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Commentary

Financing Regional Development: the role of South African financial institutions

Jens Erik Torp and Vishnu Padayachee

Introduction

A number of recent changes in Southern Africa has led to the emergence of a renewed demand for project financing of somewhat larger projects, predominantly in the provision of infrastructure as well as for the manufacturing sector. Some of these projects have little problem in attracting finance from private commercial banks or multi-lateral financing institutions. These institutions focus respectively on purely economically-viable projects or clearly developmental ones. However, for a number of projects combining economic and developmental objectives, there is a need for complementary concessionary financing, since existing financing modalities are not adequate.

The need for project financing of this kind has emerged both within the private as well as the public sector throughout the Southern African Development Community (SADC). There are a number of reasons for this new trend. For one, many of the SADC countries have undergone structural adjustment policies for some time and have now entered a phase where the realisation of new economically-viable projects increasingly depends on the availability of funding by financial institutions outside the state investment budget. However, the financing of most of these projects is invariably beyond the scope of existing national banks and financial institutions. Secondly, the same countries find in most cases that their national currencies are not strong enough to carry the forward exchange risks which are attendant upon international project financing. A third factor in this context is that, following the first democratic elections in South Africa in 1994, there has been a reconfiguration of economic strategies and alliances throughout the region. This has opened the way for new forms of linkages between South Africa and its neighbours, and has
given South African institutions and companies, including financial ones, the legitimacy to play a more active role in the region.

Given the absence within SADC of any form of regional development bank we need to evaluate critically whether or not existing South African financial institutions, generally regarded as the most developed and sophisticated in the region, have the capacity, skills, and financial soundness to play the role of a financial institution in support of regional development. One aspect of this analysis revolves around their ‘independent’ role as financing agencies for the region in terms of the mandates set by the South African government and the SADC countries. A second relates to their potential role as vehicles through which western concessionary finance may be channelled into eligible SADC countries.

We recognise that it may be politically prudent to have a regional bank set up in one of the other SADC-countries (ie outside South Africa) either as a new institution or utilising the resources of the African Development Bank. This would avoid some of the sensitivities of South African domination among the smaller SADC members. However, such a solution does not appear viable, partly because no one wants it. On the contrary, the SADC ministers of finance have asked the South African-based Development Bank of Southern Africa (DBSA) to play the role as a regional financing institution. In addition, issues related to the management of foreign exchange risk also effectively rules out most financial institutions outside South Africa as a potential regional development bank.

The global and regional context
This study which examines the existing and potential role of two of South Africa’s major finance institutions in project financing in the SADC region, is informed by a variety of trends at the global and regional level, as well as by developments more specific to this region. A few of the more salient of these, which relate directly to the supply and demand for project financing and the institutional framework for finance facilitation, are noted here. Firstly, at the global level, one of the most significant trends in the flow of foreign capital to developing countries over the last two decades has been the decline in government-to-government grants and concessionary loans, especially to African countries. Multi-lateral loan assistance from institutions like the World Bank and private commercial capital flows to developing countries have also become more selective and targetted, and are often made on very stringent conditions and terms (Padayachee 1995).
Secondly, at a regional level, the dominance of a ‘liberalisation approach’ towards regional integration, with its special focus on the welfare benefits of trade liberalisation has led to the relegation to lower-order significance of other equally important elements of the regional integration process, including that of financial development and facilitation. As Vaitsos observes, for regional financial facilitation to occur a ‘strong and credible set of institutional arrangements are a sine qua non’ (in Zarenda 1997:65). This paper hopes to make a small contribution to highlighting this often neglected aspect of regional financial facilitation.

The SADC regional setting and project financing
The prospects for future project financing in SADC countries appear to depend upon the clarification of three key questions:
• which countries in the region are eligible for international concessionary financing?
• which of the regional currencies can be utilised in SWAP agreements related to project financing?
• which financial institutions are considered creditworthy by international standards to play a role in project financing or co-financing?

OECD rules for concessionality of mixed credits
In those cases where developing countries fail to secure either national or international sources for financing projects on purely economic or developmental criteria, they have to look towards obtaining some form of concessionary or mixed credit facility. Here the OECD’s Mixed Credit Committee is a central player, as it sets the criteria for, and co-ordinates the procedures through which bilateral financing (i.e. between any of its members and a developing country recipient) takes place.

