Acta Univ. Sapientiae, Economics and Business, **12** (2024) 71–94

DOI: 10.47745/auseb-2024-0004

Multilateral Development Banks in Emerging Countries – The Beginning of the Transformation of the Multilateral Financial System

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Abstract. In the twenty-first century, two multilateral development banks were set up at the initiative of emerging countries to promote the concept of development finance for emerging and developing countries, breaking away from the Bretton Woods institutional system based on the dominance of the US and Western states. China has played a very significant role in the establishment of both the New Development Bank and the Asian Infrastructure Investment Bank. The New Development Bank established by the BRICS countries (Brazil, Russia, India, China, the South African Republic) is the first multilateral development bank in the world in which the five founding countries have equal voting shares at the time of its establishment and which is truly focused on the needs of emerging and developing countries. No Western developed country has a stake in this bank. Although China is the largest shareholder in the Asian Infrastructure Investment Bank, it has been joined by a number of advanced industrialized countries, and its operating mechanisms are similar to those of the Bretton Woods financial development institutions. Both new financial institutions will create competition for the Bretton Woods system of international development finance institutions, which has been in place since 1944, with the New Development Bank most likely to rival the International Bank for Reconstruction and Development, while the Asian Infrastructure Investment Bank could gain a foothold in the operational area of the Asian Development Bank, which was established in the 1960s.

Keywords: BRICS countries, multilateral development banks, infrastructure financing, emerging economies, global development-financing architecture

JEL Classification: F02, F53

1. Introduction

We can distinguish four different waves of multilateral development finance institutions (MDBs), each of which can be linked to a specific event in world history and politics. The first wave of multilateral development banks took place in the 1940s, at the end of the Second World War. The International Bank for Reconstruction, created at the Bretton Woods Conference on the initiative of the United States of America, had as its primary task to finance the reconstruction of the European continent following the devastation of the Second World War. However, the Marshall Aid, also initiated by the US, took over the role of the organization responsible for the reconstruction of Europe, and the International Bank for Reconstruction repositioned its main focus of operations under a new name (International Bank for Reconstruction and Development), and from then on it concentrated on the developing world (Zhu, 2019: 130).

In the 1960s, decolonization, i.e. the dismantling of the colonial system, led to the second wave of multilateral development finance institutions, with the creation of a number of multilateral development banks operating at the regional level (Asian Development Bank, African Development Bank, Inter-American Development Bank, Latin American Development Bank, Islamic Development Bank).

The third wave of multilateral development banks dates back to the early 1990s, when the Cold War ended, the Soviet Union collapsed, and the former socialist countries of Central and Eastern Europe embarked on the path of the multi-party democratic system and market economies. The major Western European powers proposed the creation of the European Bank for Reconstruction and Development (EBRD), and in parallel the European Union's development bank, the European Investment Bank (EIB), extended its operations to the Central and Eastern European countries' region (Wang, 2017: 113).

The fourth wave of international development banks arrived following the 2008 global economic and financial crisis. For decades, the World Bank, dominated by US and Western influence, neglected financing infrastructure development and focused on poverty alleviation and good governance (Wang, 2019: 223). Emerging economies have led to a major shift and shift of power in the world's political and economic structure. The GDP of the BRICS countries as a share of world GDP increased from 8% to 22% between 2000 and 2019, while the GDP of the G7 group (USA, Canada, UK, France, Germany, Japan, Italy) decreased from 65% to 45% of world GDP (Wang, 2019: 222).

Table 1. *The chronology of the establishment of multilateral development banks*

Period of time	Decisive international events	Establishment of the multilateral development banks
1940s	end of the Second World War	IBRD
1960s	decolonization	ADB, AfDB, IDB, IsDB, CDB, IDA, IFC
1990s	end of the Cold War	EBRD, extension of EIB financing
2010s	intense co-operation of the emerging economies	NDB, AIIB

Source: Jiejin Zhu (2019): Borrowing country-oriented or donor country-oriented? Comparing the BRICS New Development Bank and the Asian Infrastructure Investment Bank. p. 131.

Notes: abbreviations: IBRD: International Bank for Reconstruction and Development; ADB: Asian Development Bank; AfDB: African Development Bank; IDB: Inter-American Development Bank; IsDB: Islamic Development Bank; CDB: Caribbean Development Bank; IDA: International Development Association; IFC: International Finance Corporation; EBRD: European Bank for Reconstruction and Development; EIB: European Investment Bank; NDB: New Development Bank; AIIB: Asian Infrastructure Investment Bank).

Table 1 shows that two new multilateral development banks were established in the 2010s, which were not spurred by developed Western countries but by emerging countries having a focus on the developing world. The two new international financial institutions, the New Development Bank and the Asian Infrastructure Investment Bank, aim to become an alternative to the Bretton Woods international financial system and to change the framework for global development finance. Emerging economies want to see a rethinking of the disproportionate distribution of voting rights among member states in the multilateral financial institutions created after the Second World War. The establishment of new multilateral development banks to compete with the old Bretton Woods global financial institutions can also be seen as part of Chinese foreign policy to counterbalance the US dominance of existing international institutions by creating parallel structures (Reisen, 2015a: 274). In establishing the Asian Infrastructure Development Bank, the US tried to dissuade several friendly states from joining, citing environmental standards, the opacity of state contracting, and the lack of expropriation protection for local populations. An important question is whether the newly established international financial institutions can exert any meaningful influence over the organizations that have been in a dominant position since the end of the Second World War. The Asian Infrastructure Investment Bank and the New Development Bank established by the emerging countries dispose of sufficient investment funds, so they appeared as real challengers to the international financial system set up after the Second World War (Reisen, 2015b: 297).

