**Syllabus subtopic:** Important International institutions, agencies and fora, their structure, mandate.

**Prelims and Mains focus:** About BRICS, NDB, NIIF, AIIB

**News:** New Development Bank (NDB), earlier known as the BRICS Development Bank, has committed $100 million to India’s National Investment and Infrastructure Fund’s (NIIF) Fund of Funds.

**About NDB**

NDB is a multilateral development bank that was created by governments to leverage capital for development purposes, especially infrastructure projects.

Founded by Brazil, Russia, India, China and South Africa (collectively the BRICS countries) in July 2014, the bank was launched a year later with an initial authorized capital of $100 billion.

**Funding received by NIIF’s FoF so far**

Earlier in August, NIIF Fund of Funds (FoF) received a commitment of ₹667 crore (close to $100 million) from the Asian Development Bank (ADB), according to a disclosure on ADB’s website.

NIIF’s Fund of Funds, according to the disclosure, is looking to raise about $1 billion to invest in up to 10 private equity funds managed by fund managers in India. Its portfolio funds are expected to provide primarily growth capital to firms across sectors, including green infrastructure, affordable housing, manufacturing and services.

Of the targeted corpus, the fund has so far received commitments worth $700 million, including investments from NDB and ADB.

In June 2018, Asian Infrastructure Investment Bank (AIIB) had approved an equity investment of $100 million as part of FoF’s initial closing, committing a further investment of $100 million as part of phase II for the final closing.

**About NIIF**

Envisioned in the Union budget 2015, NIIF was launched as an alternative
investment fund in December 2016 with a target corpus of ₹40,000 crore.

NIIF is a quasi-sovereign wealth fund, in which the government of India holds 49% equity with the rest held by foreign and domestic investors, is mandated to invest in infrastructure and related sectors that could help fuel economic growth in the country.

Its investments are diversified across its three funds—Master Fund, Fund Of Funds and Strategic Fund, across which it manages $4 billion of capital commitments.

Its Fund of Funds is mandated to invest as an anchor investor in third party fund managers. It can also selectively form joint ventures with fund managers.

In 2017, Abu Dhabi’s sovereign wealth fund—Abu Dhabi Investment Authority—committed to invest $1 billion, becoming the first institutional investor in NIIF’s Master Fund and a shareholder in NIIF Ltd, its investment management firm.

About BRICS

BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

BRIC started as a formal grouping in 2006 on the margins of G8 outreach summit.

Originally the first four were grouped as “BRIC” before the induction of South Africa in 2010.

1st Summit was held in Russia in 2009. Moreover, first 5-member BRICS summit was held in 2011.

Since 2009, the BRICS nations have met annually at formal summits. 8th summit in 2016 was held in Goa and BIMSTEC countries were invited for a joint summit as per the the tradition. 9th summit will be held in China.

What is the Significance of BRICS?

Starting essentially with economic issues of mutual interest, the agenda of BRICS meetings has considerably widened over the years to encompass topical global
BRICS cooperation has **two pillars** – consultation on issues of mutual interest through meetings of Leaders as well as of Ministers of Finance, Trade, Health, S&T, Education, Agriculture, Communication, Labour, etc. and practical cooperation in a number of areas through meetings of Working Groups/Senior Officials.

Regular annual Summits as well as meetings of Leaders on the margins of G20 Summits are held. It has been pushing for greater economic growth among the member countries and reform of global financial institutions.

Focused on “greater people-to-people participation” during the BRICS events like BRICS Film Festival, BRICS Wellness Forum, BRICS Youth Forum and BRICS Friendship Cities Conclave held throughout the year across the country.

The **New Development Bank (NDB)** and the **Contingent Reserve Arrangement (CRA)** are the **financial mechanism under BRICS**.

**CRA** proposes to provide short-term liquidity support to the members through currency swaps to help mitigating BOP crisis situation, if such a situation arises.

It would also contribute to strengthening the global financial safety net and complement existing international arrangements (from IMF) as an additional line of defence.

