

NDB's General Strategy: 2017 – 2021

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EXECUTIVE SUMMARY

The New Development Bank (NDB) was founded by Brazil, Russia, India, China and South Africa (collectively the BRICS countries) during the fifth BRICS Summit in Fortaleza in July 2014 and launched a year later. NDB is a 21st-century multilateral development bank that builds on the experiences of existing institutions to design policies and practices capable of living up to the challenges posed by global trends. The creation of the Bank is an expression of the growing role of BRICS and other emerging market and developing countries (EMDCs) in the world economy, and their greater willingness to act independently in matters of international economic governance and development.

NDB's Articles of Agreement mandate that it will mobilize resources for infrastructure and sustainable development projects in BRICS and other EMDCs. The Bank will make use of the proven financial model of multilateral development banks (MDBs)—financial institutions created by governments to leverage capital for development purposes—to contribute to the investment needs of the founding members and other EMDCs.

This General Strategy 2017-2021 lays out how NDB intends to fulfill its mandate. The overarching goal for the coming five years is to build on the progress achieved since the beginning of its operations in July 2015 to firmly establish NDB as a trusted provider of development cooperation services and a financial intermediary that reliably safeguards resources contributed by shareholders and investors.

NDB intends to be “new” in three broad areas: *relationships, projects and instruments, and approaches.*

New Relationships. A relationship of equality, mutual respect and trust between NDB and member countries permeates all aspects of the Bank's policies and operations. National sovereignty is paramount. NDB supports projects tailored to the needs of individual countries, respecting their development priorities and strategies. The Bank follows, whenever possible, nationally-defined laws and procedures on project implementation without compromising quality. While NDB is open to advanced country members, the Bank will remain governed by EMDCs, and policies, project selection, and relationship with borrowers will reflect that. Most of NDB's decisions are taken on the basis of a simple majority, and no single member has veto power over any matter. These arrangements strengthen NDB by giving all members a stake in the success of the institution.

New Projects and Instruments. Sustainable infrastructure development is at the core of NDB's operational strategy in 2017-2021, and the Bank will dedicate about two-thirds of financing commitments in its first five years to this area. Physical infrastructure is a critical enabler of faster and inclusive economic growth, and sustainability criteria are essential to ensure this infrastructure safeguards the physical and social environment for current and future generations. NDB is helping to fill an important gap in the global development finance architecture, as financing for and technical expertise in sustainable infrastructure development is limited, despite growing demand. NDB retains the flexibility to provide funding to other areas, including traditional infrastructure and sustainable development projects in line with the borrowing country's overall development agenda. NDB will utilize a full range of financing instruments, moving beyond long-term loans to include guarantees, syndicated loans with private investors, equity investments, project bonds and co-financing arrangements with national and multilateral development finance institutions. Local currency financing is a key component of NDB's value proposition, as it mitigates risks faced by borrowers and supports the deepening of capital markets of member countries.

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New Approaches. NDB aims to be fast, flexible and efficient by designing a more streamlined project review and implementation oversight without unnecessary bureaucracy. The Bank is using a risk-based approach to project approval and oversight that mandates more intensive *ex-ante* reviews for complex, risky projects, while low-risk projects go through a more streamlined procedure with *ex-post* checks. Staff performance indicators and incentives will be oriented towards risk evaluation, disbursement and outcomes, rather than just approvals. A lean and flat organization structure, able to evolve as NDB grows, will result in lower administrative costs and more efficient decision-making. At the outset, NDB is operating with a non-resident Board of Directors, which also reduces administrative costs and focuses Board debates on high-level policy issues and particularly complex projects, rather than routine day-to-day operations.

Loan Portfolio and Key Areas of Operation. Most of the Bank's projects will be either sovereign operations or under sovereign guarantee. Non-sovereign operations, particularly with the private sector, will be expanded as the operational capability of the Bank evolves. NDB's key areas of operation will include, but not be limited to: i) clean energy; ii) transport infrastructure; iii) irrigation, water resource management and sanitation; iv) sustainable urban development; and v) economic cooperation and integration among member countries.

Financial Solidity. Strong finances and access to capital markets at good terms are crucial for NDB to succeed in its mission. The Bank is putting in place a robust set of financial and risk management policies and systems. Prudent leveraging, a conservative level of loans as a ratio to equity, strong liquidity buffers, and a diversified, well-performing portfolio are all key elements to enable NDB to quickly build a reputation as a trustworthy multilateral development finance institution. The Bank will fund its operations through regular bond issuances in member countries and international capital markets, including in local currencies. In accordance with a strong focus on sustainability, NDB intends to tap the growing market for green bonds to support its operations.

Expansion of Membership. NDB intends to operate at scale, and is now designing criteria and a strategy to expand membership to new countries. In the interest of growing at a pace that does not overly strain its operational capacity and decision-making processes, NDB plans to expand membership gradually. Membership expansion will be conducted so as to ensure geographic diversity and a reasonable mix of advanced, middle-income and lower-income countries.

Regional Offices. The core function of the regional offices will be identification and preparation of bankable projects in BRICS and other member countries. Their activities will be closely aligned with the institutional strategy and performed under the guidance of the head office. The first regional office is being established in Johannesburg.

Partnerships. The Bank has already signed several partnership agreements with international development organizations, national development banks and commercial banks, and will continue building partnerships going forward. This will include major global and regional multilaterals, smaller sub-regional institutions, bilateral development organizations, national development agencies in borrowing countries and private financiers, as relevant to achieve NDB's goals. These partnerships will also allow NDB to tap into the expertise of other institutions, strengthen its capacity to assess and implement projects and build financial packages able to bring projects to meaningful scale. The Bank is endeavoring to build a relationship of mutual trust and cooperation with

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non-governmental organizations, think tanks and universities, particularly those closely connected to infrastructure and sustainable development issues.

Human Resources. The Bank is committed to fostering a diverse work environment built on the pillars of meritocracy and efficiency. While merit is the overarching principle, NDB gives due consideration to recruiting on a diverse basis, seeking a broad representation of member countries at all levels. A team comprised of young and qualified professionals will bring new ideas and new approaches, challenging the status quo. In addition, the Bank is recruiting skilled and experienced staff to foster younger professionals who will form the nucleus of the Bank in the future.

Independent Evaluation. An evaluation framework will be established to enhance a learning culture within the Bank. Evaluations of the Bank's policies, projects, and investment decisions will help identify course correction needs and disseminate lessons learned. An independent evaluation unit will assess the Bank's operations, taking into account the risks involved and their environmental and social impacts.

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A. INTRODUCTION

The context for global development has changed dramatically in recent decades. Dozens of emerging market economies—collectively home to the majority of the world's population—are industrializing and urbanizing at a pace never seen before. Dozens more countries are seeking to learn from these experiences. At the same time, the question of how to develop has become central. Growth at all costs is unsustainable for individuals, countries and the planet as a whole. The challenge is to expand prosperity and opportunities rapidly to fulfill the legitimate aspirations of BRICS and other emerging markets and developing countries (EMDCs), and do so in a way that supports economic stability, maintains environmental integrity and equitably shares the benefits of growth with all.

New forms of development cooperation are needed to achieve these outcomes. Existing multilateral development institutions are a valuable part of the solution, but they are insufficient to address the massive needs of EMDCs, both in terms of the sheer volume of finance required as well as in the way it is delivered. The New Development Bank (NDB) was conceived by founding members—Brazil, Russia, India, China, and South Africa—to be a truly 21st-century multilateral development bank (MDB), one that makes use of the MDB's proven core financial model, while designing and implementing systems, practices and an organizational culture that can live up to the challenges and opportunities posed by the current global context. Its creation is an expression of the growing role of BRICS and other EMDCs in the world economy and their greater willingness to act independently in matters of international economic governance and development. NDB signifies developing countries' coming of age and reflects their aspirations to stand on their own feet.

Established within the context of the BRICS inter-governmental mechanism, NDB is mandated by its Articles of Agreement to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.”¹

Similarly to existing development banks, NDB will place a high priority on managing its finances prudently to safeguard the share capital of members, ensure timely repayment of all financial obligations, and keep the Bank on a solid path to provide development services for decades to come. Within those parameters, NDB intends to innovate in several areas. Most importantly, NDB is committed to a new mindset of partnership with all members and borrowers, in the belief—based on founders' own experiences—that projects will be most successful when borrowing countries are in charge of their own development path. Projects will be undertaken whenever possible in collaboration with local, national and international institutions to maximize NDB's impact. The Bank will rely on local currency lending to the extent feasible to avoid foreign exchange risks for borrowers and will also explore financial instruments such as guarantees, syndicated loans and project bonds. Organizational structures and procedures will be streamlined to minimize unnecessary bureaucracy and facilitate rapid project preparation and delivery, without compromising quality. NDB will incorporate speed and technology in everything it does. Not only the projects it supports, but also the efficiency of its processes will be enhanced by taking advantage of the rapid pace of technological innovation.

¹ Article 2 of the Articles of Agreement.

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Sustainable infrastructure development will be the primary emphasis of NDB operations in the next five years. The Bank will dedicate around two-thirds of all financing commitments in this period to sustainable infrastructure development, i.e., infrastructure projects that incorporate economic, environmental and social criteria in their design and implementation. NDB will direct its financial, knowledge and relationship-building resources toward this area, while retaining the flexibility to support a wide range of other development projects as per member countries' needs. This operational focus responds to four key factors: i) rapidly growing demand for basic infrastructure to reduce poverty and inequality, improve quality of life and expand economic opportunities for billions of people in EMDCs, ii) acknowledgment that sustainability criteria are economically rational as well as essential to long-term developmental effectiveness, iii) the fact that other MDBs, while working in this area, and often effectively, cannot by themselves respond to the growing demand for sustainable infrastructure in EMDCs, and iv) limited possibilities of attracting private financing to these projects due especially to their long duration, relatively low profitability, lack of cash flow and risk mitigation difficulties.

NDB's founding members have set out ambitious goals, and achieving them will require commitment from staff combined with the humility to learn from others. NDB will engage with development finance institutions, think tanks, academia, civil society and the clients themselves to learn from successful experiences. At the same time, NDB will remain flexible and ready to innovate, recognizing that circumstances change and development is an extraordinarily complex process.