Table 2. *The Bretton Woods multilateral development institutional system*

Description	Voting weight (%)				Number of directors					
	USA	other G7 members	other non-borrowing countries	borrowing developing countries	USA	other G7 members	other non-borrowing countries	borrowing developing countries	Total	president
IMF	17	28	17	38	1	6	6	11	24	non-borrowing country
World Bank	16	27	18	39	1	6	8	9	24	non-borrowing country
IADB	30	16	4	50	1	4	0	9	14	non-borrowing country
ADB	13	27	15	45	1	4	1	6	12	non-borrowing country
AfDB	7	21	12	60	1	4	1	12	18	borrowing country
EBRD	10	47	30	13	1	6	12	4	23	non-borrowing country

Source: Birdsall 2003 (https://www.researchgate.net/publication/228420747_Global_Economic_Governance_and_Representation_of_Developing_Countries_Some_Issues_and_the_IDB_Example – p. 23).

Notes: abbreviations: IMF: International Monetary Fund, IADB: Inter-American Development Bank, ADB: Asian Development Bank, AfDB: African Development Bank, EBRD: European Bank for Reconstruction and Development.

Having a look at *Table 2*, the disproportion of the voting weight and the number of directors can easily be assessed.

I focus in my study on the hypothesis that the hegemony of the USA over the world economy is increasingly challenged by the emerging countries' striving for a multi-polar world order and world economy better suiting their development needs and expectations. The bipolar world order – based on the competition of the USA and the Soviet Union after the Second World War – transformed into a unipolar world order led by the USA after the collapse of the socialist regimes in Eastern Europe. More than sixty years had passed after the Second World War until a new phenomenon appeared in the world order. This new phenomenon is called multi-polar world order. The major emerging countries – Brazil, Russia, India, China, South African Republic – gathered and set up new international organizations, such as the New Development Bank, articulating their wishes and needs that are in line with their position played in the world economy. The Asian Infrastructure Investment Bank initiated by China focuses first of all on the financing of infrastructure projects in Asia, but its structure reflects the structure of the well-established Bretton Woods institutions. In section two, I present and compare the BRICS countries, which are in all aspects – economically, culturally, and socially – rather heterogeneous. These countries do not necessarily aim to reach the level of integrity of the European Union. The emerging and the developing countries cannot reshape the existing multilateral financial organizations. That is why they decided to set up their own multilateral organizations paying attention to their long-term financial needs and economic interests. These institutions will serve furthermore as a counterpole to the Bretton Woods institutions.

The study is composed of seven sections. The general profile and most important attributes of the heterogeneous BRICS group of countries (Brazil, Russia, India, China, the South-African Republic) are presented in section 2. I deal in section 3 with the increasing ambitions of the emerging and developing countries to reform the international financial system that better meets their development finance needs. A special emphasis is laid on the infrastructure finance of crucial importance for the emerging and developing countries within this section. The two new multilateral developments established in the 21st century are compared in section 4. The New Development Bank is characterized by a funding and lending model based on the ownership structure, while the Asian Infrastructure Investment Bank follows the financing model of the old Bretton Woods institutions. The financing of the New Development Bank is presented in section 5. I present the operations of the Asian Infrastructure Investment Bank focusing on climate finance, cross-border infrastructure development, and private sector finance in section 6. The study is closed by the conclusions formulated in section (7).

2. The General Profile of the BRICS Group of Countries

The acronym BRICS stands for the economic cooperation of five emerging countries: Brazil, Russia, India, China, and South Africa. All five countries have significant regional and global influence – e.g. China and Russia are members of the UN Security Council, and all five countries are members of the G20, the world's largest economies. The combined population of the five countries accounts for 40% of the world's total population. In 2011, the five countries formed the BRICS Forum, an independent international organization to strengthen trade, political, and cultural cooperation among BRICS member countries. Jim O'Neill, chief economist at the US multinational financial services firm Goldman Sachs, first used the acronym BRIC in 2001, predicting that the economic performance of the group of Brazil, Russia, India, and China would overtake the current richest countries by 2050 (Net 1).

Analysing *Table 3*, we may ascertain that China's GDP per capita showed the strongest growth over the period of 20 years under study. The world GDP amounted to USD 84.71 trillion in 2020. The US GDP amounted to USD 20.94 trillion, accounting for 24.71% of the total world GDP. The combined GDP of the five BRICS countries amounted to USD 20.79 trillion in 2020, which was 24.55% of the world GDP. The GDP of the BRICS member countries in 2020 was as follows: China: 14.86 billion USD; India: 2.67 billion USD; Russia: 1.48 billion USD; Brazil: 1.45 billion USD; Republic of South Africa: 0.33 billion USD (Net 3).

Table 3. *GDP per capita of the BRICS countries 2000–2021*

Description	Number of population (million)	GDP per capita (2000, USD)	GDP per capita (2021, USD)	Growth rate of GDP (%)
Brazil	211.76	3 772.05	7 563.56	201%
Republic of South Africa	59.31	3 039.04	6 950.43	229%
India	1 378.62	451.11	2 282.97	506%
China	1 411.00	951.16	12 358.80	1299%
Russia	146.17	1 899.41	12 198.21	642%
Total	**3 206.86**	**10 112.77**	**41 353.97**	

Source: Net 2: https://www.statista.com/statistics/741745/gross-domestic-product-gdp-per-capita-in-the-bric-countries/

