Sticker shock: what the AIIB will cost the Australian aid program

Author : Robin Davies

Date : July 1, 2015

The Asian Infrastructure Investment Bank (AIIB) membership debate was largely a foreign policy circus, resulting in a chorus of views to the effect that China performed well, the US badly and Australia well enough in the end, having overcome an early shortsightedness. Far be it from this blog to pronounce on matters of high foreign policy. However, it is part of Devpolicy's job to worry about where Australian aid goes—and now, thanks to the details provided in the Treasurer's announcement, we know that a very great deal of Australia's dwindling aid budget will go to the AIIB. The question is whether the bill needed to be anywhere near as high.

Here is the picture in brief. The AIIB has been established with authorized capital of US$100 billion, equivalent to about 61 per cent of the Asian Development Bank's and 43 per cent of the World Bank's. This has now been fully subscribed. Australia has committed to purchase shares to the value of 3.76 per cent of the total, at a notional cost of about A$4.7 billion. Of that amount, 20 per cent must be paid in according to the bank's Articles of Agreement. That's just over A$930 million at the current exchange rate, which the Treasurer has said will be paid in over five years—presumably commencing at some point in 2016, though this has not been stated. The balance, about A$3.7 billion, will be 'callable' and therefore a contingent liability rather than a cash flow.

Financing to Asian borrowers from the AIIB will not be aid-like. It will be non-concessional. However, the AIIB is a regional development bank, so paid-in capital contributions from OECD donors to the AIIB will qualify as Official Development Assistance (ODA). That is, they can be and will be charged to aid budgets, in the same way as capital contributions to the non-concessional arms of the World Bank, the Asian Development Bank and other regional development banks have always been (see here, p. 9: capital subscription costs are 'assimilated to grants'). Though it will first be necessary for the OECD's Development Assistance Committee to get around to including the AIIB on its list of ODA-eligible multilateral organisations, this will certainly happen. OECD donors such as the UK, France, Germany, Korea and Australia are not about to find entirely new wellsprings of money with which to fund their commitments; they need to tap their aid budgets.

In short, assuming an even distribution of payments, it appears the Treasurer has just announced than some A$186 million will flow from the aid budget to the AIIB next year—a year in which the aid budget is already scheduled to fall by a further A$300 million—and in each of the four years following. To put this in perspective, it is estimated that Australian cash payments to multilateral development banks in 2015?16 will total A$457 million (these are principally contributions to their concessional arms, since most capital contributions were paid in long ago). The new annual flows to the AIIB are equivalent to 41 per cent of that amount. If the AIIB were a country, it would be Australia's third-largest bilateral aid recipient. And, obviously, existing aid recipients, bilateral and/or multilateral, are now going to receive $486 million rather than $300 million fewer dollars in aid next year. Perhaps that is at least one of the reasons why the Treasurer announced Australia's contribution jointly with the Minister for Foreign Affairs, who holds the relevant purse strings.

It is important to note that the AIIB's paid-in capital requirement is very high at 20 per cent, compared to around five or six per cent for the World Bank and the Asian Development Bank. If the ADB were being established right now with its present level of authorized capital, and if Australia were to take a 3.76 per cent shareholding as it has in the AIIB, the cost of joining this substantially larger institution would only have been around A$70 million per annum for five years rather than almost A$190 million.

The question, then, is why Australia bid so high to join the AIIB. We could have become a founding member at far less cost, as many other OECD donors did, yet we have sought to be in the same league as much larger aid donors like France and Germany, and even to be ahead of a mammoth aid donor in the form of the

UK. It is notable that we are level-pegging Korea (which has a 3.81 per cent shareholding), so perhaps somebody thought it would be important for us not fall below Korea among the donors in the ‘regional’ category. This thought, however, has come at a very high price.

It cannot be said that Australia’s A$930 million is purchasing much in the way of net development benefits. Though our contribution is very large in proportion to our dwindling aid budget, it is relatively small in proportion to the AIIB’s capital base and, more importantly, it carries no additionality at all, unlike contributions from many of the AIIB’s non-traditional donors. The AIIB would have been about as big a lender without our generous contribution, and existing aid beneficiaries would have borne less of the cost of it.

Why did we pay so much to join this club when the benefits of being party to its establishment could have been bought so much more cheaply? Sadly, the answer is probably that it was viewed as a costless exercise in net terms. If aid must be spent, why not spend it on achieving sixth position on this new totem pole?