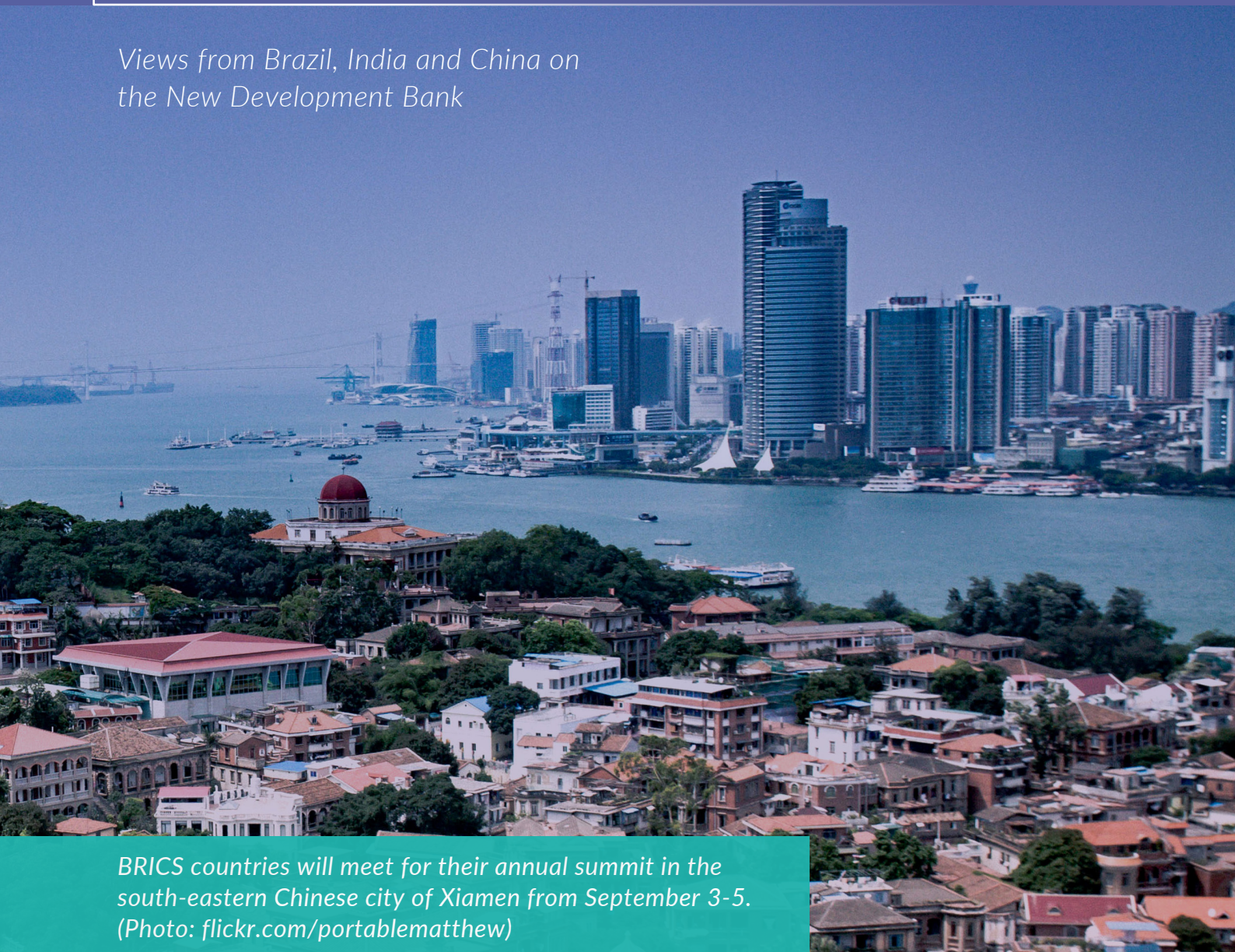


New perspectives on the new BRICS bank

*Views from Brazil, India and China on
the New Development Bank*



*BRICS countries will meet for their annual summit in the
south-eastern Chinese city of Xiamen from September 3-5.
(Photo: flickr.com/portablematthew)*

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Foreword from the editor:

President Trump's announcement that the United States will pull out of the Paris climate accord, and his broader hostility towards global agreements and trade, have led many to question whether China and the emerging economies can step up and exert leadership on issues of environment and development.

