria to "safeguard against" as well as on principles, guidelines and priorities in its sector strategies to catalyze positive transformative change. On the other, the NDB takes a "transformational" approach that goes beyond "do no harm" standards set out in the bank’s Environmental and Social Framework and relevant environment and social country systems, to offer its members country positive incentives that generate comprehensive long-term environmental, social and economic transformations.

The NDB and the AIIB align to global policy in three ways. Firstly, when the two banks state that they promote infrastructure while supporting countries in meeting the SDGs and the Paris Agreement. Secondly, when they claim to address the economic, social and environmental dimensions of sustainable development in a balanced and integrated manner. Thirdly, when they declare that they will abide by the principles of sustainable development in project identification, preparation and implementation. The mapping of NDB and AIIB projects against the SDGs reveals that the portfolio of both banks converges with the 2030 Agenda for Sustainable Development while adhering to their mandate to finance sustainable development and infrastructure. The strategies taken seem fairly similar with both banks focusing on affordable and clean energy investments to improve infrastructure and accelerate industrialization while reducing carbon emissions, and other forms of infrastructure investments to increase sustainability and economic growth. These strategies are also in line with the Asian development model based on infrastructure investment to accelerate industrial transformation, increase production, productivity and trade, and stimulate rapid economic growth.

However, it will not be until the development results of the AIIB and the NDB projects are assessed that it will be possible to assess their contribution to fulfilment of the SDGs. The AIIB and the NDB have both signed the MDB joint declaration on the SDGs and the Paris Agreement in which they commit to develop tools and methods for characterizing, monitoring and reporting on the results of their Paris-alignment activities. Initiatives by academia and civil society organizations that propose new assessment frameworks and tools should be encouraged, discussed and eventually assimilated by the two banks.

The institutionalization of the engagement by both banks with knowledge and knowledge networks will be critical as the 2030 Agenda for Sustainable Development enters its second and most critical quinquennium, and MDBs are called upon to take an even more prominent role in supporting countries to achieve the SDGs.

References


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