Since the beginning of its activities in July 2015, NDB has already been following most of the above-mentioned principles and guidelines. Founding members have made their initial contributions to paid-in capital, with most of them doing so ahead of schedule. NDB's operational, financial, control, disclosure and human resources policies have been approved by the Board of Directors, as well as the Bank's first seven loans, all except one in the renewable energy sector. NDB's first bond was issued very successfully in China—a green bond denominated in RMB. The Bank concluded and has begun to implement a number of cooperation agreements with MDBs, as well as national development banks and commercial banks of the founding members.

This General Strategy for 2017-2021 spells out the orienting guidelines for NDB's operational and institutional evolution. The General Strategy will be supplemented by a detailed Business Plan as well as individual country strategies as embodied in Country Partnership Plans, to be approved by the Board of Directors.²

B. ECONOMIC BACKDROP AND GLOBAL CONTEXT

NDB operates in a very different world from that in which existing multilateral financial institutions operated when they were created. The economic, political and social realities that shaped the second half of the 20th century have shifted markedly, and a new set of relations are now being built—between individuals, firms, countries, and between humanity and the physical environment.

In many ways, the current global context is defined by non-linear, disruptive technological changes. Conventional infrastructure—energy, transportation, urbanization—will continue to be critical. Demand will be driven by the rate of economic growth, per capita income, demographics and urbanization—what can be called

² Article 12, a, i of the Articles of Agreement.

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linear trends. But a non-linear trend has begun where infrastructure is becoming green at an exponential rate. Costs of solar and other renewables, for instance, have reached parity with those of fossil fuel-based energy in many countries.³ This trend is bound to accelerate as more and more countries commit to renewables, pushing costs down. Green energy is the present—not the future.

The world will see many more non-linear trends beyond green. It used to be that productivity enhancements meant vast investments in new plant and machinery. This is no longer the case. Companies are generating enormous productivity gains while undermining traditional ways of doing business in many areas, such as accommodation provision, retail sales and transport services. Disruptive technologies will fundamentally change the way economies operate, and infrastructure needs will evolve in line with these disruptions. The world is on the verge of a fourth industrial revolution characterized by exponential rates of technological progress, and NDB as a 21st-century development bank needs to take these factors into account when defining its strategic priorities.

The broader social and economic panorama is rapidly shifting. Old patterns that were assumed by many to be certainties are fast vanishing, and new patterns are being built. To take one obvious example, the BRICS nations have grown so rapidly in recent decades that in 2015 their combined economies equaled 31% of the world GDP, exactly the same as the G7⁴—the countries that dominated the world economy for the past century or more. Since 2010, EMDCs have contributed on average to about 80% of global growth, and their share of world GDP has risen from 55% to 60%.⁵ Not surprisingly, emerging market countries are taking on greater roles in global decision-making. At the same time, seemingly inevitable trends like regional and global integration are facing sudden, unexpected roadblocks in many advanced countries. Population is aging rapidly in most advanced and in a number of middle-income countries, with fertility rates falling even below the replacement level, while Africa's population is projected to double in the next 35 years.⁶ People are on the move in unprecedented numbers, with a dramatic rise in displaced populations, economic immigration and the largest wave of urbanization in human history underway, mainly in Asia and Africa. By 2030, five billion people are expected to live in cities.⁷

These macro-trends give rise to opportunities as well as challenges. Economic growth has lifted billions of people out of poverty in EMDCs over the past decades, but requires new approaches to more equitably share the fruits of growth, reducing economic inequality and consequent social tensions and political backlash. The globalization of production and capital movement has led to impressive economic gains, but also brings with it major social dislocation and the risk of traumatic crises as these movements often grow beyond the capacity of governments to control. Huge population growth and migration represent a wealth of human capital, but pose a massive challenge to provide jobs and basic services, allowing people to create dignified, productive lives for

³ See for example, "Renewable Infrastructure Investment Handbook: A Guide for Institutional Investors." World Economic Forum, 2016.

⁴ World Development Indicators 2016. GDP calculated by purchasing power parity, constant 2011 US dollars.

⁵ Measured at Purchasing Power Parity. "World Economic Outlook Database." IMF.

⁶ "UNDESA World Population Prospects, The 2015 Revision. Key Findings and Advance Tables." United Nations Department of Economics and Social Affairs, p. 1, 2015.

⁷ United Nations Department of Economics and Social Affairs. "UNDESA World Urbanization Prospects, The 2014 Revision." Database, data query: "Annual Urban Population at mid-year," 2016.

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themselves and their families. Economic growth holds great promise, but smarter, sustainable growth patterns are needed to build livable cities, protect our water and air quality and mitigate the impacts of climate change.

At time of drafting, the world economy is recovering after sluggish performance in 2015 and 2016. The US economy has rebounded and the Federal Reserve triggered a more aggressive tightening stance in its monetary policy. While in the European Union uncertainties remain, economies have found their way to growth, albeit still modest. In EMDCs, overall growth is picking up and they remain the main source of dynamism in the world economy. The prospects for BRICS countries are generally encouraging. Russia and Brazil, who were in negative growth territory in 2016, are expected to turn to positive growth in 2017 and 2018. In South Africa, economic growth is projected to rebound in 2017 and strengthen further in 2018. India's and China's economies are growing at high rates and are projected to continue to deliver robust growth.

Implications for NDB

What do these macro-trends mean for NDB?

First and foremost, the standard practices and solutions that have dominated global development for the past decades need to be thoroughly reviewed and updated. The world is changing too fast for top-down, textbook solutions developed on the basis of economic theories. Projects will be demand-driven, and NDB's technical support will focus on practical solutions derived from on-the-ground experiences.

Second, facilitating the provision of basic infrastructure services—especially infrastructure that is economically, socially and environmentally sustainable—is a defining priority for development in the coming decades, and will be the focus of NDB's operations. Despite the universally acknowledged needs for infrastructure investment in EMDCs—US\$ 3-4 trillion per year or more by many estimates⁸—private finance appears unable to fully manage risks and public sector institutions are falling short. NDB's focus on infrastructure will help meet the demand for basic energy, water and transport services in a way that safeguards the social and physical environment. It will also provide a stimulus to economic growth, industrial development and employment generation, contributing to the improvement of living standards in BRICS and other EMDCs.

Third, NDB intends to strike a balance between building a reliable development finance institution and remaining adaptable to changing circumstances. Balancing these priorities will require a lean administrative apparatus, flexible as opposed to legalistic and rigid procedures, and openness to engage with stakeholders. Most of all, to be successful, NDB will need shareholders, management and the staff to share a culture that encourages innovation to the benefit of its member countries and the development community as a whole.

⁸ See for example Bhattacharya, A. Oppenheim, J. and Stern, N. "Driving Sustainable Development Through Better Infrastructure: Key Elements of a Transformation Program." Brookings, 2015; Woetzel, J. Garemo, N. Mischke, J. Hjerpe M. and Palter, R. "Bridging Global Infrastructure Gaps." McKinsey Global Institute, 2016.

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C. VISION OF THE FOUNDING MEMBERS

NDB is the first development institution of global scope set up exclusively by emerging market countries with no participation of advanced economy countries in the initial stage. Its establishment reflects the rise of BRICS and other EMDCs in the past decades and a shared view that they can contribute to economic growth and sustainable development in a new way. The support shown by the founding member countries is a testament to their vision of creating a truly transformative development finance institution.

As its name reflects, NDB is a new kind of development institution. It utilizes the core financial model of MDBs—intermediating resources from mainly private investors for development projects in a financially prudent fashion—but does so in a way that reflects the trajectories and priorities of member countries. A relationship of equality, mutual respect and trust between the Bank and member countries will inform all aspects of policies and operations with a view to building long-term partnerships. NDB builds on the experiences of older institutions while seeking to establish and follow “next practices” in the world of development finance, as outlined in this document. The Bank intends to combine speed and efficiency of the private sector with the technical rigor, high quality and commitment to the public good that characterizes multilateral institutions. The intention is to innovate in areas with high potential, while maintaining high quality standards and financial solidity. Other MDBs are attempting some of these same innovations, but reforms are hampered by path-dependent governance arrangements, institutional culture and layers of administrative bureaucracy and procedure. NDB is building these “next practices” into the very DNA of the Bank, with the aim of creating an institution suited to the realities of current and future global development challenges of BRICS and other EMDCs.

Box 1: Trajectory of NDB's Creation

NDB was established by Brazil, Russia, India, China and South Africa in the context of the BRICS mechanism, along with the BRICS Contingent Reserve Arrangement. At the March 2012 New Delhi Summit, the leaders of BRICS countries directed their finance ministers to examine the feasibility and viability of setting up a new development bank that would support economic growth in BRICS and other emerging economies and developing countries. One year later, in the Durban Summit in March 2013, BRICS leaders announced the start of formal negotiations to establish NDB. The Agreement on the New Development Bank was signed during the BRICS Summit held in Fortaleza on July 15, 2014. Following ratification by all five founding members, the Agreement entered into force on July 3, 2015. The inaugural meeting of the Board of Governors of NDB was held in Moscow on July 7, 2015.

NDB intends to be “new” in three broad areas: *relationships, projects and instruments, and approaches.*

New Relationships

NDB will be a global player and its governance will remain in the hands of EMDC shareholders. While the Bank was created by the five BRICS countries, it is open to members of the United Nations.⁹ Advanced countries as well as EMDCs are eligible for membership, although the former are restricted to a maximum of 20 percent of

⁹ Article 5, b of the Articles of Agreement.

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voting power and can only join the Bank as non-borrowing members.¹⁰ This governance structure is grounded on the conviction that it is essential to ensure the right kind of policies and projects suitable for true ownership by EMDCs of their development strategy – a goal that is facilitated by the fact that all founding members of the Bank are borrowing countries. Further, most NDB decisions are taken on the basis of a simple majority, and no single member has veto power over any matter. These arrangements will strengthen NDB by giving all members a real stake in the success of the institution.

NDB supports projects tailored to the needs of individual countries, respecting their development priorities and strategies, within the guidelines necessary to maintain NDB's reputation and institutional integrity. NDB will engage in a dialogue of equals with borrowers on how to best address the particular challenges of their socio-economic environment. This is in line with major international agreements on development, notably the Paris Accord and the Accra Agenda for Action, and is also a recognition of the fact that development projects are more effective when recipient countries are in charge.

