The BRICS’ New Development Bank: Shifting from Material Leverage to Innovative Capacity

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Abstract

This article argues that the BRICS’ New Development Bank (NDB) deserves more attention not because it is equivalent to the Asian Infrastructure Investment Bank (AIIB) but because of its differences. Unlike the AIIB the NDB does not possess impressive material capacity or overt connections to a wider state-led geo-political strategy. What distinguishes the NDB is its creative design with four significant elements of novelty. Unlike other multilateral financial institutions, including the AIIB, the NDB is committed to a principle of equality across its core membership. Product innovation is advanced by its promotion of sustainable development with an exclusive focus on niche clean renewable energy projects. The expressed aim of the NDB with regard to resources is to use green bonds denominated in BRICS’ national currencies. And the focus on delivery centres on the need for speed. Although each of these elements face severe tests, the ability of the NDB to navigate around serious internal tensions through improvisation and trade-offs points to an original emerging pattern of collective policy making and global governance.

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The New Development Bank (NDB) has not received the attention it deserves. The launch of the NDB has been overshadowed by the China-backed Asian Infrastructure Investment Bank (AIIB). While the AIIB is consistent with a model of structural-driven change in global politics, the NDB necessitates a more nuanced analysis around collective agency. With 20.06% of voting rights and a 30.34% or US$29.78 billion stake of the US$100 billion capital base (AIIB, 2015), China possesses a de facto veto in the AIIB. In sharp contrast the initial subscribed capital of US$50 billion in the NDB is equally shared among its five members, China along with India, Brazil, Russia and South
Africa (Agreement on New Development Bank, 2014). While the NDB has so far restrained from expanding beyond the BRICS, the AIIB opened up to 57 founding members thereby driving a wedge between those countries willing to follow Beijing’s lead and those (notably the United States and Japan) resistant in doing so. Although the extent of the global reach of the NDB is still very much in doubt, the AIIB is tied more explicitly to the ‘One Belt, One Road’ (OBOR) initiative designed to advance infrastructural development both on the westward land route from China through Central Asia and on the southerly maritime routes from China through Southeast Asia and to South Asia, Africa, and Europe (EU, 2015; Callaghan, 2016; Chin, 2016).

If the image of AIIB is one of the assertion of power associated with the on-going rise of a single actor as a regional and global power (Dollar, 2015; Smith, 2015; Whyte, 2015) the NDB is seen by many observers as burdened by the fragility of the BRICS’ shared identification. Originally created by Jim O’Neill and Goldman Sachs in 2001 to highlight the parallel trajectories (and investment opportunities) of the four original big and fast growing BRIC entities, the concept took on institutional life with the creation first of BRIC as an official summit process in 2009 and subsequently (with the addition of South Africa) BRICS in 2011. Notwithstanding this progress, however, pervasive skepticism remains about how this transition from artificial acronym into diplomatic club plays out in terms of operational effectiveness. Although proving resilient to the immediate shocks set off by the 2008 global financial crisis, since 2013 the economic performance of the BRICS has been less stable. Goldman Sachs’ closed its BRICS investment fund in 2015, and the growth record for all of the BRICS members slowed appreciably (Sharma, 2012).

Altered images about the ‘rise’ of this cluster of countries is reinforced by doubts – including those emanating from Joseph Nye - concerning the BRICS members’ ability to sustain meaningful forms of common action (Nye, 2013. See also O’Neill, 2013). Were there enough commonalities to allow a morphing into a sustained organization? Certainly building a culture of cooperation necessitates overcoming serious constraints in terms of national interest and identities (Stuenkel, 2015; Cooper, 2016). On top of fundamental
differences in economic profile, and domestic political systems, there are serious geo-
political sources of competition among the BRICS countries. China and India, as well as
Russia and China, have embedded legacies of territorial disputes. Institutionally, there is
a marked contrast between the advantages enjoyed by Russia and China in the global
system as veto-wielding insiders within the United Nations Security Council (UNSC) and
India, Brazil, and South Africa as aspirants outside the Permanent Five (P5) membership.