Table 4. *General comparison of the BRICS countries*

Country	Population (in million)	Productivity	Life expectancy (years)	Level of urbanization (%)	Economic sectors			Unemployment rate (%)	Export (billion USD)	Foreign trade balance (billion USD)
					Agriculture (%)	Industry (%)	Services (%)			
Brazil	211.76	1.71	76.08	87.07	5.89	17.7	62.8	13.69	209.18	42.84
Russia	146.17	1.5	71.34	74.93	4	29.83	56.13	5.59	333.37	93.73
India	1 378.62	2.18	69.89	34.93	18.23	24.53	48.44	8	276.41	-96.79
China	1.411	1.7	77.1	63.89	7.7	37.8	54.5	4.24	2 589.95	523.99
Republic of South Africa	59.31	2.36	67.9	67.35	2.53	23.42	64.57	29.22	93.18	14.86

Source: own compilation in accordance with Net 4: https://www.statista.com/study/14028/bric-countries-statista-dossier/; https://www.statista.com/statistics/455931/urbanization-in-south-africa/; https://www.statista.com/statistics/371233/south-africa-gdp-distribution-across-economic-sectors/; https://www.macrotrends.net/countries/ZAF/south-africa/trade-balance-deficit

Studying *Table 4*, we can see the big differences and heterogeneity among the BRICS countries concerning population, life expectancy, and the composition of their economies. Although all five countries have achieved significant economic growth over the past two decades, it is legitimate to ask whether or not the BRICS group of countries can be considered a single group in social, economic, and geopolitical terms. We are talking about an extremely heterogeneous group of countries that do not share a common ideology, culture, or even geographical proximity. While the economies of China and India continue to grow, Russia, Brazil, and the Republic of South Africa are in decline.

3. The Context for the Establishment of the New Development Bank and the Asian Infrastructure Investment Bank in Their Respective Multilateral Development Environment

The political alliance of the BRICS countries gives new impetus to the gradual transformation of the current international order. The trend shows that the hegemony of the Western countries, which appeared to be enduring after the break-up of the socialist camp in 1989, is being challenged by globalization and the ever-changing balance of power. In any case, the truth is that the governments of the BRICS countries have no revolutionary ambitions but are primarily seeking to reform the international financial system. They are a long way from challenging the very foundations of the neoliberal global economic system. Nevertheless, their aspirations are based on the need to strengthen the voice and representation of emerging and developing countries.

The BRICS countries established the New Development Bank in 2014 on the initiative of India, while China initiated the signing of the statutes of the Beijing-based Asian Infrastructure Development Bank in 2015 by 50 countries wishing to join (Cooper, 2017). The BRICS, officially known as the New Development Bank, was established in Brazil at the sixth summit of the group of countries. The Shanghai-based bank has an equity capital of USD 50 billion, to which the five founding member states contributed a total of USD 10 billion in capital and USD 40 billion in guarantees (Reisen, 2015a: 274). Brazil, India, Russia, China, India, Russia, and South Africa each hold 100,000 shares of the NDB's 514,980 registered shares, with 19.42% of the voting rights. Meanwhile, Bangladesh, the United Arab Emirates, and Egypt joined the bank in 2021, having subscribed 5.12% of the subscribed capital of the bank. Each of the five founding countries disposes of 18.98% of the subscribed capital (NDB Annual Report 2021: 12). Bangladesh contributed USD 188 million and the United Arab Emirates USD 111 million to the Bank's paid-up capital. The Bank primarily finances large infrastructure investments. China is a major financier of both multilateral development banks.

The greater the inequality in the voting shares of the BRICS and other emerging countries in international development banks, the greater the pressure to participate in decision-making processes commensurate with their economic weight. The BRICS countries hold 13.87% of the World Bank's subscribed capital and 13.23%

of the voting share, while the G7 group of countries has 43.71% of the capital and 41.19% of the voting share (Reisen, 2015a: 275).

The extent of the shortage of infrastructure development loans at concessional rates, with long maturities, and initial grace periods is driving the demand for new multilateral bank (BRICS, AIIB) credit facilities. The extent to which development banks, dominated by the US and the developed countries of Western Europe, transfer policy leverage to emerging economies depends on this demand (Griffith-Jones, 2014: 2). The shift in the centre of gravity of the global economy towards East Asia is yet to be felt in the governing bodies of multilateral development banks or in changes in decision-making mechanisms. The discontent of emerging countries is leading to the creation of new global and regionally-based development finance institutions, further dividing the multilateral development finance architecture. New shadow institutions competing with the Bretton Woods system reduce the existing system's value of quota reform. In 2014, when the new multilateral financial institutions were established, the BRICS countries accounted for 46% of the world's population and 22% of the world GDP. The population and GDP of the BRICS countries are not in line with their voting weight in the World Bank. The G7, which was created in 1975 to serve as an informal forum for the leaders of the world's most advanced industrialized countries (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States), accounted for only 10% of the world's population and 33% of its GDP in 2020, suggesting that their share of the World Bank's registered capital and voting power is quite over-represented (Reisen, 2015a: 275).

The quota system of the International Monetary Fund (IMF), the contributions of individual member states and their voting weight in relation to their role in the world economy are even more unbalanced than the composition of the World Bank's executive board. The BRICS countries have only 10% of the voting power in the IMF. The European Union, on the other hand, has 27% of the voting power, while its share of GDP in the world economy is only 18%. In addition, the IMF is traditionally headed by a European president, while the World Bank is headed by a US president. In 2010, a decision was taken in principle to reform the Bretton Woods institutions, such as doubling the IMF's capital stock to achieve a positive weighting of voting power in favour of poorer member countries, but this was not ratified due to the refusal of the US Congress (Reisen, 2015a: 275). European countries have also blocked the reform of the international financial system, so the EU continues to be over-represented in the IMF, the World Bank, and regional development banks.