National sovereignty is of paramount importance to NDB in its interactions with member countries. NDB's mandate does not include prescribing policy, regulatory and institutional reforms to borrowing countries. Experience has shown that externally recommended processes and practices do not necessarily lead to successful development outcomes. The Bank's respect for sovereignty extends to working closely with borrowing countries' development institutions, including not only ministries but also subnational government institutions and national development banks, and implies following nationally-defined laws and procedures on project implementation, wherever feasible, without compromising project quality and impact.

The Bank will constructively engage the international community as an independent voice on development trends and practices. As a new institution, NDB has much to learn from the wealth of experience of multilateral and bilateral development institutions, as well as civil society and academic organizations. NDB will be an active participant in international fora, particularly those oriented toward sustainable development and infrastructure, so that it can leverage this experience to the benefit of members. At the same time, NDB will never lose sight of the fact that it is a bank created by and designed for EMDCs, and will promote views and positions on international development issues that reflect these countries' experiences.

NDB is a public bank focused on development, and will not interfere in the political affairs of member countries. Only economic and financial considerations are relevant to the Bank's decisions, and these considerations will be weighed impartially in order to achieve the institution's purposes and functions.¹¹ Accordingly, in the discharge of their responsibilities, NDB's Management and staff owe their duty solely to the Bank and to no other authority.¹² Impartiality in loan and investment decisions will help NDB build a sound reputation, ensure legitimacy and safeguard financial solidity.

¹⁰ Article 2 and Article 8, c, ii of the Articles of Agreement.

¹¹ Article 13, e of the Articles of Agreement.

¹² Article 13, f of the Articles of Agreement.

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New Projects and Instruments

NDB has a clear operational focus: sustainable infrastructure development. Sustainable infrastructure development will be the primary focus of NDB's operational strategy in the period 2017-2021, accounting for about two-thirds of total project commitments.¹³ This strategic approach blends both dimensions of the Bank's mandate: infrastructure and sustainable development. NDB believes that it can best achieve the goals set by its members not by attempting to copy the universal style of traditional MDBs that cover a huge variety of activities and sectors, but rather by focusing its energy and finance on a group of sectors that is more limited in scope, while still broad enough to provide ample room for finding and implementing viable projects. The Bank will retain the flexibility to provide funding to other areas, including traditional infrastructure, in line with borrowing countries' overall development agendas and observing NDB's environmental and social requirements.

Infrastructure projects will increasingly need to incorporate sustainability criteria. In broad terms, sustainable infrastructure can be defined as infrastructure that incorporates economic, environmental and social criteria in its design, building and operation. The inclusion of these criteria into infrastructure projects derives from the recognition that traditional evaluation methods fail to account for numerous factors that have a major influence on a project's viability and developmental impact in the medium and long term. The concept of sustainable infrastructure moves beyond short-term, direct economic calculations to a longer-term and broader assessment of economic, environmental and social impacts. Traditional infrastructure projects will still need to be designed and implemented in a way that avoids, mitigates or compensates for any adverse impacts on the environment and social groups, in line with the Bank's policies. Sustainable infrastructure, however, goes beyond doing no harm to generate overall positive impacts in these fields.

Sustainable infrastructure development is NDB's priority due to its vital importance to economic growth and high demand in BRICS and other EMDCs. Physical infrastructure is a critical enabler of economic development and job creation. If designed and implemented appropriately, it can promote inclusive growth to help mitigate economic inequality.¹⁴ At the same time, it is increasingly evident that infrastructure has to meet the needs of expanding populations in a way that protects the physical and social environment of EMDCs, and indeed the planet as a whole. Technical expertise and financing for sustainable infrastructure are limited despite high and growing demand. NDB's goal is to become a key player in sustainable infrastructure development, including in sectors such as renewable energy, energy efficiency, clean transportation and water and waste management.

NDB will focus on projects that incorporate sustainability from their inception. This implies supporting projects with an inherent sustainability focus as well as paying systematic attention to the expected environmental and social results of all the Bank's operations. Concerns with sustainability are not perceived as constraints, but as opportunities for development and economic growth. In line with this operational focus, the Bank will seek to become an important player in helping BRICS and other EMDCs achieve the UN's 2030 Sustainable Development

¹³ This target was actually exceeded in 2016, with 78% of the US\$ 1.56 billion financing approved dedicated to sustainable infrastructure projects, almost all in renewable energy.

¹⁴ See, among others, Calderón, C. and Servén, L. "The Effects of Infrastructure Development on Growth and Income Distribution." The World Bank, 2004. Policy Research Working Papers.

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Goals, as well as those of the Addis Ababa Action Agenda on Financing for Development and the 2015 Paris Agreement on Climate Change.

The focus on sustainable infrastructure development offers a number of important advantages to NDB's clients and shareholders:

- NDB will more quickly build *practical, specialized expertise* that borrowers seek from development institutions by working predominantly in targeted sectors and hiring specialized staff at the outset. This will be particularly useful in project feasibility and design, sustainability evaluations, interface with regulatory agencies, addressing environment and social impacts, procurement and fiduciary arrangements and ability to design and assemble project-tailored financial packages. Due to the complexity of many infrastructure projects, the ability of NDB to provide operationally useful expertise will be highly valued by borrowers.
- NDB's *internal systems, processes and policies will be fit for purpose*, designed from the outset to accommodate the particular needs of sustainable infrastructure projects. This includes the ability of NDB Management to evaluate and mitigate project risk *ex-ante*, post-project measurement and evaluation, human resource strategies, back office systems, and more. As a result, the Bank will be able to support clients and projects more effectively.
- This focus will facilitate *access to specialized financing sources* and could help reduce financing costs and increase the volume of resources available to clients in BRICS and other member countries. NDB will continue to access the incipient but fast-growing green bond markets, positioning itself as a trusted and attractive issuer. NDB will target institutional investors that seek sustainability-friendly assets for debt and equity investments or co-financing arrangements, and actively look for opportunities in environment-related funds. NDB will also cultivate relationships with other project investors in the sustainable infrastructure space to leverage its own resources and help bring projects to scale.
- NDB's *engagement with borrowers and the broader international community will be more focused*. The Bank will interact with a sub-set of government officials, facilitating working relationships, developing new projects, and assembling effective project teams. Cooperation with other international organizations, think tanks and academia will be deeper and more effective.

NDB retains the flexibility to provide project financing and technical support in areas beyond sustainable infrastructure development, based on the needs of its member countries. In keeping with its intention to be a demand-driven institution that responds to requirements of borrowing members, NDB will remain open to financing projects in a broad range of developmental areas, including traditional infrastructure and sustainable development projects like environmental protection or pollution mitigation.

NDB will utilize a full range of financial instruments, as envisioned in the Articles of Agreement.¹⁵ At the outset, the Bank will primarily provide traditional long-term loans, but as its capacity and financial strength grow it

¹⁵ Article 3, i and Article 24 of the Articles of Agreement.

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intends to offer loan guarantees¹⁶—still underutilized by most existing development institutions—as well as direct equity investments when appropriate to project needs and risk profile. Other innovative instruments such as project bonds, asset securitization, derivative arrangements to hedge risk and reinsurance schemes will be explored moving forward.

Opportunities to offer local currency loans will be actively sought—both to reduce risks to borrowers as well as to promote local capital markets—limited by market conditions and accompanied by proper mechanisms to mitigate associated risks. Infrastructure and sustainable development projects are typically long-term, and borrowers have difficulty to hedge foreign exchange risks throughout their duration. Furthermore, most of these projects are in the non-tradable sector and do not normally generate foreign currency revenues. By increasing the supply of long-term local currency lending, the Bank will address these difficulties and also help develop local capital markets.

Co-financing and other instruments will help NDB play a catalytic role in achieving tangible development results on the ground. NDB can have a role crowding in other investors, both public and private, to bring truly transformative projects into reality. In recognition of this, NDB has already begun structuring projects together with national development banks and other institutions of the founding members, and these efforts will accelerate going forward. As NDB builds experience, networks and a reputation in the sustainable infrastructure space, it will seek to co-finance with other MDBs and bring in resources from institutions such as pension funds or sovereign wealth funds that have appetite for infrastructure investment, but are not able to manage on their own the risks involved. This may involve fund management and loan syndication, as well as more creative techniques to convert infrastructure into an asset class—for example via equity or debt investments in high-risk early projects stages that can be later sold off NDB books when a project is up and running.¹⁷ Public-private partnerships (PPP) could become another important instrument for the Bank to leverage resources of the private sector and increase its participation in major infrastructure projects. Some of these arrangements are in their infancy in development finance, and the Bank intends to maximize their use.

New Approaches

A lean governance structure helps streamline the decision-making process. The Bank is operating at the outset with a non-resident Board of Directors, which reduces administrative costs and—more importantly—helps the Board focus on high-level policy issues and particularly complex projects rather than routine day-to-day operations.¹⁸ Electronic systems are being designed to allow the Board to make time-sensitive decisions remotely, including reviewing and approving project proposals. A Credit and Investment Committee, composed by NDB's President and Vice-Presidents, is responsible for decisions on loans, guarantees, equity investments and technical assistance up to a limit amount established by the Board of Directors.

¹⁶ For more on the experiences of MDBs and guarantees, see Humphrey, C. and Prizzon, A. "Guarantees for Development: a Review of Multilateral Development Bank Operations." Overseas Development Institute, 2014.

¹⁷ See for example, "Risk Mitigation Instruments in Infrastructure – Gap Assessment." World Economic Forum, 2016.

¹⁸ Shareholders reserve the right to move to a resident Board if deemed necessary (Article 12, g of the Articles of Agreement).

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NDB aims to be fast and efficient without sacrificing quality, by avoiding unnecessary bureaucracy in project approval and implementation. Management will focus on restricting formal approval “gates,” document length, internal review and comment time periods for each approval level and in-country missions to the minimum necessary for ensuring project quality and mitigating risks. Particular attention will be paid to project readiness prior to approval, in recognition that this will reduce implementation and disbursement obstacles over the project lifecycle. In its first five years, NDB aims to appraise, negotiate and approve loans in less than six months on average. Technical solutions are being designed to cut lead times and call Management attention to problem projects that could hinder on-time disbursements. Performance indicators and incentives—oriented not toward project approvals but rather toward high quality project design, disbursement and final outcomes—are being put in place for project leaders and staff to be realistic in their risk assessment and pro-active in mitigation measures. Risk evaluation will determine the subsequent review and oversight requirements and procedures for managing financial, procurement, environmental, social, legal and other risks, to make more efficient use of staff time and energy. Complex, high-risk projects will face more intensive *ex-ante* reviews to ensure project quality, while low-risk projects may go through more streamlined procedures with *ex-post* checks.

