

**ПЕТЕРБУРГСКИЙ МЕЖДУНАРОДНЫЙ ЭКОНОМИЧЕСКИЙ ФОРУМ**

**18—20 июня 2015**

**НОВЫЙ БАНК РАЗВИТИЯ — УСИЛЕНИЕ РОЛИ СТРАН БРИКС В  
МЕЖДУНАРОДНОЙ ФИНАНСОВОЙ СИСТЕМЕ**

**Теледебаты RT**

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**Модератор:**

**Питер Лавелль**, Ведущий, RT

**Выступающие:**

**Педро Альба**, Вице-президент по бюджету, экспертизе и стратегическому планированию, Группа Всемирного банка

**Амар Бхаттачария**, Старший сотрудник программы по мировой экономике и глобальному развитию, The Brookings Institution

**Владимир Дмитриев**, Председатель, Государственная корпорация «Банк развития и внешнеэкономической деятельности (Внешэкономбанк)»

**Кундапур Ваман Каматх**, Номинированный первый президент Нового банка развития

**Филипп Ле Уэру**, Вице-президент, Европейский банк реконструкции и развития

**Сергей Сторчак**, Заместитель Министра финансов Российской Федерации

**Шаолинь Янг**, Генеральный директор департамента международного экономического и финансового сотрудничества, Министерство финансов Китайской Народной Республики

**Участники дискуссии в первом ряду:**

**Бен Арис**, Главный редактор, Business New Europe

**Ярослав Лисоволик**, Главный экономист, руководитель аналитического департамента, член правления, Дойче Банк в России

**Джим Роджерс**, Председатель, Beeland Interests Inc

**P. Lavelle:**

Hello and welcome to our session titled The New Development Bank: a Stronger Role for BRICS in the Global Financial Architecture.

Now, if you read the description of this panel, it is really quite straightforward. What is the New Bank all about? It has got a hundred billion dollars, scheduled to be able to invest. What will this bank accomplish? Why do we need it? How can it possibly change the global financial order? And I want to keep in mind what we have had before, the old institutions. How will these institutions work together or not work together? Now I am going to do something that is usually not done here. Just to save a lot of time I am going to ask all the panellists to introduce themselves with their titles, very short titles because if I were to do all of it, I would still be talking after 15 minutes. We have a very good panel, very distinguished gentlemen here, but I would like them to introduce themselves first. Sergei, go ahead first.

**S. Storchak:**

Hello, my name is Sergey Storchak. I am Deputy Minister for Finance responsible for negotiating this deal.

**P. Le Houerou:**

Philippe Le Houerou, Vice President, Policy and Partnerships, The European Bank for Reconstruction and Development (EBRD).

**A. Bhattacharya:**

My name is Amar Bhattacharya, and I am Senior Fellow at the Global Economy and Development Program, The Brookings Institution

**K. Vaman Kamath:**

My name is Kundapur Vaman Kamath, I am the President designated for the New Development Bank.

**P. Alba:**

Pedro Alba, I am the Vice President for Budget, but I am also responsible for supporting the New Development Bank from the World Bank.

**S. Yang:**

Shaolin Yang, Director General of the Department of International Economic and Financial Cooperation, Ministry of Finance of the People's Republic of China.

**V. Dmitriev:**

Vladimir Dmitriev, Chairman, Bank for Development of the Russian Federation.

**P. Lavelle:**

Now let me introduce our first row, as it is appropriate here.

Kundapur, if I go to you first. Why, why do you need this bank? What do you want to accomplish?

**K. Vaman Kamath:**

I think that the challenges we see in terms of work that needs to be done in the developing countries is so great. I think BRICS countries show that they need new development partners. And that is what we are. We are just a new development partner.

**P. Lavelle:**

Oh, that is very modest of you. OK.

If I can go to your Chinese colleague here. I think it is partly obvious for a lot of people – most of the major financial institutions of the world today; they are geopolitical – after the World War II. I am thinking of Breton Woods, IMF, EBRD, World Bank, and now we have from the global south some very significant money and banks. How are you, guys, going to be different?

**S. Yang:**

Well, I have to say, this is the bank – we are trying to do it from the developing countries' perspective – this is the BRICS bank organized and established among the five members of BRICS. It is trying to complement, yes, complement the existing international financial architecture set up after World War II. I think there are four features if you can look at the new bank. One is about the governance structure, for the old existing structure that was predominantly, the voice structure in those institutions is controlled predominantly by the developed countries. But this one is a new experiment – five countries, all equal footing, sharing a similar voice, and we will try our best to improve the operating structure and make it a more efficient and more effective. Secondly, about the ways we are going to do our business is to try to learn from the existing institutions, try to implement, replicate the good practices that they have so far. And thirdly, we will try to be more effective in mobilizing financial resources, be it through lending, through equity financing, through providing guarantees to the members. We will try to develop a better mold which will cater to the needs of our client countries and try to indigenize the programmes that will fit their needs. Lastly, we will try to provide services to our clients which are the ones they really need, which are the niche market for the new institution to provide. In the meantime we will try to share our developing experiences among the BRICS members, and try to find a better model which maybe...

**P. Lavelle:**

OK. A better model. Thank you.

What is really interesting here is that a lot of people attach what they think the western financial institutions dealing with the developing world is conditionality. Do you think the BRICS bank will have something like conditionality?

**A. Bhattacharya:**

Do you mind if I just step back and say something which I think is important. I think we should recognize that the scale and complexity of the challenge we face on infrastructure now is unprecedented. It took the developed world a hundred years to establish a modern infrastructure; China showed that it can be done in

30 years. Now we have the rest of the 5 billion people in the world aspiring to do that in the coming 20 years, but the way in which they do it matter not just for them but for the planet. And what we have is a new prospect of a new institution that can be a precursor not just of scale but of change. So in that context conditionality is only a very small part of the equation.

**P. Lavelle:**

Well, now if I can go to Philippe. I think if you are the Greeks, you think of conditionality, it is not a footnote; it is not something at the end of the article that you read. I mean, conditionality is very important in the West as well known for it. I lot of people will ask, you know, these new financial institutions is the world without the West, because of the conditionality if saying for more than half a century. Go ahead!

