



NEW DEVELOPMENT BANK IN RELATION TO BRICS ECONOMIES

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ABSTRACT

The term BRIC was coined by an investment Banker Jim O'Neil, the then chairman of Goldman Sachs. And over a period of time it came into reality when the Russia took initiative to meet the all four countries since they are emerging economies having 42 percent population, 33 percent of gross domestic product and quarter of world land mass. The formal group begins its cooperation from the 2009 summit and the South Africa joined the group and the group become as BRICS. As a result of cooperation, BRICS initiated a multilateral development bank that is New Development Bank (NDB) and Contingency Reserve Arrangements (CRA) to meet their Sustainable Infrastructure Development projects and also the Balance of Payment Problem BOP the two institutions has been existed as a complementary to the existing institutions such as International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD).

KEYWORDS : New Development Bank (NDB), Contingency Reserve Arrangements (CRA), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD).

Introduction

The term BRIC was coined by economist Jim O'Neil it consists of Brazil, Russia, India and China. Later the South Africa joined the elite group in 2011 summit held in China and it becomes as BRICS. These countries are fast growing economies of the world since the 2009, the group started formal summit itself from the very next year to the global financial crisis of 2008. The BRICS represent approximately 42 percent of the world human resource and accounts for 33 percent of gross domestic product and 25 percent of land mass. Pavgi (2012) observed those twenty years ago, the BRICS countries were net aid recipient countries but now today, they are raising powers and have highest growth in all sectors. While matured economies across the world were struggling with various economic problems such as: negative growth rate, rising unemployment, debt crisis etc., the BRIC economies were outperforming through alleviation of poverty, increasing employment opportunities by attracting Foreign Direct Investment (FDI), and driving the global economy. This is also an indication that the rapid economic growth of BRICS economies and their integration would influence the world economic growth in the years to come.

The Concept of BRICS bank

In 2009, the BRICS summit was initiated to create a new platform to work together as a group of rising powers that are both willing and able to play important role in international affairs (CBGA march 2016)². The BRICS countries proposed a multilateral development bank in the 4th BRICS summit held in 2012, at Delhi and tabled a discussion in the 5th Durban summit of 2013 and at 6th summit (July 2014) accepted to create a multilateral bank and a reserve arrangement also established to support the members to meet the balance of payment problem (BOP) in a similar to IMF. The bank officially formed in July 2015 and named as New Development Bank (NDB) along with that Contingency Reserve Arrangements (CRA) and the head quarter of the bank made in Shanghai of China and a regional office is established in Johannesburg of South Africa.

Table no: 1. Capital Share of the NDB (in bln US\$)

Capital	Type of Capital
100	Authorized capital: the total amount of capital the bank is authorized to rise through share issue.
50	Subscribed capital: the total amount of capital that has been issued.
10	Callable contribution: the amount each BRICS country has pledged to the bank.
2	Paid in contribution: the amount each BRICS country will physically pay to the bank.

Source: NDB Bank

The capital of the bank is US\$100 billion out of it US\$50 billion is paid in capital by each countries on the equal share US\$10 billion dollar by each and remaining capital is borrowed by bond sale and allowing new members to buy the bonds.

Progress so far made in New Development Bank.

As was decided in the Fifth Summit, headquarter of the Bank has been set up in Shanghai, China. The first Regional Centre of the NDB is set to open in Johannesburg, South Africa. It was also decided that the leadership of the Bank would be shared by all the member countries on a rotational basis. Mr. KV Kamath from India has been appointed as the Bank's first President. As per the NDB agreement 2014, The Bank has already allocated formal responsibilities to its four vice-presidents from South Africa, China, Brazil and Russia to initiate the official work of the Bank. Towards this end, all the five member countries have made their first contributions, worth a total of \$750 million, to the capital of the New Development Bank. The tranches to the Bank's capital were paid in accordance to the agreement signed in July 2015 at the Seventh BRICS summit in Ufa, Russia. The contribution to the Bank's capital stock is made through paid up capital (which has already been transferred to the NDB), and subscribed capital (which shareholders would provide in case it is needed). (CBGA march 2016)³.