The BRICS countries, seeing that the US and the Western developed countries do not support an increase in the political influence and voting power of the emerging economies, do not feel the urge to take more responsibility in the world economy and to produce more global public goods. The Asian Development Bank, dominated by the US and Japan, has particularly skewed voting shares and quota allocations. OECD member states provide 59% of the Bank's registered capital and hold over 64% of the voting rights. China and India, by contrast, hold 11% of the voting rights. The US and Japan are the Bank's largest shareholders, with 15.6% each at the end of 2020. In contrast, China and India held only 6.4% and 6.3% of the shares respectively. The skewed share ratios are illustrated by the fact that China's GDP has consistently exceeded Japan's GDP in USD terms since 2010. The Asian Development Bank has been headed by a Japanese president since its inception. The policy orientation of the Development Bank has always been in line with that of Japan's main ally, the US. Both states have done their utmost to ensure that the dominant Asian emerging powers, China and India, do not gain additional ownership and voting rights. A direct negative consequence of the distorted system of representation and ownership is that it reduces the amount of capital that can be raised and the amount of credit that can be disbursed. Financing difficulties are evident both in the Asian Development Fund (ADF), which is meant to finance the poorest Asian member countries, and in lending to the middle-income member country. Japan's role and influence in the development bank cannot be sustained in the long term, as Japanese public finances are under increasing pressure from the country's ageing society (Y. Sawada, 2014: 55).

The World Bank and the Asian Development Bank have a decisive influence on the field of global energy governance in Asia, and they play a crucial role in introducing new energy technologies, procedures, and services. However, the two multilateral development banks did not succeed in harmonizing the environmental, social, economic, and geopolitical aspects of the global energy governance competing with each other (Nakhooda, 2011: 120).

All multilateral donors tend to allocate more aid to countries with lower per capita incomes and to less populous countries. The development banks concentrate on economic development needs rather than human development needs given that big infrastructure projects and the promotion of economic growth are often on the top of their agenda for development assistance (Neumayer, 2010: 23).

The emergence of parallel international financing systems is reinforced by the fact that emerging as well as developing countries continue to see their position in international development finance institutions – established and dominated by Western developed countries – as unlikely. In the case of the World Bank, for example, all member state shareholders should contribute to the reform of voting rights and quotas. Even a veto by one member state would thwart the initiative.

3.1. Problems of Infrastructure Financing

In the past twenty years, just under 4% of world GDP has been invested in infrastructure. While the share of infrastructure development in advanced industrialized countries was only 2.5%, emerging countries spent 5.7% of their

GDP on infrastructure. The development lending and lending capacity of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIDB), both of which offer concessional financing, will determine how much of the political influence and development lending of the established Western-led Bretton Woods financial institutions and the regional multilateral development banks, also under Western influence, will be lost to new international competitors. The World Bank estimates infrastructure financing needs in emerging and developing countries at 7% of a country's GDP. Calculations prepared for the 2013 meeting of the G24 Intergovernmental Group on International Monetary and Development Affairs (G24) suggest that between USD 1 and 1.5 billion per year would be needed to fight global poverty, build drinking water and sanitation networks, and tackle the consequences of climate change (Bhattacharya, M. Romai 2013). China has a number of construction companies that still have plenty of capacity to carry out projects abroad. The two new international development banks represent an excellent symbiosis for capital providers and capital borrowers.

The establishment of new multilateral development banks is certainly a positive progress for global development, as they will greatly contribute to the financing of the missing infrastructure projects. The new development banks will provide emerging countries with a much stronger voice than the Bretton Woods institutions. The new situation may also help the Western industrialized countries, seeing their monopoly in the field disappear, to give developing countries a greater say in the World Bank Group and in regional international development financial institutions.

For the multilateral development financial institutions dominated by the US and Western European countries, the potential loss of creditor status is a major concern. The supply of new alternative development loans is reducing the compatibility of existing loan contracts and encouraging a shift towards new lending institutions. For this reason, both old and new international development banks have an interest in maintaining long-term loan repayment morale, and it is advisable for these financial institutions to include cross-default clauses in their various loan contracts.

4. Comparison of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB)

Created in the 21st century, what both development banks have in common is that they were established by emerging economies. The lack of infrastructural investments arising in the developing countries and the desire of the emerging countries in the global governance due to their position in world economy to represent their interests provided the basis for the establishment of the two multilateral development banks in the 21st century (Shelepov, 2017: 128).

The New Development Bank, created by the BRICS countries, is mainly characterized by a funding and lending model based on ownership, while the Asian Infrastructure Investment Bank (AIIB) continues to operate on a donor-country basis, i.e. a disparity model, similar to the International Bank for Reconstruction and Development or the African and Asian Development Banks. Following the accession of several European non-continental developed countries to the AIIB multilateral development bank, China, under pressure from international – mainly European and US – credit rating agencies, decided to make the AIIB a truly "Western-style internationalized" development bank like the existing one. The equal shareholding (5 x 20%) of the five shareholding member countries of the NDB is explained by the attempt to avoid competition for leadership between China and India. This has created equality between shareholding member countries, one of the Bank's most defining characteristics (NDB General Strategy 2017-21, 2017: 10). Both multilateral development banks were created by emerging economies to finance infrastructure investment and contribute to global governance reform. However, the two banks operate under different operational mechanisms. While the ownership structure of the NDB is the determining factor for borrowing, the AIIB is a development bank that is inclusive of developed countries outside the continent and draws heavily on international best practices developed by the Bretton Woods institutions. China's commitment and dedication to the reform of multilateral development financial institutions has been strongly reinforced over the past decades (Picciau, 2019: 143). In the case of the NDB bank, all shareholder member states are both capital contributors and borrowers, and the five founding shareholder member states have equally shared in the bank's capital up until 2020.

