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The BRICS New Development Bank & Civil Society Imperatives

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Often times infrastructural investments incur risks and threats that are not taken into consideration both in the planning and implementation phases of the financing of particularly large-scale infrastructure development. In light of this, various stakeholders have raised concerns over the lack of a clearly articulated broad-based platform for civil society to contribute to the decision-making processes of the Brazil, Russia, India, China and South Africa (BRICS) New Development Bank (NDB). This Briefing Paper provides an overview of the newly established BRICS bank and gives broad recommendations on how the NDB may address issues related to increased civil society engagement in its operations.

Introduction

It is expected that by 2020, the shortfall of global infrastructure spending, that is already estimated at one trillion dollars, will have more than doubled. In developing countries, this investment deficit will be driven by growing populations, rapid urbanisation, the need for economic growth and industrialisation.[1]

Against this backdrop, the establishment of the BRICS NDB in March 2014 held much promise for both emerging and developing countries. Marking the beginning of the second cycle of the second six-year cycle of BRICS Summits, the NDB and the Reserve Agreement were inaugurated at the 7th BRICS Summit in Russia: the first tangible institutional manifestations of the BRICS grouping.

The much-anticipated Bank has elicited a wide range of views since its establishment was announced. The spectrum of these sentiments have ranged from optimistic reflections of a growing shift in global power dynamics to outright incredulity at the effort by countries with economic and political backgrounds so disparate to alter the global financial architecture. Those in seeming opposition to the Bank have remarked that it poses no competition or credible threat to the existing global financial architecture. However, such thinking reflects an inaccurate interpretation of the motivations behind the NDB.

Since the grouping was first formed, BRICS leaders have repeatedly expressed in their various declarations, as well as the Agreement, that the intention of the Bank is to complement the existing efforts of other multilateral and regional financial institutions. Indeed, the NDB does not have the agency to overhaul the global financial governance system. However its very presence within the system can facilitate a more democratic, diversified and fair system of global financial governance.

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Why a BRICS Development Bank?

The NDB provides an additional channel through which developing country governments can borrow to finance economically productive infrastructure assets – whilst still remaining within prudent levels of debt. To this end, a new institution has the potential to make up for the deficiencies of the existing architecture and help catalyse the private sector investments required.

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The NDB will initially be involved in mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies. Many developing countries require a significant increase in infrastructure investment to alleviate growth constraints and meet their crucial development needs inclusion and environmental goals.

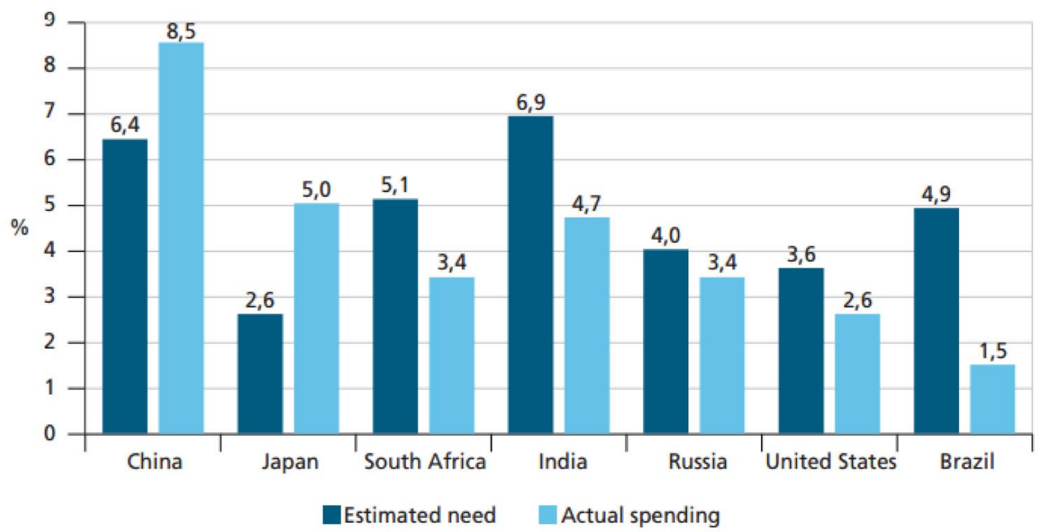
Given that there exist an estimated investment deficit of more than one trillion dollars annually beyond what is currently being financed by existing mechanisms, this can only be viewed as a positive development to the development finance architecture. Global spending on basic infrastructure – transport, power, water and communications – currently amounts to US$2.7tn a year while the demand is cast at US$3.7tn.[2] Current spending on infrastructure in developing countries is approximately US$0.8-0.9tn per year, of which the majority is financed directly by domestic resources.

