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On July 15th, the governments of Brazil, Russia, China, India and South Africa announced the creation of a New Development Bank (NDB). According to the official press release, the main objective of the new multilateral institution is to establish an alternative to the current set of multilateral institutions as a source of development finance for emerging and developing countries (India, 2014). For this purpose, the founding members have committed to subscribe an initial contribution of USD 10 billion each, for an initial total capital of USD 50 billion. Based on this capital subscription, it is estimated that the NDB could lend up to USD 35 billion per year over the next two decades (Griffith-Jones, 2014). To place that number in perspective, the World Bank has lent on average USD 31,6 billion per year over the last 5 years (World Bank, 2014a). This makes it clear that the initial plan of the BRICS is not only to establish an alternative, but indeed a strong challenge to the World Bank.

It is precisely this potential that allows to understand the overwhelmingly positive reception that the NDB proposal has achieved (Griffith-Jones, 2014; Stiglitz, 2014; Weisbrot, 2014). Nonetheless, a comprehensive look at the context of the initiative provides a healthy dose of skepticism. Indeed, an analysis of the economic and politic realities faced by the BRICS raises serious concerns regarding the viability of the NBD. Furthermore, given their similar structure, is not unlikely that the NBD will end up experiencing the same problems, and fate, of the Bank of the South1. When it was established in 2007, this institution was heralded as a new model of development finance (Toussaint, 2008). Yet to this date it hasn't made its first official loan (Munevar, 2013).

Thus, at least three troubling parallels can be established between the NBD and the Bank of the South. First, the economic cycles of the member countries are closely aligned. As such, the institution is ill suited to face an

[1] Institution created in 2007 by the governments of Argentina, Brazil, Venezuela, Bolivia, Ecuador, Uruguay and Paraguay. Its stated purpose is to finance projects that strengthen regional integration while reducing the dependence of the member countries to the World Bank and IMF.

economic downturn. Second, the economic disparities that exist between the countries will inevitably lead to struggles over the control of the resources of the bank. Third, and last, the ultimate issue has to do with the real goals that each partner assigns to the institution. As the vision regarding the role that a development bank fits within the larger policy goals of each country differs, it becomes increasingly complex to establish a unifying purpose for it. Without it is simply not possible to establish an operational institution.

Regarding the first issue, the relative economic success of the BRICS countries over the last decade has been closely associated with the economic growth of China and its impact on commodity markets. During this period, the reliance on commodity exports in general, and on Chinese demand in particular, is a key factor that allows explaining an important share of the economic growth experienced by Brazil, Russia, India and South Africa. On the first account, all of the countries experienced a significant increase in the participation of commodities in total exports (Table 1). On the second account, there has been a steady growth in the participation of China as a destination of exports, especially in the cases of Brazil and South Africa (Table 1). In addition, the economic impact of the increase in commodities demand was augmented by a positive terms of trade shock (Table 1).

Table 1 – Foreign Trade Statistics BRICS Countries

	Commodities as a % of Exports		Exports to China as a % of Exports		Terms of Trade Index 2012 (2000 = 100)
	2003	2012	2003	2012	
Brazil	46.5	62.6	6.2	17.0	128.9
Russia	66.6	81.2	6.2	6.8	248.9
India	21.7	34.3	4.3	5.1	127.4
South Africa	41.6	54.5	2.8	11.7	145.5

Source: World Bank (2014b), UN Commtrade.

Given this context, is worth pondering on the long-term impact of an economic slowdown in China over the performance of the BRICS countries. Since 2011, GDP growth rates in Brazil, Russia, India and South Africa has reduced quite significantly. This development has been associated with a reduction on both export demand and commodity prices, which has been in turn caused by lower growth in China (IMF, 2013, pp. 41–44). As a result, domestic economic pressures have started to build. As these countries turn their attention to deal with these issues, is unlikely they will devote the resources required for a NDB. The synchrony in the economic cycle of the BRICS is a limitation as it leaves the institution without a country that can support it during an economic downturn.

The effect that this type of limitation can have on the establishment of a new multilateral institution is clearly reflected on the difficult situation faced by the Bank of the South. As it is the case with the BRICS, the economic cycle of the founding members of the Bank of South was closely aligned and depended on the rise of commodity prices. The initial plan of the Bank was to have an operational institution by the end of 2008. Nonetheless, as the financial crisis of 2008 hit the region, those plans where shelved. As their economies came under pressure, the governments behind the Bank of the South delayed and scaled down their commitment to the integration agenda. This helps to partially explain why it took 6 years since the foundation of the Bank to have its first Council of Ministers, and 7 years for its first Council of Administration (El Pais, 2013; Nodal, 2014). In addition, as the foreign exchange struggles of Venezuela and Argentina deepen, there is still no date for the transference of the agreed initial capital contribution to the Bank. With this precedent, is not unrealistic to think the NDB could experience the same difficulties.

