

# MAKING SUSTAINABLE DEVELOPMENT THE KEY FOCUS OF THE BRICS NEW DEVELOPMENT BANK

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*African perspectives.  
Global insights.*

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## ABSTRACT

As the New Development Bank (NDB) gears up to extend its first loans in the second quarter of 2016, with its self-stated aim to 'fund infrastructure and sustainable development projects in BRICS and other emerging economies', it is important to consider what the bank might regard as 'sustainable development'. To date, the bank, the BRICS and South Africa have not put forward a clear definition of sustainable development.

In order to explore this important debate from a South African perspective, this research draws on the perspectives and views of a wide range of stakeholders, including policymakers, think tanks, academia and civil society, on the best approach the NDB could take to ensure the sustainability of the projects it undertakes. In addition, the recommendations from this study also took into consideration examples of projects that could be considered as best practice when it comes to sustainable development. Recommendations were made to inform policymaking both within the bank on related issues and at an individual project level.

The paper explores definitions of sustainable development that the New Development Bank of the BRICS could use in identifying and implementing projects in South Africa and on the African continent.

## ABOUT THE AUTHORS

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## DISCLAIMER

This publication has been produced with the assistance of Oxfam. The contents and the views of this publication are those of respective authors and contributing individuals and do not represent those of Oxfam.

**ABBREVIATIONS AND ACRONYMS**

ARC	African Regional Centre
DBSA	Development Bank of Southern Africa
DFI	development finance institution
EIA	environmental impact assessment
EMC	environmental monitoring committee
ESF	Environmental and Social Framework
FPIC	free, prior, informed consultation/consent
HDI	Human Development Index
IDC	Industrial Development Corporation
MDGs	Millennium Development Goals
NDB	New Development Bank
NDP	National Development Plan
NFSD	National Framework for Sustainable Development
NGO	non-governmental organisation
NPC	National Planning Committee
SAIIA	South African Institute of International Affairs
SDGs	Sustainable Development Goals

## INTRODUCTION

A new feature of the Global South development landscape is the emergence of new finance mechanisms led by rising developing economies. The Fortaleza Summit of the BRICS in 2014 launched the New Development Bank (NDB), commonly known as the BRICS bank, which will be headquartered in Shanghai with an African regional office in South Africa. The NDB's purpose is to 'mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral, regional and national financial institutions for global growth and development'.<sup>1</sup>

To date the BRICS as an entity has not articulated a common position on sustainable development. There has been no statement on its understanding of sustainable development, or on its position on the Sustainable Development Goals (SDGs) in a post-Millennium Development Goals (MDGs) world, or indeed on what the BRICS's definition of this concept might be. In fact, in South Africa the government had for many years also not clearly defined a working concept of sustainable development or of how it sees its sustainability responsibilities as a developing economy. This is slowly changing and is reflected in the National Framework for Sustainable Development (NFSD) of 2008 and the National Development Plan 2030 (NDP) of 2012. At the Development Bank of Southern Africa (DBSA) an internal process is underway to refine its understanding and working definition of sustainable development.

The NDB launched its website in February 2016. It states: '[T]he 21<sup>st</sup> century has brought with it tremendous development. However, this progress has been skewed, insufficient and often harmful to our environment. We are committed to be a partner in bringing about sustainable development. We are looking forward to partner with initiatives that drive growth and employment while ensuring environmental protection.'<sup>2</sup>

The operational and governance<sup>3</sup> details of the NDB still need to be elaborated publicly, and it is difficult at this point to discern how the sustainable development dimension of the bank's mandate may be addressed. However, South Africa should begin deliberating both how the concept of sustainable development should be interpreted by the NDB and what types of sustainable development and infrastructure projects it might consider. This would allow the country to be prepared for the discussions among its BRICS partners about what kinds of projects should be regarded as fitting the definition of sustainable development. South Africa could play a leadership role in a BRICS vision for sustainable development, and ensure that the bank prioritises environmental concerns associated

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1 BRICS, 'Agreement on the New Development Bank: Fortaleza, July 15', 2014, <http://brics.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15>, accessed 6 April 2016.

2 NDB (New Development Bank), 'Our purpose', <http://ndb.int/our-purpose.php>, accessed 10 April 2016.

3 According to the NDB website, the objective is to supplement the development agenda in its member countries through efficient and result-oriented project financing, which is built on the best practices of ethics, compliance and governance.

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with sustainable consumption and production while promoting and sustaining social safeguards. This paper argues that South Africa could become a driver of sustainable development through development finance at home, but also more broadly on the African continent. Within the BRICS's Long Term Strategy, South Africa leads on the pillar of 'sustainable development, social justice and quality of life' and is thus well positioned to take the lead in the debate.

Following desk research, this paper reflects the broad views of predominantly non-governmental organisations (NGOs) in South Africa, as well as those of policymakers, think tanks and academia interviewed for this study and participants at the roundtable hosted by SAIIA and Oxfam in Johannesburg in March 2016, in order to capture a better understanding of 'sustainable development' within South Africa. (For a full list of interviewees, please see Annex 2. The views are not those of SAIIA or Oxfam per se.)

The study is a first attempt to capture the diverse views of South Africans, which can be used for further dialogue and debate in developing a working definition of 'sustainable development' for the NDB from a South African perspective. By briefly highlighting a number of sustainable infrastructure projects in South Africa, it further makes the case that the NDB could use existing examples of successful sustainable development projects to define its own ambitions in supporting sustainable development in all spheres of its operations.

## NEW DEVELOPMENT BANK

### FROM CONCEPT TO REALITY

The concept of a new development finance institution among the BRICS countries was initially mentioned publicly towards the end of 2011 by a New Delhi-based think tank, with the first official mention from the group appearing in February 2012.<sup>4</sup> The New Delhi Declaration following the BRICS Summit in India in 2012 suggested that the group's members 'have considered the possibility of setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries'.<sup>5</sup> The declaration directed the finance ministers of the five countries to investigate the feasibility of such an institution. The following year, at the group's summit in South Africa, the eThekweni Declaration stated: '[W]e are satisfied that the establishment of a New Development Bank is feasible

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4 Ustinova A, 'BRICS bank to be discussed at March summit, Russia official says', *Bloomberg Business*, 27 February 2012, <http://www.bloomberg.com/news/articles/2012-02-23/india-said-to-propose-brics-bank-to-finance-developing-nations-projects>, accessed 28 April 2016.

