The New Multilateral Development Banks and the Future of Development: What Role for the UN?

Dr. Adriana E. Abdenur
Professor at the Institute of International Relations at PUC-Rio (abdenur@post.harvard.edu)

Series Editors: Rahul Chandran and Hannah Cooper, UNU Centre for Policy Research
Introduction

The field of international development cooperation is undergoing tectonic shifts, with new nodes of decision-making and resources emerging alongside existing institutions. From the 1970s to the turn of the millennium, the Bretton Woods Institutions, alongside the United Nations Development System (UNDS) – the fifty-plus programs and agencies within the organization that are primarily dedicated to international development – constituted the field’s loose center of gravity. Since the turn of the millennium, however, the gamut of actors involved in international development has diversified significantly, with private foundations, South-South cooperation providers, and other stakeholders becoming more influential – both quantitatively and qualitatively. This broadening assortment of actors (and the development norms they espouse) creates new dilemmas for the UNDS.1 Broadly put, what should be the UN’s role within the shifting panorama of international development?

This paper focuses on one piece of this changing puzzle: the emergence of new multilateral development banks and their role within the field of international development, including the implications for the United Nations. More specifically, the paper concentrates on two recently established institutions, one primarily regional and the other essentially transregional: the Asian Infrastructure Investment Bank (AIIB) and the BRICS’ New Development Bank (NDB). Examining these two nascent organizations against the backdrop of some of the field’s key debates, including the changing role that geopolitics plays in international development politics, I argue that the UN must be proactive in redefining its role vis-à-vis the dynamic network of institutions being created by so-called rising powers. The key point is this: in order to maintain its relevance in the field, the United Nations must harness its convening power and boost its legitimacy as agenda-setter, so as to foster a clearer division of labor with development financing institutions, particularly in light of the 2030 Agenda for Sustainable Development.

The paper is structured in the following manner: The first section provides a brief overview of the AIIB and the NDB, focusing on their decision-making structures and stated goals. The following section considers their potential impact on the field of international development. Finally, the conclusion looks at the broader implications of these changes for the UN itself, proposing a reframing of its role in light of the diversifying gamut of actors involved in development financing and norms-setting.

The Multipolarity Debates and the New Development Banks

Debates about the changing configuration of the international system have become pervasive in the field of international relations. Some observers argue that the system is undergoing a transition towards multipolarity,2 with new engines of economic growth and influence arising alongside the more traditional global powers. There is sharp disagreement over whether the so-called “moment of unipolarity” – the post-Cold War period during which the United States has enjoyed unprecedented influence over international relations – existed in the first place, and if so whether it has come to an end.3 However, in the developing world and especially among a number of large developing countries that have been classified as rising powers, the perception of an ongoing structural change in the international order is widespread among political elites. In 2009, for instance, Brazilian President Luiz Inácio Lula da Silva titled his opening speech at the UN General Assembly “The Multipolar World and the Revitalization of the United Nations.”4 In 2013, his Russian counterpart, President Vladimir Putin, openly stated that “BRICS is a key element of the emerging multipolar world.”5 These rising powers – broadly put, countries that exert a considerable degree of influence within their respective regions, and whose leaderships nurture broader ambitions at a global level – perceive new windows of opportunity appearing for expanded influence in world affairs. As a result, they increasingly pool their voices and resources in pressing for a more representative global governance system – one that would not only better reflect the current distribution of power, but that would also expand those states’ own influence on the international stage.

Perhaps in no sphere of international relations is the shift towards multipolarity more evident than in international development.6 Not only have the traditional actors and sources of development funding diversified, discussions about the norms of development are also taking place in a variety of settings, from the highly formalized and northern-led Organization for Economic Cooperation and Development (OECD) to the looser and more recently formed BRICS (Brazil, Russia, India, China, and South Africa) coalition. Some of these debates have generated widespread attention, as well as a certain level of alarm among Northern institutions, because some of the norms promoted by organizations like the OECD Development Assistance
Committee (DAC) are being openly contested by the providers of South-South cooperation, as well as non-state actors (both within the Global South and within DAC countries).