**P. Le Houerou:**

Well, I think you have to think what conditionality is. If conditionality is to do an investment that is sustainable, you also do due diligence, de facto here you have a filter. So in the large sense and then you have standards in the investment, and I think this is shared by everybody. So that is one part of the conditionality. You go to the BRICS, and that is totally different. It is not the Development Bank that is basically a macro-problem. And I know this panel representing the competent institution to talk about it, but on the development side, yes, I mean, if you do a project, first of all you have to inject knowledge in the project, otherwise what is the value? Except, which is important, a very good rating and hence good financial condition to finance the project. The project itself is to be sustainable.

**P. Lavelle:**

Well, I mean, infrastructure is for the people. It is something much different than maybe a private investment. Sergei, if I am going to you here, I mean, if you are on the board of this new BRICS bank, what kind of rate of return do you want? Or is it that important to you? People or profits?

**S. Storchak:**

Thank you for this question. You see, in comparison to any commercial institutions where the profit is a name of, it is not functioning, here we never thought about the work of these institutions in this dimension. So, answering your question, first, it is the people, but based on bankable projects.

**P. Lavelle:**

OK. If I can go to Pedro Alba? Yes. What about other countries? Could Portugal, or Spain, or the United States one day go to this bank for help?

**P. Alba:**

I am actually Spanish, so... Look, I think I wanted to answer a little bit of a different question, because we have a huge challenge in the world and we have about a billion people who are still in poverty today. And it is a huge challenge, we have committed ourselves, the World Bank, to eradicate poverty by 2030, and we cannot do it alone. So we actually welcome these new institutions that are coming forth. And I think my Chinese colleague is totally right – we should work with the old enemy we have always had all together, which is poverty, by trying to create new rivalries?

**P. Lavelle:**

But is that a profit-making enterprise? Because if it was a profit-making enterprise, you would have already been done.

**P. Alba:**

But we are not a profit-making enterprise. We are the World Bank. And the ownership is actually sitting around this table: the Russians, the Chinese and others, like you were saying. About 40% of our shareholders are held by developing countries. So in that sense we do not make profits.

**P. Lavelle:**

OK. If I go to you. Should these banks be involved in promoting entrepreneurship, growing middle classes, or should it be new silk roads creating

infrastructure around the world for the global south that the north, if it does not want to do it for the profit, if it is not interested in it at all? What about these other elements here?

**V. Dmitriev:**

There are actually several priorities of the New Development Bank, which are in line with the policies of national development banks, like our bank, like the China Development Bank and others. And infrastructure, small and medium size enterprises, and removal of infrastructural restrictions of economic growth – these are the main goals and the main priorities of the activity of such institutions and the New Development Bank in particular. Of course, we will prioritize these directions of its activity. And the role of national institutions for development (our bank, BNDES, the China Development Bank and the others) is to assist the New Development Bank in a fast manner to be functional. And we (national banks for development of BRICS countries) will sign a special memorandum in Ufa where we will have the BRICS and SCO Summits. By the way, during five years we have had the special interbanking unit within BRICS in which development banks participated. We will sign a memorandum that will pave the way for cooperation between our national institutions and the New Development Bank.

**P. Lavelle:**

Now I want to go to the front row here. Jim, go ahead. Jim Rogers, please.

**J. Rogers:**

Hello. I am an international investor. I was disturbed to hear that you say you are going to learn from the existing institutions, because the existing institutions have done abysmal failures over the past 70 years. If you go back and look at the World Bank and the IMF, they never or very rarely were right about anything other than spending billions and billions of dollars and coming up with great lifestyles for the bureaucrats who had the jobs. And you should see...

**P. Lavelle:**



That is why we have Jim here.

**J. Rogers:**

You should see how they live and you should see the benefits that they get for doing very little. They do not make a profit because they are hopeless. The projects that they do are never ever efficient or profitable themselves. But having said that, the five nations that are setting up this new bank which the world desperately needs, because the others are corroded and maybe even, at least corroded and stodgy to say the least. But the five nations that we are talking about, I do not say that any of them – except for China – have ever been terribly successful in anything. You look at the Soviet Union and Russia for the past 70 years, you look at South Africa, you look at Brazil, India – none of them have come up with anything terribly successful. So why do you think these guys are going to be any better than the World Bank and the IMF which are disasters?

**P. Lavelle:**

Gentlemen, anyone?

**K. Vaman Kamath:**

I need to answer this question, but I will answer it after I comment on what Sergei said. The question raised before was whether we are meant for profit, and Sergei appropriately answered that we will look for bankable projects. Certainly the projects are going to be bankable, so let us not in the context that you will have shareholders' money and you will have borrowed money. So unless you are able to recover that money, you are going to go fat, as it were, in a very short time. So that is not wrong. Projects will have to be re-bankable and you will need to recover your investment in time.

I think what Shaolin Yang meant in terms of learning, you do not need a learning process, even if somebody admits a mistake, and you need to learn from it. I think that is what he meant. And clearly I can say that none of the ... of today, and we have been doing our work, what we put on this, understand everything that all the development banks have been doing, try to see what it is that we

need to do now, dealing with the challenges that we had in the past, and then try to put it on our agenda. So clearly, I think that is something to take into consideration. We need not repeat the mistakes that could have been made in the past, and we will set on our own agenda. But to answer this question clearly and unequivocally – we will for bankable projects that basically allow us to service our obligations. And that, I think, becomes the ground rule.

**P. Lavelle:**

Does anybody else want to follow up on this?

**P. Alba:**

Frankly, I am not sure how much you visited bank projects, the World Bank projects...

**J. Rogers:**

Many times.

