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# THE BRICS DEVELOPMENT BANK

## Why the world's newest global bank must adopt a pro-poor agenda

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In July 2014, a new multilateral and Southern-led development bank is expected to be launched by the leaders of Brazil, Russia, India, China and South Africa – better known as the BRICS. The BRICS Development Bank will provide a fresh source of finance for developing and emerging economies to meet their development needs. Little has been made public regarding the proposed Bank's core mandate or activities but while governments negotiate the technicalities of the Bank, it is critical that they also provide a solid vision of the principles, priorities and objectives on which the Bank's activities and operations will be premised. This policy brief recommends that these include commitments to: ending extreme poverty and inequality, with a special focus on gender equity and women's rights; aligning with environmental and social safeguards and establishing mechanisms for information sharing, accountability and redress; leadership on the sustainable development agenda; the creation of mechanisms for public consultation and debate; and the adoption a truly democratic governance structure.



# INTRODUCTION

## BACKGROUND

The association of five major emerging national economies, Brazil, Russia, India, China and South Africa (BRICS) has a special responsibility towards helping the world achieve its goal of ending extreme poverty, reducing inequality and achieving sustainable development, as they collectively represent some of the world's greatest challenges and achievements. Despite remarkable strides made in reducing poverty within India and China, BRICS countries still house nearly half of the world's poor and – with the exception of Brazil – have experienced a rise in inequality in recent years. The creation of a BRICS Bank, and with it the promise of reforming the global development architecture, offers a real and concrete opportunity for governments of these countries to ensure development financing is sensitive to the needs of those who are poorest and most marginalized. In a press release issued during the 2013 Durban BRICS Summit, Oxfam said: 'BRICS leaders are blazing a trail in reforming the global financial architecture. But the devil is in the detail. If the BRICS Bank fights poverty and inequality it could be a big success. But if it focuses only on big-ticket schemes that fail to directly benefit poor people it could do more harm than good.'<sup>1</sup>

There are currently very few documents within the public domain that clearly articulate a mandate and framework for the proposed BRICS Bank, particularly from a pro-poor and pro-equity perspective. Furthermore, civil society engagement with BRICS-related processes has been relatively low, although there is interest to engage much more substantively. This policy brief aims to move beyond the BRICS governments' current focus on technicalities around capital contribution and governance, and instead provide a solid vision for the principles, priorities and objectives on which the Bank's activities and operations should be premised. It seeks to demonstrate how the BRICS Bank could be used as an instrument to promote pro-poor development and reduce inequalities, both within the BRICS countries and in other partner countries where projects will be implemented.

## AN IDEA WORTH CELEBRATING?

Leaders of the five BRICS countries will convene their seventh round of discussions in Fortaleza, Brazil, in July 2014. While global interest in their activities is far less than the level of enthusiasm seen in the period between 2009 and 2012, there is a fair level of anticipation around the announcement of their first major institutional initiative – a new development bank, called the BRICS Development Bank.

The new Development Bank is a logical extension of the *raison-d'être* of the BRICS itself. The chief ambition of this political entity – formed soon after the global meltdown of 2008, and at the time comprising only four

BRIC countries – has been the reform and democratization of international financial institutions, as stated at the first summit held in Yekaterinburg, Russia, in 2009. The revision of voting and shareholder rights within the International Monetary Fund (IMF) and World Bank in favour of greater power-sharing between traditional donor countries, emerging economies and other developing countries has, for instance, been an explicitly stated objective of the group.<sup>2</sup> The idea of a BRICS Development Bank, serving as a counterweight to the Bretton Woods institutions was first mooted at the 2012 BRICS Summit in New Delhi, during which finance ministers of the collective were charged with preparing a feasibility report on a 'New Development Bank'.<sup>3</sup> In 2013, at its fifth summit, in Durban, South Africa, the BRICS announced its intent to launch the Bank the following year in Fortaleza. Little else was revealed to the global community other than an agreed focus on '*mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries*', and in a manner that will '*supplement the existing efforts of multilateral and regional financial institutions for global growth and development*'.<sup>4</sup>

The launch of a new Development Bank has been received as an idea that is not just welcome, but crucial in the context of the political and economic disruptions that have come to the fore since the 2008 financial crisis. Policymakers and think-tanks have acknowledged that the transition into a multi-polar, economically fragile and politically unstable world has been accompanied by a new generation of development challenges that include addressing growing inequality, coping with demographic challenges, balancing environmental sustainability with economic growth, and promoting peace and stability. All of which will require radically new ways of thinking and approaches, and fundamental changes in the way in which countries of the North and South have traditionally engaged with each other. The inter-governmental Open Working Group, charged with drawing up the Sustainable Development Goals (SDGs) that will define global development efforts after 2015, has recognized that 'developing countries need additional resources for sustainable development', and asserts the need for the 'significant mobilization of resources from a variety of sources and the effective use of financing, in order to promote sustainable development'.<sup>5</sup>

The UN Development Programme, through its 2013 Human Development Report, has drawn attention to the potential for new resources for development financing within the global South, while also observing that efforts in this context need to be organized around principles of 'coherent pluralism': a worthwhile caution that new solutions to the world's financing challenges need to complement, rather than compete, with existing initiatives. This line of thought appears to be reinforced by the World Bank Group (WBG),<sup>6</sup> judging from the support extended by former World Bank President Robert Zoellick in 2012.<sup>7</sup> Jim O'Neill, the economist responsible for directing global attention towards the economic potential of the BRIC countries in 2001, goes a step further and describes the initiative as one that is 'inevitable and in the long-term interests of the West'.<sup>8</sup>

