NEW DEVELOPMENT BANK'S ROLE IN THE INTERNATIONAL FINANCIAL ARCHITECTURE

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Executive Summary

1. At the fourth BRICS Summit in New Delhi in 2012, the idea of the New Development Bank (NDB) was first formally raised. On 7 July 2015, just prior to the seventh BRICS Summit, the NDB was established with Brazil, Russia, China and South Africa as Founding Members. As of June 2022, four new members (Bangladesh, the United Arab Emirates, Egypt and Uruguay) had been approved to join the NDB.

2. The establishment of the NDB was one of the results of the political and economic dissatisfaction arising out of the growing disparity between the BRICS' share of the world economy and its representation in the institutions underpining the global financial architecture.

3. In the aftermath of the Global Financial Crisis, at the London G20 summit of 2009, member countries had agreed to reforms in governance and "voice" of international financial institutions. Despite this agreement, adjustment in shareholding and governance reforms remained insufficient in the eyes of the BRICS leaders.

4. The urgent economic development needs of the BRICS countries also played a major role in the establishment of the NDB.

5. Existing multilateral development banks (MDBs), especially the World Bank, had considerably reduced their lending to infrastructure development in favour of social sector lending and budgetary support loans, despite continuing high demand for infrastructure finance from the BRICS and other developing countries.

6. Governance of the NDB differs significantly from that of traditional MDBs. BRICS countries have equal voting shares in the institution. New members will be allotted shares, with the shares of the five founders being equally diluted.

7. However, at all times, the five founders will hold no less than 55% of the institution's voting rights. No shareholder has veto power over critical decisions. The presidency of the NDB is by rotation amongst all its member countries.

8. The NDB operational model also differs significantly from traditional MDBs. Speed of approval is a key element of NDB's operational model with its stated target of approving loans within six months.

9. The NDB can also provide local-currency loans to its members and accepts local standards on social and environmental safeguards and procurement. To remain competitive in pricing as a AA+ rated institution (versus AAA for many other major MDBs), management and staff have remained lean.

10. As a new institution, the NDB is still small relative to established MDBs. Nevertheless, it has demonstrated a few key issues that are likely to have an impact on the global financial architecture. The NDB also faces geopolitical challenges with sanctions on Russia and China-India tensions most prominent. Economic challenges in member countries may also affect the quality of the portfolio, the pipeline for lending and the raising of new capital.

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The Origins of the New Development Bank

1.1 Brazil, Russia, India, China and South Africa (collectively referred to as the BRICS countries or BRICS),[1] comprising 42% of the global population, have, as a bloc, been among the fastest growing developing countries in recent decades. BRICS' share of world Gross Domestic Product (GDP) measured in Purchasing Power Parity (PPP) terms rose from about 18% in 2000 to about 31% by 2020, a share double that of countries of the European Union. However, the role and voice of these countries in the global financial architecture as measured by their voting shares, do not adequately reflect this new economic reality (Table 1). The international financial architecture was largely formed after the two world wars of the 20th century, with institutions such as the International Monetary Fund (IMF) and the World Bank (WB). Western developed countries control the large majority of voting shares in global financial institutions and have a greater voice in terms of the way the institutions are run.

1.2 The establishment of the NDB was one of the results of the political and economic dissatisfaction arising out of this growing disparity between BRICS' share of the world economy and its representation in the institutions of the global financial architecture. The origins of the NDB reflect the views of the leaders, that their calls for a more representative international financial architecture, with an increase in the voice and representation of developing countries in existing international financial

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1 Goldman Sachs (2001) coined the term BRICs to refer to Brazil, Russia, India and China. https://www.goldmansachs.com/insights/archive/archive-pdfs/build-better-brics.pdf, accessed 22 April 2022. South Africa joined the grouping in 2010 and the acronym changed to BRICS.

institutions, were met with a slow response. Existing financial institutions dominated by Western developed countries were slow to change prevailing governance structures that gave them disproportionate power.

1.3 In the aftermath of the global financial crisis, at the London G20 summit of 2009, member countries had agreed to reforms in governance and "voice" of international financial institutions:[2]

We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalisation, and that emerging and developing economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making.