Perhaps the most important test of a newly active role for China and the rising powers will be the actions of the new crop of lenders, including two major new China-led multilateral banks, that have challenged the Bretton Woods institutions, long criticised for being unrepresentative.

The Beijing-headquartered Asian Infrastructure Investment Bank (AIIB), mainly financing the ambitious connectivity project known as the Belt and Road Initiative, has now held its first two annual general meetings. The Shanghai-headquartered New Development Bank (NDB), otherwise known as the BRICS bank, started lending in earnest in April last year, but has so far attracted less media attention.

The NDB has now approved loans worth over US\$1.5 billion for renewable energy projects in BRICS member countries Brazil, Russia, India and China, and while these "green" investments do seem to demonstrate a commitment to supporting sustainable development, the Bank's policies do not rule out supporting fossil fuels in the future.

Moreover, environmentalists and civil society groups, arguing for robust social and environmental safeguards so as not to "lock-in" a new generation of high-carbon energy production, have found the Bank opaque, with no open channels for them to express their concerns about the impacts of projects.

In advance of the 9th BRICS Summit, in Xiamen, south-eastern China, from September 3-5, we present a special series of reports from NDB member countries Brazil, India and China, featuring new perspectives on: the NDB's lending standards; its attentiveness to those concerned about the possible negative social and environmental impacts of projects; and the Bank's future strategy as it seeks to expand and potentially incorporate new members.

From Brazil, Milton Leal reports analysts' concerns about the NDB's lack of transparency and their fears around the absence of a shared platform with civil society in Xiamen. In Shanghai, Wu Yixiu asks Leslie Maasdorp, the NDB's chief financial officer whether the Bank's system of lending to member countries' own development banks could weaken sustainability standards. In India, Aditi Roy looks at the implications of the Bank's refusal to rule out fossil fuels, and how this compares with other multilateral development lenders.

The rising strategic and economic power of the BRICS comes as global leadership on sustainable development and financial support from Washington is in retreat. Yet the emergence of the NDB as an alternative source of infrastructure finance and the possible addition of new members as it looks to scale-up its loanbook brings with it the risk of undermining sustainability standards. We hope these articles will help to deepen perspectives on the role of the NDB at this critical time.

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Anti-nuclear protesters outside the Brazilian Development Bank headquarters.
(Photo: Ivo Gonzalez/ Greenpeace)

[Milton Leal](#)

“Vague” New Development Bank must clarify its lending policies

Brazilian civil society concerned at NDB’s use of member countries’ impact monitoring mechanisms

Since the New Development Bank (NDB) began operations in February 2016, the multilateral financial institution created by the governments of the BRICS countries (Brazil, Russia, India, China, and South Africa) has approved more than US\$ 1.5 billion in finance for infrastructure projects in member countries.

However, on the eve of the 9th BRICS summit, which will take place from September 3–5 in Xiamen, south-eastern China, the NDB has still not clearly disclosed which projects will receive funding, much less held any public consultations with communities that may be impacted by them. Public consultations are a common practice among other multilateral banks.

The absence of an official channel for dialogue with the bank, low levels of transparency and clarity on its social and environmental policies, and the precedents this sets as the bank looks to expand and incorporate new members, are a concern for non-governmental and civil society organisations.

“ *The concept of sustainable infrastructure used by the NDB in its general strategy is very broad and vague,*”

Caio Borges

*An attorney with Brazilian human rights
NGO Conectas*

“There is no transparency with regard to how the processes of approving projects take place. Up to this point, the bank has not yet disclosed the impact reports for the projects that are under analysis,” claims Paulo Esteves, director of BRICS Policy Centre research group, based at the Pontifical Catholic University (PUC) of Rio de Janeiro.