The new Bank is expected to provide a fresh source of financing for developing and emerging economies whose development needs are

currently not being met through existing financial institutions. It is estimated that, at current levels, even the combined assistance from multilateral development banks and official development assistance (ODA) will only be able to meet 2-3 per cent of the projected infrastructure needs of developing countries.<sup>9</sup> In addition to this, most emerging economies face immense challenges related to the survival and service needs of their populations, but are gradually becoming ineligible for concessional loans through the World Bank's International Development Association (IDA) as this only provides assistance to countries with a per capita income of less than \$1,205. In the case of India, for instance, special transition arrangements have been made to enable credit lines through IDA and the non-concessional International Bank of Reconstruction and Development (IBRD) to meet its credit requirements. However, this arrangement is set to cease in the near future, with predictions of a credit crisis for India, which in recent years has already accessed the maximum volume of resources permissible to a single-borrower within IBRD.<sup>10</sup> The BRICS Bank, it is hoped, will help meet this gap by not only channelling savings available from within its membership, but also mobilizing resources from other middle-income countries and potential supporters, such the oil-rich nations. The World Bank's Global Investment Horizons Report 2013, for instance, predicts that developing countries will account for nearly half of the world's capital and global investments by the year 2030.<sup>11</sup>

Loftier ambitions for the new Bank, however, include the development of an intra-BRICS currency market through measures taken to foster easy conversion of the real, ruble, rupee, renminbi and rand, thereby allowing a diversification of foreign exchange reserves. The creation of a BRICS reserve currency that could challenge the current dependence on the dollar as the sole global reserve currency, and be positioned on par with the IMF's Special Drawing Rights (SDR),<sup>12</sup> is a scenario envisaged by those enthusiastic about the BRICS' ability to fundamentally challenge the current financial system. In addition to the promise of an alternative currency reserve, optimism around the rise of the new Bank is also linked to the potential it offers to redefine traditional 'donor-recipient' hierarchies and introduce a new era of 'global partnerships' where the transfer of resources, expertise and technology is organized around shared needs, expectations and experiences. The Millennium Development Goals (MDGs), specifically MDG.8 ('to develop a global partnership for development'), attempted to specifically address this issue. The perceived failure of donor countries to meet responsibilities outlined in MDG.8 calls for greater attention to strengthen global partnerships in the new development framework that will replace the MDGs after 2015. The launch of the BRICS Development Bank is an opportunity for course-correction in line with the transformations called for by global processes, such as the Busan Forum for Aid Effectiveness in 2011, the Rio+20 conference in 2012, the UN-led post-2015 sustainable development consultations, and the Global Partnership for Development Cooperation in 2014.

# BEING THE CHANGE: HOW THE NEW BANK COULD ADOPT A TRANSFORMATIONAL DEVELOPMENT AGENDA

In contrast to its lofty ambitions, the stated purpose of the BRICS Development Bank at this point is an opaque reference to investments in infrastructure and sustainable development projects within BRICS and other developing countries. The experience of National Development Banks within BRICS countries points to an overwhelming emphasis on export-oriented growth and investments directed at helping middle to large economic enterprises find a foothold in the international market. The Brazilian National Bank of Social and Economic Development, for instance, was created in 1952 to support the development policies of the country and the industrialization process. By the 1990s its efforts were directed almost entirely to the privatization of national companies. In the 2000s, its focus shifted to the promotion of large industries and the internationalization of its businesses, with large enterprises receiving 58 per cent of its annual disbursement of \$65.8bn in 2012. Similarly, China's Exim Bank is oriented towards promoting Chinese exports, with disbursements of \$31bn directed exclusively towards this objective in 2013.<sup>13</sup>

Economists point out that such an overwhelming emphasis on aligning with global markets has had the counter-effect of making national economies excessively vulnerable to fluctuations in international currency and commodities. This undermines local and national demand for goods and services, and puts populations already affected by poverty and social exclusion at even greater risk, as a result of pressures related to land acquisition and reductions in subsidies on essential services. It also increases the tendency among employers to disregard worker safety and employment standards in the struggle to remain competitive in the international market.<sup>14</sup> The Bangladeshi garment industry and mining enterprises of India and South Africa are well-known examples of this skewed form of development, which caters to international demand, while compromising the rights and entitlements of local populations.

In this context, it is crucial that the BRICS countries commit to taking their flagship initiative beyond traditional notions of development banking and work instead to define and detail a transformational agenda for the new Development Bank.

# 1 ADOPTING AN INSPIRED VISION

## 1.1 An opportunity for leadership of the Sustainable Development agenda

As the world gears up to adopt a new global framework on development, the BRICS countries have an opportunity to provide conceptual and operational leadership on the all-important agenda of ‘sustainable development’, the call for which emerged most notably from discussions held at the 2012 Rio+20 Summit in Brazil. Not surprisingly, Rio+20 was seen as a defining moment for the BRICS group, in terms of its ability to demonstrate visible coherence and consensus on key issues. The idea of ‘sustainable development’ has since dominated international development discourse, and it has the potential to become the lynchpin across MDGs, climate change and financing related discussions. Given that both the inter-governmental negotiations around the SDGs and the UN Framework Convention on Climate Change (UNFCCC) will culminate in 2015, the launch of the BRICS Bank comes at an opportune moment and can serve as a global reference point for innovative thinking. New partnerships need to ensure sustainable development is the ‘global guiding principle and operational standard’, as pointed out in the UN Secretary General’s 2013 annual report.<sup>15</sup>

Oxfam believes that a transformational approach to sustainable development must necessarily aim to achieve a balance between planetary and social boundaries, as outlined in Oxfam’s discussion paper, ‘A Safe and Just Space for Humanity’.<sup>16</sup> Achieving sustainable development means ensuring that all people have the resources to fulfil their human rights, such as food, water, health care, and energy, while also ensuring that humanity’s use of natural resources does not place too much stress on critical Earth-system processes, such as by causing climate change or biodiversity loss.

The BRICS Development Bank must adopt a vision of ‘sustainable development’ that is directed towards ending deprivation and building human capacities, while also paying attention to the responsible use of natural resources within planetary limits. In the context of the challenges faced by the developing world, the new Bank must direct its efforts towards ending extreme poverty, deprivation and hunger, and ensuring human rights for all; so that everyone has their essential needs met, and can access the resources, capabilities and freedoms needed for human well-being.

