BRICS Bank: New bottle, how's the wine?

BRETTON WOODS project

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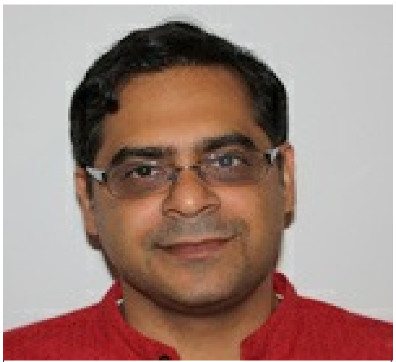
Last year BRICS' leaders agreed to launch a BRICS development bank. Whether this is considered positive depends in part what questions are being asked. Sameer Dossani of ActionAid International highlights the flaws in the World Bank and IMF, analyses whether a BRICS Bank could be different from these institutions and proposes what it should do and what it should look like.



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At the 2012 Delhi summit of Brazil, Russia, India, China, South Africa (BRICS), the leaders of the five nations agreed to launch a BRICS development bank. The following year in Durban, the initiative was given a name – the New Development Bank (NDB). While perhaps not the most original of monikers, the name does beg questions – how new is the New Development Bank? Whose development are we talking about here? And does the world need another multilateral bank?

We are still awaiting answers on these questions, and judging by the latest reports, so are the five BRICS countries. According to reports from the latest BRICS meetings, aside from the question of how much capital the NDB should have in its 'vaults' ($10 billion per country, $50 billion in total), there is little that the countries seem to agree on.

While official information is hard to come by, rumours abound. Whether or not those rumours are considered positive developments depends in part what questions are being asked. If the questions are "Will there be adequate social and environmental protections?" or "Will the NDB actually finance alternative forms of development, such as decentralised renewable energy production?" the conclusion is likely to be negative. But if the questions are "Does the world need a Southern-led and controlled financial institution?" or "Would NDB loans come with the kind of harmful macroeconomic conditions that the IMF pushes?", the conclusion would be more positive.

Do we need a new bank?

The World Bank and its sister institution the International Monetary Fund, established 70 years ago, have lent billions to developing countries. Yet in their heyday – in the 1980s and 1990s – these institutions did not produce results in terms of poverty reduction or even in terms of increasing economic growth. In almost all regions, inequality skyrocketed during this period. Even now, with the exception of Latin America, the gap between rich and poor continues to grow.

While the World Bank would be quick to point out that it cannot be blamed for these failures, it is telling that institutions supposedly meant to foster development have to this day very few examples of countries that they have actually helped to develop.

Part of the failure can be attributed to the triumph of ideology over evidence. "Washington consensus" policies – fiscal and trade liberalisation, privatisation and budget austerity – were required of every developing country that sought international assistance. The results have not been pretty. As has been extensively documented, the period from 1980-2010 was in part defined by extremely slow growth globally. Where growth did occur in the North, it often turned out to be the result of speculative bubbles. In the South the only countries to grow were those that ignored Washington consensus policies – China, Malaysia, Singapore and a few others - and used state-backed borrowing and investment to drive an industrial policy.

In the last decade or so, middle-income countries, including the BRICS, have been investing – and sometimes giving what we would usually call 'aid' – to less developed countries in Asia, Africa and Latin America. China is by far the biggest player here, but Brazil, India and others are also extending their reach.

What does the increasing role of Southern countries as agents of 'development' in other Southern countries mean for the world's poorest and most marginalised? Is this yet another layer of exploitation, or do these events possibly offer a way out of poverty to communities who have been denied their rights for centuries? Will the NDB help countries improve policies and practices or will it be a mechanism whereby rich countries like China gain access to more resources and markets using the fig leaf of multilateralism?

There are no straightforward answers. But before we explore deeper, we should be clear about what is not on the table.

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Who's development model?

Progressives have long critiqued the development model of the North being exported to the South as environmentally and socially exploitative. The focus on GDP growth to the exclusion of other aims (externalities, in economic jargon) is highly problematic, especially in countries that do not yet have strong social and environmental regulations. In countries like India, social movements have strongly opposed a development model focussed on urbanisation, infrastructure development, and on expanding market reach, which almost necessarily entails the destruction of traditional and indigenous communities and lifestyles.

Even in a best-case scenario, initiatives like the NDB are unlikely to challenge any of this – quite the opposite, they are likely to take a GDP-centred, Northern-development-model approach. That is the model that these countries are following, with megaprojects like the Three Gorges dam in China, Jirau dam in Brazil and Kudankulam nuclear power plant in India being showcased by their respective governments as development successes. But the NDB's failure to challenge the lack of environmental and social protection in the development model does not mean that all hope is lost.

While the neoliberalism of the 1980s and 90s promoted a worldview in which growth and a certain model of development are ends in themselves, it did not even deliver the growth and development that it promised. Amidst recent triumphalism about the achievement of the UN's Millennium Development Goals sits a sad truth: progress against poverty has been made in only a handful of countries. Take out China, Brazil and a few others, and poverty reduction has a poor track record in the last 30 years. Even GDP growth has been disappointing at the global level (with a handful of exceptions), and a lot of the growth that has happened has been deeply inequitable - consider Mexico and India for some of the less equitable growth stories.

The failure is not surprising. Neoliberals argue that countries should find their comparative advantage to create a trade-based strategy to growth – countries should export what they have. However, neoliberalism has never explained why the economies of the US and Japan are not dependent on the export of fur and fish, commodities that they were exporting when they began their development process.

