

# How BRICS bank can win

The Asian Infrastructure Investment Bank (AIIB) has got off to a wonderful start with the commentariat. Its membership now includes all major Asian economies plus a raft of European economies. The United States has also done its bit to talk up the AIIB, by voicing its displeasure at the alacrity with which the UK and Germany have joined the bank. In contrast, the BRICS-led New Development Bank (NDB) is being viewed as a sideshow, even a non-starter.

This judgement is not without basis. The AIIB has a broader shareholding at this time. It has commenced recruitment and organisation-building. The NDB appears to be moving very slowly in comparison. It has taken almost a year to announce its president. There is little public discussion on what purpose the NDB will serve, what it will do, and how it will lend. There is, therefore, currently much greater clarity about the AIIB than the NDB. But to conclude from this that the NDB is already an institutional irrelevance, or that its importance is inversely proportional to the AIIB would be premature, for four reasons.

First, the AIIB will work in Asia and the NDB globally. There is no *de facto* or *de jure* division of labour between the two banks. A successful NDB will be expected to deliver heft and voice to developing country positions on global development finance issues like quantitative easing, the restrictive impact of Basel-III prudential norms, sustainable finance, and the reform of



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the international financial architecture. An Asia-focused, sectoral bank like the AIIB cannot be expected to play this role.

Second, the NDB, unlike the AIIB, can lend for things other than infrastructure. While this is a key area for developing countries due to the ubiquitous market failures that generate a huge infrastructure finance gap, the NDB can also address other important development priorities including urbanisation, agriculture and rural development, and investments in poverty eradication.

Therefore, the third difference: the NDB is a development finance institution and its business philosophy must be grounded in the political economy of development, not finance. The *raison d'être* for its existence is to change the terms of discourse on development finance and to offer alternative ways to finance development challenges. This requires a rejection of the prudential “business as usual”

approach and the cumbersome regulatory, monitoring, and oversight practices that traditional development bankers are comfortable with. To do this, NDB President Kamath must take the words “new” and “development” in the NDB as, if not more, seriously as the word “Bank”.

How is this to be done? In the foreseeable future, the NDB will not manage to secure either the quantum of resources available to the World Bank group or the attractive AAA terms on which that group secures its resources. This gap cannot be closed by even the most concerted focus on prudential credibility and adoption of business processes that emulate those of existing western institutions - the NDB will then end up as a sort of third-rate World Bank staffed by BRICS nationals. This is where the Indian presidency of the NDB comes into play. If there is one thing that is unique in India's “offer” to the world, it is an approach to development in which “ideas changing minds” is as important as “money changing hands” Thus, the fourth difference: Knowledge, the thrust area which should be at the cutting edge of the NDB's distinctiveness from the AIIB and other banks.

The NDB will need to establish its distinctiveness on all the above counts, if it is to succeed. The delay in setting it up means that the NDB has already lost an opportunity to lend its distinctive voice on the important discussions on financing for development, and on climate finance, that are taking place this year. But these

debates will continue in the future and the scope for fresh thinking and constructive initiatives from the NDB will continue to be considerable. The challenge is formidable but the opportunity equally historic.

Mr Kamath is a banker with a stellar record in creating successful financial institutions. He will not be daunted by the prudential and regulatory concerns that have preoccupied the caretaker BRICS Finance Ministry bureaucrats to date. The NDB will have to raise its game and become a knowledge based development finance institution from the very start of his tenure. To do this, the president and his team will need to pull the bank into the world of knowledge and ideas, drawing on the considerable pool of distinctive talent (like Mr Kamath himself) that exists within the BRICS and other developing countries, not just bureaucrats from the BRICS and recycled hires from the (intellectually) Western-dominated financial institutions. The NDB should also give top priority to engaging with knowledge institutions in the BRICS, and in developing countries, in the process of shaping the bank. Closed conversations within the corridors of power will be the NDB's kiss of death. It is to be hoped that the BRICS governments will understand this, refrain from interference and micromanagement, and allow the bank to develop into a knowledge-based development finance institution. If this happens then the NDB will, in the long run, be a far more significant creation than the AIIB.

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