DEMYSTIFYING DEVELOPMENT FUNDING THROUGH NDB AND AIIB IN THE CONTEXT OF BRICS
What is the BRICS?

BRICS stand for Brazil, Russia, India, China and South Africa. It is a grouping of emerging economies. The term was first coined by Goldman Sachs where they highlighted the importance of emerging developign economies in a report in 2001.

The foreign ministers of Brazil, Russia, India and China met and formally announced the formation of the regional grouping as BRIC during the UN General Assembly session in 2006. South Africa was invited to join the original grouping in 2010 and it came to exist as BRICS. It is perceived that given the size and growth of the South African economy and its importance in the region, the BRICS would be strengthened by the inclusion in 2010.

The BRIC countries had their first meeting of Heads of States in Russia in 2009. Since then the group has organised yearly summits. Apart from the summits, the members have been formally meeting at the sidelines of the important global summits and meetings. For example, the BRICS members have met on national security issues with the foreign ministers at the yearly UNGA meetings, finance ministers and central bank governors met regularly at the sidelines of the IMF and World Bank meetings, and also on the sidelines of G20 finance ministers’ meetings. Apart from these regular meetings there are working group meetings on the issues of agriculture, innovation, science and technology cooperation, healthcare, trade and monopoly related issues.

The group has gained substantial importance in a very short span of time. The most assertive members of the group have been China, Russia and India. The other two members namely the South Africa and Brazil play second fiddle in the group.

What have the BRICS accomplished since they came together?

The BRICS group focussed mostly on the commonly agreed financial and international issues. During the period 2009-2014 for foreign policy issues, the focus has been on Syria, Libya, and Afghanistan and on the Iranian nuclear programmes. Of these the most important has been the Syrian crisis, where China and Russia played an important
role at the UNSC using veto powers to stall sanctions on the war torn country. The unanimous decision among the BRICS members has been to promote and identify mechanisms of dialogue to resolve the crisis which was adopted at 2012 Summit.

On financial issues, the aim has been to reform the IMF and World Bank. In this regard, the BRICS Interbank Cooperation Mechanism has been established would help to provide credit to the countries in their local currency. This would address the exchange rates fluctuations uncertainties for the recipient countries. The most important achievement of the BRICS has been to constitute a development bank to support the infrastructure and sustainable development of the developing countries across the world, though the creation of the New Development Bank (NDB) in 2014.

BRICS has been an informal group and has not engaged in global negotiations as a formal entity. However most of the member countries of BRICS are existing members of the regional groupings which engage with the global negotiations like the WTO, IMF and World Bank meetings as groups. As far as environmental negotiations are concerned, four members namely Brazil, South Africa, China and India formed a separate group under the UNFCCC, and they often take positions which are opposed to the one taken by Russia. This however has not limited the cooperation of the countries under the BRICS on other developmental issues.

3 Why did BRICS form the New Development Bank (NDB)?

In order to promote south-south cooperation and also address the current gaps in development financing by the existing MDBs, the BRICS nations agreed to start a new development bank of their own at the BRICS Summit in 2012 at New Delhi. The Bank however formally came to be known as New Development Bank (NDB) and it came into existence at the BRICS Summit at Fortaleza on 2014. The NDB opened its regular business one year later in 2015 with the establishment of its headquarter at Beijing and first President as Mr K V Kamath, who was the head of ICICI Bank of India.

During the time of its establishment, the main purposes identified are (a) mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries and (b) complementing the existing efforts of multilateral and regional financial institutions for global growth and development. In order to meet these objectives, the BRICS nations observed that there is a need to support the development requirements and aspirations of developing countries in a sustainable development framework—an area where the existing MDBs have only partially achieved success. The NDB would seek to play supportive role and would not be competing with the other banks.
The funding to be disbursed by the NDB is for infrastructure and sustainable development projects in the BRICS, other developing countries and emerging economies. Primarily these would involve the 5 BRICS member countries, and in future would extend to least developed countries, big and industrialised developing economies of the world.

What are the new funding institutions that have come up in the Asia focusing mainly on supporting Global South?

The Asian region has experienced emergence of new MDBs over last few years. For many years, the Asian Development Bank was the only development bank in the region and has been dominated by the Japanese owing to the number of votes it has as compared to other members. However, the newly constituted NDB in 2014 has two key Asian members, India and China. The Asian Infrastructure Investment Bank (AIIB) led and initiated by China in 2015, and with a mandate to have at minimum 70% of shares allocated to Asian countries is sure to become another major player to support development activities of the region as well as global south.

Are AIIB and NDB linked with each other?

The AIIB and NDB are two separate entities in their operations and constitution even though there are overlaps in memberships of the two banks. The NDB is an MDB set up by the BRICS nations with all the five member countries as its founding members having equal voting rights and shares in the bank. On the other hand, the AIIB is dominated by the Chinese as they hold 30 percent stake in the bank, although only 26% of the vote, with 56 other members and more likely to join. The AIIB is specifically supporting projects in the Asian region while the NDB is for now only lending to BRICS countries.

Which countries are the main stakeholders in the AIIB and NDB?

The main stakeholders for the AIIB are China, followed by India and Russia. Currently the AIIB has 57 members with the voting shares split of 75% for Asian members and 25% percent for non-Asian members.
Currently the NDB members are limited to Brazil, Russia, India, China and South Africa. As per the provisions of NDB, new members can join but till date very few countries have expressed the desire to join the bank. Furthermore, with the rapid expansion of the AIIB ever since its establishment, the NDB is under pressure to prove its existence as a separate bank in the region.

Why might communities be concerned about loans from AIIB and NDB in India?