True proponents of development understand that industrial transformation, not comparative advantage, is the key to the story. Countries like the US and Japan were not developed as long as their economies were primarily exporting raw materials – only when the economies began to produce and export manufactured goods could they be called developed (or even developing). The process of industrial transformation is something that the World Bank and IMF have not supported – in fact the institutions have opposed and blocked these policies.

Photo credit: Ministério das Relações Exteriores Brasil

What the BRICS Bank could do

Might a BRICS bank be different? It is certainly possible. Many of the BRICS countries (China being the most obvious example) are going through the process of industrial transformation themselves, with state support for domestic companies a key component of economic policy. And the BRICS countries (unlike the G7 countries who still dominate the World Bank and IMF) have no history of trying to force economic policy down others' throats.

To be clear, that does not mean that we can expect better results in terms of human rights or environmental protection. Early development in Great Britain, for example, was characterised by high levels of pollution and worker exploitation at every level. But it was a development process (albeit an awful one) that centred around the transformation from an agrarian economy to an economy that manufactured goods.

The NDB, if consistent with BRICS rhetoric so far, should not hinder (and might even support) this process of industrial transformation.

Many NGOs critical of proposals for a BRICS Bank have pointed to the decades of struggles to force the World Bank and other international financial institutions to adopt and enforce policies to protect vulnerable communities and the environment. They point to controversial projects like the Brazilian-Japanese-Mozambique ProSavana project, which involves state-owned Brazilian Agricultural Research Corporation adapting Brazilian export crops for Brazilian agribusinesses to start large-scale agriculture projects in northern Mozambique, with export infrastructure paid for by the Japanese aid agency. The critics say it puts Mozambiquan small farmers at risk while benefiting Brazilian and Japanese multinational companies in their production and processing of soy, maize, sugar cane and other cash crops.

These criticisms are certainly valid; problems related to bilateral financing of projects are likely to reappear in these multilateral efforts. But it is unlikely that a development bank can be founded in 2015 and not have some kind of social and environmental protections in place. What those protections will look like and how they will be enforced are questions with which NGOs and other stakeholders should be engaged.

Unfortunately, it is not clear how NGOs or other civil society actors are meant to engage with this process. Unlike other developing country formations (notably IBSA – the grouping that includes BRICS countries India, Brazil and South Africa), there is no formal mechanism for civil society consultation or engagement. Even if this does not change for the BRICS, CSOs should be pushing hard to include CSO consultations on the policies and programmes of the NDB.

Despite its many potential flaws, the proposal to establish the NDB should be viewed with cautious optimism. The key countries driving the process – Brazil, India and China – are not motivated only by a desire to expand their political and economic influence. They are already doing that without an international development bank. They are also motivated by a desire for legitimacy coupled with a desire to compete with (perhaps even show up) the G8 countries that did not live up to promises made in 2008 and 2009 to give developing countries more say over the IMF, World Bank and other IFIs. At that time, the BRICS countries and others were promised more say over the IFIs in exchange for putting in billions which the IMF ultimately directed to Europe. The rich countries have yet to live up to their end of the bargain.

The BRICS' desire to be seen as the promoters of 'genuine' development gives campaigners an inroad to help the BRICS countries define what genuine development is. If the development discourse were to focus less on mosquito nets and vitamins (important as those may be) and more on sustainable economic transformation, industrialisation and job creation, we might all be better off. Both the BRICS and CSOs can be part of the process.

A bank that is willing to fund policies aimed at economic transformation would be a step in the right direction. But would it really contribute to development and poverty reduction? There are a few things to look out for on the off chance that it can meet this lofty goal.

First, the NDB should lend not just to BRICS countries (who have many other potential sources of income), but also the world's poorest countries.

Secondly, the NDB should not focus on a specific sector, but rather it should fund those projects that countries identify as key to their industrialisation and development policies. If that is not feasible – we are already hearing that there will be sectoral focus on infrastructure – it should only operate in countries where investment in the niche sector is already part of the national development strategy.

Thirdly, in addition to financing projects, the NDB should be building up technical expertise, research and documenting various development experiences. Despite the noble efforts of some, such as Cambridge economist Ha Joon Chang, there still is not enough documentation on why and how countries develop. There is even less documentation putting that theory into practice in the context of a particular developing country, and where that documentation exists it is usually coloured by the political agendas of the World Bank and the IMF. The NDB should build up a counterweight to those narratives and work with underdeveloped countries who may request help to develop their own strategies of economic transformation.

A new global architecture

If the NDB is really trying to push in a different direction, it should be cautious about working with the existing IFIs, especially the World Bank and the IMF. While those institutions are already preparing to greet the NDB as a potential partner, partnership would come with a lot of baggage for an institution promoting itself as an alternative. In order to create such a genuine alternative it should look elsewhere, perhaps to more participatory institutions like the Global Fund for AIDS, TB and Malaria.

In addition to a more democratic governance structure –we are hearing rumours that each of the BRICS countries will contribute an equal share of money to the NDB pot, meaning that they would all have the same number of votes on its board – the NDB should ensure that representatives from recipient countries are also part of the process. There are many ways in which it could do so – the best might be to create a governance mechanism that includes representatives from other structures such as the African Union or the LDCs block as well as members of Southern civil society.

If the NDB can establish governance structures more equitable, more transparent, and more tilted towards ensuring that the needs of poor countries are at the fore, it may add to the already building pressure for meaningful reform of the Bretton Woods institutions.

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