THE NEW DEVELOPMENT BANK: MOVING THE BRICS FROM AN ACRONYM TO AN INSTITUTION

TALITHA BERTELSMANN-SCOTT, CYRIL PRINSLOO, ELIZABETH SIDIROPOULOS, LESLEY WENTWORTH & CHRISTOPHER WOOD
SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

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The BRICS New Development Bank (NDB) is set to issue its first loans in the second quarter of 2016. The bank, the latest addition to the global development finance landscape, was initiated due to a number of factors in emerging economies. One of the key issues that emerging economies, including the BRICS group, struggle with is the slow pace of reform in existing global financial institutions to better reflect the current political and economic realities (which in some cases deviate significantly from when these organisations were created in the post-Second World War era). Emerging economies also suffer from serious infrastructure funding deficits, which can be addressed by drawing on the significant domestic savings across developing countries.

The NDB was thus born partly as a result of these factors. Since its conception in 2011 the bank has begun taking form, including finalising legal arrangements, assigning different roles and responsibilities among the five founding BRICS members, and setting up an office. Ahead of the extension of its first loans, some details have emerged on the bank's operations. This paper tracks the historical development of the NDB, investigates modalities around its operations, and looks towards the likely impact it will have in the development finance milieu.

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ACKNOWLEDGEMENT

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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<tr>
<td>ARC</td>
<td>African Regional Centre</td>
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<tr>
<td>CRA</td>
<td>Contingent Reserve Arrangement</td>
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<tr>
<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
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<tr>
<td>DFI</td>
<td>development finance institution</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>ICM</td>
<td>Interbank Cooperation Mechanism</td>
</tr>
<tr>
<td>IFI</td>
<td>international financial institution</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>NDB</td>
<td>New Development Bank</td>
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INTRODUCTION

The New Development Bank (NDB) was officially launched by the BRICS at its summit in Ufa, Russia in July 2015. It began its operations in Shanghai later that month, with the official opening of its headquarters in February 2016. In Ufa, the bank's Chief Executive, KV Kamath, announced that the NDB would aim to disburse by the second quarter of 2016.

The BRICS first conceived the idea of a new development finance institution (DFI) in 2011. Feasibility studies to set up such an institution were undertaken in 2012 and at the fifth BRICS Summit in Durban in 2013 the members agreed to set up the NDB. The following year, at the Fortaleza Summit, the BRICS members signed the Agreement on the New Development Bank, which saw the launch of the bank. At the same time, the Contingent Reserve Arrangement (CRA), a sister-initiative of the NDB that would offer a pool of financial resources to the BRICS in times of financial instability, was also established.

Various factors led to the conceptualisation of a new DFI among the BRICS members. These included growing frustration with the lack of transformation in traditional international financial institutions (IFIs), the need for more co-ordinated efforts among member countries, the need for infrastructure development within the five BRICS nations and other emerging markets, and the various national, geostrategic interests of the respective members.

The agreement signed at Fortaleza (July 2014) set out the purpose and structure of the organisation. The five founding members would each provide equal contributions to the bank's initial subscribed capital of $50 billion, and would have equal voting rights and responsibilities within the institution. The overarching goal of the NDB would be to 'mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries'. Since the signing of Fortaleza agreement it has emerged that financing renewable energy infrastructure projects will be a key focus of the bank, at least in its first round of loans.

There has been a great deal of interest surrounding the formation of the world's latest DFI, but information has not necessarily been forthcoming. The focus of this paper is to present an overview of the NDB, drawing largely on media reports, public lectures and interviews with officials to flesh out details. This paper will consider the historical development of the bank, as well as the geo-political drivers behind its establishment. The structure of the bank and its operations will also be considered, as will initial considerations of the impact the NDB is likely to have.

While it is generally agreed that the idea for such a bank arose in New Delhi, its exact origin is contested. It appears that December 2011 was the earliest mention of a possible BRICS fund, proposed by Samir Saran and Vivan Sharan of the Observer Research Foundation in an op-ed, although their suggestion seems to more closely mirror the CRA. The first news reports to specifically mention the possibility of the BRICS forming a development bank appeared in February 2012. These reports claimed that the driving force behind the idea was India, although Russian officials also claimed ownership of the original idea. The concept note for the bank’s establishment was drafted by officials in the Indian Ministry of Finance, and its contents were presented at both the BRICS Academic Forum of that year and the New Delhi Summit.

The New Delhi Summit was the fourth in the group’s history and only the second since the accession of South Africa. It represented a golden moment for the BRICS. At the time, the five BRICS countries were standout performers in a depressed global economy, while Europe and the US were still battling in the aftermath of the 2008–09 financial crisis. The group’s economic importance and growing geostrategic weight meant the New Delhi Summit carried significant clout, but also drew high expectations.