Insufficient dialogue

Senior bank staff, including vice-presidents representing Brazil and Russia, have held conversations with civil society groups. But these occurred behind closed doors, according to Caio Borges, an attorney with Brazilian human rights NGO Conectas.

“Contact with the bank occurs in informal conversations alongside the bank’s annual meetings and the BRICS summits,” said Borges, who has participated in some of these conversations. “But at the Xiamen summit, there are no meetings scheduled between civil society and the bank,” he told *Diálogo Chino*.

According to Borges, civil society organisation The Coalition for Human Rights in Development has demanded an official meeting with the NDB in order for the bank to clarify the basic development principles it supports. China-led multilateral lender the Asian Infrastructure Investment Bank (AIIB) provides this opportunity for civil society groups on the occasion of its annual general meeting.

“The concept of sustainable infrastructure used by the NDB in its general strategy is very broad and vague, and lacks definition,” says Borges, who travelled to India at the end of August to participate in a working group on the concept of sustainable infrastructure.

Bright start

Until now, most of the project financing approved by the NDB has focused on renewable energy, such as wind and solar generation projects and small hydroelectric plants. The NDB signed loan agreements with development banks of its member countries as part of a process known as on-lending.

Despite these “green” first loans, critics argue that there is no policy framework in place to ensure that support for sustainable projects continues as the bank grows its operations.

One of the NDB’s policies involves relying on regulatory systems in member countries for the approval of projects and the undertaking of environmental and social impact assessments. These vary according to social and environmental standards in each country.

In Brazil, for example, the job of approving a US\$300 million loan from the NDB falls to the National Economic and Social Development Bank (BNDES). Leonardo Botelho Ferreira, head of the international cooperation department at BNDES, told *Diálogo Chino* that the NDB vetted BNDES’ rules before disbursing funds, which he said would be best directed towards wind farm projects already part of the national bank’s portfolio.

“The NDB carried out due diligence at BNDES and of the rules of Brazilian environmental agencies that apply to the bank. The NDB had access to how the licensing process is done and monitoring of licences,” Botelho explained. However, he added that the NDB should also conduct internal analyses on projects. According to Botelho, if bureaucratic procedures enabling the approval of the loan go smoothly, BNDES will be able to request disbursement from the NDB by the end of this year.

The use of national systems to analyse development projects is also characteristic of other multilateral banks such as the World Bank and the Inter-American Development Bank.

What, then, is the problem with working with the domestic assessment systems?

According to Esteves, there is no direct monitoring of projects: “A due diligence is done before but the process is not followed. We can have a good regulatory framework, but not necessarily an effective system,” he said.

New members, lower standards?

Observers are also concerned about the environmental and social safeguards that will apply to potential new members of the NDB.

“We may think that the five countries receiving loans from the NDB have sufficiently strong and consistent national systems, which may not necessarily be true. But what happens when the bank lends resources to other countries that do not have such efficient systems?” Esteves asked.

According to Borges, the NDB will not feature high on the agenda at the Xiamen BRICS summit and nor will it be a priority at a parallel BRICS event, which brings together representatives from civil society.

This is because the NDB tries to retain its autonomy from the BRICS forum and the political and economic interests of member countries that can dominate meetings.

“The bank cannot be at the mercy of the governments of [member] countries,” Esteves said, adding that it depends on being evaluated independently in order to acquire resources at a lower cost and to try to compete on an equal footing with other multilateral banks.

“It would not survive with only the resources provided by founding countries,” he said.

Diálogo Chino requested comment from the NDB for this article on the topic of its engagement with civil society. The bank advised that it would be unable to respond by the time of publication.



The NDB headquarters are in Pudong, Shanghai.
(Photo: flickr.com/lawrenceyeah)

Wu Yixiu

What is new about the New Development Bank?

NDB speaks about its strategy for staying green and plans to expand its investment in 2017.



Leslie Maasdorp, Vice President and Chief Financial Officer of the New Development Bank

The New Development Bank (NDB) is planning to approve more than 15 projects totaling US\$ 3 billion in 2017.

