

Engagement between the New Development Bank and Other Development Banks: A Formal Basis for Future Cooperation¹

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Abstract

Since its establishment, the New Development Bank (NDB) has been actively seeking to establish cooperation with other multilateral financial institutions. This strategy was stimulated by the fact that projects funded by multilateral banks often require large-scale investments and significant expert resources, or are associated with risks that a single lender cannot undertake independently.

The purpose of this article is to study the mechanisms of cooperation between the NDB and “traditional” multilateral banks, as well as the national development banks of the BRICS grouping of Brazil, Russia, India, China and South Africa. This article seeks to forecast the future of cooperation in order to better understand the overall prospects of the NDB. To do so, existing formats of engagement between the NDB and other development banks are analyzed, as are their approaches to participation in joint projects.

The article finds that the NDB, despite its differences from the “traditional” banks, seeks to establish an effective division of labour and cooperation with them, primarily because of their common goal of reducing the large-scale deficit in infrastructure investments. Despite the fact that none of the projects approved by the NDB so far involves other multilateral development banks, the launch of official cofinancing with them is expected in the very near future. Depending on the scenarios of NDB expansion, its joint loan portfolio with other multilateral banks in five years could reach \$58 to \$82 billion. As for national development banks of the BRICS, the NDB has also laid a formal framework for cooperation with them, even while it has not yet resulted in any concrete projects. Thus, in order to successfully implement its strategy of engagement with other financial institutions in the future, the NDB needs to intensify practical cooperation with national banks in the areas identified in the relevant declarative documents.

Key words: New Development Bank (NDB); infrastructure investment; multilateral development banks; national development banks; cofinancing

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Introduction

Multilateral development banks (MDBs) actively contribute to the economic and social development of countries around the world. Projects supported by these institutions often require very large investments and significant expert resources, or are associated with risks that a single lender cannot address independently. One of the most frequently used mechanisms in such cases is engagement between several actors. Multilateral banks actively cooperate with national governments, private sector and civil society at various levels; they implement comprehensive programmes that include financing projects not only from their capital, but also from other resources. Such cooperation between MDBs results in the development of common standards and principles, consolidation of expertise, risk sharing and, most importantly, significant increases in the volume of available financial resources through pooling efforts.²

Since their establishment, two new multilateral development banks – the New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) have been actively seeking to establish cooperation with other multilateral financial institutions [Shelepov, 2017b]. This article is focused on one of these new banks – the NDB. The purpose of this research is to study cooperation mechanisms between the NDB and “traditional” multilateral banks, as well as with the national development banks of the BRICS grouping of Brazil, Russia, India, China and South Africa, in order to forecast the evolution of this cooperation and assess the overall prospects for the successful development of the NDB. Thus, the article analyses existing engagement formats between the NDB and other development banks and their approaches to participation in joint projects. The main hypothesis is that despite differences with the “traditional” banks, due to their shared goal of reducing the large infrastructure investment gap, the NDB intends to establish a division of labour with the “traditional” banks rather than to compete with them.

Development Banks’ Cofinancing Mechanisms

Multilateral development banks, including the NDB, are mandated to implement large-scale projects [BRICS Governments, 2014]. Quite often the volume of investments needed for such projects cannot be provided by a single bank. In this case, multilateral banks pool their resources with other institutions in the framework of cofinancing. They use different types and mechanisms of cofinancing, and their partners in this process include a wide range of development institutions including multilateral and bilateral development assistance agencies (inter alia, multilateral banks), government agencies and financial institutions, public and private foundations and funds, non-governmental organizations and private companies, as well as sources of commercial financing or partners that share risks, such as banks, insurance companies and pension funds, as well as export credit agencies.

² Swiss State Secretariat for Economic Affairs. Importance of the Multilateral Development Banks. Available at: <https://www.seco-cooperation.admin.ch/secocoop/en/home/themes/multilateral-cooperation/switzerland-and-mdbs.html> (accessed 28 October 2017).