The New Delhi Declaration (March 2012) offered the first mention of the NDB, stating:

We have considered the possibility of setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. We direct our Finance Ministers to examine the feasibility and viability of such an initiative, set up a joint working group for further study, and report back to us by the next Summit.

This clause directly follows four sections critical of the two major traditional global economic governance bodies, namely the International Monetary Fund (IMF) and the World Bank.

The 2013 summit in Durban, South Africa moved the bank out of this exploratory phase and into more concrete planning, announcing an agreement in-principle on the NDB in the eThekwini Declaration:

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Developing countries face challenges of infrastructure development due to insufficient long-term financing and foreign direct investment, especially investment in capital stock. This constrains global aggregate demand. BRICS cooperation towards more productive use of global financial resources can make a positive contribution to addressing this problem. In March 2012 we directed our Finance Ministers to examine the feasibility and viability of setting up a New Development Bank for mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. Following the report from our Finance Ministers, we are satisfied that the establishment of a New Development Bank is feasible and viable. We have agreed to establish the New Development Bank. The initial contribution to the Bank should be substantial and sufficient for the Bank to be effective in financing infrastructure.

This was accompanied by a full statement announcing the intention to form the bank, as well as revealing discussions on the creation of a $100 billion CRA. The bank and the CRA were officially established the following year (2014) at the BRICS summit in Fortaleza, Brazil.

Over the following year, a president, vice-president and board members were appointed and construction of the bank headquarters on the 22nd floor of the China Financial Information Centre in Shanghai began. The bank’s Board of Governors met for the first time in Moscow in July 2015, on the sidelines of the group’s 2015 summit in Ufa. Following the summit, the Ufa Declaration, noting progress on the establishment of the bank, stated that ‘we expect the NDB to approve its inaugural investment projects in the beginning of 2016’.

The 2015 summit also witnessed the announcement of the Memorandum of Understanding on Cooperation with the New Development Bank – an agreement among the development finance institutions from each of the BRICS countries to work with the NDB. The five banks – Brazil’s Banco Nacional de Desenvolvimento Econômico e Social, Russia’s Bank for Development and Foreign Economic Affairs (Vnesheconombank), India’s Export-Import Bank, China’s China Development Bank Corporation, and South Africa’s Development Bank of Southern Africa – have a history of co-operation that dates back to the Sanya Summit in 2011.
In the first quarter of 2016, in the run-up to the NDB extending its first loans, there were some additional developments. In January the first capital contributions were made by all members; the legal arrangements for the hosting of the bank's headquarters in Shanghai were finalised in February; and the bank launched a massive recruitment drive in March.

**DRIVERS**

**The BRICS as a new political and economic force**

To understand the origins of the NDB, it is important to explore the background to the establishment of the BRIC(S) itself and its political and economic drivers. Ultimately, the NDB is as much a product of real economic concerns around global power distribution as it is about political and geopolitical rationales.

While the BRICS's initial focus when it was established in 2009 was on improving global economic governance in response to the 2008 financial crisis, over the last seven years BRICS co-operation and dialogue have moved into politico-security areas. At just under 1 000 words in length the communiqué of the founding summit in 2009 understandably focused on the global financial crisis and the imperative of a reformed financial and economic architecture. By 2012 the communiqué was four times longer and its focus spanned economic and financial issues, Afghanistan, terrorism and the conflict in the Middle East. The 2015 Ufa communiqué was even broader and longer, addressing the various conflicts in Africa, a nuclear-free Middle East, the world's drug problems, cybercrime and Internet governance, and climate change and the Sustainable Development Goals. There is very little that is being discussed globally that has been excluded from these communiqués. While it is arguable that such an agenda is far too ambitious to be implemented effectively, it nevertheless illustrates the global political character of this new formation, which invariably also defines the rationale behind the institutions it seeks to establish.

Although many in the West have decried the formation for its seeming incoherence – a mix of different political and economic systems and variable power, influence and core interests – others see it as replacing one form of dominance with another; after all, these five states can be defined as the ‘new’ powerful (with China as *primus inter pares*). Some (including the BRICS members themselves) consider them a force for positive global change.

Whatever the truth might be (and the global arena is too fluid to know yet), the BRICS members are aspiring global leaders and agenda setters, both as a collective and individually. They are potentially an alternative political formation to the US/G7. Their objective is to work towards a multipolar world where Western dominance is reduced. The ability of the BRICS (particularly China) to weather the economic storms of 2007/08 created a narrative of emerging economy ‘invincibility’. These views have been tempered more recently by the economic difficulties of all of the BRICS members, with the exception of India. However, their economic and demographic size as a whole means that collectively they are a voice to be reckoned with in global forums.
This geostrategic background was interlinked with the BRICS’s growing dissatisfaction with the lack of transformation in traditional IFIs, and the significant need for infrastructure financing development within the five BRICS nations, as well as other emerging markets. The members hoped that in establishing this bank they would show the world that they would do business differently. For South Africa, for example, the issue of the equitable allocation of votes among the five was important in this discussion. In that sense the bank is quite different. According to Kamath, the NDB will attempt to distinguish itself from traditional DFIs through the way it operates; speeding up operations and lending, raising capital from emerging markets, lending in local currencies to avoid exchange risks, and working in partnership with lenders rather than perpetuating the traditional lender–borrower relationships often found with other DFIs.11 However, whether or not the bank will be able to carry through on these intentions and how different it will be in the way it identifies and funds projects will only become apparent once it is fully operational. While it can be considered technical, this approach is in fact highly geopolitical too in its symbolism.