These providers tend to stress principles such as horizontality (part of a claim that South-South cooperation is unburdened by the legacy of colonialism), mutual benefit, and – perhaps most controversially – the non-imposition of political conditionality on development projects. This stance reflects a deep skepticism on the part of South-South cooperation providers of the good governance paradigm in which improvements to social policy, in particular, are offered in exchange for reforms in the political and economic spheres. Instead of demanding cross-sectoral reforms, Southern partners tend to stress the importance of national sovereignty, claiming that their development cooperation programs are undertaken with no strings attached except for, in most cases, economic guarantees (e.g. collateral or other protection against borrower default) that are project-specific. As a result of their refusal to impose governance requirements or other political or cross-sector conditionality, South-South cooperation providers claim that their initiatives are more respectful of the sovereignty of partner states.

Until recently, the emboldened role of South-South cooperation providers appeared predominantly through bilateral channels. China, for instance, vastly increased its cooperation with individual African states; even though it established the Forum on China-Africa Cooperation (FOCAC), this platform has functioned more as an umbrella mechanism for coordinating its bilateral ties in Africa than a truly multilateral initiative. And, although China has been by far the most visible player among self-designated South-South cooperation providers, other rising powers – including not only the BRICS, but other regionally important countries like Turkey and Indonesia – have also expanded their roles in international development, even beyond their immediate vicinities.

Over the past two years, however, the salience of South-South cooperation has grown not only due to these individual actors, but also because of new multilateral initiatives. Aside from launching loose groupings such as the BRICS, the India-Brazil-South Africa (IBSA) Dialogue Forum, and the Shanghai Cooperation Organisation (SCO), rising powers have increasingly moved towards the establishment of new institutions. In 2015, two of these emergent organizations – both geared towards helping to reduce the enormous deficit of infrastructure financing in the developing world – gained momentum: the AIIB and the NDB.

These innovations offer new opportunities, for instance by contributing towards the diversification of funding sources for large-scale projects. At the same time, they create new challenges for established institutions, including regional banks and global organizations. Even as these institutions engage in “business as usual,” focusing on market rates, they exist within political arrangements (such as the wider BRICS grouping) that promote openly contestatory discourses, which suggests that at least part of their initiatives will be motivated by politics – including geopolitics. In addition, the individual members have adopted definitions of development cooperation that sometimes contradict those promoted by the OECD-DAC, for instance through the endorsement (especially but not exclusively by China) of trade and investment as key components of development cooperation.

These new actors, and the norms they may promote, are provoking new existential questions on the part of their more established counterparts. In the case of the United Nations, which contains a vast gamut of agencies dedicated to development, the creation of these banks poses the question of what, if any, role the UN should play with respect to these new institutions.

The Asian Infrastructure Investment Bank

The Chinese government proposed the creation of the AIIB in October 2013. The initiative initially attracted widespread attention largely due to the political wrangling over its founding; the United States government reportedly pressured key allies not to join the China-led institution, while the Chinese media called the final count of founding members – 57, including non-Asian states like the United Kingdom – nothing short of a “diplomatic triumph.” The bank’s Articles of Agreement were signed in June 2015, with the stated mission of helping to close the finance gap for infrastructure in Asia and to enhance cooperation among member states. Critics, however, have interpreted the creation of the bank as a move by Beijing to expand its own influence in international development and geopolitics underneath a thin veneer of multilateralism.