5 BRICS, 'Fourth BRICS Summit: Delhi Declaration', 29 March 2012, <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html>, accessed 28 April 2016.

and viable. We have agreed to establish the New Development Bank.’<sup>6</sup> The bank and the Contingent Reserve Arrangement, a sister institution that will offer assistance to members during times of financial instability in a manner similar to that of the International Monetary Fund, were officially established the following year at the BRICS summit in Fortaleza, Brazil.<sup>7</sup>

Key characteristics of the NDB were outlined in the bank’s founding document, the Agreement on the New Development Bank. The bank will have a maximum authorised capital of \$100 billion, putting it on par with other development finance institutions (DFIs) such as the African Development Bank (\$100 billion), the Asian Infrastructure Investment Bank (\$100 billion) and the Asian Development Bank (\$164 billion), but short of the World Bank and the European Investment Bank, both with authorised capital of over \$250 billion.<sup>8</sup> The five BRICS members will contribute equal amounts of the initial capital, and consequently have equal voting rights within the institution. Initially the BRICS countries will be the only members of the bank, but provision is made in the founding documents for the membership to increase in the future. The bank will initially only fund projects in member countries, but will increase its geographic scope to include all developing countries at a later stage. The NDB will be headquartered in Shanghai, with the African Regional Centre (ARC) based in Johannesburg. The ARC will support African countries in developing bankable projects to address the dearth of viable projects on the continent, especially multi-country developments, as well as with project implementation.

The geostrategic context of the establishment of the bank is linked to the BRICS’s growing dissatisfaction with the lack of transformation in traditional international finance institutions, and the significant need for infrastructure financing development in the five BRICS nations and other emerging markets. The members hoped that in establishing this bank they would show the world that they would do business differently.<sup>9</sup>

The New Development Bank comes with a very open mindset. Like the economies we look forward to partner with, we too are on the development curve. We understand the challenges and needs of borrowing partners. This gives us the ability to structure our offerings and processes accordingly. We aim at addressing the needs of developing economies in today’s context and partner[ing] with them.

For South Africa, for example, the issue of the equitable allocation of votes among the five was extremely important in this discussion. In that sense the bank is quite different. According to the bank’s new president, KV Kamath, the NDB will attempt to differentiate itself from traditional DFIs through the way it operates – speeding up operations and

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6 BRICS, ‘BRICS and Africa: Partnership for Development, Integration and Industrialisation’, 27 March 2013, <http://www.brics.utoronto.ca/docs/130327-statement.html>, accessed 28 April 2016.

7 BRICS, 2014, *op. cit.*

8 Davies R, ‘The new-world bank’, *Devpolicyblog*, 18 July 2014, <http://devpolicy.org/in-brief/the-new-world-bank/>, accessed 28 April 2016.

9 NDB (New Development Bank), ‘Our purpose’, <http://ndb.int/our-purpose.php>, accessed 10 April 2016.

lending, raising capital from emerging markets, lending in local currencies to avoid exchange risks, and working in partnership with lenders rather than having the traditional lender–borrower relationships often found with other DFIs.<sup>10</sup> However, whether or not the NDB will be able to deliver on these intentions and how different it will be in the way it identifies and funds projects will only become apparent once it is fully operational.<sup>11</sup>

## NDB AND EARLY PRONOUNCEMENTS ON SUSTAINABLE DEVELOPMENT

Given that the BRICS countries are all emerging economies, economic development has been at the forefront of their individual sustainable development strategies. At the same time, each BRICS country has also begun to experience the effects of unchecked economic growth on social inclusion and environmental protection

The bank is gearing up to extend its first loan between April and July 2016. Little detail has emerged on the NDB's approach to sustainable development, despite its being mentioned in the founding agreement as a key focus, together with infrastructure. While various reports have indicated that the first projects to be funded will be in the area of renewable energy<sup>12</sup> (now being reported at 60% of its initial portfolio), the NDB has also suggested that it will consider projects in areas such as hydro (the Grand Inga Dam project) and coal-based electricity generation infrastructure, which other DFIs are increasingly rejecting.<sup>13</sup> (A recent Organization for Economic Cooperation and Development decision has agreed to scale back public financing for coal-fired power plants. This would cut off financing for 85% of coal projects.)<sup>14</sup>

Given that the BRICS countries are all emerging economies, economic development has been at the forefront of their individual sustainable development strategies. At the same time, each BRICS country has also begun to experience the effects of unchecked economic growth on social inclusion and environmental protection. This has come in the form of pollution, sanitation problems, deforestation, the marginalisation of the poor and growth inequality, among other issues. Thus the BRICS countries have stepped up in varying degrees to address sustainable development holistically. Some members have set an example by actively promoting both environmental and social initiatives through government policy and their national development banks. They have also all begun to make various sustainable development commitments. For example, senior politicians from countries within the group have made significant commitments at COP21 and domestically on the expansion of renewable energy infrastructure. However, it remains to be seen whether implementation will be taken seriously.

10 Kamath KV, 'From concept to reality: The BRICS New Development Bank', public lecture at the Department of International Relations and Cooperation, Pretoria, 1 December 2015.

11 Wood C *et al.*, unpublished paper on the BRICS New Development Bank, SAIIA, April 2016.

12 TASS, 'BRICS New Development Bank to finance its first renewable energy project – Indian PM', 15 November 2015, <http://tass.ru/en/economy/836623>, 28 April 2016, accessed 28 April 2016.

13 Pedersen C, 'New financing options for coal power plants through the BRICS "New Development Bank"', *Breaking Energy*, 31 July 2014, <http://breakingenergy.com/2014/07/31/new-financing-options-for-coal-power-plants-through-the-brics-new-development-bank/>, accessed 28 April 2016.

