



BRICS Policy Center - Centro de Estudos e Pesquisas - BRICS

# NEW DEVELOPMENT BANK (NDB)

SOCIO ENVIRONMENTAL  
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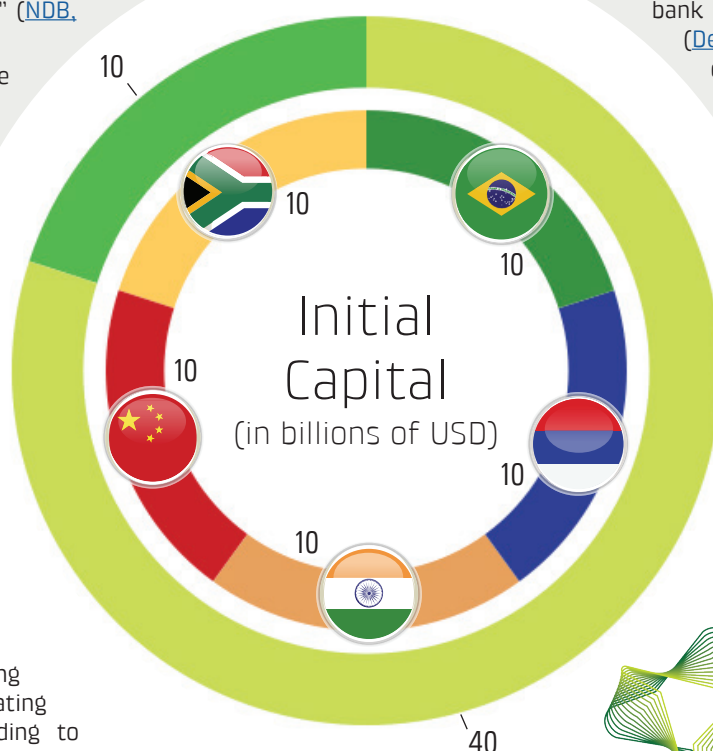
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## Nature and Purpose

- **Establishment:** [Agreement on the New Development Bank](#) was signed during the IV BRICS summit (July, 2014) in Fortaleza, Brazil and entered into force during the VII BRICS summit (July, 2015), in Ufa – Russia.
- **Headquarters and regional offices:** In February 2016, the NDB signed an [agreement](#) with China to set the headquarters in Shanghai and announced the opening of a regional office in Johannesburg, South Africa.
- **Objective:** Mobilizing resources to “infrastructure and sustainable development projects in BRICS countries and other developing countries, in addition to existing efforts of multilateral and regional financial institutions to the global growth and development” ([NDB, 2014](#)).
- Representatives of the NDB characterize the agility of lending as one of the key advantages in relation to other multilateral development banks ([Devex, 2016](#)).

## Capital Structure

- NDB was founded with an authorized capital of US\$100 billion and initial subscribed capital of US\$50 billion, with contributions equally distributed between the five founding members (US\$10 billion each) ([NDB, 2014](#)).
- Among the total initial capital, US\$10 billion corresponds to paid-in capital and US\$40 billion to callable capital – not paid yet – also equally distributed between the members ([NDB, 2014](#)).
- Although the founding document indicates the intention of providing loans to allow the purchasing of stocks by other countries, 55% of them must be controlled by BRICS countries and 25% by emerging economies – confirming the orientation of the bank towards developing countries ([Devex, 2016](#)). Also, terms and conditions to the admission of new members to the bank were recently approved and will be soon available in the NDB website ([NDB website, n.d.](#))



Source: The author's, based on [Agreement on the New Development Bank](#)

- Paid up Capital
- Capital Required



**New  
Development  
Bank**

## RATING

NDB received an “AAA” classification by the Chinese credit rating agencies China Chengxin Credit Rating and China Lianhe Credit Rating ([NDB Website, n.d.](#)). According to these agencies, the main qualities of the NDB credit include:

- (i) Great potential to further growth of businesses in developing countries;
- (ii) Sophisticated structures of governance and risk management;
- (iii) Operational efficiency and high qualified staff;
- (iv) High level of paid-up capital, with punctuality in infusions.

The bank plans to initiate engagement with international rating agencies, even though representatives have denied rumors about the intention of developing a rating agency within the NDB ([Business Standard, 2016](#)).






## GREEN BONDS

NDB also raises funds through the issuance of bonds in local currency, with reduced exchange risks to domestic investors. In July 2016, the bank issued bonds in the amount of 3 billion yuan (US\$ 448 million) in China's bonds market, with maturity of five years and interest rate of 3.07% ([China Daily, 2016](#)). Representatives of the bank declared the intention of increasing the issuance of bonds in local currency in China and soon expand it to other founding members, particularly India (in rupees) and Russia (in rubles) ([Business Standard, 2016](#)).

