The crucial role of New Development Bank in the future of BRICS

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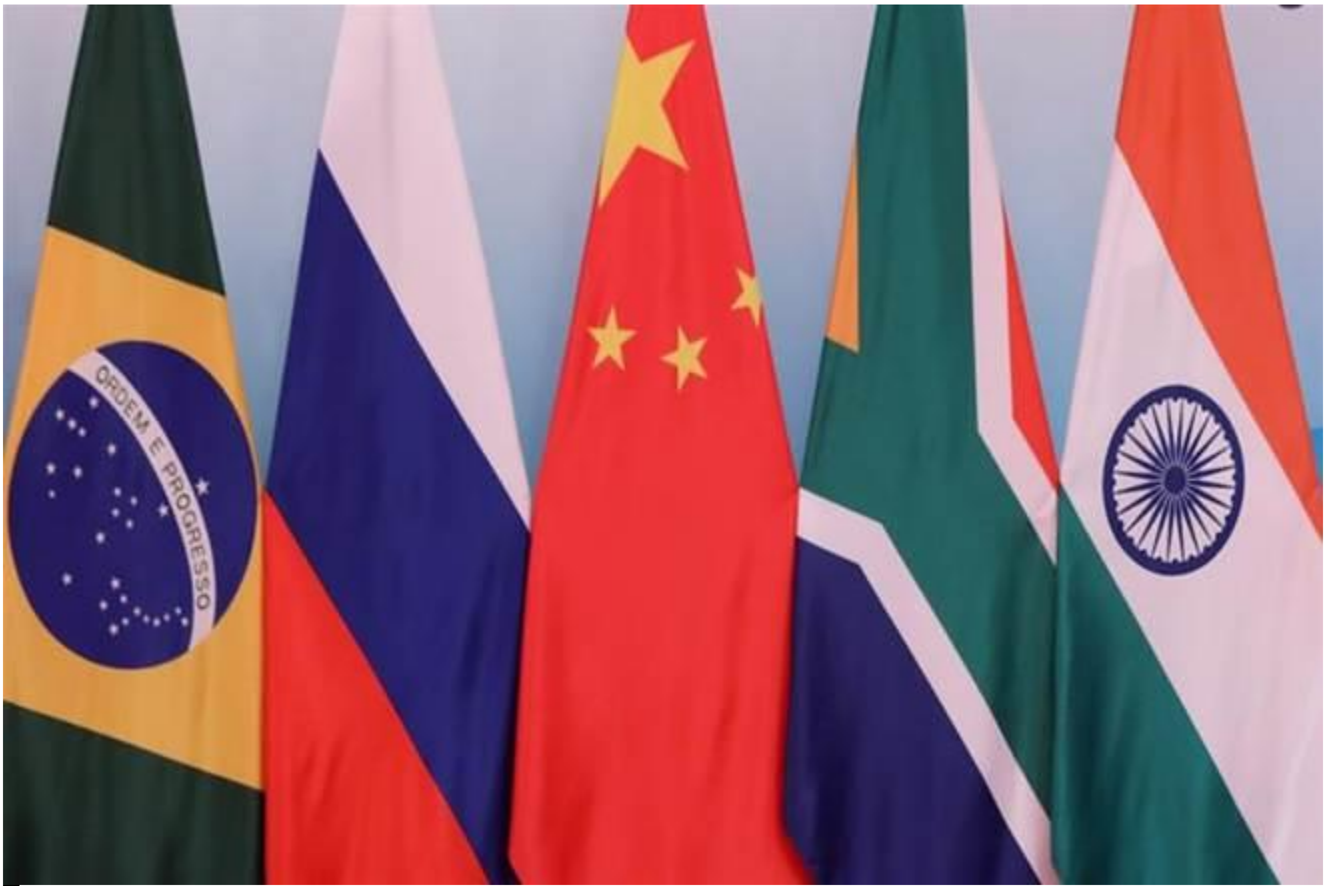
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In less than four years of operations, the NDB seems to have laid down fairly solid foundations. (Reuters)

By Prof. Karin Costa Vazquez

The big emerging markets of Brazil, Russia, India, China and South Africa (BRICS) have come a long way since their first summit in 2009, proving to be more than an "arranged marriage" as recently proclaimed in the media amid disagreements among the five members on Venezuela and WTO reform. Looking back in the history of the group, even the Doklam standoff and the China-India disagreement on Pakistan had a negotiated solution. The question therefore is not what separates the BRICS – as political divergences will always exist in any country arrangement – but what still holds the five countries together one decade after the creation of the group.

In order to answer this question, it is important to understand that the BRICS emerged not as a group whose strength lay in the individual capacity of each country but as a pragmatic relationship that pools the influence of its members to achieve common objectives. This is the case of the New Development Bank (NDB) and its potential to reshape the world of development finance. Three key features set the

NDB apart from existing multilateral development banks: its commitment to close the infrastructure gap in emerging and developing countries without delays nor imposing conditionalities; sustainable development; and equity in power-sharing.

In less than four years of operations, the NDB seems to have laid down fairly solid foundations. It received AA+ international credit rating and built a portfolio of 35 projects worth USD 9.2 billion – nearly half of World Bank lending in 2018. During its 4th annual meeting last month, the NDB stressed the need for investments in social infrastructure in addition to its current lending for physical infrastructure development in recognition that both soft and hard infrastructure is needed to meet the developing needs of member countries. Once a contender, India also gave the green light to the expansion of the NDB membership. While helping to improve credit rating and increase the bank's subscribed capital, there is still no consensus among the five members on who should be invited.

As the NDB consolidates its operations, it is challenged by its commitment to sustainability. In 2019, five new projects totaling about USD1.2 billion were approved. Yet, the criteria under which these projects are selected and monitored remain unclear. So are the development results achieved to date. In South Africa, questions mark NDB loans to the indebted power utilities company Eskom. The expansion of the Durban port and the retrofitting of the Medupi coal-fired power plant also raise local communities' concerns about ecological degradation and increasing carbon emissions. In India, a road modernization project in Madhya Pradesh is suspect of land grabbing and property destruction. Failure to consult the stakeholders directly impacted by the projects as well as disclose project documents and social-environmental assessments can compromise the bank's development impact.

Assessing the development impact of NDB's projects and their contribution to the Sustainable Development Goals will become even more critical as the bank initiates the mid-term review of its general strategy later this year. So will hiring women for senior management and leadership positions, mainstreaming gender into the bank's operations, and securing a balanced loan allocation among the five members. This year China passed India as the top recipient, with 34 percent against 27.3 percent. Russia and South Africa follow in third place with 16 percent each. Brazil receives the lowest amount, totaling approximately USD621 million (6.7 percent). Dubbed as a differentiating feature of the NDB, the equal say in the bank's governance would be short-lived without a balanced allocation of loans among the five members.

Those who dismiss the BRICS as little more than an acronym might feel justified in their skepticism as political and economic turmoil shake emerging economies. Yet, their most tangible creation is making a surprising headway in establishing itself as a viable business. As the New Development Bank enters its fourth year of operations it must now prove the "development" in its name.

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