BRICS’S NEW DEVELOPMENT BANK (NDB): SHIFTING GEAR FROM AN ORGANISATION TO DEVELOPMENT BANK

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Abstract:
In a highly volatile business environment the internationalization of banking is a major issue of the international economy of the business. However, minor number of researchers has indulged to the conceptual role of 'international banking'. In this light, this paper documents to evaluate and study the objective, functions and role of the BRICS New Development Bank (NDB) as an organization or financial institution in international relations. The major question is whether emerging states, fast economic growth and interest for a multiple international system and antipathy against the US lead unipolar international system and World bank and International monetary fund are factors enough to make BRICS and BRICS new development bank a coherent and relevant international factor. It highlights the complementary role that such a bank would play with existing development banks and shows its importance for enhancing the influence of BRICS and other developing countries in the international development architecture.

Key Words: Functions, Role and Project Funding of New development bank

Introduction:
The term BRIC (BRAZIL, RUSSIA, INDIA and CHINA) firstly coined by chief economist of Goldman Sachs (Investment Banker) in year 2001. In a paper titled “Building better economic BRIC’s” the term specially focus on four emerging economy which are culturally, geographically and demographically disparate. These communities first time they met in New York as a group in year 2006. In year 2009 South Africa join BRIC communities. The new name therefore BRICS (BRAZIL, RUSSIA, INDIA, CHINA and SOUTH AFRICA) it’s a symbol of super power communities. The tag line of BRICS is “Zero poverty, Zero unemployment and Zero net carbon”. The NDB members represent 42 percent of world population, 27 percent of the global surface area and accounting for over 20% of the Global GDP (Figure 1).
The last two decades have witnessed the rise of several countries in the South, with four BRICS countries – Brazil, Russia, India and China – figuring in the elite club of top ten economies in the world. Despite this, the existing international financial architecture continues to be dominated by traditional Western powers and has failed to heed the call of emerging and developing economies for a fair representation and just monetary system, which serves the interests of all countries and supports their development. It is, therefore, no surprise that, despite having roots in the 1960s, the notion of South-South development cooperation has been gaining momentum recently. For instance, the ADB and the InterAmerican Development Bank (IDB) forged a partnership in 2009, and have been sharing knowledge and technical assistance between the Asia-Pacific and Latin America (ADB and IDB 2013). While making the case for a better representation of the South in global governance, UNDP’s Human Development Report 2013 – The Rise of the South: Human Progress in a Diverse World – highlights potential sources of development financing within the South itself.

The BRICS have decided to take South-South development co-operation to a whole new level. In March 2013 they announced their intention at the 5th BRICS Summit in Durban to establish a New Development Bank, unofficially referred to as the BRICS Development Bank (BDB), ‘for mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries’ in order ‘to supplement the existing efforts of multilateral and regional financial institutions for global growth and development’.

At their 1st Summit in Yekaterinburg in June 2009, the BRICS had started out with a commitment to ‘advance the reform of international financial institutions’, which reflects changes in the global economy. However, by the 4th BRICS Summit in New Delhi in March 2012, they came to realise that a development bank of their own is ‘a fine idea whose time has come’, and tasked their respective Finance Ministers to prepare a feasibility and viability report for the BDB, based on which came its announcement at the 5th BRICS Summit. The BDB is poised to be launched at the next BRICS Summit in Fortaleza, Brazil in March 2014 and become operational by 2015.1 At the time of inception, it was decided that the NDB, will have an authorised capital of $100 billion. It would begin with $50-billion subscribed capital, split equally among the BRICS countries. It would scale up later by inducting more countries as members and raise resources from the market. In addition to the bank, the BRICS grouping also announced setting up of a financial safety net (with an initial size of US$ 100 billion) through a Contingent Reserve Arrangement (CRA) amongst BRICS countries aimed at addressing short-term liquidity pressures, and strengthening existing international arrangements as an additional line of defense. The CRA is mooted to pool reserves based on individual contributions from China ($41bn), Brazil, India and Russia (US$ 18bn each) and South Africa ($5bn).The membership of the NDB has been kept open to borrowing and non-borrowing countries which are UN members. However, admission of new members has been subject to terms and conditions set in the Board of Governors by a special majority.

