

BRICS AND THE NEW DEVELOPMENT BANK

A note for facilitating the efforts of civil society organisations in India towards engaging with the discourse on the BRICS and New Development Bank

The BRICS¹ has emerged at a time when the future of the international financial system that arose in the immediate aftermath of World War II is increasingly being called into question. Given their expanding economic size and increasingly active diplomacy, the BRICS countries are gradually gaining greater influence over the international decision-making process. In 2009, a BRICS summit was initiated to create a new platform to work together as a group of rising powers that are both willing and able to play a collective role in international affairs.

The canvas of the BRICS agenda is very broad. Although it began with regular and intensive consultations on the global economic slowdown of 2008-09, overtime the agenda incorporated other concerns such as climate change and sustainable development, food and energy security, the global trading order, Millennium Development Goals (MDGs) etc. For the last few years, the overarching agenda of the BRICS Summit has been financing development.

New Development Bank: Functions and Functioning

The world of development banking, for a long period, was dominated by a few multilateral actors like the World Bank and International Monetary Fund (IMF). Over time, a number of national development banks from countries like China and Brazil have entered the global arena and become global actors².

Development financing in the Global South has been facing immense challenges as their development needs were not being met through the existing financial institutions. These countries have been gradually becoming ineligible for getting concessional loans through the World Bank's International Development Association (IDA) as this only provides assistance to countries with a per capita income of less than \$1,205 (Oxfam, 2014)³. At this juncture, the creation of a BRICS development bank offers a real opportunity to developing and emerging economies to meet their development needs.

In the Fourth BRICS Summit in New Delhi, 2012, the BRICS countries for the first time decided to explore the idea of forming a multi-lateral development bank for mobilising resources for infrastructure and sustainable development projects in the BRICS countries and other emerging economies. The discussion on establishing a dedicated BRICS bank was continued in the Fifth BRICS Summit. One of the objectives of the proposed BRICS development bank was to operate as a complement, not a substitute, for existing financial institutions both in the public and the private sector. The idea behind this was to strengthen the voice of developing and emerging economies in the development finance architecture, as well as to provide much needed additional finance. But given the absence of common interest between these countries, there were doubts whether the BRICS grouping will actually be able to give

¹ BRICS stands for Brazil, Russia, India, China and South Africa

² Development Banking in the BRICS countries by Axel Harneit-Sievers (http://www.networkideas.org/book/sep2015/DFB_Book.pdf.)

³ The BRICS Development Bank -Why the world's newest global bank must adopt a pro-poor agenda, Oxfam Policy Brief, 11th July, 2014

a concrete shape to this idea. These doubts were laid to rest, when the BRICS group formally announced the creation of the New Development Bank (NDB), during the Sixth BRICS Summit in Fortaleza, Brazil, in July 2014. The establishment of the NDB, particularly in the backdrop of the lack of reforms in the outdated Bretton Woods's institutions and norms, has been seen by many as one of the major achievements of the BRICS.

At the time of inception, it was decided that the NDB, will have an authorised capital of \$100 billion⁴. It would begin with \$50-billion subscribed capital, split equally among the BRICS countries. It would scale up later by inducting more countries as members and raise resources from the market.

In addition to the bank, the BRICS grouping also announced setting up of a financial safety net (with an initial size of US\$ 100 billion) through a Contingent Reserve Arrangement (CRA) amongst BRICS countries aimed at addressing short-term liquidity pressures, and strengthening existing international arrangements as an additional line of defense. The CRA is mooted to pool reserves based on individual contributions from China (\$41bn), Brazil, India and Russia (US\$ 18bn each) and South Africa (\$5bn). The membership of the NDB has been kept open to borrowing and non-borrowing countries which are UN members. However, admission of new members has been subject to terms and conditions set in the Board of Governors by a special majority.

The NDB would use US dollar as the default currency for raising funds from global markets as well as when lending to various countries, however it would likely to give loans in local currencies to India and China. Exceptions are also to be made depending on the desire for local currency loans among member countries.

In the process of operationalising the NDB, its board of directors met on November 20, 2015 to discuss and frame draft lending, borrowing and environmental policies for the bank before it commences operations in early 2016. These norms would be ratified by the board of governors in March-April, 2016.

Progress So Far

As was decided in the Fifth Summit, headquarter of the Bank has been set up in Shanghai, China. The first Regional Centre of the NDB is set to open in Johannesburg, South Africa. It was also decided that the leadership of the Bank would be shared by all the member countries on a rotational basis. Mr. KV Kamath from India has been appointed as the Bank's first President. As per the NDB agreement 2014⁵, The Bank has already allocated formal responsibilities to its four vice-presidents from South Africa, China, Brazil and Russia to initiate the operationalisation of the Bank.