Reactions to the initiative have varied widely, both within Asia and outside of it. The UN’s official response has been that the AIIB, along with the NDB, “present potential for scaling up financing for sustainable development,” but it also notes that
these institutions “will take time to develop their institutional framework and operational modalities.”10 The leaders of established development banks – including Christine Lagarde of the International Monetary Fund (IMF) and Jim Yong Kim of the World Bank – have stated that they are eager to cooperate with the new institution. Nonetheless, the AIIB has clearly created ripples within a pond long dominated by the Bretton Woods Institutions. In March 2015, for instance, Foreign Policy ran an opinion piece titled “The AIIB is a Threat to Global Economic Governance.”11 In contrast, many stakeholders in the developing world have welcomed the initiative, noting that the infrastructure finance gap has only widened with time.12

On the whole, the bank's emerging architecture seems conservative, in that it largely replicates governance mechanisms tested elsewhere (including at the World Bank itself). Yet there are also important divergences from established development finance institutions. With respect to governance, the issue of Chinese hegemony is not as clear-cut as some critics have suggested; rather than securing veto power (something the United States effectively holds in both the IMF and the World Bank, with voting shares of 17.69% and 15.85%, respectively), China’s shares in the AIIB will be diluted as the membership expands. On the other hand, the location of the bank's headquarters in Beijing, as well as reports that Beijing will promote the use of the yuan as a key currency, suggest that Chinese influence over the institution may take shape through other channels. Regardless of whether this drive is aimed at making the Chinese currency into an alternative to the US dollar as the anchor of the global economy, as some observers have argued,13 the AIIB’s greater willingness to carry out transactions in currencies other than the dollar should make it attractive to a wide variety of borrowers, especially low-income countries in need of an infrastructure boost, or medium-sized economies struggling with currency conversion problems. At the same time, the US response to UK membership seems to have been overblown; if anything, the inclusion of advanced economies, particularly the donors of the OECD-DAC, among AIIB founding members should help alleviate US concerns, as they may be more vocal about environmental impacts, labor conditions, and other principles and norms enshrined in OECD-dominated multilateral processes.

As for operations, the bank's initial provisions include an open procurement policy, according to which goods and services used in AIIB projects will not be limited to companies of member states. In addition to undermining the argument that the AIIB is a narrowly self-servicing initiative by China under the guise of good-natured multilateralism, this setup may be geared at improving the institution’s efficiency and speeding up its implementation.

While AIIB membership is widely dispersed, the core of the group is a handful of Asian countries. Moreover, around three quarters of the bank's initial capital is being provided by regional members. Although the Articles of Agreement specify that the bank will rely strictly on economic criteria in granting loans and other forms of assistance, it is possible that geopolitical interests may influence the institution’s willingness and/or ability to provide loans to countries whose relations with Beijing become tense.14 For instance, in order for the Articles to enter into force and the AIIB to become operational, at least 10 signatories, with capital subscription of at least 50% of the total authorized, must have ratified or formally approved the agreement. In addition to China, these initial signatories are likely to include two other countries that also belong to the BRICS grouping: India and Russia. These latter stand to become the AIIB’s second and third largest shareholders, respectively. This composition creates considerable overlap with yet another institution currently awaiting implementation, and also heavily backed by China: the NDB.

**The BRICS’ New Development Bank**

Much like the AIIB, the NDB – formed in July 2015 – was designed with the intent to inject much-needed capital into infrastructure projects in the developing world. However, the NDB lacks a regional focus and has been a transregional initiative since its inception, with five founding members from four different continents. This is not to say that the bank will lack certain regional priorities; starting with the Fifth BRICS Summit in Durban, each meeting has been accompanied by parallel or intersecting get-togethers at the regional level (in South Africa in 2014, President Jacob Zuma invited leaders from the African Union states; in Brazil in 2014, President Dilma Rousseff convened those of the Union of South American Nations (UNASUR); and in Russia in 2015, President Vladimir Putin brought together leaderships from the SCO). These efforts to create intersections between the BRICS coalition and key regional organizations may be formally or informally reflected in the NDB agenda, for instance through the inclusion of African development among the institution’s top pri-
orities as a result of Zuma’s initiative.

