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**The New Development Bank as a Case of Contested Multilateralism:
A Comparison with the World Bank on Conditionality and Governance**

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“When the Fund consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets in line”
Paul Volcker, the former Chairman of the U.S. Federal Reserve System¹

¹ Harold James. 1998. “From Grandmotherliness to Governance: The Evolution of IMF Conditionality”, *Finance and Development*, Vol. 35, No. 4.

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1. List of Abbreviations and Acronyms

ACP - African, Caribbean and Pacific Group of States
AIIB - Asian Infrastructure Investment Bank
ASEAN - Association of Southeast Asian Nations
BRIC - Brazil, Russia, India and China
BRICS - Brazil, Russia, India, China and South Africa
BWIs - Bretton Woods Institutions
COVID-19 - Coronavirus Disease 2019
CPF - Country Partnership Framework
CRA - Contingent Reserve Arrangement
CSOs - Civil Society Organizations
DAC - Development Assistance Committee
DFFS - Development Finance Facility – Sovereign
DMF - Design and Monitoring Framework
DPF - Development Policy Financing
DPL - Development Policy Lending
EAEU - Eurasian Economic Union
EMDCs - Emerging Markets and Developing Countries
ESG - Environmental, Social and Governance
EU - European Union
EUR - Euro
FDI - Foreign Direct Investment
FY - Fiscal Year
G7 - Group of Seven
G8 - Group of Eight
G20 - Group of Twenty
G77 - Group of 77
GDP - Gross Domestic Product
GEF - Global Environment Facility
GPG - Global Public Good
IBRD - International Bank for Reconstruction and Development
IDA - International Development Association
IFC - International Finance Corporation
IFIs - International Financial Institutions
IISD - International Institute for Sustainable Development
IMF - International Monetary Fund
INR - Indian Rupee
IPF - Investment Project Financing
IR - International Relations
MDBs - Multilateral Development Banks
MFF - Multi-Tranche Financing Facility
MIGA - Multilateral Investment Guarantee Agency

MOU - Memorandum of Understanding
NATO - North Atlantic Treaty Organization
NDB - New Development Bank
NEPAD - New Partnership for Africa's Development
NFI - National Financial Intermediary
NGO - Non-Governmental Organization
NPT - Treaty on the Non-Proliferation of Nuclear Weapons
ODA - Official Development Assistance
OECD - Organisation for Economic Co-operation and Development
OECD-DAC - OECD Development Assistance Committee
OSCE - Organization for Security and Co-operation in Europe
PDB - Project Document to the Board
PTA - Project Technical Assistance
R5+ - BRICS proposed reference currency / currency basket
RMB – Renminbi
SAP - Structural Adjustment Program
SCD – Systematic Country Diagnostic
SDG - Sustainable Development Goal
SDL - Sustainable Development Loan
UK - United Kingdom
UN - United Nations
UNDP - United Nations Development Programme
UNEP - United Nations Environment Programme
US - United States
USAID - United States Agency for International Development
USD – United States Dollar
VAT - Value Added Tax
WB - World Bank
WBG - World Bank Group
WC - Washington Consensus
WTO - World Trade Organization
ZAR - South African Rand

2. Introduction

Global economic governance consists of international agreements, rules, processes, and institutions that organize economic interactions to foster growth, development, and sustainability.² It has been managed by actors such as the World Bank (the Bank), the International Monetary Fund (the IMF), the Organization for Economic Co-operation and Development (OECD), G7, G20, the World Trade Organization (WTO), and regional development banks.³ The Bank and the IMF are central global institutions that set rules, provide financing, and shape policies that govern global finance and establish common practices.⁴ On the other hand, regional multilateral development banks support growth and social development in their regions by offering financial and technical assistance, often complementing the World Bank with local knowledge, closer ties to governments, and co-financing for project implementation.⁵

The World Bank and the IMF underwent significant transformations since their establishment as Bretton Woods Institutions (BWIs) in 1944.⁶ Their initial purpose was rebuilding the international economic system after World War II, with the Bank functioning as a development bank for Europe's reconstruction⁷ and the IMF safeguarding the stability of the international monetary system - specifically, the system of exchange rates and international payments.⁸ From the 1970s to the late 1980s, they turned to loans for developing countries and shifted toward macroeconomic reforms.⁹ Since the 1990s, their mission has become global, focusing on poverty reduction, good governance reforms, market liberalization, and anti-corruption. The Bank evolved into a knowledge-based development institution, placing greater emphasis on research, policy advice, and capacity building alongside its traditional lending activities, while the IMF became the keeper of fiscal and monetary stabilization.¹⁰ Their contribution has been immense, including stabilization of economies during crises, transfer of technical knowledge, funding of infrastructural and social development, support for fiscal

² United Nations Secretary-General. 2011. *Global Economic Governance and Development*, United Nations, p. 2.

³ Ian Goldin and Kenneth Reinert. 2006. "Globalization for Development: Trade, Finance, Aid, Migration, and Policy", World Bank Group, pp. 8, 117, 251-252

⁴ World Bank Group. 2019. "The World Bank Group and the International Monetary Fund", World Bank Group; Bretton Woods Project. 2019. "What Are the Main Criticisms of the World Bank and the IMF?", Bretton Woods Project

⁵ Hongying Wang. 2017. "New Multilateral Development Banks: Opportunities and Challenges for Global Governance," *Global Policy*

⁶ Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

⁷ World Bank Group Archives. "Explore History." World Bank Group Archives.

⁸ World Bank Group. "The World Bank Group and the International Monetary Fund"

⁹ Seo-Young Cho and Axel Dreher. 2009. "Do We Still Need the IMF and the World Bank?" *The Analyst*, pp. 14-17

¹⁰ Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

reforms, and academic engagement through research.¹¹ Despite the benefits, both institutions face criticism.¹²

The BWIs are often criticized for their weighted voting system, which gives greater influence to developed countries.¹³ In particular, the United States (the US) plays a dominant role in the IMF through its voting share, while the United States and European countries together hold substantial influence across the BWIs, leaving developing countries with more limited representation. Another critique targets the imposition of neoliberal policies, such as privatization and reduced state intervention, which resulted in the collapse of public systems, monopolies, and instability.¹⁴ Their lending practices are also accused of creating debt dependency, trapping borrowers in cycles of aid.¹⁵ Conditionality became an important part of World Bank financial assistance with the expansion of policy-based lending in the early 1980s and was closely associated with Structural Adjustment Programs (SAPs) during the 1980s and 1990s. It became increasingly controversial as these conditions were criticized for being excessive and intrusive and for lacking sufficient ownership by borrower countries.¹⁶ While institutions justified it as a mechanism to ensure efficiency and sustainable development, SAPs ignored local contexts, increasing inequality and poverty and weakening public services.¹⁷ In August 2004, the World Bank replaced its previous adjustment lending framework with Development Policy Lending (DPL), placing greater emphasis on country-specific policies, ownership, and flexibility.¹⁸ In 2014, DPL was renamed Development Policy Financing (DPF), reflecting a broader framework for supporting policy and institutional reforms.¹⁹ It is argued that conditions undermine sovereignty and strengthen donor dominance, with the US holding influence.²⁰ Finally, the Bank has been criticized for lack of transparency, limited engagement with civil society, and for projects that resulted in environmental and social harm rather than improvement.²¹

After the end of the Cold War in 1991, the world entered a unipolar phase, in which the US emerged as the sole global superpower. Together with the North Atlantic Treaty Organization (NATO), the World Bank, the IMF, and the G7, they had a dominant role in

¹¹ Cho and Dreher. "Do We Still Need the IMF and the World Bank?"

¹² Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

¹³ Ngaire Woods. 2003. "Unelected Government: Making the IMF and the World Bank More Accountable," Brookings Institution

¹⁴ Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

¹⁵ Cho and Dreher, "Do We Still Need the IMF and the World Bank?"

¹⁶ World Bank. 2005. Review of World Bank Conditionality, Operations Policy and Country Services, pp. 1, 6-7

¹⁷ Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

¹⁸ World Bank. "Review of World Bank Conditionality"

¹⁹ World Bank. 2015. "Development Policy Financing Retrospective: Concept Note", World Bank, p. 2

²⁰ Bretton Woods Project. "What Are the Main Criticisms of the World Bank and the IMF?"

²¹ Ibid.

shaping global order. Since the beginning of the 2000s, criticism of the unipolar world began, mostly among countries of the Global South, specifically emerging countries like China, Russia, Brazil, and India, who had a desire to create a more balanced and inclusive global order.²² As a result, Brazil, Russia, India, and China institutionalized their cooperation through the first BRIC Leaders' Summit in 2009, while South Africa joined the grouping in late 2010, transforming BRIC into BRICS. The grouping sought to strengthen cooperation among emerging powers and increase their role in global governance within an increasingly multipolar world.²³ BRICS is actively working not only on enhancing South-South economic cooperation, trade and financial cooperation, alliance in political coordination, but also on reducing reliance on the Global North's finance and support, mainly reshaping the current global financial landscape by establishing the New Development Bank (NDB), creating the Contingent Reserve Arrangement, promoting de-dollarization of international trade and efforts to use local currencies, increasing intra-BRICS trade and investment initiatives, etc.²⁴

The New Development Bank, even though it is a multilateral development bank that operates regionally, is seen as an alternative to the World Bank in the financing system.²⁵ The NDB was established to provide funding and to support infrastructure and sustainable development projects, securing financing for members and partners of BRICS, which are mostly emerging economies dependent on support from the Global North.²⁶ Lack of conditionality is one of the advantages the NDB offers to developing countries, since they have the freedom to implement projects without changing their governance or policies, or as others would say, are free to do what they want without complying with standards and quality control.²⁷ Additionally, the voting structure is different, introducing more balanced influence of all members, bypassing dominance and restricting control of a single member over policies and decision-making processes.²⁸

Some academics point out that since the 1990s, Russia and China together have been working on challenging US dominance, with intentions of changing the established liberal

²²Alexander Cooley, and Daniel Nexon. 2020. "Exit from Hegemony: The Unraveling of the American Global Order", Oxford University Press, pp. 5-12, 80-84

²³ Oliver Stuenkel. 2015. "The BRICS and the Future of Global Order" Lexington Books pp. 28-29, 41-42

²⁴ BRICS. 2023. "XV BRICS Summit Johannesburg II Declaration: BRICS and Africa-Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism", BRICS

²⁵ John Manning. 2014. "Can the BRICS New Development Bank Compete with the World Bank and the IMF?", International Banker

²⁶ Andrea Molinari and Rocío Ceballos. 2024. "Analyzing the New Development Bank's Core Objectives (2016–2022)," Africa Policy Research Institute

²⁷ Gregory T. Chin. 2024. "The 'New' New Development Bank: A Decade Plus in the Making," Boston University Global Development Policy Center

²⁸ Chin, "The 'New' New Development Bank"

international order and promoting a multipolar one.²⁹ These emerging powers, along with others such as Brazil, India, South Africa, etc., oppose unilateral US actions and the liberal norms it has been promoting, especially those that interfere with their regimes, such as democracy and human rights. Contrary to that, they prioritize sovereignty and non-interference, aiming to reshape the global rules so they can protect their own strategic interests.³⁰ While not a formal alliance, BRICS, as an example of their cooperation, offers a platform for coordination and communication across aspects of the economy, security, culture, information, etc., building alternative institutions and partnerships.³¹ One of them, the New Development Bank³², has a goal to finance infrastructural projects in developing countries without Western-style conditions.³³ The question arises: will the NDB test the liberal economic order by offering a solid alternative to the World Bank, and will it strengthen South-South cooperation and enable the rebalancing of the current global order?

The primary goal of this thesis is to determine whether the recently established bank by BRICS- the New Development Bank - is an example of contested multilateralism, imposing itself as an alternative to the World Bank, or simply yet another actor in the international financial system, focusing on developing countries and demand for resources for infrastructure projects, without the ambition to change the prevailing financial order. This thesis will attempt to analyze the scope of influence of the NDB and the World Bank by exploring the differences in their mandates, development philosophies, governance structure, and other core institutional characteristics. Finally, the thesis will inspect whether these institutions govern borrowing countries through loans, grants and other financial aid, and if so how and to what extent, by analyzing the differences between the World Bank's loan policies and the New Development Bank's loan policies.

The starting point for the literature review and theoretical framework of this thesis is **liberal institutionalism**, which provides a framework for understanding the importance of institutions in international relations, how they can foster cooperation and reduce its costs, while securing mutual benefits for all parties involved. This perspective provides the basis for understanding the role of development banks as institutional actors within the global financial

²⁹ Cooley and Nexon, *Exit from Hegemony*, pp. 80-83

³⁰ Cooley and Nexon, *Exit from Hegemony*, pp. 80-83, Stuenkel, *The BRICS and the Future of Global Order*, pp. 125–129.

³¹ Stuenkel, *The BRICS and the Future of Global Order*, pp. 81, 84–91.

³² New Development Bank. 2014. "Agreement on the New Development Bank", New Development Bank, pp. 1-2

³³ New Development Bank. 2022. "General Strategy 2022–2026: Scaling Up Development Finance for a Sustainable Future", New Development Bank, p. 16.

system and explains why institutions such as the World Bank and the New Development Bank can facilitate international cooperation beyond direct state-to-state relations.³⁴

Liberal institutionalism argues that international cooperation can continue even in the absence or decline of a hegemonic power. International institutions, or regimes, facilitate collaboration among self-interested countries by providing information, reducing uncertainty and transaction costs, and establishing rules and norms that create more predictable environments. Institutions also develop a degree of stability, or “stickiness,” that encourages countries to maintain cooperation for mutual benefit regardless of shifts in power.³⁵ In this sense, liberal institutionalism differs from realist approaches, which emphasize the limitations that anarchy places on international cooperation. Although the two approaches share several assumptions about states and the international system, institutionalists argue that institutions can help actors overcome many of the obstacles to cooperation identified by realists.³⁶ This debate provides the theoretical context for understanding why international institutions matter and for examining the role of the World Bank and the New Development Bank within the global financial architecture.

A second relevant theoretical framework is **contested multilateralism**, which will be used to explain why new multilateral institutions are created when existing ones do not fully meet the expectations or interests of their stakeholders. This framework is particularly relevant for examining the emergence of the New Development Bank and assessing whether it represents an example of contested multilateralism through which emerging powers seek to increase their influence and promote alternative approaches to global financial governance.³⁷

Multilateralism generally refers to coordination among three or more countries, often through institutions or regimes that reduce uncertainty, provide information, and foster long-term cooperation.³⁸ It is based not simply on cooperation among several countries, but on shared principles and generalized rules that allow institutions to persist and adapt to changes in international power and order. Multilateral institutions can therefore provide countries with mechanisms for cooperation while also balancing power relations and giving both major and smaller countries opportunities to influence international decision-making.³⁹

³⁴ Robert O. Keohane. 1984. “After Hegemony: Cooperation and Discord in the World Political Economy”, Princeton University Press, pp. 49-50, 87-97

³⁵ Keohane, “After Hegemony”, pp. 49-50, 87-97, 100-101

³⁶ Robert O. Keohane and Lisa L. Martin. 1995. “The Promise of Institutional Theory,” *International Security*, pp. 39-51.

³⁷ Julia C. Morse and Robert O. Keohane. 2014. “Contested multilateralism.” *The Review of International Organizations*, pp. 385-390

³⁸ Robert O. Keohane, 1990. “Multilateralism: An Agenda for Research,” *International Journal*, pp. 731-733

³⁹ John Gerard Ruggie. 1992. “Multilateralism: The Anatomy of an Institution,” *International Organization*, pp. 565-574, 594-597

At the same time, the contemporary multilateral system has increasingly been shaped by changes in the distribution of global power. The gradual emergence of a more multipolar international order and the growing influence of emerging economies have created demands for greater representation within global governance institutions. Criticism of unequal representation in institutions such as the World Bank and IMF has therefore contributed to institutional reforms, new organizations and alternative forms of cooperation.⁴⁰ The emergence of parallel institutions can expand countries' institutional choices, reduce the monopoly of established powers over global governance and provide alternative sources of development finance.⁴¹

The theory of contested multilateralism explains this process by showing how actors challenge existing international institutions either by seeking to reform them or by turning to rival institutional arrangements. Contemporary multilateralism can therefore be characterized by competition among international institutions, where the alternative to existing multilateralism is not necessarily unilateralism or bilateralism, but another form of multilateralism. Countries may remain committed to multilateral cooperation while becoming dissatisfied with existing institutional policies, representation or their inability to respond to changes in international relations and economic conditions. In such circumstances, they can use strategies of voice, exit, regime shifting or the creation of alternative institutions to challenge the existing institutional status quo.⁴²

This perspective is particularly relevant for understanding BRICS and the New Development Bank. Inadequate reforms in existing international institutions can encourage emerging countries to seek alternative channels to increase their representation and influence. Institutions such as the NDB can therefore be understood as examples of contested multilateralism, while at the same time potentially complementing rather than replacing or fragmenting the existing multilateral system. The NDB responds to limitations of the traditional development finance system, infrastructure financing gaps in emerging economies and BRICS countries' preference for South-South cooperation and greater flexibility in development finance.⁴³ Contested multilateralism therefore allows this thesis to assess whether the NDB represents a competitive alternative to the existing financial architecture or a complementary institution that expands the choices available to developing and emerging countries.

⁴⁰ Fen Osler Hampson and Paul Heinbecker. 2011. "The 'New' Multilateralism of the Twenty-First Century," *Global Governance*, pp. 299-303.

⁴¹ Cooley and Nexon, *Exit from Hegemony*, pp. 84, 110-126

⁴² Morse and Keohane, "Contested Multilateralism" pp. 385-90, 392-393

⁴³ Chin, T. Gregory. 2014. "The BRICS-Led Development Bank: Purpose," *Global Policy*, pp. 366-73

A third analytical element of **the thesis is the concept of conditionality**, which provides a more specific framework for comparing the World Bank and the New Development Bank. Conditionality is understood here broadly as requirements linked, directly or indirectly, to the provision or continuation of financial assistance. These requirements can take different forms and may concern policies and institutional reforms, but also financial management, project implementation, procurement, reporting and other aspects of financed operations.⁴⁴

The literature shows that conditionality has changed over time and can differ according to its form, purpose, content and the way compliance is enforced.⁴⁵ It also raises broader questions concerning borrower ownership, bargaining power and policy autonomy. These distinctions are important for this thesis because they make it possible to examine conditionality not simply as the presence or absence of conditions, but according to the type of requirements attached to financing and the consequences of non-compliance. Conditionality should therefore not be assessed only through the number of requirements attached to financing. Their content, stringency, timing and relationship with the approval, disbursement or continuation of funds are also relevant for understanding how conditionality operates in practice.⁴⁶

These debates provide the foundation for examining whether and to what extent the New Development Bank follows a different lending approach. Rather than assuming that the NDB represents a completely non-conditional alternative, this thesis will examine how its lending practices differ from those of the World Bank and whether these differences provide borrower countries with greater policy space and flexibility.

Together, these theoretical perspectives and analytical concepts provide the framework for comparing the World Bank and the New Development Bank and evaluating the role of the NDB in the changing landscape of global financial governance. Liberal institutionalism explains why institutions matter and how they facilitate cooperation; contested multilateralism explains why actors may create or turn to alternative institutions when existing ones no longer fully satisfy their interests; and conditionality provides a specific analytical tool for comparing their approaches to development finance. Combined, these perspectives make it possible to examine whether the New Development Bank represents a complementary institution within

⁴⁴ Sarah L. Babb and Bruce G. Carruthers. 2008. "Conditionality: Forms, Function, and History." *Annual Review of Law and Social Science*, pp. 14-15

⁴⁵ Babb and Carruthers, "Conditionality: Forms, Function, and History", pp. 14-15

⁴⁶ Ben Cormier, Teresa Kramarz, Mark S. Manger, and Jacob Winter. 2025. "Reassessing World Bank Conditionality", *Political Science Research and Methods*, pp. 430–35, 442.

the existing system, a challenge to traditional Bretton Woods Institutions, or an emerging alternative model of global financial governance.

Building on the theoretical framework presented in the previous section, this part of the thesis will unite two mutually compatible analyses, using the comparative method, to understand the differentiation between the World Bank and the NDB and determine to what extent the NDB represents a new form of financial institution and whether it can serve as an example of contested multilateralism. The analyses focus on the institutional characteristics of the two banks and their approaches to conditionality, allowing the theoretical concepts discussed above to be examined in practice.

The first analysis compares the World Bank and the NDB in order to examine their main similarities and differences. This is accomplished by comparing official documentation from both institutions, such as Articles of Agreement, general strategies, the World Bank's Evolution Roadmap and annual reports, as well as statements by officials and other relevant figures. The comparison is organized around four main areas: institutional design and governance; development strategies and institutional discourse; current operations; and criticisms and limitations related to the work of both institutions. The goal is to assess whether the NDB represents a distinct institutional approach or primarily complements the existing multilateral financial architecture.