**P. Alba:**

I have been in the field for it for eight years, including here. Let me give you an example of what we did in collaboration actually with many present here, so they are around us. So there is a project where the Chinese authorities built a road up to the Kazakh border, then we funded with actually EBRD, the Asian Development Bank, the Islamic Development Bank, we helped the Kazakhs build their section of the road and then the Russian authorities did their section, and now we have a road that goes from Shanghai to St. Petersburg, we have diminished the distance by almost 3,000 km, by a third. I think actually it is a very successful project, because you mentioned the Silk Road, right? That is an example of what we can achieve together in terms of collaboration. I have been to many projects in the Bank, from education projects in Argentina to disarmament projects in the Kongo, and I have seen what we have done, and I totally disagree with you there.

**S. Yang:**

I have to say, the bank is trying to improve. Definitely, it is not perfect. And there is no room for complacency. The bank has to improve in our view as shareholders, but we are also the third largest shareholder in the World Bank. We are closely working with the management and the board trying to improve the capacity of the bank through the financial mobilization and also trying to improve the cabinet structure through the voice reform in the bank which was a successful story in 2010. And now they are going through the second round which is trying to address some of the problems you have just mentioned. And thirdly, we are learning from past experiences. I cannot say the world will be better because we have the World Bank, but I can say, without the World Bank maybe we could be worse during all those difficult times. So we are working closely with the multination institutions and with the new banks, we are ready to work with them. And if we can be a little bit pushed for getting better, we will be happy to see that.

**P. Lavelle:**

Do you want to follow up?

**J. Rogers:**

Is there accountability? There is no accountability for the World Bank or the IMF. What is the accountability of the governors for the New Bank? How do we know that 15 years from now, we will not be seeing the same thing, those guys they wasted a lot of money?

**S. Yang:**

Actually, for the new bank, as I said, we have the equal partnership, the new partnership. We are trying to make sure the safeguard of this bank being pledged by and also try to address the issues our clients could potentially have. And as I said, we are trying to learn from the existing institutions how we can improve, because we know that it is not only as the borrower but also as a shareholder, we know how to improve from both sides, so we are confident with

this new bank that we will do something different and we will make it a more efficient bank.

**P. Lavelle:**

Ben Aris, I am now going to you. As we all speak right now, there is a raging battle about how the IMF is going to continue dealing with Ukraine. And there are a lot of dissident voices saying that the IMF will break its own rules for geopolitical reasons because of the geopolitical conflicts with multiple sides dealing with Ukraine. Are you worried that this is going to happen to other institutions, or they cherry-pick their geopolitical concerns: this country is important to us, those resources are important to us? Because the IMF as we speak right now is not coming off very well, and there is nothing to stop it. Go ahead.

**B. Aris:**

I think for me, the idea of the development bank as it should be apolitical and I think clearly that they are not. It creeps in. The point of the IMF in Ukraine, it was incredibly soft in Ukraine, following the orange revolution. And accepted the numbers the Timoshenko government was giving up on budget deficit was clearly made up. I was just down in Tbilisi at the EBRD meeting, and of course the EBRD is now suspended operations in Russia which is a political act. I mean, the EBRD itself was against it, but the shareholders insisted, and so the politics creeps in. And all of this justifies the creation of the BRICS Development Bank in so much as you have to cut out the Western influence. However, I wonder if, from my perspective, the whole infrastructure investment thing which is the reason of these development banks, for me is the most profitable thing you can do in order to drive the economy forward. Investment into infrastructure is an economic multiplier matched only with investment into health which is never really brought up, but this also has a massive multiplier effect in productivity, removes the costs of caring for the old age which is a huge drag. And yet the money, the funding that goes into those infrastructure projects is way below what it should be. Again, going to the EBRD, we look at Georgia, and we were saying,

'Here is Georgia, it has subscribed to Western values and it stopped everything the West wanted of a former Soviet country, and yet it remains one of the poorest countries, and yet it still has all these economic problems.' And why is that? It is because the values are not enough; you need the heavy infrastructure spending. And countries like Russia which have not subscribed to some of these liberal values have yet been economically more successful, because they have done the infrastructure spending. And yet in Russia we still, for example, maybe Mr. Dmitriev can answer the question specifically, we are still waiting for infrastructure bonds which would be a basic thing in order to push this forward.

**P. Lavelle:**

OK, then ask a question, OK? Is that the question?

**B. Aris:**

Yes.

**V. Dmitriev:**

Well, we have different instruments to finance infrastructure projects. Unfortunately, the discussion on the reform of the pension system delayed but now the decision was taken that pension funds will be used long-term financing of infrastructure projects. But we have started already with infrastructure bonds. Of course, the ratio in general financing of infrastructure is miserable, but nevertheless we have started this process. So really, we have to go ahead with that sort of instruments.

**P. Lavelle:**

Philippe, you wanted to add something?

**P. Le Houerou:**

Yes, I think you are absolutely right on the infrastructure, and this is what my friend Amar was saying. The needs out there are huge. And no one institution is capable of supplying these needs. And that is true. I have been working, I think,

in all of the regions of the world. So on that side there is no question, and the multiplier effect, you are absolutely correct. But I think that development is also beyond that, so you need that but you need more. You said 'health' – how about education, how about good institutions? So when you start pulling the thread, you see the link between the different parts of the economy, the different sectors: it is hard to have a sector that moves into hi-tech if you do not have the education sector, if you do not have some technology, some machinery. So very quickly you are going to the whole economics, so one of the keys is to decide how to sequence it, what to do – go to public-private, that is another dimension. All these questions will have to be answered as this new bank develops. And in terms of co-financing, this is absolutely critical.

**P. Lavelle:**

Amar, can you develop and follow up on that, because the public and private here, I mean, maybe the bank should not be involved in this at all? Since a lot of people are interested in this because the entrepreneurship element is very important. To build a shipyard, let's build a factory, where is the private sector involved here because the private sector can be – not always – but very efficient compared to the state, and we all know that.

**A. Bhattacharya:**

Absolutely. You know, the kind of magnitude we are talking about is incrementally about a trillion dollars. There is no way that this can come off the balance sheets of governments. So the private sector is key, both in bringing efficiency to the table and also in mobilizing the funding. For example, today we have institutional investors with sums in excess of 75–80 trillion, yet only 1 to 2% of that is invested in infrastructure. So the potential is huge to mobilize the private sector, but it can only be done if there is an honest broker at the table.