The NDB would use US dollar as the default currency for raising funds from global markets as well as when lending to various countries, however it would likely to give loans in local currencies to India and China. Exceptions are also to be made depending on the desire for local currency loans among member countries. In the process of operationalising the NDB, its board of directors met on November 20, 2015 to discuss and frame draft lending, borrowing and environmental policies for the bank before it commences operations in early 2016. These norms would be ratified by the board of governors in March-April, 2016.2
Why a BRICS Development Bank?

1. Lack of fair representation in existing MDBs / IFIs:
Several calls and efforts by emerging economies to reform the international financial architecture in the context of the altered global dynamics have failed to yield substantial and satisfactory results. The major donor countries led by the US and EU still make crucial decisions that range from restructuring the economy of borrowing countries to approving development loans, grants, etc.

2. Lack of adequate development finance:
The existing institutions are unable to meet the development financing needs of emerging and developing economies. Infrastructure finance from MDBs and Official Development Assistance (ODA) would, at best, be able to cover merely 2 to 3 percent of their projected needs (Stern et al., 2013), even as IFIs are increasingly being called upon to support crisisridden economies in the developed world. Despite impressive growth in BRICS countries, vast swathes of their population still lack access to clean drinking water, toilets, education, health, etc. even as these countries no longer qualify for the World Bank’s concessional support under the International Development Association (IDA)

3. Utilisation of internal savings and investments:
Rommani, Stern and Stiglitz (2012) have argued that the BDB ‘could play a strong role in rebalancing the world economy by channelling hard-earned savings in emerging markets and developing countries to more productive uses than funding bubbles in rich-country housing markets’. According to the World Bank’s Global Development Horizons 2013 Report — Capital for the Future: Saving and Investment in an Interdependent World —developing countries will account for almost half the global capital (158 trillion in 2010 dollars) and 60 percent of total investments by the year 2030. For this to occur, these countries will require, obviously in addition to sound policies, massive investment in physical and social infrastructure, for which they cannot remain dependent on development financing from the developed world or its institutions.

Objectives of the Study:
1. To study the objectives and functions of New Development Bank.
2. To study the role of New Development Bank.
3. To identify the project funding areas of New Development Bank.
4. To evaluate the relationship between New Development Bank and India.

Research Methodology:
The present study explores the said subject using a qualitative research approach. This research paper is purely based on the secondary sources of the data collected from books, journals, research article, and websites.

Role of NDB:
The Major Role is of financing infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the efforts of multilateral and regional financial institutions toward global growth and development. The Bank will also provide technical assistance for projects to be supported by the NDB and engage in information, cultural and personnel exchanges with the purpose of contributing to the achievement of environmental and social sustainability.

The main objectives of NDB operations are:
- Fostering development of member countries
- Supporting economic growth
- Promoting competitiveness and facilitating job creation
- Building a knowledge sharing platform among developing countries
To fulfill its purpose, the Bank will support public or private projects through loans, guarantees, equity participation and other financial instruments.

Functions of NDB:
1. Mobilize resources:
   The Bank’s purpose will be to mobilize resources for infrastructure and sustainable development projects, public or private, in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.

2. Technical Assistance:
   The NDB shall operate according to sound banking principles, providing support for infrastructure and sustainable development projects. Additionally the Bank will provide technical assistance for the preparation and implementation of projects to be supported by the Bank.

3. Financial Assistance:
   The Bank will provide support, in the form of loans, guarantees, equity participation and any other financial instrument to, public or private projects in member countries.

4. Emerging Markets:
   The Board of Governors may approve operations in nonmember emerging markets and developing countries.