# Financed Projects

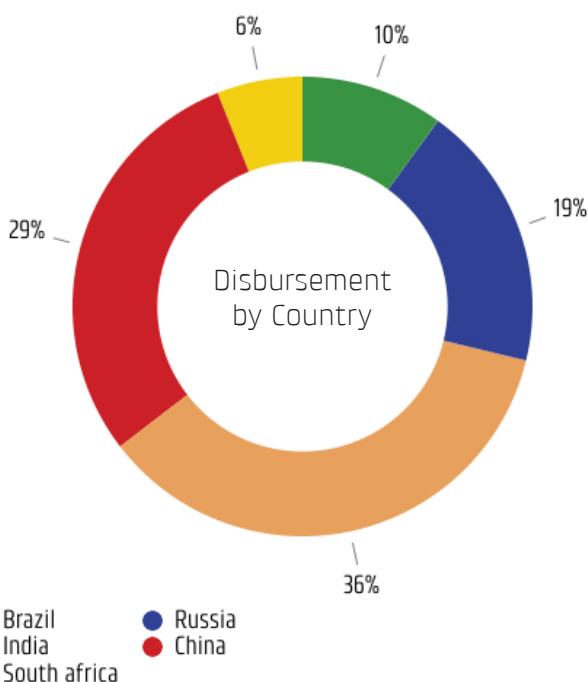
In 2016 the Bank disbursed around US\$ 1.5 billion in infrastructure projects and sustainable development in BRICS countries. Until now, NDB has eleven projects with approved lending.

Source: The author's based on [NDB Projects Website](#)

COUNTRY	LOAN AMOUNT	BORROWER / INTERMEDIARY BANK	PROJECT DESCRIPTION/POTENTIAL IN THE GENERATION OF ENERGY	APPROVAL DATE
 Brazil	USD 300 million	BNDES	Renewable energy (wind, solar etc) / 600MW	16.Apr.2016
 Russia	USD 100 million	EDB/IIB	Renewable energy (hydropower) + green energy / 49.8 MW	20.July.2016
	USD 460 million	Sovereign Loan granted directly to the Government of Russian Federation	Social infrastructure	30.Aug.2017
 India	USD 250 million	Canara Bank	Renewable energy (wind, solar etc) / 500 MW	16.Apr.2016
	USD 350 million	Sovereign Loan granted directly to the Government of India	Upgrading major district roads	23.Nov.2016
	USD 470 million	Sovereign Loan granted directly to the Government of India	Water supply and sanitation, rural development	30.Aug.2017
 China	RMB 525 million (USD 81 million)	Sovereign Loan granted directly to the PRC Government	Renewable energy (solar rooftop PV) / 100MW	16.Apr.2016
	RMB 2 billion (USD 298 million)	Sovereign Loan granted directly to the PRC Government	Renewable energy (wind power) / 250 MW	23.Nov.2016
	RMB 2 billion (USD 300 million)	Sovereign Loan granted directly to the PRC Government	Water, sanitation and flood control, environment	30.Aug.2017
	USD 200 million	Sovereign Loan granted directly to the PRC Government	Energy conservation	30.Aug.2017
 South Africa	USD 180 million	ESKOM	Renewable energy (transmission) / 670 MW	16.Apr.2016

## Disbursements by Country

Furthermore, the analysis of the allocation of the NDB disbursed loans by country reveals a strong concentration in China and India, which are the destination of 65% of the total 2016 disbursements, while only 6% was destined to South Africa. Representatives of the bank stated their intention of expanding the grant of loans in the future to developing countries aside from the BRICS ([Business Standard, 2016](#))



