BRICS AND AFRICAN DEVELOPMENT

Development Finance - A Catalyst for BRICS Economic Partnerships in Africa

Hosted by: *The Human Sciences Research Council (HSRC) BRICS Research Centre & the South African Department of International Relations & Cooperation (DIRCO), Nelson Mandela University, Zhejiang University Centre for Internet and Financial Innovation*

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Background
During its 2018 Presidency of BRICS South Africa is working together with other BRICS countries to mobilize resources and capacity to overcome the current economic constraints and take advantage of new opportunities for investment to promote growth and development and address rising unemployment, poverty, inequality and underdevelopment. South Africa and other BRICS countries have developed a BRICS long-term strategy that includes concrete investment finance institutions and instruments such as the New Development Bank (NDB), its African Regional Centre (ARC), and the Contingency Reserve Arrangement (CRA) that will provide much needed infrastructure investment and financial support in times of difficulties. BRICS countries will also benefit from membership of the Asian Infrastructure Investment Bank (AIIB) that brings together emerging economies from Asia, Africa, Eurasia and some European developed economies. In addition, China, India, Russia and Brazil are providing African nations with new sources of financing that can reduce their dependence on traditional investment finance from developed economies. Given this background South Africa has identified several key priorities for its 2018 Presidency of the BRICS.

2018 South African Presidency of BRICS – Key Priorities
The general priorities that South Africa has adopted for its 2018 Presidency of the BRICS include the following four key initiatives:

1. *Establishment of a Virtual Vaccine Research Platform for Collaboration with BRICS vaccine innovation and development partners*
2. *Establishment of a BRICS Gender and Women's Forum*
3. *Establishment of a Working Group on Peacekeeping and*
4. *Leveraging the Strategy for BRICS Economic Partnership as linked to the Fourth Industrial Revolution*

These priorities Coincide with the South African Government's main policy objectives for addressing unemployment, poverty, inequality, and consolidating its developmental partnerships in Africa. Over the recent past the impacts of the global financial crisis (GFC) on South Africa, Africa and other emerging economies has resulted in increasing levels of unemployment, poverty, inequality and regional conflict.

BRICS & Africa
Coming out of a period of slow to low growth towards the end of 2017 and beginning of 2018, BRICS and emerging market economies are showing signs of higher growth potential. However, for Brazil, Russia and South Africa this modest upswing has to overcome several years of poor growth**.** Apart from India, which is the fastest growing BRICS economy, Brazil's growth decreased to 1.7% in the third quarter of 2015 with negative growth for over a year, and Russia's economy dropped 4.1% year-on-year. Much of the negative impacts on South Africa and Brazil have been attributed to the slowdown in China's growth to below 7%. Nevertheless by 2017 the budget deficits to GDP ratios for Brazil, Russia and South Africa have fallen dramatically from 2015. Brazil's budget deficit dropped from -10.2 to -7.8,

Russia from -2.4 to -1.5, and South Africa's from -5.5 to -4.3. Combined with positive prospects for higher growth the reduction of budget deficits provides a clear indication that the three low growth BRICS economies are turning the corner and may start attracting more direct investment. This will have very positive spin-offs for job creation and addressing poverty in these countries. During the last quarter of 2017 South Africa's GDP increased by 3.1% following a 2.3% increase in the third quarter of 2017. The biggest contributor to growth in the fourth quarter was the agriculture, forestry and fishing industry, these sectors increased by 37,5% and contributed 0,8% to GDP growth. Other sectors that increased their contribution to GDP were the trade, catering and accommodation industries that increased by 4,8% and contributed 0,6% to GDP growth. Manufacturing and finance, real estate and business services increased by 4,3% and 2,5% respectively and contributing 0,5% to GDP growth (Statistics South Africa, 2018). The projected aggregate GDP growth rate up to 2020 is expected to reach 2.1% (National Treasury, 2018). These positive prospects for South Africa comes at an opportune moment as it assumes the 2018 Presidency of the BRICS and moves towards mobilizing the collective momentum of the BRICS countries for promoting investment in the country itself, and in Africa in general.

Notwithstanding the global negative sentiment portfolio and direct investment indicators for Africa present a picture of relative potential for development finance investment in the continent compared to other regions. Reports (African investor (AI), 2015, Vol 13, 6:34) indicated that between July and October 2015 US$60 billion flowed out of emerging markets equity funds and another US$15 billion from emerging market bond funds. Over the same period, equity funds with significant exposure to Africa lost between 2% and 4%, by comparison emerging economies in Europe lost -5%; Asia, -6%, and Latin America -7%. Significantly, the AI report noted that in the fourth quarter portfolio capital was moving towards developed economies underpinned by quantitative easing such as Japan and Europe. On the other hand, by 2014 foreign direct investment (FDI) trends for Africa were more geographically diversified (Morocco, Nigeria, Kenya, Ethiopia, and Mozambique) and at a higher level with positive impacts for job creation. In 2014 Morocco's job creation performance registered 30% over the total share for Africa while South Africa underperformed (AI, 2015, 6:36). The attached annex provides tables listing economic indicators for Africa.