14 *The Straits Times*, 'OECD to cut financing for coal-fired power plants', 19 November 2015, <http://www.straitstimes.com/world/oecd-to-cut-financing-for-coal-fired-power-plants>, accessed 28 April 2015.



The BRICS's key agreements, as well as various public engagements, provide insights on the ethos of the NDB's approach to interpreting sustainable development. Three areas stand out.

### **Prioritisation of economic development**

Within the BRICS the prevalent approach favours a balance between economic development and sustainable development. The Strategy for BRICS Economic Partnership, for example, highlights the need to promote renewable and environmentally sustainable energy and co-operation. However, it does not reject the use of fossil fuels, rather opting for the promotion of the 'efficient and environmentally friendly use of fossil fuels'.<sup>15</sup> At the same time, social safeguards appear to receive scant attention. While recognising the need for sustainable practices, the BRICS remains conscious that this is not always the most economically viable route. Nationally, economic development has often been prioritised over environmental and social sustainability. Nevertheless, 'sustainable' solutions such as renewable energy increasingly are proving to be more than or as cost effective as traditional solutions.

### **Favouring green economy projects and social returns**

Reports and comments from key NDB officials have started highlighting the bank's approach to sustainable development. In an interview, NDB Vice-President Leslie Maasdorp suggested that the NDB was 'going to be much more focused on sustainability, on green finance, on green technologies, on renewable energy'.<sup>16</sup> At the same time, Kamath said that,<sup>17</sup>

as a banker myself I can say that a project has to be bankable. By bankable I mean that it should be capable of returning the borrowing that has been made and it has to earn return on top of that. The return on top of that can be in various ways. It can be just the interest that is serviced on the loan that is borrowed. Actually it has to be more than that. There has to be return to other stakeholders. So you do a project, which let's say [is] socially relevant, with a social return that happens as a result. So we need to make sure that those returns happen and people get the benefit from this. We will look at return in a holistic manner, other than the narrow banker's view – 'I get my capital back, I get interest, okay, I am happy'. No, beyond that it has to have relevance to the country that has particular [interest in the] project that we are assisting.

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- 15 BRICS, 'The Strategy for BRICS Economic Partnership', 9 July 2015, <http://en.brics2015.ru/load/381830>, accessed 28 April 2016.
- 16 Orderson C, 'A new bank for a new era', *The Africa Report: Finance Special*, October–December 2015, pp. 26–27.
- 17 Filimonov M & D Medvedenko, 'We can raise money on our own – NDB chief', *Russia & India Report*, 10 July 2015, [http://in.rbth.com/economics/2015/07/10/we\\_can\\_raise\\_money\\_on\\_our\\_own\\_-\\_ndb\\_chief\\_44151](http://in.rbth.com/economics/2015/07/10/we_can_raise_money_on_our_own_-_ndb_chief_44151), accessed 28 April 2016.

These assertions highlight the NDB's mindfulness of promoting sustainable development in a more holistic manner, while also considering the most economically viable options.

### Transparency and openness

The NDB Articles of Agreement state that the bank must be transparent in its activities and that rules will be drafted on access to information. It is vital that the development of the NDB's concept of sustainable development is an inclusive process that solicits public input on questions such as development projects, finance policy and priorities. Such an inclusive approach would immediately begin to differentiate the bank from its more traditional competitors. Unfortunately, in South Africa there is a perception among NGOs interviewed that there is a history of poor citizen engagement in decisions around large infrastructure projects such as those funded by the DBSA or the Industrial Development Corporation (IDC). However, the DBSA is quite rigorous in doing environmental impact assessments (EIAs) of projects prior to committing itself to participation.<sup>18</sup>

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The DBSA also maintains that it always seeks out broad input from sector experts on the social, environment and risk sectors (among a host of other technical experts) and engages with communities that could benefit or be affected adversely by investments. However, it has been highlighted that civil society's lack of a unified voice often leads to diverging opinions. A good example where civil society was extensively consulted was in the Independent Power Producers projects, which will be discussed in more detail below. While consultations are often done at an individual project level, civil society perceives a lack of opportunity to engage on overarching policies that inform the bank's overall approach to projects.

The projects nominated by South Africa for funding from the NDB include the Grand Inga Dam project in the Democratic Republic of the Congo, the Lesotho Highlands Phase 2 project, transmission lines and water pipeline projects. Whereas it is no surprise that these projects are all infrastructure related, the rapid selection process – without consultation or communication with the broader public – makes it appear as though only lip service is being paid to sustainable development and social returns. What has emerged from the interviews done for this paper is that, thus far, the creation of the NDB has been driven by political stakeholders (notably the Presidency and Treasury in South Africa) with little engagement from other ministries, departments and agencies. There has been no public consultation on this issue.

In a previous Oxfam publication, *The BRICS Development Bank: Why the World's Newest Global Bank Must Adopt a Pro-Poor Agenda*,<sup>19</sup> it was noted that<sup>20</sup>

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18 Qobo M, 'Development banks & civil society in South Africa', in *Development Finance in BRICS Countries*, Heinrich Böll Stiftung, September 2015, <https://za.boell.org/2015/09/14/development-finance-brics-countries>, accessed 28 April 2016.

19 Oxfam, *The BRICS Development Bank: Why the World's Newest Global Bank Must Adopt a Pro-Poor Agenda*, 11 July 2014.

20 *Ibid.*

the lack of information around plans for the BRICS Bank – and indeed around the work of the BRICS group as a whole – significantly hinders opportunities for public debate, which could potentially undermine its credibility as a champion of global reform. At the earliest opportunity, the BRICS group must spell out its priorities for international cooperation for each country, and define its shared understanding of ‘sustainable development’ in the context of the Bank. Access to public information, including in relation to trading and derivatives activities of public banks, is vital.

This argument still holds and no progress has been made in this regard.

## SUSTAINABLE DEVELOPMENT

The concept of sustainable development has been evolving over the last few decades. At the same time, attention to and efforts aimed at promoting sustainability have increased. This is reflected in both South Africa’s approach and the ongoing discussions at and activities of international forums. The following section highlights this process at a global level, as well as key aspects from discussions in South Africa. Following global and domestic efforts to define, implement and monitor sustainable development, the NDB is well placed to engage with these processes and can draw some important lessons in developing its own approach.