BRICS Credit Rating Agency may come in near future to challenge the monopoly of the West.

The BRICS free trade agreement may come up against fears of Indian and Russian markets being swamped by Chinese imports.

In the current global political and economic scenario where protectionism and patriotism is on the rise, BRICS can become the bulwark of new globalization and may create new world order driven by emerging economies.

**New Development Bank (BRICS bank)**

The New Development Bank (NDB) is a multilateral development bank established by the BRICS states. The idea for the NDB was **proposed by India at the 4th BRICS summit (2012)** held in New Delhi. Then at the **6th BRICS summit held in Fortaleza, Brazil**, the BRICS states **signed the agreement on the NDB**.
In the year 2015, an Indian K.V. Kamath was appointed as the President of the NDB. The headquarter of the Bank is in Shanghai, China. The first regional office of the NDB was established in Johannesburg, South Africa.

**Structure of the NDB**

The main organs of the Bank are:

- Board of Governors;
- Board of Directors;
- President and Vice-Presidents.

Each country has one vote and none of the countries have veto power.

**Major Objectives of the Bank**

Promotion of infrastructure and sustainable development projects with a significant development impact in member countries;

Establish strategic partnerships with other multilateral development institutions and national development banks;

Build a balanced project portfolio giving due respect to their geographic location, financing requirements and other factors;

Promoting competitiveness and facilitating job creation;

Build a robust knowledge sharing platform among developing countries.

The NDB has been envisaged as a “dedicated channel of alternate finance” with greater focus on emerging economies and the Global South. Some experts also see it as an alternative to the existing US-dominated World Bank and the IMF.

**The Asian Infrastructure Investment Bank (AIIB)**

The AIIB was established in January 2016 with its headquarters located in Beijing. It has an authorised capital base of $100 billion. The core mandate of the AIIB is to address Asia-Pacific’s acute infrastructural needs. Its mission is “to improve economic and social development in Asia by investing in high-quality, financially...
viable and eco-friendly infrastructure projects”. It also aims to mobilize private capital to co-finance projects. The creation of the AIIB is a welcome initiative given Asia’s huge infrastructural deficit.

Members of the AIIB

Regional members: Afghanistan, Australia, Azerbaijan, Bangladesh, Brunei Darussalam, Cambodia, China, Fiji, Georgia, Hong Kong (China), India, Indonesia, Iran, Israel, Jordan, Kazakhstan, Korea, Kyrgyz Republic, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Philippines, Qatar, Russia, Samoa, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Timor Leste, Turkey, United Arab Emirates, Uzbekistan, Vanuatu, and Vietnam.

Non-regional members: Austria, Denmark, Egypt, Ethiopia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and United Kingdom.

AIIB Structure

It has the following organs:

Board of Governors: It is the highest decision making body. The voting power is according to shareholding. The shareholding is according to the GDP.

Board of Directors

President

Chinese interests in creation of the AIIB

Firstly, China wants to make huge profits. China has huge forex reserves. Chinese banks seek to circulate loan money on which they will earn interest. This will help China in making huge profits with China being the largest shareholder of the Bank.

Secondly, it is expected to bolster China’s One Belt One Road Initiative (OBOR).
The AIIB is going to finance rail-roads-ports infrastructure along the ancient silk route. Hence, the Bank is going to help in China’s grand strategic designs and geopolitical motives.

Thirdly, China wants to counter hegemonic dominance of the west-dominated World Bank and the IMF. China wants to counter the hegemony of the WB, IMF and the Asian Development Bank through New Development Bank and the AIIB. Some experts also say that countering the IMF will help in popularizing use of the Chinese yuan.

India and the AIIB

The Indian economy also has huge infrastructural funding requirements wherein the AIIB is playing a key role. India has become an important recipient of the AIIB loans. Till December 2017, AIIB had granted over $1 billion worth of loans for various infrastructure projects in India. India was the single largest borrower from the AIIB in 2017. A part of the Bengaluru Metro line and Gujarat rural roads have been granted around $330 million each. The AIIB is also involved in the unique Amravati project in Andhra Pradesh.