Within this context, there must be a special focus on expanding the rights of women and marginalized communities, improving their access to natural resources, and minimizing the human impact of environmental stress. BRICS countries must lead by example on the need to separate

growth from resource use, by providing incentives for resource-efficiency, selecting development paths that support environmental sustainability, and respecting critical natural resource thresholds at the relevant scale (local, regional, global), in order to protect and sustain human life.

## **1.2 The Development Bank: A platform for BRICS-led insights**

BRICS countries have been at the forefront of the global effort to end poverty. While the contributions made by China and India in achieving the global target of halving extreme poverty (MDG.1) in the last decade have been widely recognized, the current challenge of extreme inequality within developed and developing countries requires a greater sharing of perspectives and policies. For instance, those demonstrated by Brazil in relation to addressing the challenges related to discrimination and the unequal distribution of wealth, opportunities and assets. Poverty reduction in Brazil has been strongly linked to tackling inequality. India and South Africa, on the other hand, have seen an increase in inequality since the turn of the century. In the case of South Africa, there is worrying evidence that unless inequality is actively and immediately addressed, more than a million additional people will be pushed into extreme poverty by 2020, notwithstanding strong GDP growth.<sup>17</sup>

Oxfam believes the BRICS countries have a critical leadership role in promoting equitable and sustainable development. The new Development Bank must represent a firm understanding that, in the present day, inequality is a major barrier to growth. By directing its effort towards reducing inequality, the Development Bank would be able to work directly to reduce poverty and also ensure that future growth is more pro-poor.<sup>18</sup> Furthermore, a reduction in income inequality is also known to ensure reduced poverty, even in the absence of growth.<sup>19</sup>

According to the UN Economic Commission for Latin America and the Caribbean, efforts to address inequality include the twin imperatives of the 'abolition of privilege and firm establishment of equal rights for all individuals' on one hand, and the 'distribution of resources in society in a way that allows all members to exercise their rights effectively' on the other.<sup>20</sup> In keeping with this, Oxfam believes it is important for the activities and investments of the BRICS Bank to be directed towards making societies fairer and making power more accountable. The BRICS Bank must have an all-pervasive focus on equity and redistribution. A focus on addressing social exclusion, on achieving gender equality, and on fulfilling the rights and needs of the most marginalized and vulnerable groups in society is crucial if the Bank is to make a difference. This also involves working to end extreme inequality, so that wealth, opportunities and assets are shared fairly, within and between countries. Increased capacity for domestic revenue mobilization, improved tax transparency and robust accountability systems are an integral part of the challenge to end extreme inequality.

### **1.3 The BRICS Development Bank, gender equity and women's rights**

In keeping with the BRICS' stated focus on addressing gender disparities, the Development Bank must emphasize the promotion and protection of women's rights as an outcome of its operations. A reduction in gender inequality is an important indicator of long-term economic growth, including creating gender-equal conditions in the way that power and resources are organized in the household, in labour markets and in the activities of the state.

Experiences from within BRICS countries shows that a focus on economic growth alone does not take care of more complex, socially determined inequalities.

In India, for instance, despite increases in the number of girls in education and in women's average incomes, female participation in the workforce in 2008 was lower than in 1983. Even with high levels of growth, India continues to experience very high levels of maternal mortality.<sup>21</sup> Brazil, on the other hand, has been able to more successfully address gender gaps in health and education, and make progress on otherwise formidable gaps in the economic and political participation of women.<sup>22</sup>

The BRICS countries must create mechanisms that ensure women's equal and active role in all areas of society, including an explicit strategy on addressing the social, economic and political barriers faced by women and the exchange of expertise and strategies on dealing with shared concerns, such as women's ownership of productive assets and gender-based violence.

Oxfam recommends that the BRICS Development Bank adopt, as part of its objectives, a commitment to tackle the inequalities that exclude women and girls and limit their opportunities for economic, social and political participation. The BRICS Bank must include in its mandate the exchange of knowledge and resources to promote the reform of discriminatory legislation and institutions, targeted action to meet women's health and education needs, and the removal of barriers to women's participation in high-quality employment. Investments aimed at strengthening women's voice – in parliaments, in the home and in society at large – must be prioritized; as must initiatives that seek to change prevailing social norms that limit their access to assets, income and decision making.

# 2 REALIZING A TRANSFORMATIVE DEVELOPMENT AGENDA

The BRICS Bank must be a vehicle to transfer and promote the exchange of operational lessons and successes in relation to development, from the perspective of the global South. Oxfam recommends the following priorities in relation to the Bank's operational agenda – its activities and projects – in keeping with the objectives proposed as part of its vision.

## 2.1 Promoting sustained and inclusive growth

A commitment to sustainable development will require the BRICS Bank to go beyond a focus on market-orientated growth, towards an emphasis on social, environmental and economic development across its projects. The activities of the Bank must be geared to support sustainable patterns of consumption and production, and inclusive, transformative strategies of growth. The inter-governmental Open Working Group on SDGs is explicit in its recognition that 'poverty eradication, changing unsustainable and promoting sustainable patterns of consumption and production and protecting and managing the natural resource base of economic and social development are the overarching objectives of, and essential requirements for, sustainable development.'<sup>23</sup>

Given that a large proportion of the populations within the BRICS group are sustained by the agricultural sector, it is essential the proposed Bank prioritizes support to agricultural growth, the development of rural infrastructure, and the creation of sustainable jobs and livelihoods, particularly for women, youth and marginalized communities. Initiatives aimed at ensuring food sovereignty and renewable energy are fundamental in this regard. Such an emphasis would be in line with BRICS' Joint Ministerial Statement on Global Food Security, adopted at the Yekaterinburg Summit in Russia in 2009. At the time, BRICS' agriculture ministers agreed to work together towards a coordinated agricultural information system and a shared strategy to ensure food security for the most vulnerable populations. In 2011, BRICS leaders identified 'excessive volatility in commodity prices' for food and energy as the key threat to global food security and the recovery of the world economy. They called for global measures to increase production capacity, support developing countries with funding and technology, and to ensure greater regulation of the derivatives market for commodities to reduce the distortion of physical markets for food and energy, including the application of the Supervisory Principles set out by the International Organisation of Securities Commission.