### INTERNATIONAL BEST PRACTICE

Sustainable development is a concept that is constantly evolving as it reflects the global knowledge base on how best to create energy, how to deal with waste, how to grow economically but sustainably and how to reinvent societies. Sustainable development practices are therefore, at best, a process of trial and error.

The most commonly used definition of sustainable development is the definition by the World Commission on Environment and Development: ‘Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’<sup>21</sup> Since 1987 the concept of sustainable development has come to permeate all policy areas and become central to most government plans and strategies. At the international level, our understanding of sustainable development is best framed by the UN MDGs and their successor, the 17 SDGs encapsulated in Agenda 2030. The goals range from ending poverty and hunger to improving education, health and security prospects for all. More relevant to the topic of DFIs are the goals on modern energy, sustainable economic growth, resilient infrastructure, sustainable cities, sustainable consumption and the sustainable use of ecosystems. A working definition for the NDB could enshrine the aspiration to contribute to meeting these goals and allow UN agencies to evaluate and comment on its work within this context. With regard to social safeguards, it should also

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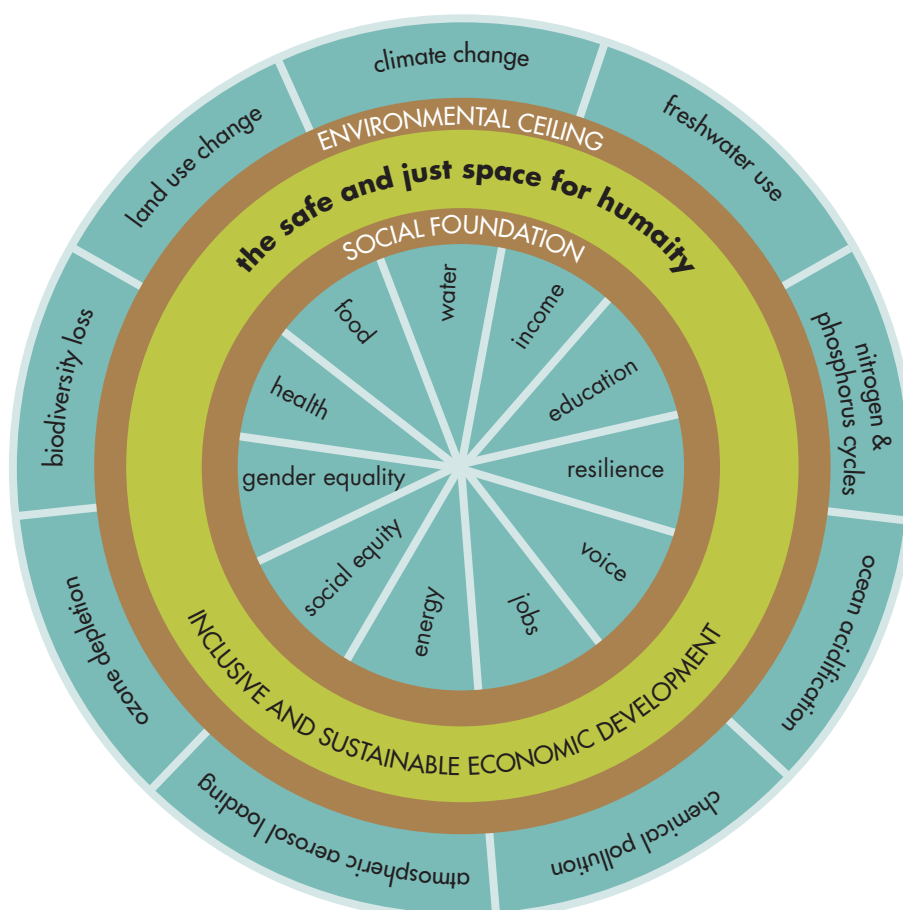
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21 UN Commission on Environment and Development, *Our Common Future*. Oxford: Oxford University Press, 1987, p. 23.

not neglect the UN's International Covenant on Civil and Political Rights, committing more than 168 countries to respecting civil and political rights.

In addition to these goals, the World Bank and the International Finance Corporation, in conjunction with many stakeholders, have drafted, discussed, amended and continuously reviewed guidelines and policies on sustainable development. The outcome is the Environmental and Social Framework (ESF), which sets standards for sustainable development. It comprises a vision for sustainable development, setting out the World Bank's aspirations regarding environmental and social sustainability, and is complemented by the Environmental and Social Policy, Standards and Procedures. While the NDB seeks to be an alternative to traditional DFIs, it should take heed of the many years' worth of research and dialogue on what sustainable development should and can be. It should engage with this dialogue and see where it can contribute to the debate.

**FIGURE 1** THE SAFE AND JUST SPACE



Source: Raworth K, 'A Safe and Just Space for Humanity: Can We Live Within the Doughnut?' Oxfam Discussion Papers. Oxford: Oxfam, 2012

Other international organisations and civil society have also contributed to this dialogue. Oxfam, for example, has presented a definition that brings together planetary boundaries to complement social boundaries (see Figure 1).

In terms of the measurement of sustainable development, international DFIs work with a set of criteria, adapted to each project, on how to monitor impact on the environment and people. The World Bank has an ombudsman who can intervene on behalf of citizens to ensure fair and equitable compensation when communities have been affected by the World Bank's projects. Some NGOs interviewed for this study have suggested that measuring for sustainable development could be done by combining the three internationally acclaimed tools of the Human Development Index (HDI), the Gini Coefficient and the Ecological Footprint indicator. As a rule of thumb, countries are developing sustainably if these three indicators are in balance, with an HDI of 1, a Gini Coefficient of 0 and an Ecological Footprint for the world at less than 1.6, where it currently stands.

Instead of trying to pin down precise definitions of sustainable development, case studies and priority setting are perhaps better ways of finding replicable solutions. A key component of this is continuous dialogue and engagement. There has not been widespread consultation with the citizens and civil society of the BRICS to learn from past successes and failures in these countries. The sheer scale of projects normally under consideration by development banks and the technical nature of their implementation do not necessarily invite outside input from non-technical organisations, and yet it is local communities that experience successes and can advocate for their replication or that suffer under the failures.

