

# Platform for escaping West's financial straitjacket gets stronger

By Elisa Barwick

The first multilateral development bank created by developing countries alone turned ten in July, ahead of its 2024 leadership meeting. The New Development Bank was created by BRICS founding nations—Brazil, Russia, India, China and South Africa—at the July 2014 leaders' summit held in Fortaleza, Brazil. The Fortaleza Declaration launched the New Development Bank (NDB) to finance investment, and a Contingent Reserve Arrangement (CRA) for mutual support of the currencies of BRICS member nations. These were designed to promote, said the Declaration, “an international financial architecture that is more conducive to overcoming development challenges”.

The Ninth Annual Meeting of the NDB Board of Governors and the 44th Meeting of the Board of Directors were held 29-31 August in Cape Town, South Africa. In attendance were the vice president of host nation South Africa and ministers for economics and finance of member nations South Africa, Russia, China, Brazil, India, United Arab Emirates (UAE), Egypt, and Bangladesh (the latter three were admitted in 2021; Uruguay is still in the process of joining), along with representatives of international organisations, multilateral development banks, including the President of the Asian Infrastructure Investment Bank (AIIB), and business leaders.

During the forum NDB chair and former Brazilian President Dilma Rousseff announced the decision to approve NDB membership for Algeria. The Algerian finance ministry in a statement said the membership provided “new prospects to support and strengthen its economic growth in the medium and long term”.

The conference was held under the banner of “Investing in a Sustainable Future”, but Rousseff in her keynote address insisted that economic growth and social inclusion must be pursued “simultaneously” with environmental considerations. “For our countries, sustainable economic development requires also an industrial basis and capacity in science, technology and innovation that contribute to an expansion of productivity and better jobs.” To ensure this, she stressed, “systemic changes, especially in the international financial architecture, are urgently needed.”

Developing nations, which desperately require upgraded infrastructure and services, are hamstrung with enormous debt, said Rousseff. Interest payments are growing faster than the increase in public infrastructure spending. Debt servicing, she said, “drains a significant portion of the huge liquidity available in international markets” which “could otherwise be channelled into ... development”. On top of that, rising interest rates and currency depreciation fuel a “vicious cycle of indebtedness”.

“[N]ew financial solutions are required”, Rousseff continued, including use of credit denominated in local currencies to finance development projects and currency swaps to protect against currency and interest rate exposures. Therefore, a key strategic objective of the NDB over the 2022-26 period, she noted, has been to put in place local currency “development-oriented platforms” to provide “30 per cent of total financing in the local currencies of borrowing members”.



An NDB project: the Rajasthan Water Sector Restructuring Project in India—under construction, and completed canal. Photos: Screenshot/ndb.int

Financial transitions were discussed, including cutting-edge financial systems, investment “cultivating new engines of sustainable growth”, and cooperative initiatives on various fronts. Seminars on energy, development finance and a workshop on local currency financing platforms were convened.

Russian Deputy Finance Minister Ivan Chebeskov elaborated on the need for an independent settlement system that would allow payments in national currencies and attract new countries to the bank. The policies of G7 nations are still the biggest influence on developing nations, he told the forum; this “creates global cycles of instability in production and capital flows”. The financial system must be transformed and modified to help developing countries avoid “the upheavals that the policies of some Western countries are creating in the financial markets”.

Speaking to Russian news agency TASS, Chief of Staff of the Russian presidential administration Maxim Oreshkin foreshadowed NDB expansion in tandem with BRICS: “We see operations of the bank are gaining momentum and now, in my opinion, the time has come for the NDB to assume a qualitatively new role ... the NDB future will grow from the standpoint of its role in the new wave of global growth and growth of BRICS countries' economies”.

Mohamed bin Hadi Al Hussaini, UAE Minister of State for Financial Affairs, highlighted the NDB's development role and called for continued expansion of domestic capital markets. Dr Rania Al-Mashat, Egypt's Minister of Planning, Economic Development, and International Cooperation, encouraged all governments to allocate part of their investment budget to implement priority projects. She advocated a mix of national government and multilateral development bank to fund development.

During the NDB Board of Directors meeting new loan

agreements were signed. These included a US\$280 million loan to Transnet—South Africa’s leading freight transport and logistics company—for “modernisation and improvement of South Africa’s freight rail sector” to enhance its capacity and efficiency with infrastructure renewal, locomotive overhauls and wagon fleet updates. Another project directs US\$1 billion into construction of crucial water and sanitation infrastructure in South Africa. US\$21 million will go to China’s Bank of Communications Financial Leasing (BCFL) for a Liquefied Natural Gas (LNG) Transportation Project. The loan will be used “to acquire at least three LNG carriers, addressing the significant increase in demand for LNG in China.”