Yet the NDB merits detailed examination precisely because it has moved to
creating new institutions despite the challenges of doing so. Although the creation of the
AIIB is testimony to China’s material and diplomatic leverage, its design borrows heavily
from the foundations of established multilateral financial institutions above all the World
Bank/The International Bank for Reconstruction and Development (IBRD) and the Asian
Development Bank (ADB). For example, in a linguistic analysis of the founding
declarations of the three bodies, a detailed academic study demonstrates that that they are
virtually identical, save for two articles (Article 15 on technical assistance and Article 36
on references) in the AIIB that diverge from the template (Wan, 2016). Moreover, the
pull towards reproduction of established practices is reinforced by the extension of
membership to core actors in the international financial order and the use of co-financed
projects with the World Bank and the ADB. As Wan concludes: ‘The newcomer AIIB is
strikingly nested to the IBRD and the ADB’ (Wan, 2016: p84).

In contradistinction the NDB departs not only from the embedded model of these
core multilateral financial institutions (Economic Times, 2015; World Economic Forum
2015) but from earlier initiatives promoted by components of the global South. From this
perspective the NDB has a claim of originality that belies the suggestion that it represents
a continuation of ‘familiar initiatives by newly arrived economies’ such as the creation of
development banks by the Middle Eastern oil producers in the 1970s (Kahler, 2016). If
indeed there are similarities with this category of initiatives such as the Islamic
Development Bank or the OPEC Fund for International Development - due to the
combination of material weight, geopolitical purpose, a push to recycle surplus savings
into investment, and an asymmetrical distribution of power among members - this semblance is with the AIIB not the NDB.

This article argues that the NDB should be cast in a revised manner due to the prominence of a number of distinctive features. The first is the substitution of the principle of equality for the inequitable representative structure of the traditional MDBs. Although this form of innovation in terms of decision-making has been subject to lengthy negotiations and is far from complete in operational practice, the principle of equality with respect to the NDB’s members’ rights and obligations marks a distinctive shift in the application of the tenets of global governance. A second feature that distinguishes the NDB is the departure from the emphasis on major infrastructural projects at the core of the established model. Whereas the AIIB reproduces the traditional template, the NDB signals its intention of advancing product innovation, as witnessed by the preference for sustainable development via green infrastructure. If at the initial stages of implementation, this turn is indicative of the NDB’s focus on niche projects. A third feature of note is the expressed aim of the NDB to build up its capital base through innovative means by the issue of bonds denominated in BRICS national currencies, and with a focus on green bonds. How this test of resource innovation plays out is still before us, but its pursuit has serious implications stretching into interactions with credit rating agencies. Finally, a fourth feature of the NDB is its concern with catching up on delivery innovation. Given the delay in launching the NDB, this emphasis on speed is in part a form of compensation about the need to catch up in terms of performance. A nimble and focused style of delivery has the potential for differentiating the NDB from the other multilateral financial institutions.

All of these features underscore the NDB as signaling a shift from material leverage towards an association with ideational capacity. Such a recalibration does not mean a process in which a collective form of innovative leadership smoothly overcomes the constraints of divergent positions among the NDB’s members. Whereas the AIIB was animated dramatically as part of China’s ‘striving for achievement’ grand strategy (Yan, 2014), the implementation of the NDB was marked by intricate and time-consuming
negotiation. Each of the features central to the identity of the NDB has been contested. India in particular remains wary of China’s operational domination of the NDB, especially as it originally took the lead in the creation of the institution (Mathur, 2016).

While such disagreements cannot be ignored, however, they should not be exaggerated to the point where the NDB risked failure. While significant tensions – and displays of power politics – continue to be on display, these attributes have been contained by improvisation and trade-offs indicative of a strong and resilient club culture (Cooper and Farooq, 2015; Cooper, 2016). In overall terms the NDB constitutes a distinctive model in the design of collective global policy.

**The Principle of Equality in Process Innovation**

A strong impetus for the creation of alternative multilateral financial institutions was to create a structure based on equity of membership. The commitment to the principle of equality in governance decision-making stands out as one of the most striking characteristics of the NDB (Zhu, 2015). Significantly, however, the details of how this principle was to be implemented proved to be one of the major sources of tension among the BRICS, with China willing to bend the principle, by offering to make a larger financial contribution to initial subscribed capital on grounds of efficiency and India in particular holding the line that the NDB should maintain its uniqueness through a strict form of equity of contribution.

