

BRICS 2014 THE BANK AND RESERVE FUND AT A GLANCE



As the BRICS meet in Fortaleza, Brazil from 14-16 July 2014, attention is once again on the group's efforts to establish two new financial institutions: the New Development Bank and the Contingent Reserve Arrangement. Negotiations are underway on both and, while it remains uncertain that they will be officially launched in Fortaleza, substantial progress is expected to be announced at the summit.

The New Development Bank

- **How much money will the bank have?** The Bank will initially have \$50 billion of capital.
- **Is that a lot?** It is substantial, but smaller than the major multinational development banks. By comparison, the World Bank has \$223.2 billion of capital and the African Development bank has \$98.4 billion of capital.
- **How much will South Africa contribute?** All five countries will contribute \$10 billion.
- **How will the bank be governed?** Each member country will have equal say in the decisions of the NDB.
- **How much will the bank be able to lend out?** Assuming the most likely of a number of variables, the bank could leverage its \$50 billion of capital to initially issue \$24 billion in loans, which could grow to \$34 billion in ten years. If the bank leveraged more aggressively, it could initially lend up to \$48 billion. This lending capacity will grow substantially if non-BRICS countries are allowed to contribute to the NDB.
- **What type of activities will the NDB fund?** Infrastructure development seems most likely, however the exact mandate of the NDB remains unclear.
- **Where will the bank operate?** There is an ongoing debate as to whether it should fund projects in the BRICS only or whether its mandate should extend to projects in other developing countries.
- **Where will the bank be based?** This remains undecided, but Shanghai is the leading candidate.
- **Will the NDB replace the World Bank?** This seem unlikely. The NDB will most likely work with the World Bank and other multinational organisations to co-finance major development

projects.

- **Will other countries be involved in the NDB?** Possibly. The funding structure and name change (from BRICS Development Bank to New Development Bank) seem to indicate that other countries might be able to buy in to the NDB. This would likely include other large developing countries – like Nigeria, Indonesia and Turkey – but might also include developed countries.

The BRICS Contingent Reserve Arrangement

- **What is it?** A pool of foreign exchange that can be drawn on by BRICS countries in times of crisis.
- **How is it different from the NDB?** The NDB provides funding for development projects; the CRA provides currency to governments in times of crisis.
- **How much money will the CRA have?** The CRA will initially have \$100 billion.
- **Is that a lot?** It is substantial, but much smaller than similar projects. By comparison, the IMF has \$367 billion in core funding (plus \$570 billion from additional arrangements) and ASEAN's Chang Mai Initiative has \$240 billion.
- **How much will South Africa contribute?** \$5 billion.
- **How much will the others contribute?** China will contribute \$41 billion, while Brazil, Russia and India contribute \$18 billion each.
- **How will the CRA be governed?** This remains unclear, but it seems likely that a vote from any of the BRIC countries would be enough to authorise disbursement of funds. Only South Africa would not have a casting vote.
- **Where will the money be kept?** The funds remain with the Central Bank of each country, and are not physically set aside. These funds are simply pledges to make the money available if any of the other countries fall into crisis.
- **What type of crisis would the CRA intervene in?** There are two likely scenarios. The first would be a Balance of Payments Crisis, in which a currency is quickly devalued and a central bank needs foreign exchange to prop up its value. The second would be a short term liquidity problem, in which a government temporarily runs out of the foreign exchange it needs to meet obligations.
- **Will the CRA operate outside the BRICS?** No, only BRICS countries will be eligible to draw on the CRA.

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