According to the Asian Development Bank (ADB), multilateral development bank cofinancing is divided into three types depending on the characteristics of its source. Sources for the first type, official cofinancing, include multilateral and bilateral development assistance agencies, as well as export credit agencies. This type of cofinancing traditionally meets strategic priorities of all parties involved, ensuring efficiency, low transaction costs and consistent and transparent disclosure mechanisms for project implementation. Commercial cofinancing, the second type, can be provided by both private and public institutions. It typically comes from financial markets and, accordingly, its cost is determined by the market. Mechanisms to ensure credit liabilities are met (for example, through guarantees) and risk-sharing tools help to mobilize financial resources, especially for projects that commercial partners view as risky for participation without involving multilateral banks. Other cofinancing is a third type aimed at mobilization and syndication of soft loans. In addition to public sources, it can be provided by the private sector through funds, corporate social responsibility programmes, civil society organizations and other institutions that are not included in the other forms of cofinancing [Asian Development Bank, 2014].

Commercial cofinancing involves the attraction of debt financing for multilateral bank projects on market terms. It is provided using two main mechanisms: guarantees and syndicated lending. Guarantees allow partners to transfer to multilateral development banks risks that they are not ready to take on independently. They can cover various types of debt instruments and extend to commercial (credit) risks such as non-repayment of a loan principal and interest, as well as to political risks, including expropriation, social unrest and disputes over contracts or nonfulfillment of sovereign obligations.³

Syndicated lending involves multilateral development banks as nominal lenders. In the framework of syndicated lending, a certain share of funding is provided directly by the multilateral bank (so-called A-loan), while the rest is financed by loans from commercial banks and other financial institutions (B-loans). Under such a mechanism, cofinancing partners receive the same privileges as multilateral banks. They are exempt from restrictions on currency conversion, remittance of interest payments and repatriation of principal, as well as from withholding taxes. They also face reduced likelihood of rescheduling in the event of an external debt crisis in the borrowing country and enjoy other benefits not available to them under normal conditions. In addition, multilateral banks provide cofinancing partners with services related to project appraisal, supervision and monitoring of project implementation, and loan administration.⁴

Based on this classification, the NDB can use official and commercial cofinancing in its engagement with other institutions. However, at the moment it does not cofinance projects with any other multilateral banks, focusing instead on cooperation with commercial financial institutions from the BRICS. Such an approach contributed to

³ Asian Development Bank. Guarantees. Available at: <https://www.adb.org/site/private-sector-financing/commercial-cofinancing/guarantees> (accessed 28 October 2017).

⁴ Asian Development Bank. Loan Syndication. Available at: <https://www.adb.org/site/private-sector-financing/commercial-cofinancing/loan-syndication> (accessed 28 October 2017).

the successful bond issuance in the Chinese market and plans for future issuances of debt instruments denominated in the currencies of the BRICS states.⁵ Still, signed co-operation documents with nine multilateral banks, both regional and global, suggests that cofinancing with these institutions will be launched in the near future.

NDB Engagement with Other Multilateral Development Banks – Declarative Cooperation

The NDB interacts with both regional and global MDBs, relying on the principle of using “institutional strengths and comparative advantages” leading to mutual benefits [Asian Infrastructure Investment Bank and Asian Development Bank, 2016].

As of October 2017, none of the 11 projects approved by the NDB provides for participation of other multilateral development banks.⁶ Nevertheless, recent trends indicate the growing aspiration of the NDB for this type of partnership.

Cooperation between the NDB and other multilateral development banks was launched in July 2016, when NDB President K.V. Kamath and ADB President T. Nakao signed a memorandum of understanding between their institutions. The main goal of the document was to augment cooperation between the two banks based on the identification of potential areas of strategic partnership where their interests overlap. The ultimate goal of cooperation was defined as providing “sustainable, balanced and inclusive growth and poverty reduction in countries of common interest.”⁷ The heads of the two banks identified “sustainable development projects in renewable energy, energy efficiency, clean transportation, sustainable water management, and sewage treatment” as priority areas for cooperation.⁸

Cooperation between the NDB and the World Bank was formalized in September 2016. A memorandum of understanding between the two banks provides for cooperation on infrastructure projects, with an emphasis on energy and water supply. According to the memorandum, the two banks can jointly finance projects, provide advisory services, share knowledge regarding their operations and facilitate staff exchanges.⁹

The same day, a memorandum of understanding was signed between the NDB and the Development Bank of Latin America (CAF). The banks expressed their intention to participate in joint projects in the field of sustainable infrastructure, energy,

⁵ New Development Bank (2016) New Development Bank Plans Rupee, Rouble Bonds. Available at: <https://www.ndb.int/media/new-development-bank-plans-rupee-rouble-bonds/> (accessed 28 October 2017).