A second obstacle, which the NDB will have to overcome, is the power struggle over the control of the Bank. Even though each of the BRICS has committed to an equal subscription of capital it is evident that there is a significant disparity in terms of their potential contribution. For example, whereas the initial contribution for the NDB represents 20.1% of the foreign reserves of South Africa, it only equals to 0.3% of the reserves of China2. This disparity explains why despite the large scale of the initiative, the countries have only committed to transfer their contribution to the bank over a period of 7 years, with annual average payments of USD 285 million (Chacko, 2014). Nonetheless, given these differences, eventually China will start exerting their economic power in return for a greater degree of control over the activities of the NDB.

The problem is then, that instead of creating a new structure of power, where countries are given equal representation despite the differences in their economic contributions, the NDB will end up emulating the current structure of the World Bank. The difference would be that whereas the former organization would be controlled by China, the latter would remain under the control of the US. As a consequence, the problems in terms of accountability and political influence that have plagued the history of the World Bank would simply be replicated by the NBD.

The Bank of the South faced a similar problem regarding the control of the institution. On the one hand, Venezuela supported a “one country, one vote” principle, in order to ensure that the smaller members of the institution would have a say in its operations. On the other, both Argentina and Brazil supported a traditional multilateral bank model, where the control over the activities of the bank increased with the amount of resources de-

[2] Calculated on the basis of the foreign reserves, including gold, at the end of 2013 (World Bank, 2014b).

voted to it (Ortiz & Ugarteche, 2008). As the discussions on the Bank stalled, Brazil gradually increased the resources devoted to its own development bank, the BNDES. Indeed, since 2008, Brazil has used the BNDES as a strategic tool to support the expansion of Brazilian corporations in the Latin America region (Zibechi, 2012, pp. 176–183). Thus, faced with the choice of supporting an organization in which its partners could challenge its control of the resources or funding its own development bank, Brazil end up choosing the latter. It wouldn't be a surprise then if either Brazil or China simply retort to the use of their own development banks in case they become displeased with the distribution of power within the NDB.

The third and final issue has to do with an agreement on the ultimate goal of the NDB. Is it simply a tool to mobilize resources for infrastructure and sustainable development projects as it was officially announced? Or do the founding members have ulterior objectives behind the NDB? Recent experience shows that both China and Brazil have learned that a development banks can be a powerful tool to promote investment at the same time that it advances their economic agendas abroad. In the case of China, the China Development Bank (CDB) has become an integral part of the country strategy to strengthen its economic ties with Latin America. The objective of this policy is to open markets to Chinese manufactured goods and secure long-term access to raw materials in favorable conditions. Thus, between 2005 and 2013, the CDB has lent USD 78.3 billion to the countries of the region (Inter-American Dialogue, 2014). For countries like Argentina, Ecuador and Venezuela, which have been shunned by both international capital markets and multilateral institutions, these funds are a welcomed source of funding. Nonetheless, the costs are also significant. The interest rates of CDB are higher than those of multilateral institutions, include requirements to contract with Chinese companies, have inadequate environmental standards, and require payments in the form of commodities (Gallagher, Irwin, & Koleski, 2013). Furthermore, there is little to no transparency on the specifics of the agreements (El Pais, 2014).

The loans of the BNDES of Brazil follow a similar pattern to those of the CDB. Throughout the last decade, lending for infrastructure projects made by the BNDES in Latin America and Africa rose steadily from USD 228 million in 2004 to USD 1.3 billion in 2013 (Valor International, 2014). According to a recent survey, the socio-economic and environmental impact of BNDES projects in the Latin America region is a source of great concern. It is estimated that 42% of the projects fail to directly improve the economic conditions of the recipient country. Also, 67% of the programs involve the relocation of communities; at least 58% of them affect the living conditions of those communities; and 75% of the projects affect in a negative way the environment (DAR, 2014). Finally, the report raises the issue of the complete lack of transparency regarding the conditions in which the projects are undertaken. The resemblance with the record of the CDB is not a coincidence.

To make the situation of the NDB more complex, add to this dossier of lack of transparency and disregard of social and environmental issues, the possible motivations of Russia, India and South Africa. For Russia, it seems that the main motivation to participate in the NDB revolves around the issue of protecting itself from US imposed sanctions (The Moscow Times, 2014). In the cases of India and South Africa, their main interest seem to lie in increasing available funding for infrastructure investment in their own countries (Spector, 2014). With such a large variety of agendas it is very hard to believe that a minimum common denominator can be achieved in order for the NDB to become operative. When faced with the same impasse, the countries behind the Bank of the South simply could not achieve the basic commitment required to breath life into the new institution.

Despite the complexity of the situation, the larger point that shouldn't be missed is that initiatives like the NDB and the Bank of the South represent the clearest sign that the current model of development finance and governance of multilateral institutions is outdated. From this perspective, the problem with NDB is that instead of aiming to establish a new set of guidelines for development finance, it is simply replicating the established structure of multilateral institutions. As such, it is bound to experience the same type of problems and disappointing outcomes. Thus, there is still a clear need for new thinking and practices in development finance in which recipient communities and countries have a greater say in the conditions in which projects are undertaken as well as how their benefits are distributed. On that regard, the experience of the Bank of the South shows how hard it is to break with established conventions. That doesn't mean that countries in the South shouldn't keep trying.

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