To be fair, the NDB bank has in the meantime also taken on some smaller member states. In the case of the AIIB bank, there is no question of equal ownership by the shareholding member states, some shareholders contribute to the bank's share capital but do not borrow from the bank, and its operating mechanism is the same as that of the previously established World Bank Group and some of the major regional development banks.

The NDB development bank mostly uses the country-specific systems of individual member states, as well as borrowers, in environmental and social areas, thereby also utilizing and developing the capacities of member states. In addition, one of the most distinctive features of the New Development Bank is that it does not apply political conditionality in its borrowing compared to traditional Bretton Woods multilateral financial institutions (United Nations Office for South-South Cooperation, 2021: 10). Whereas the NDB bank primarily uses the money and capital markets of the debtor member state, the AIIB bank uses the international capital markets for its various financing operations and makes loan amounts available to the debtor member state in US dollars. The NDB builds partnerships primarily with local financial institutions, the country's national development bank and commercial banks, while the AIIB bank strengthens its links mainly with existing multilateral development banks. The operating models of the two IFIs under review reflect the different approaches of emerging economies to global economic governance. The AIIB bank's operating mechanism is characterized mainly by minor efficiency-enhancing changes based on a review of the functioning of existing multilateral banks, while the NDB bank embodies a real paradigm shift, the donor-state-first approach being replaced by an orientation that prioritizes the borrowing countries. In the short term, the AIIB will find it easier to obtain higher ratings from international rating agencies, thus improving its international reputation. In the longer term, however, the NDB bank can provide a more significant institutional alternative for developing countries to reform global economic governance.

Developing countries are lagging far behind in terms of infrastructure investment, whereas the example of the newly industrialized countries of South-East Asia (the small tigers) clearly shows that infrastructure investment is essential for sustainable economic development. The African Development Bank (AfDB) included in its 2011 report that only one third of the rural population on the African continent has direct access to road networks, less than 40% of the population has access to electricity, only 5% of agricultural land is under irrigation, only 34% of the population has access to adequate healthcare, and 35% of the population does not have access to clean drinking water (Kaberuka, 2011). In 2011, D. Kaberuka, President of the AfDB Bank, estimated that the African continent would need to spend USD 93 billion per year on infrastructure investment between 2011 and 2020 to bring its infrastructure network up to the level of middle-income countries (Zhu, 2019: 131). The main reason – why multilateral development banks provide little funding for infrastructure development in the developing world – is that the decision-making mechanisms of multilateral development banks are determined by representatives of developed countries (Zhu, 2019). In this light, the two newest international development banks embody new ideas and approaches to the involvement of developing countries in global economic governance. International development policy is currently dominated mainly by a liberal, neoliberal approach that generalizes the development policies of developed Western countries around the world. In a lesser known speech in 1998, J. Stiglitz, the World Bank's chief economist, spoke of the need to diversify thinking on development policy, which was received very positively by representatives of developing countries (J. Stiglitz, 1999).

Former World Bank Vice-President X. Zhu expressed his belief that emerging economies should actively contribute new development policy ideas and knowledge to the mainstream policy agenda. The main role of the NDB is to provide a new development policy direction for developing countries. International development banks established by emerging countries tend to focus on infrastructure development and sustainable development. The level of development of the countries concerned varies, so different approaches to development need to be applied to them.

The multilateral development banks established in the past century were founded by developed countries and have been effective in contributing to the development of developing countries through project finance and technology transfer, but the truth is that these financial institutions have often been used as diplomatic tools by developed industrial countries to achieve their own goals and interests (Wei, 2016: 35). Hence, mainly the NDB and the AIIB banks can be seen as institutionalized advocacy organizations in developing countries, acting as strategic compasses against the opportunistic attitude and approach of developed countries. These new development finance institutions allow developing countries to partially exit from institutions dominated by the developed world, where their comments and suggestions are not listened to. The two banks under review also play a major role in addressing the common problems of emerging economies.

In November 2008, Indian Prime Minister Manmohan Singh proposed at the G20 summit in Washington that infrastructure investment in developing countries should be stepped up, but the multilateral development banks present completely ignored the proposal. The Indian Prime Minister proposed at the fourth BRICS summit in New Delhi in 2012 that a multilateral development bank (MDB) should be set up under the leadership of developing countries, a proposal that was endorsed by the leaders of the other BRICS countries.

At this meeting, the BRICS leaders decided that there was a real need for a multilateral financial institution to provide financial resources to BRICS and other emerging and developing countries for their infrastructure and sustainable development projects, complementing the existing international development finance institutions. India and China were the two key players in the establishment of the NDB Bank. India was the initiator of the idea, while China had very substantial foreign exchange reserves and vast experience in infrastructure financing. Although both countries agreed to set up a development bank, their preferences differed greatly. India was most concerned with the interests of the borrowing countries when it set up the bank and saw the new financial institution as a financier of its own infrastructure development. India had traditionally relied on the World Bank to finance its infrastructure development, but it faced a new situation when it was no longer eligible for IDA financing. It is therefore not surprising that India was the main advocate of the NDB. Even after the global economic crisis of 2008, India was always the country that, in contrast to China, was working on alternative development financing strategies (Cooper, 2017: 275). India proposed from the outset that the new bank should have a share capital of USD 10 billion to be contributed equally by the five founding countries. China did not block this proposal, but it showed a marked reluctance to accept equal shareholding.