⁶ New Development Bank. Projects. Available at: <https://www.ndb.int/projects/list-of-all-projects/> (accessed 28 October 2017).

⁷ New Development Bank (2016) NDB, ADB Sign MOU on Cooperation for Sustainable, Inclusive Growth. Available at: http://www.ndb.int/press_release/ndb-adb-sign-mou-cooperation-sustainable-inclusive-growth/ (accessed 28 October 2017).

⁸ Ibid.

⁹ New Development Bank (2016) World Bank Group, New Development Bank Lay Groundwork for Cooperation. Available at: http://www.ndb.int/press_release/world-bank-group-new-development-bank-lay-groundwork-cooperation/ (accessed 28 October 2017).

water supply and environmental protection. In addition, the memorandum provides for the possibility of cofinancing projects in countries of mutual interest (primarily Brazil), taking into account the complementary objectives of the two banks (countries of Latin America and the Caribbean are major CAF borrowers).¹⁰ The document also emphasizes the need for exchanging knowledge and experience with a particular focus on the balanced bilateral nature of this cooperation; for this reason exchanges are carried out on a reciprocal basis.¹¹

At the second annual meeting of the NDB board of governors on 1 April 2017, several basic documents on cooperation with other multilateral financial institutions were signed. The new NDB partners included the European Investment Bank, the International Investment Bank, the Eurasian Development Bank, the European Bank for Reconstruction and Development (EBRD) and the AIIB.¹²

The signed memoranda were quite standard and similar to those previously concluded with three other multilateral banks. They provide for cooperation on projects in the areas of infrastructure, environmental protection and sustainable development in accordance with the mandates of the partner banks. Cooperation can involve cofinancing, other mechanisms of joint financial support, interaction through treasury management and staff exchanges, as well as exchanges of experience and data. The change in the NDB strategy of selecting new partners should be highlighted. Previously, given its relatively narrow membership and geographic representation, the bank focused mainly on cooperation with national development banks (discussed below), commercial banks of the BRICS countries (for example, with Chinese banks that participated in issuing NDB green bonds in the national market) and multilateral development banks where the BRICS countries play a significant role in decision-making. New partners include large multilateral institutions that carry out core activities outside the BRICS, for example, the European Investment Bank. Signing such documents may indicate the NDB's intention to expand the geographic scope of its operations. Formalizing cooperation with the AIIB can also be an important step to future successful NDB development. Previously, despite the obvious expediency of cooperation between the two new development banks its potential was not fully used, although representatives of both banks repeatedly noted that they “should complement rather than compete each other.”¹³

The NDB also continued cooperation with regional institutions. On 26 April 2017, it signed a memorandum on strategic cooperation with the Financial Fund for the Development of the Río de la Plata Basin (FONPLATA), which includes Brazil, Argen-

¹⁰ Development Bank of Latin America (2016) CAF and New Development Bank Sign Cooperation Agreement. Available at: <https://www.caf.com/en/currently/news/2016/09/caf-and-new-development-bank-sign-cooperation-agreement/> (accessed 28 October 2017).

¹¹ New Development Bank (2016) Development Banks CAF and NDB Agree to Co-operate More Closely. Available at: <https://www.ndb.int/media/development-banks-caf-ndb-agree-co-operate-closely/> (accessed 28 October 2017).

¹² New Development Bank. List of Memoranda of Understanding and Cooperation Agreements. Available at: <http://www.ndb.int/partnerships/list-of-partnerships/> (accessed 28 October 2017).

