

# BRICS at glance: Opportunities and Challenges for Africa

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## Introduction

The strong economic ascendancy promulgated by Brazil, Russia, India, China and South Africa (BRICS) has increased in international significance, invading the once OECD monopoly of Official Development Assistance (ODA) to developing countries. BRICS<sup>1</sup> economic success serves as inspiration to Africa having sharing the same historical background. Their presence in Africa presence double standards of both complementary win-win outcomes solely based on an altruistic goal to improve the economic well-being of African and competitive win-lose outcomes to maximize their own strategic interests. This has presented a predicament which entails the need for appropriate management for the achievement of a win-win scenario in this South South Cooperation (SSC), a partnership were interests in trade, aid and investments flourish.

## Comparison between the BRICS and OECD donors

BRICS development financing includes grants, concessional and non-concessional loans are a complement to trade and investment arrangements. By OECD standards development finance does not stretch to include resource inflows of trade and investments but is only specific to grants and concessional and non concessional development lending. BRICS focus on technical rather than financial assistance. China and India are concentrating on bilateral aid mainly, whereas Russia, Brazil and South Africa are using multilateral channels. Development cooperation of BRICS is not following OECD standardized aid criteria.

The difference fundamentally stems from the fact that BRICS regard themselves as peers in mutually beneficial relationships with their partner countries while OECD donors are of the regard that some countries are “donors” and others “recipients”. BRICS save for Russia ascribe to the notion of respect of sovereignty, territorial integrity and non interference into the political systems of their peers. While the DAC members have clear structures of their ODA targets (0.6% GNI), delivery and reporting frameworks, the BRICS mode of operations in ODA is ad hoc and does not follow a defined pattern.

Unlike the OECD donors BRICS development finance comes without traditional political or economic pre-conditions, such as transparency and good governance, as insisted upon by the OECD which made commitments to develop innovative financing mechanisms to improve aid effectiveness especially on aspects such as transparency, accountability, predictability, management for results, harmonisation and use of country systems. BRICS have no similar framework or any obligation to make their development assistance data publicly available, and the figures they do publish do not undergo the same

external validation process that is applied by the DAC.

Among the BRICS the form of assistance differs in sectors. China offer assistance through Grants, credit lines, interest free loans and concessional/non concessional loans. Brazil offers its assistance through loans and grants. For Russia it's mostly grants and debt relief. India offers concessional and non concessional loans, interest free loans, credit lines and grants. South Africa offers grants and loans. The BRICS also differs in their sector approach. Brazil main focus is in agriculture, education and health. Russia is normally in budget support, while India offers grants for rural development, education health, and technical cooperation, loans for infrastructure and disaster relief. China also prides in prestige projects such as stadiums, construction of schools and hospitals, communication, transport and energy. These BRICS have brought in visibility in development, especially in the infrastructure sector. South Africa focus on projects and technical assistance.

### General Trends of South South Cooperation

SSC engagement prides from a history which emanated officially from the

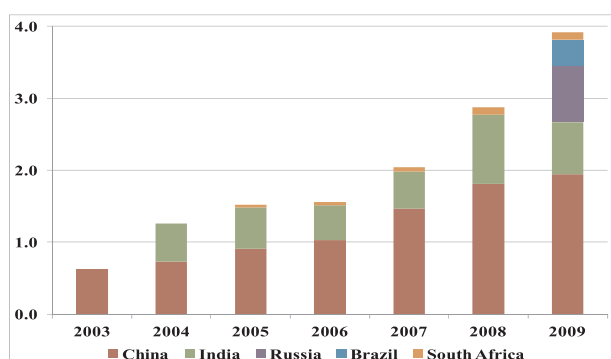
Non-Aligned Movement (NAM). The fundamental resolutions still remain of paramount importance. These included providing technical assistance to one another, facilitating exchange of ideas, experts, and specific training, educational, infrastructure construction, scientific and technical to admit and train students and experts from other countries. It remains a fact that SSC superseded economic success for the BRICS yet the resolutions passed still remain relevant 58 years after they were made. Since the 1960s these so called BRICS have been providing ODA to Africa.

