BRICS Bank Fails to Live Up to Hype

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The New Development Bank (NDB), the financing arm of the Brics (Brazil, Russia, India, China and South Africa) bloc, is ready to provide $8-billion for infrastructure in South Africa — but critics say the bank has so far failed key tests, especially that of transparency.

There are also concerns that most of the loans to date have been dollar denominated, exposing the borrower to currency risk. They also do not appear to have been concessional, and there are fears that not enough due diligence was done in granting a recent loan to Transnet.

The vice-president of the NDB, Leslie Maasdorp, told the *Mail & Guardian* at the bank's recent annual meeting in Shanghai that the $8-billion will be allocated to fund South Africa's infrastructure gap.

The NDB, led by new board chairperson Nhlanhla Nene, has announced total funding of $5-billion for projects in Brics countries. Transnet has been given a $200-million loan to rehabilitate the Durban port's container terminals and increase their capacity.

But Professor Lumkile Mondi of the University of Witwatersrand says the NDB has not lived up to expectations, and transparency is a concern.

> "We are very worried about how this bank is operating because even that loan given to Transnet recently was not made very public. When there is a loan in process at the World Bank, there is a record that state-owned company 'X' has applied for a loan and discussions are under way.
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> "They [the NDB] must be transparent and be in partnership with South Africans, because we need to ensure that the money in our state-owned companies is being used legitimately for development and is not repurposed," Mondi says.

He also questions whether South Africa is holding its NDB partner China to account. With the Brics summit due to take place in Johannesburg next month, at which South Africa will take over the chairmanship, Mondi says it could be an opportunity for the country to review its role in the group.

> "Our membership in Brics may seem as though we are complacent about China's behaviour on the continent. It has not created any number of jobs but instead it has brought a shipful of Chinese workers and built poor infrastructure."

Professor Patrick Bond of the Wits School of Governance is concerned about the bank's due diligence practices.

> "The $200-million loan to expand the Durban port-petrochemical complex via Transnet for sure will disrupt the communities and the environment, and will generate a major backlash protest," he says.

Transnet said it would not comment on the loan agreement until it had been finalised.

Bond is also critical of the bank's funding model, saying the loan terms mirror those of the International Monetary Fund and the World Bank.

> "We have never had access to the specific terms and conditions of Brics loans, but we know that 70% of the first batch are in US dollars, which makes repayment of these loans onerous," he says.

There has been no indication that the NDB is offering a middle-income country like South Africa any concessional credit, Bond says.

According to media reports in South Africa, most of the loans have gone to India and China, raising the question of whether they are being given preferential access to funding.

But Nene says this is not the case. Despite the fact that "the roll-out of the projects has been uneven, this cannot be blamed on the bank itself as, if a country does not have a well-functioning system, it takes longer for projects to take off".

He says South Africa lags behind because bankable projects have not yet been identified.

The NDB has set up a regional office, the Africa Regional Centre, to co-ordinate requests for infrastructure funding, headed by former treasury deputy director general Monale Ratsoma. Nene believes more projects will be submitted now that the office is up and running.

In 2016, of the $1.5-billion in loans approved by the NDB for seven projects, Eskom received a R2.4-billion loan, which was later placed in abeyance. Last year, the bank approved a further $1.8-billion for six projects.

This year, the bank approved another six projects, at a total of $1.7-billion, pushing its loan book to $5.1-billion. These include India's $350-million loan for a rural roads project and China's $350-million to fund the Chongqing small cities sustainable development programme.

At the NDB's annual meeting in Shanghai, president KV Kamath told the media that, starting in the second half of this year, the bank will issue loans in local currencies to reduce the effects of exchange rate volatility and the borrowing costs of member countries.

Maasdorp says the bank will open its doors to non-Brics members, including African countries, as soon as it receives its credit rating.

> "Fifty-five percent will remain owned by the five founding members and 45% will be split among the other countries," he says.

Although the NDB's website suggests it sees itself as an alternative to the IMF and the World Bank, it appears its aspirations seem modest, and it is planning to work with existing development institutions, both public and private. It intends forming partnerships to cofinance projects with the Development Bank of South Africa, the Industrial Development Corporation and the African Development Bank, as well as commercial banks, says Maasdorp.

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