¹³ New Development Bank (2016) BRICS NDB, AIIB to Start Joint Financing of Projects – NDB VP. Available at: <https://www.ndb.int/media/brics-ndb-aiib-start-joint-financing-projects-ndb-vp/> (accessed 28 October 2017).

tina, Bolivia, Paraguay and Uruguay. The document is aimed at developing cooperation on projects in Latin America.¹⁴

It should be noted that all documents on cooperation signed between the NDB and other multilateral financial institutions only express declarative intentions and enumerate possible areas of cooperation without mentioning concrete initiatives. While practical results of cooperation between the NDB and national institutions are gradually becoming apparent, as in the case of the China Construction Bank which participated in the underwriting syndicate when issuing the NDB bonds,¹⁵ and the case of Vnesheconombank which has prepared “a portfolio of projects potentially interesting to the NDB of up to US\$ 400 million,”¹⁶ there have been no joint projects with multilateral development banks so far. However, given NDB efforts to develop cooperation with this type of institution, joint official cofinancing is likely to be launched shortly.

NDB Cooperation with National Development Banks – Underutilized Opportunities

The review of NDB cooperation with other MDBs shows that the new bank is active in this area. It has established a formal basis for engagement in the first two years of its operations even though it has not yet resulted in any concrete joint projects.

There is a similar trend in NDB engagement with national development banks – a number of documents regulating formats and determining the overall goals of cooperation between the NDB and development banks from the BRICS countries have been signed.

National development banks generally do not consider infrastructure financing outside their countries to be a priority. Even if they have sufficient financial resources, they still face significant barriers in external operations. In the foreseeable future, this situation is unlikely to change without establishing partnerships between national and multilateral development banks. Taking into account the role of the BRICS in the NDB, it is reasonable for the bank to develop cooperation with the national institutions of the members [Shelepov, 2017a].

To formalize this cooperation the NDB signed a memorandum of intent on cooperation with the members of the BRICS Interbank Cooperation Mechanism at the 2015 Ufa summit. Thus, the NDB identified its main partners in the BRICS countries, including the Brazilian state corporation “Banco Nacional de Desenvolvimento Economico e Social” (BNDES), the Russian Bank for Development and Foreign Eco-

¹⁴ New Development Bank (2017) NDB, FONPLATA Sign Memorandum on Strategic Cooperation in Brasilia, Brazil. Available at: http://www.ndb.int/press_release/ndb-fonplata-sign-memorandum-strategic-cooperation-brasilia-brazil/ (accessed 28 October 2017).

¹⁵ The BRICS Post (2016) BRICS Bank to Issue \$448 Mn of Yuan Green Bonds. Available at: <http://thebricspost.com/brics-bank-to-issue-448-mn-of-yuan-green-bonds/#.WAdS-uuhqko> (accessed 28 October 2017).

¹⁶ Members of the BRICS Interbank Cooperation Mechanism and the New Development Bank Intend to Develop Cooperation in Priority Sectors. Available at: http://www.veb.ru/press/news/index.php?id_19=102689 (accessed 28 October 2017).

conomic Affairs (Vnesheconombank), the Export-Import Bank of India (Eximbank), the China Development Bank (CDB) and the Development Bank of Southern Africa (DBSA).

Initially, the Interbank Cooperation Mechanism did not consider infrastructure projects as one of its priorities. The Mechanism was established on 15 April 2010, when the memorandum on cooperation of state financial institutions for development and export support of the BRICS nations was signed. At the end of 2010, following the accession of South Africa to the BRIC, the Development Bank of Southern Africa joined the Interbank Cooperation Mechanism. The initial memorandum on cooperation shaped its general areas, particularly strengthening trade and economic relations between the BRICS countries as the main objective. In 2011, on the sidelines of the BRICS summit and in the presence of the BRICS leaders, a framework agreement on financial cooperation within the BRICS Interbank Cooperation Mechanism was signed. Vnesheconombank's head V. Dmitriev called this document "the first inter-governmental cooperation project of the BRICS countries."¹⁷ In accordance with the framework agreement, the participating banks agreed to develop cooperation in several priority areas, including the use of national currencies for mutual settlements and lending, joint projects in the extractive industry, new technologies, information and communications technology, sustainable development and environmental protection, development of national debt markets and the exchange of experience and data. The ultimate goal of this cooperation was to strengthen practical cooperation between the BRICS countries, facilitate and promote mutual trade in goods and services, as well as investments in bilateral and multilateral projects [BRICS Interbank Cooperation Mechanism, 2014]. In the framework of India's presidency of the BRICS, the national development banks further augmented their cooperation in providing credit lines, accumulating financing to stimulate trade and investment in joint projects and previously defined areas of cooperation.¹⁸