5. Utilization of internal saving and investment:
   Rommani, Stern and Stiglitz (2012) have argued that the NDB ‘could play a strong role in rebalancing the world economy by channeling hard-earned savings in emerging markets and developing countries to more productive uses than funding bubbles in rich-country housing markets’.

6. Climate change:
   All over the world facing Global warming problem, every country want solution. BRICS aim is that, How to keep zero carbon? Natural resource depletion has become a major threat to the overall environment as well as to the economies of several developing countries. For environment protection, NDB taken initiative to Assist and provide finance for the controlling this situation.

MEMBERSHIP & VOTING RIGHTS:
New Development Bank is the first multilateral development bank founded by the emerging economies of the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People’s Republic of China and the Republic of South Africa (collectively the BRICS countries). The Articles of Agreement (AoA) of the Bank provide that the membership shall be open to members of the United Nations at such times and in accordance with such terms and conditions, as determined by a special majority of the Board of Governors. OUR IDENTITY Inspired by the concept of Mobius strip, our constantly evolving identity embodies the ethos we live by - transparency, agility and innovation. The wireframe, organic and stable, holds together our two fundamentals. ANNUAL REPORT 2016 economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development. The voting power of each member is equal to the number of the shares subscribed by it in the capital stock of the Bank. The initial subscribed capital of the Bank is USD 50 billion. The AoA provides that each of the founding members initially subscribe to USD 10 billion worth of initial subscribed capital. This makes NDB unique in its governance structure as all shareholders have equal voting power.
## NDB’s APPROVED PROJECTS:

Following are the list of approved Projects of New Development Bank (NDB):

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Sov./Non Sov.</th>
<th>Borrower</th>
<th>Guarantor</th>
<th>End User</th>
<th>Lending Modality</th>
<th>Development Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 250 m</td>
<td>Sovereign guaranteed</td>
<td>Canara Bank</td>
<td>Government of India</td>
<td>Sub-projects</td>
<td>Sovereign guaranteed: 3 branches</td>
<td>-500 MW renewable energy -Avoided 815,000 t CO2/year</td>
</tr>
<tr>
<td>RMB 525 m (USD 81 m)</td>
<td>Sovereign PRC Government</td>
<td>-</td>
<td>Shanghai Lingang Hongbo New Energy Development Co. Ltd.</td>
<td>Sovereign project loan</td>
<td>-100 MW Solar -Avoided -73,000 t CO2/year</td>
<td></td>
</tr>
<tr>
<td>USD 300 m</td>
<td>Non-Sovereign</td>
<td>BNDES</td>
<td>-</td>
<td>Sub-projects</td>
<td>National financial intermediary (NFI): two step loan</td>
<td>-600 MW renewable energy -Avoided 1,000,000 t CO2/year</td>
</tr>
<tr>
<td>USD 180 m</td>
<td>Sovereign guaranteed</td>
<td>ESKOM</td>
<td>Government of RSA</td>
<td>ESKOM</td>
<td>Sovereign guaranteed project loan</td>
<td>-6/0 MW renewable energy evacuated (transmitted) -Avoided 1,300,000 t CO2/year</td>
</tr>
<tr>
<td>USD 100 m</td>
<td>Non-Sovereign</td>
<td>EDB/IIB</td>
<td>-</td>
<td>Nord Hydro-Bely Porog + other subproject(s)</td>
<td>National financial intermediary (NFI): two step loan</td>
<td>-49.8 MW renewable energy -Avoided 48,000 t CO2/year</td>
</tr>
<tr>
<td>USD 350 m</td>
<td>Sovereign guaranteed</td>
<td>Government of India</td>
<td>-</td>
<td>Government of Madhya Pradesh</td>
<td>Sovereign project finance facility</td>
<td>-About 1,500 km of MDRs will be upgraded</td>
</tr>
<tr>
<td>RMB 2 bn (USD 298 m)</td>
<td>Sovereign PRC Government</td>
<td>-</td>
<td>Fujian Investment and Development Group</td>
<td>Project Loan</td>
<td>-250 MW Wind -Avoided 869,900 t CO2/year</td>
<td></td>
</tr>
<tr>
<td>RMB 2 bn (USD 300 m)</td>
<td>Sovereign PRC Government</td>
<td>-</td>
<td>Sub-project PIUs in Changsha, Zhuzhou and Xiangtan</td>
<td>Sovereign project finance facility</td>
<td>-Improved water quality and flood control in the main streams and tributaries of Xiang River</td>
<td></td>
</tr>
<tr>
<td>USD 200 m</td>
<td>Sovereign guaranteed</td>
<td>Government of Jiangxi Province</td>
<td>-</td>
<td>Sovereign project finance facility</td>
<td>-Savings of 95,118 tons of coal equivalent -Annual CO2 emissions reduction is 263,476 tonnes</td>
<td></td>
</tr>
<tr>
<td>USD 350 m</td>
<td>Sovereign guaranteed</td>
<td>Government of India</td>
<td>-</td>
<td>Sovereign project loan</td>
<td>-Project covers more than 3,400 villages and will</td>
<td></td>
</tr>
</tbody>
</table>
Two-third of the loans, amounting to USD 1,031 million, will support renewable energy generation (solar, wind and hydro) spread over five projects in four countries: Brazil, China, India and Russia. A total amount of USD 180 million will be provided to support power evacuation and transmission in the renewable energy sector of South Africa. Financial assistance of USD 350 million will be used to upgrade district roads in India.