A lean and flat organization structure, able to evolve as NDB grows, will result in lower administrative costs. This, in turn, will help the Bank keep lending costs as low as possible and improve interaction with clients. The Bank’s operational focus on sustainable infrastructure development and its intention to promote knowledge exchanges among members and with other development sponsors, think tanks and academic institutions will reduce the need for in-house staff experts and restrain administrative costs. NDB is aware that undertaking complex and transformative projects will require resources to attract top-quality staff, and will not make false economies that could undermine its value proposition to clients. Rather, cost savings will come from avoiding excessive bureaucracy and the “mission creep” tendency to branch out into multiple areas of operation.

Innovation and adaptability will be ingrained in the Bank’s work and culture. Development institutions can become highly risk averse over time, and follow formulaic project designs and procedures. This is not a recipe for success in an extremely complex and fast-changing environment. For NDB to achieve its goals, it must be prepared to take calculated risks and innovate to help improve development practices. This may include the types of projects selected for NDB support, specific design and implementation features as well as financing instruments and arrangements. Taking calculated risks is essential, and setbacks will be viewed not as failure but rather an opportunity to learn and improve. NDB is developing an institutionalized review mechanism that will channel lessons from previous projects into the design of future operations.

Use of borrowing country legislation, regulations and oversight procedures, whenever possible, is a priority for NDB. NDB sees using national systems as the best way to strengthen a country’s own capacity and achieve better long-term development results. As such, in every project, NDB intends to verify *ex-ante* the quality of borrowing-country environmental, social, fiduciary and procurement systems, and use them whenever they meet NDB’s requirements. In cases where a country’s systems are not deemed acceptable, NDB will fill gaps with additional requirements tailored to the specific needs of the project at hand. Importantly, use of country systems for NDB will mean following processes closely to encourage clients to thoroughly apply the country’s own legislation and procedures, and work together with relevant agencies to propose actions whenever compliance falls short of national and local requirements.

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Box 2: Using and strengthening country systems

All development finance institutions must address the difficult challenge of how to ensure that their resources are used efficiently and transparently, and that adverse project impacts on the environment or social groups are minimized and/or mitigated. In many cases, local laws and regulations are either inadequate or—more frequently—not sufficiently well implemented to guarantee this.

In the 1980s, the World Bank and other major multilateral banks began utilizing safeguards and fiduciary requirements, i.e., standards and procedures related to environmental and social protection as well as procurement that borrowers need to observe, above and beyond their own legislation and regulation.

While these standards and procedures have been successful in reducing negative impacts of MDB-funded projects and raising awareness on the importance of these issues for borrowers, they have several weaknesses, including:

- They can have only indirect impact on strengthening the national and subnational systems used by the majority of projects undertaken in a country, since they apply exclusively to projects funded by external development institutions.
- Their imposition over national law raises questions of sovereignty and the ability of a country to define its own values and approach to development.
- Their application often fails to recognize the significant variation in legal frameworks and enforcement capacity across EMDCs.

NDB fully shares the goals of protecting vulnerable people and the environment, and making the best use of public resources. However, in line with the Bank's intention of establishing a relationship of respect with borrowers, it takes a different approach focused on the transparent and rigorous use of country systems.

The reasoning is simple: it is in everyone's interest to have systems fully capable of managing social, environmental and procurement risks in investment projects, and the best way to do so is to use existing country systems rather than bypass them with external standards. This shift in approach is beginning to happen already at the major MDBs. In particular, several MDBs have recently overhauled procurement policies to promote greater use of country systems. This trend has been much slower regarding environmental and social protection, but has also begun.

The Bank's policies are directed toward the goal of using and strengthening country systems. Instead of starting from an externally-designed set of standards, NDB will take a country's systems as the starting point, and see where weaknesses may need to be addressed to meet the Bank's requirements. Furthermore, NDB will follow mandated local procedures with rigor and transparency, verifying that the borrowing country's laws and regulations are being respected in practice.

This country systems-oriented approach is designed to achieve twin goals of: i) protecting against misuse of project resources and negative impacts on the environment and vulnerable groups and ii) strengthening local frameworks and implementation capacity to the long-term benefit of a country's development path.

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D. CAPITAL OF THE BANK

NDB was established with an initial authorized capital of US\$ 100 billion and an initial subscribed capital of US\$ 50 billion. The subscribed capital stock is divided into paid-in capital, with an aggregate value of US\$ 10 billion, and callable capital with an aggregate value of US\$ 40 billion. The Board of Governors will review the capital stock of the Bank at intervals of not more than five years.¹⁹

As per the Articles of Agreement, payments to the paid-in capital stock of the Bank are to be made by the founding members in seven yearly installments.²⁰ As mentioned above, founding members have made their initial contributions to paid-in capital, with most of them doing so ahead of schedule.²¹ Table 1 presents the actual amount of paid-in capital as of January 2016 and January 2017, and the expected payments for the years 2018-2022 under the simplifying assumptions that founding members do not accelerate or increase their contribution to paid-in capital and no new members join the Bank in this period.

Table 1: NDB Paid-In Capital

		US\$ mm
	Yearly Contributions to Paid-in Capital ¹	Paid-in Capital (cumulative)
Jan 2016	1,000	1,000
Jan 2017	1,200	2,200
Jan 2018	1,300	3,500
Jan 2019	1,500	5,000
Jan 2020	1,500	6,500
Jan 2021	1,750	8,250
Jan 2022	1,750	10,000

Sources: Actual numbers for 2016 and 2017 and Attachment 2 of the Articles of Agreement for 2018 to 2022.

Note: Based on the assumption that founding members do not accelerate or increase their contribution to paid-in capital in 2018-2022.

1 – Paid or to be paid by January of each year.

E. LOAN PORTFOLIO

The portfolio of outstanding loans represents NDB's most important developmental and financial asset. A growing, diversified and performing portfolio is both a visible indicator of as well as a necessary tool for achieving NDB's goals. Without it, NDB cannot succeed. As such, the Bank has devoted substantial consideration to sound policies and procedures, in light of the practices of multilateral, national and private financial institutions.

¹⁹ Article 7 of the Articles of Agreement.

²⁰ Article 9, a and Attachment 2 of the Articles of Agreement.

²¹ South Africa anticipated the payment of the second installment, while Russia and China anticipated the second and the third installments.

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Even with sound policies, however, NDB's loan portfolio can only be as strong as the commitment of its borrowers—particularly the member shareholders. This means, specifically, a commitment to implement and disburse project loans agreed upon with NDB according to schedule and recognition of NDB preferred creditor status in meeting every payment obligation on time, whatever a borrowing country's economic conditions.

The tables below present two scenarios with numbers for 2016 and, based on conservative assumptions, the projected growth for the period 2017-2021 for loan approvals and disbursements, as well as the resulting outstanding portfolio and loan-to-equity ratio. Project evaluation skills, disbursement capabilities and the ability to scale up the treasury function and risk assessment, all need to be kept in mind when projecting annual loan approvals and disbursements. Taking these factors into account, table 2 has been constructed by assuming that 15 projects will be approved in 2017, going to 50 in 2021. Table 3 assumes a faster roll out plan and a higher number of projects appraisals annually, going up to 75 in year 2021. The average loan size in both scenarios is assumed at US\$ 200 million from 2018 onwards.²²

Table 2: Scenario 1 - NDB Projected Loan Approvals and Disbursements (per year and cumulative), Outstanding Loan Portfolio and Outstanding Loan Portfolio-to-Equity Ratio

US\$ mm equivalent

	Loan Approvals (per year)	Cumulative Loan Approvals (year-end)	Loan Disbursements (per year)	Cumulative Loan Disbursements (year-end)	Outstanding Loan Portfolio (year-end)	Outstanding Loan Portfolio-to-Equity Ratio
2016 ¹	1,500	1,500	0	0	0	0
2017	2,500	4,000	700	700	700	0.32
2018	4,000	8,000	1,350	2,050	2,050	0.59
2019	6,000	14,000	2,600	4,650	4,650	0.93
2020	8,000	22,000	4,100	8,750	8,750	1.35
2021	10,000	32,000	5,850	14,600	14,600	1.77

Note: Based on the assumptions of no reserve accumulation or surplus, no contributions to capital from new members, no amortizations. Paid-in capital as shown in table 1.

1 – 2016 actual numbers.

²² Disbursements of loans approved in a given year were assumed to happen within 5 years, as follows, with “year 1” being the year of approval: Year 1: 10% | Year 2: 20% | Year 3: 30% | Year 4: 30% | Year 5: 10%. Exceptionally, the first disbursements of the loans approved in 2016 were assumed to happen only in 2017, amounting to 30% of the total approval. This is the sum of disbursements assumed to happen in the year of approval (10% for 2016) and disbursements assumed to happen in the subsequent year (20% for 2017).

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Table 3: Scenario 2 - NDB Projected Loan Approvals and Disbursements (per year and cumulative), Outstanding Loan Portfolio and Outstanding Loan Portfolio-to-Equity Ratio

US\$ mm equivalent

	Loan Approvals (per year)	Cumulative Loan Approvals (year-end)	Loan Disbursements (per year)	Cumulative Loan Disbursements (year-end)	Outstanding Loan Portfolio (year-end)	Outstanding Loan Portfolio-to-Equity Ratio
2016 ¹	1,500	1,500	0	0	0	0
2017	3,000	4,500	750	750	750	0.34
2018	5,000	9,500	1,550	2,300	2,300	0.66
2019	8,000	17,500	3,150	5,450	5,450	1.09
2020	12,000	29,500	5,350	10,800	10,800	1.66
2021	15,000	44,500	8,100	18,900	18,900	2.29

Note: Based on the assumptions of no reserve accumulation or surplus, no contributions to capital from new members, no amortizations. Paid-in capital as shown in table 1.