The priorities of the South African presidency in 2013 affected the Interbank Cooperation Mechanism agenda, shifting its focus to sustainable infrastructure development. In line with these priorities, two documents were signed by the national banks: the BRICS Multilateral Cooperation and Co-financing Agreement for Sustainable Development and the BRICS Multilateral Infrastructure Co-financing Agreement for Africa [BRICS Interbank Cooperation Mechanism, 2014]. According to these documents, the development banks agreed to pool efforts to implement infrastructure projects in African countries and to coordinate on projects in the field of sustainable development and green economy, including increased use of renewable energy, energy efficiency, preserving biodiversity and reasonable consumption of natural resources.

Despite the broad spectrum of cooperation areas, the BRICS Interbank Cooperation Mechanism has not achieved any significant practical results. Cooperation bet-

¹⁷ Rossijskaja Gazeta (2011) The First Joint Project of the BRICS Countries Will Be an Agreement on Financial Cooperation. Available at: <https://rg.ru/2011/04/13/soglashenie-anons.html> (accessed 28 October 2017).

¹⁸ BRICS Information Centre (2012) Agreements between BRICS Development Banks. Available at: <http://www.brics.utoronto.ca/docs/120329-devbank-agreement.html> (accessed 28 October 2017).

ween the national development banks within the BRICS has developed mainly on a bilateral basis. Aspiration for broader intra-BRICS cooperation, including on multilateral projects in the field of sustainable development, was one of the reasons for signing the Memorandum of Intent on Cooperation with the NDB.

The memorandum signed in Ufa expressed the intentions of the BRICS national banks to cooperate with the NDB in a number of areas, primarily on infrastructure and sustainable development projects. Such priorities are fully aligned with both the NDB mandate and the issues to be addressed in the framework of the interbank mechanism. As Vnesheconombank Chairman Vladimir Dmitriev mentioned after signing the document, “the banks that are members of the BRICS Interbank Cooperation Mechanism and the New Development Bank face similar goals, therefore their engagement will have a positive impact on economic development in the BRICS countries.”¹⁹

Given the declarative nature of the signed document, it was necessary to agree on concrete measures to deepen cooperation between the NDB and national banks. India, as chair of the BRICS in 2016, was the first of the five states to announce the participation of its export-import bank in preparing a new agreement with the NDB. According to Indian authorities, the main objective of the new agreement was to facilitate and increase investment in joint projects. At the same time, it was again noted that the agreement would be of a recommendatory nature, being “a nonbinding umbrella agreement aimed at establishing a cooperation framework in accordance with the national laws and regulations, besides skills transfer and knowledge sharing amongst the signatories” without being associated with any financial obligations for them.²⁰

This agreement (Memorandum of Understanding between BRICS Interbank Cooperation Mechanism and New Development Bank on General Cooperation) was signed at the Goa summit. According to the memorandum, following the principle of “equality, mutual benefits, responsible financing, and balance of interests,” the signatories would strive to combine their advantages for practical cooperation on infrastructure and sustainable development projects in order to stimulate social and economic progress in the BRICS countries.²¹ The memorandum identified priority cooperation areas, including: financing and cofinancing of projects; provision of lines of credit, including two-step and back-to-back loan facilities; implementation of joint programmes in the field of project finance; facilitating the issuance of bonds; using currency and interest rate swaps and other financial derivatives; provision of guarantees and counter-guarantees to secure obligations; participation in public-private partnerships; creation of investment funds for financing projects in priority areas; development of effective

¹⁹ Vnesheconombank (2015) Heads of Banks Participating in the BRICS Interbank Cooperation Mechanism Intend to Interact with the New Development Bank. Available at: http://www.veb.ru/press/news/index.php?id_19=100876 (accessed 28 October 2017).

