STANDING COMMITTEE ON FINANCE

Report on the Agreement on the New Development Bank between the Governments of Brazil, Russia, India, China and South Africa, the Explanatory Memorandum on Brazil, Russia, India, China and South Africa Agreement on the New Development Bank, the Explanatory Memorandum on the Contingent Reserve Arrangement Agreement between Brazil, Russia, India, China and South Africa and the Treaty for the Brazil, Russia, India, China and South Africa Contingent Reserve Agreement, dated 3 June 2015

For a variety of reasons, the Committee welcomes the proposal to establish the New Development Bank (NDB) by BRICS (Brazil, Russia, India, China and South Africa). The Committee believes that the NDB can play an important role in financing much-needed infrastructure investment in terms of its objective to "mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries". The Committee believes that greater infrastructure investment and exchange rate stability can make a significant contribution to economic growth and social development.

A benefit for South Africa is that, although the head office of the NDB is to be based in Shanghai, the NDB's first regional office is to be opened in Johannesburg. This has the potential to offer a range of benefits for South Africa, and Africa more broadly, in terms of issues such as proximity, employment creation, project selection and monitoring.

The Committee understands the various complexities and challenges, but believes that over time the NDB should have a more developmental and consultative approach than the World Bank and International Monetary Fund (IMF). It will also need to define its role more specifically in view of the existence of these three other multi-lateral institutions, namely, the Asian Infrastructure Investment Bank, the African Development Bank and the Development Bank of Southern Africa. There will also be a need to clarify the relationships between the NDB and these other banks.

The Committee would like to see the NDB funding more infrastructure projects in Africa, with more inclusive economic growth and development targets that contribute towards significantly reducing inequalities, both globally and within countries.

The Committee notes that the prospect of South Africa being able to access foreign reserves from other BRICS countries in terms of the Contingency Reserve Agreement (CRA) which may serve to reduce the country's risk of excessive currency depreciation. The nature of the arrangement is such that South Africa can draw on double its contribution to the CRA, which is a more favourable arrangement than for any other contributor.

The Committee notes the financial implications of the NDB for the country. $2 billion (approximately R24 billion at current rates), of the $10 billion subscribed capital, must be paid in seven installments: $150 million; $250 million; three payments of $300 million; and two payments of $350 million. The first of these must be within six months of the Agreement coming into force and could be required in the 2015/16 financial year. The remaining $8 billion of subscribed capital can be called upon at a later date.

The Committee observes in this regard:

- The full details of how the country will meets its financial obligations, as incorporated into the MTEF, will only be provided later in the year.
- It is not yet clear what the costs of setting-up the Africa Regional Centre of the NDB in South Africa will be.
- The Contingency Reserve Arrangement has a number of possible benefits to the country through effectively expanding South Africa's access to foreign exchange reserves. But this is also accompanied by risks if South Africa is called-upon to contribute reserves and the Committee would expect to be kept informed of such risks as appropriate.
- A withdrawal of funds from the country's foreign currency reserves for the CRA does not directly affect the National Revenue Fund. The Constitutional provision (Section 213(2)) requiring that the withdrawal of money from the National Revenue Fund be done through an act of Parliament, does not apply should the CRA be called upon. The scope for Parliament to play an oversight role of future CRA foreign exchange contributions and obligations is limited.

The Committee received submissions on the formation of the NDB from the Parliamentary Budget Office (PBO), the Centre for Applied Legal Studies (CALS) and the Financial and Fiscal Commission (FFC).

CALS' submission focused mainly on human rights considerations and the fact that the NDB, as an institution formed by and for countries in the Global South, should be different to conventional development finance institutions of the Global North. It should ensure the protection, promotion and fulfilment of human rights in projects it funds. CALS proposed that:

- The lending policy of the NDB should include human rights standards in projects funded by it.
- Provision should be made for a grievance mechanism which allows victims of human rights violations in projects funded by the NDB the right of direct access and the right to appeal.
- Provision should be made for a mediation policy for victims of human rights abuses in projects funded by the NDB.

Among the issues raised by the FFC were the following:

- The $8 billion contingent liability could be funded by a ring-fenced fund and/or from the contingency reserve. The FFC's preference is for the latter as its better suited to deal with unforeseen changes.
- National Treasury should report to Parliament on these contingent liabilities at least every six months to ensure that they are contained and that risks are managed. If this is not done, then the country's sovereign rating could be compromised.

- It is almost impossible to quantify the cost benefit analysis of the NDB unless its lending and project selection criteria are known. If South African proposals have to compete with other BRICS country proposals for a limited pool of funds, it is not clear at this stage how many would be successful.

The Committee supports the values underpinning CALS' proposals. The Committee agrees in broad terms with CALS' proposals but recognises that they may not all be easy to fully implement at this stage. The Committee has at least some sense of the complex dynamics within BRICS on the NDB and the need to be pragmatic and incremental in managing this early phase. While recognising this, the Committee believes that South African representatives at the NDB should over time seek to win consensus for values and proposals similar to those set out by CALS.

The Committee believes that National Treasury needs to also give further consideration to the FFC's submission on the NDB and engage with the FFC on NDB issues relevant to the FFC's role.

Within its constraints, the Committee will monitor progress on the NDB.

The Committee further believes that consideration needs to be given to the formation of a BRICS Parliamentary Forum.

The Standing Committee on Finance, having considered the request for approval by Parliament of the Agreement on the New Development Bank between the Governments of Brazil, Russia, India, China and South Africa, the Explanatory Memorandum on Brazil, Russia, India, China and South Africa Agreement on the New Development Bank, the Explanatory Memorandum on the Contingent Reserve Arrangement Agreement between Brazil, Russia, India, China and South Africa and the Treaty for the Brazil, Russia, India, China and South Africa Contingent Reserve Agreement, recommends that the House, in terms of section 231 (2) of the Constitution, approve the said agreement.

The Democratic Alliance (DA), reserves its position on the report.

Report to be considered