The new-world bank

by Robin Davies
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The BRICS bank, thought by some to be a figment, a bargaining chip or at best a long-term diplomatic slog, now seems a lot more likely to become a reality under the working title of the New Development Bank (see this detailed *Financial Times* report, and this comment from *The Economist*).

Everybody got a guernsey: China (Shanghai) will host the bank's headquarters and South Africa a regional outpost, Russia will be first chair of the bank's board of governors and Brazil first chair of its board of directors, and India will hold the inaugural presidency of the institution.

According to an unnamed Brazilian diplomat, the deal was not easily struck, in large part owing to disagreements over the relative shareholdings of the bank's founding member countries. China, it appears, wanted to put in more money than the other contributors, either because it wanted to be the largest shareholder or simply because it had more to put in. In the end, all BRICS contributed equally at $US10 billion per head with $US2 billion actually paid in, over seven years, and the rest in callable capital. This made the initial level of subscribed capital, at $US50 billion, smaller than it might have been—but not actually smaller than previously discussed. The bank's authorised capital, subject to approval by some individual BRICS parliaments, will be $US100 billion; a further $US100 billion is to be made available, separately, as a contingency reserve to provide IMF-style assistance to member countries experiencing balance-of-payments difficulties.

The new bank would not be large by comparison with existing international development banks, but nor would it be trivial. The authorised capital of the World Bank is $280 billion, the Asian Development Bank $164 billion, the Inter-American Development Bank $171 billion, the African Development Bank $103 billion, and the European Bank for Reconstruction and Development $39 billion. What's more, these established banks operate under quite conservative capital adequacy requirements: it's possible the new bank will achieve additional clout by allowing a less conservative ratio of loan exposure to subscribed capital and reserves.

There are many unanswered questions about the new bank, including the five following:

- Will it, at some point, have a concessional financing arm akin to the International Development Association? That would require parting with real money, on a regular basis, but also greatly increase its profile with, and attractiveness to, poorer

borrower countries.
- Will it subscribe to any extent to operational policies of the kind that the existing banks largely have in common, particularly in relation to social and environmental safeguards? It might be marketed as a less condition-obsessed institution, but durable institutions need good reputations.
- Will it operate on commercial lines or rather on a more political (lend now, forgive later) basis? Again, if it is to be a durable, affordable financial institution, its mainstream operations will need to make an overall profit, so it will need to attach some strings of caution to its lending.
- Will it, at some point, have a private sector arm akin to the International Finance Corporation of the World Bank Group? Clearly the new bank's establishment is in large part an act of collective diplomacy on the part of its founding members, but a bank that wants to get things done in infrastructure can hardly refuse to contemplate direct support for private investors through equity injections, structured finance and credit guarantees.
- Will procurement of the goods and services that it finances be tied to suppliers from the big contributor countries, or member countries more generally, or not at all? The bank could make a big development contribution not merely by creating a new pool of money for infrastructure financing, which is important, but by allowing at least local procurement.

In most of these areas, if the new bank (together with the separate contingency reserve arrangement) is indeed intended to be an alternative to the Bretton Woods institutions, and if it is to appeal to potential member countries outside the group of founding shareholders, it's unlikely to differ wildly from the old banks. Over time, its operations might well become intertwined with theirs. Let's hope that, whatever happens, the announcement of the new bank translates into real new flows of development financing, fairly soon.

Robin Davies is the Associate Director of the Development Policy Centre.

Author/s:

Robin Davies
Robin Davies is an Honorary Professor at ANU's Crawford School of Public Policy, and Managing Editor of the Devpolicy Blog. He previously held senior positions with Australia's Department of Foreign Affairs and Trade and AusAID.

Link: https://devpolicy.org/the-new-world-bank/