²⁰ New Development Bank (2016) Cabinet approves Pact between EXIM Bank, New Development Bank. Available at: <https://www.ndb.int/media/cabinet-approves-pact-exim-bank-new-development-bank/> (accessed 28 October 2017).

²¹ China Development Bank (2016) Annual Meeting of BRICS Interbank Cooperation Mechanism Held in Goa. Available at: http://www.cdb.com.cn/English/xwzx_715/khdt/201701/t20170117_4036.html (accessed 28 October 2017).

and sustainable financial solutions for projects of mutual interest; sharing knowledge and experience on environmental, social and procurement policies and procedures; exchange of knowledge and experience in the area of technical assistance for the preparation and implementation of projects; exchange of personnel and other types of engagement to improve human resources management; preparation of joint publications and organization of seminars, round tables and conferences; and ensuring dialogue through regular meetings of executives [New Development Bank, 2017].

Although the memorandum identified areas of cooperation it remains declarative, and like all other documents on engagement between the NDB and other financial institutions it lacks specific commitments and initiatives aimed at achieving the stated goals. Accordingly, numerous statements on preparing lists of joint projects involving the NDB and individual national development banks of the BRICS countries, including Vnesheconombank, are not yet supported by any practical results despite the obvious expediency of such cooperation for both sides.

Prospects for Cooperation between the NDB and Other Development Banks

The NDB, understanding the need to develop cooperation with multilateral and national development banks, signed a number of documents that determine parameters and areas of engagement. In particular, it signed memoranda on cooperation with the ADB, World Bank, Development Bank of Latin America, International Investment Bank, Eurasian Development Bank, European Investment Bank, EBRD, FONPLATA and AIIB. The NDB also formalized cooperation with the BRICS Interbank Cooperation Mechanism.²² Given its narrow membership and diverse geographical representation, the NDB places obvious emphasis on cooperation with sub-regional MDBs with a small number of participants where the BRICS countries play leading roles. Although sub-regional banks currently operate in volumes that are often comparable to those of major traditional multilateral banks, further scale-up of their operations is impossible without joint investments in large projects involving both types of institutions. Probably, in this connection the NDB intended to cooperate with large MDBs. This intention was manifested in the memoranda with the World Bank and ADB.

The strategy of the NDB cooperation with other financial institutions is determined by the specific characteristics of the bank, including the number of participating countries and geographical representation, as well as its priorities, such as improving the image among investors to attract financing and adapting best operational practices, plans for implementing specific projects and positioning itself as a development bank of a “new type.” The NDB strategy helped to lay the foundation for cooperation with local institutions in the BRICS countries, creating conditions not only for future joint projects, but also for improving other areas of the bank’s work based on using the experience and knowledge of such institutions about local economies.

²² New Development Bank. List of Memoranda of Understanding and Cooperation Agreements. Available at: <http://www.ndb.int/partnerships/list-of-partnerships/> (accessed 28 October 2017).

The NDB can potentially increase its operational effectiveness through more active engagement with other multilateral banks. Given the outcomes of the annual meeting of its board of governors in April 2017, it is likely to resort to the full range of cooperation mechanisms with other multilateral banks as stipulated in their joint memoranda. In this case, in the near future the bank is likely to first support projects based on official cofinancing with other institutions. Taking into account the experience of another new institution, the AIIB, these projects at the initial stage will most likely use the standards and practices of the partner banks and be implemented with a leading role for the NDB. Later, along with the accumulation of its own experience, the NDB can transform into the main cofinancing institution.