China's main preference in establishing the new bank was to give priority to donor countries. China wanted to be a new major donor country with a better understanding of the needs of borrowing developing countries, based on more than 30 years of experience with the World Bank and the Asian Development Bank. In the long term, China sees the NDB bank as an international development finance institution with a strong interest in strengthening sustainable development in developing countries, which provides a huge new market for China (Chin, 2014: 366).

China was concerned about the Bank's efficient functioning due to the equal allocation of shares among the BRICS member states. In terms of quota allocation, two types of allocation can be distinguished, one based on GDP and capital contributions and the other on political equality (one country one vote). The NDB is the only multilateral development bank in the world that uses equal voting rights for member countries (Cooper and Farooq, 2015: 32). Besides equal voting rights and equity shares as a pioneering governance innovation, the use of country-specific systems for each member country is another institutional innovation that benefits member countries. China has made three proposals for the operation of the NDB bank, which have been implemented. First, China has succeeded in getting the bank to be based in Shanghai. A very important objective was to enable the bank to use the local capital markets to raise debt through bond issues to recapitalize the bank. The choice of Shanghai proved to be perfect, as it is one of the most prominent financial centres in the BRICS countries. China's second proposal to increase the total core capital of USD 10 billion to USD 100 billion has also come true. At the same time, in order to reduce the burden on the BRICS countries, which have significantly less foreign currency reserves than China, it was also decided that the amount of core capital to be paid in per country should be USD 10 billion. China's third proposal to India was that the bank should finance not only the BRICS countries but also the countries of the developing world. To counter China's influence, with the NBD headquarters in Shanghai, India insisted that the Bank's first chairman be an Indian.

Table 5. *Indian, Chinese, and BRICS proposals concerning the NDB*

Description	Quota allocation	Capital base	Headquarters	President	Scope of lending
Indian proposal	according to the principle of equality	10 billion USD	New Delhi	first president from India	BRICS countries
Chinese proposal	according to GDP size	100 billion USD	Shanghai	first president from China	all of the developing countries
BRICS proposal	according to the principal of equality	10 billion USD as paid in capital and 100 billion USD as authorized capital	Shanghai	first president from India	all of the developing countries

Source: Jiejin Zhu (2019): Borrowing Country-Oriented or Donor Country-Oriented? Comparing the BRICS New Development Bank and the Asian Infrastructure Investment Bank, p. 135.

Table 5 shows unambiguously the distinct initiatives of India and China concerning the establishment of the New Development Bank. Many years of development experience have shown that strengthening the systems of each emerging and developing country and bringing them up to an acceptable international standard is all the more important because the push for donor countries to adopt their own system-specific operational mechanisms undermines the autonomous management of their own development projects. Country-specific systems developed at their own international level take a significant burden off the shoulders of donor countries, as they do not have to deal with the various policy issues, especially procurement and procurement legislation, which greatly facilitate donor country co-financing in developing countries. The development of their own systems is also of great importance for developing countries, as they can improve the efficiency of government spending in a meaningful way, and not only in the case of donor funding. For example, from India's perspective, the use of borrower countries' own administrative systems contributes greatly to strengthening the country's development autonomy, while China also benefits from this concept, as the use of countries' own operational systems improves the NDB Bank's leverage and reputation in the developing world. The New Development Bank sees the best way forward through developing the debtor countries' own systems, as this will best serve their long-term development and capacity building. It is for this reason that the NDB Bank examines in advance the environmental, social, asset management and procurement systems of debtor countries and uses them if they meet the Bank's criteria. A difficulty for the NDB Bank is that it does not have a single set of rules for environmental and social aspects for each of the borrowing countries. If, under pressure from developed countries, the NDB applies high standards similar to those of the World Bank, this will provide greater certainty, but the NDB is committed – building on the experience of its founding countries – to ensuring that debtor countries can manage their projects most effectively if they have control over their own development concept and various policy operating mechanisms. In developing the NDB's vision, a high priority has been to develop close links and cooperation with international organizations, national governments, and development banks operating at the national level (Mukherjee, 2022: 21).

In contrast to the NDB, the Asian Infrastructure Investment Bank is a new multilateral development bank initiated by China, which aims first and foremost to increase its international legitimacy and attract European co-financiers. Political pressure from European countries for the new Asian development bank to be multilateral in nature and expectations from US credit rating agencies have prompted the China-dominated AIIB to operate on a donor-country orientation model (a "disparity model"), similar to existing multilateral financial institutions. The idea of establishing an AIIB bank was first raised by Chinese President Xi Jinping during his visit to Indonesia in October 2013. South, South-East, and