Because of its concerns about Chinese domination of the NDB India maintained its stance on the equality principle through the various stages of negotiation (Sahu, 2013; Krishnan, 2014). The intensity to which India held this position is testimony not only to the frustration that it felt about the lack of fairness in dealing with the IFIs but also to the sensitivity that its ideational leadership on the NDB initiative was threatened by China’s financial clout. Looking back it is important to note that it was India and not China that took the lead in exploring alternative strategies for development financing in the aftermath of the 2008 global financial crisis. Prime Minister Manmohan Singh built on his own extensive background as chief economic adviser, reserve bank governor, and
head of the Planning Commission, as well as his role as Secretary General of the South Commission, to champion such efforts. At the Seoul G20 Summit in November 2010, for example, Singh argued for the use of a different sort of tool to foster infrastructure development (*The Hindu*, 2010). Faced with the challenge of massive imbalances, he proposed a new institutional instrument for recycling surplus savings into investment.

Given this context, it was not surprising that India made the establishment of a New Development Bank the pivotal agenda item at the March 2012 BRICS summit it hosted in New Delhi. The finance ministers’ meeting held just prior to the summit endorsed this initiative as a priority. And, signaling the extension of the BRICS from an exclusive state-centric club to a wider network, the 2012 BRICS Academic Forum—which included leading Indian think tank Observer Research Foundation (ORF)—recommended the summit study ‘the establishment and operational modalities of financial institutions such as a Development Bank and/or an Investment Fund that can assist in the development of BRICS and other developing countries’ (BRICS Academic Forum, 2012).

China did not block the establishment of the NDB, but its initial ambivalent reaction to India’s proposal slowed the process of negotiation and institutional creation. Throughout the protracted negotiations, Chinese commentators questioned whether the principle of equality undercut institutional performance. As Zhu Ning, a professor at the Shanghai Advanced Institute of Finance, was quoted from an interview with China Central Television: ‘If the five countries have an equal share in the same entity, there will be coordination problems’ (Krishnan, 2014). The main concern remained instrumental. If the NDB was to be successful China took the point of view that it needed the requisite resources to deliver in terms of institutional performance.

Ultimately, with the help of the other members, India was able to mobilize a successful defense of the broad principle of equality, a condition embedded in the declaration of the NDB. But China pushed back on two other issues that although they undercut the image of equal treatment among the members were also driven by concerns
about efficiency. The first of these centred on the location of the headquarters of the bank. India made its claim to this function by playing up its role as the inspirational force behind the bank (Chand, 2013). China instead took the view that the headquarters should be in Shanghai, a position that was championed as well by key Chinese think tanks (Shanghai Forum, 2013) on the basis of comparative advantage.

A second issue related to the principle of equality was on the question of whether or not the NDB could lend to BRICS members only or to non-members as well. China pushed to open up the client base beyond BRICS members; while India—looking to meet needs at home—wanted a more concentrated focus. Put another way, while India prioritized building its own infrastructural capacity, China with its advantage of an enormous current account surplus sought alternative and less sensitive means to finance development projects on a global basis.

To its credit the club culture of BRICS – with the initiative symbolizing an assertion of political sovereignty of the five members - enabled the members to remain cohesive even under stress. Yet maintaining organizational cohesion was predicated on a somewhat awkward equipoise on the major issue under debate. While the BRICS adhered to the original model on initial subscribed capital, with the allocation of $50 billion from contributions from each member (divided into paid-in shares of $10 billion and callable shares of $40 billion), it was also decided that over time the NDB would move toward achieving a maximum authorized capital of $100 billion.

In an even more evident sign of a balancing act within the club culture, China secured the location of the bank in Shanghai. As a form of trade off India in return received the first term of the presidency for five years, followed by five-year terms for Brazil (which in the initial distribution received the first chair of the board of directors) and Russia (which received the first chair of the board of governors) (Agreement on the New Development Bank, 2014). On the issue of eligibility for receiving loans China won out as well, with the acceptance of the idea that the NDB should be able to lend on a global basis. If China gained most of the advantage from this extended reach in terms of
delivery, India received some compensation on the resource dimension. For an endorsement of the principle to allow a minority voting share (between 40 per cent and 45 per cent) to other countries including industrialized nations supported the position that India had long advocated. This opening up not only allowed some possible diluting of Chinese dominance, it contributed to the possibility that the NDB could add to its capital resources from other countries with top tier credit ratings (Sahu, 2013).