Another source of increasing effectiveness is strengthening cooperation between the two new banks – the NDB and AIIB. As noted above, despite expressing intentions to cooperate and signing a relevant memorandum, the banks have not yet launched any practical projects. Given their similar goals and challenges, they do not currently seek to compete with each other. Similar specialization and country priorities predetermine opportunities for cooperation between them, primarily through official cofinancing of large-scale infrastructure projects in the countries that are members of both institutions (the BRICS states). Such cooperation has been repeatedly discussed at the highest level. In the Ufa Declaration, the BRICS leaders welcomed the “proposal for the NDB to cooperate closely with existing and new financing mechanisms including the Asian Infrastructure Investment Bank” [BRICS Leaders, 2016]. Despite mentioning a wide range of possible cooperation formats, including the exchange of information such as databases, the preparation and publication of joint studies, holding seminars and conferences, professional exchanges and cofinancing of projects, this document too is declarative. As a result, despite the obvious expediency of cooperation between the two new development banks, its potential is not currently used. To successfully cooperate in the most important area – joint financing of projects – the NDB and AIIB should agree on specific parameters of engagement. It would be advisable in this regard to develop a special document similar to the cofinancing framework agreement between the AIIB and the World Bank [Shelepov, 2017b].

Cofinancing with other multilateral banks will create opportunities for implementing large-scale projects that cannot be financed by a single institution. Assuming cofinancing in one-third of the NDB projects in equal proportions with the other MDBs, the total loan portfolio of the NDB and other multilateral banks in the framework of joint projects will reach \$58 and \$82 billion by 2022 under the baseline and optimistic scenarios of NDB expansion, respectively (Figure 1). The share of cofinanced projects is selected based on the experience of other multilateral banks, primarily the AIIB. The NDB's equity-to-loans ratio is set equal to 37.5% under the baseline scenario in accordance with the average figure of the major MDBs, similarly to the return on equity (ROE) ratio, equal to 3.5%. The baseline forecast takes into account the established procedure for paying capital subscriptions by member countries, NDB's plans for issuing bonds (supported by its successful experience in the Chinese market) and to attract new members, which will result in an additional allocation of \$25 billion of autho-

rized but unsubscribed capital. The optimistic forecast is based on an assumption about accelerated membership expansion which will result in full distribution of authorized capital among the bank's members, as well as more favourable conditions for raising funds in the financial markets, so that the E/L ratio will reach 35%.²³

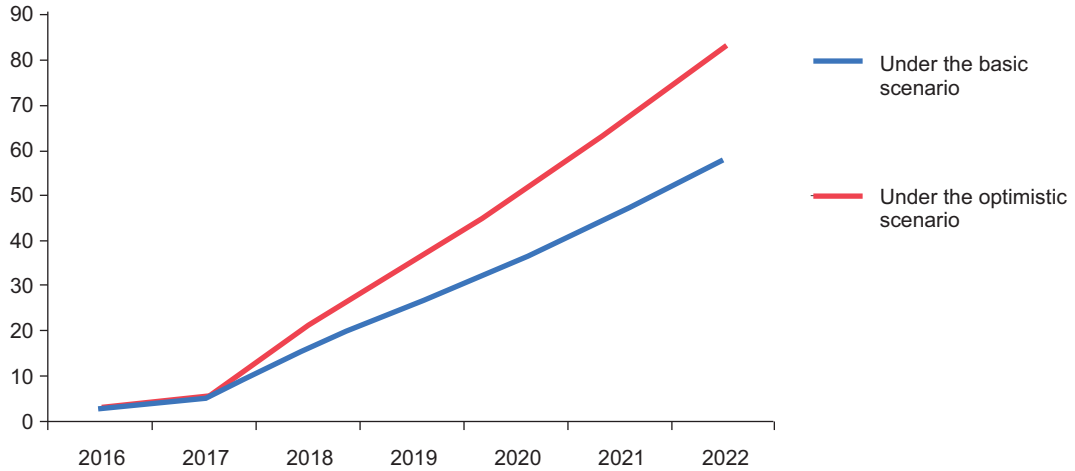


Figure 1. Projected Total Loan Portfolios of the NDB and other MDBs under the Baseline and Optimistic Scenarios, \$ Billions

Source: Author's calculations.

Finally, engagement with national development banks, which have a number of important advantages in financing infrastructure projects due to their official status and support at various levels, including access to budgetary sources [Shelepov, 2017a], can also become an important factor of scaling up NDB operations. Still, making projections about the scale of joint financing of the NDB and national banks is a challenge given the lack of examples of such engagement both for the NDB and the AIIB, whose nature is largely similar.