1.4 Furthermore, in the aftermath of the global financial crisis, the heads of state of Brazil, Russia, India and China began meeting annually to discuss issues of common interest, with the first meeting in Ekaterinburg, Russia in 2009. From the very beginning, leaders of these countries expressed their dissatisfaction with the prevailing global financial architecture and called for reforms to institutions such as the IMF and the WB. The leaders called for a world economic order that better reflects the changed global economy. They called for a greater voice, reflected in increased share of voting rights, in existing institutions, more transparent processes for selection of the heads of these institutions and increased reflection of the development needs of these countries in the operations of existing institutions.

We are committed to advance the reform of international financial institutions, so as to reflect changes in the global economy. 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. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system.[3]

1.5 Despite the 2009 G20 agreement, adjustment in shareholding and governance reforms remained insufficient in the eyes of BRICS leaders. Calls for reform of the

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2 https://www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf, accessed 16 May 2022.

3 Joint Statement of the BRIC Countries' Leaders. http://www.kremlin.ru/eng/text/docs/2009/06/217963.shtml, accessed 25 May 2022.

global financial architecture remained a consistent feature of several subsequent BRICS summits. BRICS leaders expressed their dissatisfaction with the slow pace of quota and governance reforms in the IMF. They also demanded that the WB

"*….must commit to transform the Bank into a multilateral institution that truly reflects the vision of all its members, including the governance structure that reflects current economic and political reality. Moreover, the nature of the Bank must shift from an institution that essentially mediates North-South cooperation to an institution that promotes equal partnership with all countries as a way to deal with development issues and to overcome an outdated donor-recipient dichotomy*".[4]

1.6 At the fourth BRICS Summit in New Delhi in 2012, the idea of the NDB was first formally stated.

"*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*".[5]

1.7 In the following March 2013 Durban summit, formal agreement was reached.

"*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*".[6]

1.8 By the 2014 Fortaleza Summit in Brazil, the agreement to establish the NDB had been signed.

"*….we are pleased to announce the signing of the Agreement establishing the New Development Bank (NDB), with the purpose of mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies*".[7]

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4 https://mea.gov.in/bilateral-ocuments.htm?dtl%2F19158%2FFourth+BRICS+Summit++Delhi+Declaration, accessed 22 April 2022.

5 Ibid.

6 https://www.mea.gov.in/bilateral-documents.htm?dtl%2F21482, accessed 22 April 2022.

7 https://scholar.smu.edu/cgi/viewcontent.cgi?article=1104&context=lbra, accessed 22 April2022.

1.9 On 7 July 2015, just prior to the seventh BRICS Summit, the NDB was established.

"*We reiterate that the NDB shall serve as a powerful instrument for financing infrastructure investment and sustainable development projects in the BRICS and other developing countries and emerging market economies and for enhancing economic cooperation between our countries*".[8]

1.10 In addition to the political dissatisfaction with the prevailing world order, the urgent economic development needs of BRICS countries played a major role in the drive to establish the NDB. Existing multilateral development banks (MDBs), especially the WB, had considerably reduced the share of their lending to infrastructure development in favour of social sector lending and budgetary support loans, despite continuing high demand for infrastructure lending from BRICS and other developing countries. At the fourth BRICS Summit, the leaders stated

"*…there is a pressing need for enhancing the flow of development finance to emerging and developing countries. We therefore call upon the World Bank to give greater priority to mobilizing resources and meeting the needs of development finance while reducing lending costs and adopting innovative lending tools*".[9]

1.11 The call for greater infrastructure lending continued in subsequent Summits as well.

"*Developing countries face challenges of infrastructure development due to insufficient long-term financing and foreign direct investment, especially investment in capital stock*".[10] "*BRICS, as well as other EMDCs, continue to face significant financing constraints to address infrastructure gaps and sustainable development needs*".[11]

1.12 The NDB, therefore, is a response of the BRICS aimed fundamentally at influencing the global financial architecture to be more representative of the growing economic clout of these countries. It is intended to give a greater voice to large developing countries in global economic governance and to have an institution that better meets the economic needs of these countries.

"*Its creation is an expression of the growing role of BRICS and other EMDCs in the world economy and their greater willingness to act independently in matters of*

8 http://www.brics.utoronto.ca/docs/150709-ufa-declaration_en.html, accessed 22 April 2022.