The five founding states have accumulated, to different degrees, considerable portfolios of South-South development cooperation through bilateral channels, and all of them nurture regional as well as global ambitions. None of these states are members of the OECD DAC, although some – especially China and Brazil – interact with different divisions of the OECD on an informal basis. On development norms, the BRICS states have maintained their distance from DAC-led efforts to launch a Global Partnership for Development, arguing that the organization lacks the legitimacy necessary to launch a truly global effort that, among other things, takes seriously the preferences of South-South cooperation providers.  

Working through the loose BRICS coalition, since the mid-2000s these five states have amplified their calls for a more representative global governance architecture, especially within the field of international development. The declarations and plans of action issued at the conclusion of the annual BRICS summits have often incorporated openly contestatory language, for instance questioning the legitimacy of institutions – such as the IMF and the World Bank – whose decision-making processes date back to the immediate post-World War II period. Thus, through the creation of the NDB, the BRICS are intensifying their pressure for reform of the Bretton Woods Institutions even as they launch new mechanisms that, for all intents and purposes, will compete with those institutions in at least some instances. While the AIIB and NDB do not represent revolutions within the field of development banks, in that they replicate many of the structures, decision-making process, and even personnel of pre-existing institutions such as the World Bank and the IMF, they appear within a geopolitical context that is radically different from that of the post-World War II period, and one in which rising powers find greater leeway for promoting their particular views of development. Ideas about the role of the state as a catalyst and orchestrator of development, and about the links between trade and technical cooperation, are unlikely to replicate the predominant worldviews of the Bretton Woods Institutions, or even of the UN itself.

Although the NDB’s foundational documents indicate that the bank will be open to broader membership by states and other multilateral organizations, the BRICS states have in effect locked in an amount of power over the institution that will help ensure that they remain the primary decision-makers (as BRICS capital share cannot fall under 55% of the total). As with the AIIB, the issue of potential Chinese dominance has been debated with respect to the NDB’s design, especially given the relative size of China’s financial power, the growing relevance of the yuan, and the successful negotiations by Chinese diplomats to establish the bank’s headquarters in Shanghai. Within the new institution, however, China’s influence is diluted through a decision-making structure that is relatively horizontal, with the five founding states holding an equal number of shares and equal voting rights, and none holding veto power. Over time, the provision that each member can only increase its share of capital with the approval of the other five founding members should also serve to curb Chinese dominance.

The bank’s clientele is still being decided upon, but the establishment of the African headquarters in South Africa as part of the initial negotiations signals a strong commitment among the five founding states to maintain African development among the institution’s top priorities. It is clear, however, that one of the primary purposes of the NDB – aside from providing financing for infrastructure projects to other developing countries – is to boost development cooperation among the BRICS themselves.

The Role of the UN

Far from emerging within a vacuum, these multilateral banks are part of a broader trend toward the decentralization of financing and other aspects of development cooperation. They seem to be long-term projects rather than short-term stop-gap measures, and the United Nations must adapt accordingly if it is to maintain or expand its own relevance as a coordinating mechanism as well as a resource in development. To do so, a clearer division of labor must be achieved, much in the mold of what is happening in the field of international security, in which regional organizations like the African Union (AU) have emerged that act under the tacit umbrella of the United Nations, both operatively and normatively. While this relationship is not devoid of contradictions, it can be used as inspiration for an analogous arrangement in international development: one in which regional and transregional organizations develop geographic as well as sectoral niches for which the United Nations provides effective coordination mechanisms. Such an arrangement, however, will not emerge spontaneously; rather, it depends...
on the linkage of these new organizations to the UN Development System, preferably one in which existing arrangements within the Economic and Social Council (ECOSOC) are strengthened and rendered effective conveners of a wider variety of development actors.

Should the UN be maintaining or trying to expand its relevance as a coordinating mechanism? The answer arises out of functional necessity: however flawed the UN may be, including in international development, it is the only body that is capable of taking on such a role. With discussions of how to finance and implement the 2030 Agenda well underway, it is clear that member states, as well as the organization in its own right, have not abandoned aspirations of a more effective coordination role. The reconfiguration of the field calls for such a coordinating platform – but not for the reasons usually cited (namely, the rise of a menacing China and the decline of a supposedly well-ordered field into a dangerously unstructured hodgepodge of donor agencies and multilateral initiatives).