GLOBAL ECONOMIC GOVERNANCE

In the global economic governance area the NDB, the CRA and currency swaps are outcomes of the BRICS’s intention to reduce reliance on the IMF and the World Bank and the dominance of the US dollar as a reserve currency. They form part of a number of initiatives in the financing field often spearheaded by China.

The most recent example is the Asian Infrastructure Investment Bank, but China has also launched smaller funds such as the Silk Road Fund ($40 billion) to provide funding for its ambitious ‘One Belt, One Road’ initiative.

Clearly the appearance of new funds and DFIs reflects the growing financial resources of emerging powers, most notably China. It is also illustrative of a growing frustration with the slow pace of reform in the Bretton Woods institutions, on the one hand, and a desire by these same powers to establish new bodies whose governance and focus areas can be determined by them. The NDB of the BRICS fits that mould. At a political level the NDB’s establishment has also helped the BRICS members cement the ties that bind them as a grouping. Thus it has helped to confirm that the grouping is more than a transient phenomenon and that it can mobilise its own development financing to meet the significant infrastructure needs of its members and other developing economies.

The Bretton Woods institutions were created after the Second World War, reflecting the political and economic power realities of the time. These structures no longer reflect contemporary global economic or political realities (illustrative example provided in Table 1). For example, up until December 2015, when reforms were initiated in the IMF, France had more influence than China, Belgium had more than Brazil, Saudi Arabia more than Russia, and Canada more than India. Efforts to update these quotas had been blocked

The struggles at the IMF illustrate a broader reluctance among established powers to adjust global institutions to the new reality of an increasingly influential group of emerging economies.

Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP as % of world (2014)</th>
<th>% vote in IMF</th>
<th>% vote in World Bank IBRD*</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>22.37</td>
<td>16.74</td>
<td>15.85</td>
</tr>
<tr>
<td>China</td>
<td>13.30</td>
<td>3.81</td>
<td>4.42</td>
</tr>
<tr>
<td>Japan</td>
<td>5.91</td>
<td>6.23</td>
<td>6.84</td>
</tr>
<tr>
<td>Germany</td>
<td>4.95</td>
<td>5.81</td>
<td>4.00</td>
</tr>
<tr>
<td>UK</td>
<td>3.78</td>
<td>4.29</td>
<td>3.75</td>
</tr>
<tr>
<td>France</td>
<td>3.63</td>
<td>4.29</td>
<td>3.75</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.01</td>
<td>1.72</td>
<td>2.24</td>
</tr>
<tr>
<td>Italy</td>
<td>2.75</td>
<td>3.16</td>
<td>2.64</td>
</tr>
<tr>
<td>India</td>
<td>2.65</td>
<td>2.34</td>
<td>2.91</td>
</tr>
<tr>
<td>Russia</td>
<td>2.39</td>
<td>2.39</td>
<td>2.77</td>
</tr>
<tr>
<td>ROW**</td>
<td>35.25</td>
<td>49.22</td>
<td>50.83</td>
</tr>
</tbody>
</table>

* International Bank for Reconstruction and Development
** rest of the world


While the CRA\(^{13}\) may be a response to the stalemate at the IMF, the NDB is primarily a response to the continued dominance of traditional powers in DFIs. As Table 2 shows,

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\(^{13}\) The CRA is not meant to completely divorce the BRICS (or other countries) from the IMF, but instead to provide an initial first line of support. South Africa can, for example, access 130% of the funds it contributes to the CRA (ie, $6.5 billion).
the US and Japan hold the largest voting share in both the World Bank and the Asian Development Bank, and the second and third largest share in the African Development Bank (AfDB), behind Nigeria.