The second analysis compares the loan policies of the World Bank and the New Development Bank in order to examine how conditionality operates in practice. The analysis considers the World Bank's Investment Project Financing (IPF) and Development Policy Financing (DPF), together with relevant NDB loan policies and lending frameworks. It examines what types of requirements are attached to financing, how they are applied and monitored, whether they are connected to policy reforms or project implementation, and what may happen when agreed requirements are not fulfilled. The goal is to identify differences in how the World Bank and the NDB structure and apply conditionality across different forms of financing.

Each analysis is followed by a separate discussion interpreting the main findings and connecting them to the broader question of whether the NDB represents a different institutional approach. Together, the analyses and discussions provide the basis for assessing whether differences in governance and conditionality are sufficient to consider the New Development Bank an alternative to the World Bank and a case of contested multilateralism, or whether it primarily expands institutional choice within the existing multilateral financial system.

3. Theoretical and Conceptual Framework

3.1 Liberal institutionalism

The neorealist-neoliberal debate in international relations has deep historical roots, where classical thinkers like Thucydides, Machiavelli, and Hobbes laid the foundation for realism, emphasising anarchy, self-help and the pursuit of power, while other thinkers, such as the Stoics, the Enlightenment philosophes, and later Woodrow Wilson, contributed to the development of liberal thought, stressing cooperation, interdependence, and international institutions as pathways to peace.⁴⁷ After World War II, realism dominated the field through scholars like Hans Morgenthau, while liberal perspectives persisted in forms such as functionalism and neofunctionalism. The modern version of the debate emerged in the 1970s and 1980s, with Kenneth Waltz's *Theory of International Politics* formalizing neorealism, and Robert Keohane and Joseph Nye's *Power and Interdependence* introducing neoliberal institutionalism.⁴⁸

The debate centres on whether and how states can cooperate in an anarchic international system, where no central authority exists above states. Neorealists like Waltz and Joseph Grieco argue that the absence of a central authority makes cooperation difficult, as states prioritize relative gains and security. Neoliberals, particularly Keohane, counter that cooperation is possible even under anarchy.⁴⁹ Keohane, Young and Ruggie offer different but complementary approaches to defining institutions in international relations. Keohane views institutions as a set of principles, norms, rules, and procedures that prescribe the behaviour of actors and shape expectations. His focus is thereby on specific institutions and practices such as regimes. Young, on the other hand, understands institutions as social practices that include recognizable roles and sets of rules, distinguishing between specific (regimes) and general (orders) institutions, and emphasising their mutual interrelation and hierarchical embeddedness. Ruggie contributes to this debate by introducing the notion of "social purpose" and distinguishing between international orders, regimes and organizations. He believes that multilateral institutions are characterized not only by the number of participants, but also by a qualitative dimension based on common principles of behaviour and collective goals.⁵⁰

⁴⁷ David A. Baldwin. 1993. "Neoliberalism, neorealism, and world politics" in D. A. Baldwin, "Neorealism and Neoliberalism: The Contemporary Debate", Columbia University Press, p. 11-12

⁴⁸ Baldwin. "Neoliberalism, neorealism, and world politics", p. 12-13

⁴⁹ Ibid, p. 4-7, 14

⁵⁰ Nicholas Onuf. 2002. "Institutions, Intentions and International Relations", *Review of International Studies*, p. 223-227

Although they differ in their understanding of cooperation, both approaches start from the assumption that there is no central authority above states. There is no supra-government in world politics that other governments are obliged to obey. Instead, the international system is decentralized, with governments valuing their sovereignty and pursuing their interests. International regimes therefore serve the interests of governments that are willing to participate in them. Their components- principles, norms, rules, and procedures are more precarious and at risk of coming into conflict with those created within society. Sovereignty and self-help do limit cooperation, but do not prevent it. Cooperation is still possible, since there are mutual political, economic and military interests. However, regimes are not there to replace governments, but to help them pursue their interests in an effective way, even shaping the interests of governments over time.

This raises the question of how cooperation can still emerge and continue under such conditions. It is necessary to examine more closely how the institutionalist argument explains cooperation in practice. A more detailed consideration of these mechanisms provides a clearer understanding of the role attributed to institutions under conditions of anarchy. In this regard, Keohane in *After Hegemony* offers a useful framework for examining the conditions under which cooperation can emerge and persist, as well as the specific role that international regimes play in facilitating it.⁵¹

Under a hegemonic order, cooperation among actors is facilitated by the hegemon, which acts as a dominant power and coordinates cooperative efforts.⁵² The question arises as to whether cooperation is possible when there is no hegemonic power, since cooperation in such conditions is hard to organize, but has been proven to be beneficial in international relations.⁵³ Keohane argues that non-hegemonic cooperation is indeed possible through the coordination provided by international regimes that emerge when there is a shared interest between actors, and once created, regimes are less demanding to maintain.⁵⁴ International regimes reduce the uncertainty of cooperation and transaction costs, making cooperation appealing in international relations.⁵⁵

Keohane demonstrates how international institutions help to overcome obstacles in achieving successful cooperation, such as property rights, transaction costs, and problems of uncertainty. Established regimes provide an exchange of equally available information,

⁵¹ Keohane, *After Hegemony*, pp. 49–50, 87–97.

⁵² *Ibid*, pp. 31, 46

⁵³ *Ibid*, pp. 49–50

⁵⁴ *Ibid*, p. 50; pp. 100–101

⁵⁵ *Ibid*, pp. 87–97

patterns of legal liability, and reduce the costs of bargaining, making cooperation more appealing.⁵⁶

International regimes reduce uncertainty by limiting the range of expected state behaviour and providing information that lessens asymmetry among actors. Through monitoring, compliance mechanisms, and issue linkages, they lower the risks of moral hazard and deception, while continuous communication among officials fosters intergovernmental trust and cooperation. Regimes are not a threat to governments, but a tool for them to achieve their goals.⁵⁷ In areas of conflicting but also mutual interests, they make cooperation more effective, lower transaction costs and secure verified information.⁵⁸ States aim to maintain their reputation since many of them are part of different regimes, and the weakening of their reputation in one regime can badly affect their position in others.⁵⁹ States often comply with regimes even when doing so conflicts with their immediate self-interest, while regimes are costly to create but relatively inexpensive to maintain. Once regimes have been established, it is in states' long-term interest to preserve these institutions rather than allow them to collapse.⁶⁰

These institutionalist arguments were later directly challenged by realist claims that institutions have only a limited effect on state behaviour.⁶¹ Lisa Martin and Robert Keohane, in their work "The Promise of Institutional Theory", elaborate on institutionalism while reflecting on Mearsheimer's version of realism and criticising it, pointing out the shortcomings of this theory and providing explanations through liberal institutionalism.⁶² The authors dispute Mearsheimer's claim that institutions have little effect on the behaviour of states and reject the idea that states' investment in institutions can be explained merely by political or ideological motivations of policymakers, arguing that institutions provide significant benefits to states and facilitate international cooperation.⁶³ When there is no possibility of mutual gain, institutions do not emerge; however, when states believe there are potential mutual benefits, they put effort into establishing and maintaining institutions. These organizations, according to institutionalism, contribute to cooperation by providing information, reducing transaction costs and establishing a framework for cooperation, thereby making mutual commitments more credible. This theory acknowledges the importance of power and state interests, but unlike realists, who focus primarily on these factors, institutionalists argue that institutions exert an

⁵⁶ Ibid, pp. 85-88

⁵⁷ Ibid.

⁵⁸ Ibid, pp. 87-97

⁵⁹ Ibid, pp. 104-106

⁶⁰ Ibid, pp. 100-101, 105-107

⁶¹ Keohane and Martin, "The Promise of Institutional Theory," pp. 42, 47-48.

⁶² Ibid, pp. 42-43

⁶³ Ibid, pp. 42, 47-48

additional influence on state behaviour. Namely, institutions are important when the effects of power and interests are controlled (independent and interactive effects).⁶⁴ Additionally, Martin and Keohane respond to Mearsheimer's statement that institutions are significant in political economy by arguing that they are also significant in security issues, since they provide information that reduces the fear of cheating and facilitates cooperation.⁶⁵ They help overcome the problems of relative and distributive gains, especially in situations with multiple actors or large absolute gains, and can create focal points for coordination. In this way, they become crucial in reducing uncertainty and enabling reciprocal, fairer agreements between states.⁶⁶ Liberal institutionalism explains that institutions are the product of the needs and interests of states, but over time they start altering and shaping the behaviour of states as well, while realism ignores their effect and views them as marginal in international relations.⁶⁷

The neoliberal and neorealist debate, which lasted more than a decade, included different strands of realism and liberalism.⁶⁸ The end of the Cold War brought new relevance to the neoliberal-neorealist debate, as both approaches were used to assess the changing conditions of international politics.⁶⁹ From the institutionalist perspective, international institutions could remain important even in the absence of a hegemon, since they could facilitate and sustain cooperation under conditions of anarchy.⁷⁰ Nevertheless, realists still questioned the importance of institutions and the durability of cooperation, while constructivism introduced a new dimension, emphasising that interests and identities are socially constructed, which challenges the rational assumptions of both realism and liberalism.⁷¹

Apart from the neorealist-neoliberal debate, liberal institutionalism has also been confronted with broader criticisms of liberalism and international institutions.⁷² While these criticisms are not directed exclusively at neoliberal institutionalism, they are relevant to the broader liberal framework within which international institutions and their role in world politics have developed. Among these broader criticisms, two are particularly important for this thesis. A contradiction appears in the pursuit of peace, as institutions and states act

⁶⁴ Ibid, p. 42

⁶⁵ Ibid, pp. 43-44

⁶⁶ Ibid, pp. 44-46

⁶⁷ Ibid, pp. 46-48

⁶⁸ Robert Powell. 1994. "Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate." *International Organization*, pp. 313-314

⁶⁹ Powell. "Anarchy in International Relations Theory", p. 334

⁷⁰ Ibid, pp. 326-327

⁷¹ Ibid, pp. 321-323, 326-328

⁷² Tana Johnson and Andrew Heiss. 2023. "Liberal Institutionalism." In *International Organization and Global Governance*, pp. 14-15

illiberally when trying to impose democratic and liberal values on non-liberal states.⁷³ Another important critique comes from non-Western critics who highlight the neglect of non-Western experiences and the Global South in general in the development of liberal institutionalism. The dominance of Western thinkers in the debate and Western states in the creation of institutions has led to the adoption of many standards of domestic governance and international organizations that, although they seem universal, still favour Western states and transnational elites while placing developing countries at a disadvantage.⁷⁴

3.2 Multilateralism

In the 20th century, scholars had already expected the fall of the American hegemony and the US-led international order. These predictions proved premature, as the American-led order remained resilient and US power emerged even stronger after 1991.⁷⁵ The unipolar position of the US allowed it to expand its values, institutions and networks, which became an important foundation of the liberal international order. International institutions that promoted communism disintegrated, opening the way for the expansion of Western-led institutions and arrangements, which became the main structures of global governance. The US and its allies were largely aligned in their approaches to development, human rights, security and other areas, leading to liberal norms and values being embedded in major institutions such as the IMF and World Bank.⁷⁶ At the same time, potential alternative powers were unable to provide a credible alternative to the US-led system: Germany was preoccupied with reunification, while Japan faced prolonged economic stagnation.⁷⁷ This position, and the absence of credible alternatives, allowed Western-led institutions to impose increasingly stringent conditions and rules on borrowing countries. Since these countries lacked credible exit options, they had limited bargaining power and little choice but to accept the rules and conditions set by the dominant liberal powers through institutions like the IMF.⁷⁸

The US was the hegemon after the collapse of the Soviet Union in 1991. The seven largest economies besides the US were generally its partners and allies, and there was a belief that Russia and China would be open to cooperation and that the US would have the opportunity to spread its values.⁷⁹ The following decades demonstrated the limitations of this assumption:

⁷³ Johnson and Heiss. "Liberal Institutionalism.", p.14

⁷⁴ Ibid, p. 15

⁷⁵ Cooley, Daniel. 2020. Exit from Hegemony, pp. 4-6

⁷⁶ Cooley and Nexon, Exit from Hegemony, pp. 6-8

⁷⁷ Ibid, p. 7

⁷⁸ Ibid, pp. 8-11

⁷⁹ Ibid, pp. 2-3

the US spent trillions on wars, while Russia increasingly challenged the US-led international system and China focused on building its economy and emerging as an alternative source of development finance and international goods. These trends are signs of a power transition, where actors dissatisfied with the existing international order seek to alter it, renegotiate its terms, create new arrangements and challenge the hegemon, which faces difficulties in maintaining its dominant position.⁸⁰

Regarding the changing power relations, multilateral cooperation has become even more crucial in shaping international order. The unipolar moment has gradually given way to a more complex and increasingly multipolar international environment, with many occurring changes and challenges on the national and global level that caused the awakening of emerging countries that seek more power for the South. Their role in international relations and matters of regional importance is progressively relevant and consequently the form of multilateral arrangements is under construction.⁸¹ Many important topics require an intergovernmental approach, with countries like Brazil, India and China aiming for a more prominent role in shaping the world order, while Western countries prioritize increased effectiveness. Furthermore, civil society actors call for enhanced accountability of powerful states toward less powerful ones.⁸² The US, which stood alone as the sole power for many years, limited by internal capacities and possibilities, equally turns to partnership and cooperation. Involvement of the many means greater power distribution in the decision-making process, which comes with burden and benefit sharing of the results of those made decisions.⁸³

To understand these transformations, it is necessary to understand what multilateralism represents as an institutional form of international cooperation. Multilateralism is not a new phenomenon, but a long-standing feature of the modern international system. John Ruggie describes it as “a generic institutional form of modern international life” arguing that different forms of multilateral cooperation have existed throughout history in order to coordinate relations, manage partnerships and stabilize interactions among states.⁸⁴ Contrary to realist theories that emphasized power politics and hegemony, Ruggie demonstrates that multilateral norms and institutions had a non-negligible role in managing major international transformations after the Cold War, especially the collapse of the Soviet Union. Institutions such as the European Community, NATO, UN, and NPT helped stabilize and prevent conflict.

⁸⁰ Ibid, pp. 3-4

⁸¹ Hampson and Heinbecker. “The ‘New’ Multilateralism”, pp. 299-301

⁸² Ibid, pp. 301-303

⁸³ Ibid, pp. 299-302

⁸⁴ Ruggie, “Multilateralism: The Anatomy of an Institution”, pp. 567-568

In contrast, the Asia-Pacific region lacked comparable multilateral frameworks, relying mainly on bilateral alliances and balance-of-power politics, which limited regional confidence-building and increased the risk of instability and arms races.⁸⁵ Ruggie criticized traditional international relations theories for neglecting the importance of multilateralism and pointed out that it is more than simple cooperation among several countries. Rather than defining multilateralism only by the number of participating states, he emphasizes the institutional principles according to which their relations are organized.⁸⁶ Multilateralism has become a fundamental institutional form of modern international politics because it has adaptive and self-reinforcing qualities.⁸⁷ Its development after World War II was not only a result of American hegemony, but also of domestic political conditions that favoured cooperative international arrangements.⁸⁸

Robert O. Keohane in “Multilateralism: An Agenda for Research” describes multilateralism as co-ordination of national policies among three or more states, often through the establishment of international institutions and regimes, ad-hoc agreements or short-term solutions to particular problems.⁸⁹ He focuses on arrangements involving states, emphasising the importance of *institutions* as regulatory bodies with sets of imposed rules, behavioural roles and activities, in order to fulfil expectations of member states. States gather in the same issue area and establish institutions for them to create policies, foster and navigate cooperation beneficial to all actors involved. He elaborates on his thesis that institutions are important by proving that if it were not the case, rules imposed by those institutions would not be followed, and there would not be commitment from states to put joint effort into accepting shared policy choices.⁹⁰ Keohane further deals with the reasons behind the rise of multilateralism, since the absence of institutional arrangements creates tensions in making agreements between states due to the lack of information, uncertainty, and partners acting opportunistically. As the number and importance of issues within certain areas grow, there is a greater demand for institutions that reduce ambivalence and costs of cooperation, and when those international institutions succeed in setting understandable rules and become valued, there is a need for the maintenance of these multilateral institutions. The rise of multilateralism is connected to increasing interdependence between states.⁹¹

⁸⁵ Ibid, pp. 561-564

⁸⁶ Ibid, pp. 565-574

⁸⁷ Ibid, pp. 594-597

⁸⁸ Ibid, pp. 584-593

⁸⁹ Keohane, “Multilateralism: An Agenda for Research,” pp. 731–733.

⁹⁰ Ibid, pp. 732-735

⁹¹ Ibid, pp. 740-745

Building on this understanding of multilateralism, its contemporary form has also been closely connected to the development of the Western-led international order. The Western understanding of multilateralism has traditionally been grounded in liberal internationalism, which emphasises openness, rules-based relations, security cooperation, mutual gains and the promotion of liberal democracy. However, changes in the distribution of global power have brought different approaches to multilateral cooperation into the existing system.⁹²

This changing distribution of power is particularly visible in the growing role of China and other emerging powers. The rise of China presents a particular challenge to the Western interpretation of values such as democracy, human rights, and sovereignty, which are embedded in many elements of the existing multilateral system. The shift in power to the East may reduce the influence of the West in international relationships and weaken their prevalence in the current multilateral structure. This shift may reduce the West's capacity to shape international preferences through soft power, while emerging powers are increasingly developing their own sources of international influence.⁹³ China has expanded partnerships with low- and middle-income countries, creating space for the rise of non-western approaches to development and governance. Consequently, the change in the rule-based order will be inevitable, as emerging powers want to adjust existing institutions to their values and needs. Diverging values and interests within the multilateral system may contribute to greater institutional fragmentation. Global powers aim to keep their position, while emerging powers seek to resist arrangements that they perceive as limiting their influence. In a multipolar world, the risk of major powers misreading one another's intentions may increase, making conflict more likely. This risk can be further intensified when political leaders fail to fully anticipate how their decisions will be perceived and responded to by other states.⁹⁴ Middle powers occupy a particular position within the multilateral system, as they are wealthy, industrialized liberal democracies but lack sufficient political or economic weight to shape the international system independently. They are particularly important for multilateral systems because they place strong emphasis on international norms and alliances to safeguard their territorial integrity and the rule of law. For this reason, they typically favour preserving the existing global order.⁹⁵

The shift in the global distribution of power is also reflected in the changing role of emerging powers within the development cooperation system. The growing number and

⁹² Rob de Wijk, Jack Thompson, and Esther Chavannes. 2020 "What is multilateralism?" In *Adjusting the Multilateral System to Safeguard Dutch Interests*, pp. 17-20

⁹³ de Wijk et al. "What is multilateralism?", pp. 25, 27-29

⁹⁴ Ibid, pp. 24-29

⁹⁵ Ibid, p. 30

diversity of development actors and partners have significantly reshaped the global aid architecture by introducing new sources of finance, expertise, and development cooperation.⁹⁶ Alongside entrenched actors such as the WB, DAC, and EU, global development governance now includes an increasing number of emerging powers, regional institutions, bilateral development agencies, and non-governmental bodies that were previously marginalized within the Western-dominated system.⁹⁷ As these actors and alternative sources of finance have become more significant, borrowing countries have gained greater scope to resist or challenge the leverage and policy prescriptions of established international financial institutions, contributing to a more fragmented and competitive governance structure.⁹⁸ While traditional donors often express concerns that emerging actors may weaken established standards related to transparency, governance, and aid effectiveness, others view this diversification as an opportunity for poorer countries to access alternative sources of financing and development cooperation within an increasingly multipolar international order.⁹⁹

The growing availability of alternative development actors and sources of finance does not by itself lead to institutional change. It becomes more consequential when changes in the distribution of power provide countries with alternative ways of pursuing their interests.¹⁰⁰ Once the power of the hegemon starts to decline, its future and the future of the established order depend on other powers. Those that are in favour of the existing order may work to preserve it, while rising powers that are dissatisfied may push for changes to the existing rules and distribution of power, potentially leading to conflicts.¹⁰¹ Great powers, weaker states, and non-state actors can challenge international order either by contesting aspects of the existing infrastructure or by constructing alternative infrastructures that embed their preferred rules, norms, and values. Challengers can combine these approaches, using alternative infrastructure as a potential means of exerting leverage on the existing order and promoting changes within it.¹⁰²

Within the broader transformation, Cooley and Nexon identify Russia and China as particularly important challengers to the US-led order. Cooley and Nexon examined the changing ecology of world order, paying particular attention to the role of emerging powers, such as Russia and China, which seek to position themselves as great powers and promote their

⁹⁶ Woods, Ngaire. 2006. "The Globalizers: The IMF, the World Bank, and Their Borrowers", Cornell University Press, pp. 142-144, 189

⁹⁷ Woods. "The Globalizers", pp. 144, 189-190

⁹⁸ Ibid, pp. 70-71, 125, 189

⁹⁹ Ibid, pp. 70-71, 143-144, 189-191

¹⁰⁰ Cooley and Nexon, *Exit from Hegemony*, pp. 62-64

¹⁰¹ Ibid, pp. 55-56

¹⁰² Ibid, pp. 57-61

preferences within global governance. One of the central objectives in their external strategies is to shape a multipolar world and transform the existing international order.¹⁰³ Both consider the US as a threat to their geostrategic interests and advocate for stronger norms of sovereignty and non-interference. Their cooperation in more formal terms faces considerable scepticism amongst scholars and analysts. Some say that regardless of their desire to challenge the US hegemonic position, they intend to maintain the current structure of international order, particularly its institutions. Others question their capabilities, pointing to the limitations in their military and economic power that may prevent them from effectively challenging the US. Additionally, some highlight the Russia-China relationship itself, doubting if it can evolve beyond temporary convenience due to power asymmetries, historical distrust, and underlying rivalry.¹⁰⁴ Cooley and Nexon argue that these questions already have answers. Russia and China are subverting and contesting the existing liberal international order by voting the same way in a high percentage of cases in the UN General Assembly, creating many institutions and taking joint counter measures in regional frameworks, which in turn reshape the understanding of “shared rules” and shift prevailing norms within the liberal international order.¹⁰⁵ The authors argue that military power is important, but that Russia and China are able to influence the architecture of global order regardless of their capabilities to challenge the US position. Regarding their cooperation, although the suspicions are true, their differences only bring them together and stimulate the pooling of resources for joint actions.¹⁰⁶

Russia and China have developed and supported a range of new regional and international institutions, creating space for multilateral governance beyond Western frameworks, while also pursuing regional leadership and expanding their influence.¹⁰⁷ The public actively debates the role of these institutions, as many Western observers undermine and reject some (e.g. EAEU) as merely relevant. It is not clear if institutions like NDB and Asian Infrastructure Investment Bank (AIIB) will contribute to the existing financial structure or try to challenge it. The perspective and stance of these two countries regarding new, post-West institutions also differ considerably. Russian scholars commonly present such efforts as challengers to Western dominance, even though they replicate elements of the institutions they seek to replace. Chinese actors, by contrast, portray new initiatives as complementary instruments that work alongside existing international organizations and their functions.¹⁰⁸ This

¹⁰³ Ibid, pp.80-81

¹⁰⁴ Ibid, pp.81-82

¹⁰⁵ Ibid, pp.82-83

¹⁰⁶ Ibid.