The civil society experience of lack of engagement is not unique to the NDB, as it is a common problem experienced with DFIs. However, the NDB had an opportunity to illustrate how it differs from other institutions by discussing with stakeholders the nature and broad principles of the projects (with an equal focus on promoting economic, environmental and social principles) it will fund. Early pronouncements indicate that the NDB wants to approve its first projects in the first half of 2016. It appears as though projects that are already viable and bankable will receive preference during this first loan window, likely in order to secure some early successes for the bank. The outcome of this move has been limited dialogue. Dialogue and engagement can frame the general direction and mindset of the bank and allow for broad agreement on a preference for green technologies over nuclear, or for people-driven transport infrastructure over extractive industry transport infrastructure.

A challenge for the NDB lies in creating a co-ordinated policy framework that accounts for the different regulations in each country. If the NDB wants to contribute meaningfully to promoting and enhancing sustainable development, domestic safeguards alone may not be enough, as these are not all the same and often not enough. Whatever definition the NDB chooses to adopt, it should be a three-pronged approach considering economic, environmental and social sustainability, all equally balanced.

The stakeholders interviewed have debated whether the NDB should develop its own standards or use existing ones from other organisations. Both have advantages and

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disadvantages. While developing one's own guidelines has the potential to be more progressive, it also has the potential to fall short of existing guidelines while wasting resources. Adopting international organisations' guidelines means that the NDB will be using the lowest common denominator that many countries have agreed on, which is a good start but with scope to improve. There are particular global norms cited by respondents to this study that are relevant for the NDB and its mandate.

- The NDB could liaise closely with the AU, given the bank's focus on infrastructure development on the African continent. The AU Charter on Human and Peoples' Rights, ratified by all African states apart from South Sudan, is considered a good instrument on which to base standards pertaining to respecting human and other social rights in Africa.
- The principles of FPIC – free (without coercion), prior (timely), informed (transparent) consultation (dialogue)/consent (agreement) – have been widely recognised and should form part of the bank's own guidelines. FPIC is defined as 'the principle that indigenous peoples and local communities must be adequately informed about projects that affect their lands in a timely manner, free of coercion and manipulation, and should be given the opportunity to approve or reject a project prior to the commencement of all activities'.<sup>22</sup>
- The King III code of conduct for companies is the leading code globally for sustainable development practices for the private sector. All companies listed on the Johannesburg Stock Exchange have to report against this code, making South Africa the leader in promoting and monitoring corporate social responsibility. Sustainable principles promoted in King III (and potentially its successor, King IV, expected in the second half of 2016) could be applicable to the NDB in its operations in South Africa.
- Equator Principles III is a risk management framework, adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. Currently, 83 institutions (including First Rand, Nedbank and Standard Bank) in 36 countries have adopted the principles, covering 70% of international project finance debt in emerging markets.

After close and considered evaluation of these various reputable standards and principles already being implemented and monitored, the NDB could set its own benchmarks in line with the above.

## SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA

South Africa's approach to sustainable development is partly enshrined in the constitution, which guarantees everyone the right to have 'the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that

22 Oxfam, 'Community Consent Indexes: Oil, Gas, and Mining Company Public Positions on Free, Prior, and Informed Consent', Briefing Paper, 207. Oxford: Oxfam, 2015.

secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development'.<sup>23</sup> At the same time, the constitution strongly advocates the safeguarding and promotion of human rights.

However, support for sustainable development through policymaking and implementation has wavered over the past two decades. Initially it appeared as though the sustainable development agenda was driven more by international pressure than domestic buy-in. For example, the NFSD (2008) was largely funded by British development aid and responsibility for it was delegated to a minor, second-tier department, the Department of Environmental Affairs and Tourism. Nevertheless, domestic buy-in and political commitment seems to have increased with the establishment of the National Planning Commission (NPC, based in the Presidency), which oversaw the development of the NDP. The NPC launched the NDP in 2012 and has also been charged with overseeing the monitoring of its implementation.<sup>24</sup> Together, the NFSD and NDP provide key insights into South Africa's overall approach to economic, environmental and social sustainability. The most recent State of the Nation Address by President Jacob Zuma in February 2016 recommitted South Africa to the NDP, highlighting again its status and importance in South Africa's development planning.

The NFSD notes as a starting point that its approach to sustainability is 'one where the economic system, the socio-political system and the ecosystem are embedded within each other ... sustainable development means making sure that these systems remain mutually compatible as the key development challenges are met'.<sup>25</sup> Addressing poverty and inequality while also employing resources efficiently are crosscutting themes for both the NFSD and the NDP.

Despite these efforts, South Africa has not yet reached consensus on defining sustainable development, as there are no agreed-upon indicators on what constitutes quality of life, which is integral to development. As one interviewee noted: 'South Africa has been ideologically inconsistent in this regard, and this study could act as an entry point to our own government first, before lobbying the BRICS NDB.'<sup>26</sup> Following South Africa's adoption of the 2030 agenda, 2016 marks an important opportunity to define and develop a definition of sustainable development and develop indicators that contextualise the global SDG indicators in the national context.

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South Africa's approach to sustainable development is partly enshrined in the constitution, which guarantees everyone the right to have 'the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development'

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23 South Africa, The Bill of Rights of the Constitution of the Republic of South Africa, 1996.

24 Rennkamp B, 'Sustainable Development Planning in South Africa: A Case of Over-Strategizing?', UCT (University of Cape Town), Energy Research Centre Research Report, [http://www.erc.uct.ac.za/sites/default/files/image\\_tool/images/119/Papers-2013/13-Rennkamp-Sustainable-Development\\_Planning.pdf](http://www.erc.uct.ac.za/sites/default/files/image_tool/images/119/Papers-2013/13-Rennkamp-Sustainable-Development_Planning.pdf), accessed 28 April 2016.

25 South Africa, Department of Environmental Affairs and Tourism, 'A National Framework for Sustainable Development in South Africa', 2008.