<table>
<thead>
<tr>
<th>Decision-making</th>
<th>World Bank</th>
<th>African Development Bank</th>
<th>Asian Development Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest shareholders (%)</td>
<td>Proportional</td>
<td>Proportional</td>
<td>Proportional</td>
</tr>
<tr>
<td>US</td>
<td>15.9</td>
<td>Nigeria*</td>
<td>8.87</td>
</tr>
<tr>
<td>Japan</td>
<td>7.37</td>
<td>US</td>
<td>6.53</td>
</tr>
<tr>
<td>China</td>
<td>4.76</td>
<td>Japan</td>
<td>5.46</td>
</tr>
</tbody>
</table>

* Other key members of the AfDB include Egypt (with 5.42% of votes), South Africa (5%), Algeria (4.19%) and Germany (4.11%)


Institutionalising the BRICS, via the creation of a bank and other financial instruments such as the CRA and currency swaps, provides vehicles through which these states can make their own decisions around project financing without being held hostage to the codes and voting arrangements of existing DFIs over which they have limited influence. In addition, the NDB provides the group with a shared mechanism to convert discussions into action, essentially turning the BRICS from merely an acronym and a collection of random thoughts into a more institutionalised form of co-operation.¹⁴

The investment bank that gave birth to the concept of the-then BRICs, Goldman Sachs, has since closed its dedicated BRIC fund, following a period of sluggish economic growth in most of these countries.¹⁵ However, while growth in the BRICS countries has undoubtedly slowed down, Brazil, Russia, India and China remain within the top 10 countries by GDP globally, representing more than 25% of global GDP. The BRICS still has more than 40% of global GDP.

While growth in the BRICS countries has undoubtedly slowed down, Brazil, Russia, India and China remain within the top 10 countries by GDP globally, representing more than 25% of global GDP.

the global population and covers more than one-quarter of the world’s land territory. And while one of the key criticisms against the group has been the disparities in its members’ respective national political and economic development, the establishment of the NDB has collectively illustrated their individual resolve to become more influential in global affairs. The creation of the NDB gave impetus to pursuing this agenda and will continue to encourage and drive the BRICS members.

**Economic Drivers**

The establishment of the NDB was also driven by two key economic factors – the need for infrastructure investment in BRICS and other developing countries and the availability of domestic savings across emerging markets. Existing multilateral development banks were considered to be severely undercapitalised and lacking in ambition.

Alok Sheel, the drafter of the concept paper in the Indian Finance Ministry, identified three reasons that made such an initiative necessary at the BRICS Academic Forum in New Delhi in 2012:

- Emerging economies need huge investments in infrastructure to sustain large economic growth rates.
- There had been much talk before the crisis of a savings glut in emerging economies. This needed to be redirected into investment.
- Addressing demand imbalances would increase demand in parts of the world that were in surplus and channel savings into the real economy.

He also posed a rhetorical question – could such a bank play the role that the World Bank had played after the Second World War?

It has been estimated that global infrastructure funding needs amount to more than $1 trillion per year until 2020. This challenge is more pronounced in Africa, where the AU’s Programme for Infrastructure Development in Africa estimates that significant shortfalls exist with regard to energy infrastructure (60% of total financing needs), followed by transport (37%) and water (2.5%).

The massive infrastructure funding needs are contrasted with the significant reserves of global savings, estimated at $17 trillion in 2012. Of this global share, the bulk of savings

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17 Sidiropoulos E, ‘BRICS Academic Forum, personal notes’, New Delhi, 6 March 2012.
18 Ibid.
are located within developing countries, with savings from the BRICS more than that of the US, Japan and EU combined.\textsuperscript{21} Initial consultations done by the NDB in India, China and South Africa indicate that there are considerable funds to draw from without crowding out the domestic markets.\textsuperscript{22} The key challenge lies in harnessing these funds and applying them towards infrastructure development. As Qobo and Soko\textsuperscript{23} suggest, ‘[The NDB] is likely to structure its financing modalities in a blended manner to bring together private and public sources of funding, or in a manner similar to syndicated finance, mobilising a range of financing sources: private equity funds, sovereign wealth funds and development finance.’ This notion was supported by Kamath, who suggested that ‘there will be both equity raising by [the NDB], which is from the member-states, and debt raising by [the NDB] from the markets’.\textsuperscript{24}

\textbf{STRUCTURE}

The bank’s structure is outlined in the ‘Agreement on the New Development Bank’, including details on membership, voting, capital, shares, organisation and management. More details have emerged in news reports, official announcements, public engagements and the recent strategy document ‘The Strategy for BRICS Economic Partnership’.\textsuperscript{25}

\textbf{CAPITAL AND MEMBERSHIP}

The NDB will have a maximum authorised capital of $100 billion, with an initial subscribed capital of $50 billion. This initial capital will be fully funded by the five BRICS members, with each to contribute $10 billion. Of this $10 billion, each will have to physically pay in $2 billion, with the rest callable only if the bank needs it. It is extremely uncommon for banks to call on their capital, with the AfDB, for example, having never issued a call. The $2 billion in capital will be paid over a period of seven years, with an initial instalment of $150 million, and subsequent instalments growing incrementally.

In November 2015 the South African Parliament passed the New Development Bank Special Appropriation Bill, which provided for South Africa’s first contribution.\textsuperscript{26} At the same time, in his 2016 budget speech South African Finance Minister Pravin Gordhan

\textsuperscript{22} Kamath KV, op. cit.
assured South Africans that the balance of the capital contribution had been budgeted for. 27 All five members provided their initial capital contribution simultaneously in January 2016. 28 The initial financial position of the bank is outlined in Table 3.