9 https://mea.gov.in/bilateral-documents.htm?dtl%2F19158%2FFourth+BRICS+Summit++Delhi+Declaration, accessed 22 April 2022.

10 https://www.mea.gov.in/bilateral-documents.htm?dtl%2F21482, accessed 22 April 2022.

11 https://scholar.smu.edu/cgi/viewcontent.cgi?article=1104&context=lbra, accessed 22 April 2022.

international economic governance and development. NDB signifies developing countries' coming of age and reflects their aspirations to stand on their own feet".[12]

Key Elements of NDB Governance

2.1 The NDB's governance model differs from that of earlier MDBs in several important respects. All five founding BRICS members have equal voting shares in the institution. Each member had a 20% share of the NDB's capital at the time of establishment. As the NDB's Articles of Agreement[13] permit any member of the United Nations to be a member of the NDB, new members that join will be allotted shares in the institution, with the shares of the five founders being equally diluted. However, at all times, the five founders will together hold no less than 55% of the institution's voting rights, namely capital, (presumably in equal shares, though this is not specified in the Articles). Non-borrowing members shall together not hold more than 20% of the institution's voting rights and no non-founding member shall hold more than 7% of the NDB's voting rights. This structure of shareholding is fundamentally different from that of all existing MDBs. The United States is the dominant shareholder in the WB and China is the single largest shareholder in the newly established Asian Infrastructure Investment Bank (AIIB); all other members have smaller shareholdings. The NDB structure of shareholding provides for an equal voice to all five founders in the NDB, despite substantial differences in their economic size.[14]

2.2 The governance model also calls for greater agreement (if not consensus) among the founders on important institutional decisions as it requires most decisions to be made by a simple majority, which implies that at least three of the five countries would have to agree. Unlike the WB,[15] no single shareholder has veto power over critical decisions. In operational terms, the implication of this is that no single

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12 https://www.ndb.int/wp-content/uploads/2017/07/NDB-Strategy-Final.pdf, accessed 22 April 2022.

13 https://www.ndb.int/wp-content/themes/ndb/pdf/Agreement-on-the-New-Development-Bank.pdf, accessed 22 April 2022.

14 For example: In current US dollars in 2020, China's GDP was US$14.7 trillion while that of South Africa was US$330 billion, though both have the same share in the NDB.

15 The WB requires an 85% majority for changes in the Articles of Agreement. This de facto gives the United States a veto as it holds more than 15% of the vote.

founding member can influence the institution alone; it will perforce need the agreement of two or more other founding members in most decisions and this therefore strengthens the voice of the other members.

2.3 The presidency of the NDB is by rotation amongst its founding members. This model is in response to the dissatisfaction of BRICS (and other developing) countries with the appointment process of chief executives of existing global financial institutions wherein certain developed countries had the right to nominate their own nationals to such positions (for instance, the United States has always nominated one of its citizens as president of the WB and the IMF's head has always been a European national). India nominated the founding president of the NDB. A Brazilian is the current head of the institution. Russia, China and South Africa, in that order, will nominate its future chiefs and the presidency will go in the BRICS order.

Key Elements of the NDB's Operational Model

3.1 Established MDBs, such as the WB, have faced criticisms, particularly from their larger and relatively more advanced borrowers, such as BRICS countries, for their bureaucratic and slow operational approaches in which project approvals can sometimes take years. The necessity for these institutions to meet the standards demanded by their developed country shareholders has often been seen as leading to some of these delays. Despite efforts on the part of these institutions to reform their internal processes and adopt borrower country standards, progress has been slow. Requirements accompanying many of the loans of these institutions such as the use of the lending institution's procurement policies and/or environmental and social guidelines instead of borrowers' country systems and procedures have also been viewed as an imposition of developed country shareholders' views on borrowers.

3.2 BRICS countries addressed many of these "pain points" in their relationship with existing institutions in the operational model of the NDB. The NDB aimed "….*to be fast, flexible and efficient by designing a more streamlined project review and* *implementation oversight without unnecessary bureaucracy*…" in its operations through its new approaches.[16]

3.3 Speed of approval is a key element of the NDB's operational model with its stated target of approving loans within six months, while not compromising on quality. The institution has set up internal systems and procedures to achieve this objective. The NDB also uses country systems to deal with the environmental and social aspects of, as well as procurement procedures related to, the infrastructure projects it finances, thereby removing the need for its borrowers to deal with yet another external institution's system. With a limited clientele of (initially) just five borrowers and no developed country shareholders, this is arguably more achievable for the NDB than for global institutions such as the WB.