In-country expertise on legislative, programme and financing frameworks for sustainable development can also serve as an important reference point for the BRICS Bank's lending activities. National Development Banks in China and Russia have a wealth of experience linked to the development of agriculture, rural infrastructure and support to small-scale producers and enterprises. These experiences can be drawn upon to shape the work of the BRICS Bank.<sup>24</sup> The UN Secretary General's 2011 annual report, focusing on strategies for sustained and inclusive growth, recognized the lead provided by China in achieving growth supported by policies promoting structural change, typically with agricultural productivity improvements, large-scale investments in rural infrastructure and services, land entitlements for the rural poor, support for industrialization, and improved capacity to participate in global trade.<sup>25</sup> The report points to the need for faster agricultural and rural development, including secure access to land, water rights, expansion of extension and financial services, improvement of agriculture related infrastructure, and agricultural markets. It also calls for special attention to be given to improving production conditions for female workers in agriculture and the integration of agricultural and environmental policies into broader rural development policies, to ensure forests and other ecosystems continue to sustain farming systems.

National development frameworks on Sustainable Production and Consumption adopted by Brazil and South Africa, in keeping with the Marrakech Process,<sup>26</sup> are important initiatives in this regard. India's landmark legislation on a rural employment guarantee, forest rights and food security are further indications of the expertise available within BRICS countries to help shape policies for sustainable and inclusive growth, relevant to the needs and challenges of the global South. The agenda of the BRICS Bank must be informed by these experiences, while also inspiring a collective and coherent operational framework for sustainable and inclusive development in the larger context of the BRICS. The Bank must consciously avoid repeating the mistakes of the Bretton Woods institutions and create explicit policies to safeguard natural resources and the rights of indigenous communities.

#### **Building capacities for climate change resilience and adaptation**

According to the Food and Agriculture Organization, three-quarters of people facing hunger in the world live in rural areas, mainly in Africa and Asia. They depend on farming, fishing, herding and forests for their livelihoods, often surviving on marginal lands that are most prone to flooding and drought. Women food producers, in particular, are among the most affected by environmental degradation, such as water stress and declining soil fertility. This situation is particularly true in BRICS countries, where the causes of increased environmental risk often go beyond income poverty to include employment, education, gender, age, and ethnicity.<sup>27</sup>

While BRICS countries offer lessons and success stories, such as the development of renewable energy in China, sustainable urban planning in Brazil, and rural ecological infrastructure in India, the economies of Brazil, Russian, India and China alone account for over a third of global carbon emissions caused by land use and deforestation. India and China are

predicted to more than double their demand for coal by 2050, while oil demand in the two countries will increase fourfold by 2030.<sup>28</sup>

In 2011, BRICS leaders at a meeting in Sanya, China, committed to 'work towards a comprehensive, balanced and binding outcome to strengthen the implementation of the UNFCCC and its Kyoto Protocol... (and) enhance our practical cooperation in adapting our economy and society to climate change,' including through information sharing and the development of renewable energy, and 'in line with the principle of equity and common but differentiated responsibilities'.

Oxfam believes that investing in environmental sustainability and building resilience to climate change could be a strategic area of the BRICS Bank's portfolio. The portfolio should include investments in the production of pro-poor, clean, renewable energy incentives for companies to adopt sustainable forms of production, and punitive action against polluters.

Given that the BRICS countries are also in a state of accelerated urbanization, the Bank must ensure that it has a definite strategy to ensure that its urban projects adhere to principles of equity and sustainability.

## **2.2 Investing in infrastructure that directly benefits those affected by poverty and exclusion**

While infrastructure development has been an explicitly stated focus of the BRICS Bank, it is important to ensure that its investments in infrastructure and services meet first and foremost the interests of socially and economically disadvantaged communities. Any projects undertaken must not repeat the socially and environmentally damaging trajectory that the developing world has seen and suffered in the traditional context of international lending.

In 2011, the UN Human Settlements Programme noted that 'too often infrastructure projects have resulted in negative rather than positive consequences for the poor, including environmental damage to which the poor are most vulnerable'.<sup>29</sup> By the World Bank's own admission, non-poor households have benefited more significantly from the creation of public infrastructure than poor households, with studies in least-developed countries, such as Bangladesh, also indicating that over 80 percent of subsidies on infrastructure are received by non-poor groups.<sup>30</sup>

The BRICS Bank, in this context, must focus on projects that will have an impact on poverty and inequality. In 2003, the Asian Development Bank (ADB) recorded that investments in rural infrastructure, particularly those aimed at strengthening road networks, irrigation and electrification, showed the greatest 'distributive and multiplier' benefits for the poor.<sup>31</sup> In addition to this, investments in health, education, water and sanitation have been recognized as integral to the achievement of sustainable and socially inclusive development.<sup>32</sup>

The intense challenges around essential services within the BRICS countries suggest that it is imperative for the proposed Bank to create special provisions to support this aspect of development in its member

countries. Despite structural improvements and greater expenditure, inequalities in access to health services, for instance, remain evident in and between BRICS countries. India bears some of the highest global burdens in terms of infectious diseases and maternal, neonatal and child health. India and China rank among the lowest four countries in a global sub-index on health and survival among women, according to the World Economic Forum's 2013 Global Gender Gap Report.<sup>33</sup> Gaps in levels of education contribute significantly to inequalities in mobility, opportunity and well being across BRICS countries. According to OECD-ILO data, primary school attainment rates have increased across the five countries, and with the exception of India and South Africa, are comparable with OECD averages for schooling.<sup>34</sup> In addition, social discrimination creates a double barrier for girls, persons with disabilities and other traditionally excluded groups. The lack of social mobility puts a better type of life out of reach for the poor, increasing poverty and inequality.