<table>
<thead>
<tr>
<th>Capital ($ billion)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Authorised capital: The total amount of capital the bank is authorised to raise through share issues</td>
</tr>
<tr>
<td>50</td>
<td>Subscribed capital: The total amount of capital that has been issued</td>
</tr>
<tr>
<td>10</td>
<td>Callable contribution: The amount each BRICS country has pledged to the bank</td>
</tr>
<tr>
<td>2</td>
<td>Paid-in contribution: The amount each BRICS country will physically pay to the bank, with the rest made available only if the NDB calls on it</td>
</tr>
</tbody>
</table>


Like all development banks, the NDB will use this capital base to raise additional funds on global credit markets. The bank’s gearing ratio – the proportion between capital and borrowed funds – will be set at the global norm of 1:1, meaning that borrowed funds cannot exceed the bank’s capital base.

The BRICS countries will be the only members during the NDB’s initial phase, with each BRICS country having equal voting power in the decision-making structures of the bank. The remaining $50 billion will be issued to other members, with membership open to any UN member. The modalities of this process are still under discussion, but are likely to become clearer towards the end of 2016. 29 Non-founding members will face a number of restrictions on their voting power:

- the five founding members can never have less than 55% of total voting share;
- non-borrowing members (ie, developed countries) outside the founding five can never have more than 20% of total voting share; and
- no individual member outside the founding five can have more than 7% total voting share.

In effect this means that the BRICS will always maintain majority control and that developed countries are unlikely to gain more than 20% voting power. Only developing economies can borrow from the bank.

A number of countries have indicated their willingness to join the bank, including Iran, Bangladesh and Venezuela. A more complete indication of who might join the bank can be found in the Chinese-led Asian Infrastructure Investment Bank (AIIB), which is likely to have similar membership. The AIIB’s membership base is illustrated in Figure 1. The most notable omission from this membership is the US, which strongly opposed the AIIB and publicly rebuked the likes of the UK for joining the bank. Japan has also not applied for membership.

**FIGURE 1** MEMBERSHIP OF THE AIIB

![Image showing membership of the AIIB](http://www.maliyye.gov.az/en/node/1833)


LEADERSHIP

As each NDB member will contribute equal amounts of capital to the bank, so responsibilities are equally shared among members. Each member country will appoint one representative (and one alternate) to the Board of Governors. Each governor will exercise voting power in accordance with his or her country’s share of voting capital. Governors must be ministerial-level appointments, and in the case of the five BRICS will consist of the respective finance ministers. The board will have ultimate authority over the activities of the bank, and will meet at least once a year. Russian Finance Minister Anton Siluanov will be the first chairperson of the board.

The Board of Directors will make decisions on an operational basis, including approving the bank’s budget. It will consist of 10 members, five of whom will be appointed by each BRICS country, with the remainder decided by a vote of the Board of Governors. The Brazilian representative will be the first chair of the Board of Directors. South Africa’s representative on the board will be former Reserve Bank governor Tito Mboweni.

<table>
<thead>
<tr>
<th>Country</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Board of Directors</td>
<td>Board of Governors</td>
<td>President of the NDB</td>
<td>Headquarters of the NDB</td>
<td>African Regional Centre</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Decisions on an operational basis, including approving the bank’s budget</td>
<td>Authority over the activities of the bank</td>
<td>Day-to-day operations of the bank</td>
<td>Housing of the bank’s main operations</td>
<td>Housing of the bank’s first regional centre</td>
</tr>
<tr>
<td>Representative</td>
<td>Luis Antonio Balduino Carneiro</td>
<td>Finance Minister Anton Siluanov</td>
<td>KV Kamath</td>
<td>China Financial Information Centre, Shanghai</td>
<td>TBC, Johannesburg</td>
</tr>
</tbody>
</table>


Day-to-day operations of the bank will be undertaken by a five-person executive, consisting of one president and four vice-presidents, each appointed by one of the five BRICS countries. India has nominated the first president. Details of the appointed members of the executive can be found in Table 5.