Within BRICS, the South African economy in particular was impacted by negative global market sentiment on the back of poor performance, fall in commodity prices and the slow-down in China's growth. Since 2009 South Africa has posted its lowest growth at 1% year-on-year in the third quarter of 2015. Between 1994 and 2015 the average South African growth was 3.01%, recording the highest rate of 7.10% in 2006 and the lowest of -2.60% in 2009. Against this background government debt to GDP ratio has increased to 39% from 37% over the recent past. In addition, the South African Rand has fallen dramatically against the US dollar losing about 40% of its year-on-year value since the end of 2014. The exchange rate instability is exacerbating higher current account deficits, with the possibility of the South African Reserve Bank (SARB) increasing interest rates to dampen inflation expectations. Higher interest rates will raise the cost of investment taking growth and job creation into a downward spiral, and increasing the debt servicing costs. With growth close to recession and high levels of inequality, poverty, household debt, and unemployment at 25.5%, South Africa is faced with mounting student and community protests for free education and better services.

BRICS Responses to Development Imperatives in Africa

In response to their own domestic adjustment challenges both China and India have embarked upon new multilateral approaches to development focusing on emerging markets in Africa, Asia and Eurasia. China has embarked upon initiatives such as the One Belt One Road, the New Maritime Silk Route, and the Forum for China-Africa Cooperation (FOCAC), the Eurasian Economic Union, and the Shanghai Cooperation Agreement. India has set up the India-Africa Forum to be the catalyst for transforming the trade and investment relationship between India and Africa. In addion India's support for the Indian Ocean Rim Association targets investment in blue economy projects in East Africa. Both China and India are active participants in Africa's continental and regional economic forums (*Aneja, U; 2016, ORF, New Delhi*).

Brazil and Sub-Saharan Africa are viewed as natural partners with historic and cultural links that go back 200 years. The regions have similar geographical and climatic conditions and share conditions that make Brazilian economic cooperation and investment adaptable to Africa in the areas of technology, tropical agriculture, tropical medicine, vocational training, energy and social protection. Despite the current challenges facing Brazil its past long-term economic growth and success in narrowing social inequality and poverty, and its experiences in development will provide useful lessons for African countries. Between 2000 and 2010 Sub-Saharan African trade with Brazil increased from US$2 billion to US$12 billion. In 2012 Nigeria, Egypt, South Africa and Angola accounted for almost 60% of trade between Brazil and Africa.

Of all the BRICS countries Russia has been the least active investor in Africa despite the long history of the Soviet Union's support for African independence and liberation. However, the country is now taking steps to make up for lost time by promoting large investments and expanding economic cooperation in Africa. In 2009 to promote and facilitate business in Africa the Russian Federation Chamber of Commerce and Industry and Vnesheconombank with the support from the Russian Government, the Federation Council, the State Duma, and the African diplomatic community, set up the Coordinating Committee on Economic Cooperation with Sub-Saharan Africa known as AfroCom.

It is evident that Africa in general, and Sub-Saharan Africa in particular, present opportunities for the ARC of the NDB, the AIIB, African Development Bank (AfDB), Development Bank of Southern Africa (DBSA) and other international MDFIs to target investment projects that address the developmental opportunities on the continent. In June 2015, a group of BRICS economists and development finance experts met in New Delhi under the auspices of the Observer Research Foundation (ORF) to analyze, discuss and propose a set of development finance investment priorities for the NDB to consider in preparation for its launch in 2016 (*ORF Policy Brief, 2015:17*). The meeting produced a policy brief that proposed among others mobilizing and channeling global savings; creating a platform for international financial reform; taking account of national needs and considerations in addition to prudential norms; and, financing social and physical infrastructure in support of basic services and sustainable development.

The establishment of the African Regional Centre (ARC) of the BRICS New Development Bank (NDB) in Johannesburg in 2016, begs the question as to whether multilateral development finance institutions (MDFI) can support developing and emerging African economies mitigate the negative impacts of the recent global financial crisis (GFC), and be a catalyst for African growth and development. In Sub-Saharan African and emerging economies the GFC has had negative impacts on economic growth and development with devastating consequences for households, and private and public sectors resulting in high levels of unemployment, rising poverty, inequality and social unrest. Given this imperative the Human Sciences Research Council's (HSRC) BRICS Research Centre in consultation with the South African Government Department of International Relations and Cooperation (DIRCO) and partners decided to co-host an international conference to discuss the role of development finance in Africa in focusing on South Africa's four BRICS priorities with emphasis on *leveraging the strategy for BRICS economic partnership to promote growth and development linked to the Fourth Industrial Revolution as a catalyst for addressing unemployment, poverty and ineqaulity*

Objectives of the Conference
Given that South Africa now holds the presidency of BRICS for 2018, this conference will provide an opportunity to engage with policy makers, development economists, development finance institutions, government, and the private sector in supporting African economies mitigate underdevelopment and are a catalyst for long-term sustainable African growth and development. In particular the conference seeks to create a platform for leveraging the strategies for BRICS economic partnerships for mobilizing and channeling global savings for investment in infrastructure and sustainable development to address unemployment, poverty and inequality in Africa in particular, and in BRICS and other emerging economies in general.

Structure and Format
The conference will be a focused working discussion to inform the BRICS strategies and priorities for addressing the unemployment, poverty and inequality effects of the GFC on emerging and developing African economies. The Conference will be led by keynote interventions from Government, the NDB and related MDFIs (e.g. AIIB, AfDB) and policy researchers. The programme will be structured to provide for focused discussions around thematic areas and specific questions that might guide us towards determining a consolidated report on African development alternatives to mitigate the effects that give rise to unemployment, poverty, inequality and sustainable development. An opening

plenary session will be followed by parallel thematic discussions led by of interventions from a panel of experts. The feedback from the discussions will results in a conference report with recommendations for policy-makers to consider.