Central Asian countries welcomed the idea positively, while non-Asian developed countries, mainly in Europe and North America, were pessimistic about it. Two questions were raised at the outset about the new international bank: firstly, whether we are really talking about a Chinese bank and, secondly, whether the new financial institution would lower the high standards applied by existing multilateral development banks in terms of governance structure, environmental and social standards, transparency, and procurement policies (Harpaz, 2016: 15). From a geo-economic perspective, many feared that China would use the AIIB bank to export excess industrial capacity and strengthen the international acceptance of the Chinese currency. The Chinese economy had very significant excess capacity in the steel, energy, and construction sectors, where domestic profitability was declining. It was reported that China initiated to establish the AIIB bank for the purpose of generating new business opportunities and foreign market access for Chinese heavy industry (Sun, 2015: 27). From a geopolitical perspective, the AIIB bank was thought to become the financing bank for the "one belt one road" project and part of Chinese foreign policy. In October 2014, nineteen mainly developing countries from West, South, and Southeast Asia (Bangladesh, Brunei, Cambodia, Cambodia, Kuwait, Laos, Kazakhstan, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Qatar, Uzbekistan, Vietnam) signed a Memorandum of Understanding (MoU) with China and India (Zhu, 2019: 137). Japan, Russia, South Korea, and Australia adopted a wait-and-see approach at the beginning. Japan and the US repeatedly underlined their concerns that the AIIB was not engaged enough to use internationally accepted standards of transparency and regulations of other multilateral development banks. The United Kingdom became the first truly dominant country to join the Bank in 2015. The British Finance Minister George Osborne reported that the United Kingdom intended to play a key role in ensuring the Bank's high standards of transparency and governance. The British accession encouraged and accelerated applications for membership from Germany, France, Italy, Switzerland, Russia, South Korea, Brazil, and Turkey. At the end of 2015, fifty-seven countries had already joined the AIIB, of which thirty-seven were Asian and twenty from other continents. The rapid and unexpected increase in the number of shareholding member states – especially those from Western Europe – has posed a serious challenge for the Bank. In case the Bank would have concentrated on developing countries in Asia and their financial needs, and China would have controlled it, the Bank's international legitimacy and influence would have remained very limited. The accession of the Western European countries clarified the issue, and the AIIB became a multilateral development bank dominated by donor countries recognized in the international financial and capital markets such as the International Bank for Reconstruction and Development and the Asian Development Bank (IBRD, ADB).

China's top priority has always been to ensure that the new bank actively contributes to infrastructure investments in Asia, providing an opportunity to exploit China's industrial capacity. Profit motives drove the European countries' accession and the desire to maintain internationally recognized best practices and environmental, social, and procurement standards in addition to the preference of their own infrastructure development companies in Asia.

After lengthy multilateral negotiations, the Asian Infrastructure Investment bank finally became a "new-age" multilateral development bank, along the lines and characteristics of the World Bank and the Asian Development Bank, except that the AIIB bank managed to implement some institutional innovations, such as a focus on infrastructure investment, a system of non-local board members, and global procurement and recruitment procedures. The main difference between the AIIB and the NDB banks is that the AIIB is a donor-dominated "North-South" development bank, like the former multilateral banks, while the NDB is a "South-South" development bank based on an equal shareholder structure (Zhu, 2019: 136). The AIIB bank, unlike the World Bank and the Asian Development Bank, which mostly finance their projects through capital contributions from member states, finances projects by borrowing on the international capital markets. Because of its link to the international capital markets, the AIIB has to apply high international standards and legislation, as applied by other multilateral development banks, in order to reduce the cost of borrowing. The AIIB has been co-financed from the outset by the World Bank, the Asian Development Bank, and the EBRD, and it has applied a set of environmental and social criteria very similar to those of these banks in order to increase its low-risk project lending and enhance its positive international reputation. Both of the two youngest multilateral development banks set up their climate finance targets after 2020. The New Development Bank strives to provide 40% within its overall funding for climate and environment protection targets in the period between 2022 and 2026. The Bank's climate finance activity reached 10% within the entire loan portfolio in 2021. The Asian Infrastructure and Investment Bank expects to reach 50% for climate protection goals within its loan volume by 2025. The bank reached a share of 29% within its loan portfolio disbursed for climate projects (Neunuebel, Thwaites, and Choi, 2022: 3).

5. Financing of the New Development Bank (NDB)

In 2021, the NDB financed a total of 74 projects worth USD 29.1 billion, an increase of 19.1% compared to the previous year. Loans to sovereigns accounted for 88% of the financing portfolio, with loans to non-sovereigns accounting for

12% of the total portfolio. In 2021, the Bank sought to achieve geographical balance in its portfolio across the founding member states. The emergency loans against the negative impact of the COVID-19 virus have brought the volume of lending to each founding member state into balance in terms of size. The Bank's regional branches established in South Africa, Brazil, and Russia also played a key role in expanding banking operations among the member states (NDB annual report 2021: 37). NDB's loan portfolio to Russia, Brazil, and South Africa increased from 32.4% in 2017 to 50.6% in 2021. With the addition of new members, the Bank aims to further diversify its funding geographically. Lending in local currency will continue to be one of the NDB's main and defining features and policies. Lending in the national currency of each member state increased from 21.1% to 23.3% of the Bank's total portfolio between 2020 and 2021. More than 70% of NDB-approved loans to China were disbursed in RMR (NDB Annual Report, 2021: 37). The Bank also lent in other currencies (EUR, CHF) to better meet customer needs. In 2021, the largest share of approved loan transactions (371%) was in EUR, 31.8% in RMB and 31.1% in USD. 31.6% of the Bank's total loan portfolio was allocated to COVID-19 epidemic recovery programmes, followed by transport infrastructure, urban development, and green energy project finance with 21.2%, 14.8%, and 13.5% shares respectively (NDB Annual Report, 2021: 4). In 2021, the NDB approved a total of ten projects with a total value of USD 5.060 billion. In 2021, the Bank's portfolio included 74 financing projects with a total value of USD 29.143 billion. The economic protection against the COVID-19 virus represented the largest share of Bank financing (89.7% – USD 9.201 billion). This was followed by the Bank's transport infrastructure financing at 21.2% (USD 86.185 billion) and renewable energy investments at 13.5% (USD 3.921 billion). Urban development projects accounted for 14.8% of the Bank's financing, irrigation and water management projects for 6.7% (USD 1.958 billion), and multi-sector projects for 5.3% (USD 1.552 billion) in 2021. Social infrastructure development projects accounted for 3.5% (USD 1.010 billion), environmental efficiency project finance for 2.4% (USD 700 million), and digital infrastructure development for 1% (USD 300 million) in 2021 (NDB Annual Report, 2021: 4).