1 – 2016 actual numbers.

The actual amount of lending will be shaped, among other factors, by the following:

- NDB's evolving internal risk appetite, including with respect to non-sovereign lending;
- Demand for NDB's lending, which in turn may be determined by macroeconomic situations, fiscal spaces, appetite for sovereign borrowing, the Bank's technical and financial terms, and competition from other public and private financiers;
- Additional contributions to paid-in capital, including by new members;
- NDB's initially more conservative loan-to-equity ratio may increase more rapidly as the Bank's capacity evolves and demand grows.

The Bank will build a balanced and diversified portfolio according to the public-private nature of the projects, maturity, geographic location, sectors and financing instruments employed. As per the policies of the Bank, operations are sub-divided in three main categories: i) sovereign operations or projects under sovereign guarantee; ii) loans without sovereign guarantee to national financial intermediaries (wholly or majority-owned by the national governments); and iii) transactions without sovereign guarantee, consisting of financing to private sector clients, as well as state-owned entities or sub-national governments that are not guaranteed by the respective national government. Most of NDB's projects will be either sovereign operations (financing directly to national governments) or under sovereign guarantee (financing to other entities but fully guaranteed by the respective government). The Bank's portfolio will also include loans to high-quality projects through national financial intermediaries and loans to state-owned entities and sub-national governments in member countries, as well as loans to private sector clients, including large corporate borrowers with sovereign-level credit rating. Non-sovereign operations, particularly with the private sector, will be undertaken as the operational and risk management capabilities of the Bank evolve, providing for considerable increase in the scope of business opportunities.

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In 2017-2018, NDB will focus on loans, which are expected to represent about 90% of operations. In the second half of the strategy period, the Bank will rely more on other instruments foreseen in the Articles of Agreement, such as guarantees and equity investments.

F. KEY AREAS OF OPERATION

NDB's operational program will support the development agenda of BRICS and other member countries. The Bank will align its financing operations with an inclusive development agenda, the promotion of innovative technologies and in coordination with ongoing government programs and the activities of other development partners.

Within the broad spectrum of infrastructure and sustainable development, the Bank's key areas of operation will include, but not be limited to, the following:

- **Clean energy:** NDB supports the shift to a more sustainable energy path through: i) structural transformation of the energy sector, in particular by promoting emerging renewable technologies; ii) energy efficiency, including the upgrade of existing power plants, overhaul of electricity grids and energy-efficient building techniques; and iii) reduction of air, water and soil pollution in the energy sector. Specific projects could include: offshore wind energy, distributed solar energy generation, hydro-power plants and smart urban energy systems. NDB emphasizes in its operations the adoption of innovative new technologies, such as energy storage systems, adaptable smart electricity grids and solid-waste-based energy generation.
- **Transport infrastructure that enhances connectivity between people, markets and services:** Better connectivity has numerous socio-economic benefits and is a key enabler of inclusive development, especially for disadvantaged urban and rural populations. Greater employment opportunities and access to markets and social services such as education and healthcare result in higher incomes, increased labor force participation, and improved living standards. With respect to transport infrastructure, priority areas would include: i) promoting accessible transportation modes with lower emissions and greater energy efficiency; and ii) improving transport connectivity for more balanced regional and national economic activity.
- **Irrigation, water resource management and sanitation:** A modernized agricultural sector is critical for a country's development path, and requires advanced and efficient irrigation systems and sound management of a country's scarce water resources. Supplying adequate drinking water and improved sanitation is important to health outcomes, living standards and economic growth, especially in underserved rural and peri-urban areas. With respect to irrigation, water resource and sanitation, priority areas would include: i) irrigation infrastructure, ii) clean drinking water supply and sanitation, and iii) technology to enable efficient management of water resources.
- **Sustainable urban development:** NDB considers sustainable urbanization initiatives to be increasingly important as a rapidly growing share of the population of EMDCs live in urban areas. More efficient and sustainable urban environments have multiple positive spin-off effects on living

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quality, energy use, economic productivity and inclusive access to opportunities. NDB will participate in clients' sustainable urbanization initiatives and prioritize the following areas: i) water supply, ii) electricity supply, iii) sanitation including solid waste management, iv) urban transport and infrastructure, v) associated social infrastructure and services, vi) information technology infrastructure including e-governance solutions, and vii) climate-resilient cities.

- **Economic cooperation and integration:** NDB supports economic cooperation and integration among its member countries by financing projects that can strengthen the relationship between member countries and in which there is more than one country involved, especially trade-enabling infrastructure such as multi-modal border facilities, rail and road linkages and port infrastructure. NDB will also support projects related to infrastructure and sustainable development that contribute to technology sharing among member countries.

At a later stage, NDB will consider funding sustainable development projects not directly related to infrastructure. This could include areas of critical concern such as climate change, natural resources depletion, biodiversity conservation and/or pollution, as well as sustainable land use (including sustainable forestry and agriculture), in line with the Green Bond Principles.²³

The Bank will focus on the financial quality and resilience of projects and their development and environmental results, with a view to building a successful track record. The Bank will not shy away from testing new ground and new areas of activity, while mitigating portfolio concentration risk by exploring different sectors.

In all cases, NDB financing will be directed to specific projects that provide developmental additionality, and will not engage in budget support financing.

G. FINANCIAL SOLIDITY IS AT THE CORE OF NDB'S STRATEGY

Financial strength will define NDB's ability to achieve the development goals set out by its shareholders. The core of the MDB model is the ability to utilize external investment—mainly via bond issues on capital markets—for most operating resource needs. Therefore establishing NDB's credit via sound financial practices is vital.

The first financial priority of NDB is to preserve shareholder capital. The paid-in capital contributions of member countries represent an opportunity cost for public budgets, and Management is committed to respecting that fiscal effort by carefully managing those resources. To do so, NDB is developing comprehensive risk evaluation and management framework to address project, portfolio, foreign exchange, liquidity, investment, interest rate and operational risks, based on the experience of development banks and private sector financial institutions. Strong prudential policies are in place to limit the Bank's debt and loan portfolio as a ratio to shareholder equity, and enhance liquidity levels and investment asset quality. These policies are intended to ensure financial solidity even in highly adverse market conditions. Callable capital provided by shareholders is a signal of commitment to

²³ As defined in "The Green Bond Principles, 2016: Voluntary Process Guidelines for Issuing Green Bonds." International Capital Market Association, 16 June 2016.

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potential investors in NDB debt, but the Bank intends to manage its finances in such a way that these resources are never called upon.

Following sound banking practices will allow NDB to more quickly establish itself as a trusted issuer in capital markets. It is imperative that the Bank's activities engender confidence in potential NDB debt investors, including institutional investors, central banks, sovereign wealth funds, investment banks, or retail investors. This confidence must be earned over time. Steady and prudent financial management is all the more important as NDB seeks to obtain strong domestic and international credit ratings to hold down its cost of funding, to the benefit of borrowers. NDB must undertake its activities so as to expand access to a wide variety of financing sources, which is essential for the smooth functioning of any development bank.

Building a solid, diversified portfolio is a key goal in the first five years of NDB operations. The quality of a development bank's portfolio of outstanding loans is critical to the way shareholders as well as financial markets evaluate its performance. As indicated above, to reduce portfolio risk, NDB will emphasize sovereign lending and carefully selected high-quality non-sovereign projects. The Bank will move cautiously into private sector operations in parallel with its growing capacity to evaluate project risks. On all loans, public and private, the Bank will seek to ensure strong commitment by borrowers to the projects and address potential implementation obstacles so as to ensure smooth loan disbursements and limit the buildup of problem projects in the portfolio. Diversity—both geographic and sectoral—will be a key consideration when approving new projects to mitigate risks posed by a concentrated loan portfolio, an important metric used by rating agencies to evaluate MDB financial strength.

Ensuring a top-notch repayment record and preferred creditor status is a critical demonstration of shareholders' commitment to the Bank, and essential to its financial soundness. MDB's preferred creditor status is essentially based on the fact that their loans enjoy *de facto* seniority over those of other creditors, since borrowing governments typically continue to service them even when defaulting on other claims.²⁴ Preferred creditor status reinforces bond investors confidence in these institutions and improves credit rating, thus lowering funding costs and resulting in more attractive loan terms for borrowers. Of course, this status must be demonstrated over time. NDB is a new institution and has no repayment track record to speak of. However, it should be noted that the Bank's founding members have always respected the seniority of MDB loans; this can be expected to hold even more in the case of NDB, an institution that they created and control.²⁵ More broadly, the fact that NDB will always be majority-owned by BRICS and other borrowing countries should be seen as an important advantage in generating a strong repayment record, as borrowers have a significant stake in the health of the institution. The experience of the Development Bank of Latin America-CAF, a borrower-controlled development bank in Latin America, is a case in point. It has the lowest non-performing loan ratio of all major

²⁴ Perraudin, W. "Multilateral Development Bank Ratings and Preferred Creditor Status." Inter-American Development Bank, 2016. Working Paper Series 697; Schadler, S. "The IMF's Preferred Creditor Status: Does it still Make Sense after the Euro Crisis?" Centre for International Governance Innovation, 2014. Policy Brief 37.

²⁵ The Articles of Agreement underscore the obligation of borrowing countries to repay NDB loans. Article 31, c exempts all properties and other assets of the Bank from restrictions, regulations, controls and moratoria of any nature.

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MDBs, and sovereign borrowers have never missed or even been late on a loan repayment in CAF's 45 years of operations.²⁶

NDB will seek to generate net income to build financial reserves. As a rule, the Bank will retain earnings in order to accumulate reserves. Management is cognizant of the difficulties in generating income in the early years of Bank operations. With project approvals beginning in 2016 and ramping up gradually in coming years, loan income will be low initially. This is further constrained by the fact that NDB will have relatively high funding costs initially and will therefore have to restrain its lending margin to remain attractive for borrowers. The global low interest rate environment, at least in the initial years, and NDB's conservative investment policy will also limit income generation potential. Toward the end of the five-year strategy horizon, income is expected to pick up due to greater lending volumes and improved NDB funding costs. Once sufficient risk and project evaluation capacity are in place, NDB intends to begin a program of investing equity for developmental goals, which can help boost income as the experiences of International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD) show.