¹⁰⁷ Ibid, pp.84-86

¹⁰⁸ Ibid, p.87

dense network of new regional non-Western institutions, as described by Cooley and Nexon, already carries significant implications for the U.S.-led system and the wider configuration of global order, even without directly challenging its core principles. The network fosters cooperation through mutual recognition, joint initiatives and growing partnerships. The created infrastructure is, if not alternative, parallel to Western-established systems, and it allows actors to bypass them, which alters the balance in the global governance. It also creates leverage for weaker countries when negotiating their positions in traditional organizations and institutions. In spite of institutions of this infrastructure often claiming that they complement rather than challenge the existing order, the effects of their cooperation and expansion are reshaping the structure of the international global system.¹⁰⁹

One of the mechanisms Cooley and Nexon present, through which this alternative infrastructure affects international order, is the expansion of exit options for weaker countries. Following the end of the Cold War, the United States and other Western powers held a dominant position in the provision of international goods, including development assistance and loans through institutions such as the IMF and the World Bank. The lack of alternative sources of financing increased the dependence of developing countries on these institutions and strengthened their ability to impose economic and political conditions.¹¹⁰ However, from the 2000s onward, the emergence of alternative providers, particularly China and other non-Western powers, reduced this dependence by offering new sources of development finance with different conditions. The availability of these alternatives gave developing countries greater bargaining power and allowed them to seek financing with fewer or different political and economic requirements.¹¹¹ This dynamic, described by Cooley and Nexon as “exit from below,” therefore represents an important challenge to the dominance of established Western institutions and creates space for alternative development institutions such as the New Development Bank.¹¹² This diversification extended beyond China, as emerging donors such as Saudi Arabia and Turkey increasingly provided loans and other forms of assistance, while regional organizations offered additional frameworks for cooperation and access to resources. Together, these alternatives expanded the ability of developing countries to choose among different providers and negotiate the conditions attached to international assistance.¹¹³ The rise of alternative security providers also strengthened the exit options of weaker states. By offering

¹⁰⁹ Ibid, pp.88-91

¹¹⁰ Ibid, pp.110-112

¹¹¹ Ibid, pp.120-124

¹¹² Ibid, pp.84, 110-112, 120-126

¹¹³ Ibid, pp.112, 120-122

economic assistance, investment, and security cooperation in exchange for military access or political support, countries such as China and Russia created alternatives to the US-led security system. This allowed some countries to reduce their dependence on the United States and use competition between different patrons to negotiate more favourable arrangements. Thus, goods substitution extended beyond development finance to security, further weakening the US monopoly over the provision of international goods.¹¹⁴

The development of alternative institutions and the growing availability of outside options do not necessarily imply the abandonment of multilateralism. Rather, they can produce competition between different forms of multilateral cooperation. This provides the basis for understanding the concept of contested multilateralism.

3.3 Contested multilateralism

An important theory for this thesis is the theory of contested multilateralism. The most important work on this topic was done by Julia C. Morse and Robert O. Keohane, who introduced the concept of contested multilateralism by exploring why and how actors challenge existing international institutions, either by trying to reform them or by turning to rival institutions.¹¹⁵

Morse and Keohane argue that contested multilateralism points out the fact that contemporary multilateralism, focused on international cooperation in solving global issues, is characterized by competitiveness and is constantly shifting within international arrangements. When actors seek to change the existing system, the alternative to multilateralism is not necessarily unilateralism or bilateralism, but another form of multilateralism. This is because, when institutional change is difficult, actors are more likely to form a coalition and contest the status quo collectively than to act separately. Entities, such as states, non-state actors, and organizations, can be dedicated to a certain multilateral arrangement but dissatisfied with the policies it promotes, or be affected by external circumstances such as changes in international relations, economic crises, or new global challenges that these arrangements fail to resolve. In seeking change, they may combine the threat of exit from existing institutions, the use of voice within them, and the possibility of creating an alternative institution.¹¹⁶ Morse and Keohane argue that contested multilateralism represents both *strategies*, formal and informal multilateral practices used by actors to persuade change; and *situations* where opposing parties promote

¹¹⁴ Ibid, pp.129-132

¹¹⁵ Morse and Keohane, "Contested Multilateralism," pp. 385–387.

¹¹⁶ Ibid, pp. 385-387

multilateral solutions that are in conflict, which results in proposals of new and/or different institutional structures that will shake the existing status quo.¹¹⁷ They propose the definition:

“...the phenomenon of contested multilateralism occurs when states and/or non-state actors either shift their focus from one existing institution to another or create an alternative multilateral institution to compete with existing ones.”¹¹⁸

Contesting the existing multilateral institutions does not always result in creating new ones but can result in disputes between the practices and rules promoted by competing institutions. The institutional form of multilateralism itself is accepted, but some stakeholders find certain institutional policies and actions unsatisfactory. In international relations, contested multilateralism can be applied to many issue areas, such as counter terrorism, with powerful states seeking to use multilateral practices when they are constrained by institutions, rather than turning to unilateral or bilateral solutions. It is a way to collect resources and support, and to gain legitimacy for their actions. For others, such as weak states, civil society actors, and intergovernmental organizations, multilateralism is a way to counter policies of institutions they are active members of and give greater voice to their own interests and preferences.¹¹⁹

When a coalition of states and non-state actors feels excluded or underserved by a traditional multilateral institution, it may challenge the existing status quo by redirecting its focus toward an institution that applies different rules and practices. One of the strategies to challenge is to combine threats of voice and exit to amplify actors' presence. Other than that, they can withdraw support rather than completely leaving the organization. The challenging institution can be pre-existing or new, and its framework competes with that of the challenged institution.¹²⁰ The results of contested multilateralism vary, from collapsing without impact and not changing the current status quo, to creating or growing the complexity of the international regime by integrating new elements into challenged institutions or empowering previously marginal ones, reconfiguring power dynamics between them. On occasion, the impact is achieved in the long run, for instance when weak states create a coalition that can be only a symbolic presence at the moment, but over time they gain momentum, spread ideas and preferences, and force the challenged institution to adapt or exit by delegitimizing its work.¹²¹

¹¹⁷ Ibid, p. 386

¹¹⁸ Ibid, p. 387

¹¹⁹ Ibid, pp. 387-388

¹²⁰ Ibid, pp. 388-390

¹²¹ Ibid, pp. 388-389

Morse and Keohane emphasise that contesting happens between institutions, not within them, illustrating the relation with an example of conflict resolution between UN Security Council and the UN General Assembly as internal disagreements, not creating complexity in the existing order. They use the example of NATO's action in Serbia to present how it challenged the UN Security Council's monopoly and changed the institutional hierarchy, besides undermining its authority. It presents an example of how it is not about multilateralism vs. unilateralism, but which kind of multilateralism will have lasting objectives.¹²²

There are different pathways to contested multilateralism. A central condition is that dissatisfied actors are unable to directly change the established status quo and therefore need an outside option. For contested multilateralism to become a credible strategy, the coalition needs an outside option that can be used to pressure the blocked institution. The coalition needs to be able to credibly threaten to use an already existing institution or create a new institution that is in a position to serve its needs regarding policies, institutional form, hierarchical order, and other preferences. A coalition of states with power, resources, and institutional form will more easily find an outside option than groups that include weak states.¹²³ When a credible outside option exists, the challenged institution may adapt because of the pressure created by the possibility of institutional competition, but sometimes it may remain rigid, unable or unwilling to respond to competitive pressure. If threats are credible, and no party blocks policy changes, there will be no contested multilateralism, only institutional adjustment. Contested multilateralism is often possible as a consequence of conflicting interests or if institutional limits disable reforms. Even when a coalition's outside option lacks credibility and is unable to substantiate its threats, its actions may nonetheless give rise to contested multilateralism.¹²⁴

According to Morse and Keohane, there are two forms of contested multilateralism: *regime shifting* and *competitive regime creation*. Regime shifting arises when a coalition chooses an institution that is more favourable to their needs and uses it to challenge the institution it seeks to modify in terms of its standards or to reduce its authority. It can be an institution-led shift, applied when multilateral institutions use policies to challenge international standards set by other multilateral institutions. This is different from state-led shifts since institutions are more independent and not under political pressure as states are and can further conduct their means, marking a noteworthy milestone in the development of international relations.¹²⁵

¹²² Ibid, p. 389

¹²³ Ibid, p. 390

¹²⁴ Ibid, pp. 390-391

¹²⁵ Ibid, p. 392

When a coalition of dissatisfied actors creates a new institution tailored to their interests, competitive regime creation is the form of contested multilateralism in question. This can be done by limiting membership to like-minded states, setting up informal ways to influence policies, or creating new networks between government officials. The coalition then relies on the newly established institution to challenge the existing one, which may result in tensions and, at times, foster cooperation between institutions.¹²⁶ When such a coalition succeeds in contesting the institutional status quo, it plays a role in forming, reinforcing, or expanding a regime complex. If the regime was originally centralized and hierarchical, the challenge undermines that order, leading to a more fragmented and dispersed institutional landscape. This shift may occur through the establishment of a new institution or by transferring authority over a particular issue to an institution that previously held no responsibility in that area. Where a regime complex already exists, successful contestation increases its complexity, either by strengthening alternative institutions or introducing entirely new ones.¹²⁷

The contested multilateralism is quite relevant to the position of developing and emerging powers within global governance. Developing countries have long felt undermined in international organizations, with systems like BWIs and the WTO working in the favour of the Global North, while countries of the Global South only receive orders and already-ruled decisions.¹²⁸ The disproportionate voting shares in the WB and IMF, where rich countries are the most dominant decision-makers, depicts an environment of global governance where developing countries are underrepresented, which leads to inefficiency when dealing with global challenges. BRICS countries are demanding reform of the global order to reduce inequality, but at the same time occupy the crossroads between the Global North and Global South. Often in practice, they balance between advocating for developing countries and cooperating with established powers within existing global structures, prioritizing domestic economic objectives.¹²⁹

Multilateral development banks (MDBs) are an important non-state actor in international relations. Their role is to secure funds from one side to another while also exerting power and influence towards involved parties.¹³⁰ Some authors describe it as an international financial institution established by countries that want to secure funds for their development

¹²⁶ Ibid, pp. 392-393

¹²⁷ Ibid, p. 393

¹²⁸ Hampson and Heinbecker, "The 'New' Multilateralism", p. 302

¹²⁹ Ibid, pp. 301-302

¹³⁰ Yerima Nicolaus Widjanarko. 2024. "Political-Economic Comparison of the World Bank and the New Development Bank," *Jurnal Ilmu Ekonomi Terapan*, pp. 1-2

projects; others as an alternative to traditional institutions, which were mainly created by powerful developed economies for developing countries, or as a better option when talking about regional MDBs since they can adapt to and understand the needs of countries from the specific region better.¹³¹ The World Bank is the first MDB in recent history¹³², created to restore the world after the war. Later on, its scope of work broadened to solving global problems. As regionalization became more prevalent in IR, new MDBs emerged to either secure much-needed but unavailable funds for different projects or to challenge the traditional financial order and its institutions.¹³³

Leaders of BRICS are advocating for a more democratic and equal world order, with a more balanced position, greater representation, and constructive involvement of emerging and developing countries. They also call for reform of traditional institutions, such as the UN, and reform of global financial architecture. BRICS leaders highlight that unification is necessary more than ever since it is challenging for a country to act alone, and it should lead to greater global stability and security.¹³⁴

In the financial sphere, the NDB was a response to the lack of infrastructure investments available on the market, with an emphasis on the need for reform of the WB and IMF governance models. The dissatisfaction with the state of affairs was indicated by emerging countries over the years, and although some progress was made,¹³⁵ it still falls short of expectations.¹³⁶ More critically, many thinkers argue that reforms of voting structures at the WB and IMF were mere window dressing, with no real intention of developed countries giving up their power and influence in established multilateral institutions. The G20 was among the actors that did not fully follow through on its commitments, particularly in mobilizing infrastructure financing for developing countries. This limited progress contributed to dissatisfaction among the BRICS countries, encouraging them to explore the creation of alternative institutions better aligned with their development priorities.¹³⁷

In this context, Stuenkel discussed whether the NDB would be used as a bargaining chip to push WB and IMF reforms to BRICS preferences. He remained sceptical about its disruptive potential, noting that although the IMF welcomed "historic" quota and voting

¹³¹ Widjanarko, "Political-Economic Comparison of the World Bank and the New Development Bank", pp. 2-3

¹³² In the post-WW2 era

¹³³ Widjanarko, "Political-Economic Comparison of the World Bank and the New Development Bank", pp. 2-3

¹³⁴ International Institute for Sustainable Development (IISD). 2024. "BRICS Seek to Strengthen Multilateralism in 'Multipolar World Order'", SDG Knowledge Hub

¹³⁵ Voting reforms in IMF and WB

¹³⁶ Chin, "The BRICS-Led Development Bank: Purpose," pp. 367–368.

¹³⁷ Ibid, 368-370

reforms, their implementation still depended on approval by the United States Congress, which continued to delay ratification due to domestic political divisions.¹³⁸

The creation of the NDB and AIIB directly reflected the Global South's demand for: better representation in the development finance system (especially at the WB), infrastructure investment and institutions where these countries will be able to pursue national interests. The establishment of the NDB is seen as a way for emerging countries to break away from traditional financial structures and find alternative ways to fulfil growing demand for economic development funds.¹³⁹ One of the debates is whether this new institution will change the future of global financial order and whether BRICS countries seek to replace the established neoliberal order or not. At the same time, although NDB and AIIB can be seen as examples of contested multilateralism, many authors do not interpret these institutions as a threat to the WB since infrastructure development generates additive cooperation effects that will result in a system with more choice but not fragmentation.¹⁴⁰

For this thesis, contested multilateralism provides a framework for examining whether the NDB represents an institutional response to dissatisfaction with existing financial governance. It also helps assess whether the NDB offers a genuinely different model or mainly complements existing institutions.

3.4 The concept of conditionality

This overview will reflect on the case of international finance, where conditions are imposed by International Financial Institutions (IFIs), such as the World Bank or IMF, or other private and public lenders, as a set of actions a country is expected to implement to receive or continue receiving financial assistance. Failure to comply with these conditions may result in the suspension or withholding of further financing and may affect the recipient country's access to other sources of finance.¹⁴¹ Conditionality in finance can take different forms, including fiduciary, policy, process and outcome conditionality. While these forms differ in their focus, they all involve requirements that are linked, directly or indirectly, to the provision or continuation of financial assistance. The rationale for imposing conditions is for lenders to

¹³⁸ Stuenkel, "The BRICS and the Future of Global Order", pp. 112–113.

¹³⁹ Michal Parížek and Matthew D. Stephen. 2020. "The Representation of BRICS in Global Economic Governance: Reform and Fragmentation of Multilateral Institutions", *The Political Economy of the BRICS Countries*, pp. 23–24

¹⁴⁰ Parížek and Stephen, "The Representation of BRICS in Global Economic Governance", pp. 22–24

¹⁴¹ Babb and Carruthers, "Conditionality: Forms, Function, and History", pp. 14–15.

ensure the financing will be used effectively¹⁴² and for the recipient country to overcome the reasons that created economic disruption and the need for external financial help.¹⁴³

Financial aid conditionality is not a purpose in itself, but a tool to reach goals. It is used by donors to persuade recipients to undertake certain policy and behavioural reforms, to control and monitor the spending of aid. Conditionality is used to achieve both economic and political goals. Recipients can be influenced through various approaches: by using threats that aid will be terminated as a result of non-compliance, or by increasing aid as a reward for the implementation of reforms.¹⁴⁴ There are different reasons why donors would use conditionality: as an inducement for recipient countries to change behaviour or policies; through selectivity by providing aid only to those with sound policies and stable governance to ensure its effectiveness; to establish patterns of allowed spending because they know what would help the recipient country the most; as a restraint for the recipient country to stay dedicated to agreed reforms; or as signalling that the recipient country has accepted conditions and improved its policies, sending a positive message for future collaboration.¹⁴⁵

Variety in the features of the conditionality is related to the type of agent that provides financial help, to the instruments of compliance with conditions, and also to the content of the conditions.¹⁴⁶ Agents can either be private lenders, bilateral organizations such as USAID, or multilateral organizations, like many international financial institutions (IFIs). The type of lender can significantly influence the type of conditions a borrower country receives, since private lenders are solely interested in the repayment of the loan and will shape conditions to secure that, while the other two are interested in a broader scope of benefits, such as global financial cooperation, economic prosperity, or even specific issue areas, and will construct conditions to achieve benefits beyond the repayment of funds or the assurance of their effective use.¹⁴⁷

Regarding the instruments of compliance, these institutions use different approaches when imposing conditions. Ex ante conditionality, the IMF's most applied approach, is based on a promise for future behaviour. Funds are paid in instalments; the lender monitors the country's compliance with the established conditions and is able to stop further payments if the

¹⁴² Benedicte Bull, Alf Morten Jerve, and Erlend Sigvaldsen. 2006. "The World Bank's and the IMF's Use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices", Centre for Development and the Environment, p. 4

¹⁴³ International Monetary Fund. 2025. "IMF Conditionality"

¹⁴⁴ Georg Frerks. 2006. "The Use of Peace Conditionalities in Conflict and Post-Conflict Settings: A Conceptual Framework and a Checklist", Netherlands Institute of International Relations "Clingendael", pp. 13-14

¹⁴⁵ Frerks, "The Use of Peace Conditionalities in Conflict and Post-Conflict Settings", pp. 16-17

¹⁴⁶ Babb and Carruthers, "Conditionality: Forms, Function, and History", p. 15

¹⁴⁷ Ibid.

country does not abide by the loan policy agreement.¹⁴⁸ Ex-post conditionality allows organizations to secure the implementation of conditions prior to disbursement of funds, avoiding possible refusals from the recipient country. To secure compliance, lenders can use cross-conditionality, where implementation of conditions is rewarded by money from more than one lender, and if a recipient country does not respect its end of the bargain, it is prevented from receiving funds from multiple lenders at the same time.¹⁴⁹

Beyond the way compliance is enforced, another important aspect of this topic is the substance of the conditions a recipient country receives. The most traditional conditions, present in private and official lenders' policy loans, are concerned only with the settlement of the debt, with no interest in the activities of borrower countries as long as the borrower respects previously agreed interest rates and scheduled dates. Macroeconomic policy conditions, more intrusive than the previous ones, are sometimes imposed by private lenders, but also when official lenders request the borrower government to follow instructions and abide by reforms of certain economic variables, in the interest of economic growth, prosperity, etc. More stringent conditions than macroeconomic ones, which require adaptation and acceptance of economic policies and the opening of books to lenders to ensure that conditions are met, are the ones connected to structural conditionality. Used solely by official lenders, such as the IMF and WB, they are created to tackle broader transformations of a country's economic and political framework, often requiring legislative approval and extensive reforms that are challenging to measure and monitor.¹⁵⁰

Within IFIs, conditionality is most structured as contractual conditionality, whereby the recipient government, by signing a loan agreement with the status of an international treaty, agrees with the IFI to implement certain political and economic reforms in exchange for financial assistance. Ronald Rich points out two important aspects of such conditionality: the process of joint development of conditions and the actual quality of agreement of the recipient government.¹⁵¹ Conditions imposed by IFIs have changed over the years with shifts in economic theories and practical experience. Rich implies that borrower countries have served as guinea pigs in a great economic experiment by being forced to implement conditions that reflected trends from donor countries, regardless of their relevance to actual needs at the domestic level. He raises an ethical question of reforms imposed by external actors who neither

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

¹⁵⁰ Ibid, pp. 15-16

¹⁵¹ Roland Rich. 2004. "Applying Conditionality to Development Assistance", *Agenda: A Journal of Policy Analysis and Reform*, pp. 323–324.

bear their consequences nor are affected by them.¹⁵² The second concern is the quality of agreement: to what extent the agreement reflects the free will of the borrower country. Formally, by signing the agreement, the government accepts loan conditions, and its compliance influences the country's credit rating among other actors who follow its performance, since all the documentation is publicly available. It may seem that the government has a choice, but in many cases the government does not have an alternative since private funds are unavailable, and conditions "agreed" between IFIs and the borrower country are seen as being dictated from the outside rather than locally owned. Without genuine local ownership, which involves not only government and political leaders but also elites and the broader public, external pressure and conditions rarely lead to the implementation of reforms that the country does not support.¹⁵³

These concerns over borrower ownership must also be considered alongside the interests and domestic constraints of donor countries. Since financial assistance is provided from public funds, donor governments must ensure oversight and accountability in the use of these resources. The public and voters can also influence policies regarding financial assistance, which can lead to the suspension of funds if they disapprove of the recipient country's behaviour.¹⁵⁴

The bargaining position of the borrower is particularly important when considering conditionality. In most cases, countries turn to BWIs when no other sources of financing are available to them. The WB and IMF possess significant leverage in their negotiations with borrowing countries. Financial assistance is a chance for powerful countries to influence the borrower through conditions which the latter does not have the luxury of refusing. If institutions refuse to lend money to the country, it sends a strong signal to the market, leaving the country with few or no other options at all.¹⁵⁵ Once the loan is approved, conditions are imposed and if the country does not follow the agreement, institutions have the power to sanction it, e.g. to reduce or cancel further payments. Experts from the institutions working on creating conditions have more resources and capacities than local ones, leaving little room for negotiation.¹⁵⁶ For the BWIs, access to information about the country is essential for structuring and offering loans, as well as for monitoring them. For a long time, this information was shared in secrecy, which further strengthened the bargaining power of the WB and the Fund. These bargaining dynamics

¹⁵² Rich, "Applying Conditionality to Development Assistance" p. 324

¹⁵³ Ibid, pp. 324-325

¹⁵⁴ Ibid, pp. 325-356

¹⁵⁵ Woods, "The Globalizers", pp. 69-70.

