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Brics group of emerging powers creates development bank, reserve fund

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At a photo session for the 6th BRICS summit in Fortaleza, Brazil, on July 15, 2014 are (from left) Russian President Vladimir Putin, Indian Prime Minister Narendra Modi, Brazilian President Dilma Rousseff, Chinese President Xi Jinping and South African President Jacob Zuma. -- PHOTO: REUTERS

FORTALEZA, Brazil (AFP) - The Brics group of emerging powers have created a Shanghai-based development bank and a reserve fund seen as alternatives to Western-led institutions.

The leaders of Brazil, Russia, India, China and South Africa agreed to launch the institutions to finance infrastructure projects and head off future economic crises.

"We took the historic decision to create the Brics bank and the reserve agreement – an important contribution to reconfigure the system of international economic governance," Brazilian President Dilma Rousseff said at a summit on Tuesday in the northeastern seaside city of Fortaleza.

Russian President Vladimir Putin hailed the agreements as "a very powerful way to prevent new economic difficulties."

The five emerging nations first unveiled their plans last year. The New Development Bank will mirror the Washington-based World Bank while the reserve is seen as a "mini-IMF."

"We need to work to improve economic governance at a global level, increase the representations and voice of developing countries," said Chinese President Xi Jinping.

Rousseff pressed again for urgent changes in the International Monetary Fund's voting shares "to reflect the unquestionable weight of emerging countries."

Shanghai headquarters

The development bank will have initial capital of US\$50 billion (\$62 billion) that could rise to \$100 billion, funded equally by each nation to avoid concerns that one country has more power than the other.

After drawn-out negotiations about the bank's location, Brics leaders agreed to put its headquarters in Shanghai. The first president will be Indian while the first board chair will hail from Brazil.

An Africa Regional Center will be based in South Africa, whose President Jacob Zuma failed to convince his peers to place the bank's headquarters in Johannesburg.

The bank will help fund infrastructure and sustainable development projects, the summit declaration said.

The Contingent Reserve Arrangement will have US\$100 billion at its disposal to head off potential economic volatility linked to the United States exiting its stimulus policy.

China is making the biggest contribution, US\$41 billion, followed by US\$18 billion each from Brazil, India and Russia and US\$5 billion from South Africa.

Rousseff left open the possibility of using the fund to help non-Brics nations, saying the group would be willing to "examine" any request from Argentina, which is in danger of defaulting on its debt.

The bank and fund, however, have to be ratified by each Brics country's legislature before coming into force.

The summit comes as the economies of Brics countries, which together represent 40 percent of the world population and a fifth of the global economy, are cooling down.

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