Objectives of the study

- To study the aims of forming NDB.
- To understand how it is compliment to the existing financial institutions.
- To study the role of NDB for sustainable and infrastructure development in BRICS.

Multilateral Banks In global Level

The establishment of NDB is unique for a number of reasons. Unlike the development banks mentioned above, which have a predominantly regional focus, the NDB's founder countries are from four different continents and its potential fast growing economies in the globe. Furthermore, this will be the first time since the Bretton Woods conference in 1944 (which created the IMF and the World Bank) that the US has no influence in the governance structures of an international development bank (it is important to remember that the United States (US) is a founder-member of the International Development Banks (IDB), the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD). Finally, its creation is historically significant because this is the first time in modern history that China is actively role playing in the

creation of a multilateral institution. In fact, after knowing the first details of the bank's governance structures, it might safely be argued that China, India, and Russia are the leading countries behind the NDB project. Miguel Otero-Iglesias (2014)⁴

Aims of forming NDB

The development financing in the global south has been facing immense challenges as their development needs were not being met through the existing financial institutions. These economies are gradually becoming ineligible for getting loans from the World Bank's international banks associations and International Development Agency (IDA) at this juncture, the creation of a BRICS development bank offers a real opportunity to developing and emerging economies to meet their development needs (Oxfam, 2014)⁵. The western countries not only invented the World Bank and IMF up till now, the major international lenders of last resort but also gave themselves a controlling stake within both in institutions. They set out the rules of the game. Therefore, all they had to do to stay at the top and developing countries in the bottom. As a result, decisions were based on not what most developing and poor country's needs, but on what most of the advanced and developed countries want. This meant that the top rich shareholders held nearly 40 percent of total voting power at these institutions, while the countries like India and China, each approximately 20 percent of the world's population, enjoyed only about 2 to 3 percent of total voting power (SLS, Noida 2014)⁶. And many empirical research paper observed the following things, that the Emerging and Developing Economies (EDEs) has been motivated by the governance reforms in the IMF, which have been held since 2010 such as the; a) IMF and International Bank for Reconstruction and Development IBRD these institutions are dominated by advanced economies with little increase in their voice in the IMF; b) The U.S has 17.7 per cent of quota share in the IMF; c) The reforms cannot be done easily due to the inability of the US Congress for the reform the IMF. Moreover, since the U.S was the principal architect of the 2010 agreement, which proposed to reduce the quota, shares of European countries in favor of emerging economies.

The success full operation of the new institutions i.e., NDB will act as the necessary catalyst for reform of the IMF, World Bank and broader international financial architecture (Griffith-Jones 2014)⁷. While it is clear that any opposition to the new institutions has to be understood in terms of concerns over the rising powers, particularly China, the challenge implicit in the founding of the NDB and CRA with the western dominated international financial architecture centering on the world bank (the global policy institute 2015)⁸.

New Development Bank-A Complimentary Institution.

Popularly known as the Bretton woods institutions IMF and IBRD, the original aim of these institutions were to promote international monetary cooperation, facilitate trade growth and assist to meet the BOP problem. Today the IMF is an organization of 188 plus countries with a central responsibility for promoting global economic stability. Developing countries has been facing the challenges of infrastructure development due to insufficient long-term financing and Foreign Direct Investment (FDI) in addition to this developing countries have long criticized the convention that the head of the world bank and IMF should be from the US and Europe. While the US has a monopoly, and the Europe is dictatorship of the fund, the Managing Director MD is open to almost 40 countries. In reality the MDs who have headed from only six advanced countries. For all those reasons a new development is emerged parallel to the IMF and IBRD to financing or mobilizing resources for infrastructure and sustainable development projects in the BRICS countries and other emerging economies. The discussion on establishing a dedicated BRICS bank was continued in the Fifth BRICS Summit. One of the objectives of the proposed BRICS development bank was to operate as a complement, not a

substitute, for existing financial institutions both in the public and the private sector. The idea behind this was to strengthen the voice of developing and emerging economies in the development finance architecture, as well as to provide much needed additional finance. But given the absence of common interest between these countries, there were doubts whether the BRICS grouping will actually be able to give a concrete shape to this idea. These doubts were laid to rest, when the BRICS group formally announced the creation of the New Development Bank (NDB), during the Sixth BRICS Summit in Fortaleza, Brazil, in July 2014. The establishment of the NDB, particularly in the backdrop of the lack of reforms in the outdated Bretton Woods's institutions and norms, has been seen by many as one of the major achievements of the BRICS.