¹⁵⁶ Ibid, p. 71

reflect the broader interaction between the interests of donor countries, the WB and recipient governments.¹⁵⁷

The mission of the WB is to reduce poverty and promote economic growth, and while all involved actors share these interests, their internal politics and aspirations, whether short- or long-term, can at times collide with these objectives. All of the actors - donor countries, the WB and recipient countries participate in the decision-making process related to conditionality, which serves as a mechanism to help achieve these goals.¹⁵⁸ Loans and other financial aid without conditions are less abiding and the recipient country does not have the obligation to conduct reforms prescribed by the WB which are there to improve the current system and to enable further economic growth, but when the disbursement of funds depends on implementation of agreed actions, the recipient government is compelled to take this into account and will, in most cases, proceed with the reforms.¹⁵⁹

In the long-term, the recipient countries strive for economic growth, however implementation of reforms often comes at high political costs. These costs arise when those reforms are unpopular among voters, when conditionality is perceived as jeopardising national sovereignty or when strong opposition emerges from the public, civil society, or influential interest groups. The short-term political interests such as remaining the ruling government, may discourage the recipient country from implementing these reforms, and frequently they attempt to negotiate more lenient conditions or delay the implementation of agreed measures.¹⁶⁰

Given the central role of the WB and IMF in the development and application of financial conditionality, the literature has extensively examined the factors shaping their lending conditions. Conditionality became an important part of World Bank financial assistance with the expansion of policy-based lending in the early 1980s.¹⁶¹ During the 1980s and 1990s, conditions were primarily associated with structural adjustment programs and were focused on correcting short-term macroeconomic imbalances and economic distortions, while supporting reforms aimed at creating conditions for higher economic growth.¹⁶² Although conditionality contributed to the implementation of many first-generation reforms, this approach was increasingly criticized because reforms were often insufficiently owned by

¹⁵⁷ Ibid, p. 72

¹⁵⁸ Elena V. McLean and Christina J. Schneider. 2014. "Limits of Informal Governance? The Scope of Conditionality in the World Bank." Paper prepared for the 7th Annual Conference of the Political Economy of International Organizations, Princeton University, p. 7

¹⁵⁹ McLean and Schneider, "Limits of Informal Governance?", pp. 7–8.

¹⁶⁰ Ibid.

¹⁶¹ World Bank, "Review of World Bank Conditionality", p. 1.

¹⁶² Vittorio Corbo and Patricio Rojas. 1991. "World Bank-Supported Adjustment Programs: Country Performance and Effectiveness", Policy Research Working Paper, p.1

borrower countries, vulnerable to policy reversals, and perceived as excessive and intrusive.¹⁶³ These criticisms, together with growing evidence that reforms are more sustainable when they reflect domestic political processes and country-specific circumstances, contributed to changes in the WB's approach to conditionality. The WB gradually moved towards programmatic lending, placing more emphasis on country ownership, medium-term institutional reforms and greater flexibility in the implementation of policy programs.¹⁶⁴ In August 2004, the previous adjustment lending framework was replaced by Development Policy Lending (DPL), under which the WB abandoned generalized prescriptions in areas such as privatization and financial sector reform and formally emphasized that supported policies should be country- and time-specific and that conditions should be limited to actions considered critical for achieving the expected results of the country's program.¹⁶⁵ The framework was further changed in 2014, when policy-based guarantees were integrated into the same operational policy and Development Policy Lending was renamed Development Policy Financing (DPF), reflecting a broader financing framework for supporting countries' policy and institutional reforms.¹⁶⁶

The literature on World Bank lending identifies three main explanations for variety in loan conditionality.¹⁶⁷ First is Principal-Agent theory, where the WB as an agent is controlled by principals, primarily the US and other Western donors, whose interests can affect important aspects of lending. Studies show that the more similar a country's position is to that of the US, the fewer and more lenient loan conditions it receives from the WB. These relations are measured by a borrower's United Nations General Assembly voting alignment with the US and other Western powers, to determine who their "friends" and "foes" are.¹⁶⁸ These political interests can also extend beyond voting alignment. Major influential member countries can also have their own political agendas that can interfere with the process of providing financial help to recipient countries. For instance, it may be more important to ensure that a recipient country supports them in international forums, such as the UN, remains a political ally, or that its government does not collapse, so they do not want the WB to suspend funds in order to avoid instability.¹⁶⁹ This argument is further examined by Kilby, who focuses on whether countries with close political relationships with the US face less pressure from the WB to implement conditions and whether the US influences the disbursement of funds regardless of whether the

¹⁶³ World Bank, "Review of World Bank Conditionality", pp. 1, 6-7

¹⁶⁴ Ibid, pp. 6-7

¹⁶⁵ Ibid.

¹⁶⁶ World Bank, "2015 Development Policy Financing Retrospective: Concept Note", p.2

¹⁶⁷ Ben Cormier and Mark S. Manger. 2022. "Power, Ideas, and World Bank Conditionality", *The Review of International Organizations*, p. 400

¹⁶⁸ Cormier, and Manger, "Power, Ideas, and World Bank Conditionality", pp. 400-401

¹⁶⁹ McLean and Schneider, "Limits of Informal Governance?", pp. 7-8.

agreed conditions have been fulfilled.¹⁷⁰ By analysing UN voting alignment as an indicator of political proximity to the US, Kilby draws the conclusion that political pressure by the US and other powerful donors undermines the enforcement of conditions, which leads to the failure of conditions.¹⁷¹ Other authors, like Zhai Zheng, claim otherwise. In his analytical paper, Zheng examines why certain borrower countries receive better treatment than others and concludes that it is not only the voting share that contributes to the influence of member countries, but that the bargaining power of borrower countries is also supported by their financial importance to the WB through loan repayments, good creditworthiness and large borrowings, which allows them to obtain less stringent terms.¹⁷² These findings suggest that variation in conditionality cannot be explained solely by the political preferences of powerful shareholders, but must also take into account the bargaining position and financial importance of borrower countries.¹⁷³

The second approach, Borrower-Specific Needs, advanced by many authors and the WB itself, argues that countries' requirements determine the type of loan terms they receive.¹⁷⁴ Some studies show that the WB is client-oriented, tailoring lending to specific elements of each country. Even authors who doubt that the WB considers the needs of borrower countries still acknowledge that there is a variety in loan conditions based on countries' governance and income levels. Some also emphasise that the WB modifies loans based on the financial aid a country uses in "the age of choice"; e.g. African countries that receive financial aid from China as well are subject to fewer loan conditions. The availability of financial alternatives and the possibility of choosing lenders other than the WB can also alter its loan offer for a country.¹⁷⁵

A third strand of literature, as identified by Cormier and Manger, argues that economic policy ideas influence the conduct of the WB.¹⁷⁶ Some scholars, including Fine and Weaver, argue that the Bank has continued to apply priorities associated with the WC, while others link the persistence of these priorities to the WB's leadership and research agenda. By contrast, scholars such as Rodrik, Best and Koeberle et al. argue that the WB has expanded its priorities and developed a broader post-WC approach in response to previous criticisms and shortcomings.¹⁷⁷

¹⁷⁰ Christopher Kilby. 2009. "The political economy of conditionality: An empirical analysis of World Bank loan disbursements", *Journal of Development Economics*, pp. 1-2

¹⁷¹ Kilby, "The political economy of conditionality", pp. 2-5

¹⁷² Zhai Zheng. 2023. "The Bargaining Power of Borrower Countries and the World Bank's Conditionality." Conference paper, pp. 4-5

¹⁷³ Zheng, "The Bargaining Power of Borrower Countries and the World Bank's Conditionality." pp. 50-51

¹⁷⁴ Cormier, and Manger, "Power, Ideas, and World Bank Conditionality.", pp. 401-402

¹⁷⁵ Ibid.

¹⁷⁶ Ibid, p. 402

¹⁷⁷ Ibid, pp. 402-403

The WB positions itself as the “Knowledge Bank”, emphasising the importance of its research not only for its internal culture, but for its position in international debates. Consequently, this research is used as a benchmark for the ideology of the institution. The question is not whether research influences the WB's ideology, but to what extent, which research is favoured, and how it influences lending practices.¹⁷⁸

Cormier and Manger identify six policy topics reflected in WB loan conditions, divided between Washington Consensus policies and priorities that emerged in the post-Consensus period.¹⁷⁹ The former includes ten WC economic policies grouped into three topics: “(1) liberalizing trade and capital flows (trade liberalization, competitive exchange rates, FDI openness); (2) reforming and privatizing the financial sector (financial liberalization, privatization, deregulation); (3) consolidating fiscal policy (fiscal discipline, tax reform, altering expenditure)”. These policies do not require complex institutional changes but do require changes in the borrower country's policies and thus are criticised as harmful to the economies and citizens of developing countries.¹⁸⁰

The second set of policy topics is a result of the evolution of “prescribed recommendations for development” due to critiques and failures associated with the WC. Authors identify conditions that address governance, social spending, and borrower ownership.¹⁸¹ The first group of conditions is related to reforms in public institutions, laws, administrative practices, etc. Conditions related to social spending are substituted for fiscal reforms from the WC period, which required budget cutting and tax expansion. These conditions are more focused on expanding the social safety net by increasing investments in health, education, and poverty reduction. Authors make an effort to evaluate whether the last policy set is present in practice or not.¹⁸²

The concept of borrower ownership refers to the idea that recipient countries should be equal policymakers and not solely followers of the WB's instructions. The goal is for countries to create “country-specific” development programs that suit their development goals and political realities. The WB offers technical help and tracks results rather than just dictating what the country should do. Cormier and Manger claim that even though there is a presence of ownership as an idea in the WB's narrative, it often appears to be more rhetorical than real. The

¹⁷⁸ Ibid, pp. 403-404

¹⁷⁹ Ibid, pp. 405-406

¹⁸⁰ Ibid, pp. 406-407

¹⁸¹ Ibid, p. 407

¹⁸² Ibid, pp. 407-408

concept is acknowledged by the WB, but whether it is applied in conditions is a matter of empirical investigation.¹⁸³

In another study, they examined whether conditions change over time and found that conditions reflect the WB's official policies and documents, which themselves are subject to adjustment and evolution, no longer strictly adhering to the Washington Consensus.¹⁸⁴ The WB adapts and progresses gradually, consequently leading to shifts in conditions, but it still maintains focal areas of concern and provides little to no tailoring to the specific context of each recipient country.¹⁸⁵ The third study considered the stringency of loans, emphasising that the number of conditions is not as important and influential as the content and quality of the conditions.¹⁸⁶ Loan conditions may be clear, measurable and verifiable or vague, general and subjective, and usually reflect the estimation of loan risk and bureaucratic behaviour of WB staff, not only geopolitical relations between powerful donor members and recipient countries. One rigorous condition can be more impactful than numerous less demanding ones.¹⁸⁷

In the World Bank's Development Policy Financing (DPF), conditionality is embedded in a broader process of country-level assessment and programme design. The WB has been criticised for its influence over the economies of developing countries, undermining borrower ownership and pushing a political agenda shaped by donors through conditions which are part of DPF. Even though the number of conditions has decreased over the years, they have remained stringent, detailed, and controversial.¹⁸⁸ Prior to distributing aid to the recipient country, the WB first analyses and evaluates the country's situation and prepares Systematic Country Diagnostic reports in order to identify challenges and opportunities for improving the situation and to understand what reforms need to be undertaken. Although this diagnostic is carried out through the joint work of WB staff and stakeholders at the national level, such as the private sector, government, and civil society, the WB is still under attack for prescribing reforms that may compromise the sovereignty of the recipient country by imposing conditions that are too direct and may reflect a donor-driven agenda rather than local needs.¹⁸⁹

After this diagnostic, the WB determines the goals it wants to achieve by giving funds to the recipient country and defines a Country Partnership Framework, which is a foundation

¹⁸³ Ibid, pp. 408-409

¹⁸⁴ Ben Cormier and Mark S. Manger. 2020. "The Evolution of World Bank Conditionality: A Quantitative Text Analysis", *Political Economy of International Organizations*, pp. 2-4

¹⁸⁵ Cormier and Manger. "The Evolution of World Bank Conditionality ", pp. 32-33

¹⁸⁶ Cormier et al. "Reassessing World Bank Conditionality," pp. 430-431

¹⁸⁷ Ibid, pp. 430-435, 442

¹⁸⁸ Gino Brunswijck. 2019. "Flawed conditions: the impact of the World Bank's conditionality on developing countries" *European Network on Debt and Development*, pp. 1-3

¹⁸⁹ Brunswijck, "Flawed conditions", pp. 1, 3-4

for the use of DPF. The “adequate macroeconomic framework”, compliance with reforms and agreed actions are additional prerequisites for the approval of DPF. The Program Document prepared by the WB establishes expected objectives for a country to achieve and also defines sets of policy and institutional actions that are required to be implemented for a successful programme. Those actions are prior actions that need to be implemented before obtaining funds, and triggers, actions required to be implemented later throughout the programme.¹⁹⁰ Regardless of DPF being approved as budget support, it comes with demanding eligibility criteria, conditions, and a wide range of requirements that put pressure on a country to accept policies from the IMF and the WB rather than to create its own. This approach creates a problem of democratic and borrower ownership and has been heavily criticized by civil society, academia, and the governments of developing countries.¹⁹¹

This criticism is particularly important because the WB formally emphasises stakeholder participation and country ownership in the preparation of its programmes. Another critique comes from civil society organizations, which demand more involvement in policy discussions from the very beginning of the policy cycle. During country-level consultations, CSOs have expressed the concern that they are excluded from the DPF/DPL process and negotiations between the WB, donors and the recipient government.

For this thesis, conditionality is understood as requirements linked to the provision or continuation of financing, while recognizing that these requirements may differ in their form, purpose, and influence on borrower countries. This framework will later be used to compare the World Bank and the NDB structure and apply conditions in their lending.

4. Comparative Institutional Analysis

The following institutional comparison examines the World Bank and the New Development Bank through several dimensions, including their institutional purpose and mandate, governance and decision-making structures, financing principles and instruments, and strategic and operational priorities. Official founding agreements and strategic documents are used as the primary basis for comparison, as they define the formal mandates, institutional structures, and intended modes of operation of the two banks.

¹⁹⁰ Ibid, p. 3

¹⁹¹ Ibid, pp. 3-4

4.1 Institutional Foundations and Governance

The World Bank and the International Monetary Fund (IMF), with their complementary missions, are among the most important rule-makers in setting and coordinating the world financial order, with significant influence over norms and standards.¹⁹² The World Bank, as one of the leading global providers of financial resources and expertise for developing countries, focuses on reducing poverty and expanding economic well-being, providing financing, policy advisory, and technical assistance to the governments that receive funds. The IMF, on the other hand, operates on a macroeconomic level, fostering monetary cooperation, promoting international trade, supporting high employment rates and reducing poverty. As a stabilizer of the monetary system and supervisor of the world's currencies, the IMF monitors both the global economy and individual member economies, providing loans to countries facing balance of payments issues and offering practical assistance to its members.¹⁹³

Their initial purpose changed over time as the environment changed, as they gained relevance and reach on a global level. The World Bank and the IMF were established in July of 1944 in the US with an idea to reconstruct a global economy of a world torn after World War II.¹⁹⁴ Allied countries, such as the US and Great Britain, recognized the need for multilateral structure based on consensual decision making, that would stabilize the economy after the previous depression and foster cooperation in trade and economic relations. Regardless of the idea that these institutions were apolitical in rebuilding the world economy, some examinations indicate that the establishment was influenced mostly by the US (and to some extent UK). US geopolitical strength affected their operations throughout the early decades of their work, with an aim of promoting US interests and expanding the reach of western capitalism.¹⁹⁵

Against this historical background, the institutional structure of the World Bank Group provides the starting point for a more detailed comparison with the New Development Bank. The World Bank Group (WBG) consists of five distinct institutions: The International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and three partner organizations: International Finance Corporation, Multilateral Investment Guarantee Agency and International Centre for Settlement of Investment Disputes. To this thesis, documents of two core lending institutions, IBRD and IDA, will be used for

¹⁹² Bretton Woods Project, "What Are the Main Criticisms of the World Bank and the IMF?"

¹⁹³ World Bank Group, "The World Bank Group and the International Monetary Fund"

¹⁹⁴ Bretton Woods Project, "What Are the Main Criticisms of the World Bank and the IMF?"

¹⁹⁵ Ibid.

institutional comparison with official documents from NDB because they represent the World Bank Group's principal public-sector development financing institutions and therefore provide the closest institutional basis for comparison with the NDB.

The IBRD and IDA are equally important WB institutions, with somewhat different missions. The IBRD is there to lend money to middle-income countries and governments, while the IDA is there to provide financial aid for the poorest countries. For the purpose of this thesis, the main object of analysis will be official documents from the IBRD, with some addition of the IDA documents of relevance, as well as documents that are from the World Bank Group as the main subject where they establish broader strategic priorities and institutional frameworks applicable across the WBG.

Articles of Agreement of the IBRD constitute the foundational legal document governing the Bank's organization and operations. Originally drawn up at the United Nations Monetary and Financial Conference in Bretton Woods in 1944, the Articles of Agreement came into effect in 1945; they have been amended three times since then, in 1965, 1989, and the latest in 2012.¹⁹⁶

The purpose of the IBRD was to support the reconstruction of economies disrupted by the war and transition towards peace and economic stability. At the same time, the IBRD was established to promote the development of less-developed member countries through productive investments rather than short-term financial assistance. The bank was not intended to replace private foreign investments, but rather complement it by providing financing when private capital was unavailable on reasonable terms.¹⁹⁷ By encouraging international investments, the bank was aimed at promoting economic development, increasing productivity and improving living standards. Furthermore, the IBRD was designed to coordinate its lending with other sources of international finance, promote the efficient use of resources and prioritize projects considered the most useful and urgent.¹⁹⁸

Originally, membership in the bank was linked to membership in the IMF, reflecting the close institutional relationship between the two organizations within the Bretton Woods system. Each member is required to subscribe to shares in the IBRD's capital stock. Upon establishment, the minimum number of shares was already subscribed for founding countries. Members have an option of subscribing to additional shares and increasing their stake in the bank.¹⁹⁹ The number of shares held determines a member's capital subscription and contributes

¹⁹⁶ International Bank for Reconstruction and Development. 2012. "Articles of Agreement"

¹⁹⁷ Ibid, p.3

¹⁹⁸ Ibid.

