What is new about the BRICS-led New Development Bank?

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Russian President Vladimir Putin, Indian Prime Minister Narendra Modi, Brazilian President Dilmar Rouseff, Chinese President Xi Jinping and South African President Jacob Zuma take a BRICS leaders family photo at the G-20 Leaders’ Summit in Brisbane, Australia. Photo by: DoC / CC BY-ND

About three weeks ago, the board of directors of one of the world’s newest multilateral institutions, the New Development Bank of Brazil, Russia, India, China and South Africa, met on the sidelines of the World Bank and International Monetary Fund spring meetings in Washington, D.C., to approve its first set of loans.

Valued at $811 million, this first tranche of funding will support renewable energy projects across the BRICS countries including two solar energy projects in India and China, and a hydropower dam in Russia. For Brazil, it created a credit line worth $300 million for renewable energy projects such as solar and wind power.

When the idea of a BRICS-led development bank was first announced by Brazil, Russia, India, China and South Africa four years ago in New Delhi, it was met with a range of reactions from wariness to cautious optimism to overt celebration. Almost from day one, it was seen to be a direct challenge to existing development banks, notably the Western-dominated World Bank and IMF. BRICS governments have maintained that their bank serves to complement and not substitute these institutions.

But what exactly is new about the New Development Bank?

Three key features set the NDB apart from existing multilateral development banks: “south-south” cooperation, equity in power-sharing and sustainable development.
The creation of a development bank by countries of the “global south” for the global south is both unique and necessary. It has been created to meet the specific development needs of the global south, namely those of infrastructure. Based on their own experiences as recipients of foreign aid from the “global north,” the BRICS governments are keen to ensure that development funding provided by them is free of political conditionalities and is disbursed without delays.

Each of the BRICS governments has ownership of one-fifth of the share of the Bank, which translates into an equal say in decision-making. This is unlike the World Bank or the IMF where decision-making power is heavily skewed in favor of a particular set of countries.

Perhaps the single most important differentiating feature of the NDB is its stated commitment to the principle of sustainable development. This is a departure from a business-as-usual approach. But apart from stating that sustainable development will be linked to the financing of particular kinds of infrastructure projects, namely “green” or renewable energy projects, the NDB has been less clear about how it will ensure that these projects will be rooted in sustainable practices. Also unclear is whether and how they will be linked to the implementation of the internationally agreed Sustainable Development Goals. While the bank has officially opened for business, addressing these questions will be critical for the next phase of the NDB.

The NDB could incentivize governments to design projects that are respectful toward the environment and local communities. It could offer differential interest rates and repayment terms on loans given to governments, depending on the latter’s ability to meet certain criteria such as their consideration of potential socio-environmental impacts of projects, project alignment with international best practice in sustainable development and integration of key components of the Sustainable Development Goals. These criteria could be consolidated into a composite index to measure the actual sustainability of projects, both in terms of processes employed and outcomes achieved.

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Linking sustainable development to incentives would encourage governments to think about sustainable practices not as bureaucratic formalities or risks, but as actions ultimately linked to better development outcomes. This would be a major shift in the way environmental and social standards are currently conceived in the international financial architecture.

While these are no doubt important questions for BRICS policymakers and the NDB’s officials to consider, they also open up the space for greater engagement by civil society. Defining the precise sustainability criteria against which projects could be judged for selection is an area where civil
society could provide input. Civil society could also play a critical role in providing oversight of the NDB’s lending practices by ensuring that these preagreed criteria are indeed used to inform the bank’s decision-making.

The NDB is expected to inject fresh thinking into development practice. It has already laid down the framework for this by placing sustainable development at the core of its mandate. Acknowledging that sustainable development is as much an outcome as it is a process will help to further guide the Shanghai-based bank in its selection and implementation of projects. As the NDB embarks on this journey, it should proactively encourage dialogue with different stakeholders, including civil society actors, who could be valuable partners in this process.

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