Table 5

<table>
<thead>
<tr>
<th>Position</th>
<th>Responsibilities</th>
<th>Name</th>
<th>Country</th>
<th>Previous position</th>
<th>Previous sector</th>
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<td>President</td>
<td>• Chief of Operating Staff</td>
<td>KV Kamath</td>
<td>India</td>
<td>Chairperson, ICICI Bank</td>
<td>Private finance</td>
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<tr>
<td>VP * – Chief Financial Officer</td>
<td>• Treasury and portfolio management</td>
<td>Leslie Maasdorp</td>
<td>South Africa</td>
<td>President, BOA Merrill Lynch Southern Africa</td>
<td>Private finance</td>
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<td></td>
<td>• Finance budgeting</td>
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<td>• Accounting functions</td>
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<td>VP – Chief Risk Officer</td>
<td>• Economic research</td>
<td>Paulo Nogueira Batista</td>
<td>Brazil</td>
<td>Brazil Special Representative to the IMF</td>
<td>Government</td>
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<td>VP – Chief Administration Officer</td>
<td>• Human resources</td>
<td>Vladimir Kazbekov</td>
<td>Russia</td>
<td>Director of External Relations, Vnesheconombank</td>
<td>Development finance</td>
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<td>• Information technology</td>
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<td>• Administration</td>
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<td></td>
<td>• Corporate communications</td>
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<tr>
<td>VP – Chief Operations Officer</td>
<td>• Project lending</td>
<td>Zhu Xian</td>
<td>China</td>
<td>Vice-President, World Bank</td>
<td>Development finance</td>
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<td></td>
<td>• Operational compliance</td>
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<td>• Project procurement</td>
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<td></td>
<td>• Regional offices</td>
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* vice-president


Specific positions for each of the nominated vice-presidents and their respective responsibilities were finalised at a Board of Directors meeting in November 2015. The next steps will include growing the bank’s current staff complement. Initially the bank will reach out to other development banks and local banks to support this process. In South Africa, officials from key institutions such as the Development Bank of Southern

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Africa (DBSA) and government departments such as the Department of International Relations and Cooperation have been seconded to the NDB. A formal recruitment drive was also initiated in March 2016, with key positions (administration, corporate, legal counsel, compliance, finance, budget and accounting, front office of the president, human resources, project financing, risk management, and treasury and portfolio management) being advertised on the bank’s website. It will initially recruit only nationals from BRICS countries and aims to recruit 100 people in 2016.\(^3^4\)

**OPERATIONS**

The bank’s stated aim is to ‘mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development’.\(^3^5\) While the concept of infrastructure is fairly straightforward, ‘sustainable development’ is broad in scope. For example, the UN’s Sustainable Development Goals cover a broad range of issues, including food security, health, education, equality, sanitation, climate change and peace. In an attempt to narrow the scope and allude to some of the related projects that the NDB might engage in, Vice-President Leslie Maasdorp noted in an interview that the NDB was ‘going to be much more focused on sustainability, on green finance, on green technologies, on renewable energy’.\(^3^6\)

Oxfam has stressed the need for the NDB to ensure sustainable development through ending deprivation and building human capacity, while promoting the responsible use of natural resources.\(^3^7\) Within this context it has been suggested that investments should focus on rural infrastructure, irrigation and electrification.\(^3^8\) Others have suggested that the bank’s approach to sustainability should take into account not merely the monetary feasibility of projects but also the social returns when engaging in financing activities.\(^3^9\)

In line with these proposals, Kamath said\(^4^0\)

\[
\text{as a banker myself I can say that a project has to be bankable. By bankable I mean that it should be capable of returning the borrowing that has been made and it has to earn return on top of that. The return on top of that can be in various ways. It can be just the interest that is serviced on the loan that is borrowed. Actually it has to be more than that. There has to be return to other stakeholders. So you do a project, which let’s say [is] socially relevant,}
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38 Ibid., p. 11.

39 ORF, op. cit., p. 3.

40 Filimonov M & D Medvedenko, op. cit.
with a social return that happens as a result. So we need to make sure that those returns happen and people get the benefit from this. We will look at return in a holistic manner, other than the narrow banker's view – 'I get my capital back, I get interest, okay, I am happy'. No, beyond that it has to have relevance to the country that has particular [interest in the] project that we are assisting.

Projects

While the bank has sent a range of signals regarding its operations, no projects have been officially announced. Each of the five members was requested to nominate four projects for potential funding for the first tranche of extensions in April 2016. At the launch of the NDBs headquarters in late February 2016, NDB Vice-President and Chief of Operations Officer Xian Zhu noted that ‘each founding member has at least one project on my list. However, the projects are still in the preparatory stage and I'm not 100 percent certain that each of the projects will be submitted to the board of directors in April because of technical problems and approval procedures.’

Numerous reports from high-ranking officials in the bank and respective governments have indicated that initial projects in each country will focus on renewable energy infrastructure. At the launch of the bank's headquarters, Zhu also noted, 'The projects proposed by the five members will focus on sustainable energy, including wind power, solar power and hydro power. But nuclear energy is excluded. Each of the projects will be valued at more than 100 million US dollars. Some of the projects will probably be granted loans in local currencies or renminbi, instead of US dollars.'

The projects submitted by South Africa's Working Group to the bank included the Grand Inga Hydroelectric Dam, the Lesotho Highlands water project, transmission projects related to Eskom's Renewable Energy Independent Power Producer Programme and the Mokolo Phase 2 water pipeline project, suggesting that (at least initially) big, traditional infrastructure projects are likely to attract immediate attention from the NDB.