3.4 One of the NDB's major departures from the operational model of existing institutions is its willingness to provide local-currency loans to its members. This has been a long-standing demand of many borrowers from MDBs, but one that has made little progress. Local currency loans reduce the foreign exchange risk that borrowers face in the event that their currencies decline in value relative to that of currencies such as the US Dollar or Euro, which are typically the currencies that most other MDBs provide their loans in. The NDB has thus far provided local currency financing to China, India and South Africa at competitive interest rates; however, like other MDBs, offering rates better than the sovereign in local currency is a challenge for the NDB too.

3.5 The NDB has ensured that the pricing of its loans remains competitive with that of more established MDBs. Given that the NDB is currently rated AA+ while most other established MDBs are rated AAA, the cost at which the NDB raises funds in the markets is higher and another challenge for the NDB. Essentially this implies that the NDB needs to manage itself more efficiently to keep its operating costs low to make up for the cost differential.[17] A lean management and staff structure is,

16 https://www.ndb.int/wp-content/uploads/2017/07/NDB-Strategy-Final.pdf, accessed 27 April 2022.

17 There are relatively fewer degrees of freedom available to the NDB on other aspects that could potentially be used to manage this issue such as duration of lending, reserve policies and liquidity buffers. These are largely the same for the NDB as those of established AAA rated MDBs, given client demands and rating methodologies.

therefore, also a key feature of NDB's operational model. Such a set-up also implies that the NDB is less ambitious than some other MDBs in terms of economic analysis and provision of global public goods, which other MDBs often support. Unlike other MDBs, the NDB has also chosen to avoid pushing for and supporting structural reform in its member countries, and thereby focuses less on analytical work supporting such reforms. Even for some BRICS countries, one of the motivations for borrowing from other MDBs is their support for structural reforms.

3.6 The NDB has put technology at the forefront of its operational model and developed information technology systems that are almost entirely cloud-based. In addition to keeping operational costs low, this enables the institution to keep up-to-date in real-time with evolving technology.

Impact on International Financial Architecture

4.1 As a new institution, the NDB is still small relative to established MDBs. Since 2015, it has approved 77 projects to date for a total amount of US$29.7 billion.[18] The WB Group, in comparison, had approved nearly $157 billion during the April 2020-June 2021 period alone for over 100 countries.[19] It will, therefore, clearly take time for the NDB to make its presence felt in the MDB community. Nevertheless, the NDB has demonstrated a few key issues that are likely to have an impact on the global financial architecture.

4.2 The establishment of the NDB is, in and of itself, an interesting development in global finance. It started out as an institution with just five shareholders, all borrowers, all developing countries and with no developed country shareholders. That such an institution could achieve a rating of AA+, just one notch below the AAA rating of well-established MDBs that have many more shareholders with much higher country ratings is testimony to the ability of developing countries to set up such institutions by themselves. The high rating, combined with its low-cost

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18 https://www.ndb.int/wp-content/uploads/2022/03/Investor-Presentation_20220322.pdf, accessed 27 April 2022.

19 WB Annual Report, 2021.

operational model, enables the NDB to mobilise funds from global capital markets at competitive prices for its members and thereby contribute to their development.

4.3 The NDB has also demonstrated that its new model of governance with no shareholder having veto power seems to work. With its location in China, and having been established nearly at the same time as the China-led AIIB, the NDB could have become yet another China-led institution.[20] This has not happened, at least not yet. Despite the vast difference in economic size amongst the five founders, with China dominating by a large margin, the lack of veto authority for any country has yet proved to be a significant hurdle. In fact, the founders have worked together to enable the NDB to test out new approaches and new ways of doing business that could be useful for other, more established, MDBs to consider.

