

New Development Bank

August 20, 2021

India has called for expanding the funding horizon of the New Development Bank (NDB), often referred to as BRICS Bank, so that resources can be utilised for bolstering social infrastructure in a post-Covid world, besides promoting the industrial sector. Let us understand the reasoning behind the formation of NDB and its role in detail.

In news: India calls for expanding New Development Bank's funding horizon

Placing it in syllabus: Economy

Dimensions

- Inception of BRICS and NDB
- Composition of NDB and its funding
- NDB Vs ADB and NDB Vs AIIB
- NDB's importance for third world countries

Content:

Inception of BRICS and NDB:

- The NDB is a **multilateral financial institution** established by the grouping **BRICS**.
- The purpose of NDB is **to fund sustainable development projects and infrastructure projects in the BRICS countries and other developing countries and emerging markets**.
- The NDB has been projected as a developmental financial institution that can complement western dominated global financial institutions (such as the World Bank and the International Monetary Fund), rather than as a challenge to them.
- It was formerly known as the **BRICS Development Bank**.
- At the fourth BRICS Summit in New Delhi (2012), the

leaders of Brazil, Russia, India, China and South Africa considered the possibility of setting up a new Development Bank to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, as well as in developing countries.

- They directed Finance Ministers to examine the feasibility and viability of this initiative, to set up a joint working group for further study, and to report back by the next Summit in 2013.
- Following the report from the Finance Ministers at the fifth BRICS summit in Durban (2013), the leaders agreed on the feasibility of establishing the New Development Bank and made the decision to do so. It was also agreed that the initial contribution to the Bank should be substantial and sufficient for it to be effective in financing infrastructure.
- During the **sixth BRICS Summit in Fortaleza (2014)**, the leaders signed the Agreement establishing the New Development Bank (NDB).
- In the **Fortaleza Declaration**, the leaders stressed that the NDB will strengthen cooperation among BRICS and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth.
- The 7th BRICS summit in July 2015 marked the entry into force of the Agreement on the New Development Bank.
- On 27 February 2016, the NDB signed the Headquarters Agreement with the Government of the P.R.C. and the Memorandum of Understanding with Shanghai Municipal People's Government concerning the arrangements in relation to the **Headquarters of the bank in Shanghai**.
- The creation of the NDB happened in the **context of a real and continuing power shift in the international system from the developed industrialized world towards emerging market economies**.

BRICS:

- BRICS is the **acronym coined to associate five major emerging economies: Brazil, Russia, India, China, and South Africa.**
- The BRICS members are known for their significant influence on regional affairs.
- The 1st BRIC summit was held in **Yekaterinburg, Russia** on 16 June **2009**.
- Since 2009, the governments of the **BRICS states have met annually at formal summits.**
- Russia hosted the most recent 12th BRICS summit on 17 November 2020 virtually due to the COVID-19 pandemic.

The term “BRIC” is believed to be coined in 2001 by then-chairman of **Goldman Sachs Asset Management**, Jim O’Neill, in his publication **Building Better Global Economic BRICs**.

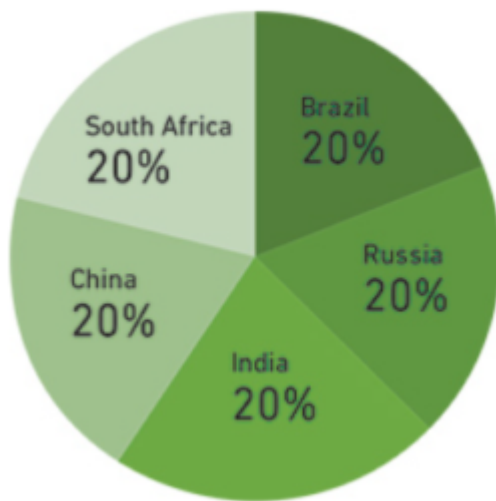
Composition of NDB and its funding:

- The NDB is governed by a **Board of Governors**. The Board comprises the finance ministers of the BRICS nations.
- The **voting power is based on each member’s shareholding** in the NDB. Currently, all the members have **equal voting rights**.
- **Membership to the Bank is open to all members of the UN** but the share of the BRICS nations can never be less than 55% of voting power.
- As of February 2021, the NDB was assigned an ‘AA+’ long-term and ‘A-1+’ short-term issuer credit ratings with a stable outlook by S&P Global Ratings.
- The President of the NDB is elected from among the member countries. There are four vice presidents who are from the remaining members.
- The **first President of the NDB** was India’s **K. V. Kamath**. The second and **current President is Brazil’s Marcos Prado Troyjo** (from 2020).

Funding:

- The **authorized capital for NDB is \$100 Billion** while **initial subscribed capital is \$50 billion**.
- **Initial subscribed capital was equally distributed among the founding members** i.e., \$10 billion each.
- Voting power of each member is equal to the number of its subscribed shares in capital stock.