Towards this end, all the five member-countries have made their first contributions, worth a total of \$750 million, to the capital of the New Development Bank. The tranches to the Bank's capital were paid in accordance to the agreement signed in July 2015 at the Seventh BRICS summit in Ufa, Russia. The contribution to the Bank's capital stock is made through paid up capital (which has already been transferred to the NDB), and subscribed capital (which shareholders would provide in case it is needed).

India and the NDB

In the Seventh BRICS summit, it was decided that the NDB would start working from early 2016 and its first project was to be in the sphere of renewable energy sources, preferably, in the territory of the BRICS. India has submitted three proposals including the Centre's Green Energy Corridor and Grid Strengthening Project for evacuation of power from renewable

⁴ <http://ndbbrics.org/agreement.html>

⁵ <http://brics.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15>

energy sources. Two other projects submitted to the NDB relate to a power project and an irrigation project in Rajasthan. More projects will be submitted to the Bank after various state governments submit their proposals to the Centre.

Looking at the projects identified for the NDB loan, the question arises whether development financing in NDB is very different from the existing development financing institutions. It seems the NDB is also largely focusing on infrastructure development. The entire development model behind the large scale infrastructure is directed towards achieving economic growth. However, it is important to see whether its investments in infrastructure and services meet the interests of socially and economically disadvantaged communities.

In the discussion and debates on the NDB's size and scope of operation, many economists have expressed concerns about the future of the BRICS itself. According to some, in recent years, the BRICS as an emerging power is losing its relevance as most of the BRICS nations are experiencing economic slowdown. China's economy has begun to show signs of slipping, growing at 7.4 percent in 2014; it's the slowest rate in almost a quarter of a century. Constrained by its own political structure, Brazil's path to economic prosperity perhaps remains the most turbulent of all the BRICS members. Russia is also predicted to grow at a low rate of 3.5 percent over the coming twelve months of 2016. In effect then, India is the only hope in the BRICS block as currently it is growing at 7 percent.

India and the Eighth BRICS Summit

India would hold the BRICS Chairmanship from 1st February to 31 December 2016. During its Chairmanship, it hosts the Eighth BRICS Summit on 15-16th October in Goa. The theme of India's BRICS Chairmanship is 'Building Responsive, Inclusive and Collective Solutions' (BRICS).

Though the agenda for the forthcoming Summit has not been set yet, Prime Minister, Mr. Narendra Modi has proposed 10 steps to boost cooperation among the member countries. These 10 steps or "Dus Kadam"⁶, include a BRICS trade fair, a railway research centre, cooperation among supreme audit institutions, a digital initiative, an agricultural research centre, a forum of state/local governments among the BRICS nations, cooperation among cities in the field of urbanization etc.

Although very little has been spelt out about the NDB per se, the GOI has reported that it would focus on implementation of previous commitments flowing from the past Summits, institution building, and exploring synergies among the existing mechanisms. It also plans to push for greater economic growth among the member countries and for reform of global financial institutions.

Role of Civil Society

Historically, civil societies have played an important role in influencing socio-economic processes. In the last few decades, civil societies have also been engaging with global policy platforms like the United Nation, G20, etc. In this regard, the latest achievement is official engagement with the BRICS. For the first time, a formal Civic BRICS process was implemented within the BRICS Summit held in Ufa, Russia in 2015. The official recognition of civil societies in the Summit is good news for the developing countries as it provides another avenue to represent southern voice and challenge the dominance of the West in global policy framework. Though, there was skepticism that Civic-BRICS was a government led and perhaps an "eye-wash" initiative, however, for the first time, acknowledging the civil society groups as a stakeholder is an important move.

⁶ http://articles.economictimes.indiatimes.com/2015-07-10/news/64282835_1_brics-nations-the-contingency-reserve-arrangement-brics-summit

A number of civil society organisations from the BRICS member countries as well as guest countries participated in the dialogue on various important social issues like healthcare, education, development, urban problems, finance and conflicts settlement in the Civic BRICS. These civil society organisations also voiced concerns on issues related to NBD's transparency and environmental norms.

As India is hosting the BRICS Summit this year, Indian civil society organisations should work together to establish a permanent platform of the civil society within the BRICS. Efforts should be made to make the civil BRICS process transparent and participatory so that a wide range of civil society groups, including grassroots groups, can make their voices heard in the BRICS policy making process.

Irrespective of whether civil societies have any impact on the BRICS agenda, it is important that they continue to engage with this platform. Among other things, it also needs to monitor the functioning of the NDB in order to make the governments accountable in case of any negative impact of their development projects on people, society and the environment.

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