¹⁹⁹ Ibid, pp. 3-4

to its voting power, as each share equals one share vote. The total voting power consists of basic votes, which are distributed equally among all member countries and collectively account for 5.55 percent of the total voting power, and share votes.²⁰⁰

The IBRD emphasises that the resources will be used exclusively for the benefit of its member countries when financing is not available through other sources on reasonable terms. Projects must be assessed and approved by a competent committee, while the IBRD also must take into account the borrower's ability to repay the loan and meet its financial obligations. If member countries are not borrowers themselves, they are required to guarantee the repayment of the loan.²⁰¹ The Articles state that specific projects of reconstruction or development are eligible, although this approach has evolved as the IBRD has developed. Tying loans to the requirement that funds be spent in specific member countries is strictly prohibited. In addition, the IBRD monitors whether the funds are used for the intended purpose of the project, with due attention to economy and efficiency.²⁰² The IBRD's decision-making should be based on economic criteria, without regard to political or other non-economic influences, and the bank nor its employees can interfere in the political affairs of any member.²⁰³

The management structure of the IBRD consists of a Board of Governors, Executive Directors, a President, and other officers the bank considers important. The Board of Governors is the highest authority in the bank dealing with strategic decisions, and each member has one governor and its alternate. Executive Directors responsible for the general operations of the bank, while the President and staff are expected to act in the interests of the bank rather than to represent the country from which they come.²⁰⁴ The IBRD is also required to publish annual and financial reports as well as other relevant documents, thereby contributing to the principle of transparency.²⁰⁵

IDA, another institution within the World Bank Group, has a somewhat distinct purpose in comparison to the IBRD and complements its activities. The institution was established to provide financial assistance and promote economic development in the less-developed areas of the world. Its financing is provided on more flexible and concessional terms and has better conditions and places a lower burden on borrowers' balance of payments than conventional IBRD loans.²⁰⁶ Similar to the IBRD, projects must be considered a high development priority

²⁰⁰ Ibid, pp. 11-12

²⁰¹ Ibid, p. 6

²⁰² Ibid, pp. 6-7

²⁰³ Ibid, p. 10

²⁰⁴ Ibid, pp. 11-13

²⁰⁵ Ibid, p. 14

²⁰⁶ International Development Association. 2012. Articles of Agreement, p. 2

in order to be approved by IDA, and the institution does not provide financing when funds are available from private sources on reasonable terms or through IBRD-type lending. Only economic considerations should influence IDA's decisions, without regard to political or other non-economic factors. At the same time, the terms of financing may be adapted to the economic situation and prospects of the borrowing country, as well as to the nature and requirements of the project.²⁰⁷

The establishment of the New Development Bank reflected both the practical need to address persistent infrastructure financing gaps and the broader institutional development of BRICS. In their initial joint statement at the Durban summit, BRICS countries expressed the need for more funds for infrastructure development projects and that the New Development Bank would be there to fill the gap, without aiming to threaten existing multilateral architecture and organizations such as the World Bank.²⁰⁸ The New Development Bank is seen as a substantial move towards the institutionalisation of the more informal grouping of BRICS. Accordingly, the institution will have its own agenda-setting to be able to satisfy the rising demand for infrastructure investment in emerging and developing countries.²⁰⁹

The official documents of the New Development Bank present a clear vision of its founders, and the bank's mission to provide financing for emerging economies and developing countries for infrastructure and sustainable development projects. It is stated in the "Agreement on the New Development Bank" that the bank should be "*complementing the existing efforts of multilateral and regional financial institutions for global growth and development*" by supporting both public and private projects, using various types of financial help, partnering with different entities and providing technical assistance.²¹⁰

Founders are the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa with the equal initial subscribed capital and, consequently, equal initial voting power. The voting power of each member is equal to the number of its subscribed shares in the capital stock of the NDB.²¹¹ Decisions are generally made by a majority of the votes cast, while certain decisions require an affirmative vote of two-thirds of the total voting power, including the affirmative votes of four founding members. No founding member has veto power. Membership is open to all members of the UN, both borrowing and non-borrowing countries. As membership expands,

²⁰⁷ Ibid, pp. 6-7

²⁰⁸ Chin, "The BRICS-Led Development Bank: Purpose", p. 367

²⁰⁹ Stuenkel, "The BRICS and the Future of Global Order", p. 109

²¹⁰ New Development Bank, Agreement on the New Development Bank, pp. 1-2

²¹¹ Ibid, pp. 1, 3-4

the founding members must retain at least 55% of the total voting power, while non-borrowing members cannot hold more than 20% and any single non-founding member cannot hold more than 7%.²¹²

The President of the NDB is chosen from each of the founding members on a rotational basis, while there should be at least one Vice President from each of the remaining founders. The management structure also consists of the Board of Governors and Board of Directors. It is stated that the NDB and its employees will not in any way interfere with the political affairs of member countries, nor will political concerns in any way influence the work of the bank. The decision will be solely based on the economic parameters of member countries. Furthermore, the management answers only to NDB and no other authority, and member countries have to refrain from attempts to influence the President and other bodies in any way.²¹³ The NDB was established with an initial authorized capital of USD 100 billion, of which USD 50 billion was initially subscribed by the founding members, including USD 10 billion in paid-in capital and USD 40 billion in callable capital.²¹⁴

Operational principles of the NDB proclaim that the bank will operate financially responsibly, with thorough estimation of loans and borrowers, and risk management. The NDB will respect country sovereignty and avoid any financing without the consent of the country; hold political neutrality in territorial disputes; support economic cooperation between members without imposing procurement from one specific member, while also favouring procurement between member countries; ensure that the expenditure of funds is for approved purposes.²¹⁵

4.2 Strategic Priorities and Development Approaches

Following the analysis of the founding agreements, the comparison proceeds to the strategic documents of the two institutions to examine how their formal mandates have been translated into evolving institutional priorities, development objectives, and operational approaches over time. The World Bank Group's strategic documents are presented first, followed by the corresponding strategic framework of the NDB.

A Stronger, Connected, Solutions World Bank Group: An Overview of the World Bank Group Strategy was the first document designed to align all four WBG institutions around

²¹² Ibid, p. 3

²¹³ Ibid, pp. 4-5

²¹⁴ Ibid, pp. 3-4

²¹⁵ Ibid, p. 8

common goals and principles, introducing the “One World Bank Group” approach.²¹⁶ The Strategy outlined a plan for repositioning the WBG, with the aim of supporting *Twin Goals*: ending extreme poverty and promoting shared prosperity.²¹⁷

The mission of the WBG is to bring together and effectively utilize its resources and institutional capacities to achieve these goals through a long-term and sustainable approach. It also emphasizes the mobilization of resources and stronger cooperation with countries, international institutions, civil society, and the private sector. Through these partnerships and by providing effective development solutions, the WBG aims to maximize its contribution to global economic development while promoting social inclusion, environmental sustainability, and lasting improvements in living standards.²¹⁸

At that time, several major global trends influenced the strategic direction of the WBG, creating a complex environment for development support. Global connectivity has affected the nature of trade, business and finance, followed by changes in the global economy in which formerly developing and middle-income countries emerged as economic powers with increasingly important roles in the multipolar global economy.²¹⁹ The growing role of the private sector has also had major impacts on economic growth and capital flows. Parallel challenges such as climate change, the changing nature of poverty and the rise of global risks and volatility have created new obstacles to development and highlighted the need for a more comprehensive and coordinated approach.²²⁰

The WBG identified several key areas of improvement to enhance its ability to achieve these goals. One of the main priorities was the implementation of internal reforms that will allow WBG institutions to work better together as one. The group also sought to reposition itself as a provider of evidence-based and knowledge-driven development solutions tailored to local context. This required stronger partnerships with member countries and a deeper understanding of their specific development challenges and needs.²²¹ The strategy further emphasized the importance of learning from previous experiences and moving beyond a project-based approach toward a more evidence-based model for development.²²² Another important pillar for achieving the established goals was closer cooperation with the broader development community, including major international organizations such as the UN, the

²¹⁶ World Bank Group. 2013. “A Stronger, Connected, Solutions World Bank Group: An Overview of the World Bank Group Strategy”, pp. 1, 9

²¹⁷ World Bank Group, “An Overview of the World Bank Group Strategy”, pp. 1-2

²¹⁸ Ibid, pp. 2, 5-6

²¹⁹ Ibid, pp. 3-4

²²⁰ Ibid, pp. 4-5

²²¹ Ibid, pp. 5-6, 8-10

²²² Ibid, pp. 6-8

support of South–South cooperation, and stronger engagement with governments and the private sector.²²³

Another relevant document guiding the WBG’s strategic reforms is *Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap*, issued in 2023. The document outlined the evolution of the WBG’s mission and presented the operational and financial reforms necessary to support its effective implementation.²²⁴ As stated in the document, the mission needed to expand beyond the Twin Goals to address global challenges and support the provision of Global Public Goods (GPG), including climate change, pandemics, fragility, and migration. Additionally, the document emphasized support for all clients, highlighting the need for better focus on middle-income countries and support for their development and economic growth. The rationale behind these changes was informed by the knowledge and experience the WBG had accumulated over time, which demonstrated that the global environment is dynamic and increasingly complex, requiring the continuous adaptation of its goals and approaches to emerging development challenges.²²⁵

The WBG considered adapting the *ending extreme poverty* goal as the existing definition no longer fully reflected contemporary development challenges. While extreme poverty was initially concentrated in low-income countries, a significant share of the world’s poor now lives in middle-income countries, requiring a broader approach to addressing poverty. The World Bank Group also reviewed its existing *shared prosperity* goal because the indicator tracked the progress of the bottom 40% of the population within individual countries but did not show whether that progress was sufficient to increase overall prosperity, nor did it fully reflect the differences in living standards between countries.²²⁶

Cross-border risks and challenges became more present and influential, and middle- and low-income countries are the ones that suffer the most and bear the burden of the consequences. Climate change, global health crises such as COVID-19, violent conflicts, and other structural trends increasingly affected development outcomes, requiring targeted policies and greater attention from development actors.²²⁷ The WBG has increased its financial support, but the COVID-19 pandemic, climate change and other global shocks highlighted that its financial model was not sufficient to address future multilayer crises, leading to the need for reforms. The document also underscored WBG’s limited capacity to provide sufficient

²²³ Ibid, pp. 10-11

²²⁴ World Bank Group. 2022. “Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap”, p. 1

²²⁵ World Bank Group, “A Roadmap”, pp. 1, 5-6

²²⁶ Ibid, pp. 5-6

²²⁷ Ibid, pp. 2,4

financing for contemporary global challenges, highlighting the need for greater private sector involvement.²²⁸

WBG presented changes to its operational and financial model so it could be more fit to respond to global crises and challenges. The country-based model was proven to be effective and well established, but needed remodelling so it could better respond to the mentioned challenges. WBG aimed at expanding its strategies of cooperation with countries (CPF, SCD, etc.) to be able to include GPG and to help countries prioritize areas that need immediate attention.²²⁹ The second objective is strengthening analytics and knowledge of the WBG to be able to better understand the issues and challenges that countries face and how it can contribute to their overcoming. Financial instruments were also mentioned as one of the tools for contributing to the needs of countries. Instead of focusing on individual projects, the aim was to develop bigger, connected programs that will tie national priorities with global challenges, involving the private sector and other partners to achieve broader development results.²³⁰

IBRD and IDA needed to adapt since new development challenges and needs were constantly changing and requiring a flexible approach. One of the adaptations concerned the criteria used for fund allocation among countries (needs, performance and capacity to pay), which were considered insufficient for addressing new goals, leading to consideration of new criteria, such as resilience. Secondly, the WBG considered middle-income countries as relevant partners for solving global challenges, since GPGs could not be achieved without their involvement, meaning that income per capita could no longer be the main criteria for fund allocation.²³¹ Concessional financing aimed at motivating countries and the private sector to invest in areas that are important for GPGs, since developing countries and the private sector had little incentive to do so on their own. New funds and mechanisms would increase the use of concessional financing, which would serve not only to finance projects but also to support policy reforms and attract additional private investments addressing global challenges.²³²

Going beyond partnerships with countries, WBG emphasized the importance of cooperation at the regional and global level for achieving its goals. It highlighted the value of involving all stakeholders and aimed to provide technical support for the development of strategies, while also facilitating the creation of common standards and greater transparency so that actors could apply consistent criteria for development.²³³

²²⁸ Ibid, pp. 4,7

²²⁹ Ibid, pp. 7-8

²³⁰ Ibid, p. 8

²³¹ Ibid, pp. 8-9

²³² Ibid, p. 11

²³³ Ibid.

WBG again emphasized the importance of the private sector and its role in financing development projects. It aimed to use financial instruments to reduce investment barriers, encourage private sector participation, and make development projects more attractive for investors. Finally, WBG considered that for an operational model it is important not only to finance projects but to measure their impact and adapt based on results. Data collection, evaluation and strengthening capacities (both human and financial) would lead to successfully achieving its development mission.²³⁴ The document also addressed the need for the WBG to reform its financial model, as available resources are insufficient to support its new, broadened mission. The Group proposed more efficient use of capital, increased concessional financing, the creation of new funds for GPGs, and stronger mobilization of private capital to better respond to contemporary development challenges.²³⁵

The document called *From Vision to Impact: Implementing the World Bank Group Evolution* is a continuation of the WBGs strategic reform, presenting concrete steps and innovative new measures the group plans to implement to become more efficient in *creating a world free of poverty on a liveable planet*. This document presents the specific mechanisms that will contribute to the reform of operational and financial models from the roadmap, increasing WBGs' influence, efficiency and financial capacities.²³⁶ One of the main priorities is Climate action. The goal is to integrate the components of climate change horizontally into all sectors and areas, so it is not seen as a vertical, individual topic, but a part of a broader development model.²³⁷ Another innovation was the new Scorecard, which would ultimately change the way WBG measured the results of its actions. The new approach focuses on real development results (e.g., number of people that have access to electricity) through different categories, which was supposed to increase accountability and depict real outcomes.²³⁸ The third element of the reformed operational model is the Playbook, which will help coordinate One WBG, one of the key pillars for institutional improvement.²³⁹ The new operational framework introduces instruments such as the Crisis Preparedness and Response Toolkit to improve crisis preparedness and response, Global Challenge Programs to address global development challenges at scale, and the World Bank Group Guarantee Platform to mobilize private capital through expanded guarantee mechanisms. Another important continuous reform for WBG is to position itself as a knowledge bank by connecting its finances with professional

²³⁴ Ibid, pp. 10-11

²³⁵ Ibid, pp. 12-14

²³⁶ World Bank Group. 2024. "From Vision to Impact: Implementing the World Bank Group Evolution", pp. v, 1.

²³⁷ World Bank Group, "From Vision to Impact", p. 2.

²³⁸ Ibid, pp. 3,6

²³⁹ Ibid, pp. 4,8

knowledge, data and advice on public policies. As mentioned in previous documents, WBG aimed at not only to provide financial resources but to provide knowledge and assistance for the design of development policies.²⁴⁰

Financial reforms were focused on increasing financial capacities through more efficient use of available capital and mobilization of additional resources. Through IBRD's balance sheet reforms, such as reducing the ratio of capital to loans, increasing the use of guarantees and introducing new instruments such as hybrid capital and portfolio guarantees, the IBRD seeks to increase the volume of lending without jeopardizing financial stability.²⁴¹ A special focus was placed on strengthening IDA by improving its financial framework, using additional donor funds and increasing the ability to provide favourable financing to the poorest countries.²⁴²

The General Strategy for 2022-2026: Scaling up Development Finance for a Sustainable Future is the second strategic document of the NDB that presents a mission set for the bank, which is to become “a leading provider of solutions for infrastructure and sustainable development for EMDCs”. The document presents experience and collected knowledge from the previous strategy and outlines strategic imperatives for the NDB to fulfil its goal.²⁴³

In 2020, the BRICS countries accounted for more than 40% of the world population, 31.2% of world GDP and 40% of global infrastructure investments, highlighting their growing importance in the global economy.²⁴⁴ At the same time, achieving global sustainable development largely depends on EMDCs, which face a substantial financial gap for infrastructure development estimated at USD 12 trillion for 2021-2030. These circumstances require an international financial system that supports sustainable, inclusive and environmentally responsible development. NDB aims to contribute to existing efforts of IFIs to promote global growth and development by helping address the needs and aspirations of EMDCs. The new strategy is aligned with development priorities of member countries and the global development environment, while simultaneously supporting the UN Agenda 2030 and SDGs, as well as the Paris Agreement.²⁴⁵

Results from the first strategy set the foundation for further evolution and growth of the NDB as the bank for EMDCs by EMDCs. From 2017-2021, the NDB has built a strong

²⁴⁰ Ibid, pp. 4-8

²⁴¹ Ibid, p. 11

²⁴² Ibid, pp. 12-13

²⁴³ New Development Bank. 2022. “The General Strategy for 2022-2026: Scaling up Development Finance for a Sustainable Future”, pp. 2-5

²⁴⁴ New Development Bank, “General Strategy 2022-2026”, p. 7

²⁴⁵ Ibid, pp. 7-8

financial profile with a stable balance sheet, a solid capital base and a developed capacity for fundraising, and it has achieved favourable international credit ratings. The NDB has secured enough resources for funding its projects while maintaining high liquidity and being continuously profitable.²⁴⁶ The total number of approved projects was 82, valued at USD 30.7 billion, achieving 96% of the planned scope of those projects by the first strategy. The highest number of financings was focused on sovereign and state-guaranteed loans, and in 2020 the division for non-sovereign loans was established. By the end of the first strategy, the NDB had achieved a more balanced project distribution, and local currency loans made up 23% of the total approved loans. Alongside other MDBs, NDB made strong efforts to integrate climate change and other challenges into its development approach. Projects were aligned with 11 of SDG goals, policies and tools were developed for integrating economic, environmental and social aspects through the whole project cycle, and a two-way approach to managing environmental and social standards was established, based on the systems of member countries.²⁴⁷

The second strategy sets objectives for NDB to become the main provider of resources for EMDCs for infrastructure and sustainable projects and also to contribute to the economic rise of these countries and support their contribution to global growth. There are four core elements underpinning the strategy's actions and priorities. The first one is the centrality of member countries and clients, which was the main principle since the establishment of the NDB. In strategy, it is stated that all cooperation will be carried out with respect for national sovereignty and ownership, and the needs of members and clients will shape the NDB's approach to provide tailored solutions without policy conditionality. The criticality of SDGs and climate goals will ensure that the members' commitments under the Paris Agreement and Agenda 2030 will be respected and supported. The NDB will play a catalytic role in mobilising resources, especially from private capital. The bank understands the role of knowledge and innovation, which are essential for further development and it will make efforts to adopt and apply leading practices and expertise, enhance innovation, and disseminate and exchange knowledge to contribute to international development discourse.²⁴⁸

The strategy outlines three key pillars for the period 2022-2026: mobilising resources, financing for impact and institution building, which are further explained in detail.²⁴⁹

²⁴⁶ Ibid, p. 8

²⁴⁷ Ibid, pp. 9-10

²⁴⁸ Ibid, p. 16

²⁴⁹ Ibid, pp. 3-5

To meet the first incentive, Mobilising Resources, the NDB plans to create and use financial instruments, establish special investment vehicles and provide technical assistance to support participation of the private sector. The goal is to provide USD 30 billion in funding, to maintain a high credit rating while attracting low-cost funding, and to fulfil the infrastructure financing gap from its own resources and from the private sector. To maintain its value proposition, NDB will continue to promote local currency financing both on domestic and international markets, with a target of 30% of its total financing commitments during this strategy. NDB will cooperate with local institutions and investment banks, which will expand local currency bond issuance, support the development of domestic capital markets and secure more cost-effective sources of financing. Given the growing interest of investors in expanding ESG portfolios, NDB will offer various thematic bonds, such as climate, green and social bonds, which will attract more investors, enhance visibility, and improve market position of the bank.²⁵⁰ As mentioned, one of the major goals for this strategy is the mobilisation of private capital. It will be achieved through expansion of financial instruments, including syndicated loans, guarantees, non-payment insurance, hybrid capital and indirect and direct equity investments. NDB aims at becoming risk mitigator and arranger, to decrease risk and increase project attractiveness. It will also establish special investment funds with pre-committed capital to attract the private sector. At the same time, NDB will expand technical assistance to clients through advisory services, project preparation and training, which will make projects financially, environmentally and socially sustainable, and economically justifiable which will attract more private financing.²⁵¹

The second incentive for the 2022-2026 strategy is Financing for Impact. To contribute to infrastructure and sustainable development, NDB will focus on high-quality projects, building a diversified portfolio and ensuring broad geographic coverage, and, in cooperation with other stakeholders, aiming for a regional impact through projects. Main areas of focus will be in accordance with contemporary global trends that affect the nature of development needs: clean energy and energy efficiency; transport infrastructure; water and sanitation; environmental protection; social infrastructure and digital infrastructure. When approving loans, NDB will consider which projects address climate change and disaster risk, promote the application of technology and ensure inclusiveness in investments. Another way of contributing to these areas is expanding non-sovereign operations, with the goal of increasing financing for private sector entities, state-owned enterprises and subnational governments

²⁵⁰ Ibid, pp. 17-18

²⁵¹ Ibid, pp. 18-19

without sovereign guarantees.²⁵² NDB will use the systems of its member countries in areas of ESG standards and public procurement, with periodical estimation to identify weaknesses and potential for improvement, and for new members it will analyse existing systems if they are adequate for reaching sustainability goals. Based on these analyses and estimations, NDB will adapt its approach to specific national contexts, including ESG criteria in its decision processes. It will also benchmark the best practices from other MDBs and their members to improve its standards. Additionally, the previous experience showed that the on-the-ground presence and closer cooperation with member countries have a positive impact on increasing the number of operations in regions. Finally, the NDB will conduct project appraisal and development impact assessment before and throughout project implementation to assess the expected results and development impact of its projects.²⁵³

The last pillar is Institution Building. NDB is dedicated to its improvement and evolution so it can offer the best services to its members. It will increase its internal capacities, strengthen its governance, transparency, and accountability, while enhancing coordination and communication with stakeholders. NDB will improve its risk management by strengthening its frameworks and controls, digitalize internal processes to improve efficiency and service delivery, and further strengthen its talent base. Membership expansion will remain one of the main priorities for the bank in the future period, and stronger partnerships with other development actors will improve the quality of NDB's services.²⁵⁴ NDB recognizes the importance of R&D and knowledge, and it will work on becoming the knowledge hub for its members and other EMDCs by promoting knowledge sharing and partnerships with academia and other MDBs, while also learning from its own experience.²⁵⁵

World Bank officials increasingly present development as a country-led process rather than a model imposed from outside. Statements by Wolfensohn, Malpass, and Banga emphasize national ownership and government leadership, while also maintaining a strong role for policy and institutional reform, public investment, and private-sector development.²⁵⁶ This reflects the WB's broader development philosophy, which combines country-specific priorities with economic growth, institutional capacity, job creation, sustainability, and the mobilization

²⁵² Ibid, pp. 20-22

²⁵³ Ibid, pp. 22-23

²⁵⁴ Ibid, pp. 24-26

²⁵⁵ Ibid, p.27

²⁵⁶ World Bank Group. 2005. "Jim Wolfensohn at the World Bank Group: A Development Legacy", video; David Malpass. 2019. "Address by David Malpass, President of the World Bank Group, at the 2019 Annual Meetings," World Bank; Ajay Banga. 2025. "Remarks by World Bank Group President Ajay Banga at the Mission 300 Africa Energy Summit", World Bank

of private capital.²⁵⁷ Recent debates among member states also reinforce demands for greater representation of developing countries and development strategies adapted to national circumstances.²⁵⁸

Statements by NDB officials also point to country ownership as an important part of the NDB's approach. NDB President Dilma Rousseff presents the NDB as a partner that supports countries' own development priorities rather than prescribing a particular development model. This is linked to respect for national sovereignty and the absence of non-financial policy conditions.²⁵⁹ Other NDB presidents have similarly described the NDB as responding to the needs of its members and as part of wider cooperation among emerging and developing economies. Development is therefore presented as something shaped mainly by national priorities, with the NDB providing financing and support for the paths chosen by its member countries.²⁶⁰

4.3 Current Operations and Financial Priorities

Following the strategic documents, the annual reports provide insight into how these priorities are reflected in the institutions' current operations and financial activities.