In institutional building terms living up to the idea of process innovation based on equality proved a struggle. In declaratory terms the dominant theme continued to be that the NDB epitomized a new form of democratically oriented financial institution. Significantly though, the incoming Indian president (with experience at both ICICI Bank and software services exporter Infosys as well as the ADB), KV Kamath acknowledged the need to navigate around the different interests and identities of the member countries (Wildau, 2015).

In comparative terms the success of the NDB in maintaining the strong club culture resonates because of the differences with the AIIB. In terms of membership of the AIIB’s board a degree of fairness was institutionalized, with China receiving only one seat among the 12 (non-resident) board of directors (AIIB, 2015). However, in a variety of other ways, Chinese control over the AIIB systematically reproduces the structural power provided for the US and Europe with respect to the post-1945 IFIs and within regional organizations such as the ADB (where China and India have relatively small shares of voting rights, 5.5% and India 5.4% respectively, in comparison to Japan and the USA which each hold 12.8%) (Vestergard and Wade, 2013; Reisen, 2015). Along the lines of the IFIs, the basic votes and founding members votes are set and the share vote is distributed based on the size of each member’s GDP, providing China with a built in advantage. Considerable autonomy is given as well to the executive management team of the AIIB and in particular to the president, the selection of which China has a dominant say. Through this lens the design of the NDB, with its variety of compensatory trade-offs, marks an important departure in the model of collective global policy making.

**Advances in Product Innovation**
A second element that united the BRICS was a deep frustration with the way the traditional financial institutions delivered development. In terms of product innovation the core grievance centred on the inability of the World Bank and other institutions such as the ADB to meet the infrastructure financing needs in the global South (Griffith-Jones, 2014). In tandem with the reluctance of private investors along with pension funds and sovereign wealth funds to take on long-term projects the gap stretched out to some $1 trillion annually (Bhattacharya and Romani, 2013; Chin, 2014).

The AIIB sought to address these deficiencies by a degree of institutional parallelism to the traditional financial institutions. Responding to the sheer size of the deficiency the AIIB sought to scale up its activities. With the prospect of obtaining a AAA bond rating (due to the presence of a number of major economies), a scenario by which the AIIB could build its capital to $100 billion or more by 2025 is quite likely, giving it a sizeable presence albeit still one considerably lower than the size of the $400 billion combined capital base of the World Bank and ADB (Humphrey, 2015a; Elgin-Cossart and Hart, 2015). An optimistic scenario suggests that the AIIB in five years would be able to lend $20 billion per year, a figure roughly equivalent to the annual lending by the World Bank’s IBRD window (Dollar, 2015).

What stands out in this approach is the degree of orthodoxy attached to it. Akin to established economic development theories the approach places primacy on major projects focusing on transport links and energy. The former was placed in the most prominent position with the major projects announced in its initial cluster of projects being the China-Pakistan Economic Corridor, an expressway connecting Dushanbe, the capital of Tajikistan to the border of Uzbekistan, and a ring road in Almaty, Kazakhstan’s largest city (AIIB, 2016) The latter component aroused special controversy as the president of the AIIB, Jin Liqun, suggested in an October 2015 speech that the AIIB could consider investing in coal-fired power plants - along the lines of the World Bank’s support for projects such as Medupi coal-fired power plant project in South Africa- where there was no other forms of access to power (Brookings, 2015).
Concerns by India have emerged about the wider implications of China’s material leverage in using the AIIB to drive the OBOR initiative, with particular reference to the China-Pakistan Economic Corridor project. Through a strictly economic lens a strong argument can be made about the promise of OBOR in allowing ‘India a new track to its own attempt to integrate South Asia’ (Saran, 2016). Alternatively, through a geo-strategic lens, the emphasis remained on the potential danger of the initiative adding to, not easing regional tensions. Most significantly, the Indian government had sensitivities about the China-Pakistan Economic Corridor because it included projects in territory that India claims. Under these conditions India insisted that a provision be inserted in the charter of AIIB that requires project financing in disputed territory to have the agreement of the disputants, a restriction that ultimately shifted funding for this project from the AIIB to the bilateral Silk Road Fund (Madan, 2016).