**P. Lavelle:**

Who is the honest broker?

**A. Bhattacharya:**

These development banks are the honest brokers? Why? They do three things that are absolutely critical. Mr. Kamath talked about the importance of bankable projects – these institutions make projects bankable. They are not sitting passively. They are there working with governments to address policies' institutions and create pipelines of projects. Second – they can mitigate the risks on the side of the private sector. And third – they augment the pool of affordable financing, because they are able to borrow on terms that others cannot borrow. And it is true, that package that they bring about a change. And this new institution adds another big powerful dimension in the changing world – they help the south recycle its own savings. Instead of putting it in the US budget deficit and in Wall Street, we can use it for long-term infrastructure projects.

**Y. Lissovolik:**

I think, I would totally share what was actually said because one of the paradoxes of today's world economy is that there are so many savings out there in emerging markets, and yet in terms their use there are no institutions, not enough institutions, perhaps, not of an institutional framework within the emerging markets to allow these savings to productively work, to boost growth rates and development. So, I think, this is precisely it. This is the niche, this is the ultimate demand for this institution – to make sure that ultimately developing countries are capable of using productively their own capital for development. So, I think, this will serve to deal with the paradox that the world economy has been grappling for over ten years by now, I think.

**P. Lavelle:**

Jim Rogers, you are the spoiler, and that is why you are here. Do you agree or disagree with what you have heard recently?

**J. Rogers:**

I cannot believe I agree with anybody. Anybody. Because they are all part of the problem. They are the problem. They are the ones who have been financing

these hopeless projects. Yes, there is a road from Shanghai to St. Petersburg now, I have driven the road twice, most of it, so I know about it. But how much did it cost? How many wasted years were put into it? That and every other project. I would hope, I would love for this project to work, it would be wonderful if there was governance and proper returns. When people invest money, they are supposed to get a proper return, they are not supposed to throw money, money, money down the rat hole, which is what has been happening with the IMF and the World Bank. They survive because they call up everybody and say, 'Give us more money.' Nobody asks any questions, and they give them more money. I would hate this to happen with this group, because we need it desperately, yes. I have been around the world a couple of times, as you know, and my goodness we need infrastructure, we need a lot of things. But you know why they do not exist now? Because the World Bank and the IMF have been so abysmally hopeless for the past 70 years.

**P. Lavelle:**

Vladimir, you wanted to say something. Go ahead.

**V. Dmitriev:**

I would like to follow up. I think a striking example of how collaboration between private business, private investors, institutional investors and international financial institutions is. I think the majority of those who are here at the Forum, have come through Pulkovo. What is Pulkovo? We have institutional investors there, and we have financing vehicles like our bank, EBRD, the Black Sea trade, IFC. Here we are – international and national institutions for development. And I hope and I believe the new bank for development will be that sort of institution which will assist jointly with other financial institutions, local and regional, to finance infrastructure projects.

**P. Lavelle:**

One of the things that I think is really important and exciting here, but keeping in mind what Jim has just said, you have a blank sheet to write what you want to



do. That is an amazing opportunity to have. I think that is the interest in this bank and other development banks.

**K. Vaman Kamath:**

That is what I keep in front of me and my colleagues – we are yet to take on our jobs, we are starting with a blank sheet. In how we do a project, everything is for us to set. So I am very, very conscious of that. But coming back to opportunities, you talk about private sector and private sector – clearly our mandate says, ‘public sector and private sector’. Clearly, it is a very broad mandate, and we will carve out what our strategies are going to be within that. Equally, on the funding side, we have a clean sheet on the mandate – where we raise or money, apart from the shareholders' capital, is up to us, and we have newly emerging pools, and I think there has been an illusion of these newly emerging pools and we are going to tap it. For one, the Chinese market itself is a very deep market. We are to look at how we can access money in those markets, there is a side in terms of currency exposures and currency movements in those markets, because – let me go back to my own experience in borrowing – one of the major reasons for a project to become unbankable is the currency movement. If after repaying 60% of our debt, you still owe 60% because of the currency movements, then the project has become unbankable because the country has no way to pay. Now, I am not pointing fingers at anybody but these are the things we have seen happen and we know how to address them with a clean sheet. And I think that is what we will do. We will therefore look at all the opportunities available for us and use those opportunities. We will look at who we can go achieving it.

**P. Lavelle:**

Philippe, do you want to add something?

**P. Le Houerou:**

Just a very quick one. In fact, I am going to go back to what Mr. Dmitriev said. Pulkovo Airport is a very good example. And again, this is not only the financing that was brought by EBRD and the IFC, there was a lot of knowledge that came

with it, because it was one of the first big public-private partnerships – the government of St. Petersburg, the federal government, we, and lawyers and bankers. It is true, we forget the knowledge part, because there are big numbers – you put the dollars, the pounds or the euros in front of the figure, and it is big, but the knowledge part, I found, in this debate is forgotten, but sometimes it is intangible, sometimes it can be very potent.

**P. Alba:**

Actually, I was the country director in Russia when that was being put up, Mr. Dmitriev remembers, and we worked very closely with the government of St. Petersburg to give them all the advice we could on how to structure the operation in terms of managing the lawyers, in terms of distributing risk, in terms of their own legal framework in St. Petersburg, and we also worked with the federal authorities. So, actually, I think that particular project won an award as the best PPP in Europe. And I think it is actually an excellent project.

**P. Lavelle:**

Yaroslav, go ahead.

**Y. Lissovolik:**

Actually, I think there are pitfalls starting from a blank sheet as well.

**P. Lavelle:**

My problem is, you know, I can understand that in theory but I kind of agree with Jim. Where are the success stories? Where is the success model?