The new Development Bank must recognize access to essential services as a strategy for promoting greater equality of opportunity, thus reducing other inequalities and helping to foster economic growth. Studies suggest that BRICS countries are already playing a leadership role in this regard. A report by Global Health Strategy Initiatives<sup>35</sup> suggests that, not only did BRICS aid grow 10 times faster than that from G7 countries between 2005 and 2010, they also made significant contributions to the technology and expertise available to deal with health challenges by sharing domestic innovations and experiences. India is the world's largest producer of low-cost generic medicines, while South Africa and Brazil have made important contributions to HIV prevention and treatment, including an emphasis on creating equitable health systems. China, on the other hand, has focused on providing aid to specific health initiatives in Africa and to the development of new health technologies, including technology for low-cost reproductive health. Russia has been actively engaged in initiatives such as The Global Fund to Fight AIDS, Tuberculosis and Malaria and the GAVI Alliance.

### **2.3 Addressing inequality within BRICS countries and across the developing world**

Despite global recognition that efforts to reduce inequality across gender, location, ethnic and income groups must be central to an inclusive development agenda,<sup>36</sup> evidence suggests that economic and social disparities are actually intensifying in the context of BRICS countries. Income inequality across BRICS countries is significantly above the OECD average and has seen a sharp rise in the past decade across all countries except Brazil.<sup>37</sup> Oxfam's work on inequality trends extrapolates that in South Africa alone, between 2010 and 2020, more than a million additional people will likely be pushed into poverty if interventions do not stem the country's rapidly growing levels of inequality. In Brazil, reducing inequality to the level of Indonesia (close to the G20 median) could reduce the number of people in poverty by 90 per cent within a decade.<sup>38</sup> In a context where social barriers such as gender, caste and ethnicity play a strong role in determining well-being and life opportunities, it is vital that the BRICS Bank makes a special effort to address the challenge of inequality.

Addressing informal employment is critical in this regard, as the prevalence of large labour pools subjected to wage penalties, job instability and limitations to their socio-economic mobility is closely associated with deepening inequality in BRICS countries. Indicators suggest that among the BRICS countries, informal labour is most prevalent in India, particularly among women, and those working as street vendors and home-based or sub-contracted workers. Yet, as a proportion of GDP, spending on social protection is generally lower in BRICS countries than the OECD average of 20 per cent of GDP. India ranks lowest, with public social expenditure at just below 5 per cent of GDP; China and South Africa invest between 6 and 8 per cent; and Brazil allocates over 15 per cent of its GDP to social protection.<sup>39</sup>

Common public policy frameworks targeting key drivers of inequality are critical to ensuring the benefits of social spending are spread within and beyond the BRICS countries. BRICS governments have stepped up non-contributory social assistance over the past decade, but there is much more to be done. Providing critical safety nets, such programmes may account for 58 per cent of household income for the lowest income quintile in South Africa, and about 15 per cent for the same demographic in Brazil.<sup>40</sup> Programmes like *Bolsa Familia* in Brazil have demonstrated benefits such as improved family income and health as well as school attendance and gender equality. Other forms of non-contributory social assistance to mitigate poverty and inequalities include food programmes in India, means-tested cash transfers in China, and means-tested child support in the Russian Federation and South Africa. These experiences suggest a strong potential for the proposed Development Bank to identify and expand internal strategies to address inequality and share lessons and experiences from the same with other developing nations.

At a broader level, a BRICS Bank could provide an opportunity to build a stronger base for economic and financial cooperation, in order to reduce inequalities between countries, and pave the way for better resource management and mobilization in the global South. The Open Working Group on SDGs, for instance, outlines the pursuit of 'sustainable industrialization, which includes increasing industrial diversity and a shift towards higher value-added activities', as part of its articulation around increasing equality among nations. Emerging recommendations in relation to a stronger global partnership for sustainable development are particularly relevant in the context of the BRICS Bank and include 'strengthening domestic resource mobilization, including by improving tax collection and the efficiency of public spending, reducing tax evasion and avoidance, improving stolen asset recovery, and strengthening systems to harness domestic savings for investment'.

# 3 ENSURING DEMOCRATIC GOVERNANCE AND TRANSPARENT OPERATIONS

The development of democratic and transparent institutional practices will potentially be a game-changer in the context of the BRICS' effort to demonstrate an alternative model of international cooperation. BRICS countries must ensure that a visible and consistent effort to share information and engage stakeholders is put into place – an area in which there is, unfortunately, least traction. Oxfam recommends that the following measures be adopted to address this gap.

## 3.1 An explicit policy on international cooperation and investment, informed by public policy debates

Despite their claim to an agenda of reform and democratization in the international arena, the work of the BRICS is marked by a near-complete absence of public policy discussion around positions and strategies. Across BRICS countries, the agenda of international cooperation and investment is more often driven by the inner machinations of a single ministry, rather than a political or public mandate from policy makers and citizens. The lack of written policy on the scope and objectives of international cooperation is a major hindrance to broader debate. Across the BRICS countries, only China and South Africa have so far published policy positions on their engagement and aspirations for the BRICS.

There is an urgent need for the BRICS to ensure that foreign policy becomes public policy. In light of the proposed Bank, it is imperative that policies for cooperation and investment are guided by the principles of South-South cooperation,<sup>41</sup> which emphasize national sovereignty and ownership, non-conditionality, non-interference in domestic affairs and mutual benefit. The commitment to *Ubuntu* (the principle of humanity) is clearly articulated in South Africa's white paper on foreign policy,<sup>42</sup> along with an acknowledgement of its role in upholding the values of 'human rights, democracy, reconciliation and the eradication of poverty and underdevelopment'. China's white paper on foreign aid,<sup>43</sup> on the other hand, focuses on South-South cooperation and mutual help between developing countries, as the underlying objectives of its aid agenda. The challenge would be to harmonize the approaches towards international cooperation and investment across the BRICS countries, while ensuring that commitments to South-South cooperation and global standards of human rights, and social and environmental justice are agreed and actively pursued in the process. Regional development and cooperation

frameworks, such as the Africa Consensus Position on Development Effectiveness, and the Common African Position on the Post-2015 Development Agenda, must also be recognized and integrated.