The Bank will seek innovative approaches to optimizing its balance sheet. Possibilities include utilizing syndications, structured finance, and portfolio guarantees to crowd-in additional funding resources or clear balance sheet space for further lending.²⁷ Another option is to participate in loan portfolio exchanges with other multilaterals to improve portfolio diversification, reduce risks and allow greater lending headroom.²⁸ As a global multilateral with several large middle-income countries as borrowing members, NDB will be open to engage in such operations with like-minded institutions.

NDB aims at establishing itself as a trusted and sound financial intermediary. The historical trajectory of other MDBs has shown that gaining the trust of credit rating agencies, bond buyers and co-financers takes time and substantial effort. The Bank is prepared to build the track record of financial performance necessary to earn this trust. This must happen through the prudent, cautious financial management of NDB resources as well as strong commitment by shareholders through regular capital contributions, project borrowing and a strong repayment record.

Elements of Funding Strategy

NDB's funding strategy aims to ensure that enough resources are available to meet the Bank's liquidity needs, driven by the expanding loan portfolio as well as operating and other expenses. The Bank will use a range of innovative financial instruments in local currencies of member countries and other currencies based on the parameters of its loan portfolio and demand from its borrowers and investors. NDB will raise funds in global capital

²⁶ Humphrey, C. "The Invisible Hand: Financial Pressure and Organizational Convergence Among Multilateral Development Banks." *The Journal of Development Studies* Vol. 52, Iss. 1, 2016. CAF is one of only two MDBs (along with the Islamic Development Bank) to have a bond rating higher than any of its shareholder countries.

²⁷ This and other possibilities were discussed in the G20 in 2015 and 2016. See, for example, "G20 Action Plan to Optimize the Balance Sheets of Multilateral Development Banks", endorsed by the G20 Leaders in Antalya, November 2015.

²⁸ Such an operation was recently concluded by the African Development Bank, Inter-American Development Bank and World Bank's IBRD, with a total of US\$ 14 billion in loan portfolio synthetically swapped among the three MDBs. This resulted in US\$4-6 billion in additional lending headroom for AfDB (depending on the precise allocation).

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markets and local capital markets of members with due regard to hedging mechanisms. The tables below show expected outstanding borrowings for the period 2017-2021 in line with the two scenarios for NDB's loan portfolio presented in tables 2 and 3 in Section E. Equity and outstanding borrowings will meet the Bank's liquidity requirements, including loan disbursements and repayment of borrowing maturities, in accordance with NDB's policies.

Table 4: Scenario 1 - Expected Outstanding Borrowings of the Bank

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Outstanding Borrowings (in US\$ mm equivalent)	1,950	3,800	6,450	9,450	15,250
Debt/ Equity	0.89	1.09	1.29	1.45	1.85

Note: Equity corresponds to Paid-in capital as shown in table 1. Outstanding portfolio and disbursements as shown in table 2. Numbers for 2017 as per the funding plan approved by the Board of Directors.

Table 5: Scenario 2 - Expected Outstanding Borrowings of the Bank

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Outstanding Borrowings (in US\$ mm equivalent)	1,950	4,100	7,450	12,450	21,250
Debt/ Equity	0.89	1.17	1.49	1.92	2.58

Note: Equity corresponds to Paid-in capital as shown in table 1. Outstanding portfolio and disbursements as shown in table 3. Numbers for 2017 as per the funding plan approved by the Board of Directors.

A key early task for NDB is to obtain favorable ratings with international credit rating agencies and establish itself as a reliable borrower in international and domestic capital markets. NDB has already received a AAA rating from two major Chinese domestic rating agencies, and has started engagement with major international rating agencies.²⁹ International credit ratings will facilitate NDB's access to global capital markets and allow more flexibility in the choice of fundraising instruments. Of particular relevance will be strong performance on indicators such as capital adequacy, liquidity and loan portfolio performance to compensate for the lack of financial track record during the Bank's first years. The continued commitment of shareholding countries also helps the Bank obtain strong domestic and international credit ratings. Founding members ratified the Articles of Agreement very quickly, provided personnel to speed up NDB's operationalization and most of them have been anticipating contributions to the paid-in capital. Over time, shareholders' support will be further demonstrated by their commitment to regularly borrow from the Bank, build an immaculate repayment record and—if and as needed in the medium term—contribute more capital to the Bank. Strong ratings of NDB will allow the Bank to provide investors with additional insights on its performance, facilitate their credit evaluation of the Bank, and serve as an important indicator for the Bank's public profile and market positioning, which is of particular importance for a relatively new debt issuer. International credit rating will also provide NDB's broader access to financial services and products outside of capital markets, including hedging and swap products.

²⁹ China Chengxin International Credit Rating Co., Ltd. and China Lianhe Credit Rating Co.

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To offer loans at competitive prices, NDB will choose its funding currencies according to market conditions, investor demand and the cost of funding. The Bank will regularly resort to instruments denominated in USD as well as other hard currencies to help meet its funding needs, and is considering SDR bonds as an option in its funding toolkit. Given the intention to provide loans in members' currencies, the Bank will also continue to rely on on-shore and off-shore markets in those currencies, having begun to do so by issuing its first bond in RMB in the Chinese on-shore market. NDB intends to be a regular issuer in the local markets of its member countries with a view to establishing a strong credit history and ensure better liquidity and diversification opportunities for investors. Local currency borrowing allows NDB not only to reduce its currency mismatch risks, but also to obtain funding at attractive costs using a wide range of fundraising instruments in different markets. This flexibility will allow NDB to quickly react to changing market dynamics and adjust its borrowing strategy to better suit its funding requirements and provide investors with access to a variety of high-quality instruments.

NDB is actively exploring opportunities in green bonds and other green finance instruments, taking into account market trends, including the important role that MDBs have been playing in the green bond market. As mentioned earlier, the Bank's first bond was a green bond, the proceeds of which will be used entirely in projects that are environment-friendly.³⁰ Private placements will also be considered, particularly with institutions seeking to increase their exposure to bonds and other instruments meeting green sustainability criteria.

Risk Management

Effective risk management is fundamental to the success of the Bank. In order to safeguard its capital base, NDB will follow international standards to actively manage all inherent risks in its activities, including credit, market, liquidity, and operational risks. The Bank will ensure that a consistent risk control approach is communicated to all divisions and staff so as to promote a strong institutional risk culture.

The risk function is centralized and independent of the business lines, with the Board of Directors exercising oversight. To avoid any conflicts of interest, the Bank adheres to the principle of segregation and independence of the risk function from treasury and operations. The Board of Directors, directly and through the Audit, Risk and Budget Compliance Committee, is actively engaged in important risk matters, receives regular updates on the main risks of the Bank and approves key risk policies and all limits (including investment activities, bond issuances and related hedging operations). These policies and limits will be revised periodically, in order to incorporate changes in market conditions, evolving products and the latest practices.

A full range of tools will be adopted to manage risks of individual transactions and at the level of the Bank's portfolio. Particular attention is being paid to the establishment of a risk management system, internal credit rating methods and risk-pricing models, enabling dynamic and accurate surveillance of capital adequacy. Utilizing these tools will allow the Bank to identify and control risks in an accurate and consistent manner.

³⁰ In order to comply with the highest standards of transparency and disclosure and contribute to market integrity, NDB will submit the utilization of proceeds of all green bonds to independent third-party verification, recognized by investors as the most rigorous form of assessment. The verification is conducted against a set of industry-specific criteria to assess whether the projects funded can be classified as green or as directly related to green projects.

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H. EXPANSION OF MEMBERSHIP

NDB is designed to be a development bank for EMDCs, capable of substantial investments in infrastructure and sustainable development with transformative positive impacts on the economic and social potential of borrowing countries. The Bank also expects to influence the international financial architecture and global practices by being a fundamentally new kind of development institution based on mutual respect and reflecting the evolution of the world economy in recent decades.

To achieve these goals, NDB must operate at scale, and that means bringing in new members beyond the founding five shareholder countries. The BRICS countries decided to establish the Bank, design basic policies and begin initial operations among the five founding members, with the view that this would facilitate the elaboration of policies that differ from those of existing institutions in fundamental ways. The founding members initially focused on the negotiation, signing and ratification of the Articles of Agreement and subsequently on the appointment of the Management team and Technical Secretariat and on the formulation and approval of NDB's basic policies. Now that this has been accomplished and the first operations launched, the Bank has begun to design criteria and a strategy to expand membership to new countries.

Expansion of membership will help raise the Bank's profile and international standing, diversify NDB's sphere of operations to more countries and reduce portfolio concentration, increase paid-in capital, and leverage the experience of other countries in project design and implementation. NDB plans to expand membership gradually so as not to overly strain its operational and decision-making capacity. Membership expansion will be conducted with a view to ensuring geographic diversity and a reasonable mix of advanced, middle-income and lower-income countries.

NDB Management and shareholders are aware that demand for membership is not automatic. It is incumbent on NDB to clearly spell out its value proposition to potential members. This includes financial instruments, financing terms and value-added knowledge services offered to borrowers—restricted initially, but with an improving trajectory in coming years. Membership by non-borrowing countries will be particularly attractive to those that focus on promoting infrastructure and sustainable development in the developing world, and that may also wish to give their firms access to NDB procurement opportunities.³¹

Joining NDB is an investment in the future of global governance and an opportunity to rethink development finance. The Bank's operational focus on sustainable infrastructure development is in line with key global development priorities and will provide public good benefits. Prospective NDB shareholders will find this operational focus a strong argument to present to domestic and international constituencies. Borrowing members will profit from NDB's reduced bureaucracy, reliance on country systems whenever possible, and streamlined provision of development services without policy conditions attached.

³¹ As per Article 21, vi of the Articles of Agreement, funds provided by NDB can only be used for procurement of goods and services produced in member countries. Exceptions may be permitted by the Board of Directors in special circumstances.

