Can the New Development Bank Break Out?

by Paul Gallagher

Aug. 16—In the run-up to the Aug. 22-24 BRICS heads of state and government summit in Johannesburg, the power centers of the bankrupt trans-Atlantic financial system and their media are playing up the divisions inside the group, to claim that no significant decisions will be reached; but these divide-and-conquer operations are becoming increasingly irrelevant.

According to South Africa's Finance Minister Enoch Godongwana, among the many important issues to be discussed is the need to increase "fundraising and lending in local currencies" by the New Development Bank (NDB—the bank formed by the BRICS nations in 2014). "It is not doing as much as member countries require, but that is the strategic direction we are pushing the bank in," Godongwana told Reuters last week.

The press agency oddly used the phrase "local currency fundraising" to mean, seeking new capital contributions for the NDB from all eight current members (the original five plus Bangladesh, the UAE, and Egypt) in their own currencies, as well as from potential new members such as Saudi Arabia, Algeria and Uruguay. Should Saudi Arabia and Algeria join, the equivalent of $4 billion or more could be raised in new capital from those two nations. The joining of Bangladesh, UAE and Uruguay has already added about $30 billion to the NDB's original $50 billion in *pledged* capital, and about $3 billion to its current *subscribed* capital—that is, capital which has been paid into the NDB by its members and is in use by the Bank in supporting its lending.

Dropping the Wall Street 'Business Plan'

As with any multinational development bank, the NDB has used its paid-in capital to borrow additional capital for lending to development projects. But until now, over its near-decade of existence it has issued bonds only denominated in dollars and euros, and that in very limited amounts. Its $33 billion in total lending over that period is completely inadequate to the development needs even of Africa alone, which requires $100 billion *annually* for the next decade in investments in new hydroelectric, nuclear, and fossil fuel electric power capacity.

Since the conflict in Ukraine began, the NDB has been under sanctions, meaning that it could no longer operate under its Wall Street-like "business model" used up to that time. Russia being a 20% shareholder in the Bank, developed nations stopped purchasing the bank's bonds. Fitch Ratings downgraded the NDB, to make sure. Dollar and euro purchases of the Bank's bonds had accounted for 90% of the NDB's total lending since its inception. Under its previous, Wall Street-oriented president, the NDB tried hard to please London and Wall Street. It ended project lending to Russia and froze existing Russian credit. But its bond issuance remained frozen, with no demand.

Now, as Finance Minister Godongwana indicated, the NDB has begun issuing bonds to its members denominated in their currencies. The process began with $80 million in rand-denominated bonds issued in South Africa on Aug. 15; the next step will be a larger issuance of rupee-denominated bonds in India before the end of this year.

The issuance of *sovereign* bonds to the bank by existing and new member nations, backed by their own gold reserves, could greatly expand the NDB's ability to fund development projects, and could overcome the strong fluctuations in member nations' currencies which have kept the bank's capital low—and its borrowed capital exclusively in dollars and euros—up to now. (The Federal Reserve's recent interest-rate hikes have also lowered the exchange values of the NDB's member-nation currencies.)

Under its new President, Dilma Rousseff, the bank can become the central credit institution for development of "Global South" nations.