4.4 BRICS has often been viewed by its critics as just an acronym with little in common between the countries. The NDB is the first concrete institution established by these countries. Driven by the motivation to establish a new institution and make it a success, the NDB's founding shareholders have clearly worked well together in the initial phase of its establishment. At an operational level, the countries have demonstrated that enough agreement can be reached amongst the countries for the institution to run smoothly. Necessary decisions at the Boards of Governors and Directors have been made to achieve operational stability for the institution. The countries have overcome whatever differences they may have amongst themselves, bilaterally or multilaterally, to enable the smooth functioning of the institution. The NDB is therefore, also a demonstration by the BRICS to other developing countries that establishing their own institutions is feasible.

Strategic Challenges for NDB

5.1 The NDB was established based on the convictions of its founders that "*...the establishment of such a Bank would reflect the close relations among the BRICS*

[20] The NDB and AIIB both finance mostly infrastructure projects in their member countries. As of June 2022, the AIIB had 105 members and the NDB had nine. All members of the NDB are either current or prospective members of the AIIB. Given the huge demands for infrastructure financing in their member countries, both the NDB and AIIB expect to complement each other as well as the established MDBs in providing development finance to their borrowing members.

countries, while providing a powerful instrument for increasing their economic cooperation". The founders were keenly aware that "*...emerging market economies and developing countries continue to face significant financing constraints to address infrastructure gaps and sustainable development needs…*" and of the necessity of "*…creating a new international financial institution in order to intermediate resources for the above mentioned purposes…*". They also wanted the NDB to "*…contribute to an international financial system conducive to economic and social development respectful of the global environment…*".[21]

5.2 To meet these lofty goals, the NDB's most critical challenge today is one of scaling up. It needs to become a large enough player amongst the community of MDBs to make a material difference to the global financial architecture. Scale will have to be achieved rapidly, even as the institution continues to build upon the foundation that has been laid, ramps up its human resources and further strengthens its internal systems. The NDB will have to become a significant, reliable and trustworthy lender to its members in order for its new models of governance and new operational approaches to be seriously considered as successful models worthy of emulation by more established institutions. Scale will enable the NDB to command the influence that it needs to be able to contribute to the international financial system and give a louder voice to BRICS countries and its other, future, borrowing members.

5.3 In the process of achieving scale, demand from its borrowing members is unlikely to be a problem. As identified by its founders, BRICS countries and other emerging markets and developing countries have huge demands for investments in infrastructure and sustainable development that the NDB can support, complementing the efforts of the established MDBs.

5.4 Scaling up its resources quickly enough to meet its borrowers' need is the major question for the NDB. To do so, the NDB faces some significant challenges.

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[21] All quotes from https://www.ndb.int/wp-content/themes/ndb/pdf/Agreement-on-the-New-Development-Bank.pdf, accessed 28 April 2022.

Navigating geopolitics and tensions among members

5.5 The BRICS have cooperated well thus far in establishing the NDB. The question facing the institution now is whether, in the face of a growing set of challenges confronting almost all of its founding shareholders, this degree of cooperation can and will continue.

5.6 The situation today is very different from what the NDB faced at its establishment and in its initial years of growth. First, US-China tensions, which were nascent in 2015 have grown over the past seven years in scale and scope. With largely common views on this issue from across the US political spectrum, an early resolution is clearly not in sight. Thus far, the direct impact of these tensions on the NDB's operations has been minimal. The NDB's lending has been entirely to BRICS countries. It has had adequate equity capital and debt that it has mobilised from capital markets largely outside the United States to finance its operations. Going forward, it remains an open question as to whether the NDB can continue to be insulated from the impacts of the broader US-China tensions. Potential dangers could stem from the lack of US-investor interest in NDB bonds, thereby affecting its fund-raising ability and impact on its ability to use the US dollar as its core operational currency, in the event of any US sanctions against China.

5.7 Second, the impact of Russia's invasion of Ukraine is another challenge facing the NDB. At the time of its establishment, Russia had already annexed Crimea and was facing some sanctions from major western countries. While most other MDBs had either significantly scaled down or entirely stopped their operations in Russia, the NDB did not do so, particularly given Russia's role as an equal shareholder to the other four countries. The NDB managed to navigate the sanctions environment well and financed both public (sovereign/sovereign guaranteed) and private sector projects in Russia.