26 Interview, Fatima Shabodien, Country Director (South Africa), Action Aid, 18 January 2016.

## EXAMPLES OF SUSTAINABLE DEVELOPMENT PROJECTS

The interviews conducted threw up a large number of projects and initiatives that the interviewees thought exemplified sustainable development that they would like the NDB to invest in. This included investment in the maintenance of existing water infrastructure in South Africa (it is estimated that the country loses ZAR<sup>27</sup> 7 billion [\$486 million] annually, or 29% of all water, due to leaking pipes and other faulty transmission equipment).<sup>28</sup>

In terms of climate change mitigation strategies, the Cape Town dune reclamation project was identified as a successful initiative that could be replicated. In this context, work on water catchment areas and the removal of alien species from these areas was also put forward as very important initiatives that needed upscaling.

Participation in the Comprehensive Rural Development Programme was offered as a way in which to ensure economic sustainability for rural economies. Investment in cities, especially in transport systems such as bus rapid transport systems and the corridors of freedom, was suggested as a way in which poor communities could be assisted to reach areas of economic activity safely and cheaply. Better land use, by using abandoned buildings in cities' central business districts, was also suggested, as is captured in the Joburg 2040 Growth and Development Strategy.<sup>29</sup> This strategy has been put forward as an example of an action plan already in place that could be replicated elsewhere if successfully implemented. It focuses on liveability, resource sustainability, health and poverty, governance, transportation, community safety, the environment and economic growth within traditional infrastructure development.

Another example of an existing strategy that could be scaled up/replicated by the bank is South Africa's Renewable Energy Independent Power Producer Procurement Programme. Within five years the country has procured more than 6 000MW of renewable electricity (4% of total generation capacity), facilitated more than ZAR 168 billion (\$11.6 billion) in infrastructure spend, created more than 100 000 jobs, and contributed to a reduction of 4.4 million tonnes of carbon dioxide emissions, while also spurring the development of local industries. The programme has been viewed as a massive success. It has considered electricity procurement from various renewable generation sources, including wind, solar (thermal and photovoltaic), biomass, biogas, landfill gas and small hydro technologies. From the various rounds under this programme, there are a number of projects that were not selected but that are viable and ready for funding.<sup>30</sup>

27 Currency code for the South African rand.

28 Hes D, 'No drop: SA to tackle its water leaks', SouthAfrica.info, 25 October 2015, <http://www.southafrica.info/about/sustainable/water-251013.htm#.VyHlBVZ9601>, accessed 28 April 2016.

29 City of Johannesburg, Joburg 2040 Growth and Development Strategy, October 2011.

30 De Vos D, 'Renewable energy – can we continue to REIPPPP what we sow?', *Daily Maverick*, 7 May 2015, <http://www.dailymaverick.co.za/article/2015-05-07-op-ed-renewable-energy-can-we-continue-to-reipppp-what-we-sow/#.VsxCbfl9600>, accessed 28 April 2016.



Many of the respondents rejected coal-based electricity generation projects. South Africa's most recent experience with the largely World Bank-financed Medupi coal power plant is instructive. While the new power plant has alleviated electricity insecurity in South Africa, cost and time over-runs, together with the environmental degradation caused, have ensured criticism of this project from many sectors of society. One of the lending conditions set by the World Bank ahead of extending the loan was that the plant should be fitted with specialised technology to reduce sulphur dioxide emissions. Eskom has failed to adhere to these conditions and the World Bank is struggling to enforce compliance after having extended the loan.<sup>31</sup>

Given South Africa's arid climate and recent water crisis, dam and water transfer system development has been both a necessity and an example of sustainable development. Dams can promote economic development by providing the water that is necessary to fuel large urban economic hubs, and for irrigation and cattle feeding. However, issues around the displacement of communities and environmental harm are always present.

As part of South Africa's National Infrastructure Plan, the De Hoop Dam, the Dwarsloop-Acornhoek steel pipeline, the Mooi Mgeni Transfer Scheme, the Lesotho Highlands Water Project, the Nooitgedagt Scheme and the Mokolo and Crocodile River (West) Water Augmentation are all in progress or recently completed.<sup>32</sup> The Mooi Mgeni Transfer Scheme Phase 2 in the Midlands of KwaZulu-Natal, which consists of the Spring Grove Dam and a water transfer pipeline, has been heralded nationally as a model of sustainable development. The combination of mandatory EIAs, environmental monitoring committees (EMCs) and environmental management plans, all with public participation processes that were utilised extensively, allowed both environmental and social concerns to be raised and addressed. Significant economic concessions were made to ensure greater sustainability. For example, an artificial fish barrier was constructed to replace the natural waterfall submerged by the dam, which had previously served as a barrier between smallmouth bass downstream and trout upstream. Additionally, informal farm workers displaced by the dam were given new houses with electricity and water, which they previously did not have. Consultation in the EIA led to the route of the pipeline being altered so that it disrupted fewer houses, and consultation in the EMC resulted in the installation of traffic cameras and a traffic circle on the main road to avoid the dangers posed by speeding trucks hauling quarry material.<sup>33</sup>

One example of a pro-poor, development-orientated approach was the IDC's extension of loans to small and medium enterprises such as Ouma Rusks. The loan was aimed at both

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31 Sheppard J, 'World Bank to review delay of pollution controls at South African coal plant', *Huffington Post*, 11 November 2013, [http://www.huffingtonpost.com/2013/11/11/world-bank-fossil-fuels\\_n\\_4255794.html](http://www.huffingtonpost.com/2013/11/11/world-bank-fossil-fuels_n_4255794.html), accessed 28 April 2016.

32 SAGNA (South African Government News Agency), National Infrastructure Plan, 2012, <http://www.sanews.gov.za/special-features-archive/national-infrastructure-plan>, accessed 28 April 2016.

33 South Africa, Department of Water and Sanitation, Mooi-Mgeni River Transfer Scheme Phase 2, <https://www.dwa.gov.za/projects/Mgeni/Phase2/default.aspx>, accessed 28 April 2016.

creating jobs (and thus alleviating poverty) and enhancing the nutrition of the population. If the NDB truly wants to be a new and innovative institution, eradicating poverty (social returns) should be at the centre of its approach, rather than purely economic returns.

