

# SUCCESSFUL PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT

## THE NEW DEVELOPMENT BANK HOLDS 4<sup>TH</sup> ANNUAL MEETING IN SOUTH AFRICA



**A** robust infrastructure network is critical for the development of any country. In developing economies, infrastructure, whether it be the provision of roads, healthcare, education facilities, energy or even access to the Internet, often meets challenges in the face of simple day-to-day survival and placing of food on the table. In addition to the absolute requirement for countries to provide policy, frameworks and the tools needed to facilitate true growth, comes the symbiotic requirement to conserve the planet.

Against this backdrop, the New Development Bank will stage its 4th Annual Meeting in Cape Town on the 1st and 2nd of April. It is the first time the NDB is organising its Annual Meeting in South Africa. Under the theme of "Partnership for Sustainable Development", the Bank and South Africa's National Treasury will welcome a variety of stakeholders and partners to get to grips with the BRICS grouping's future sustainable infrastructure needs, along with those of other developing economies. Participants in the meeting will include senior government officials, environmental and energy experts, leaders of multilateral and national development institutions, distinguished scholars, prominent bankers, captains of industry and representatives of civil society organisations and more.

What is the New Development Bank? The New Development Bank (NDB), currently presided over by K.V. Kamath, is a multilateral development bank established by Brazil, Russia, India, China and South Africa (BRICS), in accordance with an Agreement signed on the 15th July 2014 in Fortaleza, Brazil. The purpose of the Bank is to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. Activities of the Bank complement the existing efforts of multilateral and regional financial institutions for global growth and development.

Officially launched on the 7th of July 2015, the NDB holds an initial authorised capital of USD 100 billion and an initial subscribed capital of USD 50 billion of which, USD 10 billion will be paid in seven instalments. The initial subscribed capital is equally distributed amongst the founding members.

As of the 1st of March 2019, the Board of Directors (BoD) of the NDB has approved 30 investment projects, with loans aggregating approximately USD 8 billion. In 2018, the BoD approved USD 4.8 billion in loans. All projects approved by the Board, are in line with the bank's core focus on infrastructure and sustainable development. In the first year, the bank directed the majority of its loans to green energy projects. It has since increased the scope of its ambit, as the needs of its member countries require.

When it comes to credit ratings, the NDB has received a long-term issuer default rating of "AA+" with a stable outlook from Fitch Ratings and S&P, and an "AAA" institutional rating from China Chengxin Credit Rating and China Lianhe Credit Rating.

In August 2017, the NDB expanded its physical footprint by opening its Africa Regional Centre (ARC) in Johannesburg. The ARC works closely with the South African Government, public and private sector agencies, and other relevant stakeholders, to identify high-development impact projects that could be supported by the NDB.

As envisaged by the Bank's founding members, the NDB will contribute to the development of financial markets in its member countries and provide financing not only in US Dollars but also in local currencies.

In July 2016, the NDB issued its debut bond in China with the issue size of RMB 3 billion (approx. USD 450 million). It was the first time that an international financial institution issued a green financial bond in the China onshore interbank bond market.

In 2019, the Bank successfully registered RMB 10 billion (approx. USD 1.5 billion) bond programme in China interbank bond market and placed a 3 billion RMB (approx. USD 450 million) bond in this market. The bond was placed in two tranches with maturities of three years (RMB 2 billion) and five years (RMB 1 billion) and it was priced at the lower end of the announced pricing range with coupon rates of 3% and 3.32% respectively.

In South Africa, the NDB has said it could raise about USD 2 billion (approx. R28.9bn) in Rand Bond issue to fund projects in the country. In an interview conducted with Weekend Argus (Sunday edition) earlier in March, President

Kamath confirmed the NDB was at an advanced stage of registering a bond programme on the Johannesburg Stock Exchange (JSE).

Because the bank aligns itself to the strategic objectives of its member states, the NDB is fully aware of South Africa's National Development Plan 2030 – including that of restructuring South Africa's primary energy supplier, Eskom. As nearly a fourth of the NDB's portfolio is in energy, K.V. Kamath has said that Eskom is a very important client of the bank and the upcoming annual meeting will discuss what the bank is doing with the utility provider, and in partnership with other financial institutions. Moreover, other approved South African projects (Greenhouse gas emissions reduction and energy sector development project, the Durban container terminal berth reconstruction project and, a project for integrating renewable energy independent power producers' facilities and improving transmission capacity for the Soweto area), are also in line with the National Development Plan 2030.

Recognition for the NDB's efforts and ambit is growing globally and in 2018, the bank received observer status in the UN General Assembly, establishing a firm basis for active and fruitful co-operation with the United Nations.