5.8 The current situation, with much more extensive sanctions from most advanced countries, for the NDB's continued operations in Russia poses an entirely higher order of difficulty. The NDB has already stated that it will put all new operations in

Russia on hold.[22] While this is clearly essential to managing risks from an institutional perspective, the NDB will almost certainly face political pressures from Russia. There is no clarity yet on whether the NDB will, or can, disburse new funds for already approved projects in Russia and if so, how it will do so given the sanctions environment. Although the NDB "*expects to receive all interest and principal re-payments as they become due from its Russian-domiciled borrowers*",[23] there is no clarity on how this expectation will be met in practice. If there are any delays in receiving such payments, the NDB will immediately face the problem of having a major borrower in default, which can adversely affect its credit rating. Fitch, a rating agency, has already said as much in its latest review of the NDB where it revised its outlook for the NDB from Stable to Negative.[24]

5.9 Finally, one of the key operational strengths of the NDB, before the Ukraine war, was the high average rating of its loan portfolio, largely due to the relatively high rating of all its five borrowing members. With Russia now having been downgraded to "Junk" status by all major rating agencies, there is a direct impact on the quality of the NDB's portfolio, and consequently, on the amount of capital needed to support its operations. Navigating the impact of Russia's invasion of Ukraine will therefore be a critical challenge for the NDB.

5.10 Third, at the time of the NDB's establishment, bilateral relations between India and China were relatively cordial, despite longstanding border disputes. This has changed over the past two years and bilateral relations have worsened significantly since the 2020 border clashes. While China has tried to separate the border issue from other bilateral, particularly economic, issues, India has clearly stated that the border issue is at the front and centre of its bilateral relations with China.[25] As critical decisions on issues such as membership expansion or capital increase come

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22 https://www.ndb.int/press_release/a-statement-by-the-new-development-bank/, accessed 21 April 2022.

23 https://www.ndb.int/wp-content/uploads/2022/03/Investor-Presentation_20220322.pdf, accessed 27 April 2022.

24 https://www.fitchratings.com/research/sovereigns/fitch-revises-outlook-on-new-development-bank-to-negative-affirms-at-aa-17-03-2022, accessed 21 April 2022.

25 https://www.reuters.com/world/china/chinese-foreign-minister-see-indian-counterpart-surprise-meeting-2022-03-25/, accessed 21 April 2022.

up in future, navigating this bilateral tension will be another major issue for the NDB.

5.11 Brazil and South Africa have also had their fair shares of political and economic challenges in the past seven years since the NDB's establishment. The two countries face substantial economic challenges currently and predictions are that they will continue to do so for the medium-term, given domestic and global economic and political headwinds. In its initial years, the NDB faced challenges in developing its loan portfolio in both these countries. While pandemic-related emergency lending and determined efforts by the in-country offices have helped the portfolio reach a more balanced level across the five countries, the economic and political difficulties facing both countries could create challenges for the NDB.

Increasing Capital

6.1 The NDB's authorised capital, as stated in its Articles of Agreement, is US$100 billion. Of this, US$50 billion has been subscribed to by the five founders in equal shares. Of this US$50 billion, the paid-in capital is US$10 billion, with the balance US$40 billion being callable capital. The NDB states that its policies and key risk limits are in line with those of AAA rated MDBs, and it operates with a conservative capitalisation ratio and will maintain a minimum equity/assets ratio of 25%.[26] The NDB committed to lending US$10 billion to its five founders through its crisis-related Emergency Assistance Facility in response to COVID-19. A total of US$8 billion has been disbursed to date. Such emergency assistance clearly further strengthens the NDB's institutional importance to its founders. However, it is also almost certainly the case that this unanticipated emergency lending has used up more capital than was probably anticipated in a pre-COVID-19 scenario. In all likelihood, the NDB will have to raise additional capital sooner than might have been envisaged pre-COVID-19 to continue to scale up. If so, and given the slow pace of membership expansion, the founding shareholders will have to put up most

[26] https://www.ndb.int/wp-content/uploads/2022/03/Investor-Presentation_20220322.pdf, accessed 9 June 2022.

of the new capital that may be required.[27] In the context of the challenges facing the founding shareholders, as discussed earlier, the question remains as to whether such additional capital contributions will be forthcoming. China and India have the economic wherewithal to contribute, but bilateral political tensions may pose a challenge. Russia may want to contribute, but the freezing of new operations and sanctions-related difficulties in funds transfer may pose practical problems. It is unclear whether South Africa and Brazil have the economic wherewithal or political willingness to contribute. Navigating the growth challenges that could be posed by the necessity of additional capital is another challenge facing the NDB.