The field of international development is neither anarchic nor imperiled by a hostile rising superpower. Those concerned with the creation of institutions like the AIIB and the NDB have often pointed to a “fragmented governance system.” However, fragmentation is not the most accurate way to portray the emergence of these institutions. In addition to connoting the lack of an organizational principle, the notion of a fragmented system presumes that key actors involved in the creation of these new banks stand diametrically opposed to established norms of international development. While leading players, including China, have often opposed attempts by the OECD-DAC to establish the norms of the field, this assumption in fact exaggerates the contestatory nature of the new development banks. That their founding documents make provisions for cooperation with the Bretton Woods Institutions attests to the willingness to work within the existing system (even as those states work to change it) rather than a desire to upend it entirely.

In addition, this view tends to minimize (if not ignore altogether) the current and potential role of the United Nations, not only as a mechanism for the provision of development assistance, but also in coordinating the broadening gamut of actors involved.

Moreover, while the surge in South-South development cooperation has been considerable, it exists alongside North-South aid, rather than replacing it altogether. The persistence of the traditional multilateral finance organizations, both regional and global, attests to the layering of new institutions onto older arrangements rather than the outright replacement of defunct initiatives by novel ones. The same can be said of bilateral aid and cooperation. While, over the past decade, many donors have either reduced or restructured their provision of development assistance (for instance, so as to better align their aid programs with their economic cooperation objectives), others have in fact expanded their assistance. The continued importance of aid is also reflected in OECD aggregate statistics. The dip in DAC aid following the 2008 onset of the global financial crisis was noteworthy, but since then, flows from donor states have recovered; in 2013, although assistance to the poorest countries continued to fall, overall aid to developing countries rebounded to reach an all-time high. Predictions and announcements of the “end of aid” have thus proven premature. The field of international development must adapt to the expansion of South-South cooperation, but it has not been overtaken by it.

Given this scenario, in which South-South cooperation providers and new institutions are layered onto (and intertwined with) traditional donors and institutions, the United Nations remains the only platform with the legitimacy to coordinate efforts towards global targets and goals. The inclusive-ness of its membership makes it a more appropriate arena than organizations like the OECD, which is often viewed as a “rich countries’ club.” Although the United States and its Western allies are powerful players within the UN Development System, the lack of a central mechanism that locks in their power, as in the case of the UN Security Council on matters of peace and security, means that developing countries may find greater room for maneuver. The UN, despite its flaws, is not a mechanism of cooption. One would be hard pressed to think of another space where South-South cooperation providers may be convinced, for instance, to invest in social infrastructure and other development sectors rather than on physical infrastructure alone – or, conversely, where donors could be persuaded to broaden the scope of their own definitions of aid so as to include, or at least rethink, the role of trade and investment. Hammering out thornier issues, such as the desirability and effectiveness of imposing political conditionalities on international development initiatives, would be no easy task regardless of platform, but at the moment there are no primary arenas other than the
United Nations in which these divergences could be plausibly discussed on equal footing. For this to happen, however, developing countries must be – from the start – a part of the process of framing and shaping of discussions, rather than be invited to debates whose basic terms have been pre-set by donor states under the guise of multilateralism.

Operationally, this requires another style of accommodation and responsiveness on the part of the United Nations. Rather than fragmentation, we may imagine the new regional and transregional banks as being nested – both operationally and normatively – within a broader framework under the loose aegis of the United Nations. Such an arrangement would resemble the emerging architecture in international security, where the rise of regional players more deeply engaged with their geopolitical environs has prompted a renegotiation of the global division of labor over security issues. UN peacekeeping, for instance, has been increasingly supplemented with regional efforts, such as those led by the African Union. While this arrangement is far from seamless – sometimes regional organizations operate on norms other than those promoted by the UN, particularly when UN norms are excessively vague – it offers a template for rethinking about how the field of development may be reorganized. Instead of feeling threatened by the emergence of new hubs of capacity and of normative debates, the UN – like other established institutions in the field of development – must help to bring those discussions into the mainstream.