In fiscal 2025, the WBG recorded \$161.9 billion in commitments, while total disbursements amounted to \$86.9 billion. Of the total commitments, IBRD, with 189 members, accounted for \$40.9 billion across 139 operations; IDA for \$39.9 billion; IFC for \$71.7 billion; and MIGA for \$9.5 billion. Financing was distributed across six regions, with the largest amounts directed to Sub-Saharan Africa (\$34 billion), Europe and Central Asia (\$25.1 billion), and Latin America and the Caribbean (\$24.9 billion).²⁶¹

During FY2025, the WBG mobilized \$68.9 billion in private capital and raised \$79 billion from private investors through bond issuances. The Group also increased its financial

²⁵⁷ Malpass, "Address by David Malpass, President of the World Bank Group, at the 2019 Annual Meetings"; David Malpass. 2019. "World Bank Group President David Malpass' Remarks at the 2019 UN High-Level Meeting on Universal Health Coverage (UHC)", World Bank; Ajay Banga. 2025. "Ajay Banga Remarks-Side Event: Compact with Africa-G20 Finance Ministers & Central Bank Governors Meeting, Durban, South Africa", World Bank; Banga, "Remarks by World Bank Group President Ajay Banga at the Mission 300 Africa Energy Summit"

²⁵⁸ Min Liao. 2025. "Statement by the Hon. Min Liao, Alternate Governor of the IBRD for the People's Republic of China", World Bank Governor's Statement; Anuradha Thakur. 2025. "Statement by the Hon. Anuradha Thakur, Alternate Governor of the IBRD for India" World Bank Governor's Statement

²⁵⁹ Dilma Rousseff. 2023. "Address by NDB President, Dilma Rousseff at Presidential Visit and Inauguration Ceremony", New Development Bank; Dilma Rousseff. 2025. "Opening Remarks by H.E. Mrs. Dilma Rousseff, President of the New Development Bank at NDB 10th Annual Meeting", New Development Bank

²⁶⁰ K. V. Kamath. 2020. "Speech of Mr. K. V. Kamath, President, New Development Bank at the Fifth Annual Meeting of the Board of Governors" New Development Bank; Marcos Troyjo. 2022. "Address by New Development Bank President, Marcos Troyjo, to the Leaders of Brazil, Russia, India, China and South Africa during the 14th BRICS Summit", New Development Bank

²⁶¹ World Bank Group. 2025. "Annual Report 2025", World Bank Group, pp. 14–15

capacity by \$100 billion.²⁶² In terms of development activities, 48 percent of WBG financing in FY2025 included climate co-benefits, while Country Climate and Development Reports had been published for 79 countries.²⁶³ The Group also launched a Global Collaborative Co-Financing Platform with other MDBs, whose project pipeline increased from 74 to 175 projects during the year.²⁶⁴

WBG financing includes different instruments, such as loans, grants, equity investments, and guarantees, while its activities cover both the public and private sectors.²⁶⁵ The WBG also developed initiatives aimed at mobilizing private capital, cooperating with other MDBs, and increasing the efficiency of its operations.²⁶⁶

The NDB Annual Report 2025 provides an overview of the NDB's financial and operational development during its first decade. Since its establishment, NDB has approved more than USD 43 billion for almost 140 infrastructure and sustainable development projects.²⁶⁷ At the end of 2025, the NDB's portfolio consisted of 115 projects, with USD 35.6 billion in approved financing. In 2025, NDB approved 19 new projects, with total financing of USD 3.17 billion.²⁶⁸ Financing remained concentrated among the founding members, with annual approvals of USD 1.53 billion for South Africa, USD 411 million for China, USD 465 million for India, USD 125 million for Russia, and USD 445 million for Brazil.²⁶⁹

A significant feature of NDB's financing in 2025 was the increased use of local currencies. Local currency financing accounted for 46% of annual project approvals, consisting of 36% in RMB, 8% in INR, and 2% in ZAR. The share of non-sovereign operations reached 36.7%, representing approximately USD 1.2 billion of approved financing.²⁷⁰

NDB also expanded its climate-related financing. In 2025, climate finance amounted to USD 1.812 billion, including mitigation, adaptation, and projects with dual benefits.²⁷¹ In addition, eight operations were co-financed with other multilateral development banks, accounting for more than 40% of projects approved during the year.²⁷²

²⁶² Ibid, pp. 6-7

²⁶³ Ibid, pp. 10-11

²⁶⁴ Ibid, p. 5

²⁶⁵ Ibid, pp. 2-3,14

²⁶⁶ Ibid, pp. 5-9

²⁶⁷ New Development Bank. 2025. "Annual Report 2025: Reflecting on the First Golden Decade: Preparing for the Future", pp. 5, 8

²⁶⁸ Ibid, p. 8

²⁶⁹ Ibid, p. 9

²⁷⁰ Ibid, p. 5

²⁷¹ Ibid, p. 10

²⁷² Ibid, p. 5

4.4 Criticisms and Institutional Limitations

Having examined their institutional frameworks, strategies, and current operations, the analysis now turns to the main criticisms and limitations associated with both institutions. Despite the WB and the IMF's relevance and position in managing the global financial and economic order, these institutions have faced significant critiques throughout their existence.²⁷³

4.4.1 Criticisms of the World Bank and Bretton Woods Institutions

One of the major criticisms of BWI is related to *the question of accountability*. Unlike democratic governments that are elected and accountable to the citizens, whose decision-making processes are transparent and whose power is limited with institutions in charge of control, the World Bank and IMF are not elected by voters and their leaders do not bear responsibility to them.²⁷⁴ The chain of responsibility functions through representatives of the member countries, which creates weak connections with members and loan recipients. At the top of the pyramid is the Board of Governors that meets once a year and is in charge of supervision and management of the institution, while executive directors who make the Executive Board and represent members, are there to oversee everyday activities and work with staff. This system is not without problems, since the representation of member states and dual role of executive directors frequently results in weak relationships between members and the institution, diminishing transparency and control.²⁷⁵

One of the elements that is connected to accountability is the *power (im)balance in the voting structure* of the World Bank and the *under-representation of developing countries*. Voting power is determined by the number of shares a member has in the WB, and having a “one share - one vote” system gives space to the richest, most developed countries, such as the US to be major decision-makers, while limiting the voice of middle- and low-income countries. Member countries are represented by executive directors in the Executive Board, and the most important countries (the United States, Germany, France, Japan, the United Kingdom, Saudi Arabia, Russia, and China) have their own representative, while all of the other members are grouped and represented collectively by one executive director. Developing countries, which are the biggest recipients of WB funds, are the least included in formal decision-

²⁷³ Bretton Woods Project, “What Are the Main Criticisms of the World Bank and the IMF?”

²⁷⁴ Woods, “Unelected Government”

²⁷⁵ Ibid.

making.²⁷⁶ Consequently, the WB faces criticisms for the influence of major shareholders on the business of the WB, allowing them to promote and pursue their interests. Decades of pressure from civil society organizations and other prominent parties resulted in voting reforms from 2010 to 2018, with the IMF having a greater shift in voting structure, and the WB's reforms having less structural impact. There is still a demand for better representation of developing and emerging countries in governance processes of these institutions.²⁷⁷ Influence of major shareholders has also led institutions to make decisions based on their political interests, rather than rules and expert analysis. It is believed that the Fund granted a controversial loan to Greece in 2010, breaking its own rules, to save European banks rather than to help the country itself. Even though it is claimed BWIs abandoned the Washington Consensus and the favouritism of privatization; while simultaneously reducing the role of the state, they still advocate for the private sector and induce states to secure good conditions for it.²⁷⁸

The second element of accountability is the result of the dual role of executive directors, which leads to *insufficient oversight of staff and members*. Since they are representatives of states as well as officials of the organization, many of them cross between board and staff positions and lack the resources to track all issues, making them unaware of internal alternatives debated by staff. That is why they are seen as only agreeing or denying decisions already made by management with the help of the most powerful member states. The flawed appointment process is another issue within this topic - the WB and IMF have traditionally been criticized for an informal distribution of leadership positions, with the World Bank presidency traditionally held by an American and the IMF Managing Director traditionally coming from Europe.^{279 280}

Another critique linked to the work of BWI is regarding *the concept of conditionality* - "policy recommendations" attached to loans and other financial aid to borrower countries. Conditionality is highly criticised for many reasons. The purpose of the conditions is to strengthen the economy of the recipient country and break the cycle of poverty, but many times they had a negative impact on the economy of the country and caused economic crises these

²⁷⁶ Mark J. Wolff. 2013. "Failure of the International Monetary Fund & World Bank to Achieve Integral Development: A Critical Historical Assessment of Bretton Woods Institutions' Policies, Structures & Governance," Syracuse Journal of International Law and Commerce, pp. 84-88.

²⁷⁷ Bretton Woods Project. 2013. "Calls for IMF quota reform implementation", Bretton Woods Project

²⁷⁸ Woods, "Unelected Government"

²⁷⁹ Jacqueline Best. 2014. "Governing Failure: Provisional Expertise and the Transformation of Global Development Finance", Cambridge University Press, pp. 78-79, 91-94.

²⁸⁰ The current IMF Managing Director, Kristalina Georgieva, is Bulgarian and therefore does not fit the traditional Western European pattern. However, she was selected as the European Union's candidate for the position in 2019 and subsequently appointed by the IMF Executive Board.

same institutions would bail them out from. For a long time, these conditions were not tailored towards the context of the specific recipient country, but rather were one fit for all, consequently insisting on inadequate policy reforms, tackling areas that do not require change and ignoring those that do.²⁸¹ Furthermore, by imposing a set of standards expected for a borrower country to follow and implement, the WB and the Fund interfere with the sovereignty of that country, micro-managing its government and influencing its policy decisions, limiting ownership over national strategies and disabling help to reach those in need. Disharmony between loan goals and conditions is due to the management structures of these institutions that allow the most powerful members to force their global economic and political agendas and interests.²⁸² In addition to conditions they impose directly, BWIs affect recipient countries indirectly as well - by shaping public opinion through research, public announcements and recommendations. Poorer countries are more affected by this since they depend on external financing, and the opinion of BWIs can impact how the public perceives those countries. BWI's policies are often portrayed as "the best practice", meaning the public will accept them without having second thoughts or critically observing them.²⁸³

The IMF's Independent Evaluation Office and the WB's Independent Evaluation Group were established in 2001 and 2006, respectively, to provide feedback, ensure transparency and accountability, and institutional learning within the organizations themselves; in other words, to help them be more efficient and responsible. However, BWIs are repeatedly criticised for not acting on recommendations of their independent bodies, which then questions their dedication to learning and transparency. In particular, the WB is accused of poorly aligned staff motivations and a self-contained, exclusive knowledge system, while the IMF is accused of "groupthink" that contributed to its failure to predict the 2008 global crisis.²⁸⁴

The public, international institutions, CSOs, academics and others have been calling the WB and IMF out for the impact of their policies, projects and programs on *human rights*, by neglecting and damaging it with their approach. The World Bank and Fund still promote policies that are the legacy of the Washington Consensus - reducing the public wage bill, introducing taxes such as VAT, privatization and limiting social services. These policy recommendations have a negative impact on economic growth, reducing inequality, and preventing countries from providing basic human rights (e.g. healthcare, social protection and

²⁸¹ Ngaire Woods. 2006. "The Globalizers in Search of a Future: Four Reasons Why the IMF and World Bank Must Change, and Four Ways They Can", Center for Global Development, p.5

²⁸² Bretton Woods Project, "What Are the Main Criticisms of the World Bank and the IMF?"

²⁸³ Ibid.

²⁸⁴ Ibid.

education) to their citizens. These policies protect the interests of the rich, directly influencing poorer countries and vulnerable groups - kids, women, the elderly, people with disabilities, etc.²⁸⁵

Secondly, many projects the WB has financed have been shown to have broken international standards on human rights, including forced evictions and displacement, ignoring the rights of indigenous people, abuse of labour rights and incitement of gender-based violence. CSOs still believe, even after the introduction of the new Environmental and Social Framework, it is not strong or reliable enough to prevent harm, especially in poor countries.²⁸⁶ Lastly, the WB and IMF claim that their efforts to reduce poverty and inequality indirectly affect human rights, although they are not subject to international human rights obligations. But as said before, critics protest that policies they promote are beneficial to the rich countries more than to the poor. Studies show that China has done more to reduce poverty in the last 40 years while not following the BWI's recommendations, whereas it was proven that IMF's programs have marked a significant failure and debt overhang. The reduction of poverty is getting slower throughout the years, and requests for these institutions to evaluate their impact on human rights remain ignored.²⁸⁷

The World Bank and the IMF have brought upon themselves rigid disapproval for the impact of their projects on the *environment*. The growth-based approach of these institutions has caused severe damage to the climate crisis, and efforts by them to include this issue in its work is still limited to integrating these concerns into a growth-based development model. One of the criticisms is related to the projects the WB finances that still use fossil fuels, regardless of the Paris Climate Agreement from 2015. Additional concern is the inability to track finances IFC provides for different projects, since some research proved those funds were used for the construction of coal-fired thermal power plants. MIGA, another one of the WB's bodies, also invested in fossil fuel projects, ignoring those with a focus on renewable energy. One part of the WB's development policies contains conditions that support the industry of fossil fuel.²⁸⁸ Furthermore, the WB is focused on investing in mega infrastructural projects and attracting private investors, disregarding the consequences on the environment. Many of these projects have a direct negative impact on increasing pollution. Finally, the WB does not have quality policies about protecting forests; it does not protect the rights of local communities and does not preserve forests that are important for absorbing harmful gases from the atmosphere. Civil

²⁸⁵ Ibid.

²⁸⁶ Ibid.

²⁸⁷ Ibid.

²⁸⁸ Ibid.

society organizations request that the WB better involve the public in the adoption of rules on forests. Also, one of the WB's forest protection funds spends too much money on administration and too little on nature protection itself. In general, the way the WB lends money often harms natural ecosystems because the focus is more on spending money quickly than on respecting the rules and protecting the environment.²⁸⁹

4.4.2 Criticisms and Limitations of the New Development Bank

While the World Bank has faced long-standing criticism, the NDB has also generated debate regarding whether its institutional model offers a genuinely different approach. Many questions were raised regarding the establishment of the BRICS Development Bank. Following the 2008 economic crisis, the existing system faced a significant infrastructure financing gap, particularly affecting middle-income and emerging economies. Public and private financing alone were insufficient, alongside bilateral (e.g. ODA) and multilateral sources. This context contributed to the demand for additional development financing institutions capable of addressing the needs of emerging economies.²⁹⁰

The founding members of the New Development Bank are notably diverse in their economic structures, political systems, and development priorities. China has the largest economy and is economically bigger than the rest of the members combined. Their political systems are also divergent, which has raised questions about the potential of the NDB and cooperation among its members.²⁹¹ Regardless, the founding countries felt compelled to address the issues of the traditional financing system, while each of them also had their own national interests and agendas involved. India and Brazil were looking for additional financing to support their significant demands for infrastructure development. For South Africa, the NDB represented a way to support broader African development while also addressing domestic financing constraints. China, on the other hand, sought to expand its economic reach by creating new opportunities for its industries, channelling its financial surpluses into productive investments, and building long-term partnerships with other developing countries to diversify its markets and sustain growth. Finally, Russia was striving for stronger geostrategic cooperation among emerging countries, pursuing intra-BRICS trade and investments.²⁹²

²⁸⁹ Ibid.

²⁹⁰ Chin, "The BRICS-Led Development Bank: Purpose," pp. 367-368

²⁹¹ Ibid, p. 367

²⁹² Ibid, pp. 369-371

Questions about the future institutional model of the NDB were present from its early years. In 2015, Oliver Stuenkel raised several questions regarding the institutionalisation of the NDB, including whether industrialized countries would have a seat at its governance table, towards which countries investments would be directed, how the NDB would receive and maintain a triple-A rating, and which kinds of projects would be of interest to the NDB. He argued that BRICS countries were less likely to include developed countries in the institution and that its main area of focus would be supporting infrastructure development in emerging and developing countries due to their substantial investment needs.²⁹³

Beyond questions concerning its institutional design, the NDB was also associated with broader expectations surrounding South-South cooperation. Some analysts suggest that South-South cooperation will be less exploitative than North-to-South, more responsive to the needs of all countries, and that solidarity and exchange among them will be stronger and focused on mutual benefits. Critics, on the other hand, doubt whether Southern solidarity and equal welfare for all will be any different than North-South relations due to imbalances between countries of the South.^{294 295}

The fundamental basis of the BRICS philosophy is the idea of mutual benefit. This approach seeks to distinguish BRICS cooperation from traditional donor-recipient relations. BRICS countries have used practices such as non-cash payments without policy conditionality, direct foreign investments, tied aid connecting domestic companies with projects, combinations of grants, loans and credit lines, and complex financial arrangements. They have also applied different criteria for successful implementation and placed greater emphasis on the micro sustainability of projects rather than primarily focusing on long-run debt sustainability.²⁹⁶

These differences in development practice were also connected to broader ambitions to pursue a shift towards greater multilateralism and reduce Western dominance in the global financial system. These ambitions included establishing new financial institutions, increasing the use of local currencies, reducing dependence on the US dollar and providing additional financing options for countries of the Global South.²⁹⁷ Some authors interpreted the NDB as a potential alternative to Western financial institutions, which would require the creation of

²⁹³ Stuenkel, “The BRICS and the Future of Global Order”, pp. 108-110

²⁹⁴ Countries of the Global South also differ in economic power, political influence and national interests. These differences raise the question of whether South-South cooperation can avoid unequal power relations or may reproduce some patterns found in traditional North-South relations.