The multilateral development bank was founded by the BRICS countries (Brazil, Russia, India, China and South Africa) in 2015. The forthcoming projects are in sectors

including renewable energy, sustainable transport, water treatment, and urban development, according to Leslie Maasdorp, Vice President and Chief Financial Officer of the New Development Bank

According to the bank's Five-Year General Strategy, around two-thirds of all its financing commitments in the coming five years will go to sustainable infrastructure development. Within its existing project portfolio, six out of seven projects are in the renewable energy sector. Last year, the NDB also completed its first green bond sales in China, worth three billion yuan (US\$ 448 million), making it the first multilateral financial institution to issue green bonds in mainland China.

However, the bank has also faced scrutiny over whether it will continue its current investment practices; whether its existing policies to safeguard the environment and social justice are sufficiently robust; and why it still has no detailed strategy for its investment in the energy sector, which has been the centerpiece of its portfolio so far.

We sat down with the NDB Vice President at the bank's Shanghai headquarters to learn more about how it plans to pursue green financing and intends to add value to the abundance of multilateral financial institutions.

The interview has been edited for clarity.

Q: What does “new development” mean for the New Development Bank?

A: Each of our five countries, led by China in the sense that China is the second largest economy in the world, face huge environmental challenges, which come from a particular pattern of the economic growth over the last 30 years.

Probably the best example of dynamic economic growth in the world over the last 30 years has been China, but that has taken place against the backdrop of significant damage to the environment and public health.

What you have today are huge challenges with respect to the quality of air, the quality of water, and the environment in general. So the bank is hoping to contribute to the green development of our member countries, and the focus on renewable energy is central to each of our member countries.

The fact that the bank has done almost 100% of its first five projects in renewable energy is a reflection of the priority that our member countries are placing on the environment, on reducing the carbon footprint in their countries, on helping their economies transition toward a less carbon-intensive growth path.

Q: What is NDB's added value in the growing cluster of old and new multi-lateral development banks?

A: First, I would say is our focus on sustainability, which I already highlighted. This is in line with many of the development banks but in our case sustainable development is enshrined in our Articles of Agreement. Our second differentiator is we would like to explore the extent to which we can raise local currency funding and then “on-lend” local currency for our respective member countries. So what does that mean? In the case of China, instead of only providing US dollar loans to [also] provide loans in renminbi.

The third area that sets us apart is what we call “country systems”. It's very important that we respect the unique institutional form of each of our member countries. We don't come to China and impose standards that have been developed globally as best practices and say they've got to have these standards around resettlement of people, or water quality or pollution. Each country has very unique characteristics.

So I would say sustainability, local currency funding, and country systems would be three of the core areas.

Fourthly, we want to, as an institution, be innovative in our business model, open to new ideas, agile, and without a fixed set of products that we propose. So that openness to new ideas and openness to innovation will allow us to partner with other institutions.

Q: What if the country system is deemed insufficient to ensure that NDB's environmental and social standards are protected?

A: When I give talks these days I often ask people by show of hands who thinks China's environmental standards are low? And most people say that the standards are low. And that is again a misperception. The reason why we have much higher levels of pollution, for example in this country, is not because China has low standards. It's that standards are not always enforced. So we want to ensure local standards are enforced.

We also have NDB policies on environmental, social and labour standards, and we want the principles of those standards to be adhered to. So if there is a divergence, NDB still has a fallback – a minimum set of conditions around procurement, labour standards and resettlement of communities.

We will not enter into a situation where countries have no standards at all.

Q: How does NDB ensure its green bonds are “green”? And where does the NDB stand when it comes to funding fossil fuel-related projects?

A: So the green bond standards are quite broad. But the People's Bank of China (PBoC) guidelines are clearer in this regard. For example, bond issuers must have an audit process or an audit trail. When you study those guidelines (issued on the 22 December 2015), you will see that PBoC recognises different shades of green.