Despite these good examples of substantial potential development gains at the more micro level, all initial indications are that the NDB will pursue larger infrastructure projects.

## RECOMMENDATIONS

The interviewees gave a broad range of recommendations on how the NDB should go forward in terms of defining and implementing principles of sustainable development.<sup>34</sup> This report has attempted to cluster them under a number of headings, ranging from broader recommendations to the specific. The list is not exhaustive, but key to all of the recommendations is that the NDB engages stakeholders broadly and frequently and thinks about how it can become innovative and deliver results that have a clear developmental impact. In order to differentiate itself from the traditional DFIs it has to think and act differently. It has to consider carefully where its niche might lie and how broadly or narrowly it will define its operational mandate.

- **Ensure regular and mandated dialogue with civil society**

The most repeated recommendation was that the NDB should have an established dialogue mechanism with civil society, either through regular meetings or an established unit within the bank. Clearly, it remains difficult to define civil society and engage those NGOs most relevant to the NDB's mandate, and to ensure that such engagement is relevant and timely and not just a tick-box exercise. Due consideration should be given to practices and processes that existing DFIs are engaged in that do seek NGO input, and to consider adapting and adopting those that are successful and meaningful. As such, civil society organisations seem to be divided between those that aim to give general policy direction (predominantly those interviewed) and those that are community based and will only engage if their specific community were to be affected. Civil society has also highlighted the need for an independent ombudsman.

- **Consider the ESF and FPIC**

Most NGOs interviewed considered these a sine qua non for all NDB activities. The exact content of the NDB ESF should be defined in consultation with stakeholders. FPIC should form the basis of all stakeholder engagement. Post-completion evaluations should also form part of the project implementation plan.

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34 They are captured without moderation or attribution. As such, some of the recommendations could come across as contradictory.

- **Move away from coal and extractive industries**

The civil society representatives interviewed would all like to see a commitment to move away from coal-generated electricity and investments in and around the extractive industries. Where electricity investment planning is made, the default position should not be coal but rather renewable energy and innovation as far as possible, to increase these sectors' contribution to the national grid to its maximum. As a response, proponents of funding for coal-powered electricity notes that renewable energy generation currently cannot adequately supply base-load energy, thus necessitating continued investment in technologies that have the capacity to fulfil such needs (eg, coal and nuclear).

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Civil society representatives interviewed would all like to see a commitment to move away from coal-generated electricity and investments in and around the extractive industries

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- **Build smart infrastructure**

Linked to the previous point, the interviewees felt that there should be in-depth analysis on the types of infrastructure development that would be most beneficial to citizens, steering away from investments that merely serve the extractive industries.

- **Focus on cities**

A key characteristic of the African continent in coming years will be the rapid increase in urbanisation. Developing cities sustainably, where poorer people living on the periphery of cities are linked to economic opportunities, is a growing imperative in African urban landscapes.

- **Regional integration**

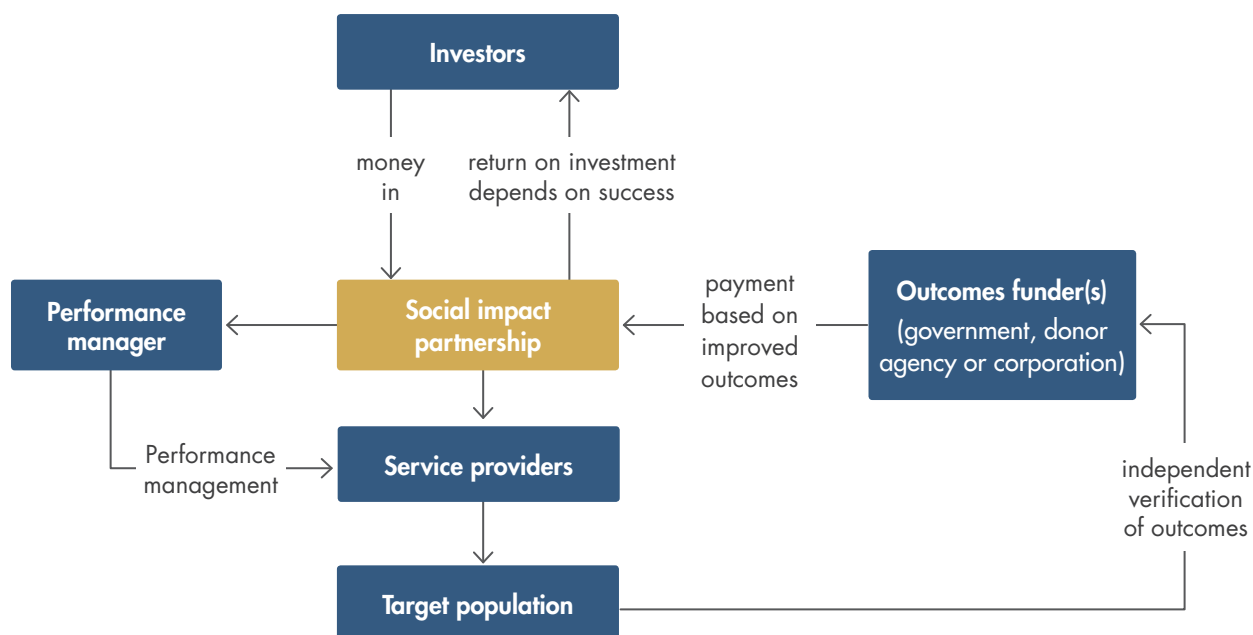
The NDB should consider funding subregional and continental project proposals. This will allow the NDB to contribute to regional integration. There is already a strong indication that the NDB will contribute to this goal via its ARC.