### Expansion potential

South Africa’s Minister of Finance Enoch Godongwana told the summit that, “As more African countries become members [of the NDB] we believe the bank can play an increasingly important role in provision of infrastructure and addressing its infrastructure deficit.”

According to its website, the NDB has approved 96 projects with investment worth US\$32.8 billion in 17,000 km of road builds or upgrades; 820 bridges; 35,000 housing units and 1,390 km of water tunnel and canal infrastructure. Given that its initial five members each paid in US\$10 billion, the agency could have loaned much more—at least several times its capital—to roll out infrastructure on the scale that is actually required.

Challenging the US dollar system has meant the bank has had many obstacles to navigate, among them: being mindful of breaching Western sanctions. It was forced to suspend all undertakings in Russia, and ratings agencies downgraded the bank due to its Russia exposure; unlike the AIIB, it did not partner with established multilateral development banks or stick to US dollar lending in its formative period; motivated by its desire not to impose external conditionalities, the bank defers to local impact assessment standards for projects; and it faces internal and external fights over any divergence from orthodox monetarist principles.

Rousseff has been a more adventurous leader than the past bank heads. She has called the NDB “a bank made by developing countries for themselves” but acknowledges that “You can’t deny [the international financial system] exists. You have to live with it.”

She is pushing to expand lending in the Brazilian real, South African rand and Indian rupee. The NDB is increasing its issue of Chinese “Panda bonds” and at the August forum amended its policy on processing and pricing of loans to increase efficiency, reviewing the pipeline for loans over 2024-25. (“From Wall Street to Shanghai: The shifting nexus of global finance”, AAS, 31 July.)

According to a collection of essays released by Gregory T. Chin (Associate Professor, political science, York University, Canada) in June, “The evolution of New Development Bank (NDB): A decade plus in the making”, the previous NDB president was focused on lending to the private sector and green finance. Biswajit Dhar, Economics Professor at Jawaharlal Nehru University in New Delhi, noted that such a focus would leave the Bank “in the thrall to the same economic forces that had shaped the paradigm it once sought to displace”. But Rousseff renewed the mandate for revolution. Wrote Chin in his introduction, Dilma, “known globally as a champion of developmental transformation, a driver of change, and not one to settle for a conservative status quo agenda”, reordered the

Bank’s priorities to focus on “expanding the roster of participants and expanding the network with the BRICS at the core; creating new financial leverage; and greater emphasis to addressing North-South inequalities.”

Rousseff encouraged more memberships and partnerships to expand the Bank’s capital base; prioritised raising funds in diverse currencies, corraling resources; trade in local currencies—echoing her colleague, current Brazilian President Lula da Silva; prioritised projects to reduce inequality; and shifted the emphasis of sustainability goals—“foremost among which are the eradication of poverty and of hunger”, as she put it. At the South Africa BRICS summit in August 2023, she spelled out the need for a “new financial infrastructure”, and Russia began pushing for a BRICS reference currency for trade settlements.

### Beating down the door

NDB has applications to join from over 15 countries. Under the bank’s “Articles of Agreement” all UN members are permitted to join, but debate has continued among the BRICS about the nature and timing of its expansion. The BRICS forum has itself been struggling with the same issue. As current chair, Russia has stated that nearly 40 nations are lined up to join, and nearly 60 nations wish to join (one or more of) BRICS, the Shanghai Cooperation Organisation (SCO), or the Eurasian Economic Union (EAEU).

On 2 September press reported Türkiye had formally applied to join BRICS. At the weekend President Recep Tayyip Erdoğan said Türkiye wishes to improve its relations “with the East and the West simultaneously”. Palestine has been invited to the 22-24 October BRICS summit in Kazan, Russia. A plan to devote an entire session to the issue of Palestine has been announced; after the summit Palestine is expected to lodge an application to join the forum. Among others, Malaysia, Thailand, Indonesia, Azerbaijan, Zimbabwe and Bolivia are keen to join.

But BRICS will proceed with caution. In June, Russian Foreign Minister Sergey Lavrov announced that the “overwhelming majority” of BRICS nations “voted to suspend the accession of new members” as the association needs time to consolidate after already doubling its membership. “In parallel”, he said, “a category of partner countries is being formed as a stepping stone to full membership.” Russian Deputy Foreign Minister Sergey Ryabkov explained that “partners” would be “invited for cooperation at various levels and on various matters”. This is crucial for the institution to maintain its integrity, he made clear.



## Australian National Tour March - October 2024

### SOUTH AUSTRALIA

15 Sept: Adelaide

### TASMANIA

5 Oct: Hobart

\* See calendar for venue details and times