All the loans were appraised within six months from the date of project identification to the date of approval by our Board of Directors, with due consideration given to credit quality and appropriate risk management standards. Each project has unique characteristics. In this regard, lending modalities were selected to meet project-specific requirements and borrower preferences as reflected below. Currently, the loan maturities ranged from 12 to 20 years, taking into account debt service capacities and borrower’s preferences.

Floating lending rates were adopted based on the 3-month SHIBOR for RMB loans and the 6-month LIBOR for USD loans, in line with standard loan pricing practices of multilateral development banks. For loan pricing, due consideration was also given to the currency, average maturity, and whether the projects are ‘sovereign guaranteed’ or without a sovereign guarantee.
Key sectors where additional development funds are required among BRICS:

<table>
<thead>
<tr>
<th>BRAZIL</th>
<th>RUSSIA</th>
<th>INDIA</th>
<th>CHINA</th>
<th>SOUTH AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Infrastructure:</td>
<td>-Transport</td>
<td>-MSMEs</td>
<td>-Healthcare</td>
<td>-Infrastructure</td>
</tr>
<tr>
<td>Ports, Airports,</td>
<td>-Manufacturing</td>
<td>-Infrastructure:</td>
<td>-Biotech</td>
<td>-Mining</td>
</tr>
<tr>
<td>High Speed</td>
<td>-Mining</td>
<td>Roads, Bridges,</td>
<td>-Pharmaceuticals</td>
<td>-Clean tech</td>
</tr>
<tr>
<td>Rail</td>
<td>-Electricity</td>
<td>Railways, Ports,</td>
<td>Airports</td>
<td>-Manufacturing</td>
</tr>
<tr>
<td>-Oil and Gas</td>
<td>-Gas</td>
<td>Airports</td>
<td>-Telecom</td>
<td>-Tourism</td>
</tr>
<tr>
<td>-Electricity</td>
<td>-Water Supply</td>
<td>-Electricity</td>
<td>-Renewable</td>
<td></td>
</tr>
</tbody>
</table>

Source: International Economics, James Gerber, page no. 418 to 444(Figure 4)

Apart from Loans, NDB successfully issued its first onshore green bond in China for RMB 3 billion with a tenor of 5 years. The decision to issue a green bond demonstrates the Bank’s commitment to promote sustainable development projects. The Bank became the first multilateral financial institution to issue a green bond in the Chinese interbank bond market. The bond proceeds have been invested by following Green Bond Principles issued by People’s Bank of China (PBoC), keeping in mind the operational needs of the Bank, concentration risk and the risk profile of counterparty banks. The proceeds of the bond will be used for infrastructure and sustainable development projects in NDBs’ member countries. A portion of the proceeds of the bond were converted through cross currency swaps into US Dollars for on-lending to member countries.