Unlike their northern counterparts, BRICS have not traditionally invested in developing system-wide institutional capacities for international cooperation and investment. Operational leadership for foreign policy has traditionally been left to a single, and mostly under-resourced, Ministry of Foreign Affairs. Despite recent moves to create development agencies or administrations – RusAid (Russia), the Development Partnership Administration (India), the South African Development Partnership Agency, the Brazilian Cooperation Agency (ABC)<sup>44</sup> – operational linkages with the larger governance apparatus and with public policy are seen to be uneven and mostly negligible. In its capacity as the first BRICS institution, the new Development Bank makes it necessary for member countries to commit to developing competent and mutually coherent institutional capacities. A common framework guiding operational objectives and outcomes, and well-established mechanisms for the planning, review and exchange of lessons, expertise and innovations, is essential if the BRICS Bank is to operate in an effective and sustainable manner.

### **3.2 A radically democratic governance structure**

The new Development Bank has emerged as a reaction to unequal power and resource arrangements within the Bretton Woods institutions, and BRICS commentators across the world have expressed anticipation that BRICS countries will ‘be the change’ when putting in place membership and governance structures for the BRICS Bank. Strong arguments have been made for the choice of small and equal contributions as the starting point for the capital base of the new Bank.<sup>45</sup> This would allow the BRICS Bank to mobilize the participation of other development assistance providers in the developing world and set the stage for a more equal distribution of voting and decision-making powers, including the adoption of a ‘one country, one vote’ practice and the election of the Bank’s President through the Board. The name of the Bank could change accordingly, from the BRICS Development Bank to the ‘BRICS-led’ Development Bank, thereby indicating the leadership provided by the five countries to mobilize new and more democratically managed financial resources for development in the global South.

While an official statement is still awaited, a recent media report suggests that a capital base of \$50bn will be created through equal contributions from the BRICS countries. Following this, official lending could begin in 2016.<sup>46</sup> It is estimated that each country will put in \$10bn in cash and \$40bn in guarantees that would serve to raise additional capital through the international market. Other countries would be permitted to join the initiative with a small share, and expectations are for the Bank’s capital to reach \$100bn through capitalization from funding members and contributions from new members. By comparison, capital contributions to the International Development Association (IDA) amounted to \$304bn

over the period 1944 to 2014.<sup>47</sup> IBRD, on the other hand, operates with a much smaller capital base of \$15bn, but has been able to leverage the same through market borrowing and interest earned on its non-concessional loans.

At the time of its establishment, founding members of the IBRD contributed \$10bn of which 20 per cent was actually paid-in, while the remaining 80 per cent was to be contributed by member countries as the need arose. A paper by the Center for Global Development (Kapur and Raychaudhari, Jan 2014) suggests that as of 2012, paid-in capital was just a third of the Bank's equity of \$36bn. A strong performance of earnings – the result of exemplary repayment record of the borrowers – partially offsets the weakening trend of equity injections to support growth.<sup>48</sup>

### **3.3 Create environmental and social safeguards, and mechanisms for accountability and redress**

Poor implementation of social and environmental safeguards in development projects within BRICS countries makes the creation of a composite and enforceable framework of social and environmental safeguards not just necessary but a critical component of the BRICS Bank. Globally agreed practices in relation to the protection and sustenance of environmental resources and the rights of communities, including those directly affected by specific activities and those indirectly affected by changes in macro-policy, are an important reference point in this context. The regional development bank of Latin America (CAF – Corporación Andina de Fomento), for instance, has comprehensive indicators on balancing growth and environmental sustainability that could be emulated by the BRICS Bank.<sup>49</sup>

The Bank must ensure its development projects do not compromise the rights, privileges or development opportunities of indigenous and local communities. Comprehensive safeguards that protect the interests of local communities, with a focus on the rights and participation of women, must be created. Special attention must also be given to the approach adopted in fragile or conflict-affected countries. Working in tandem with forums, such as the G7+, the BRICS Bank should institute a conflict-prevention and management policy which ensures that local conflicts, including those relating to the takeover of land and common property resources, are not created or exacerbated as a result of its projects or interventions.

The World Bank established environmental and social safeguard policies (referred to as 'safeguards') in the late 1980s and, while not perfect, they have since become the model for multilateral financing and best practice. For the first time they required an accountable set of standards for the Bank to follow in all its investment lending (project lending) that ensures 'no harm' to affected communities. These standards were mandatorily enforced and investments were held accountable to an oversight mechanism, the Inspection Panel (see below). Civil society played a key role in their creation and adoption. The safeguards are presently undergoing a much needed, multi-year review and update process, which

could provide valuable lessons for the BRICS Bank to follow and learn from. In particular, that the application of safeguards represents an opportunity for the Bank, and for any development finance institution, to enhance its development effectiveness by properly tracking the needs of communities in line with overall country strategies and development needs. WBG President Jim Yong Kim has said many times that the safeguards represents the World Bank's 'comparative advantage.' In that spirit, the lessons from the current safeguards review should be monitored and considered when assessing the BRICS Bank's own safeguards.

The Equator Principles (EP),<sup>50</sup> a framework to assist financial institutions in determining, assessing and managing environmental and social risks in projects, are yet another resource that can be used by the BRICS Bank to determine its safeguards policies. Unfortunately, none of the BRICS countries currently feature on the EP list of those countries deemed to have robust environmental and social governance, and legislation systems and institutional capacity designed to protect their people and the natural environment.<sup>51</sup>

Mechanisms for monitoring and evaluation must be built into the structure of the BRICS Bank. These could be modelled on the Independent Evaluation Group (IEG) of the World Bank, an independent entity that reports directly to the Board of Directors and has unrestricted access to all bank records and staff when conducting its evaluations. Other benchmark processes, adopted by the World Bank and Development Cooperation Directorate (DAC) countries, for stakeholder participation and grievance redress must also be studied and adopted.