BRICS are effectively beginning to redefine Africa's risk profile. Investment in Africa is traditionally seen as a commercially risky venture, given the often inhospitable business environment and political instability. However an analysis of Chinese Ministry of Commerce (MOFCOM) data reveals that, by 2009, 76% of Chinese outward FDI in Africa was in countries defined by the IMF (2007) as hydrocarbon- or mineral-rich countries.<sup>ii</sup> There also have been notable improvements of aid disbursements among the OECD, DAC donors. ODA to Africa rose from \$29.5 billion in 2004 to US\$46 billion in 2010.<sup>iii</sup> The ODA is also inclusive of debt relief. BRICS

are distinct with different motives and strategies. Fundamentally similar is the centrality on politics. They long for a say in global governance, to complement their increasing economic power and securing access to valuable resources.

The European Union still represents more than 40% of Africa's trade – the equivalent of USD 256 billion – and almost three times that of China.<sup>iv</sup> More than 30 donor countries operate outside the DAC of economically advanced OECD members (Paulo and Reisen 2010) China's ODA began in an *informal* approach in the 1950s. In 1963 it extended to Africa and completed some high-profile projects, notably the Tazara railway between Tanzania and Zambia. China was giving aid to 30 African nations, and giving more than Russia in all African countries, except eight strategic Soviet allies. Aid between Southern countries declined dramatically during the 1980s. India's ODA culminated in small regional projects in the 1950s. It's Indian Technical and Economic Cooperation was established in 1964 which had a mandate on training and technical assistance. Russia has made significant contribution in giving Official development assistance especially in Humanitarian assistance.

## Estimate of Official development assistance flows



Source: Brautigam (2008); Smith and Zimmerman 2011; Government budgets for South Africa and India; World Bank 2011

From the above table China and India lead among the BRICS as providers of official development assistance to Africa during the period under review. It should be noted that OECD remains the major provider of ODA. BRICS development aid has increased, with this development clearly being lead by China. The World Bank's estimation of BRICS' financing for 2009 adds up to USD 3.9 billion, which accounts for only about 3% of total ODA<sup>v</sup>. South Africa and Russia remains bottom with ODA delivery.

The Monterrey Consensus recognised that "a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals. The South-South foreign direct investment (FDI) tripled from US\$14

billion in 1995 to US\$47 billion in 2000 and that South-South trade accounted for more than 26% of global trade in 2008 (One Data Report 2010). The volumes of aid from emerging donors reached between \$9.5 and \$12 billion in 2006 which was about 7.8% to 9.8% of total aid flows (UN estimate 2008).

## Outward foreign direct investment flows US\$(million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	2.282	-2.258	2.482	249	9.807	2.517	28.202	7.067	20.457	-10.084	11.519
Russia	3.177	2.533	3.533	9.727	13.782	12.767	23.151	45.916	55.594	43.665	51.697
India	514	1.397	1.678	1.876	2.175	2.985	14.285	17.234	19.397	15.929	14.626
China	916	6.885	2.518	2.855	5.498	12.261	21.16	22.469	52.15	56.530	68.000
S.Africa	271	-3.178	-398	565	1.35	930	6.063	2.966	-3.134	1.151	450
Total	7.159	5.38	9.813	15.272	32.612	31.461	92.862	95.65	144.464	107.191	146.293

Source: <http://unctadstat.unctad.org/TableViewer/tableView.aspx>

FDI from BRICS does have an impact on developing countries and is considered to be a significant growth driver for Africa. BRICS do not have a common approach on FDI. South Africa, India and Brazil are focussing on neighbouring countries, but the latter two are also active in SSA. Resource-rich countries such as Zambia, Nigeria and South Africa are still main recipients of Chinese FDI, but especially private companies are focussing on manufacturing and service sectors nowadays. BRICS' share in outward FDI flows to developing countries in comparison to OECD-countries is still a minor one, but has been increasing

lately and even more so as a result of the financial crisis.