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I. SPECIAL FUNDS

As per the Articles of Agreement, NDB can establish or be entrusted with the administration of funds to finance special operations.³² Special funds set up by MDBs allow capital contributors to support projects and activities that address a variety of development needs. Experience has shown that these funds may be useful for contributors, recipient countries and the MDBs themselves.³³ Contributors may benefit from the expertise and fiduciary systems of development institutions, save administrative costs and access countries and regions where they have limited presence; recipient countries can access additional resources and reduce the costs of engaging with multiple contributors; and the MDBs may broaden the scope of their operations, gain access to resources on favorable terms, and test innovative projects and solutions that may be subsequently funded by ordinary operations.³⁴

NDB is allowed to establish or administer only special funds that will help the Bank mobilize resources for infrastructure and sustainable development projects. With this focused approach, special funds can benefit from the expertise the Bank is building in particular areas, without distracting NDB from its core priorities. Under the Articles of Agreement, the establishment of special funds by the Bank has to be approved by the Board of Governors by a qualified majority.³⁵ This requirement aims at avoiding a proliferation of special funds that may be more connected with the interests of some capital contributors than with the Bank's purposes.³⁶

Special funds will contribute, in particular, to support project preparation. Lack of adequate finance is not the only deterrent to infrastructure investment. Preparation is a critical phase of a project's life cycle, as it has a significant impact on projects' potential returns, service quality and sustainability. Poor preparation can undermine the soundness and feasibility of a project, discouraging potential investors. Thus, achieving the necessary quantity and quality of infrastructure investment requires technical assistance to prepare and implement infrastructure projects that successfully integrate the economic, environmental and social agendas. Special funds will scale up investment in project preparation, pipeline development and implementation, increasing the bankability of projects that address strategic priorities of both NDB and the recipient countries.

The Bank will adopt special rules and regulations for the establishment, administration and use of each special fund. The needs of recipient countries will be the starting point in designing the rules and regulations that will determine the specific objectives, the priorities and eligibility criteria for accessing resources. The Bank will require the use of resources in the most efficient and cost-effective ways and will explore opportunities of collaborating with special funds of other MDBs. NDB will also encourage the use of expertise available within members to the extent possible.

³² Article 3, v, Article 18 and Article 23 of the Articles of Agreement.

³³ "2013 Trust Fund Annual Report." The World Bank Group, 2013.

³⁴ *Ibid.*

³⁵ A qualified majority is the affirmative vote of two thirds of the total voting power of the members (Article 6, b, of the Articles of Agreement).

³⁶ Recent research has shown this to be a problem at some development institutions. See for example Reinsberg, B. Michaelowa, K. and Eichenauer, V. "The Rise of Multi-bi Aid and the Proliferation of Trust Funds." In *Handbook on the Economics of Foreign Aid*. Ed. M. B. Arvin and B. Lew. e-Elgar, 2015.

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Special funds will be open to contributions from member countries and may be open to contributions from other sources and entities, such as multilateral institutions, private and public foundations, and non-member countries. Contributions to special funds will normally be made in member countries' currencies or other convertible currencies of non-member countries. The management of the resources of special funds resources will be entirely separate from that of the Bank's ordinary capital resources.

J. REGIONAL OFFICES

The main functions of the regional offices will be identification and preparation of bankable projects in BRICS and other member countries. Project preparation encompasses all the activities undertaken to advance a project from conceptualization to implementation, including identification of funding sources, undertaking of assessments and community and stakeholder consultations. Back-office and supporting activities will be kept in NDB headquarters to ensure that regional offices focus on their core functions.

Regional offices will operate under the guidance of the head office and in alignment with NDB's General Strategy. They will work in a collaborative fashion with well-established infrastructure and sustainable development entities, such as national development banks and representative offices of multilateral and regional development banks. By working with strategic partners with strong implementation capability and a shared interest in infrastructure and sustainable development, possibilities will be created for knowledge sharing and capacity building, enhancing NDB's overall impact.

The first regional office is being established in Johannesburg, South Africa. Subsequent regional offices will be established, as needed, in Brazil, Russia and India. The second regional office will be in Brazil.

K. HUMAN RESOURCES, INFORMATION TECHNOLOGY AND ADMINISTRATION

NDB was created to be a development institution driven by results, high productivity and speed of execution. In order to achieve these strategic goals, NDB's human resources, administration and IT functions are being designed to allow the Bank to fulfill its mandate in the most efficient manner. Lean organization structure and cost-effective solutions are of paramount importance. NDB will prudently manage administrative expenses within the revenues generated by operations and investments.

Human Resources

The Bank will attract human resources in line with its growth plan and review its staffing needs on an annual basis. As operations evolve with a gradual shift toward new business lines, including non-sovereign transactions such as public-private partnerships and equity investments, the Bank will recruit professionals with relevant background and experience. The table below shows NDB's expected staff headcount during its initial years of operation.

Table 6: Expected Staff Headcount

2017	2018	2019	2020	2021
150	220	300	350	400

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The Bank's talent acquisition strategy is to recruit staff of the highest caliber and attract passionate professionals able to perform responsibly. A team comprised of young and qualified people will bring new ideas and new approaches, challenging the status quo. In addition to young professionals, the Bank is recruiting skilled and experienced staff to foster younger professionals who will form the nucleus of the Bank in the future. Recruitment is conducted through an open and transparent selection process based on clearly defined criteria and will aim for an appropriate intergenerational balance.

Diversity and meritocracy are at the heart of how the Bank defines organizational and professional excellence. The Bank is committed to being an equal opportunity employer. While merit is an overarching principle, NDB gives due consideration to recruiting on a diverse basis, seeking a broad representation of member countries at all levels. The Bank aims to establish an inclusive work environment where differences are respected and valued.

The Bank follows a simple and lean Total Rewards (TR) philosophy to attract and retain the best talent from the member countries. The TR approach focuses on a competitive compensation and benefits structure that is transparent, cost-effective and generates incentives in line with NDB's mandate. The TR structure is closely linked to the performance of individual staff and the Bank as a whole.

The Bank encourages staff to continuously learn and will provide opportunities for development of knowledge, skills and competencies to achieve organizational goals and strengthen NDB's value proposition to clients.

Information Technology

Leveraging current and emerging information technology (IT) is a cornerstone of NDB's strategy. The Bank will use IT not only to support business initiatives for clients but also to adopt emerging technologies for managing internal risks and increasing operational productivity.

NDB's preferred approach is to buy, rather than build, and to invest in cloud solutions, rather than bespoke on-premise applications. This approach allows the Bank to deliver cutting-edge solutions with a reduced time to market, diminished application obsolescence and possibility of elastic scaling as required. Additionally, the Bank benefits from uptime guarantees and support from specialized solution providers. IT architecture is designed to allow staff to access required applications from any device and location, increasing the efficiency of operations.

NDB is investing in a security framework to mitigate potential risks while simultaneously providing the flexibility required by staff now and in the future. Key elements of this framework are prudent Internet access rules, extensive use of NDB Virtual Private Network, single sign-on capabilities and multi-factor authentication. NDB will continuously re-calibrate IT strategy as technologies and information security risks evolve.

Administration

Administrative cost control is a top priority. The Bank is developing a robust and transparent corporate procurement process based on the policy adopted by the Board of Directors and internal guidelines. NDB prioritizes resource allocations to support institutional goals in line with business needs. The Bank will be lean and

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modest in hospitality, travel and other expenses and will promote a culture of continuous drive for frugality. The table below shows the Bank's expected administrative expenses for the period 2017-2021.

	US\$ mm				
	2017	2018	2019	2020	2021
Human Resources	27.0	43.0	60.0	72.0	86.0
Administration	4.1	5.4	7.0	8.2	9.3
Information Technology	0.8	1.2	1.8	2.2	2.6
Total	31.9	49.6	68.8	82.4	97.9

L. PARTNERSHIPS

NDB will complement efforts of multilateral and regional financial institutions to support global growth and development. The Bank will continue to engage in partnerships with other international development organizations, including the major global and regional multilaterals as well as smaller sub-regional institutions. These partnerships will allow NDB to tap into the expertise of established development institutions and strengthen its capacity to assess and implement projects. NDB will seek to undertake joint projects and knowledge exchanges with the World Bank and major regional MDBs to make the most of their decades of experience. NDB is also engaging with development institutions controlled by EMDCs, such as the Asian Infrastructure Investment Bank, the Development Bank of Latin America—CAF, the Eurasian Development Bank and the International Investment Bank.

National development banks and similar institutions of member countries are among the strategic partners of NDB. Many national development banks are large and effective institutions, with a wealth of local knowledge, project development capacity and financing potential. China Development Bank, for example, has over US\$ 1.7 trillion in assets at end-2015, five times that of the World Bank's main lending window. The national development banks and similar institutions of founding members will be key project partners for NDB. The Bank considers them as an inspirational model and will seek to benefit from their expertise. They can also be of great importance as sources of information on borrowing countries strategic development priorities, infrastructure and sustainable development issues, and national laws and regulations relevant for project implementation.

NDB will continue to establish partnerships with commercial banks in areas such as funding, co-financing, bond underwriting and investment. A number of agreements with commercial financial institutions are already either completed or well underway, and others are in the works. Currently these agreements have focused on banks based in founding members, but NDB's partnership strategy envisions further agreements with banks in advanced countries and other EMDCs for project co-financing, loan syndication, fund management, potential asset sales and developing infrastructure instruments to serve as an asset class for institutional investors.

Partnerships with national development banks and commercial banks offer numerous benefits. These banks can play an important role in assisting NDB build up its human resources through secondments and temporary assignments. Many of them have done so since the very beginning of the Bank's activities. Furthermore, given their ability to evaluate local projects, development and commercial banks can help NDB increase the

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capillarity of operations and enhance the quality of its portfolio. Through back-to-back and two-step loans with NDB, they can also take on risks associated with exchange-rate movements by providing lending in local currencies to the final borrowers. Some of NDB's loans approved in 2016 already take advantage of all these possibilities.

NDB endeavors to build a relationship of mutual trust and cooperation with non-governmental organizations (NGOs). Such a relationship may evolve naturally and constructively, given NDB's commitment to sustainable development and transparency. The Bank intends to engage with NGOs and benefit from their knowledge and experience—particularly those organizations closely connected to infrastructure and sustainable development—while avoiding the introduction of politicized lending criteria and loss of flexibility and speed. Greater openness to NGOs, and more broadly to civil society, will encourage public discussion of the Bank's activities, improving the quality of its operations and enhancing institutional credibility. Partnerships with NGOs may, for instance, help NDB and its clients broaden their knowledge on how to embed sustainability criteria in infrastructure projects, taking into account local-level perspectives and sector-based standards.