**Y. Lissovolik:**

Well, I think, the future and the really important area to explore for the new bank is human capital. We are talking a lot about infrastructure, but if we go too far in this direction and we disregard this tremendous potential, probably the biggest potential that emerging markets have, I think, this is going to be a very costly and a longer term. So, I think, early on it is going to be important to address the

development of healthcare, education, – the most significant resource that emerging markets have in terms of their longer-term development. And in that regard, I think, the World Bank has done quite a lot. And suing some of the practices and some of the achievements that the World Bank had, including with regard to conditionality, which I think should be taken into account by the new institution, I think, the new institution can build on that experience.

**P. Lavelle:**

Gentlemen, what do you think? I mean, being driven by human resources and thinking in terms of that instead of a lot of other issues that are real or are claimed to be attached to more traditional Western controlled financial institutions. Anyone here?

**K. Vaman Kamath:**

I think both are equally important, because you cannot develop the human, the social side without also simultaneously putting in place the architecture in terms of your basic infrastructure. But I take the point, there has been a lot of times when the emphasis was only put on one side of it with no emphasis on the other. Both will have to be done and, clearly, our objective will be to see that they both have equal importance.

**P. Lavelle:**

Ben, when you look at these new institutions, do they run parallel to western institutions in your mind? Are they going to be competitors? Because, again of we think in terms of conditionality and the geopolitical angle here, will it be better to go back to one of these emerging banks, because they are more interested in getting their money back and make a profit and not so worried about the geopolitics of El Salvador, or Honduras, or Ukraine?

**B. Aris:**

I think, one of the panellists have already put that up. The needs are so enormous. None of the development banks, or even collectively, have the

resources to do all the investment that is needed. In that sense there is no competition. And at the end of the day, people who need money will take it from wherever they can get it, and so you can knock on all the doors and if are offered, you will. My concern with this is specifically on that point – the competition and the point you made about ‘you start pulling on a thread and it unravels, and you end up fixing everything in the economy,’ that the New Development Bank, for me, looks too small. A hundred billion dollars, all said and done, is not a lot of money. Just Russia's infrastructure needs are over a trillion dollars. And you are talking about, you know, more than half the world's population in terms of the countries that are participating. And I come back to my point, the reason I brought up health, and I agree entirely with Yaroslav, and infrastructure, – I worked on a report for the World Health Organization in my former capacity as journalist for the Lancet, and the World Health Organization was saying, ‘The single most profitable investment a government can make is into the health of its people.’ Because that increases productivity, people do not get sick, they go to work every day, they work ten years longer, and then it does not cost as much to look after at the end of their lives. It is an enormous change, and no government emphasizes this. Because the returns on health investment come 50–60 years down the road, whereas, you look at EBRD, the most profitable or successful programme has been support of small and medium size enterprise lending, so they give banks cheap funds and they lend them on to small companies, and this is supposed to help capitalism but at the end of the day you can get that money from the market. And infrastructure is the same thing. It is an economic multiplier. And again, we worked on another report with an investment fund here, and it is transformative. And if you want my advice, the Development Bank should focus on those two things only, because you have limited resources and they produce massive transformative effects. And given the limited amount of money, and it is what the emerging markets need more than anything else.

**P. Lavelle:**

Is that attractive enough for you? Go ahead!

**A. Bhattacharya:**

So, in the discussions that are happening this year on sustainable development goals, there is emphasis on four things: education, already mentioned by Philippe, health, as you have mentioned, sustainable infrastructure, this panel has mentioned, and sustainable agriculture, because agriculture is also key to the upliftment of well-being. Now, the institutions that we are talking about have different competitive advantages, so everybody does not have to do the same thing. This new institution is primarily for infrastructure, partly because the existing institutions withdrew from infrastructure for over two decades leaving a huge void. So, in a way, this institution is coming and filling a gap. Today, if you look at the entire multilateral development bank system, the gross financing of infrastructure projects, 30 billion dollars. Peanuts. So, 50 billion, 100 billion, makes a difference. But, I can assure you that if you want to meet the scale of the challenge, much more will be needed.

**P. Lavelle:**

Shaolin, would you like to add anything?

**S. Yang:**

I agree that education and health are important areas the bank should tackle. But that should not be the only area the bank should tackle. Let me give you an example, once I talked to my colleague in the China EximBank, they have a house project in one of the African countries, they help to build hospitals in a remote area of that country. When they built everything, what they found was that they did not have water, they did not have electricity. How can those house builders helping those poor people? So for China, for more than 30 years of its experience – as a Chinese saying says, ‘If you want to get rich, build a road first.’ So that is why this bank will be emphasizing its work on infrastructure. We are not saying that all the other things are not important, they are important, but maybe for the secondary, in the future we will tackle them. But for the time being you have to have growth, you have to have electricity, you have to have all the

infrastructure available. You know, we have a lot of farmers in China in the remote mountainous areas, they grow apples, they grow oranges, but they just go rotten. All that fruit goes rotten because they cannot shift them out, and they do not have the information shares through the Internet, through any modern means of media, so they are just stuck, so we have to help them to find a way out. So, to build the infrastructure is the priority for the time being in our view.

**K. Vaman Kamath:**

This is not in conflict at all. Firstly, how do you grow economically? The same example as in China – 45% of farm produce rots in India because there is no evacuation process. Secondly, in terms of children's health, we found that the immediate intervention that you can do is get clean water to children, and that cuts off 75% of illnesses. So you need to have another project addressing the health. So, as my colleague said, we will certainly address these in a holistic context, understanding what the dimensions of these are and then sequencing our own funding to make sure it is appropriate and it is not wasteful.

**P. Lavelle:**

Go ahead!

**P. Alba:**

Just very quickly. I think, the key thing we have learned in this, because we are all discussing different priorities and development, and every country is very different, and I think, what we have learned is the importance of listening very carefully to the client, because they usually understand their country very well, what the key constraints are, and they have a certain sequencing of where they should invest first. And I think that is the most important lesson. There is another area that I wanted to mention is sanitation. In many developing countries' cities clean sanitation is essential for health. So I think it is very important that you listen, you look at the client, you understand what his needs are, and then you have a better sense of the sequencing.