## Governance

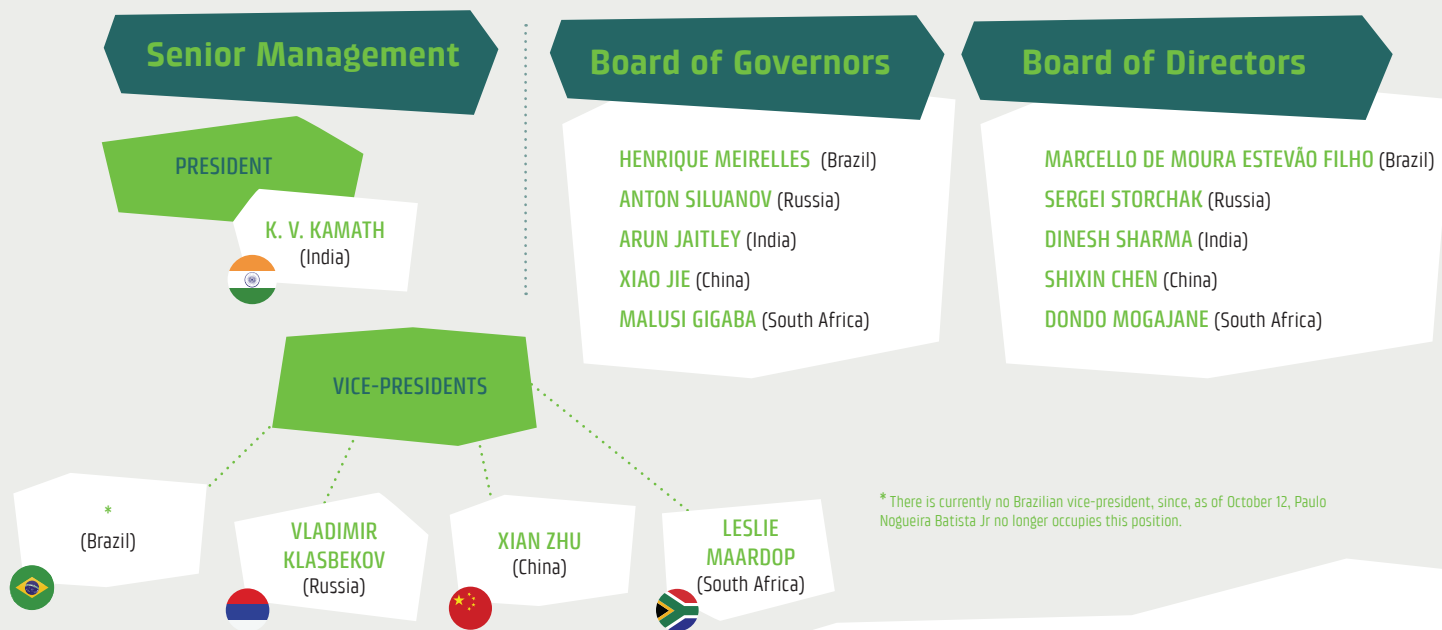
NDB is managed by a Board of Directors and a Board of Governors, both composed of five seats, each occupied by a founding country. The presidency of the bank is rotating and it is periodically occupied by a representative of one of the BRICS members, while the others are responsible for the nomination of the four vice-representatives ([NDB, 2014, p. 5-6](#)).

## Members of the Bank

NDB has only five members since its foundation: Federative Republic of Brazil, Russian Federation, Republic of India, People's Republic of China and Republic of South Africa. Borrowing or non-borrowing membership, however, is open to any member of the United Nations, as long as the terms and conditions set by a special majority at the Board of Governors are met. The Board of Governors may accept International Financial Institutions or countries interested in becoming members as observers at its meetings ([Agreement on the New Development Bank, 2014](#)).

# NDB Organization Chart

Source: The author's based on [NDB website, n.d.](#)



PARTNER INSTITUTIONS	DATE OF SIGNATURE OF THE AGREEMENT
<b>Multilateral Development Banks</b>	
Asian Development Bank	04.Jul.2016
Development Bank of Latin America - CAF	09.Sept.2016
World Bank	09.Sept.2016
European Bank for Reconstruction and Development	01.Apr.2017
Eurasian Development Bank	01.Apr.2017
International Investment Bank	01.Apr.2017
European Investment Bank	01.Apr.2017
Asian Infrastructure Investment Bank (AIIB)	01.Apr.2017
<b>National Development Banks</b>	
Mechanism of BRICS interbank cooperation. Members:	
> BNDES	08.Sept.2015
> Vnesheconombank (Russia)	15.Oct.2016
> Eximbank of India	15.Oct.2016
> China Development Bank	15.Oct.2016
> South Africa Development Bank	15.Oct.2016
<b>Commercial Banks</b>	
Bank of China	14.Jan.2016
Industrial Credit and Investment Corporation of India	05.May.2016
China Construction Bank	08.Jun.2016
Standard Bank of South Africa	31.Aug.2016
Bank of Communications (China)	10.Nov.2016

Source: The author's based on [NDB website, 2017](#)

## Voting Structure

Voting power is based on the number of one's subscribed share in the capital stock of the Bank, and the share of the BRICS countries can never be below 55% of the total votes. Currently, each of the five NDB members has equal voting rights of 20% ([NDB website, n.d.](#)).

In cases when the Agreement on the New Development Bank (2014) does not foresee a qualified majority (two thirds of the total voting power) or a special majority (affirmative vote of four of the founding members concurrent with a qualified majority), to a certain matter, the decision is made based on a simple majority of the votes cast ([Agreement on the New Development Bank, 2014](#)).