By this standard the NDB stretched the model of product innovation in a number of important ways. Eschewing any desire to mirror the repertoire of the traditional financial institutions, or for that matter the AIIB, the NDB set out to constitutionally promote an alternative mode of development the foundation of which is sustainable development via projects promoting green infrastructure.

From the perspective of product innovation the feature that stands out in the first round of loans (announced in April 2016) amounting to US$ 811 million is not the embrace of a large infrastructural model. Rather the design privileged small-scale projects with between 12 and 20 year terms related to clean renewable energy in each of the BRICS with the exception (at least in the initial announcement) of Russia. Brazil’s Banco Nacional de Desenvolvimento Economico e Social received the biggest loan, to the amount of $300m, to help build 600MW of renewable energy capacity. The NDB also gave a $250m loan to India’s Canara Bank, with $75m earmarked for 500MW of renewable-energy projects. South Africa’s Eskom secured a loan of $180m for power lines that can transmit 670MW and transform 500MW of renewable energy generation. China’s Shanghai Lingang Hongbo New Energy Development also got an $81m loan, to fund 100MW of rooftop solar power (Sasi, 2015; BRICS Post, 2016b).
As on the commitment to the principle of equality in terms of process innovation India provided the ideational catalyst for this component of product innovation. In the targeting of the clean energy sector the intervention of Prime Minister Narendra Modi was decisive. At the Ufa summit Modi asserted: ‘I would like to see the first major project funded by the New Development Bank to be in the area of clean energy. BRICS bank’s first project should be green’ (Pashley, 2015).

Unlike on process innovation, it needs emphasizing, this push on sustainable development by India with regard to the NDB did not accentuate tensions with China. On the contrary it tapped into China’s own desire to pursue a green agenda, as evidenced by both the central tenets of the 2016-20 five-year plan aiming to transition to a low carbon economy and the more ambitious effort to develop an ‘ecological civilization’ (Zhang, 2015).

For all of its ambition a number of serious limitations stand in the way of the NDB substantively advancing product innovation. In country specific terms the delay in picking a project from Russia in the public announcement of the first round of investment stands out as a deficiency on the principle of equality. Although this delay did not last long – from April to July 2016 – with the announcement of NDB financing for the construction of two small hydroelectric power stations in Karelia - Byeloporozhskaya HPP-1 and Byeloporozhskaya HPP-2 with a total investment of 11.8 billion rubles (TASS, 2016), the differentiated roll out is puzzling. Not only was Russia a strong supporter of using the bank for internal BRICS development but had moved out ahead in presenting a small-scale power generation project in Karelia as a candidate for support, consistent with the statement of the Russian finance minister Anton Siluanov on the sidelines of the G20 ministerial meeting that the NDB would have its ‘priority on green energy developments’ (NDB, 2016). However, for reasons either because of the need to confirm the green credentials of this project and/or complications due to the wider geopolitical environment (some hydropower operations in Karelia as in other parts of the Russian federation have come under pressure from US sanctions over Crimea/Ukraine, as
witnessed by the sale of the assets of TGC-1’s assets to the Finnish company Fortum) a Russian project was left off the initial list.

Another problematic feature is one of continuity. To experiment with small-scale projects focusing on green energy within the BRICS members does not exclude the possibility of moving into major infrastructure projects beyond this locational confinement. When the chair/presidents of the national development banks of the BRICS – vital if a process of on-lending was to be instituted- met at the 2015 Ufa summit, the challenge of proving green credentials was subordinated to the principles of equality, mutual benefit, and responsible financing (Exim, 2015).

As it is there is pressure building up among the BRICS membership for scaling up the quantitative ambition of the bank, so as to send a signal that the massive infrastructure gap in Africa and Latin America would not go unfilled. Highlighting the tension between the focused component of the first projects endorsed by the NDB and the much wider need are the proposals by the South African government for a more ambitious set of projects to be financed by the African (regional) Resource Centre of the NDB, a list that includes the Inga hydro power station in the Democratic Republic of Congo (DRC), a water project connecting it to Lesotho, electricity transmission lines in South Africa, and a water pipeline project in Gauteng province [Xinhua, 2016].