While not perfect, the independent accountability mechanisms established within the World Bank Group offer affected communities and civil society a direct link to advocate for redress and institutional change from within. The establishment of the Inspection Panel for the World Bank and the Office of the Compliance Advisor Ombudsman (CAO) for the International Finance Corporation (IFC – the World Bank's private sector lending arm) were both significant victories for civil society. They both hold their respective institutions accountable to their operations safeguards and standards and, in the case of the CAO, can even trigger wider investigations into the IFC's lending practices, requiring management response and actions. They ensure affected communities can bring their concerns to the World Bank and can offer mediation if necessary. The BRICS Bank should look to these two accountability mechanisms of the World Bank when considering the design of their own accountability mechanisms.

### **3.4 Define the terms of engagement with the private sector, civil society and other stakeholders**

The effective engagement of stakeholders is an important challenge that confronts the BRICS Bank, given the largely poor track record of the BRICS countries in this context. Lessons from the World Bank and other regional banks are noteworthy in this context. In addition to learning from ADB's Open

Forums and the CSO town hall meeting and policy forum of the World Bank, the BRICS Bank must establish an ongoing process of information sharing and consultation with civil society and other stakeholders relating to internal and external aspects of its operation. The use of technology to enable an 'open access policy' will be key in this regard. The World Bank's Open Knowledge Repository and the ADB's Public Communications Policy are practices worth replicating. The role of and engagement with other key actors in development – such as, civil society, trade unions, local governments, media, small businesses and academia – also requires thinking and integration as part of a larger stakeholder engagement policy.

Transparency around the role and activities of the private sector is a critical aspect of the accountability agenda, and unfortunately an area where information is severely restricted. International development projects have been very profitable for national and multinational enterprises, providing them with the political and economic conditions required to multiply profits through overseas investments. The Zambia Development Agency (ZDA), for instance, plays a role in acquiring customary land, as part of the services offered to support and encourage foreign investors.<sup>52</sup> Investments above \$500,000 in priority sectors and operating within Multi-Facility Economic Zones are provided exemptions on tax, import duty and VAT, and guarantees for the free repatriation of profits and dividends, as well as protection against non-commercial risks.<sup>53</sup> At a global level, external investments in the private sector made by international financial institutions exceeded \$40bn in 2010, and are expected to surpass \$100bn by 2015 – equivalent to almost one-third of external public finance to developing countries.<sup>54</sup>

While their ability to enjoy subsidized infrastructure and tax-free operations is made possible by the contributions of the taxpayer, mechanisms to ensure that information is shared with them and that operations are held accountable to them are negligible or non-existent. Currently, information regarding the extent and impact of BRICS-related corporate activities in other regions is severely limited. As such, a strong apparatus to ensure transparency around the activities and investments of the private sector is imperative. This should include considerations around an independent effort to monitor and track private investments in agriculture and extractive industries through the collection of ground level information in Africa, Eastern Europe and Latin America. Initiatives taken in this regard include an assessment of investments made by India<sup>55</sup> and Brazil.<sup>56</sup> However, these efforts need to be undertaken at a much larger scale to ensure a systematic monitoring effort. The 'Hydropower Sustainability Assessment Protocol',<sup>57</sup> for instance, is a good example of cross-sector collaboration to measure the on-the-ground performance of projects against agreed principles and policies.

# 4 MAKING IT WORTH THE WAIT: DO THE OPPORTUNITIES OF THE BRICS BANK OUTWEIGH ITS RISKS?

An assessment of what the BRICS Bank has to offer would be incomplete without addressing the concerns and risks that its existence poses to stakeholders involved in global and national development. Through discussions held with country offices, partners and networks, Oxfam has identified the following areas as potential ‘fault lines’ in relation to the work of the BRICS Bank, which require particular attention.

## **Risk: The absence of public information and debate**

As mentioned earlier in this paper, the lack of official channels of information around plans for the BRICS Bank is a cause for concern and scepticism. This lack of information around plans for the BRICS Bank – and indeed around the work of the BRICS group as a whole – significantly hinders opportunities for public debate, which could potentially undermine its credibility as a champion of global reform. At the earliest opportunity, the BRICS group must spell out its priorities for international cooperation for each country, and define its shared understanding of ‘sustainable development’ in the context of the Bank. Access to public information, including in relation to trading and derivatives activities of public banks, is vital. It is important to recognize that the determinants and consequences of financial investments are much more complex and extensive than simply the financial health of the institution; they therefore require stronger mechanisms for information sharing and stakeholder engagement.

## **Opportunity: The potential for creative thinking on a shared development framework**

Despite well-known political and economic differences between members, the diversity that the group brings to the table in terms of its development perspectives and expertise provides an opportunity for the BRICS countries to go beyond their specific limitations, to construct a more holistic, and even radical, agenda of development than has been possible in the context of the traditional world order. Scepticism about individual competencies and interests within the BRICS notwithstanding, these countries need each other to be able to achieve the political and economic standing that they aspire towards, both individually and collectively, and

the Bank offers them an institutional mechanism to begin working towards this. Given their close involvement in shaping the idea of 'sustainable development' globally, the BRICS Bank could well be the means through which these countries demonstrate their operational leadership for this breakthrough agenda.

### **Risk: A poor track record in relation to monitoring and evaluation of international projects; engagement of stakeholders and participation of communities**

Within the BRICS countries, the lack of accountability to stakeholders, particularly towards communities affected by development projects, is seen as a major stumbling block to what may have otherwise been strong domestic support for a BRICS Bank. The opportunity to demonstrate leadership from the global South comes with a responsibility to build stronger processes of engagement and participation, which go beyond summit-focused dialogues, to establishing a culture of responsiveness that is mindful of the need to, above all, be accountable to citizens (within and across countries) for the impacts of policies and the use of public resources. This requires the BRICS countries to foster and support research, monitoring and information dissemination initiatives, including through independent stakeholder initiatives and in relation to the universally agreed human rights framework. Rather than considering civil society engagement as a threat, BRICS countries should build and broaden their capacity for critical and collaborative engagement, which would help strengthen the social and political dividends of their work.