It has been identified by the experts that both NDB and AIIB have not got proven, tested environmental and social safeguards norms. In the Agreement of Association for both the banks, the priorities have been to bridge the existing infrastructure support and promote sustainable development. This will mean supporting railways, power sector development, transmission and distribution, and transport and roadways expansion in a sustainable manner. However, in reality, without proper environmental and social safeguards, this funding could impact the communities adversely and would not meet the established sustainable benchmarks. Communities may face threats in terms of displacements, ecosystem destruction, and loss of livelihoods, and severe curtailment of basic rights to life, issues which have recurred for decade due to projects funded by other MDBs. There is no particular reason to believe that the AIIB or NDB will behave differently, and thus communities in India need to be vigilant and watch out for and monitor closely the projects funded through these two banks.

The AIIB and NDB are in some cases adopting a co-financing approach under which the banks co-finance projects which are already approved by the existing MDBs. By this arrangement, the AIIB and NDB follow the safeguards of the existing MDBs. But this is a flawed approach as (a) the existing safeguards and standards of the MDBs are also weak and have proved to impact the communities negatively in India on many occasions previously and (b) it does not show the seriousness of the two banks to establish a robust and community oriented set of safeguards and standards for their loans. Thus, even if the new Asian MDBs talks about being pro-development, they seem to be following the same trajectory of their already established counterparts in the country.

What are the safeguards for communities under AIIB and NDB funding? What is their relevance in Indian context?

During 2016, both NDB and AIIB finalised their environmental and social safeguards guidelines. Both the banks said that these safeguards and standards would be based on the existing best practices of the other MDBs.
During 2016, both NDB and AIIB finalised their environmental and social safeguards guidelines. Both the banks said that these safeguards and standards would be based on the existing best practices of the other MDBs. However this is not evident in the policies developed, which seem to weaken standards fought for over decades by activists and communities.

Civil society had urged the banks to constitute robust frameworks which would ensure no negative environmental and social impact on affected communities, and/or ensure adequate treatment, compensation and redressal. They called for systems that would respect local traditions, knowledge and culture of the communities—especially indigenous people and cultural minorities. Furthermore, the safeguards and standards should protect the marginalised and most vulnerable people of the region and secure their rights. None of these demands were met under the finalised documents of the AIIB and NDB, and while AIIB had a restrictive, rushed and problematic consultation on its policy framework, the NDB did not consult civil society at all on its ESF. Moreover both banks have started loaning even before they have developed clear grievance redressal mechanisms or independent oversight procedures. Communities should make their voices heard about their dissatisfaction with these weak standards and their likely negative impact in India and across the world.

Given the current trends of funding, it can be presumed that for the next few years, most of the project support from the AIIB and NDB would come in the form of co-financed projects. In a co-financed project the AIIB or the NDB simply adopts the safeguards and standards of the existing MDBs. Thus it passes the buck of assessment in terms of safeguards and standards to the existing guidelines. Given that these guidelines are weak in addressing the concerns of the communities, the AIIB and NDB funded projects in India fail to be different from other MDB projects. This would mean the communities could be subjected to threats of losing livelihoods, basic rights, and displacement from their own land, and other coercive measures which pose threats to their existence. While the direct effect of AIIB and NDB funded projects are yet to be experience, but recently the Tata Mundra Thermal power project funded by both World Bank and ADB caused huge loss of livelihoods for more than 10,000 fisherfolk communities by destroying the ecosystem of the region. It was argued that all the safeguards and standards were met in this project but still there were huge losses. Thus the dangers involved and potential negative impacts are clear, and communities and civil society needs to watch carefully as more loans come to India from both new banks.
What are the key sectors that would affect the communities and the instruments the communities can use?

The key sectors with infrastructure and sustainable development are roadways, railways, power sector infrastructure development, and establishment of power plants. Mostly the nature of impact could be displacement of people, loss of livelihoods, land acquisition and destruction of ecosystem in the region proposed.

In the light of fact that the communities are the worst hit by any negative impacts, social movements against projects that impact them negatively are the best step forward. Furthermore, use of provisions established in the MDBs like ADB and World Bank for submitting complaints of violations of norms and negative impacts would also highlight and help in building global opinion about the exploitations and requirement of proper mechanisms to address them. Currently, these are not very well established in the context of AIIB and NDB. Therefore, in case of the projects funded by the NDB and AIIB, it is perhaps the national governments which should be held accountable for the projects having negative impacts.

How can communities influence the decision making process in the AIIB and NDB?

The communities can use a number of approaches to try to influence the decision making process in the two banks. At present the two banks have an opaque system of approval and assessment of loans with no engagement of civil society. Indeed both banks have not engaged with civil society much at all, although both talk of engaging them at their next AGMs. Communities can insist on meaningful engagement with them in advance of any infrastructure projects being initiated in their local area, on the long established principle of FPIC (full, prior and informed consent). They should push the AIIB and NDB to improve their interaction and consultation with civil society and project affected communities.

The communities can also utilise the complaint mechanisms of the existing MDBs. This is because the AIIB and NDB do not yet have such mechanisms, and it is through these indirect processes they could address the issues of environmental and social damages caused by the projects that
are co-financed by the AIIB and NDB. They can also strongly call on the AIIB and NDB to develop adequate, independent and robust complaint mechanisms urgently.

Communities should also engage with their political and government representatives. Little information is available on these banks and their lending in India, and little discussion is happening in the Indian parliament. Communities can demand access to information on India’s policy decisions and representations at the AIIB, and that parliamentarians scrutinise these developments with great care. Officials working on these areas should meet and share information with project affected communities.

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