Finally there are an array of barriers between introducing the green energy projects and devising a set of policies or procedures that take into account environmental and social risks. Unlike the AIIB that formally set up an ambitious – albeit highly contested - draft framework along with a process of consultation, the NDB has put off setting up any social and environmental guidelines. As a representative of the NGO Friends of the Earth put it: ‘How the bank defines green is something the bank should clarify up front before issuing any finance…it is a red flag that the bank remains immature as a financial institution and may not be ready for the international stage’ (Soutar, 2016).
The Test of Resource Innovation

On the anticipated means of raising capital from markets beyond the subscribed level initially allocated by the BRICS members states the claims of novelty by the NDB is extended appreciably further. Akin to the World Bank and the other multilateral development banks the AIIB indicated its adherence to the US-dollar dominated international finance system. The structural leverage exerted over the AIIB, further, facilitated China’s mobilization of its US dollar reserves through this instrument to invest in regional infrastructure. If flagging the possibility that in the future it could denominate some of its loans in other currencies such as euros or RMB, at the core of its model was a business as usual approach.

There were some practical incentives for the NDB to raise capital through the issuing of bonds denominated in the local currencies of the member states, in that to do so could potentially create five capital pools (He, 2016). Building on the momentum of the first round of loans allocated by the NDB President Kamath elaborated on the plan to issue debt in local currencies, with a bond worth 3 billion Chaines Yuan/RMB ($455.93 million) in the Chinese market ‘in the next four weeks’, followed by an Indian issue of approximately the same size, a potential Russian ruble dominated issue ‘in the next two quarters’ focusing on pension funds and banks as the key investors, a rand dominated issue in South Africa ‘slightly smaller’ than China, and into the distance a Real denominated issue ‘of course’ (Golubkova, 2016).

The crux of the NDB plan was to turn material weakness into ideational strength. Financing from the hard currency international markets, in the orthodox fashion as anticipated in the AIIB, presented a difficult hurdle for the NDB. Although the NDB wanted the big 3 rating agencies to give the NDB a rating before it issued the first round of loans, this goal was not achieved (BRICS Post, 2015b; Humphrey, 2015b). This deficiency opens up the NDB to the disadvantage of higher loan costs.
Among the individual members only China has a credit rating (AA-) of an investment grade high quality and low risk to enable international financing of the nature necessary for infrastructure investment (Wang, 2017). Such limitations reinforce the attraction to look to financing in domestic markets. Stretching the model of innovation even further, the issuing of green bonds was made pivotal to this strategy.

As in other areas, the attraction of this type of bond was in large part instrumental with respect to opening up a new finance flow allowing a successful confrontation with the impact of climate change. Still a more deep-set attraction for the NDB to differentiate its practices from other financial institutions was normative in nature. By utilizing green bonds as the vehicle for raising capital to support its mandate of promoting sustainable development the NDB wanted to make a statement about its new-fashioned model. As Kamath put it: ‘All of this comes together to signpost something that is significantly more than just economic change’ (Aneja, 2016).

Although lacking a rating from the big 3 credit agencies, the NDB made some tangible progress in the implementation of this model. In China, where the bank had been accorded an AAA investment rating from domestic agencies (China Chengxin Credit Rating Agency and China Liaanhe Credit Rating) (Wang, 2016), the NDB moved quickly so as to be able to issue five-year RMB bonds. In India ICICI bank positioned itself as the initial partner with NDB, based on the notion that it would facilitate the issuance of rupee-denominated bonds, along with co-financing, treasury management, and human resources (ICICI, 2016).

This progress, nevertheless, does not disguise the extent to which the structural barriers confront the implementation of the NDB’s strategy. Without the advantage of a rating from the 3 big credit agencies the scale of the capital pool by the issuing of bonds was smaller than initially intended. Although Kamath maintained an optimism that a bond issuance worth 3 billion RMB or $455.93 million would take place in the Chinese market (with Vice President and Chief Financial Officer Leslie Maasdorp taking the figure to be between 3 and 5 billion RMB) (BRICS Post, 2016a), when the first bond
float took place it was to the order of up to $384 million in green bonds – still a substantive amount but one reduced from the original figures.