Recently, a top official of the AIIB has said, “India is the biggest commitment country for the Asian Infrastructure Investment Bank”. India is one of the most significant countries that the bank is supporting. The AIIB is involved in the transmission lines, rural roads and green projects among others. The bank has laid special emphasis on renewable energy projects in India and elsewhere.

The AIIB and the NDB: Geopolitical and Geo-economic Implications

The NDB represents the “most significant institutional innovation” of intra-BRICS diplomacy. There is a divergence of opinion regarding the geopolitical and geo-economic implications of the two banks. There are experts who say that these two banks are there simply to complement the two Brettonwoods institutions of WB and the IMF. However, other experts contradict it saying that the NDB and AIIB are actually challenging the hegemony of the World Bank and the IMF. Hence, the Western world should be worried about new competition in the global financial architecture.
Multilateralism has been under serious strain for the past few decades as exemplified by the stark failure of the Doha round of negotiations in the WTO and the ever-increasing “proliferation of regional and sectoral trade deals”. Different countries have failed to reach common ground on trade related issues through multilateral institutions.

The creation of the two banks NDB and AIIB is indeed a remarkable development. They reflect changing geo-economic dimension at the global level with the shift of economic power from West to the East. These two institutions have for the first time opened up “a strategic rivalry with Western and Japanese-led lending institutions, namely the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB), mirroring the broader tussle for power and influence between the developed and developing world”. Indeed the two banks represent a quest for equality for the developing countries as far as the global financial architecture is concerned.

**Similarities between the NDB and AIIB**

The NDB and the AIIB are very similar as far as their purposes and functions are concerned. Both are chiefly concerned with financing projects of infrastructure and sustainable development in the emerging economies and developing economies. Their strategy is also geared towards forging partnerships with national development banks. They also form partnerships with the traditional multilateral and regional development banks, through co-financing activities in the private and public sectors.

They were created out of a shared frustration with existing multilateral lending forums, whose voting structures are stacked against emerging markets. The BRICS nations were given just 10.3 percent of the votes at the IMF. The countries like Japan, Germany, France, and the U.K., each hold greater voting shares than China, despite the latter being the world’s second largest economy.

Both the NDB and AIIB are following democratic and egalitarian norms to the benefit of the developing countries. The founders of the NDB have repeatedly emphasized the principle of stakeholder equality. Each of the BRICS countries will contribute an equal share of the NDB’s $100 billion start-up capital, giving them 20 percent of the voting rights each. The 5-year presidency is to be rotated equally among its members in the NDB. The AIIB has also sought to give a bigger voice to developing nations. The AIIB has reserved at least 75 percent of voting
shares for Asia-Pacific countries, in a powerful contrast to its hierarchal, Western-centric counterparts. The presidency at the IMF is confined to Europeans, whereas the United States has sole discretion over the top role at the World Bank. Japan has led the ADB since its founding in 1966. This is not the state of affairs in either the NDB or the AIIB.

These banks are a sheer recognition of increasing geopolitical and geo-economic clout of the developing economies.

Both the banks have sought to fill the gap in infrastructure investment. They are expected to meet the enormous demand for infrastructure investment in the developing world.

Both the banks are a peaceful way of projecting Chinese power on the global stage concealing the assertive grand strategic designs of Chinese foreign policy. They are expected to help in consolidating and cementing the grand Chinese plan of One Belt One Road initiative (OBOR).

The WB and the IMF seek “strict conditionality of market and structural reform” before helping the developing countries. Fortunately, the NDB and the AIIB do not insist on such strict conditionalities and better understand the specific and contextual developmental requirements of the developing countries. These banks do not interfere in the internal affairs of the countries seeking economic help from them.

Both the NDB and the AIIB are strongly influenced by China’s leadership.

The NDB and the AIIB share the similar four-tier governance structure: a Board of Governor, a Board of Directors, a President (with senior management), and other officials and staff, in the descending order of authority. The Board of Governors, which is represented by all member countries at the Ministerial level, is responsible for most important decisions to these institutions.

