
FREQUENTLY ASKED QUESTIONS ON BRICS SUMMIT

What are the outcomes of discussions on the New Development Bank (Location and Presidency)?

The BRICS Leaders met on 15 July 2014 at the sixth BRICS Summit in Fortaleza, Brazil. The following major decisions were taken with regards to the establishment of the Bank:

- The Headquarters of the Bank will be located in Shanghai, China;
- The first President of the Bank will be from India;
- The first Regional Office of the Bank to be established in South Africa;
- The subsequent Regional Offices will be established, as needed, in Brazil, Russia and India;
- The chair of the Board of Governors will be from Russia, and the chair of the Board of Directors will be from Brazil; and
- In addition, a Special Fund will be created within the Bank at the earliest opportunity, with the participation of all founding members, for the purpose of helping project preparation and implementation. China will be the largest contributor.

How much money will South Africa contribute to the New Development Bank?

- The Bank will be authorised to issue a maximum capital¹ of US\$100 billion, of which US\$50 billion will be issued initially².
- Member countries have agreed on equal shareholding in the bank, meaning that each country will contribute US\$10 billion to the initial issued share capital of US\$50 billion. Each country's contribution will be structured as follows: 20% (US\$2 billion) will be paid in pre-agreed instalments over 7 years and the remainder (US\$8 billion, or 80%) will be what is known as callable capital. Each country will only have to contribute the callable capital

¹ The maximum value of shares that the Bank is authorized to issue in order to raise capital.

² The value of shares which have been subscribed by the shareholders of the bank.

if the Board of Governors of the NDB, on which South Africa will be represented, decides that, based on the bank's lending pipeline as well as other factors; the bank needs to strengthen its capital resources. Even then, it is highly unlikely that the bank will need all of the US\$8 billion in one fell swoop.

Can other countries join the Bank?

- Member countries have agreed shareholders other than the BRICS countries will be introduced to the bank, at which time the Bank's shareholding will be open to emerging markets, developing countries and advanced economies. However, it has been decided that the BRICS member countries will retain the majority shareholding of no less than 55%. This means that the Bank will always remain a bank established by developing countries to cater for the needs of developing countries.

How will the Bank operate and what forms of support will it offer?

- The NDB shall operate according to sound banking principles, providing funding for infrastructure and sustainable development projects.
- The Bank's funding will be in the form of loans, guarantees, equity participation and any other financial instrument to, public or private projects in member countries.

What roles will South Africa play in the New Development Bank?

- South Africa will primarily engage the New Development Bank as a shareholder, but also as a borrower.
- As a shareholder, South Africa will play an active and equal role in the management and leadership of the Bank. South African citizens can be expected to occupy some of the senior management positions in the Bank.
- As a borrower, South Africa will use the Bank as an alternative source of financing its infrastructure build program/ infrastructure development plans, as well as, for regional integration initiatives.
- The Bank offers South Africa another benefit. Sub-Saharan Africa is one of the world's fastest growing economic regions, but has infrastructure bottlenecks which make it difficult for the region to achieve its growth potential as well as for the world to do business in African markets. Addressing these challenges is a priority for the region. The bank's regional centre to be based in South Africa is strategically located to enable access to the New Development Bank to meet this need.

How does South Africa justify contributing money to the New Development Bank given the current fiscal environment?

- South Africa's budget resources are not adequate to finance its infrastructure built programme. Therefore, the creation of the bank expands the options available to South Africa to finance its infrastructure programme. South Africa therefore, stands to derive significant benefits from this institution over the longer-term.
- The World Bank estimates that Sub-Saharan Africa requires USD 93 billion per annum to meet its infrastructure needs; the region however only manages to raise half of this on annual basis. Therefore, there is a large funding gap and the New Development Bank will complement the work already done by other development finance institutions.
- A significant number of the New Development Bank client will come from Sub-Saharan Africa. There are a number of potential infrastructure projects on the continent, but these have never been realised because of the lack of funding for project preparation, a key step in making project ideas ready for implementation and funding. Built in into the operating model of the New Development Bank will be a project preparation facility.

Location of the New Development Bank's headquarters

- For South Africa, what is of critical importance is that the Bank is established. Of lesser importance is the location of its head office.
- We will have the pleasure of hosting the first regional office that will be launched concurrently with the Headquarters in Shanghai and the Regional Office will be critical in connecting our region to the Bank.
- Given that the focus of the New Development Bank on infrastructure, South Africa's shareholding in the bank will help unlock the growth potential of our economy, open up greater opportunities for trade amongst African countries and improve Africa's economic growth prospects. When the rest of the continent does well, South Africa also benefits.