At the same time some of the ideas designed to bind the BRICS together were also curtailed. As originally conceived by Kamath the NDB’s model forecast an appetite for new instruments including swaps (in which monies could be borrowed in one country and lent in another country), but in practice exchange rate risk pushed the borrowing and loans back to the national currencies of the BRICS (BRICS Post, 2015).

Even if the float was not quite as large as predicted, the move into green finance held some considerable attractions. On a national basis China gained a number of advantages from the issuance of green bonds on the domestic market. For one thing it allowed China to embed the practice of issuing green bonds – a practice where China has moved out in front in terms of official rules established by the National Development and Reform Commission (NDRC) - as part of a wider strategy of financial diversification and standard setting. For another thing Shanghai was strengthened as a financial hub, piggybacking on the moves to liberalize the bond market and capital markets. Additionally, it provided China with comparative advantage in terms of other financial mechanisms. China’s domestic bond rating agencies – seeking credibility - were given a boost in the absence of a rating by the big 3 agencies. And as witnessed by the appointment of four Chinese banks and two international banks (with the Bank of China in the lead) to act as the underwriting group on the bond issuance new types of collaboration could be forged. To give just one illustration of the spillover relational effect China Construction Bank (included in the underwriting group on the RMB bond issuance) went on to sign a strategic cooperation agreement with the NDB designed to forge a ‘long and mutually beneficial partnership’ (BRICS Post, 2016c).

Nonetheless these innovations opened the way for a wider set of benefits. Although the NDB green bonds were issued initially only in RMB, the image of collective decision-making was reinforced because – as highlighted by NDB Vice president Zhu Xian - this was the first case of bonds being issued by a non-Chinese entity
on the Chinese bond market (Sputnik, 2016) And as the NDB moves toward the second round of loans in 2017, expectations have been accentuated that these will be delivered in local currencies as a means to advance sustainable development projects. President Kamath has talked for instance of the NDB raising $500 million through rupee-denominated bond, although pointing again to the lack of deep capital markets beyond China this would be done as a masala bond targeting overseas markets (Kumar and Singh, 2017. See also Bagchi, 2012).

**Catching up in terms of Delivery Innovation**

In addition to all the other modes of innovation central to its model, the NDB wanted to do things differently with respect to delivery. Frustrated by the slow pace of implementation from the traditional financial institutions the NDB stated repeatedly that one of its foundational priorities was speed. As President Kamath stated at the time of his appointment: ‘One of the areas that we will focus is that lenders want the borrowers to follow a certain timeline. We need to see what innovation is required to ensure that this timeline is meet or to try to reduce this timeline’ (Economic Times, 2015).

In some aspects these concerns cross over to the AIIB. The institutional features of the AIIB and the NDB reveal an undercurrent of criticism towards the operating style of the World Bank – and ADB- with the privileging of a resident board that approve all loans. Such a format was deemed not only to be a large strain on budgetary resources, but an impediment to efficient project management. Moving away from this mode of operation both the NDB and the AIIB choose instead a non-resident board on the premise that this format would allow decision-making in a timely and budget-conscious manner (Dollar, 2015). The first round of NDB loans, for example, were announced at the board of governors on the sidelines of the annual meets of the IMF and World Bank.

In an effort to quicken the pace of delivery, the NDB has become more risk oriented than the AIIB in entertaining a different balance between speed and oversight. The main point of differentiation with traditional financial institutions for the AIIB has
been a break with practice of conditionalities. Where it accepted the culture of the same financial institutions is on the requirement for legally transparency and social and environmental protection, through the AIIB’s Environmental and Social Framework.

Confident that its projects will have little or no impact on the environment, the NDB is far more robust in its break with forms of institutional oversight. The institutional emphasis on catching up in terms of delivery innovation, though, came with a cost in terms of wariness from civil society groups. As noted above in the debate about product innovation, suspicions persisted that a faster pace in the delivery of the projects supported by the NDB were inconsistent with sustainable development goals.