- **Explore smaller projects and funds**

The NDB should explore involvement in smaller projects through smaller funding mechanisms and not focus exclusively on large infrastructure. Could it support infrastructure rehabilitation projects or the upscaling of new ideas via an innovation fund? There are a number of innovative funding mechanisms it could consider, including social impact bonds. These are 'an innovative method of financing social programmes in which governments partner with service providers and private sector investors to fund social programmes. Investors are repaid if and when improved social outcomes are achieved. Thus, government pays only if the services are successful at meeting the needs of its citizens.'<sup>35</sup> The NDB could equally come in as an investor and only expect returns on its investment once it is proven that the needs of citizens have been met and the approach resulted in significant savings to the government. The incentive to implement effectively increases dramatically and the risk for the government to participate is nullified.

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35 Joseph K, cited in 'Business Development Services Social Impact Bond: Policy Paper Presentation', UCT, Graduate School of Business, [http://www.gsb.uct.ac.za/files/Policy-Paper-Presentation\\_Business-Development-Services-SIB.pptx](http://www.gsb.uct.ac.za/files/Policy-Paper-Presentation_Business-Development-Services-SIB.pptx), accessed 28 April 2016.

**FIGURE 2** TYPICAL STRUCTURE OF A SOCIAL IMPACT BOND

Source: Joseph K, cited in 'Business Development Services Social Impact Bond: Policy Paper Presentation', UCT, Graduate School of Business

## CONCLUSION

It is important to remember that there are five countries in the BRICS, each with its own agenda. Despite South Africa's being the smallest partner, Pretoria will still contribute equally to the capital and have equal voting rights, so in theory should have equal influence. South Africa has already demonstrated that it can work to gain the support of its BRICS partners in other international forums on related matters. For example, South Africa, among other countries, sponsored the establishment of a working group to discuss a legally binding instrument on transnational corporations and other business enterprises with respect to human rights in the UN's Human Rights Council. Encouragingly, it managed to get all of its BRICS counterparts to sign this resolution, although some of them later pulled out again.

What is clear from the interviews is that a workable definition of sustainable development needs to be delineated by South Africa before it can be taken on to the NDB for consideration. Given its focus on 'social justice, sustainable development and quality of life' at the BRICS Think Tank Council (Pillar 3 of the BRICS Long Term Strategy), South Africa is well placed to play a leadership role in the development of a BRICS definition of sustainable development. Such a definition would help identify the key criteria for sustainable development projects that can be supported by the NDB, while ensuring

that environmental and social safeguards are in place for the benefit of BRICS countries, the African continent and other regions in future. Providing leadership on what types of sustainable development projects the NDB could fund is critical for Africa given the interest expressed by the BRICS in the continent. This is demonstrated by the NDB's choosing to open its first regional centre to be based in Africa (the ARC) in South Africa in March 2016.<sup>36</sup>

Public accountability will be important for the NDB, and the call for a platform for civil society to engage in project selection and monitoring is strong. Obstacles to engaging civil society in operations have been highlighted throughout this paper, including the lack of a unified voice on issues, the lack of a centralised mouthpiece, and differing levels of engagement from civil society, ranging from overarching policies to specific projects.

Nevertheless, from the interviews conducted it has become clear that civil society views its role as not only taking part in procedural hearings that may arise or giving input on the overarching policy directions of the bank but also participating directly in the NDB's decision-making on the allocation of project funding. South African civil society strongly advocates for including marginalised communities and interest groups protecting the environment and natural ecosystems in the decision-making process on loans, in order to achieve sustainable development. This can be realised by ensuring that the BRICS engages in participative governance, and therefore adopts a social accountability framework.

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36 Gordhan P, '2016 Budget Speech', 24 February 2016, <http://www.treasury.gov.za/documents/national%20budget/2016/speech/speech.pdf>, accessed 28 April 2016.

## ANNEX 1

### INTERVIEW QUESTIONS

#### Sustainable development

- How should sustainable development be defined in 1) SA and/or 2) for the BRICS?
- Their views on selection criteria on projects that should be funded by the NDB related to sustainable development.
- Do they have any examples of infrastructure development, at any level, that could exemplify their definition of sustainable development that the NDB could replicate?
- Do certain stakeholders regard the focus on sustainable development criteria as necessitating economic trade-offs?

#### Governance

- How best can government involve multiple stakeholders (including civil society and local communities) in decision-making processes of the NDB?
- Can the bank introduce (or adapt from other international organisations and DFIs) an M&E system that could hold it accountable to its sustainable development principles?

#### Project selection

- What key sectors and/or projects should South Africa propose for support/funding by the NDB related to sustainable development and infrastructure / social infrastructure in SA and/or Africa (given the NDB's focus on support to African initiatives through the BRICS African Regional Centre to be based in Johannesburg)?
- Are there sectors or projects that you believe SA should not support within SA / or in Africa for funding by the NDB? Why? What are your main concerns?
- Are your operations governed by any voluntary or mandatory labour, social or environmental guidelines, standards or disclosures?
- Do you have views on what labour, social and environmental standards should govern NDB lending? Are there already such standards in existence (for instance introduced by the Bretton Woods institutions) that can be employed as a baseline for the NDB?

## ANNEX 2

LIST OF INTERVIEWEES		
Contact	Institution	Position
Anand Prabu Pathanjali	Greenpeace Africa	Climate and Energy Campaigner
Dr Michelle Ruiters	Development Bank of Southern Africa	Strategy Division
Dr Tristen Taylor	Earthlife Africa	Project Coordinator
Fatima Shabodien	ActionAID	Country Director
Gray Maguire	Project 90x2030	Community Partnership Programme
Mandeep Tiwana	CIVICUS	Head of Policy
Nomonde Nyembe	Centre for Applied Legal Studies (University of the Witwatersrand)	Attorney, Business and Human Rights
Prof. Mark Swilling	Sustainability Institute (University of Stellenbosch)	Academic Director
Prof. Ralph Hamann	Graduate School of Business (University of Cape Town)	ACDI Research Chair
Prof. Rasigan Maharajh	Institute for Economic Research and Innovation (Tshwane University of Technology)	Chief Director
Rashmi Mistry	Oxfam	Acting Head of GROW Campaign
Yared Tsegay	African Monitor	Senior Research and Monitoring Specialist
Baone Twala	Centre for Applied Legal Studies (University of the Witwatersrand)	Legal Assistant









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