**P. Lavelle:**

Jim, and also these major areas: sanitation, education, healthcare, etc., etc. These are governments, regional government, local governments, government, government, government.

**J. Rogers:**

The best news I have heard today is perhaps that it is going to be private partnership with the new bank, it is going to be private-public. I certainly have more confidence in Deutsche Bank than I do in the World Bank, for instance, if you want to make some comparisons, because Deutsche Bank has to survive, the World Bank just gets more money.

**P. Lavelle:**

But is not that just replicating the same things that you were talking about, that you are so critical of? Because you were just saying, 'Take the same model, it just comes from the global south and they have some extra cash.'

**J. Rogers:**

I said, 'The best thing I have heard today.' I did not say I heard anything good. The least bad thing I have heard today is that maybe there is going to be a public-private partnership, there will be accountability, and the projects will have to work, they will have to pay for themselves, and therefore, everybody comes out ahead. You can regenerate capital and the things can go on and on and on, and everybody is better off in the end. I do not know that the public-private partnership will work, but at least it is a good start, it is a good model. And I hope that something like that happens. But, yes, everything we are talking about. Who is against clean water? Who is against new roads? You are right; you have got to have the roads to make the money, to open up the economy, to open up everything else. Let's hope it works. I am just afraid this is going to become another bureaucracy. I mean, where are you going to get your people, for instance? Are you going to hire people from the World Bank? Oh my God!

**P. Lavelle:**

OK, gentlemen, do you want to add anything? Go ahead!

**P. Le Houerou:**

EBRD just hired me from the World Bank.

**J. Rogers:**

You see what I mean?

**P. Le Houerou:**

I know exactly what you mean. I share the pain. No, but seriously, we were talking about lessons learned, and I think that like everything, you learn from the mistakes and you learn from the successes. And I have been both. One thing that Pedro was saying is absolutely correct, that is one lesson that we have learned in many years at the World Bank, which is the country focus. It is not one size fits all, I know it sounds very pedestrian, it took some time to do the sequencing, and you have to do it in a political economy, at different levels of institutions, so you have to adjust. So you cannot have a purely sectorial drive, you have to see how it fits the country. Another lesson that emerged from this discussion is the public-private partnership. I think that links to what Amar was saying. Even if we have a multiplier effect on the public sector that will not be good enough in term of pure volume, now we are going to from quality to the quantity, so it seems to me that if we want to make real dent, all of us, old, new, relatively new, we need to leverage the pool of resources. So these are a few lessons that I remember just from these discussions. And I think this is good, this is exactly the intent of this.

**P. Lavelle:**

Yes, go ahead, Pedro.

**P. Alba:**



Just to make a point. I do not disagree with you on PPPs, but I did want to make a point on the importance of public sector in these investments. For example, suppose, you want to improve the clean water in major urban area in an emerging market, if you try to recover the costs of that investment which is usually very large through water prices, you will price out the majority of the poor in that city, so there must be a role the public sector to give some financing which you will never recover in a sense directly, but will recover by allowing its citizens to live with clean water. So public and private needs to be very carefully studied, because it could have negative implications for the poor.

**P. Lavelle:**

Shaolin, I am going to ask you a question. If you look at the traditional financial institutions – IMF, the World Bank, EBRD – what should the Chinese Development Bank and the BRICS Development Bank avoid from their experience? What have you learned not to do?

**S. Yang:**

Actually, one of the phenomena has been touched upon here, – try to be flexible and listen to your customers first and then you adapt. One of the eminent features of the World Bank's success in China is that the bank really listens to the customers and then they customize their programmes in China. And throughout time, we are not sticking to one model, but always with the changing situations we discuss and we compare notes and then we formulate a new set of priorities and a new set of road paths for the programmes to be continuously successful. So, for both the bilateral aid agencies and for the New BRICS bank, we will continue encouraging them to do the same, rather than to be bossy, trying to impose everything on the clients. We will learn the local situations and then adapt.

**P. Lavelle:**

That is the perception so many people have when a country get in trouble. You go to the IMF and the local population says, 'Oh, no!'

Amar, go ahead.

**A. Bhattacharya:**

I think in a positive way – these new institutions can become very important platforms for south-south cooperation. And let me give an example. Today, the most successful cases of infrastructure development are not in Europe, not in America. They are in China, they are in Korea, and they are in Turkey. If you can create platforms that bring the best in terms of what can be done, you can improve accountability, governance, transparency, all of these things while benefiting from the success of the south itself.

**P. Lavelle:**

Gentlemen, anyone wants to add anything? I want to talk one more time with the front row, and then I would like to open it up to our audience here.

**P. Alba:**

I just want to say that Amar is absolutely right. I mean, if you think about the five founding members, they are the five most successful emerging markets. So they have a lot of experiences they can share with everybody else, so one of their competitive advantages, and I said that in the very first meeting I had with them, is in fact south-south cooperation. We at the World Bank are doing that, but I think they have a huge competitive advantage in that area.

**P. Lavelle:**

You know your own turf.

**P. Alba:**

Yes.

**P. Lavelle:**

Gentlemen in the front row, any comments before I open it up to the audience?

**J. Rogers:**

I better keep my mouth shut.

**P. Lavelle:**

No, that is why you are here. Go ahead!

**J. Rogers:**

I hear people say, 'We go to the custom, we go to the country to find what is needed.' And do you know how many roads are built to the dictators' hometowns? Go around the world. You cannot believe how many times there is a perfect road to the dictator's hometown, so he can go see his mother and his cousins, and this is all financed by you and me and everybody in this room who is paying taxes. I mean, this is out of control, and, yes, the world might be better off, but I think it would be better off if we had not had all this money wasted as it has been wasted.

**P. Lavelle:**

Alright.

I am going to give the first question in the audience to PwC. Go ahead!

**N. Mileshkina:**

Gentlemen, good evening. Natalia Mileshkina, financial services lead of PwC in Russia.

**P. Lavelle:**

Will you do it in English and Russian?