Given the tighter fiscal environment, will SA be able to meet its obligations to the NDB?

- The resources of the NDB will be paid-in according to a schedule of instalments agreed by all members. The contributions are similar to the ones South Africa makes to other multilateral institutions such as the African Development Bank, and the World Bank.
- The contribution each country makes represents an investment by the country in that it gains a share in the bank. We expect the NDB to be run on sound commercial terms and thus we expect the value of our investment in the Bank to rise over time.
- It is important is to note that the benefits far outweigh the costs of establishing this bank. We have already mentioned that this bank is an additional source of financing for our country's ever increasing development needs in energy, rail and road, and other economic infrastructure.

CONTINGENT RESERVE ARRANGEMENT

What is the Contingent Reserve Arrangement?

- The Contingent Reserve Arrangement (CRA) is an agreement by the BRICS countries to make available foreign exchange resources to each other should the need arise, for example, in case of a balance of payment problem. The CRA is similar to the Chiang Mai Initiative Multilateralisation established by the Asian countries that participate in the Asean +3 group.
- The CRA will complement the financial resources that the participants, as International Monetary Fund (IMF) member countries, can obtain.
- The purpose of the CRA is to forestall short-term balance of payments and liquidity pressures; provide mutual support and further strengthen financial resilience. The CRA, like other arrangements of its kind, is a crisis-prevention and crisis mitigation tool, providing a kind of insurance and helping to boost market sentiment.
- The value of the CRA initially will be USD100 billion. It is intentionally established as a virtual pool. This means that none of the BRICS countries will be required to transfer their reserves to any other BRICS country, until a country requests support and the request is approved by the other BRICS countries.
- When a country requests assistance from the CRA, it will have to enter into a short-term swap agreement with each fellow BRICS member. These swaps will not affect the level of foreign exchange reserves of countries providing the assistance as the swaps will involve exchanging US dollars for the local currency of the requesting country. Thus, the primary effect will be on a temporary change in the composition and not necessarily the level of reserves. Furthermore, the requesting country will pay a fee for utilisation of the CRA, which will be based on the London Inter-bank Offered Rate (LIBOR) plus a margin, thus the returns earned on the reserves should not be compromised in any way. In fact, they could be improved.
- China will commit USD 41 billion; Brazil, Russia & India will commit USD 18 billion each and South Africa will commit USD 5 billion to the CRA.
- Under the CRA, the amount that each country has access to is determined by a multiplier. For China this will be 0.5 (meaning China qualifies for assistance equal to half its contribution); Brazil, Russia and India 1.0 and South Africa's is 2 (meaning SA will qualify for twice its contribution).
- Each of the BRICS will be able to obtain up to 30% of their maximum accessible funding based only on a decision by the other BRICS. Any additional amount, known in the CRA as the "linked portion" will be available in conjunction with an IMF arrangement for the country.

What are the benefits of having the Contingent Reserve Arrangement?

- The CRA offers South Africa an additional safety net to help it deal with balance of payments problems and the resulting adverse consequences for exchange rates, inflation and growth, as happened to many countries during the Asian Crisis, the 2007/08 Global Financial Crisis, the European sovereign debt crisis, and more recently, during the financial market volatility associated with the tapering of quantitative easing by the US Federal Reserve.
- The CRA complements the resources which can be accessed through the International Monetary Fund.
- This is the first such arrangement that South Africa enters into. However, there are many such arrangements in existence in other areas of the world.
- The CRA, which has both a precautionary and a liquidity instrument, provides valuable insurance to the BRICS countries, thereby increasing their resilience to shocks, and boosting confidence in their economies, through increasing the amount of resources available to them in the event of actual or potential balance of payments pressures.

When does the CRA become operational?

- In order for the CRA to become operational two events must happen. First, each country must ratify the CRA Treaty signed at Fortaleza, Brazil. Second, the BRICS central banks must conclude an inter-central bank agreement (ICBA) which will operationalize the CRA. All member countries have committed to keeping the time between the signing of the CRA Treaty and the arrangement becoming operational as short as possible.

How will decisions be made in the CRA and what is the long-term vision for this arrangement?

- The BRICS have agreed that as a matter of principle they will strive to make all decisions by consensus, but in certain instances, such as requests for support and renewals of support, if consensus is not possible decision-making will be by a simple weighted voting, with weights determined by contributions.
- They have also agreed that in the long-term, the CRA may be opened up for participation by other countries and the size of the CRA, as well as the linked and delinked portions may be reviewed.

**Issued by the National Treasury
23 July 2014**