NDB Partnership with Global Financial Institution:

NDB will complement efforts of multilateral and regional financial institutions to support global growth and development. The Bank will continue to engage in partnerships with other international development organizations, as well as national entities whether public or private, in particular with international financial institutions and national development banks. These partnerships will allow NDB to tap into the expertise of established development institutions and strengthen its capacity to assess and implement projects. FACT SHEET The NDB got the response from investors on their inaugural bond issue, given that they had no historical track record.

Furthermore, it reinforces the belief that in addition to accessing global capital markets, considerable scope exists for the NDB to raise funding from local capital markets of the BRICS member countries. The NDB will continue to explore further local currency bond issuances in China as well as other member countries. They are intended to actively promote the development of green finance and become a frequent issuer in the Chinese interbank market. To this end, the Bank has signed cooperation agreements with international development organizations including the major global and regional multilateral development banks as well as sub-regional institutions. Furthermore, NDB has signed cooperation agreements with local commercial and development banks in our member countries to leverage their deep local market access and harness their respective strengths in the areas of resource raising, treasury management and risk management practices.\(^5\)

NDB AND INDIA:

During the first year of work, the Board of Directors of the NDB approved a wide range of operational, financial and HR policies that took into account good practices adopted by other multilateral and national development institutions.
In 2016, the NDB Board of Directors has approved seven projects, of which two are in India, for a total of over USD 1.5 billion, in the areas of renewable and green energy, and transportation. All projects are coherent with the Bank’s mandate of supporting infrastructure projects, with more than 75% of projects dedicated to sustainable infrastructure, mainly renewable energy generation. The seven approved projects will support the creation of about 1500 MW of Renewable Energy capacity and are estimated to result in the reduction of greenhouse gas emissions by over 4 million tons per year.

The two projects in India target up-gradation of major district roads in Madhya Pradesh and Renewable Energy generation. The Madhya Pradesh Roads project will provide US$ 350 million sovereign loan to the Government of India for upgrading approximately 1500 km of major District roads in the State. The project would result in reconstruction and rehabilitation of 1,500 km of roads with focus on all-weather road availability and improved road maintenance and asset management. The project fosters inclusive economic growth through increased incomes as a result of improved connectivity and access to markets for interior regions of the state. The signing of the loan agreement for this project is likely to happen soon. The loan will be provided for 20 years with a grace period of 5 years.

The Second Project financed by the New Development Bank (NDB) in India will lead to generation of about 500 MW Renewable Energy thereby preventing generation of 815,000 tonne CO₂ per annum. USD 250 million sovereign guaranteed loans will be given to Canara Bank in three tranches under this project.

The Second Annual Meeting of the Board of Governors of NDB is now scheduled to be held in Delhi from 31st March to 2nd April, 2017 in which both Finance Minister & Vice Finance Minister of China, Vice Finance Minister of Russia, Secretary of International Affairs, Ministry of Finance of Brazil and DDG, Ministry of Finance of South Africa have confirmed their participation among others. During the three day Annual Meeting of Board of Governors, many Memorandum of Understanding (MOUs) with Multi-lateral Development Banks will also be signed among others.

Conclusion:
The New Development Bank is in a lot ways revolutionary. It is the first time that a group of five emerging economies, with varying political systems and structures, and which are geographically spread wide apart from each other, have taken up the mantle of development in the Global South. By blending in the old with a lot of the new, in areas such as means of financing and institutional involvement, the New Development Bank promises exactly what its title suggests- a new way of development banking.

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