6. Financing of the Asian Infrastructure Investment Bank (AIIB)

Efforts to create a global shared prosperity based on "South-South" cooperation, i.e. solidarity, have been arranged in the past mostly through bilateral channels. A good example is China, which strengthened its cooperation with certain African countries in a very significant way, establishing the multilateral Forum on China-

Africa Cooperation (FOCAC), which primarily served as an umbrella organization for China's bilateral relations with Africa. China has taken on the role of the main advocate of South-South cooperation, paving the way for the creation of an international financial institution specialized in financing infrastructure investments initiated by China (Abdenur, 2015: 3).

The Beijing-based multilateral development financial institution started operations on 16 January 2016 with fifty-seven member states, twenty of which were not located in Asia. By the end of 2021, the number of member states had risen to one hundred and five, of which eighty-eight were full members and seventeen were candidate countries (AIIB Annual Report, 2021: 14). Hungary joined the AIIB in the summer of 2017, which is expected to further expand Hungary's international financial and external economic connectivity in a dynamically developing region (Net 5). In addition to Hungary, Poland, Romania, Croatia, and Serbia from the Central and Eastern European region have also joined the Bank. The Bank's member countries account for 85% of the world's population and 65% of world GDP. The mission of the Development Bank is to finance the environmentally, socially, and financially sustainable infrastructure of the future. The AIIB's market position is defined by three distinct priorities: climate finance, cross-border infrastructure development, and private sector finance. In 2021, the AIIB financed a total of 51 projects across different economic sectors (green infrastructure, infrastructure network development and regional cooperation, technology development, private capital mobilization) for a total of USD 9.93 billion (AIIB Annual Report, 2021: 12). Energy, transport, and urban development projects were among the most financed sectors.

Table 6. *The number of the member countries of the AIIB 2021*

Year	Number of approved member countries	Number of regional member countries	Number of non-regional member countries
2016	57	37	20
2017	84	48	36
2018	93	50	43
2019	102	50	52
2020	103	50	53
2021	105	51	54

Source: https://www.aiib.org/en/news-events/annual-report/2021/_common/pdf/2021_AIIBAnnualReport_web-reduced.pdf – p. 14.

Table 6 provides us a transparent overview of how intensely the number of the regional and non-regional member countries of the Asian Infrastructure Investment Bank increased over the course of the five years under study.

Table 7. *Approved and disbursed credits of the AIIB*

Year	Annual approved investments (billion USD)	Disbursements (billion USD)
2016	1.69	0.01
2017	2.5	0.79
2018	3.31	0.62
2019	4.54	1.48
2020	9.98	6.23
2021	9.93	4.62
Total	**31.95**	**13.75**

Source: https://www.aiib.org/en/news-events/annual-report/2021/_common/pdf/2021_AIIBAnnualReport_web-reduced.pdf – p. 14.

Table 7 shows the steady demand for the credit lines of the Asian Infrastructure Investment Bank.

7. Conclusions

An analysis of the context in which the NDB and the AIIB banks were established and of their operating mechanisms shows that in the case of the New Development Bank, India was the initiator and had to fight with China for a long time to take the lead until it was agreed that the founding member states would have equal ownership and that the new development bank would focus on development concepts in developing countries. The NDB bank will be "South-South", i.e. it will be specifically dedicated to the development interests of emerging and developing countries. In the case of the Chinese-initiated AIIB bank, on the other hand, China placed much more emphasis on the Bank's excellent rating by US rating agencies and its international recognition and legitimacy, so with the accession of Western European countries, the Bank's dominance by donor countries was no longer in question. For emerging countries, there is a serious dilemma between choosing a governance and development model based on international best practices, dominated by the "old traditional" donor countries, or a governance and development model based on the dominance of borrowing emerging and developing countries. On the one hand, it is easier for the AIIB to obtain a higher debt rating and issue bonds on more favourable financial terms in the international capital markets, while the NDB bank's equal equity ownership structure provides a greater opportunity to present an alternative to the Bretton Woods global financial institutions and reform the current global development finance architecture. The NDB Bank is the first development bank in the world established by emerging and developing countries that does not include any developed country among its members, at least not in the initial phase. This phenomenon is a hallmark of the transformation of the institutional architecture of international development finance. The relationship between the borrowing countries and the donor countries is a new type of "South-South" cooperation in the case of the New Development Bank and a new, but old, "North-South" cooperation in the case of the Asian Infrastructure Investment Bank. There is still a lack of trust between the emerging economies, as can be seen in the relationship between China and India. Another key factor is the ability of developed countries, given their structural strength, to influence the legitimacy of new international institutions through market pressure. Global governance can only become truly "global" if the emerging economies achieve a level of development that enables them to counterbalance and balance "Western" hegemony.

It is essential to mention that China plays a leading role in both new multilateral development banks. Through the establishment of the NDB and the AIIB, China has been able to play a key role in a development bank based on old Western operating mechanisms (AIIB) as well as in a hitherto unknown development bank focusing on development finance for emerging and developing countries. With the establishment of the NDB bank, emerging and developing countries see China as a mentor for their voice and global development policy vision, while the 30.8% stake in the Asian Infrastructure Investment Bank, established in parallel with the regionally based Asian Development Bank, assures China that it finally has an international development bank based on the Bretton Woods model that cannot be bypassed. China can thus become both a financier of developing countries and a developer of infrastructure at the global level, while at the regional level, on the Asian continent, it can also create a competitive environment for the Asian Development Bank.

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