In order to meet the development requirements for infrastructure, spending will need to more than double by 2020, and while domestic resources will undoubtedly continue to play an important role, their commitments will invariably be constrained by macroeconomic considerations regarding sustainable levels of debt and affordability. Herein lies the limportance of the BRICS Development Bank.

The Shifting Global Architecture

The current global financial architecture that has been underpinned by the World Bank and International Monetary Fund (IMF) has been in need of change, most poignantly in the past two decades, as the global economic landscape has begun to see a shift towards emerging economies.

Infrastructure spending (percentage of GDP)



Source: McKinsey Global Institute, infrastructure productivity: how to save US$1tn a year, January 2013

This issue has been a major concern of BRICS countries since their formalisation at their very first Summit in Yekaterinburg, Russia in 2009. Members have repeatedly cited the democratic deficit of these institutions highlighting the need for the reform of international financial institutions through increased representation of emerging and developing countries as well as increased transparency in the appointment of the heads and executives of these institutions through a merit-based selection process.

Following the crisis in 2008, and the role that the BRICS countries played in mitigating its negative impact, discussions pertaining to restructuring IMF quotas by bringing about a shift of five per cent from over-represented to under-represented member countries began. This would increase the quota of the BRICS countries to 48 per cent. However, the agreement remains to be implemented, awaiting ratification by the US Congress. As such, the review of quotas that was subject to take place in 2013 was indefinitely postponed. It was against this backdrop that the BRICS member decided to establish the Bank.

The NDB provides an alternative to the western-dominated international financial architecture whose funding is often tied to conditionality and therefore, fills a gap that existed in the global financial architecture for a broad-based Southern-led monetary fund. The Bank itself is scheduled to start lending in 2016 and be open to membership by other countries. The capital share of the BRICS countries, however, will not drop below 55 per cent and the power of each member shall equal its subscribed shares in the capital stock of the Bank.

Compared to existing international financial institutions, the Bank's US$100bn subscribed capital is dwarfed by that of financing institutions, such as the World Bank which stands at US$223bn. However, the existence of a Bank that does not adhere to the World Bank and IMF's structural adjustment philosophy may provide opportunities for developing country governments to develop more independent and relevant national development policies.

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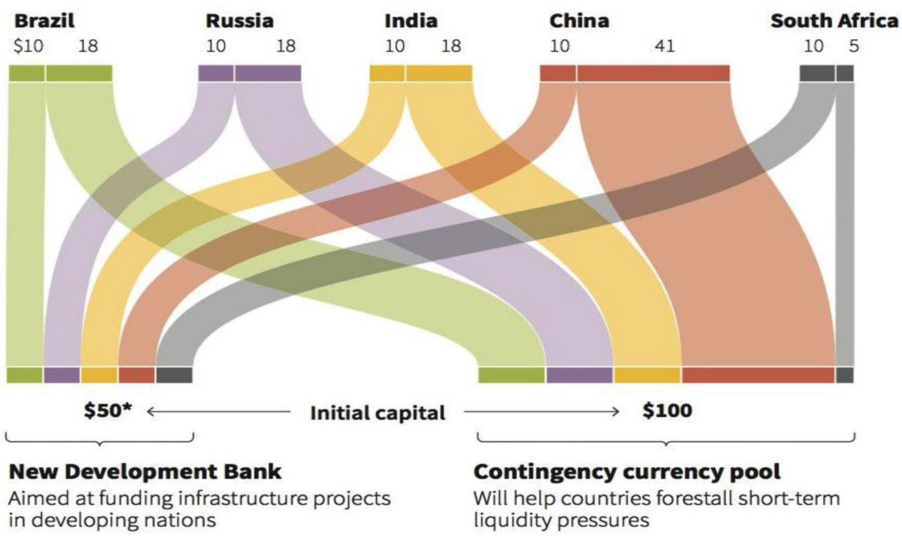
Indeed, for a significant portion of the post-war period, developing countries were not given the 'policy space' to make independent economic or political decisions. However, as the first non-regional post-Bretton Woods multilateral institution, the BRICS Bank has now provided these governments with new development aid alternatives.

The BRICS Development Bank, initial contributions, US$bn



Source: Brazilian Government; Reuters

Is there Room for Civil Society Engagement?