During the initial period, the bank is likely to approach its operations relatively conservatively, focusing on:

- infrastructure projects;
- projects that are in or immediately connected to the five BRICS countries; and
- projects that are viable and ready.

This will, for example, mean that projects such as those related to water infrastructure (which typically yield low returns over a long period) or high-risk projects, such as those related to improving access to finance, may not receive initial focus. The primary aim of the bank during the first few years is likely to be to build credibility, which means combating negative perceptions that it will be an overtly political machine that might lend irresponsibly and make financially unsustainable investments. It is important to recall that while the bank might have been conceptualised by politicians, its operations have largely been dictated by finance ministers and central bank governors, who tend to be more prudent. The NDB’s desire to combat perceptions of overt political influence is likely to drive a cautious start to the bank’s life.

Innovation appears to be a key theme among senior officials within the bank. Maasdorp, in comments at a recent conference in Shanghai, described the bank as ‘a start-up’ that needs to be imbued with the daring creative spirit of young dynamic companies. It has been suggested that the NDB’s late entrance into the development finance arena allows it to ‘leapfrog’ traditional modes of operation and instead, from the outset, engage in new technologies such as Internet finance or crowdfunding. Sources from within the bank give credence to such recommendations, suggesting that they want to ‘embrace new technology in a very aggressive way’.

Another key theme related to operations that has been stressed by the NDB is the requirement to work quickly and efficiently. Countries and projects cannot afford to be subjected to extensive procurement periods. The NDB will draw on the services and support of its Interbank Cooperation Mechanism (ICM) partners and its regional centres (eg, the African Regional Centre, or ARC) to speed up processes. It will aim to reduce the project approval cycle from typically around 30 months to six months. This will largely be done by employing the respective countries’ procurement processes rather than the institution-specific procurement processes that other DFIs often employ.

The NDB has indicated that it will be willing to operate in some areas that have proven controversial for traditional development banks. It will not place political conditions on its lending, allowing it to more easily assist development in controversial regimes. The bank has also made it clear that it will be willing to support large hydroelectric dams and coal-fired power stations, two controversial projects for organisations such as the World Bank or the US Exim Bank, which has shifted its focus away from supporting coal plants since 2013. This raises questions about the ‘sustainable development’ dimension of the NDB’s mandate.

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45 ORF, op. cit., p. 4.
47 Kamath KV, op. cit.
48 Malcomson D, op. cit.
49 Vumendlini-Schalk V, op. cit.
The NDB will co-operate with other DFIs, including the World Bank. While (political) officials are keen to portray the NDB as an ‘alternative’ to Western-dominated institutions, those from within the bank rather suggest a relationship of co-operation, at least initially. Commitment from the World Bank was further signalled by its president, Jim Yong Kim, who attended the BRICS summit in Fortaleza to, among others, discuss the NDB.

While the NDB will initially focus on funding projects in BRICS member states, African projects will be managed through its ARC. Preparations for the establishment of this centre are already underway. Zhu will provide oversight of the ARC’s operations. African countries often require assistance with the development of cross-border projects, as well as throughout the various stages of project implementation. The ARC will play a key supportive role in this regard.50

There has been a keen interest from the NDB to co-operate with other DFIs. Maasdorp recently noted that ‘rather than setting up a rival institution, we consider the NDB as being complementary to the existing financial architecture’.51 A memorandum of understanding on co-operation between the BRICS’s national DFIs and the NDB has already been signed. In turn, other key IFIs have welcomed the entrance of the NDB to the DFI market, with Kim noting that ‘we [the World Bank] have actually no choice but to welcome any new entrants, because every new entrant will help us battle poverty and help us to share prosperity’.52 It is expected that the bank will in due course co-operate with DFIs, development partners and other stakeholders in Africa, given that it will also establish the ARC. However, provided that the initial focus for development interventions will be on BRICS member states, immediate co-operation will likely be with nominated national DFIs.

According to the articles establishing the bank, special funds can be set up to serve a specific purpose. The NDB has already noted that a special fund will be set up to focus on project preparation and implementation. This dedicated fund will be supported by all member states, with China being the biggest contributor.53 However, as noted in the comparison of ICM members, this is not an area of special expertise of other national DFIs. Instead, the DBSA is well placed to contribute in this regard. Above and beyond this already identified special fund, other particular areas of intervention could be located where the DBSA could leverage its specific experience.

