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New assistance frameworks for BRICS countries in place, but many questions remain

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The group of BRICS countries (Brazil, Russia, India, China, South Africa) was created on the drawing board of an investment banker. The global significance of these countries is indeed high, currently accounting for 42 % of the world's population and 28 % of global GDP. Their governments have breathed life into this artificial creation in an amazing manner. They have driven their cooperation forward at summit meetings and in various specialist bodies since 2009. The BRICS Summit on 15th July in Brazil saw a decision made to establish the *New Development Bank* and to set up the *Contingent Reserve Arrangement*, which are clearly designed to act as a counterbalance to the World Bank and the IMF.

The *New Development Bank (NDB)*

The NDB is designed to finance projects in the BRICS countries related to infrastructure and sustainable development, but also in all other developing and emerging markets. The bank will receive start-up capital of USD 50 billion (with USD 10 billion paid-up, 20 % by each of the BRICS countries) and be based in Shanghai. The first President will be an Indian. The operational principles state that "the Bank shall apply sound banking principles", and the NDB will complement the existing efforts of international financial institutions. However, a key motive for setting up the NDB is clearly the desire to have a development bank with a significantly different focus. The World Bank et al are not just financiers, they tie the provision of funds to development policy conditions in order to improve the overall conditions in the given country and thereby combat poverty. However, the beneficiaries (including the BRICS) often see this as unwanted political meddling.

The *Contingent Reserve Arrangement (CRA)*

The CRA comprises USD 100 billion, of which China has put up the largest portion (USD 41 billion). As a result, China also has the strongest influence on the work of the CRA. Unlike the NDB, the CRA is not linked to the foundation of an institution. The only bodies are a *Council of Governors* (Finance Minister, Central Bank Governor) and a *Standing Committee*. The lack of legal personality means that the CRA cannot provide external refinancing (in contrast to the IMF for example). The funding is used to help with short-term balance of payment problems (speculative currency attacks, capital flight etc.). Only the BRICS countries have access to CRA assistance. Similarly to the NDB, dissatisfaction with existing institutions (and the IMF in particular) is the main reason for this initiative. The IMF is often criticised for its requirements regarding macroeconomic adjustments, with allegations that the remedies given (fiscal consolidation, currency depreciation) are ill-conceived and are primarily to the detriment of poor population groups. While there are no such conditions in the CRA principles, it is stated that a BRICS country may only use 70 % of its potential "drawing rights" if it also has an IMF assistance programme and the IMF considers such to be *on track*.

Evaluation

The BRICS countries' motives for these initiatives are clear. They want to make their own mark as self-assured, emerging markets. Efforts to gain more say at the World Bank and the IMF are barely making any progress, while even by its own assessment the IMF has made mistakes, especially during the Asian crisis of 1997/98. Furthermore, there is a massive need for long-term financing in infrastructure / sustainable development, especially since private banks are less committed in this segment during their recovery after the global financial crisis. In this respect, new financing providers should be welcomed, but there are still some critical questions.

Firstly, the appeal of the NDB will depend heavily on the conditions of the funding. In this context the World Bank benefits from the fund allocations of its members (for the *International Development Association*) and its AAA rating. The NDB's rating is likely to be worse considering that India, Brazil and South Africa were recently labelled as "fragile countries" on the capital market – not entirely flattering.

Secondly, there is the issue of conditionality, as there can surely be no unsecured granting of funds. One can obviously discuss what a proper sector or development policy should be, but noone has ever heard of the BRICS countries vehemently demanding quite different concepts on the board of the World Bank so far.

Thirdly, it will be interesting to see whether the BRICS can indeed find common ground with respect to leading the NDB and with the CRA. The BRICS are by no means a homogenous group of countries, they have economic and political systems that differ substantially from one another, and each exhibit multiple structural weaknesses.

In conclusion: it is still too early to celebrate. ■