²⁹⁵ Stuenkel, “The BRICS and the Future of Global Order”, pp. 106, 111-112

²⁹⁶ Ibid, pp. 111-112

²⁹⁷ Paul Millar. 2023. “How the BRICS Nations Failed to Rebuild the Global Financial Order”, France 24

mechanisms different from common practices such as policy conditionality and structural reforms attached to loan approvals.²⁹⁸ The NDB has also placed particular emphasis on infrastructure and sustainable development projects, local-currency financing, membership expansion and the development of stronger economic ties among its members.²⁹⁹

One of the areas in which this different approach was expected to be particularly visible was policy conditionality. During their period of economic expansion, BRICS countries have managed to avoid one of the core mechanisms of BWI - policy conditionality. The internal political influences encouraged them to modify the existing model of the Washington Consensus. This resulted in new hybrid approaches that combined elements of WC with domestic priorities, without directly trying to contest the existing global financial order.³⁰⁰ BRICS diplomats have advocated for the NDB to follow the development strategies of member countries, without including conditionality in its practices. If it were to replicate lending paradigms of the World Bank and other major financial institutions, it could be considered a failure and unsuccessful to deliver on the built-up hope for contribution that emerging powers should have in South-South cooperation and development. On the other hand, it could stir public opinion that condition-free lending is compromising the good deed the West is doing by promoting good governance.³⁰¹

The rotating presidency among the founding members and the absence of veto power for any individual member also represent a departure from the model of the IMF and the World Bank, where the largest shareholders exercise greater influence. Formally, this creates a more equal decision-making structure among the founding members.³⁰²

However, the expectations surrounding the NDB have also been followed by criticism regarding the extent to which it has actually introduced a different model. There were many promises during its first years, and some of them appear to remain unmet. Despite the rhetoric surrounding the use of local currencies in lending operations, a large share of the NDB's financing has continued to be denominated in U.S. dollars.³⁰³ The NDB has also received criticism regarding its relatively non-innovative and "business as usual" approach, remaining a relatively small bank with a limited scope of work. Its guidelines on social and environmental sustainability generated optimism during the early years, but some projects, such as the paving of the Trans-Amazonian Highway, which environmentalists argue facilitated deforestation in

²⁹⁸ Paul Millar, "How the BRICS Nations Failed to Rebuild the Global Financial Order"

²⁹⁹ Ibid.

³⁰⁰ Stuenkel, "The BRICS and the Future of Global Order", pp. 110-111

³⁰¹ Ibid, p. 111

³⁰² Julien Chevalier. 2024. "Is the BRICS Bank a Rival to the IMF and the World Bank?", GoldBroker

³⁰³ Millar, "How the BRICS Nations Failed to Rebuild the Global Financial Order,"

the Amazon rainforest, raised concerns about their environmental impact.³⁰⁴ Additionally, the limited involvement of local stakeholders in project consultations and the lack of transparency regarding the decision-making process for determining project sustainability have raised questions about the NDB's accountability.³⁰⁵

Governance and power distribution among the founding members represent another recurring concern. Even as soon as the NDB was founded, the public has raised a variety of questions regarding the founding countries and their power distribution. Many analysts have pointed out that China, as the largest economy among the five, had made the largest contribution and that the most likely scenario would be the use of this bank for pursuing its own national interests.³⁰⁶ Another matter that caught the eye of the public was the differences between the political and economic states of the founding countries. They had had weighty internal conundrums that needed to be taken care of, and disputes among themselves, which created doubt about their cooperation. Nevertheless, the public was of the opinion that the new actor would encourage the positive reforms of existing institutions.³⁰⁷

At the same time, some of the NDB's actions have appeared contradictory to the broader political rhetoric surrounding BRICS cooperation. While the group has emphasized de-dollarization, a substantial proportion of NDB lending has remained denominated in dollars. Similarly, despite ambitions for rapid institutional expansion, the NDB's growth in membership and financial resources has remained relatively limited. These contradictions have contributed to questions about whether the NDB represents a genuine institutional alternative or operates largely within the existing international financial system.³⁰⁸

Paulo Nogueira Batista, the Brazilian economist and a supporter of the BRICS, had extensive criticism of the NDB and its overall progress so far. He stated that the initial concern from Washington about the NDB and CRA faded away because of/due to slow progress of these two institutions. He emphasises that actions taken from mid-2020 until 2023 were not enough to overcome the shortcomings of these institutions, let alone progress any further.³⁰⁹ The CRA, if BRICS aims to offer it as an alternative to the IMF, must expand in both resources and membership, as well as become more flexible and more independent from the IMF. The main reason for stagnation is the resistance from the central banks of the founders, with the

³⁰⁴ Ibid.

³⁰⁵ Ibid.

³⁰⁶ Manning, "Can the BRICS New Development Bank Compete with the World Bank and the IMF?"

³⁰⁷ Ibid.

³⁰⁸ Millar, "How the BRICS Nations Failed to Rebuild the Global Financial Order,"

³⁰⁹ Paulo Nogueira Batista Jr. 2023. "BRICS Financial and Monetary Initiatives - NDB, CRA, and a Possible New Currency," Grupo de Estudos sobre os BRICS (GEBRICS)

exception of the Chinese central bank.³¹⁰ That observation can be applied to the NDB, where for starters, the people who comprised the governance structure of the bank were, in the opinion of Batista, weak, Western-oriented, with little to no experience in conducting the geopolitical initiative. This is followed by an overall slow process of disbursement of funds and implementation of projects, with majority of funds being transferred in dollars, despite the BRICSs narrative about de-dollarization.³¹¹ Nonetheless, his opinion holds still - NDB has great potential and

“can still become a Bank of developing countries, by developing countries and for developing countries”.³¹²

In the end, he also tackles the idea of a common currency of BRICS which originated from Russia as a response to sanctions and more frequent use of dollars. As a first step it was proposed creation of a reference currency (R5+) based on a basket of member countries' currencies, which would be used in BRICS institutions. This would not substitute national currencies but would be used for international transactions. The leaders expressed interest in this idea with the intent to further analyse it at the summit in Johannesburg in 2023, which Batista sees as an opportunity for de-dollarization and strengthening of financial independence of member countries.³¹³

Some authors argue that regardless of the narrative founders try to promote, NDB is not a unique actor trying to completely alter the current financial order, but rather a regular player within the existing system.³¹⁴ The NDB promoted itself as new on the market in regard to rapid approval of project proposals, focus on sustainable development projects, use of local currencies, accession of new members, but the challenge remains the need to scale up its lending and operations, while still fighting for its spot among financial institutions. The limited number of staff also questions the bank's seriousness about its goals.³¹⁵ There are also challenges between members and their goals. China wanted to use the NDB as a way to be more present in IR, e.g. support the Belt and Road Initiative, which was blocked by India and slowed down by sanctions because of Russia, which led to Chinese effort to push and invest in the bank less.³¹⁶

³¹⁰ Batista, “BRICS Financial and Monetary Initiatives.”

³¹¹ Ibid.

³¹² Ibid.

³¹³ Ibid.

³¹⁴ Chin, “The ‘New’ New Development Bank”

³¹⁵ Ibid.

³¹⁶ Ibid.

4.5 Comparative Assessment of the World Bank and the NDB

These debates have also been reflected in comparative studies examining whether the institutional design and financing models of the World Bank and the NDB represent fundamentally different approaches to development finance. Widjanarko, in his study, compared the World Bank and the New Development Bank, using political-economic theory, which allowed him to explore whether the design of an institution, including its purpose, ownership structure, governance system, and voting allocation, mirrored the collective identity and interests of the countries that comprised it.³¹⁷

By analysing the WB and NDB documents, he listed the differences in a Table³¹⁸:

Table 1: Anatomy Comparison of the World Bank and the New Development Bank		
	World Bank	New Development Bank
Foundation Purpose	Development, reconstruction, and others.	Infrastructure development, sustainability, and socio-economic inclusivity
Ownership Structure	Based on one's deposit value, a bigger deposit means more considerable voting power	Based on the consensus, no member had enormous voting power over the others
Governance and Leadership	Traditionally led by the United States, along with the other developed economies	There is no permanent leader, but generally supervised by China
Financing Approach	Employed neoliberalism principles	Employed pragmatism principles
Membership	189 states from all regions	BRICS countries
Voting Power Distribution	Different for each member, based on their deposit value to the bank	Equally distributed among the members, one state would always be one vote
Funding	Made of deposit by its 189 members	Made of BRICS countries deposit
Operational Scope	All 189 members territories	All BRICS country's territories
Types of Financing	Investment loans, government working capital, development policy financing, and others	Investment loan and current account one is for transaction needs
Private Sector Option	Applicable	Not applicable
Need of One's Guarantee	Mandatory. Up to 2 percent of financing plafond or up to 3 times of installment	Nonmandatory, but offered pragmatically way of financing repayment method
Service Customization	High, to match the financing scheme to one's capability to repay	Low due to its simple and modest size compared to the World Bank
Loan Origination	Longer, employed internal and private sector regulation	Shorter, employed only internal regional (no private sector involved)

Figure 1 - Source: Widjanarko, "Political-Economic Comparison", p. 6 (see footnote 318)

Based on his research, the WB is an institution dominated by developed countries that promote neoliberal development policies onto the recipients of the loans, which are mostly developing countries. The voting structure allows richer countries to have more say, resulting in developing countries feeling like they do not have enough rights. On the other hand, all founding members of the NDB have equal voting share, with no party having veto rights. Regardless, some scholars claim that China promotes its economic policies and interests

³¹⁷ Widjanarko, "Political-Economic Comparison", pp. 3-4

³¹⁸ Ibid, p. 6

through this new bank.³¹⁹ The financing model is also quite different between these two institutions. Widjanarko portrays the World Bank's financing model as more procedurally complex, involving a longer loan-origination process, participation of private-sector actors, and, historically, policy-based lending associated with structural adjustment and neoliberal reform agendas. It results in conditioned loans and possible sanctions if terms are not met.³²⁰ Aiming to alter this, NDB financial processes are more pragmatic, loans are approved faster and there is a respect to the sovereignty of the country regarding the implementation of projects and use of funds.³²¹ The comparison demonstrates that the Bank and the NDB reflect the interests of their member states. The World Bank represents a traditional development model characterized by the greater influence of developed countries and the use of loan conditionality, whereas the New Development Bank seeks to provide an alternative based on a more equal distribution of power among member states, a stronger focus on sustainable development, and a lower degree of conditionality.³²²

4.6 Discussion

The analysis shows that WB and NDB share many basic characteristics as MDBs, but there are also important differences in their institutional structure and approach towards member countries. Both provide development financing, cooperate with governments, monitor the use of their resources, and increasingly involve the private sector and other development actors. Still, some differences can be noticed in the distribution of decision-making power, the importance given to sovereignty and country ownership, and the role of policy conditionality.

One of the biggest differences can be seen in institutional design and voting power. In the IBRD, voting power is connected to the number of shares held by each member, which gives countries with larger capital subscriptions a stronger position in decision-making. NDB was established differently, with equal initial capital subscriptions and equal initial voting power among the five founding members, without veto power for one individual founder. Its voting rules also protect the collective position of founding members as membership expands. It may be said that the NDB model was created partly as a response to the unequal distribution of power that has often been criticised in traditional financial institutions. At the same time,

³¹⁹ Ibid, pp. 5-7

³²⁰ Ibid, pp. 5,7-8

³²¹ Ibid, pp. 7-8

³²² Ibid. 7-8

both institutions still connect voting power with capital, meaning that the difference is more in the way this capital and voting power were originally distributed.³²³

There are also similarities in their institutional foundations. Both institutions were established to support development through financing and both recognise the importance of private investment. The IBRD was created to provide financing when private capital was not available on reasonable terms, while NDB focuses on mobilising resources for infrastructure and sustainable development in emerging and developing economies. NDB also defines its role as complementary to existing multilateral and regional financial institutions. Both formally prohibit political interference and state that decisions should be based on economic considerations. It could be considered that NDB did not reject the basic MDB model, but tried to introduce some different principles within the already existing system of development finance.³²⁴

The relationship with member countries presents another difference. NDB places stronger emphasis on sovereignty, national ownership and the needs of members, while its strategy openly refers to tailored solutions without policy conditionality. WB also gives importance to country-specific priorities and has increasingly developed a country-based approach. However, this is combined with policy and institutional reform, knowledge, technical assistance, and wider development standards. It may seem that both institutions accept country ownership as an important principle, but give it somewhat different meanings. NDB connects it more directly with sovereignty and the ability of members to choose their own development priorities, while WB leaves a larger role for the institution itself in shaping policies and reforms connected to development objectives.

This does not necessarily mean that WB imposes one development model on its members. Its more recent strategies place greater importance on national circumstances, country ownership and cooperation with governments. This may suggest that ownership exists within a wider framework in which WB provides policy advice, identifies institutional reforms and promotes certain development standards. NDB, on the other hand, presents itself more strongly as a partner that supports development paths chosen by its members.³²⁵

The strategic documents also show that many priorities of WB and NDB overlap. Both institutions focus on sustainable development, climate change, infrastructure, private sector participation, knowledge, partnerships and development impact. WB has expanded its mission

³²³ IBRD, Articles of Agreement, pp. 3-4, 11-12; NDB, Agreement on the New Development Bank, pp. 1, 3-4.

³²⁴ IBRD, Articles of Agreement, pp. 3, 6, 10; NDB, Agreement on the New Development Bank, pp. 1-2, 4-5.

³²⁵ World Bank, Review of World Bank Conditionality, pp. 6-7; World Bank Group, Evolving the World Bank Group's Mission, Operations, and Resources, pp. 7-11; NDB, General Strategy for 2022–2026, p. 16.

from poverty reduction towards wider global challenges, while NDB has expanded its original infrastructure focus to include climate goals, SDGs, innovation and mobilisation of private capital. Based on this, it may be difficult to argue that the two institutions follow completely different ideas of development. The difference seems to be more visible in how these priorities are presented and connected to the relationship with member countries.³²⁶

Statements by officials support this conclusion. WB officials speak about country ownership and government leadership, while still connecting development with reforms, growth, employment, sustainability, and private sector development.³²⁷ NDB officials use similar ideas but put more emphasis on sovereignty and priorities selected by member countries. It could be said that both institutions support country-led development but differ in how much involvement of the institution itself is considered necessary in shaping that process.³²⁸

Annual reports show another side of the comparison because they provide information on what the WB and NDB actually finance. The clearest difference is their scale. In fiscal 2025, WBG reported USD 169 billion in commitments, while NDB approved USD 3.17 billion in new financing and had approved more than USD 43 billion since its establishment. These figures are not fully comparable because the WBG consists of several institutions, but the difference in financial capacity and operational reach is still clear. NDB has grown since its establishment but remains considerably smaller than WB.³²⁹

The type of financing shows a combination of similarities and differences. NDB has placed stronger attention on local currency financing, which reached 46 percent of annual approvals in 2025, while non-sovereign operations have also increased. Climate finance and cooperation with other MDBs have become important parts of its work. WB also places strong emphasis on climate finance, private capital, and cooperation with other development institutions. This may indicate that many operational priorities are becoming similar, even if the institutions explain them through somewhat different development approaches. Local currency financing and support for domestic capital markets may be seen as some of the more specific features of NDB.

³²⁶ World Bank Group, *Evolving the World Bank Group's Mission, Operations, and Resources*, pp. 2, 4, 7-14; NDB, *General Strategy for 2022–2026*, pp. 6-23.

³²⁷ Malpass, "Address by David Malpass."; Banga, "Remarks by World Bank Group President Ajay Banga."; Banga, "Ajay Banga Remarks-Side Event: Compact with Africa."; World Bank Group, "Jim Wolfensohn at the World Bank Group."

³²⁸ Rousseff, "Address by NDB President, Dilma Rousseff."; Rousseff, "Opening Remarks."; Kamath, "Speech of Mr. K. V. Kamath."; Troyjo, "Address by New Development Bank President."

³²⁹ World Bank Group, *Annual Report 2025*, pp. 14-15; NDB, *Annual Report 2025*, pp. 5, 8.

Cooperation with other financial institutions also shows that NDB was not created completely outside the existing multilateral system. Its founding agreement describes its role as complementary to other financial institutions, while its current activities include partnerships and co-financing with other MDBs. A different institutional arrangement should not automatically be understood as the creation of a separate financial system. NDB can provide additional options for developing countries while still working within the wider multilateral development structure.³³⁰

Criticism of the WB helps explain why some of the principles promoted by NDB became important. WB has long been criticised for its voting structure and the stronger influence of countries with larger capital shares. Conditionality has also been criticised for limiting national policy space and affecting the ability of governments to design their own development strategies. Questions of accountability, shareholder influence and social and environmental effects of projects are also present. In this sense, principles promoted by NDB, such as equal voting power among founders, sovereignty and the absence of policy conditionality, may be seen as a response to some of the main criticisms directed towards WB.³³¹

However, NDB also faces criticism that questions how different this model is in practice. Equal voting power creates formal equality among the founders, but their economic and political power is clearly not equal. China is significantly larger than the other founding members, which has created concerns about its possible influence. NDB has also been criticised for transparency, limited participation of local stakeholders, environmental effects of some projects and slower development than initially expected. Some authors even describe its activities as relatively close to the usual MDB model. Formal institutional differences do not automatically produce completely different practices.³³²

The use of local currencies is one example where declared goals and actual practice did not always develop at the same speed. NDB has promoted local currency financing and reduced dependence on the US dollar, while a large share of its earlier financing was still denominated in dollars. By 2025, local currencies represented 46 percent of annual approvals. NDB has gradually moved closer to this objective, which also shows that its development should be

³³⁰ World Bank Group, Annual Report 2025, pp. 5-11; NDB, Annual Report 2025, 5, 8; NDB, Agreement on the New Development Bank, pp. 1-2.

³³¹ Bretton Woods Project, "What Are the Main Criticisms of the World Bank and the IMF?"

³³² Manning, "Can the BRICS New Development Bank Compete with the World Bank and the IMF?"; Millar, "How the BRICS Nations Failed to Rebuild the Global Financial Order."; Chin, "The 'New' New Development Bank."

observed over time rather than only through the expectations that existed when it was established.³³³

Looking at all analysed areas, it may be concluded that the biggest differences between WB and NDB appear in governance, voting structure and the way the relationship with member countries is presented. The differences become smaller when their strategic priorities and current operations are compared. Both institutions work in many of the same development areas and use similar forms of financing, partnerships and instruments. At the same time, NDB gives greater importance to sovereignty, equal representation among founders, and local currency financing. The comparison shows both institutional differences and a considerable level of similarity in practice, which makes the relationship between the two institutions more complex than a simple division between a traditional and an alternative model.

5. Loan Policy Analysis

To compare the concept of conditionality across multilateral development banks, it is crucial to understand how it is embedded within their lending frameworks, what type of requirements are attached to financing, and how and to what extent compliance with these requirements influences the disbursement and continuation of financing.

The World Bank employs three main financing instruments, each governed by distinct policies and procedures, disbursement mechanisms, and frameworks defining the obligations between the World Bank and the borrower.³³⁴ To examine different forms through which requirements are attached to WB financing, this thesis focuses on two financing instruments: Investment Project Financing (IPF) and Development Policy Financing. The analysis of both instruments provides a broader basis for identifying how conditionality operates across different forms of WB lending, encompassing both project-related and policy-related requirements.