50 Kamath KV, op. cit.
Currency

The operating currency of the NDB has been a subject of much popular discussion. China, in particular, is undertaking a multi-faceted effort to expand the role of the Chinese yuan renminbi in global trade. The cornerstone of these efforts is the signing of multiple currency swap agreements, but supplementary efforts include China’s conducting more of its development co-operation efforts in the yuan. The short-term targeted outcome of these efforts was for the yuan to be added to the basket of currencies that underpin the IMF’s Special Drawing Rights. The yuan was added to the IMF’s basket of currencies in December 2015. Kamath indicated that the bank would look to extend loans in BRICS countries in local currencies. By doing this the bank would reduce the significant challenge of currency fluctuations and exchange rate risks. Generally speaking, denominating activities in a currency other than the dollar are likely to increase transaction costs, resulting in marginally higher interest rates. Nevertheless, the NDB is confident that the higher interest rates will be mitigated by avoiding the significant costs associated with currency fluctuations.54

Potential Impact

A number of factors are likely to influence the impact that the NDB will have. Firstly, the DFI landscape is already crowded, with more than 140 DFIs operating in Africa alone.55 However, among these DFIs there are differences in geographic scope of operations (national, regional, global), capital size (eg, the NDB is more than 60 times bigger than the DBSA) and sector of operations (sector-specific DFIs, import–export banks, etc.). Thus, despite a seemingly crowded milieu, this is not necessarily an issue for the NDB.

Secondly, the NDB will be limited by its authorised capital. The $100 billion authorised capitalisation puts the bank on par with numerous regional development banks, such as the AfDB, but a substantial way behind the World Bank (See Table 6). This ultimately limits the reach of the NDB. It should also be noted that the bank’s capital contributions will be paid by the members over the next seven years, placing a limit on the bank’s lending in the initial phases, at least while membership is still limited to the BRICS countries.

However, as previously noted, the world would require more than $1 trillion a year for the rest of this decade to meet the existing infrastructure financing demand. At the same time, it is estimated that the corresponding gap in Africa is nearly $100 billion annually, of which less than half is met through financing from governments, development partners and the private sector, with the balance of nearly $50 billion left unfinanced annually.56

54 Kamath KV, op. cit.
While the NDB certainly has the scope to contribute to reducing this deficit, it is still not possible to eliminate it completely.

### Table 6: Comparison Between the NDB and Other DFIs

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<tr>
<td>Subscribed capital ($)</td>
<td>$50 billion</td>
<td>$223 billion</td>
<td>$94.4 billion</td>
<td>$162 billion</td>
<td>$50 billion</td>
</tr>
<tr>
<td>Authorised capital ($)</td>
<td>$100 billion</td>
<td>$280 billion</td>
<td>$100 billion</td>
<td>$164 billion</td>
<td>$100 billion</td>
</tr>
<tr>
<td>Gearing ratio</td>
<td>Unknown</td>
<td>1:1</td>
<td>1:1</td>
<td>1:1</td>
<td>1:1</td>
</tr>
<tr>
<td>Number of members</td>
<td>5</td>
<td>188</td>
<td>80</td>
<td>67</td>
<td>57</td>
</tr>
<tr>
<td>Decision-making</td>
<td>Democratic</td>
<td>Proportional</td>
<td>Proportional</td>
<td>Proportional</td>
<td>Proportional</td>
</tr>
<tr>
<td>Largest shareholders</td>
<td>BRICS</td>
<td>US, Japan, China</td>
<td>Nigeria, US, Japan</td>
<td>Japan, US, China</td>
<td>China, India, Russia</td>
</tr>
<tr>
<td>Region of operations</td>
<td>Developing world</td>
<td>Developing world</td>
<td>Africa</td>
<td>Asia</td>
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In many developing countries, and especially in Africa, one of the bigger challenges is the lack of bankable projects. Often the costs involved in developing viable projects, with the various financial, environmental and social assessments involved, could be up to 10% of total project costs, and the preparation can take anywhere between five to 10 years to complete.\(^{57}\) The situation is even more complex for cross-border projects where multiple stakeholders are involved. The NDB has shown a great deal of interest in addressing these challenges (specifically in Africa through the ARC) and this is an area where significant inroads could be made.

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Lastly, the NDB has the potential to influence other DFIs if it is able to drive innovation in development finance and bring new approaches to this environment. This is a clearly stated aim of the bank. However, its level of innovation can only be gauged once it is fully operational.

**CONCLUSION**

The NDB has managed to go from being a concept to becoming a reality and extending loans within five years, which is a significant achievement. The set-up of the bank was driven by a number of factors, including the BRICS's dissatisfaction with the pace of reforms in existing IFIs and domestic economic factors, such as the need for infrastructure financing combined with the significant domestic savings that could be applied to meet this need.

As the bank is gearing up to extend its first loans in the second quarter of 2016, it has become clear that a number of characteristics will define the bank's approach. These include a focus on renewable energy infrastructure (at least in the first round of loans); on bringing new and innovative ideas to the fore; on speeding up operations; and on co-operating rather than competing with existing DFIs.

While the NDB's likely impact on infrastructure financing is difficult to assess at this early stage, it is clear that both challenges and opportunities exist for the bank. For example, while its capitalisation limits its scope, the infrastructure financing deficit is so enormous that any additional funding would assist in decreasing the gap. And while it is unclear at this point what innovative methods the bank will look to introduce, there is certainly scope to influence other DFIs.
SAIIA’S FUNDING PROFILE

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