At the time of inception, NDB bank the BRICS grouping is 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. While the proposed initial financial capacity of the NDB and CRA are limited to the IMF's US\$ 750 billion and ADB's US\$ 165 billion. It can be analyzed that behind the NDB and CRA lie the stock pile of Forex Reserves of BRICS economies i.e., nearly US\$ 4 trillion dollars.

Table No:2. Contribution to CRA by Country wise (in bln US\$)

Sl.no	COUNTRY	CONTRIBUTION
1	BRAZIL	18
2	RUSSIA	18
3	INDIA	18
4	CHINA	41
5	SOUTH AFRICA	5
TOTAL		100

Source: Collected by author

The CRA is presented to pool reserves based on individual contributions from China is (US\$41bn), Brazil, India and Russia (US\$ 18bn each) and South Africa (\$5bn).

The New Development Bank and Sustainable Development in BRICS

The sustainable development is one of the important concepts of the 21st century to meet the needs of the sustainable development projects in BRICS and other developing countries. The NDB has taken an initiative to fulfill the gap. An NDB is supported activity has made to fund the inclusive development that benchmarks against development impacts and combats inequality. The undertaken projects should be gender-responsive, religion and culture-inclusive, appropriate scale solutions that increase access to affordable, quality, goods and services, especially for the most marginalized populations. Infrastructure development should make use of universal design to ensure accessibility for all, including persons with disabilities. NDB financed the activities of investment in small-scale and renewable energy projects, especially wind and solar, which often have less access to financing. In the Governance and standards NDB-financed activities to support good governance and combat corruption, while boosting the capacity of the public sector to deliver affordable, quality goods and services, to regulate in the public interest and to effectively manage social and environmental impacts.

The NDB has expressed interest in funding projects that conform to high environmental standards, including those in the field of infrastructure, such as energy, railways and highways in the future and initiated by providing loan to BRICS economies from 2016 itself and now in 2017 NDB approved the following projects to targeted sectors for 2017.

Table No: 3. The following Projects are supported by NDB 2017 (In US Million dollars)

Country	Loan amount	Barrower	End User	Target Sector	Impact
India	US\$470 mln	Government of India	Government of Madhya Pradesh	Renewable energy (wind, solar etc.)	Project covers more than 3400 villages and is expected to benefit over 3 mln rural population
China	UD\$300 mln	PRC government	Sub-Project PIUs in Changsha, Zhuzhou and Xiangton	-Renewable energy (hydropower) --green energy)	Improved water quality and food control in the main streams and tributaries of Xiang River
China	USD\$ 200 mln	PRC government	Government of Jiangxi Proviance	Renewable energy (hydropower) --green energy)	Saving of 95000 ton of coal
Russia	USD\$ 460 mln	government of Russia	Beneficiaries: supreme court, Moscow city court and district Courts, Federal Baliffs service	Social infrastructure	increased judicial transparency and efficiency

Source: NDB Handout materials, NDB website.

On the theme of sustainable development on 30 March 2017, the NDB and the Indian government signed a loan agreement approving the providing of US\$350 mln for Madhya Pradesh major district roads upgrade project. Loan agreement for the first Brazilian project was signed on 26 April 2017. The loan with the amount of US\$ 300 mln aiming at developing the renewable energy sector in Brazil will be provided to Bazillion national development bank.

Conclusion

The NDB of BRICS could increase the role as a global financial architecture. It will complement the existing multilateral financial institution and mechanism. It has initiated to focusing on the middle-income and developing economies infrastructure development. The newly established institution is not a substitute to the existing institution to meet the BOP problem and infrastructure funding shortage but complimenting to Bretton wood system. Finally it is important that BRICS countries must lend to other countries and reach the sustainable lending principle as soon as possible.

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