It is important to note that cofinancing from multilateral and national development banks only redistributes their resources within the framework of implementing infrastructure projects, without significantly affecting their overall volume. The NDB's cooperation with institutional investors and the fact that it acts as a catalyst for private investment can potentially help attract additional funding. However, attracting private sector investment in the infrastructure sector is an issue for separate consideration. Forecasting the scale of private investors' participation in NDB-initiated projects in this case will also be difficult given the absence of examples of such engagement. Nevertheless, this type of cooperation could definitely play an important role in financing infrastructure investments by creating opportunities for implementing large-scale projects where the resources, expertise and risk management practices of development banks are combined.

²³ See Shelepov [2016] for more detail about approaches to forecasting the NDB loan portfolio.

Conclusion

The new multilateral development banks are aware of the importance of engagement with other financial institutions with a similar focus, given the possibilities of attracting cofinancing for large infrastructure projects and the need to exchange experience in selecting and carrying out projects in accordance with advanced social and environmental standards and principles.

Based on the data presented in the article, NDB engagement with other multilateral and national development banks is aimed at the creation of an effective division of labour. Despite some concerns about potential competition between the new multilateral banks (the NDB and AIIB) and existing institutions [Wang, 2016], significant infrastructure investment needs, estimated to be as much as \$2.3 trillion in developing countries alone each year [Bhattacharya, Romani, 2013], encouraged the NDB to formalize cooperation with other development banks.

Although none of the projects approved by the NDB by the time of writing this article suggest participation of other MDBs, official cofinancing mechanisms to attract these banks as partners is likely to start in the very near future. Depending on the NDB expansion scenarios, the total loan portfolio of the new bank and other multilateral banks in five years will amount to \$58–82 billion.

NDB cooperation with national development banks is potentially beneficial to both parties. National banks of the BRICS could minimize constraints in internationalization of their operations through partnerships with the NDB. Similar to its engagement with multilateral institutions, the NDB has established a formal framework for cooperation with the national development banks of the BRICS on a wide range of issues, but it has not yet resulted in any significant projects. Thus, in the future the new bank should strengthen the practical vector of engagement in order to successfully implement its division of labour strategy with other financial institutions.

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Взаимодействие НБР с другими банками развития: формальные основы для будущего сотрудничества¹

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В период своего становления Новый банк развития (НБР) активно стремился к налаживанию взаимодействия с другими многосторонними финансовыми институтами. Выбор такой стратегии обусловлен тем, что проекты многосторонних банков часто требуют масштабных инвестиций, значительных экспертных ресурсов или связаны с рисками, которые самостоятельно не может взять на себя один кредитор.

Целью статьи является изучение механизмов сотрудничества НБР с «традиционными» многосторонними банками, а также национальными банками развития стран БРИКС, и построение прогнозов наращивания этого сотрудничества, без которого невозможно понимание перспектив дальнейшего развития НБР в целом. Для решения этой задачи авторы проводят анализ сложившихся форматов взаимодействия НБР с другими банками развития и используемых подходов к совместному участию в реализации проектов.

По результатам анализа авторы приходят к выводу о том, что НБР, несмотря на отличия от «традиционных» банков, стремится не к конкуренции, а к разделению труда и сотрудничеству с ними, в первую очередь в силу общности задач сокращения масштабного дефицита инвестиций в инфраструктуру. Несмотря на то что ни один из одобренных НБР проектов пока не предполагает участия других многосторонних банков развития, начало использования механизмов официального софинансирования с их участием можно ожидать в самое ближайшее время. В зависимости от сценариев наращивания операций НБР, суммарный кредитный портфель рассматриваемого банка и других многосторонних банков через пять лет составит от 58 до 82 млрд долл. США. Что касается национальных банков развития, НБР также заложил формальную основу для сотрудничества с ними, однако оно пока не получило практического воплощения. Таким образом, в будущем для успешной реализации стратегии разделения труда, избранной НБР в отношении других финансовых институтов, ему необходимо активизировать практический вектор взаимодействия с национальными банками по направлениям, предусмотренным в соответствующих декларативных документах.

Ключевые слова: Новый банк развития (НБР); инвестиции в инфраструктуру; многосторонние банки развития; национальные банки развития; софинансирование

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