**N. Mileshkina:**

I can ask the question in English and Russian, OK. You were talking about the products and services the new bank will offer, and this was quite understandable, but taking a little bit of a different angle, do you believe that the bank's infrastructure can be used in terms of development of a new payment system which can be used by the members of BRICS countries, or potentially expanded

to the rest of the world? Я повторю свой вопрос по-русски: можно ли будет использовать инфраструктуру банка кроме использования классических продуктов также на создание новой платежной системы, которая может использоваться странами-членами БРИКС и потенциально распространяться и на другие страны? Спасибо.

**P. Lavelle:**

Anyone on the panel who wants to answer that question?

**K. Vaman Kamath:**

I will try to answer that question. It is part of what we are doing that is still not in our frame of reference. But if I were to look at it outside my position as President designate of the NDB, this is something that will happen, you cannot prevent it. And I would laud what has happened with China Union Pay in terms of a payment system. The same thing is happening in the context with RuPay, so I think parlant systems are developing, but still at an early stage. But imagine their tomorrow where the currency balances chain. And we have already seen them being major global currencies, and the surpluses they have, and if they become a market currency like what we have today from the west, I think, you will see new payment systems coming in. But this answer is not from me as president designate of the New Development Bank, but as a commercial banker who looks around and sees what is happening and can see it coming.

**P. Lavelle:**

Please.

**E. Schwartz:**

Thank you very much indeed. My name is Evgeny Schwartz. I represent WFF, Worldwide Fund for Nature, Russia. I would like to ask you about the establishment of environmental social safeguards. Establishment of modern environmental and social safeguards of Bretton Woods system financial institutions started from the World Bank World Commission on Dams, and after

that we have a not strict and not complex enough environmental social safeguards of EBRD, I am a member of environmental social council and we have similar and sometimes more strict policies of Asian Development Banks. And as a representative of a conservation organization we are concerned whether you are planning to have the same level of environmental social safeguards, especially if you are speaking about infrastructure projects?

**P. Lavelle:**

It is very interesting, because this is one of the things I was thinking when listening to our panel. There are these huge projects that we need that can affect tens of millions of people. These other issues, social values also play a very important role. Is that too micro for these large?

OK, go ahead, answer!

**A. Bhattacharya:**

It is absolutely not micro, it is pivotal. But you cannot have a system where it takes – and I will not name which institution it is – where it takes the institution 7–10 years to prepare a project, and another 6 years to implement one. So we should not only think of them in a negative way. The way we should look at it is we are going to invest 70-90 trillion dollars in infrastructure, and if we do it right, we will serve both development and the environment and the people, if we do it wrong, we will destroy. So, rather than thinking about it in a negative way, I think it is very important for these institutions to see how they can create sustainable environmental and socially conscious projects. But we cannot be affixed by the safeguards either. I mean, we must be measuring that we are not doing harm, but we must also be measuring how efficiently we are doing things.

**E. Schwartz:**

[no microphone] My question was how to avoid environmental dumping and environmental social standards if you keep in mind this issue, it may be half of the solution.

**K. Vaman Kamath:**

I am sure the environment clearly will be central to our approach when we do a project. I think the answer Amar gave is a good answer. We need to keep in context how to go about it. Personally, I pay my attention to what we are going to do. This clearly will be a focal area, and we will give a chip as we go along.

**P. Lavelle:**

Microphone please.

**David Li:**

My name is David Li from Tsinghua University based in Beijing. My question is about the governors, also mechanisms following the previous question. What kind of lesson can the new BRICS bank learn from the World Bank's governing system? And what kind of issues or defects are you trying to avoid, and what kind of mechanisms in allowing environmentalists to voice their concerns in the decision of the bank? Thank you!

**K. Vaman Kamath:**

Governance is a very broad phrase. At one end it covers what is the makeup of the shareholders, how do they act, how do they not act, and in the private context, do they act in concert, not act in concert and so on. Then it comes down to the board. How does the board act or not act? And then it comes to the line – what is it they do and what they do not do. I think here we need to look at all this context. I do not think that everything that we are trying to label, existing multilateral development banks, there is a governance issue, may or may not be correct. I think for that reason in the preamble we stated that we would look at what is done elsewhere, and then try to see what we will do. So, clearly, at least I am aware that this is something that I need to learn understand and then run in a way which is totally appropriate, I would simply put as a 'this century institution'. So, basically, we need to look at going from best practice to next practice. But we will have to articulate what those next practices are going to be, how we are going to do things in a different way, in a better and faster way. So if you ask me

as someone coming from a borrowing country, what it is that most bothers me when somebody goes to the NDB today, it is the time really. Why should it take 2.5–3 years to appraise a project? Can we think of a way in which we can do it better? That is 2.5 years lost for that country. So these are the sort of issues which today are not raised as governance issues but to me they are important. So there is a whole set of issues which we will have to document and address as we go along. And we will look at all these in quick order. We are not talking of a year down the line. I think by the next quarter we will articulate the things that we want to do which is different.

**P. Lavelle:**

Is there anyone else?

Go ahead!

**S. Yang:**

I just wanted to add to what Mr. Kamath said about how to make it better. Actually, Mr. Storchak and I have been sitting in the temporary board for the BRICS bank. We have been discussing issues like this. We want the bank to be up and running as soon as possible. In the meantime, we want to make sure the projects that the bank is going to execute will be successful. In that way we have to make sure all the safeguard policies will be in place before the bank can really implement the projects. We just want to guarantee we will not let this bank be writing blank checks to whoever is asking for money, but we want to make sure that everything is being checked. And there will also be an oversight mechanism that will look after...

**P. Lavelle:**

Well, wait. Let's look at oversight mechanisms because it is one of the things I am always curious, because I look at the bigger picture because I am not a banker. What is the oversight to make sure that these institutions do not become politicized, do not become your critics will say, particularly if we name the countries, China for example, that it uses it as a political tool to further its

geopolitical interests, because Western institutions have a long history of doing exactly that. How do you avoid that dilemma?