Now, with several hundred local and international delegates in attendance at its Annual Meeting, the New Development Bank will be looking to consolidate its four-year history and plot the way forward towards a sustainable future in partnership with its member countries.

Energy and green projects will always be on the agenda. However, the 2-day meeting is also expected to focus its attention on strengthening collective efforts and partnerships to bridge the infrastructure gap and address development needs of the Bank's member countries and other emerging and developing countries.

Raising finance to bridge the infrastructure gap and promote economic development in BRICS is not without challenges. The current infrastructure investment needs of the bank's member countries are considerable and it is well known that domestic resources will not be sufficient on their own. Thus, the NDB is well-positioned to partner with its member countries and support their policy priorities towards achieving sustainable development.

Watch this space.



In light of the importance and prestige of the event happening in Cape Town next week, BR put some questions to Vuyelwa Vumendlini, Deputy Director-General for International and Regional Economic Policy at the National Treasury and Alternate Director at the Board of Directors of the New Development Bank, on what it means for South Africa to host the 4<sup>th</sup> Annual Meeting of the New Development Bank.

**Q: What does it mean for National treasury and the country as a whole, to have the NDB meeting in South Africa?**

The National Treasury is hosting the annual statutory meetings of the NDB Board of Governors; the NDB's highest decision making structure. South Africa is a founding member of this Bank, with the decision to establish it taken in eThekweni in 2013. The Articles of Agreement were signed in Fortaleza Brazil in 2014, with the agreement coming into force in Ufa Russia in 2015. The NDB is still a relatively new institution, and as such, its working arrangements and requirements are not well known nor understood in the country. The main focus of the Bank is funding infrastructure in developing countries, currently the founding members. Recalling the points of emphasis in President Ramaphosa's New Dawn, that is the prioritisation of infrastructure investment, the timing of these meetings is particularly fortuitous. These meetings provide all of the major infrastructure role players, and other South African stakeholders an opportunity to engage the Bank on its vision, area of focus and potential areas of cooperation. The work of this institution is attributable to the efforts of the governments of BRICS member states, and citizens can be proud of their contribution to the global development architecture.

**Q: What does South Africa hope to achieve from the meeting?**

We wish to leverage the presence of the Bank in order to invest in South Africa's infrastructure priorities. The NDB Headquarters are based in Shanghai, with a regional office based in Sandton. The management of institutions that invest heavily in infrastructure in South Africa will be attending the meetings. These include the SOEs, long-term fund investors, local DFIs, commercial banks, etc. This is a unique opportunity to have all of the role players together in one place.

**Q: What are the benefits of South Africa participating in the NDB?**

South Africa's participation in Multilateral Development Banks such as the New Development Bank is guided by South Africa's development agenda, which largely aims to accelerate social and economic development, eradicate poverty and unemployment, as well as to expand the economy and distribute its benefits equitably.

The benefits of being a member of the NDB are the following:

- Infrastructure development opportunities through the provision of long-term finance for capital projects, which has positive economic and social spin offs for South Africa.

- Financial cooperation and development partnerships not only with the NDB but also with various sources of financing which ensures risk-sharing, resulting in a bigger pool of funds.

- Technical assistance which can provide support to productive sectors and support export industries.

**Q: The theme is partnership for sustainable development - what does this mean to you and for South Africa?**

The theme works on a number of levels. We understand that the Bank is available for the priorities of the South African government in ensuring that the country is put on a sustainable growth path. Infrastructure investment is necessary to steer the economy on a positive growth trajectory. Further, South Africa is a signatory of the UN 2030 Sustainable Development targets. Thus, for the country, the theme is intended to recognise this fact, and work towards harnessing our joint efforts as members of the NDB towards them.

**Q: With the mandate being a sustainable future and with 66% of the funding released by NDB to date going to renewables, has South Africa applied or is it considering applying, for funding for renewable energy projects, especially given the dire status of Eskom? If not, why not?**

The NDB is definitely working with Eskom, in fact one such project concerns retro-fitting the Medupi power station with flue gas desulphurisation units; thus reducing the plant's pollutant emissions – and keeping them in line with the National Environmental Management Air Quality Act (NEMAQA). As you are aware, the Independent Power Producers mainly generate energy from renewables. Eskom also has its own renewable energy generating capacity.

**Q: Has South Africa applied for funding for any other projects?**

South Africa has approximately US\$780 million in approved projects. These include US\$180m for Eskom transmission strengthening; US\$300m for DBSA on lending to renewable energy projects; and US\$300m for Transnet in-land port. In addition, there are a number of new project requests which are being considered by the Board of Directors.

**Q: Has South Africa met its contribution requirements?**

Yes, it has. The contribution schedule is a Parliament ratified treaty, and is legally binding on the country.