NDB will engage in partnerships to strengthen its capacity in research, knowledge-dissemination and technical assistance. The Bank intends to take advantage of the great variety of knowledge institutions and learning platforms, drawing on research and studies done by development partners, universities, think tanks and government agencies. Some of these organizations may also provide feedback on the Bank's strategy, policies, procedures and operations. As NDB evolves, it will contribute to generate and disseminate new knowledge that can benefit its members and partners.

M. RESEARCH AND KNOWLEDGE DISSEMINATION

Research and knowledge dissemination will be an important part of NDB's ancillary activities. The Bank believes that research can play a more useful role for the institution if it addresses policy and practical challenges and provides forward-looking options that take national and local circumstances into account. A lean Economic Analysis Unit will be created within NDB to gradually build high-quality in-house expertise.

NDB will carry out applied research on development issues connected to its mandate and business model to better understand the macro-economic, social and environmental contexts in which the Bank operates, as well as the sectors in which projects can be or are being financed. This focused approach intends to mitigate the risk of disconnection between research activities and the requirements of the institution. Based on the Bank's practices and needs, NDB will explore innovations in areas such as project financing, human resource management and funding activities.

NDB will facilitate knowledge dissemination to improve efficiency and effectiveness in sustainable development and infrastructure projects. Experience has shown that knowledge dissemination is better targeted and usually more successful when embedded in investment projects. Projects may indeed serve as vehicles for promoting innovation and transferring technology. Ultimately, the goal is to contribute, through projects and by other means, to knowledge sharing among BRICS and other EMDCs, thus establishing NDB as a platform for South-South cooperation.

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N. TRANSPARENCY, INTEGRITY AND ACCOUNTABILITY

NDB is committed to promote the highest levels of transparency, responsible conduct, integrity and accountability.

Promoting transparency. Secretiveness is not admissible in a 21st century institution. The Bank is guided by an underlying presumption that information concerning its activities will be made available in a timely manner to the public in the absence of an appropriate reason for confidentiality. Transparency will benefit the institution for at least two reasons: first, because scrutiny of stakeholders and the public in general will help the Bank review and improve its procedures and, second, because the recognition that the Bank is transparent will strengthen the credibility of and the confidence in the institution. Information on matters such as financial and operational activities will be published promptly in a readable and accessible format.³⁷

Upholding responsible conduct and integrity. The Bank and its employees recognize that trust in a financial institution is based on responsible conduct and commitment to integrity in all its dealings. All activities of the Bank are governed through a Board-approved Code of Business Conduct and Ethics that emphasizes the principles of transparency, accountability and integrity. The Bank has further adopted anti-corruption and anti-money laundering principles to underscore its commitment to the global fight against corruption, money laundering and terrorism financing. Whistleblowing procedures are established and continuously reviewed to ensure that the Bank is updated about alleged misconduct and instances of corruption and money laundering, if any, in the course of deploying its funds to projects or for corporate procurement purposes.

Accountability. Board-approved policies outline internal self-assessment mechanisms to ensure compliance to internal policies and processes. These mechanisms are aimed at managing risk, promoting transparency, and upholding responsible conduct and integrity. Accountability is also ascertained during integrity reviews, internal audit and independent evaluation.

O. INDEPENDENT EVALUATION

An evaluation framework will be established to enhance a learning culture within the Bank. NDB will set up an independent team to carry out objective evaluations of the Bank's policies, projects, and investment decisions. The evaluation team will report directly to the Board of Directors and shall identify course correction if needed, emphasize issues requiring decisions and actions, and present lessons learned. Findings of the evaluation team will be presented to the Board of Directors, including recommendations for improving the Bank's operations.

Focus on development impact achieved. The independent evaluation team will assess the investment decisions of the Bank taken from the perspective of the development impact achieved as a result of the provision of a defined infrastructure service. Projects shall be evaluated taking into account the assessment of risks, the stakeholder's ability to manage them, and environmental and social impacts.

³⁷ While the default position will be public access to policy and project information, the Bank recognizes the need to classify certain types of information and apply due process in deciding on the disclosure of such information. This includes restricting access to information when disclosure could cause harm to specific parties or interests, particularly its members, clients and employees, or violate any commitments or contractual obligations.

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P. IMPLEMENTATION AND REVIEW OF STRATEGY

Implementation of NDB's Strategy. A Strategy Implementation Document, including a results framework with key performance indicators, will be developed and submitted for the approval of the Board of Directors. Management will regularly monitor and assess the progress made in implementing NDB's Strategy.

Review and updates of NDB's Strategy. The five-year Strategy of the Bank will be a living document subject to revision in light of experience and ongoing changes in the environment in which the institution operates. It will be reviewed and updated by the end of the third year, and submitted to the Board of Governors for consideration and approval.

Q. NDB IN 2021

Where will NDB find itself at the end of the five years covered by this institutional strategy? This question cannot be answered with precision, as the Bank is just taking its first steps. Numerous factors outside its control will define the directions NDB will take, in particular the evolving needs of BRICS and other member countries and the changing context in which it operates. Nonetheless, based on the vision of shareholders and the strategic plans described in this document, the broad outlines of NDB's medium-term trajectory and strategic targets are clear. This section describes in general terms the operational and institutional outcomes NDB intends to achieve in the coming five years in several key areas.

Recognition as a trusted partner to member countries, attuned to the needs of borrowers, with an expanding and diverse portfolio and the use of a variety of instruments. In the 2017-2021 period, NDB will build its international reputation as a reliable provider of development finance services, and operations will grow steadily, driven by borrowers' demand. Project review and oversight systems will permit the Bank to deliver development finance at speed without compromising quality. NDB will have built a healthy and diverse portfolio of development assets, mainly in traditional long-term loans but also including other financial instruments, notably equity investments and guarantees. Financing in local currency will account for a substantial share of NDB operations. Sustainable infrastructure development will be the core of NDB's financing, with around two-thirds of loan commitments dedicated to projects in this area. The remainder of operations will be in other types of infrastructure and sustainable development projects. The Bank will be green not only on the lending, but also on the funding side, having actively explored opportunities in green bonds and other green finance instruments.

Reputation for expertise in sustainable infrastructure development; ability to leverage knowledge exchanges through partnership network. Within five years, NDB will be recognized for expertise in sustainable infrastructure among international development finance institutions. This reputation will be based on project-specific knowledge, including project design, regulatory issues and financing arrangements. NDB will have its own in-house experts in sustainable infrastructure with institutionalized links to project teams, while engaging regularly with academia, think tanks, private associations and international fora on the topic. In other areas of development knowledge, the Bank will also tap networks of expertise to facilitate exchanges between project teams, clients, partners and peers, as needed.

Prudent financial management systems, strong performance ratios and growing access to capital markets. During the next five years, NDB will have consolidated a reputation as a financially solid institution that

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shareholders and bond investors alike can trust. This reputation will be based on cautious financial management, including sound policies on capital adequacy, reserve accumulation, liquidity and risk management. Operations will have spread in a balanced way throughout member countries, avoiding risk posed by portfolio concentration. Based on these policies and performance, the Bank will be able to rely on bond issuances and other funding opportunities at attractive financial terms to the benefit of borrowers. By 2021, NDB will be issuing bonds regularly in multiple markets—including both international and local currency issuances—within prudential debt limits and according to loan demand.

Lean administrative structure, quality control and project evaluation capacity. NDB's human resource base will expand in the next five years only as needed to achieve the goals set by shareholders, while keeping bureaucracy and costs to a minimum. The Bank will have implemented staff incentives and project evaluation mechanisms to promote successful project completion and development outcomes, rather than only approvals. Regional offices will have been established in line with the Bank's operational needs in South Africa, Brazil, Russia and India, allowing aspects of project development and oversight to be decentralized. This will improve efficiency and quality control, while retaining centralized final authority in the headquarters to ensure alignment with institutional goals. Oversight and disbursement procedures will include minimum approval gates required to ensure high project standards.

Engagement with the international community based on clear goals and competencies. NDB seeks to be an active participant in international development fora. Partnerships are a strong element of NDB's vision, and by 2021 the Bank will have implemented agreements for joint financing activity, knowledge and personnel exchange with a variety of multilateral development finance institutions, as well as with national development and commercial banks of BRICS and other member countries.

Expanded membership, global reach and reinforced capital base. NDB was founded to be a global development finance institution, and by 2021 membership will reflect this vision. By then, countries in different stages of development and of different sizes will have joined the Bank, extending its reach to all regions of the world in a balanced manner. New members will have enhanced NDB's international standing, diversified the loan portfolio, strengthened the credit rating, and increased the capital base and financial capacity of the institution.

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APPENDIX I – POLICIES, RULES OF PROCEDURES AND GENERAL CONDITIONS AS OF APRIL 2017

Board Governance Structure

Rules of Procedures

- Rules of Procedures of the Board of Governors (amended)
- Rules of Procedures of the Board of Directors (amended)

Organization Structure

Human Resources Policies

- Recruitment Policy
- Staff Compensation and Benefits Policy
- Code of Business Conduct and Ethics
- Diversity Policy

Operational Policies

- Country Partnership Plan
- Policy on Loans with Sovereign Guarantee
- Policy on Processing of Loans with Sovereign Guarantee
- Policy on Financial Management, and Financial and Economic Analysis of Projects
- Technical Assistance Policy
- Policy on Loans without Sovereign Guarantee to National Financial Intermediaries
- Policy on Partnerships with National Development Banks
- Environmental and Social Framework
- Procurement Policy
- Policy on Transactions without Sovereign Guarantee

General Conditions

- General Conditions (Loans with Sovereign Guarantee)
- General Conditions (Loans without Sovereign Guarantee to National Financial Intermediaries)

Financial and Control Policies

- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Interest Rate Risk Management Policy
- Exchange Rate Risk Management Policy
- Credit Risk Management Policy
- Treasury Business Management Policy
- Accounting Policy and Measurement
- Internal Audit Policy

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- Provisioning and Write-off Policy
- Debt Instrument Financing Policy
- Budgeting Policy
- Capital Management Policy
- Compliance Management Policy
- Anti-Corruption, Anti-Fraud and AML Policy

Interim Information Disclosure Policy

Corporate Procurement Policy

Information and Technology Policy