“ *I'm sure there will be projects where ambiguity might come in* ”

Leslie Maasdorp

Vice President and Chief Financial Officer of the New Development Bank

In terms of our projects, the features of these are all published on our websites. You will be able to see that all of them are substantially green. The renewable energy projects have no links to the traditional energy system.

In the future, I'm sure there will be projects where ambiguity might come in. For example, there are ways in which one can do clean coal, so you can do a coal-fired power station, but you can do it in such a manner that you

apply the latest technologies to reduce the emissions footprint. We have not entered that space yet. At the moment our projects are thankfully pure green in that respect.

Q: Will NDB release a complete energy strategy paper in the future?

A: Our focus is around sustainable infrastructure. We will have, by the end of this year, 150 professionals working in the bank. It will grow to 240 in the next year. Part of this growth will entail us developing focused internal sectorial expertise in environmental areas, such as water and sustainable transport. It will also involve developing focused policies in each of those areas over the next 18 months to two years. So at this stage we do not have a focused energy policy, but it is part of the future design of the institution.



*Off-grid electrification in India is likely to suffer a blow.
(Photo: Abbie Trayler-Smith, via indiaclimatedialogue.net)*

[Aditi Roy Ghatak](#)

New Development Bank yet to find its green groove

Established to finance development projects in BRICS countries in an ecologically responsible manner, the New Development Bank needs to do more on transparency and disclosure to allay fears of stakeholders and civil society organisations

The New Development Bank, established in 2015 by Brazil, Russia, India, China and South Africa (BRICS) with the promise to effect a paradigm shift in how development projects are financed, is still struggling to find its feet in terms of its quality of capital, the green credentials of the proposed projects it seeks to finance and its commitment to transparency and accountability.

Concerns have surfaced about whether the NDB is adequately capitalised, which is important because the quality of financing was supposed to be its principal differentiator from other multilateral lending institutions such as the World Bank Group. “There is concern that governments of the BRICS member states are not meeting their commitment to back the NDB with adequate financial resources,” Biswajit Dhar, Professor at the Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, told indiaclimatedialogue.net.



The initial subscribed capital was supposed to be US\$ 50 billion, which was to be shared equally by the five countries. “However, as on June 30, 2016, the bank's paid up capital was just US\$ 1 billion,” Dhar said. “The bank is raising resources from the private capital market to carry out its mandate.”

“These numbers hardly merit an organisation that was seen as the funding arm of the BRICS, through which it would assist other developing countries as well,” Dhar told indiaclimatedialogue.net. “My point is that, given the nature of funds that the NDB has at its disposal, it will be very difficult for the entity to fulfil its mandate of funding green projects.”

Raising capital

Significantly, the bank successfully sold three billion Chinese yuan-denominated green bonds worth US\$ 435.5 million on China's interbank market in June last year. Next on the agenda is raising US\$ 500 million via Indian rupee-denominated masala bonds in the second half of 2017, according to NDB president K. V. Kamath. The first elected president of the NDB, Kamath was earlier the chief executive of ICICI Bank, India's largest private sector lender.

“By being forced to enter into private capital markets, the NDB will have to first think of remaining financially viable, which will happen at the expense of its mandate,” Dhar points out. “Since it has to function as a commercial entity and not a development finance body, it can ill afford to involve civil society organisations to do due diligence of the projects it is funding.”

Other economists, environmentalists and civil society organisations (CSOs) are voicing similar concerns on the nature of projects that the NDB would likely fund. The unique propositions of the Shanghai-based NDB, earlier referred to as the BRICS Development Bank, were its commitment to green standards, transparent working and a high level of engagement with civil society and host communities, which were seen as disappearing qualities in traditional development funding. A questionnaire on some of the concerns, addressed to Kamath and sent to him both through the bank's website and its corporate communications team, remained unanswered despite several reminders.

The lack of capitalisation by the founding nations may have forced the NDB to modify its stance somewhat. In its strategy paper approved on June 30, 2017, which will provide the bank direction in the five years to 2022, the lender said: "NDB aims to be fast, flexible and efficient by designing a more streamlined project review and implementation oversight without unnecessary bureaucracy. The bank is using a risk-based approach to project approval and oversight that mandates more intensive ex-ante reviews for complex, risky projects, while low-risk projects go through a more streamlined procedure with ex-post checks."