Part of the challenge is to boost the effectiveness of the UN as coordinating body. The task requires, first of all, that rising leaderships such as China invest in the political capacity of the organization’s development system. This will require, among other things, working with states that have traditionally been highly resistant to certain deep reforms at the UN, including the United States and Russia. Despite its tensions with the US on security issues, on international development China – an increasingly important multilateral player – is well-poised to either offer or back up proposals for change. At the same time, the deepening ties between Beijing and Moscow may prove valuable in catalyzing change in the way that the UN participates in international development. The effort, however, does not depend only on China. A wide range of developing countries – from emerging powers like the IBSA states, Turkey, Indonesia, and Nigeria, to countries that have nurtured closer ties to the United States in recent years, like Colombia and Mexico – must also work in the direction of making the UN into an agile body able to convene a wide variety of actors (state and non-state alike) into action. In addition, improved coordination will depend on the ability of the UN itself, insofar as the organization is more than the sum of its parts, to proactively engage with the emerging organizations. Recent discussions of global development norms, such as those undertaken through the DAC-led Global Partnership, have essentially weakened the function of bodies like ECOSOC and the Development Cooperation Forum, which – by virtue of their broader memberships – are far more legitimate arenas for coordination in the eyes of non-OECD members, including the BRICS states. The ambitious framework of the SDGs requires, if not centralized decision-making, at least a more inclusive arena where priorities can be determined, modalities defined, and norms debated.
The New Multilateral Development Banks and the Future of Development: What Role for the UN?

Endnotes

5 http://thebricspost.com/brics-key-to-multipolar-world-putin/#vfYaAqLTP0s
6 In the realm of international security, a shift towards multipolarity is less evident; despite the expansion of Chinese military power, the United States still far outpaces it and other states in most categories of military power. At the multilateral level, recent efforts to reform the UN Security Council have failed to expand membership or significantly alter its procedures.
13 Frank Holmes, for instance, wrote in Forbes that “China’s move demonstrates its ongoing efforts to establish the yuan as a global reserve currency on par with the U.S. dollar. It’s no secret the country wants the yuan to become part of the IMF’s Special Drawing Right (SDR), a composite currency unit that now consists of the dollar, Japanese yen, British pound sterling and euro. The founding of the AIIB might very well bring the country closer to realizing those goals.” Frank Holmes (2015) “China Challenges Dollar Hegemony with New Infrastructure Bank” Forbes, 6 April, available at http://www.forbes.com/sites/greatspeculations/2015/04/06/chinas-infrastructure-bank-challenges-dollars-world-hegemony/
16 The Joint Statement issued at the end of the first BRICS Summit, held in 2010 in Brasília, mentioned reform of established economic and financial institutions as one of the coalition’s key goals: “We will strive to achieve an ambitious conclusion to the ongoing and long overdue reforms of the Bretton Woods institutions. The IMF and the World Bank urgently need to address their legitimacy deficits. Reforming these institutions’ governance structures requires first and foremost a substantial shift in voting power in favor of emerging market economies and developing countries to bring their participation in decision making in line with their relative weight in the world economy. We call for the voting power reform of the World Bank to be fulfilled in the upcoming Spring Meetings, and expect the quota reform of the IMF to be concluded by the G-20 Summit in November this year. We do also agree on the need for an open and merit based selection method, irrespective of nationality, for the heading positions of the IMF and the World Bank. Moreover, staff of these institutions needs to better reflect the diversity of their membership. There is a special need to increase participation of developing countries. The international community must deliver a result worthy of the expectations we all share for these institutions within the agreed timeframe or run the risk of seeing them fade into obsolescence.” Item 11 in the Joint Declaration of the 1st BRICS Summit, Brasília, 16 April 2010, available at http://brics5.cor.za/about-brics/summit-declaration/second-summit/