**S. Yang:**

One of the ways we are going to address that is we do not want to have to repeat the mistakes the World Bank and other regional NDBs are making. We don't want to provide a laundry list or a long list of checkpoints for the staff. And we do not want to create a situation when we address the problem while in the meantime we create the risk of averseness among the bank staff. So we want to strike a proper balance, you know, to do things our clients and stakeholders are concerned over taking care of. But in the meantime we have to be effective and efficient as Mr. Kamath said again and again, and we fully support that. But in the meantime, we want the bank to be really different. We will not say there will be the best practice is, but we will honestly say that there will be better practices. That is the thing we are looking at for this new bank.

**P. Lavelle:**

OK, go ahead!

**S. Storchak:**

Just to echo my Chinese colleague, we agreed from the beginning that the President of the bank will be agreed on and will function on a rotation basis. From this point of view, it is a unique institution. We are now much in advance from what country the new president or the next president would come, so it would allow each jurisdiction and each shareholder to prepare the right person much in advance. Besides, we agreed that the president's position can be occupied by a single person only for one single term. It is a five-year term, it is long enough, but at the same time the rotation will allow the shareholders or founder members, as we prefer to refer to ourselves, to insert new blood into the administration side of the functioning of this institution.

**P. Lavelle:**



Yes, go ahead.

**P. Alba:**

Just another complicating factor here which I think is very important, going back to some of the points you have made. Aside from environmental and social safeguards, it is also very important that development banks, since many of us use public money one way or the other, ensure a fiduciary, a strong fiduciary control in the institution, and of course in the money that we lend. I think that is a key area which all of us face – what I mentioned might be very complicated, can lead to a lot of delays, on the other hand, it is an essential element of any well-functioning institution, particularly when you have public money. So I think, that one will be another challenge that we face every day. I think part of the answer is to try to use country systems as much as you can, and develop those systems and support those systems develop, so we can get out of this, because in reality, of course, the money that we lend belongs to the country. So it is very important that we give that advice and that support so that they can develop those systems. But it is a challenge that we face every day ensuring that public money is well spent.

**P. Lavelle:**

Please.

**S. Hatipoglu:**

Good afternoon, gentlemen. Saruhan Hatipoglu, CEO of Business Environment Risk Intelligence in Washington D.C. It is a country rating agency. First of all, I have been at the Forum sessions earlier today and wonderful things, there is great cooperation going on, we are very happy to hear this. My question about the bank is about its timing, because there is a lot of concern in the United States as well as the West, but I will put the European Union aside, they have their own problems right now, – but the United States is worried that the macroeconomic environment in BRICS countries is very fragile. The private industry, one of the panellists said, ‘The private sector is of utmost importance in terms of the

development of this bank,' now I think at least 90% would agree that the interest rates in the United States will be raised before the end of this year, that could lead to capital outflows from the majority of BRICS countries. My question is: do you think the timing of this bank with all the objectives, all the good objectives that you discussed and which are all true, do you think the timing is correct, or should some structural issues with the BRICS countries need to be addressed first, so that the BRICS countries are on stronger footing before the idea of this bank is introduced?

And a very short second question – there is also rumour going on that Greece is about to apply to become a member of your bank. Is that correct? Any comments will be appreciated.

**P. Lavelle:**

OK, let's take one at a time. First of all, the concern is coming out of the United States, the country that is the most deaded country in the world and has no way to pay for itself. I find it really quite remarkable that our politicians in the United States are telling everyone else how to run their economies. Number two – Greece. I was kind of thinking to let that hover around. Gentlemen, do you want to answer that?

**K. Vaman Kamath:**

I will answer the first one. To me sometimes, you run risk analyses and country risk and country rating, I do not know which country is riskier today. Is it the countries in the west or these countries we are talking about? To me it is a real dilemma. I will leave it to the audience.

The second issue is the way you put it – the fact that there is going to be an easing or a tightening – things do not happen like that. We have to live, we have to take our destiny in our own hands and proceed. And I think that is what we are attempting to do here. There is no question of waiting for timing, because somebody else has a structural issue and is trying to fix it, and the consequences of that could be... We have to take our destiny in our hands and I think that is what we are doing. And I think we will get on with it in a gentle kinder way.

**P. Lavelle:**

Two questions in the air. Gentlemen, anyone wants to address either one? No? OK.

**S. Storchak:**

From the beginning the founding members agreed between themselves that this institution will be open to other United Nations members. So after we set up the institution, after it starts running normally, I think, any of the UN members can apply for membership. So this appliance will be tackled with an agreement reached. The conditions are standard – the country needs to buy some shares of this institution and would become a member. Thank you!

**P. Lavelle:**

OK, I wanted to ask the president designate of the bank here. A hypothetical question – it is 25 years from now and we are all alive, on the panel at least, what accomplishments do you want to tell the audience 25 years from now of the bank that you have a vision of today?

**K. Vaman Kamath:**

I will put it really simply – we have to look at the needs of the south and lend a hand to our countries in the south to develop and grow and meet their aspirations, or at least go well on the path of meeting their aspirations. To me that is a very simple statement. If we all worked towards that, we would have made progress. I do not want to put it in dollars and cents, or roubles. I will simply put it in a statement of aspiration.

**P. Lavelle:**

A banker that speaks like a diplomat. Wonderful, wonderful!

Gentlemen? Anything else? Any other questions here, or are we going to wrap it up right now?

Maybe a different microphone? You have to get away from the camera. Take that microphone and move over there please. There we go!

**G. Shin:**

What is your timeline? I mean you need to do a lot of work, structure the policies, procedures. When are you planning to announce the first projects? When will the bank become operational?

**K. Vaman Kamath:**

I think we are all going to, that is the president and the three designated vice presidents, move to Shanghai to take our jobs next month. And we think nine months from now we will have shaped the bank.

**P. Lavelle:**

Nine months from now. We are making news right here on this panel. We keep your word to it.

Anything else? Alright, I want to thank a wonderful panel here talking about a really wonderful idea if it works out. And I want to thank the front row for being our reality check. I want to thank everyone else for joining us here. Watch RT!