### Key emerging Issues and Opportunities

BRICS have however offered an interesting trajectory for an alternative economic model that moves African developmental agenda further by ensuring job creation, economic growth and equity. For most African countries, BRICS development assistance is not an alternative to traditional aid but rather complements it (cf. ECOSOC (2008)). A quest for energy security, enlarged trading opportunities and new economic partnerships is common to most non-DAC donors Woods (2008: 1205). OECD countries dominate in ODA, but aid from emerging partners is fast growing.

BRICS have not been immune to criticism. Naím (2007: 95) notes their "goal is not to help other countries develop. Further expressed by Naím is that "they are motivated by a desire to further their own national interests, advance an ideological agenda, or sometimes line their own pockets. Rogue aid providers couldn't care less about the long-term well-being of the population of the countries they 'aid'." Complaints have also been raised that

BRICS support for "rogue states," increase levels of indebtedness, ignore environmental protections, focus on extracting resources, and undermine the improvements that have been made over the past several decades. The return of non-traditional donors will enlarge the room for manoeuvre for African heads of state and thereby (maybe) increase their power of negotiation vis-à-vis traditional donors (cf. Whitfield (2008)).

China, India, Brazil and South Africa have contributed substantial amounts of ODA in Africa. If we are to rate them by OECD standards of the commitment of offer 0.6%GNI towards ODA, only China meets the commitment. Government entities are responsible for aid delivery among the BRICS. In South Africa, the African Renaissance and development fund is mandated to endure aid disbursement. In China the ministry of commerce is responsible but performs its mandate with other numerous entities.

Brazil is both a recipient and a provider of aid which, arguably, gives it a better understanding of the needs and constraints facing developing countries as aid recipients. Brazil's technical cooperation the transfer of knowledge,

technologies and skills to promote development is dominated by support for agriculture, health and education, which accounts for half of technical cooperation. Portuguese speaking countries (PALOP) in Africa have been the main recipients of Brazilian SSC, capitalising on linguistic and cultural affinities. These African countries are Angola, Cape Verde, Guinea Bissau, Equatorial Guinea, Mozambique and Sao Tome and Principe.

Brazil has also new initiatives on South-South solidarity between organizations of workers and is certainly making the way for South-South and Triangular Cooperation in the ILO. Key topics include better preparation of workers' organizations for collective agreements and negotiations in the fields of social security, health at work and capacity building for unions to pursue social dialogue on these themes through South-South exchanges. Countries included in the programme include Cape Verde, Mozambique, Angola, Guinea Bissau, Sao Tome and Principe, and South Africa.<sup>vi</sup> The National Inter sectorial Coordination Committee in Tanzania for South-South Cooperation exchanges with Brazil on strategies for combating child labour developing draft policies on combating child

labour. The project successfully contributed to review the reporting structure on child labour in Tanzania New initiatives: South-South solidarity between organizations of workers.

Brazil seeks to build a new cooperation model by playing the role as partner country instead of donor-country. Brazil intends to understand the local needs of South-South cooperation beneficiary countries to promote and recognise the intersection of African and Brazilian history, contributing to transforming relationships between the different ethnic-racial groups that compose Brazilian society. Two examples can be highlighted in 2010-2011: publishing the General History of Africa Collection in Portuguese and promoting the International Year for People of African Descent.<sup>vii</sup> In 2009, 68% of USD 362 Million went to international organisations (IPEA, 2010). Of the remainder (humanitarian assistance, scholarships and technical co-operation) around 12% went to Africa (based on own calculation of figures provided in IPEA 2010)

It should be noted that there is little reason to blame new donors for using aid as a means to promote commercial self-interest. China and India have a market access drive in their aid delivery.

They are also interested in resource extraction and leverage their appetite by bargaining to exchange with infrastructure deals. This is true for China in Angola. India craves for energy resources like Coal but for Africa it has maintained the rhetoric for enhanced cultural and trade relations. However among the BRICS under review, all efforts are driven by the SSC focus.

India offers scholarships to overseas students (university courses at various levels, professional courses, and courses linked to Indian music, dance, and art) via the Indian Council for Cultural Relations (ICCR) scholarship scheme. India Development Initiative' launched in 2003 was perceived as a means to brand India anew: the world's attention had to be diverted away from India's internal problems of poverty and inequality towards its role as an emerging economy (Agrawal, 2007; Six, 2009). The fourth BRICS Summit held in New Delhi, India on March 29 2012 further consolidated the role and importance of this South-South grouping in international affairs.