In any case, without the material heft of the AIIB the NDB had to improvise as it went along. The mantra of the NDB became not ‘best practices’ reflective of a ‘too rigid, inflexible, and slow’ orthodoxy but ‘next practices’ showcasing development as a dynamic and flexible process (Financial Times, 2015).

What offers some extra encouragement that the NDB can indeed catch up in terms of delivery innovation is the evolution of the NDB’s management team as an autonomous entity. From the outset the NDB had to carefully balance the national interests and identity of its members. But through the use of the mantra of speed, the NDB professionalized bureaucracy offers a means of cajoling the members to work faster to meet the goals of the NDB and thus signaling that the NDB has an important point of comparative advantage with respect to other institutions.

**Conclusion**

It is tempting to maintain the view that the NDB is simply a smaller, materially less significant, replica of the AIIB. The mainstream literature continues to depict the NDB in this manner. As one close observer notes: ‘Many questions remain unanswered about the two banks… What is evident is that the AIIB is well positioned to become a major player
in development finance in coming years, while the NDB’s future impact is much less clear’ (Humphrey, 2015a).

Although acknowledging that the NDB has far less resources than the AIIB, there is both a normative and instrumental purpose to the institution that departs from - and improves - the model of other financial institutions. This originality is especially evident in terms of the features of privileging of equality and the degree of product innovation. To be sure, the commitment to the principle of equality in process innovation should not be exaggerated beyond recognition. As Kahler points out the NDB cannot avoid touching on sensitive governance issues (Kahler, 2016). The first choice of China was an asymmetrical form of contributions, with the Chinese government willing and able to make capital allocations at a much higher ratio than the other members. Yet the implications of a sustained commitment by the NDB to a democratic culture should neither be ignored. Institutionally it means that the NDB has to constantly negotiate rather than react to the interests and identity of a single powerful country.

In terms of product innovation the decision to promote on an exclusive basis green infrastructure with respect to energy projects serves as another attractive point of departure for the NDB. Again this approach was not completely seamless one. Nonetheless, an integral connection between the NDB and sustainable development has been carved out. As in the case of the equality principle such a focus alters the image of the NDB as a distinctive- institution. Unlike other initiatives including notably the AIIB that are deemed be both a replica of the traditional multilateral model and a threat to the embedded order, the NDB avoids being typecast as either. Through its exclusive association with clean renewable projects it seeks originality of design. By what can be termed its soft alternative approach of institutionalization it avoids an association with a hard geopolitical challenge.

The toughest test for the NDB to deal with concerns resource innovation. At one level this problem becomes obscured by China’s backstopping of the NDB. As the others members fall back in terms of capabilities, China has stepped up notably by
experimenting creatively with green bonds backed up by viability of Shanghai as a financial centre and the use of national credit agencies. At another level, though, this disjunction opens up further potential strains with respect to the solidarity of the BRICS (Chin, 2014: 372. See also Cooper and Asif, 2016). A case in point is the suggestion that the BRICS create a new credit rating agency of their own. Whereas India appears to be pushing the idea – in a reprise of its earlier bout of leadership – China appears indifferent or even opposed (India Express, 2016). A Memorandum of Cooperation for instituting a BRICS credit rating agency, a draft of which was discussed by a technical group at Udaipur in March 2016, was not signed at the Goa summit (Katz, 2016).

Catching up in terms of delivery innovation, a process where the management team of the NDB has become as vital as the member states, could play out in different ways. By moving the NDB forward there is the possibility that the separation between China and the other members will be accentuated. Equally, however, an argument can be made that it is only by pushing the other members forward although in an asymmetrical manner that the NDB can come up to its impressive promise as an innovation-oriented institution.

Far from being marginal, then, the NDB rests at the intersection of a variety of key debates about global governance. Can a club model work when it moves from informal activity to formal institutionalization? Can an initiative based on green development be sustained on parallel lines by the BRICS? Can the NDB be instrumental in upgrading their resource capacity without exacerbating a division between asymmetrical partners? And can the NDB reinforce the image of speed through a continuous process of fast delivery. While this article provides an initial assessment about the trajectory of the NDB, each of these questions deserves ongoing review.

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