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Op-ed

Re-modeling the BRICS New Development Bank *By William Gumedé*

The BRICS New Development Bank (NDB), with a new mission, new members and under new leadership, is facing a number of hurdles to establish itself as a development bank for developing countries, rather than just a bank for the BRICS trade alliance.

The Shanghai-based NDB was established in 2015 by the BRICS nations – Brazil, Russia, India, China, and South Africa – to challenge the existing Western-dominated global financial institutions such as the World Bank and International Monetary Fund (IMF), for excluding them in shareholding, decision-making, representation voting and ideas.

Former Brazilian President Dilma Rousseff was appointed as president of the bank in March this year, to provide fresh leadership to the organisation. Rousseff has stated the bank's ambition to forge what she calls "a bank made by developing countries for themselves".

However, the bank's ambitions have been short-circuited by Western sanctions against Russia because of its war on Ukraine. The sanctions have slowed the bank's lending, its ability to expand more rapidly and secure more diversified funding. The bank suspended all its activities in Russia, fearing Western sanctions, after it couldn't issue a US\$1.06bn Russian bond following setting up a rouble programme in 2019.

The NDB is heavily dependent on US capital markets, with around 70% of the bank's capital in US dollars. Sanctions against Russia have increased the bank's borrowing costs – a five-year US\$1.5bn bond issued by the bank in 2021 had a 1.125% coupon; but two years later it had a 5.125% coupon, more expensive than other development banks.

The increased costs of the bank's lending resulted in reduced new lending. The bank only lent US\$1bn loans in 2022. The bank's CFO, Leslie Maasdorp, told Reuters that because "of the capital market challenges of 2022, and in an endeavour to preserve the bank's core financial ratios, there was indeed a slowdown".

The Russia-Ukraine war has propelled the BRICS countries to push the bank to play a central role in its strategy to 'de-dollarise' global markets, by increasing its lending in local currencies, reducing its reliance on the US dollar as the dominant currency of transactions and reducing the risks of foreign exchange fluctuations.

Currently only 22% of the bank's transactions are in local currencies, which it wants to increase to 30% by 2026. The idea is that BRICS members should be able to use their own currencies to finance projects or do trade in other member countries. However, most developing countries use the US dollar to trade, borrow and price the commodities they produce.

Many BRICS members also have dollar-denominated debt, which has increasingly become expensive to service, as the US central bank often raises interest rates to counter downturns in its domestic economy. This, in turn, destabilises the economies of developing countries.

As part of this new strategy to de-dollarise, the bank will, in 2023, lend in the South African, Brazilian, and Indian currencies – either through currency swaps or debt issuing. The bank is now planning to register to issue bonds in Indian rupees to the tune of US\$2.5bn over five years.

The bank issued its first South African debt sale in 2023 when it sold R1.5bn in bonds, which will be used to fund development, infrastructure and industrialisation initiatives. The NDB also plans to fund South Africa's ailing state-owned entities, but will provide funding to private companies too, it says.

Most of the bank's funding has been from the Chinese market. In May 2023, the bank raised 8.5bn yuan (US\$1.20bn) through a so-called Panda bond, with the proceeds being invested as part of the bank's liquid assets. The Bank of China was the lead underwriter of the bond.

The bank's model is also under pressure. It aims to lend without attaching political conditions – such as good governance, structural adjustment or using the staff or businesses of the lender as part of its loans – to distinguish itself from the World Bank, IMF, and Western lenders. But while the bank says it will not demand political conditions for its loans, the challenge will be applying financially responsible conditions, to ensure its grants are prudently used and extract remedies when lending is abused.

The bank's other challenge is how to ensure the commercial sustainability of projects, particularly since it sources large amounts of its funding from the markets. The one condition the bank requires for its loans is that governments must guarantee the loans they give to domestic state development projects.

It is moot whether the NDB will be more robust in its respect for the environment, dignity of communities, good governance and human rights in its development projects than traditional Western lenders. It is crucial that civil society organisations, the media and human rights activists in the developing world hold the bank accountable.

In terms of geographic representation, the bank compares poorly with other development banks. Bringing in new members is critical for the bank to diversify its project portfolio, mobilise capital and to de-dollarise. The entry in January 2024 of six new BRICS members – Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates – will not only boost the bank's geographic representation but may bring much-needed fresh capital and projects.

The strength of the US dollar is partially based on the currency underpinning oil trade – the petrodollar. Currently only Russia is a large oil producer in BRICS. If the petrodollar BRICS members trade with their own currencies within BRICS, it could substantially accelerate the de-dollarisation of the world.

The bank's governance structure also needs a rethink. It currently provides that the five founding members – who jointly hold the majority share of 55%, with each member having an equal vote – will retain the majority voting power and the senior board and executive positions. The agreement stipulates that the bank leadership will be rotated among the shareholders.

Although the bank tries to make decisions based on consensus, there are fears that the founding members will dominate decision-making, similarly to how the US or Europe dominates the World Bank

or IMF. The bank will have to find ways to include new members in decision-making, voting and representation.

Lastly, is the question of whether the NDB can maintain institutional independence from its shareholders. Many emergent countries' development banks have failed because decisions to lend are often based on political motivations rather than for purely growth reasons – leading to unsustainable, poor quality and low development impact projects.

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