Shareholding Structure of the NDB



NDB Vs ADB and NDB Vs AIIB

- The NDB's emerging business model has three distinctive features.
- It is symbolically significant that in the day-to-day management and governance of the bank, the five member states have an equal share.
- No single country has a veto in any form.
- The Bank is fully controlled by its members who all represent the borrowing countries.

Asian Development Bank:

- The **Asian Development Bank (ADB)** was visualised in the early 1960s as a financial institution that would be **Asian in character and promote economic growth and cooperation in one of the poorest regions** in the world.

- It has been chiefly concerned with herculean efforts to **eradicate extreme poverty** since its inception.
- It assists its members and partners by various instrumentalities like providing loans, technical assistance, grants, and equity investments to promote social and economic development.
- During the 1960s, ADB focused much of its assistance on food production and rural development.
- During the 1970s the key thrust area was energy.
- During the 1980s, the ADB brought out further innovation in its approach towards meeting the contextual and differential developmental requirements of the region.
- As of 31 December 2020, **ADB's shareholders consist of 49 developing and developed members within Asia and the Pacific region**, and 19 members from outside the region.
- Japan and the United States America are the largest shareholders with 15.6% stake each.

Asian Infrastructure Investment Bank (AIIB):

- The **Asian Infrastructure Investment Bank (AIIB)** is a multilateral development bank with **headquarters in Beijing, China**.
- Its mission is to **improve the economic and social outcomes in Asia**.
- Starting with 57 founding members, the bank now has 103 approved members.
- It focuses on **investment in sustainable infrastructure and developmental projects**.
- Membership to the bank is open to all members of the Asian Development Bank or the World Bank.
- AIIB membership is divided into regional and non-regional members, where regional members are those located within the areas classified as Asia and Oceania by the United Nations.
- The bank **also allows non-sovereign entities to apply for membership** provided their home countries are members.

- Although some analysts hypothesise that the Asian Infrastructure Investment Bank (AIIB) and the NDB would compete with one another, currently there is no evidence of competition among these institutions.
- Talking about the relations with AIIB, officials from the NDB's member states point out the difference in the member states of the NDB and AIIB as well as a potential to complement in working together to meet development and infrastructural needs.
- According to a representative of the Bank's management, the NDB and AIIB are sister institutions in many respects.
- These two banks have complementary mandates and different geographic focuses, with the NDB being more focused on BRICS countries.
- At the same time, there is a certain overlap between mandates of the NDB and the AIIB, as both of them are aimed at developing infrastructure and pay special attention to sustainable development.

Purpose of NDB:

- The purpose of the bank, as expressed in our articles, is to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, complementing the existing efforts of multilateral and regional development banks”.

NDB's importance for third world countries

The formation of New Development Bank (NDB) by the BRICS nation is because of the two main reasons.

Bridging the Funding Gap:

- Third world countries need billions of dollars for **development of social and economic infrastructure** and any new source of funding is always welcome.

- As per the estimates of World Bank, a \$1 trillion infrastructure investment “gap” exists in developing countries.
- In 2013, a McKinsey Global Institute report found that “globally, \$57 trillion in new infrastructure investment would be required in the period up to 2030, simply to keep up with projected GDP growth. This estimate suggests a requirement of \$3.2 trillion investment a year.”
- When **assessed against current infrastructure spend by all the multilateral development banks combined**, this **leaves a huge financing gap**.
- The NDB and other new institutions such as the AIIB are contributing to closing this funding gap.
- As opposed to being competitors or rivals, the World Bank and others are viewed as partners in development.

Avoiding Foreign Exchange Risks

- 27% of the **NDB’s project approvals are denominated in the local currencies of the respective borrowing members instead of the US Dollar**.
- The NDB is committed to develop and deepen local capital markets in its member states by providing loans denominated in local currency in addition to US dollar loans.
- This will **assist borrowing countries and clients to manage and avoid the foreign exchange risks inherent in MDB loans**.
- This reflects the Bank’s desire to address currency volatility risk and its detrimental impact on the creditworthiness of project cash flows.

Alternative for Loans Rejected by IMF/WB:

- The developing countries have relatively lesser role in the decision making in the major global financial institutions which are the International Monetary Fund

(IMF) and World Bank (WB).

- These institutions are dominated by the west in general and the United States in particular where developing countries have been demanding more democratization of the IMF and WB since long.
- The word 'new' in the New Development Bank is the testimony of the fact that BRICS nations want an alternative to the world financial order established by WB and IMF.

Mould your thought: Does New Development Bank (NDB) Compete or Complement with other regional and global multilateral development banks?

Approach to the answer:

- Introduction
- Discuss the evolution of NDB
- Discuss the need for an NDB (Problems of unequal representation, emerging economies etc)
- Discuss how the NDB helps the third world countries
- Conclusion