**Differences between the NDB and AIIB**

Although the two institutions have overlapping mandates and other significant similarities they have substantial differences as well.

The NDB has been more of a collaborative effort among the BRICS members where China’s role is markedly different from that in the AIIB. China’s dominance is more starkly visible in the AIIB.

Membership of the two banks is also different. The five BRICS members are members of the NDB and its membership has not expanded since its inception.
The AIIB began its operations with a large membership of 57 signatories (including many non-regional members). However, its membership has since grown rapidly to more than 75 members.

The NDB because of its small membership is institutionally less complex than the AIIB.

The NDB is principally more outward-oriented while the AIIB is more Asia-centric.

The Asian Development Bank reflects Japanese and US interests in Asia. The threat to the regional dominance of the ADB is likely to come from the AIIB than the NDB. China has certainly this in mind and so it is more enthusiastic about AIIB than NDB.

The NDB and the AIIB are distinct from each other regarding the distribution of voting power in the Boards of Governors and Directors. The distribution of voting powers is much simpler and much more egalitarian in the NDB than in the AIIB. The five founding members of the NDB are entitled with the same voting power (20% each) in sync with their subscribed capital and no single member has veto power. Even in the case of future expansion it has been institutionally stipulated that the BRICS group voting power will collectively remain at 55 percent. The case of AIIB is more complicated. In the case of AIIB the member’s voting power reflects the relative size of its subscription is determined mostly on its financial capacity. However, there are provisions in the very institutional agreement of the AIIB which allows the regional (i.e., Asian) members collectively and China singularly to retain their domineering position against non-regional members.

**Major Achievements of the NDB**

Since its inception the NDB has come a long way. It has carved out a niche for itself. Now it has firmly graduated out of its start-up phase and initiated many dynamic projects. Apart from its headquarters in Shanghai, China it has come up with Africa Regional Centre of NDB in Johannesburg, South Africa.

It has issued its first green bond raising RMB 3 billion in the Chinese bond market exemplifying its commitment to sustainable development ethics.

It has primarily stayed committed to its core concern of financing infrastructure and sustainable development projects in BRICS countries. It has expressed strong emphasis on renewable energy related projects.

By implication the formation of the NDB and AIIB has brought to the limelight the
urgent need for reforms in WB and IMF. These two Brettonwoods institutions need to be reformed in the right earnest if they are to stay relevant in the context of the changing geo-economic realities in the 21st century world.

The NDB has laid strong emphasis on developing and deepening of local capital markets in member countries by providing loans denominated in local currency in addition to US dollar loans. This is expected to help borrowing countries to manage and avoid the foreign exchange risks structurally inherent in loans from other banks.

The NDB needs to learn from the ADB which has kept on modifying its thrust areas in successive decades since its inception to keep pace with the evolving developmental needs of different countries. Hence, in future the NDB should also concentrate on formulating appropriate strategies to deal with the issues of productivity growth and employment generation (which are not directly dealt by other banks).

Challenges faced by the AIIB

The AIIB has emerged as a very robust bank reflected in “the strength of AIIB’s governance frameworks, including its policies on risk management, capital adequacy and liquidity”. However, it is faced with certain challenges:

So far the AIIB has funded only hard infrastructure projects like roads, electrical transmission lines, water supply system etc. Now it should also venture into “soft infrastructure” projects like public finance management, urban management, health policy and administrative management etc.

The projects funded by the AIIB must be socially and environmentally sensitive. The Bank needs to take up eco-friendly projects to help the global community deal with the monstrous threat of climate change.

Another critical challenge is to make the AIIB more dynamic, robust and independent in its project selection and funding.

There is also a need to carefully form and manage strategic partnerships with other multilateral institutions, banks, private sector and sovereign governments.

There is also the challenge of having a lean and thin AIIB bureaucracy with specialised and technical knowledge of banking operations. The AIIB needs to develop its own managerial, financial and legal teams to run the operation of the bank in a robust and efficient manner.