IPF is used to finance projects through loans, grants, and guarantees across different sectors and types of activities, with the main objective of supporting poverty reduction and sustainable development. The WB considers whether the project contributes to economic growth, environmental and social sustainability, effectiveness of public and private sector, or in any way contributes to the overall development of member countries.³³⁵ The WB conducts

³³³ Millar, "How the BRICS Nations Failed to Rebuild the Global Financial Order."; NDB, Annual Report 2025,

³³⁴ World Bank, "Financing," World Bank

³³⁵ World Bank. 2024. "Bank Policy: Investment Project Financing", p.3

an ex ante assessment of the project and assesses its technical design to ensure it is aligned with the borrower's capacities, as well as its economic rationale. Borrowers have the obligation to use funds only for purposes for which they are provided, and to ensure appropriate financial management (planning, budgeting, internal controls, financial reports, etc.). Through IPF, WB also requires compliance with its environmental and social conditions.³³⁶ IPF requirements may be adapted in situations of urgent need or limited implementation capacity.³³⁷ Throughout project implementation, Borrower must implement the project with due diligence, monitor and evaluate it, comply with procurement, financial management and disbursement requirements, measure and report on results, and provide financial and audit reports, while the WB monitors compliance with these obligations.³³⁸ The project may be restructured throughout implementation if necessary to improve its effectiveness. Non-compliance with contractual obligations under IPF may result in corrective measures and remedies such as suspension or cancellation of disbursement.³³⁹

DPF is a financing instrument that is designed for policy-based loans or guarantees in order to help a member country meet its development financing needs. It supports a program of policy and institutional actions, including policy and public service reforms, with defined objectives and indicators aimed at promoting economic growth and poverty reduction.³⁴⁰ Before providing DPF, the World Bank assesses the member country's economic situation, and small factors such as, institutions, governance, poverty and social conditions, as well as the quality of the proposed reform program, the country's ownership and institutional capacity. DPF is provided when the country's macroeconomic policy framework is considered adequate.³⁴¹ The WB also identifies the policy and institutional measures that are essential for achieving the program's objectives and considers their potential poverty, environmental and social impacts. The WB encourages consultations with relevant stakeholders and coordinates with the IMF and other development partners. The WB, the Member Country and other stakeholders are involved in analysing policies and institutions in relation to economic growth, while the bank also considers whether specific policies may have significant poverty, environmental and social impacts. It identifies the policy and institutional measures that are essential for achieving the program's objectives.³⁴² Access to DPF is conditional on the implementation of prior

³³⁶ Ibid. pp. 4-5

³³⁷ Ibid. pp. 5-6

³³⁸ Ibid. p. 7

³³⁹ Ibid. pp. 8-9

³⁴⁰ World Bank. 2024. "Bank Policy: Development Policy Financing", pp. 2-4

³⁴¹ Ibid, p. 3

³⁴² Ibid, pp. 3-5

actions, satisfactory implementation of the program and maintenance of an adequate macroeconomic framework. The prior actions represent specific policy and institutional measures that the Member Country must undertake before receiving financing. DPF forms part of a medium-term framework and may be provided in one or more tranches.³⁴³ The member country is responsible for implementation and, while WB supervises compliance with conditions, assesses results and monitors risks. The WB also reviews public financial management and procurement arrangements, which may affect the amount of financing, tranching and conditionality.³⁴⁴ DPF can include different options, such as deferred use of funds, additional crisis financing and support for debt reduction or restructuring.³⁴⁵ Each operation is documented through a Program Document and, in the case of multi-tranche financing, compliance with conditions is assessed before subsequent tranches are released. In crisis and post-conflict situations, some design requirements may be applied more flexibly.³⁴⁶ If the Member Country fails to comply with its contractual obligations, the World Bank may suspend or cancel further disbursements.³⁴⁷

New Development Bank has multiple documents that refer to its loan policies. NDB's Policy on Sovereign Loans & Loans with Sovereign Guarantee defines a framework under which the institution approves and manages loans to sovereign members or those with sovereign guarantee, or in certain cases with approval of the Board of Directors the client can be a non-member. The document sets out the eligibility requirements for clients, financial terms and implementation arrangements of NDB sovereign lending. It specifies the currencies in which loans can be provided, including USD, EUR and the currencies of member countries, as well as interest rates, fees, repayment periods and grace periods.³⁴⁸

NDB uses five lending modalities for financing infrastructure and sustainable development: project loan, project finance facility, multi-tranche financing facility, sustainable development loan and development finance facility. A project loan is a loan for projects. A project finance facility is used for financing a group of interlinked projects, sub-projects. NDB approves the facility based on the investment plan, the criteria for subproject selection, and the implementation framework for the facility. Afterwards, each sub-project is approved on its own. The client chooses, assesses and implements sub-projects, which can be later changed, in

³⁴³ Ibid, p. 5

³⁴⁴ Ibid, pp. 6-7

³⁴⁵ Ibid, pp. 7-10

³⁴⁶ Ibid, pp. 10-11

³⁴⁷ Ibid, p. 12

³⁴⁸ New Development Bank. 2019. "Policy on Sovereign Loans & Loans with Sovereign Guarantee", pp. 1-4

accordance with agreed terms, while NDB estimates their choice, assessment and alignment with its environmental and social framework and procurement policy.³⁴⁹

Multi-tranche financing facility (MFF) enables financing large infrastructure projects that are implemented in phases. To be suitable for MFF, the project needs to have strategic importance for cooperation in a specific sector, sub-sector or thematic area. MFF defines the framework, investment plan, resource needs, and financial plan, as well as institutional reforms and capacity development. The client agrees to commitments throughout the investment plan and institutional development. For MFF it is necessary to have an environmental and social impacts framework, while the specific assessment is done for each tranche.³⁵⁰

Sustainable development loan (SDL) is used for government programs and investment schemes focused on sustainable development. Funds may finance incentives for renewable energy, waste-to-energy, energy efficiency, emission reduction and water systems, as well as viability gap funding and capital expenditures with clearly defined sustainable development goals. The proposal must contain scheme description, expected results, implementation method and criteria for customer choice. NDB and member governments agree on securing economical and efficient use of resources and dealing with environmental and social impacts.³⁵¹

Development Finance Facility - Sovereign (DFFS) enables NDB to grant sovereign-guaranteed loans to financial intermediaries in member countries, which then on-lend the funds to sub-borrowers for infrastructure and sustainable development projects. NDB assesses the financial intermediary based on its financial soundness, governance, credit and risk-management procedures, capacity to assess environmental and social impacts, business strategy, pricing autonomy and anti-money laundering mechanisms, as well as the macroeconomic, regulatory and financial environment in which it operates.³⁵² During appraisal, NDB and the financial intermediary agree on criteria for selecting sub-projects and establish a “free limit” below which the intermediary can approve sub-loans without prior NDB approval, while sub-loans above this limit require NDB approval. For large or complex sub-loans, NDB may also conduct an independent or joint appraisal. During implementation, NDB monitors the use of its resources, the quality of the sub-project portfolio and the financial and regulatory condition of the intermediary, and may suspend disbursements in cases of prolonged

³⁴⁹ Ibid, pp. 7-8

³⁵⁰ Ibid, pp. 8-9

³⁵¹ Ibid, p. 9

³⁵² Ibid, p. 10

non-compliance with agreed financial covenants, portfolio quality or corporate governance requirements.³⁵³

Policy on Loans without Sovereign Guarantee to National Financial Intermediaries is a policy that allows NDB to grant loans to national financial intermediaries (NFIs) without a sovereign guarantee. Eligible NFIs are institutions that are wholly or majority-owned by the national government of a member country. NDB identifies suitable NFIs through which it can provide financing for infrastructure and sustainable development projects that support the development priorities of both the member country and the Bank.³⁵⁴ NDB identifies suitable NFIs in member countries to provide funds for infrastructure and sustainable development projects to achieve the development priorities of both the member country and NDB. During NFI assessment, NDB considers the macroeconomic and regulatory framework of the borrowing country, the legal and institutional position of the NFI, its financial stability, governance and transparency, risk assessment and management, management of environmental and social impacts, business strategies and experience, etc.³⁵⁵ NFI agrees to conduct procurement in correlation with NDBs policies on procurement, and to have a suitable system for managing environmental and social impacts, which also must be in accordance with NDB's ES framework. NFI and NDB establish a monitoring system for the use of funds and the quality of subprojects. NFI must provide annual financial reports, and if financial obligations, portfolio quality standards or corporate governance requirements are not fulfilled, NDB may suspend further disbursements.³⁵⁶

NDBs Policy on Processing of Loans with Sovereign Guarantee presents how loans are processed, in order to help member countries, maximize positive impacts of their investments and reduce negative ones. All five lending modalities and loans to NFIs are covered by this policy. Project processing involves member countries government, borrowers, clients of the project and others impacted by it. Projects are identified during preparation of the country project pipeline, which is used for implementing the country partnership plan. Projects are processed through the pipeline to ensure that NDB assistance is in line with its own strategic priorities and those of the government.³⁵⁷

Project concept includes the strategic context, scope and rationale for NDB support, estimated costs and the financial plan, criteria for subprojects (for some lending modalities),

³⁵³ Ibid, pp. 10-11

³⁵⁴ New Development Bank. 2016. "Policy on Loans without Sovereign Guarantee to National Financial Intermediaries", p. 3

³⁵⁵ Ibid, pp. 4-5

³⁵⁶ Ibid, pp. 5-6

³⁵⁷ New Development Bank. 2016. "Policy on Processing of Loans with Sovereign Guarantee", p. 3

required resources (including human resources and consultants), due diligence needs, the need for project technical assistance (PTA), the initial assessment of environmental and social categorization, implementation arrangements and the initial Design and Monitoring Framework (DMF). The DMF connects project activities and milestones with expected outputs, outcomes and impacts, and defines assumptions, risks, indicators, baseline values, targets and timeframes for monitoring project progress during implementation and the achievement of its goals after completion.³⁵⁸

If the project does not include a feasibility study, NDB can provide PTA for its preparation and feasibility assessment. The scope and arrangements for PTA are agreed upon by NDB, the government and the project executing agency, while NDB is responsible for implementing and supervising the PTA and ensuring the quality of its output. The design of the project develops based on results of studies and due diligence process, as well as contribution of the project team, executing agency, government, beneficiaries, affected people and other stakeholders.³⁵⁹

After the preparation activities, NDB assesses viability of the project through development outcomes and impacts, strategic relevance and approach, the financing plan, environmental and social aspects, fiduciary aspects, technical and economic aspects, policy and institutional aspects, implementation arrangements, risk assessment and management, and long-term achievability of development objectives. NDB may use appraisals conducted by other development partners, NFIs and other financiers, if they satisfy NDB's requirements.³⁶⁰

Based on appraisal, an appraisal brief is prepared, after which, based on management guidance, the project team prepares the draft of Project Document to the Board (PDB), while the legal division prepares the draft loan agreement. For MFF projects, the FFA, FAM and first TRR are submitted together with the PDB. After the MFF is approved, subsequent tranches are processed through TRRs, while the environmental and social category is determined for each individual tranche.³⁶¹

During implementation, the project scope, financing, conditions and implementation arrangements are agreed with the government and set out in the PAM/FAM and MOU. NDB also discloses project information in accordance with its disclosure policy and may revise the policy based on experience gained from its implementation.³⁶²

³⁵⁸ Ibid, p. 4

³⁵⁹ Ibid, p. 5

³⁶⁰ Ibid, pp. 5-7

³⁶¹ Ibid, pp. 7-8

³⁶² Ibid, pp. 10-11

5.1 Discussion

The analysis shows that both the WB and NDB attach different requirements to their financing and monitor whether these requirements are fulfilled. However, these requirements do not work in the same way across all financing instruments. Some are important before financing is approved, some are linked directly to the disbursement of funds, while others remain relevant throughout implementation. It may therefore be concluded that conditionality does not represent one uniform mechanism, but can take different forms depending on the type of financing.³⁶³

One of the main similarities between the two institutions is the assessment of the borrower, project, programme or the wider environment in which financing will be used, is done before financing. The focus of this assessment depends on the financing instrument. IPF and most of the analysed NDB modalities are mainly focused on project design, implementation capacity, financial arrangements and expected development results. DPF is different because more attention is given to the macroeconomic, institutional and policy environment of the borrower country. This difference is important because it shows that the type of conditions attached to financing is connected to the purpose of the financing itself.

The same can be seen during implementation. In both institutions, the borrower, member country, client or financial intermediary is mainly responsible for implementation, while the banks monitor whether the agreed requirements are respected. This suggests that conditions do not stop being relevant once financing has been approved. At the same time, the content of monitoring is different. In project-based financing, monitoring is mainly related to the use of funds, project progress, financial management, procurement, environmental and social requirements and reporting. In DPF, monitoring is more directly connected to the implementation of the policy programme and to whether the macroeconomic framework remains adequate.³⁶⁴

Environmental and social requirements are also included in the lending frameworks of both institutions. Their exact application depends on the type of operation, but in both cases borrowers are expected to take these issues into account during preparation and implementation. It could therefore be considered that conditionality is not limited only to economic reforms or policy changes. Other requirements, such as those related to

³⁶³ Babb and Carruthers, "Conditionality: Forms, Function, and History," pp. 14-16.

³⁶⁴ World Bank. "Bank Policy: Investment Project Financing", pp. 4-7.; World Bank. "Bank Policy: Development Policy Financing", pp. 3, 6-7.; NDB, "Policy on Processing of Loans with Sovereign Guarantee", pp. 3-7, 10-11

environmental and social standards, financial management, procurement or reporting, can also influence the continuation of financing.³⁶⁵

The clearest difference appears when DPF is compared with IPF and the analysed NDB lending modalities. Under DPF, access to financing is directly connected to prior actions, satisfactory implementation of the programme and the maintenance of an adequate macroeconomic framework. Prior actions require the member country to implement specific policy and institutional measures before financing is provided. In multi-tranche operations, compliance with relevant conditions also affects the release of later tranches. Based on this, DPF may be considered the clearest example of policy conditionality among the instruments analysed.³⁶⁶

IPF and most of the analysed NDB modalities have a different focus. Their requirements are mainly connected to how the financed project, programme or facility is managed and implemented. Failure to comply with these obligations can still lead to suspension or cancellation of further disbursements, but the requirements are generally not directed towards wider government policies in the same way as DPF prior actions. This suggests that not every requirement attached to financing should be treated as the same type of conditionality. There is an important difference between conditions that must be fulfilled before funds are released and obligations that continue to apply after financing has already been approved.

At the same time, NDB requirements also differ across its own lending modalities. MTF, SDL and FTFI do not include the same obligations because the structure and purpose of these operations are different. In some cases, requirements are connected to investment plans or individual tranches, while in others they concern the financial condition, governance, portfolio quality or environmental and social capacity of the intermediary. It may therefore be concluded that NDB conditionality is largely shaped by the specific lending modality and by the entity responsible for implementation.³⁶⁷

The consequences of non-compliance are another similarity between the two institutions. In both frameworks, failure to fulfil agreed obligations can affect whether financing remains available. However, the stage at which this happens is not the same. DPF

³⁶⁵ World Bank, “Bank Policy: Investment Project Financing”, pp. 4-5; World Bank, “Bank Policy: Development Policy Financing”, pp. 3-5; NDB, “Policy on Sovereign Loans & Loans with Sovereign Guarantee”, pp. 7-11; NDB, “Policy on Loans without Sovereign Guarantee to National Financial Intermediaries”, pp. 4-6

³⁶⁶ World Bank, “Bank Policy: Development Policy Financing”, p. 5

³⁶⁷ World Bank, “Bank Policy: Investment Project Financing”, pp. 7-9; NDB, “Policy on Sovereign Loans & Loans with Sovereign Guarantee”, pp. 7-11; NDB, “Policy on Loans without Sovereign Guarantee to National Financial Intermediaries”, pp. 4-6

includes conditions that need to be fulfilled before financing or a later tranche is released, while IPF and several NDB modalities rely more on obligations that continue throughout implementation. If these obligations are not respected, suspension or cancellation of disbursement can be used as a remedy. This difference can help distinguish between conditions for receiving financing and conditions that regulate its continued use after approval.³⁶⁸

The issue of country ownership under DPF adds another aspect to this comparison. The WB assesses whether the borrower country has ownership of the reform programme and encourages consultations with relevant stakeholders. At the same time, the WB identifies policy and institutional measures that are considered necessary for achieving the objectives of the programme, and their implementation is connected to access to financing. It may seem that this creates a tension between country ownership and external influence. However, based on the analysed documents, it would be difficult to conclude that these reforms are simply imposed by the WB. It could rather be considered that DPF combines country ownership with a financing framework in which the implementation of specific policy measures is necessary for receiving funds.³⁶⁹

Overall, the findings show that both the World Bank and New Development Bank include conditional elements in their lending frameworks, but the form and purpose of these requirements differ. Both institutions assess operations before approval, establish obligations during implementation, monitor compliance and may suspend further financing when agreed requirements are not fulfilled. The main difference is therefore not whether conditionality exists, but what the conditions are directed towards and how directly compliance is connected to financing. IPF and the analysed NDB modalities are mainly focused on project, financial and implementation-related requirements, while DPF connects financing more directly to policy and institutional measures and to the maintenance of an adequate macroeconomic framework. These findings suggest that conditionality in multilateral development lending should be understood through the different forms it can take, rather than only through whether conditions are present or absent.

³⁶⁸ World Bank, “Bank Policy: Investment Project Financing”, pp. 8-9; World Bank, “Bank Policy: Development Policy Financing”, p. 12; NDB, “Policy on Sovereign Loans & Loans with Sovereign Guarantee”, pp. 10-11; NDB, “Policy on Loans without Sovereign Guarantee to National Financial Intermediaries”, pp. 5-6

³⁶⁹ World Bank, “Bank Policy: Development Policy Financing”, pp. 3-5; World Bank, “Review of World Bank Conditionality”, pp. 6-7

6. Conclusion

The theoretical and conceptual framework used in this thesis provided the basis for understanding the position of the World Bank and the New Development Bank within the global financial system and for comparing their institutional and lending approaches. Liberal institutionalism was useful for understanding the importance of international institutions in facilitating cooperation between states, reducing uncertainty and creating frameworks through which countries pursue common interests. In this sense, both the WB and NDB can be understood as institutional actors that organize international development cooperation and provide financial and other forms of support to their member countries.³⁷⁰

Contested multilateralism provided a more specific framework for understanding the emergence of the NDB and its relationship with the existing multilateral financial architecture.³⁷¹ Dissatisfaction with representation in traditional financial institutions, limited progress of governance reforms and the demand for additional infrastructure financing created incentives for BRICS countries to establish another multilateral development institution. However, the creation of an alternative institution does not necessarily imply the rejection of the existing multilateral system. The NDB can operate alongside established institutions while providing additional institutional and financing options for emerging and developing countries. The concept of conditionality was important for examining one of the areas in which the NDB has attempted to distinguish its approach from traditional development finance institutions. Understanding conditionality as different types of requirements connected to financing made it possible to examine these differences beyond the simple question of whether conditions exist or not.³⁷²

The first comparative analysis showed that the World Bank and NDB share many of the basic characteristics of multilateral development banks, while important differences exist in some areas of their institutional design and their relationship with member countries. The strongest differences appear in governance and voting structure. The NDB was established with a more balanced distribution of voting power among its founding members, without veto power for an individual founder, while the World Bank gives greater voting power to members with larger capital subscriptions. The NDB also places stronger formal emphasis on sovereignty, national ownership and development priorities selected by its members. This creates a formally

³⁷⁰ Keohane, "After Hegemony", pp. 49-50, 87-97, 100-101.

³⁷¹ Morse and Keohane, "Contested Multilateralism," pp. 385-90.

³⁷² Babb and Carruthers, "Conditionality: Forms, Function, and History," pp. 14-15.

more balanced governance model, although differences in the economic and political influence of its members remain.

At the same time, the comparison showed considerable similarities between the two institutions. Their strategic priorities overlap in several development areas, while both use similar forms of financing, partnerships and cooperation with other development actors. The NDB remains considerably smaller than the World Bank and continues to cooperate and co-finance projects with other multilateral development banks. This suggests that its different governance structure and institutional discourse do not necessarily represent a separate development model.

Based on these findings, the NDB can currently be considered more as an additional and complementary institution than as a complete alternative to the World Bank. It provides another source of development financing and introduces some different institutional principles, particularly regarding the position of founding members, sovereignty and local currency financing. At the same time, it continues to operate within the broader multilateral development structure and shares many priorities and practices with other MDBs. This relationship is more complex than a division between one traditional and one alternative institution.

The Loan Policy Comparison provided a more detailed picture of one of the main differences associated with these institutions. The analysis showed that both the World Bank and NDB include requirements in their lending frameworks and monitor their implementation. Both institutions assess financing before approval, establish obligations for borrowers during implementation and may suspend or cancel further disbursements if agreed requirements are not fulfilled. It would not be accurate to describe the NDB as an institution that provides financing without conditions.

The main difference is related to the type and purpose of these requirements. DPF represents the clearest form of policy conditionality among the World Bank instruments analyzed, while IPF and most analyzed NDB modalities are more focused on project, financial and implementation-related requirements. NDB requirements can still affect the continuation of financing, but they are generally less directly connected to wider changes in government policy than DPF prior actions. This suggests that the difference between the institutions is not the complete presence or absence of conditionality, but the form it takes and the areas towards which it is directed.

Taken together, the two analyses suggest that it remains open to question whether the NDB can be considered a clear example of contested multilateralism. Its establishment created an additional institutional option for countries that seek different sources and forms of

development financing, and some elements of its governance and lending approach differ meaningfully from those of the World Bank. However, these differences have so far expanded the range of available institutions rather than resulted in the replacement of the World Bank or the creation of a separate multilateral financial order. In this sense, the NDB represents institutional diversification more than institutional replacement. Based on the findings of this thesis, it is therefore difficult to confirm that the NDB represents a fully developed case of contested multilateralism, although some of its institutional characteristics and the circumstances of its creation are consistent with this concept.

There are also limitations that need to be considered when interpreting these findings. The WB and NDB are institutions of very different age, size and operational capacity, which limits the possibility of making completely equal comparisons between them. The NDB is still developing its membership, financial capacity, policies and operational practices, meaning that conclusions based on its current structure and activities may change over time. The analysis of conditionality is also based primarily on official lending policies and institutional documents and therefore shows how requirements are formally structured rather than how every individual loan is implemented in practice. More detailed project-level research could provide additional evidence about how these requirements operate in different borrower countries.

Future development of the NDB will be important for determining whether its current institutional differences become stronger or whether its practices move closer to those of other multilateral development banks. Membership expansion may influence its governance structure and the balance between founding and new members. Further development of local currency financing, growth in lending capacity, cooperation with other financial institutions and changes in the political and economic relations between its members may also affect its future position. The same applies to its lending practices, since a larger and more diverse portfolio may provide more evidence about how its approach to policy conditionality, sovereignty and country ownership develops in practice.

At this stage, the New Development Bank does not appear to represent an attempt to dismantle or fully substitute the World Bank. Instead, it provides another institutional framework through which emerging and developing countries can obtain financing and pursue their development priorities. Its importance may therefore be found not only in how different it is from the World Bank, but also in the fact that its existence increases institutional choice within the international development finance system. Whether these differences will develop into a more distinct alternative model will depend on the future development of the institution and its practices.

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