Through the Export Import Bank of India, line of credit worth close to \$168million was extended to the West African development bank and governments of

Ghana, Zambia, Sudan, Angola and Djibouti in 2004. Its cooperation with Seychelles, Madagascar, South Africa, Tanzania, Kenya and Mozambique has further increased in recent years, developing linkages with Southern African Development Community (SADC) and the Common Market of Eastern and Southern Africa (Comesa). India is an important trade and investment partner for Africa providing significant technical assistance, capacity building, training in health and agriculture. Africa host significant Indian diaspora communities that encourage India's engagement on the continent. India-Africa links climaxed in the India-Africa Delhi Summit held in April 2008 with the participation of 14 African countries. The aim was to reinforce firm partnerships in the core areas of trade, energy and cooperation.

In Zambia, Liberia and Nigeria, investments by Indian companies have been in copper mining, iron ore and steel refining. Investment by Indian companies also extends to infrastructure were state-owned infrastructure and engineering companies RITES and IRCON have supported Africa's rail and road development and its engineering companies.<sup>viii</sup>

China has its own distinctive approach to Africa resting on non interference, state sovereignty, and internally-driven development approach appropriate to country context. Deborah Brautigam (2010b) benefits of the Chinese approach: 1) they do not poach African trained manpower (they bring their own); 2) they focus on projects that support long-term development (bridges, roads, railways, power production, irrigation, and so on); 3) they avoid corruption by bypassing the bureaucracy – money is disbursed to Chinese-owned companies; and 4) their businesses are simple and easy and do not overburden Africans with reporting requirements.

Major increases in Chinese development assistance to Africa continue to be pursued by the Forum for China–Africa Cooperation (FOCAC). It is a platform designed to promote economic and political cooperation. During the 2009 China-Africa Cooperation Forum in Egypt, the Chinese promised to provide over three years (2010-2012), US \$10 billion preferential loans for infrastructure; US \$3 billion for Africa Development Fund (to support Chinese private sector investment), tariff exemption for 95% of exports “from the least developed

countries (LDCs) in Africa” and aid focused on capacity training, education and research (FOCAC, 2009). However much of its ODA is not disbursed through Government systems hence its ODA figures are difficult to confirm and lack of transparency remains a serious challenge.

Date	Leader	Type of aid	Amounts	
			RMB	US\$
2008	Premier Wen Jiabao	Africa grants in 2007	2.377 billion	313 million
		Africa zero-interest loans in 2007	700 million	92 million
		Africa concessional loans	n.a.	n.a.
		Total Africa aid, 1950–2006	44 billion	5.8 billion
		Total aid, 1950–2006	206.5 billion	27 billion
		Of which grants	90.8 billion	12 billion
		Of which 'loans'	115.7 billion	15.2 billion
		[African aid 22% of total]		
2011	State Council	Total Aid, 1950–2009	256.29 billion	37.7 billion
		Of which grants	106.2 billion	15.6 billion
		Of which zero-interest loans	76.54 billion	11.25 billion
		Of which concessional loans	73.55 billion	10.8 billion
		[Loans total		

Sources: Brautigam(2011); State Council (2011)  
<http://www.american.edu/sis/faculty/upload/Brautigam-Chinese-in-Africa.pdf>

The Chinese government established a US\$5billion fish farming demonstration centre dubbed Uganda-China Friendship Agricultural Technology Demonstration Centre. Trade between Uganda and China has steadily been growing with Chinese investment in Uganda totalling US\$596million. About 256 Chinese firms opened business in Uganda, creating 28,000 job opportunities for the local people.<sup>ix</sup>

With regards to the aid effectiveness agenda BRICS have leg behind in the crafting and implementation of the deliberations. Debates over how SSC relate to the 'aid effectiveness' principles defined by the Paris



Declaration and the Accra Agenda for Action, have provided a fertile ground for analysis. The Busan Partnership for Effective Development Cooperation (BPEDC) of 2011 also had the inclusion of SSC on a voluntary basis while other traditional donors pledged to be adhere to the facets of the document. SSC is mentioned 14 times in the document in which world leaders acknowledged the fundamental differences in the nature, modalities and responsibilities that apply to SSC and how it differed from North South cooperation. It is anticipated that SSC will embrace the Busan principles of inclusive partnership, focus on results, ownership of development proprieties and transparency and accountability to each other.

