

BRICS DEVELOPMENT BANK: A new model for Africa

Introduction

During the fifth BRICS summit held in Durban, South Africa, from 26-27 March, 2013, the joint statement from the BRICS leaders announced that they have agreed to establish a New Development Bank. The idea of setting up a BRICS Development Bank as an alternative to the World Bank and International Monetary Fund came from India at the 2012 meeting of the Organisation's finance ministers in Mexico. The Bank that the BRICS seeks to establish is expected to emphasize on infrastructure development and sustainable development. According to the BRICs, the BRICs bank will not be a competitor for the World Bank or the Africa Development Bank but will compliment funds that are existing through the multilateral institutions that cannot meet the financing needs of the emerging economies. The new Bank is expected to work closely with existing multilateral development banks tapping skills and expertise from the long experienced institutions for it to be operational and gain momentum. If the proposed Bank becomes a reality, the institution would be the first major multilateral lender to emerge since the European Bank for Reconstruction and Development.

There are however more questions than answers as to how much money each of the five countries will provide as seed capital, when it will be launched, its location, its governance structure, how the bank intends to finance projects and its likely benefit or impact? As with such proposals, the devil is in the details. Besides lack of specific information around the Bank, the viability and feasibility of such a scheme is difficult to assess. The Thekwane Declaration has outlined an action plan of ministerial and high level officials meeting to facilitate on-going dialogue on the country positions and priorities. In these meetings issues around the bank formation will be clarified and finalised. This brief elucidates reasons behind the formation of the Bank and also examines the likely benefits and challenges of the new BRICS Development Bank.

Who are the BRICS?

BRICS is an acronym for Brazil, Russia, India, China and South Africa and is a group of the fastest growing markets of the world. The BRICS countries see the group as a continuation of the partnership that was established in 1955 when countries of Asia and Africa met at the Bandung Conference to form the Non- Aligned Movement (NAM).

This was a historic watershed in the international relations of developing countries as it was necessitated by the then growing cold war bipolarisation. The NAM countries concerted and affirmed that they would not be aligned neither to the east nor the west, but pursue their own path and strategy under the guidance of the "Bandung Principles" of South-south relations. It is against these same principles that the BRICS countries have individually emerged to assume new economic rankings. In 2010, China became the second biggest economy in the world while India currently stands as the 10th largest (GDP) in nominal terms. In 2011 Brazil stood as the world's sixth largest economy, Russia was ranked ninth and South Africa twenty-sixth.

The BRICS bloc occupies 30% of the global territory. It represents about 40% of world's population and account for 17% of world trade. It is responsible for a fifth of global gross domestic product (GDP). The contribution to global economic growth over the last decade has reached 50% which makes the group the leading power in global economic development. BRICS combined reserves are, its economic growth has been substantial with 4% GDP compared to 0,7% for the G7 nations¹. With much reserve pool of funds available, the BRICS countries felt that the money could be used by emerging economies to address balance of payments or crisis situations.

Rational for creation of Bank

The Bank is aimed at capacitating its members with a way to provide money for investment in targeted infrastructure projects among themselves and also to

increase commerce between the BRICS and other emerging economies. The BRICS have noted that long term financing market in many developing countries were relatively undeveloped; therefore the Bank will compliment the available resources from multilateral development banks (MDBs) as the latter cannot fully meet the financing needs of emerging economies. The new bank would provide loans to developing countries towards development of ports, roads, and other infrastructural projects necessary for trade.

While these five countries have also increased contributions to the IMF, they have however expressed frustration at the marginal role in the institutions' decision making processes that are dominated by industrialised countries, particularly the G7. The presidential selection and quota restrictions have perpetuated the western dominance. Africa has been allocated just three seats on the Bank's 25-seat Board. Loan conditionality's applied by IMF/ WB has been questioned by both Africans and other emerging economies. It is against this single power dominance that has compromised the work of the Breton Woods Institutions and further led to the idea of a new Bank by the BRICS with a view to balance the IMF/WB institutions. The new Bank will give the BRICS a better bargaining or negotiating power over voting rights in the Breton Woods Institutions.

Benefits of the new BANK

There are several benefits that are likely to accrue when the Bank is operational. Ideally the BRICS bank act as an alternative mechanism to development finance as opposed to the priorities of the lending

institutions such as the World Bank and IMF. Some experts see the Bank as a useful institution to facilitate accessibility of information. Traditionally the BRICS economies have been known for not availing information on their engagements activities to the world. It thus becomes an opportunity for them to get to know each other too.

Most BRICS nations and other emerging nations have already adopted the policy of conducting trade among themselves using own currencies. To date two agreements have been signed among the developed Banks of Brazil, India, Russia, China and South Africa, where local currencies' loans will be made available for trade between member states. The use of real, rouble, rupee, renmbi and rand amongst themselves has allowed them to diversify their foreign currency exchange reserves. This presented growing risks of major currencies such as euro and dollar crisis.² This will weaken the advantage of the US the world major trading currency and also help to even out the political and economic global power imbalance.

The bank initiative is likely to fill any current gaps in financing including access to finance for small and infrastructure projects particularly those that have been neglected by the private sectors and also support infrastructure projects that improve the lives of people.

The new bank could hold great benefits for Africa. According to the AFDB, the continent needs US\$93 billion every year to fund its infrastructure requirements which is not met by the current financial institutions.³ As the BRICS are consolidating their position in Africa through massive investment, the

establishment of the new Bank seems to create a new source of development for the continent. BRICS are attracted by the benefits of diversification of African economies as the preferred gateway to untapped market of one billion African consumers.

Holding of the fifth meeting of the BRICS countries in Durban, Africa was seen as an opportunity for Africa strengthening its ties with these major economies. In fact Africa has demonstrated huge potential in terms of economic development prospects, abundant natural resources, growing consumers power and favourable demographics. AS a result the BRICS are now Africa's largest trading partner. The BRICS share in FDI inward stock and FDI inflows to Africa reached 14% and 25% respectively. Trade between the BRICS and Africa reached a record high of US\$ 340m in 2012, ten times higher than the values recorded in 2002. Currently the BRICS trade more with Africa than it does with member states thus Africa stands to benefit more from the formation of the Bank.

Challenges

With scanty details around the new Bank, the viability and feasibility or otherwise of such a bank is difficult to assess. The details remain to be worked out before the proposed bank can become fully operational. Although the idea of a BRICS Bank is ideal in terms of a comprehensive "multi-lateral framework of cooperation," the BRICS countries however have differing economic weights and striking balance that would avoid dominance by one or two countries in the management of the Bank. Some analysts see China which has huge reserves and investments in Africa and

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other emerging economies overriding decision making process and leadership of the Bank.

The start up capital has been debated and the BRICS agreed to start with US\$50billion which would be shared among the five member states but this is still to be finalised. The location of the Bank is one among other issues on the table and there are indications that China would prefer it to be in Africa while others would want it to be in their own countries.

The Bank is likely to experience challenges if it is to adopt lending conditions and other provisions like donor driven priorities and strategies of current development finance institutions that have been unfavourable and unpopular with recipient countries.

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