Worrisome checks

The ex-post checks can be particularly worrisome, according to eminent ecologist Dhrubajyoti Ghosh, a UN Global 500 laureate and winner of the 2016 Luc Hoffmann Award. "It would be worthwhile asking whether funds have been disbursed without the NDB knowing the actual end use or whether the bank is shying away from a full public disclosure," Ghosh told indiaclimatedialogue.net.

The bank has said that project developers would be required to address indigenous peoples in a way consistent with the key requirements and would "disclose the draft plan, including documentation of the consultation process and the results of the social impact assessment in a timely manner, before project appraisal, in an accessible place and in a form and language(s) understandable to affected indigenous peoples communities and other stakeholders". It has also promised to "disclose the final plan and its updates to the affected indigenous peoples communities and other stakeholders in a timely manner".

In India, NDB would likely fund the Madhya Pradesh Major District Roads Project and extend a multi-tranche financing facility to government-owned Canara Bank

for a Renewable Energy Financing Scheme for US\$ 250 million for unspecified projects, Finance Minister Arun Jaitley told Parliament on December 16, 2016.

India has sought loans for five projects from the NDB, Jaitley said in response to a question in the Lok Sabha. These include a desert area water sector restructuring project worth US\$ 350 million in Rajasthan; Madhya Pradesh road development programme worth US\$ 350 million; Madhya Pradesh bridges development programme worth US\$ 150 million; Bihar Mukhya Mantri Gram Sampark Yojna for US\$ 841 million; and multi village rural water supply schemes at US\$ 470 million in Madhya Pradesh.

Veering towards opacity?

Ghosh points out that in the case of the Canara Bank investments, it is unknown what the final projects are. Even the Indian finance minister's statement in Parliament does not disclose these details, he said. "Where is the complete disclosure around lendees?" asks Ghosh. The bank seems to be veering towards "an opaque disclosure regime that is inconsistent with its declared environment and social framework."

Ghosh is not alone in the points he has raised. The bank is moving away from the promised "reformed lending platform", as it supports large projects that have the potential for causing great harm, according to the Peoples' Forum on BRICS, a platform of several people's movements, networks and civil society organisations from across India. NDB is promoting "sustainable infrastructure" without even defining it, the collective alleges.

At its March 2017 convention, the forum raised issues related to the lack of transparency, accountability, as well as grievance redressal mechanisms and spaces of engagement for the civil society organizations and peoples' movements in NDB. "The NDB, given its wide implications, ought to have an accountability and transparency structure," Ciao Borges, a lawyer representing Conectas, a Brazilian non-profit, said at the convention.

"The current funding (of the NDB) is for the large scale projects, which leads to the large scale displacements," Madhuresh Kumar, convener of the National Alliance of Peoples Movement, said at the March convention. "For any project to be sustainable and inclusive the benefits have to be equally distributed."

Some of Kamath's statements have also rattled critics, especially around learning from the World Bank. "We greatly appreciate timely support offered by the World Bank Group throughout our establishment process, and look forward to advancing and deepening our cooperation. We at the NDB, will listen, learn and collaborate to promote sustainable infrastructure development in our member countries," he said after signing a memorandum of understanding for co-operation between the two institutions in September 2016.

There was further dismay following the publication of an NDB statement on its website in December 2016 that said: "The Bank will complement the efforts of other financial institutions and establish a network of global, regional and local partnerships with multilateral and national development banks as well as other institutions and market players."

"This bank was expected to wear its marked differences from the Bretton Woods institutions, at a philosophical, ethical and ecological level, like a badge of honour. It was supposed to uphold excellence in its approach to development funding and get the lending process to unlearn the set ways of the multilateral institutions that has wrought grave injustice to indigenous communities," says Ghosh. "Instead, its president now talks of partnerships and learning from them."

About the authors:

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