## Socio-environmental Policy

Source: ([NDB, 2016](#))

The NDB disclosed, in August 2016, a document elucidating its socioenvironmental policy, which addresses questions as:

- Mechanisms to identify and manage socioenvironmental risks generated by projects funded by the bank, based on the "Equator Principles";
- Criteria for the approval of projects, including requirements in three areas: (i) environmental, (ii) involuntary displacement and (iii) indigenous people;
- Statement of adoption of the strengthening of national systems' approach, locating the responsibility for the conduction of socioenvironmental impact analysis to the legal system and institutions of the borrower country.

## Partnerships

According to NDB's President K. V. Kamath, the Bank's mandate embraces cooperation with similar institutions for knowledge exchange. Therefore, since its foundation, NDB signed Memorandums of Understanding and cooperation agreements with several multilateral and national development banks, besides national commercial banks ([NDB website, n.d.](#)).

## Socio-environmental Policy (cont.):

World Bank, AIIB and NDB Source: (Esteves, et al., 2016)

### RESPONSIBILITIES AND THE USE OF COUNTRY SYSTEMS

The burden of compliance with socio-environmental standards is transferred to the client. This reduces the bank's liability and accountability to the affected populations;

Extensive use of country systems to achieve environmental and social protection. However, the mechanisms for strengthening such systems are not clear. Especially in the case of NDB and AIIB, the parameters to which the systems should be aligned are not specified.

### ENVIRONMENTAL IMPACTS

World Bank safeguards restrict interventions with biodiversity loss.

AIIB only requires interventions named as "acceptable to the bank", with no greater detail.

When the borrower undertakes measures to minimize adverse impacts and restore biodiversity, NDB allows interventions where adverse impacts cannot be avoided.

### LABOR

The World Bank allows the development of alternative mechanisms by workers to protect their rights, prohibiting employers from restricting them in the case of the right to freedom of association and collective bargaining.

AIIB safeguards require compliance with the national laws only, even when they are considered insufficient; AIIB also presents the guarantee of certain worker's rights such as the access to grievance mechanisms and non-discrimination of private sector workers. According to Kim (2016), this access can reduce protection to the public sector workers.

NDB considers requirements of national laws and conventions of International Labor Organization. The bank highlights the necessity of measures "(...) to ensure project workers have safe and healthy working conditions (...)" and to prevent, for instance, accidents caused by the project (NDB, 2016, p. 19).

### PROHIBITED PROJECTS

There is no inclusion of nuclear material in the AIIB and NDB lists of prohibited projects, opening the possibility of financing projects with high socio-environmental risk (Santos, 2015).

### INVOLUNTARY DISPLACEMENT

Victimizing the most vulnerable populations, AIIB and NDB grant financial compensation flexibly for displaced people without legal title to land (McCaul, 2016; Rosien, 2010).



## Safeguards, responsibilities, and criticism from civil society organizations of MDBs

BANK	MAIN DOCUMENT	MAIN RESPONSABILITIES OF THE BANK	MAIN CRITICISMS FROM CIVIL SOCIETY ORGANIZATIONS
World Bank	Environment and Social Framework (08.Apr.2016)	(1) Categorizing projects and explaining the requirements to the client	(1) Transfer of responsibilities to clients
		(2) Reviewing the client's environmental impact studies and management plans	(1) Transfer of responsibilities to clients
		(3) Assisting clients in performing public consultations and establishing grievance mechanisms	(3) Minimal mention of human rights protection
		(4) Monitoring socio-environmental performance during the project cycle	
Asian Infrastructure Investment Bank	Environment and Social Framework (Feb.2016)	(1) Categorizing projects and explaining the requirements to the client	(1) Transfer of responsibilities to clients
		(2) Reviewing the client's environmental impact studies and management plans	(2) Lack of transparency on the method of determining the "equivalence" of country systems
		(3) Disclosing the socio-environmental documentation of the projects online	(3) Omission of "nuclear material" from the list of prohibited projects
		(4) Monitoring socio-environmental performance during the project cycle"	(4) Relaxation of the concept of "free, prior, and informed consent" (FPIC) for local populations
New Development Bank	Environment and Social Framework (30.Aug.2016)	(1) Categorizing projects and explaining the requirements to the client	(1) Sustainability criteria unclear. Terms as "Inclusive and Sustainable Development", for instance, are undefined
		(2) Reviewing the client's environmental impact studies and management plans	(2) Omission of "nuclear material" from the list of prohibited projects
		(3) Sharing "best international practices" with clients	(3) Although gender equality is mentioned as "is important to successful and sustainable economic development", the safeguard document doesn't include "(...) requirements to prevent non-discrimination and ensure women's access to project benefits" (INESC, 2017).
		(4) Monitoring socio-environmental performance during the project cycle	