### Opportunities

The availability of resources to recipient countries Africa has increased the countries' ability to achieve their national development strategies and the MDGs. There has been more diverse resources for African countries towards infrastructure and productive sectors and this has complimented what the DAC and multilateral institutes have been offering in terms of sector focus. In terms of FDI, emerging lenders have provided alternative financing through

the following:

- Export credits;
- Natural resource backed credits where , for example China's Exim Bank uses natural resources as collateral in return for infrastructure development; and,
- Mixed credits.<sup>x</sup>

Due to the regional , cultural and historical ties/similarities between the emerging lenders and African countries, this have provided an opportunity to learn and share experiences with the emerging lenders both in terms of poverty reduction and development, thus establishing strong partnership.

### Challenges

Most aid given by BRICS is not directed into the recipient countries budget. In Mozambique the ministry of planning noted that it is difficult to harmonise aid data from the BRICS in which it was noted that they do not give figures to the government of how much they give. The Chinese government does not disclose much information on its ODA and its ODA intertwined with other financial flows.

There is no standardised reporting making collecting and evaluating this data challenging. Making accurate

comparisons is a difficult task since the economies activities is not well documented. BRICS ODA data and other flows are often inconsistent. There is lack of clarity between new trade, investment and lending agreements, especially in the extractive industries. One of the largest challenges in studying the BRICS is quantifying how much aid they give. Some BRICS such as China perceive this as a politically sensitive semantic debate. Its national policy maintains the country gives “external assistance;” but refuses to term it “aid.” The problem is that very little is in fact known about Chinese development assistance: the Chinese government does not disclose much information, Chinese ODA is highly politicised internally and externally. First, many countries do not have statistical systems in place to capture their development assistance flows – a particularly challenging task when, as is often the case, a large number of institutions are involved in providing development co-operation.

### Policy Options

The focus that should remain in consideration for most African governments in dealing with BRICS is maintaining high political engagement in this cooperation. African

governments need to put up effective accountability mechanisms in their engagements with countries like China. The formulation of legislation and regulatory frameworks that's makes BRICS to confirm to labour standards, use native labour force, abide to environmental standards and use part of their profits for developing the native country remain paramount for Africa.

Efforts should be made to improving transparency and governance. Data on the size and terms of financing flows, the structure and conditions of packaged deals, as well as the rights of concessions for natural resources should be made public.

Emerging donors may follow different paths, in accordance with their own traditions and standards. Encouraging aid transparency, especially reporting data on project-level assistance, must be the core focus of the BRICS. The African Union, AfDB and the Economic Commission for Africa (ECA) should establish dialogue that provides for a coordinated review of relations with the BRICS and, where relevant (as in the United Nations High-level Conference on South-South Cooperation), involve other relevant Multilateral organizations in this dialogue. African governments

need to own their development process. This can be done by greater participation by the African private sector in competing with the BRICS companies. Private sector should stimulate economic diversification, rather than maintaining a state-led economy reliant on a single export commodity.

## Conclusion

Africa is generally positive about its partners, whether they are emerging or traditional lenders. The paper has demonstrated the positive contributions of the BRICS. However, unless these BRICS become more transparent and release comparable data on their ODA allocation, there will always be scepticism on the development outcomes of their aid. Both emerging and traditional lenders should now work towards for filling the promise made at the Busan High Level forum in 2011. Though received with much criticism, ODA from BRICS has provided visible development outcomes in the spheres of infrastructure construction and technical assistance which remain the need of the moment for Africa. Their continued engagement if engulfed by the other positive aspects of OECD conditionalities like good governance, transparency and accountability will

amplify the benefits of their ODA. African governments should also work towards enforcing their legislations to protect their environments from abuse by these BRICS and ensure that the developments also ensure job creation for their populace.

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