At the fifth BRICS Summit in South Africa, a number of country experiences relating to development finance were recounted and an overarching concern was that often development finance projects lack inclusive measures, accountability structures and only take into consideration macro-level perspectives that fail to take into account the ground-level repercussions. Many of the participants at the fifth BRICS Summit indicated that there was a need to ensure that socially just and ecologically sustainable development would be one of the major cornerstones of the planned BRICS Bank. Such a mechanism has not yet been articulated by the BRICS grouping.

> ***Whether the NDB will be substantively different in their development approaches compared to its other development finance counterparts remains to be seen.***

Most of the involvement in development banking takes place at the government and inter-governmental levels with little to no contribution by civil society representatives. However the involvement of civil society groups is imperative if one wishes to understand the local-level social, economic and environmental impacts of these infrastructural investments.

2015 saw the hosting of the first Civil BRICS Forum in Russia, which was the grouping's first concrete step towards engaging civil society in the BRICS activities. Although the mandate of this Forum cuts across wide range of issues on which the BRICS are working, the *Civil Forum BRICS Statement: Appeal to the BRICS Leaders* gave some indications that there was some discussion pertaining to a mechanism solely dedicated to linking civil society to the NDB.

Under the section on sustainable development the civil society, the Statement read:

> *We urge BRICS governments to develop a mechanism of CSO and expert community participation in all aspects of the Bank's operations. CSOs should be actively involved in development and implementation of sustainable development policy at national and BRICS levels through participation in the BRICS Environmental Ministries working group and other BRICS bodies and meetings. BRICS countries must promote social entrepreneurship*.[3]

In order to have broad-based positive effects on beneficiaries in countries where there is going to be support to infrastructure projects, managing social and environmental risks projects will need to be a key component of its overall strategy. The BRICS NDB can benefit from introducing this component into its design from the outset. *Ex-ante* cost-benefit analyses, social, economic and environmental impact analyses of BRICS projects need to be undertaken before they are awarded. It is only with such analyses that it can provide direction and design of safeguarding the needs of all stakeholders.

There already exists a system of checks and balances that is integrated into the work of leading multilateral lending agencies such as the World Bank. The BRICS members could draw from these and, in addition to this, learn from their own existing operational experiences. Already existing examples include the Brazilian Development Bank's (BNDES) Social and Environmental Responsibility Policy and China's 2007 "Two Highs" Emissions Policy and 2012 Green Credit Directive, which reflect how China has produced some of the most cutting-edge green finance policies in the world due to the high standards placed upon its financial institutions.

It is evident from the current practices of lending institutions that a dual approach system is thought to be most effective. This normally entails:

- alignment with host country rules and regulations on social, environmental and economic standards; and
- development of an internal risk management system by the lending institution that can be developed from existing tools, guidelines, such as International Finance Corporation's Environmental, Health and Safety Guidelines.[4]

Conclusion

In order to undertake the above-stated recommendations, the NDB will need to make provision for a well-staffed research unit. Among other things, this unit should undertake or commission *ex-ante* as well as *ex-post* social, economic and environmental impact analyses of infrastructure and sustainable development projects that the Bank will fund.

Whether the NDB will be substantively different in their development approaches compared to its development finance counterparts remains to be seen. Civil society groups within the BRICS countries, media and academics will have to work together to ensure the NDB pursues lending that is ecologically sustainable, promotes inclusive economic growth and development, and bases its operations on good corporate governance.

Indeed the establishment of the Civil BRICS Forum at the seventh BRICS Summit is a positive step towards the formation of a broad-based platform that will allow civil society groups to influence decision-making in the NDB. Such a mechanism would be a crucial component of facilitating an inclusive approach to development banking.

Endnotes

1 World Economic Forum (2014), Strategic Infrastructure Steps to Operate and Maintain Infrastructure Efficiently and Effectively, World Economic Forum. Available at: *http://www3.weforum.org/docs/WEF_IU_StrategicInfrastructureSteps_Report_2014.pdf*. Accessed on February 26, 2015

2 *Ibid*

3 Civil BRICS Forum Statement: Appeal to the BRICS Leaders, available at: *www.civilbrics.ru/upload/iblock/98f/98ff0311a446ba25e9349b744e017df4.pdf*

4 International Finance Corporation, Environmental, Health and Safety Guidelines, available at: *www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Environmental,+Health,+and+Safety+Guidelines/*, accessed on February 26, 2015