### **Opportunity: Demonstrating a level playing field in relation to the negotiation of international financing and investments**

A large part of the optimism around the BRICS Bank initiative is derived from the expectation that, in their role as developing countries, the group would not only abstain from imposing generalized policy prescriptions, but would also counteract the imbalances around governance and resource allocation that the BRICS group has challenged in the past. A commitment to address both these deficits has been reaffirmed in communications around the proposed Bank. However, but it remains to be seen if the BRICS Bank will establish new ways of working that actively enable other developing countries to take part in decision making, by way of shareholding rights as well as through processes that allow recipients to negotiate their needs and priorities over the 'profitability' of the Bank and the direct interests of its founding members.

### **Risk: The BRICS Bank should not deviate from globally agreed principles and standards**

Caution around the emergence of the new BRICS Bank is linked to uncertainty about the direction in which the resources and resultant

political leverage that the BRICS stands to gain will be used. In a world where political and economic tensions in recent years have seen a rapid escalation of aggression and conflict between countries, these countries have a responsibility to use their influence to bridge differences and identify constructive approaches to peace building and cooperation at global and regional levels. There is a real danger that the absence of progressive practices within the BRICS Bank would cause other international financial institutions to lower existing standards, thereby undoing years of work on global safeguards and practices related to development effectiveness.

### **Opportunity: Strengthening regional ties; supporting inter-regional frameworks for development effectiveness and partnership**

The announcement of the BRICS Bank has been accompanied by similar regional initiatives including the Asian Infrastructure Development Bank, promoted by China, and more recently discussions around a South Asian Development Bank, led by India. The influence and interests of BRICS countries have traditionally been linked to activities in their immediate regions, but the BRICS Bank offers an opportunity to strengthen economic ties and build consensus on development within regions, while also being guided by progressive policy frameworks developed by other regions, such as the Africa Consensus Position on Development Effectiveness or the European Union's taxation and financial reporting legislation.

## 5 CONCLUSION

The BRICS Development Bank is expected to start operations in 2016. This provides a crucial two-year window to shape the policies and instruments that will define the scope of its activities. Oxfam urges the BRICS countries to meet the call to develop an institution that is trail-blazing in its vision and in the manner in which it operates. There is clearly an expectation that the new Bank not only to addresses developmental challenges within the five countries that are leading it, but also generates greater resources for sustained growth across the global South by harnessing savings from within its membership and mobilizing resources from other middle-income countries and potential supporters.

Loftier ambitions for the Bank include the development of an intra-BRICS currency market through measures taken to foster easy conversion of the real, ruble, rupee, renminbi and rand, thereby allowing a diversification of foreign exchange reserves. The creation of a BRICS reserve currency, which could challenge current dependence on the dollar as the sole global reserve currency and be positioned on par with the IMF's Special Drawing Rights (SDR), is another scenario envisaged by those enthusiastic about the BRICS ability to fundamentally challenge the current financial system.

Oxfam believes that the launch of a new development bank is an idea that is not just welcome but critical in the context of the political and economic disruptions that have come to fore since the financial crisis of 2008. The transition into a multi-polar, economically fragile and politically unstable world has been accompanied by a new generation of development challenges which require radically new thinking and approaches and fundamental changes in the way in which countries of the 'north' and 'south' have traditionally engaged with each other. Scepticism about individual competencies and interests within the BRICS notwithstanding, the new Development Bank offers a first institutional apparatus for the emerging economies to construct a more holistic and even radical agenda of development than has been possible in the context of the traditional world order.

In order to do this, it is crucial that the BRICS commits to taking its flagship initiative beyond traditional notions of the development banking effort and work instead to define and detail a transformational agenda for the new Development Bank. This includes demonstrating conceptual and operational leadership on the agenda of 'sustainable development' that is a professed objective of the BRICS Development Bank. A commitment to sustainable development requires that the BRICS Bank go beyond a market-orientation of growth to demonstrate a combined emphasis on social, environmental and economic aspects of development across its projects. The BRICS Bank must adopt a vision of 'sustainable development' that is directed towards ending deprivation and building human capacities, while also paying attention to the responsible use of natural resources within planetary limits.

The new Development Bank must represent the firm understanding that in the present day, inequality is a major barrier to growth. A focus on addressing social exclusion, on achieving gender equality, and on fulfilling the rights and needs of the most marginalized and vulnerable groups in a society is not just essential but crucial if the new Bank is to make a difference. At a macro level, this involves working to end extreme inequality so that wealth, opportunities and assets are shared fairly, within and between countries, and recognizing that increased capacities for domestic revenue mobilization, and improved tax transparency and accountability systems are an integral part of the challenge to end extreme inequality.

There is an urgent need for the BRICS countries to ensure that foreign policy becomes public policy. Positions and strategies of the Bank must be backed by strong mechanisms for public and political debate; and a dedicated plan to develop competent and mutually coherent institutional capacities. There is a need to ensure that the policies and practices of the Bank are in accordance with the commitment to South-South cooperation and global standards of human rights, social and environmental justice are agreed and actively pursued in the process. Globally agreed practices in relation to the protection and sustenance of environmental resources and the rights of communities – which includes those directly affected by specific activities as well as those indirectly affected by changes in macro-policy – are an important reference point in this context.

The effective engagement of stakeholders is an important challenge that confronts the BRICS Bank. There is a need for the BRICS Bank to establish an ongoing process of information sharing and consultation with civil society and other stakeholders across internal and external aspects of its operation. Transparency around the role and activities of private sector is a critical aspect of the accountability agenda. Currently, information around the extent and impact of BRICS related corporate activities in other regions is severely limited and a strong apparatus to ensure transparency around the activities and investments of the private sector in this regard is a must.

Finally, given that the idea of the new development bank has emerged as a reaction to unequal power and resource arrangements within the Bretton Woods institutions, Oxfam hopes that the BRICS countries will 'be the change' when putting in place membership and governance structures for the BRICS Bank. Strong arguments have been made for the choice of small and equal contributions as the starting point for the capital base of the new Bank, which would set the stage for a more equal distribution of voting and decision-making powers – including the adoption of a 'one country, one vote' practice and the election of the Bank's President through the Board.

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## OXFAM

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