Conclusion

7.1 Nearly seven years after its establishment, the NDB has completed the core foundational work required of a new MDB. Its systems, procedures and policies have been established and stress-tested, particularly through the COVID-19 pandemic. It has made a sound start towards meeting the high expectations of its founders. It has demonstrated that a new institution with new operational approaches and innovative governance mechanisms, more in tune with what large developing countries want, can work well.

7.2 However, the world in which the NDB finds itself now is very different from the world seven years ago. It faces several strategic challenges as it looks ahead over the next five to 10 years of its operations. How well the founders continue to work together and how the institution manages its capital are among the key strategic issues that it faces.

7.3 The NDB is undoubtedly an interesting experiment in global financial governance and has made a good start. The core elements for its success are in place. If the institution navigates well the current challenges it faces, scales up significantly and

[27] New members can hold up to 45% of the total capital of the NDB and, therefore, new members could bring in an equivalent amount of additional capital. As of 9 June 2022, four new members (Bangladesh, the United Arab Emirates, Egypt and Uruguay) had been approved to join the NDB. Of these Bangladesh and UAE have been allotted 2.91% of the capital and as the other countries have yet to deposit their instruments of accession, information on shares allotted to them is unavailable. Similar to the founders, new members have seven years from the date of joining to pay their capital contribution. This means that new members are unlikely to be a significant source of new paid-in capital for a considerable period.

demonstrates that its projects have been successfully implemented and are achieving their intended objectives, it clearly has the potential to make a significant impact on the international financial system. If, however, its financing to its members remains small relative to that of the more established MDBs, the NDB faces the risk that it remains an interesting experiment that has marginal influence on the global financial architecture.

TABLE 1 SHARES IN THE WORLD ECONOMY AND IN MDBS: BRICS COUNTRIES AND COMPARATORS

	Share in GDP (US$)		Share in GDP ($ PPP)		Shareholding in IBRD		Quota Share in IMF		Shareholding in ADB		Shareholding in AIIB	Shareholding in the NDB
	1990	2020	1990	2020	1990	2020	1990	2020	1990	2020	2020	2020[b/]
BRICS	7.5	24.4	15.7	31.3	11.6	15.03		14.82	--	--		100
Brazil	1.72	1.7	3.4	2.4	2.13	2.35	1.6	2.32	--	--	0.0	20
China	1.59	17.4	3.8	18.3	2.87	6.01	2.67	6.40	7.1	6.4	30.7	20
India	1.41	3.1	3.6	6.7	2.87	3.07	2.5	2.75	7.0	6.3	8.6	20
Russia	2.27	1.75	4.0	3.3	2.87	2.85	..	2.71	--	--	6.7	20
South Africa	0.51	0.4	0.9	0.6	0.86	0.75	1	0.64	--	--	--[a/]	20
US	26.2	24.7	20.3	15.8	16.95	16.77	20.04	17.45	14.8	15.6	--	--
Japan	13.8	6.0	8.4	4.0	8.12	7.2	4.7	6.48	14.8	15.6	--	--
UK	4.8	3.3	3.3	2.3	4.44	3.78	6.93	4.23	2.2	2.0	3.2	--
France	5.6	3.1	3.5	2.4	4.44	3.91	5.01	4.23	2.6	2.3	3.5	--
Germany	7.8	4.5	5.3	3.4	4.63	4.27	6.04	5.60	4.8	4.3	4.6	--

Sources: World Development Indicators; Various WB Annual Reports; IMF Various Documents on Quota Allocation and Reforms and financial database at: https://www.imf.org/external/np/fin/tad/query.aspx; ADB Annual Reports 2020 and 1990; and AIIB and NDB websites.

Notes:

a/ South Africa is a prospective (founding) member of the AIIB.

b/ To accommodate new members, shareholding of the BRICS was diluted to 19.4% for each BRICS country. See text.