BRICS Vision: Making BRICS Development Bank Work

The annual summit of BRICS grouping—Brazil, Russia, India, China and South Africa—is scheduled to be hosted in New Delhi on March 29, 2012

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At the annual BRICS Leaders Summit held at Sanya last year, it was announced that the BRICS nations will work towards strengthening "financial cooperation among the BRICS Development Banks." This proposal, also discussed at many of the recent G20 meetings, is one of the key points on the agenda for the 4th BRICS Academic Forum, which will precede the Leader's Summit.

The agenda mentions a specific and concrete way in which financial cooperation can be enhanced; through the institutionalisation of a BRICS Development Bank as one example.

For the BRICS policymakers, at the outset, it is important to pre-empt the possible critique to this idea that seems destined to gain momentum over the coming days. A valid criticism would be that creating new institutions is easy, but getting palpable results is not so. Furthermore, given the financial capacity asymmetries among the BRICS nations, and a tendency of individual members to prefer to operate bilaterally within the grouping for political reasons or otherwise, the BRICS Development Bank seems like a sub optimal development tool. Such critiques are valid at one level—since the creation of the institution is just an idea, without any structure. Therefore, it is important that the possible structure of such an institution be thoroughly debated during the various BRICS meetings—both Track I and Track II; taking place in New Delhi over the month of March, and also in the public domain.

The Brazilian Development Bank (BNDES) could be considered an exemplar in terms of setting possible operational mandates for the envisioned BRICS Development Bank. The BNDES disbursed close to 140 billion dollars in 2011, with around 30 percent going to medium to small enterprises (MSME) and about 40 percent going to large infrastructure projects. Funding activities saw a marked increase after the unravelling of the financial crisis. Moreover, the bank has seen good internal growth owing to robust corporate share performance in recent times.

Raising money through the open markets in the BRICS economies would be an effective way for the BRICS Development Bank to tap into existing capital in the financial markets. In the same stroke it would also ensure that the monetary asymmetry within the BRICS nations would be an irrelevant truth rather than a real obstacle. Furthermore, from the point of view of businesses, loans secured from a credible multilateral institution would create confidence in other private lenders and investors. Therefore even relatively small total disbursed amounts of say 10 billion USD could potentially facilitate lending and investment activities of 50 billion USD and above.

The operational mandate of the BRICS Development Bank would have to look to integrate multiple priorities, and yet remain focussed. The key areas of focus would necessarily need to be imperatives for the BRICS nations and also for the developing world as a whole. This would add to such an institution's political meaning—something that cannot be ignored, and help develop new, sustainable markets for BRICS investment flows. Themes such as urban infrastructure, sustainable business models and the MSME sector within the BRICS nations and outside, could be natural starting points. Much like the IMF and the World Bank which provided monetary buffers to the faltering economies of the West, post the financial crisis, such a BRICS institution would also do well to initially supplement and eventually supersede the role of Bretton Woods Institutions in managing such crisis response for developing nations.

Opponents to the BRICS Development Bank idea might argue that there are few common reference points in terms of institutional transparency or risk management within the BRICS nations. Yet, using the same logic, institutions such as the Work Bank or the Asian Development Bank should cease to exist all together as they represent many more than 5 different stakeholders. In any case, reference points can always be borrowed until the BRICS nations create their own. The BRICS Development Bank should indeed adhere to

Press conference after the BRICS Sanya (China) summit in April 2011

the highest of risk management standards, and should be well placed to adhere to the Basel III Norms for capital adequacy, etc. Furthermore, transparency can only be a function of the bank's institutional independence, which would in turn be a necessary prerequisite in this multiple stakeholder scenario.

Multinational companies will continue to be the growth drivers of the BRICS economies, and policymakers should also consider the creation of a focussed arm of the envisioned bank to cater to their borrowing and insurance needs. The underwriting of equity, as well as debt of listed companies, would not only help firm level growth, but will also drive the growth of the BRICS economies as a whole. Furthermore, much like the World Bank's Multilateral Investment Guarantee Agency (MIGA), the BRICS Development Bank could set up an insurance arm to provide non commercial risk insurance guarantees to businesses looking to invest within the BRICS. It would be useful for policymakers to note that guarantees against political risk—which is still a concern amongst many international companies looking to venture into emerging markets, could facilitate a great deal of new business activity within the BRICS (MIGA has paid only six insurance claims since it was set up in 1988, and it requires no counter guarantees).

The BRICS nations are dissimilar in only as many ways as they are similar, and there is no reason for the policy apparatus to submit to questions on institutional feasibility, political unity, common standards, intra-BRICS competitiveness, etc. If created, the BRICS Development Bank would be a very real expression of intent; the intent of the BRICS nations to endure through the question marks over legitimacy and efficacy of the consortium; the intent of the BRICS nations to move above and beyond the development discourse created by the Bretton Woods era relics; the intent of the BRICS nations to substitute the existing global financial governance order with a proactive solution of their own; and most of all, the intent of the BRICS nations to create organic contexts for economic growth and development. Pessimists might find it useful to remember the mantra that it is better to have tried and failed, than not having tried at all. **NT**