Concessionary credit may be granted to any creditworthy developing countries listed by the OECD as a ‘qualifying recipient’. These recipient countries would typically have a GNP per capita of less than USD 2492 (1997/98). Countries classified as Lower Middle Income Countries (LMIC) qualify for a grant element of at least 35 per cent, while countries listed as least developed countries (LDC) have an eligible grant element of at least 50 per cent.
Table 1. SADC Member Countries Eligible for Mixed Credit Financing

<table>
<thead>
<tr>
<th>OECD-Classification</th>
<th>Country</th>
<th>Eligible for Concessionality</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP per capita above 2492 US$</td>
<td>South Africa, Botswana, Mauritius, Seychelles</td>
<td>No</td>
</tr>
<tr>
<td>Lower Middle Income Countries</td>
<td>Namibia, Zimbabwe, Swaziland</td>
<td>Min 35%</td>
</tr>
<tr>
<td>Least Developed Countries</td>
<td>Angola, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Tanzania, Zambia</td>
<td>Min 50%</td>
</tr>
</tbody>
</table>

Source: Danida Annual Report 1997

Table one shows that among the present member countries of SADC, seven countries, namely Angola, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Tanzania and Zambia qualify according to the GNP per capita criterion for concessionary credits as LDCs. Namibia, Zimbabwe and Swaziland are listed as lower-middle income countries by the OECD and qualify for some concessionality. South Africa, Botswana, Mauritius, and Seychelles have GNPs per capita higher than the maximum allowed to qualify for concessionary financing.

One final practical dimension also has bearing on this question of who qualifies for international project financing. This relates to the volatility of the political situation in some SADC countries. Thus, for example, the DBSA, which is one possible channel for international project financing, does not currently approve loans to war-torn countries in the region like the Democratic Republic of Congo and Angola.

Forward risks between the US dollar/Rand and local currencies

A closer examination of the group of SADC-countries reveals another divide – between those countries which are part of the Rand currency area, ie Namibia, Swaziland, and Lesotho, and other SADC countries. In the case of Namibia, Swaziland and Lesotho, their national currencies are freely convertible with the Rand on a 1:1 basis. Although the Rand is itself not immune to volatile currency fluctuations, as was demonstrated throughout much of 1998, the existence of a Rand currency zone implies that project loans to these countries can be Rand-denominated. A number of existing Rand-denominated loans granted by the DBSA suggests that the costs related to payments to cover the forward risk between the US dollar and the Rand have not been prohibitive so far.
In the case of the other SADC national currencies, which have a recent history of a rapid decline in value against the US dollar, the situation is very different. A case in point is that of the Zimbabwean dollar, which has fallen from 3.43 ZWD to 1 USD in 1991, to 39.25 ZWD to 1 USD in 1999. In case of loan financing agreements with repayment periods of 10-15 years, this sliding foreign exchange rate renders prohibitive the cost of entering into agreements that would have to cover the forward risk.

The Zimbabwean situation is not unique within the SADC area. Given this, it is not surprising that no instruments exist for obtaining SWAP-agreements for US dollar (or Rand) loans beyond 3-6 months for this set of SADC countries. As a consequence, international project financing will probably only work, if the borrower expects to get an income stream in US dollars or Rands. This is exactly what is happening in the case of current DBSA-lending to the SADC region.

South African financial institutions and their relation to SADC

The establishment of a donor-recipient framework agreement for international project financing in the SADC-region also depends on the identification of a local financial institution(s) with a SADC-mandate, which is considered creditworthy by international financial institutions. In practical terms these two criteria limit the scope of a location of any form of credit line to South African financial institutions having a SADC-mandate.

At the national level, South Africa possesses five major sectoral institutions which approximate conventional development finance institutions: the DBSA, the Industrial Development Corporation (IDC), Khula Enterprise (Khula), the National Housing Finance Corporation (NHFC), and the Landbank (LAB).

<table>
<thead>
<tr>
<th>DFI</th>
<th>Focus Area</th>
<th>SADC Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBSA</td>
<td>Infrastructure</td>
<td>Yes</td>
</tr>
<tr>
<td>IDC</td>
<td>Industry</td>
<td>Yes</td>
</tr>
<tr>
<td>Khula</td>
<td>Entrepreneurial SMME support</td>
<td>Yes</td>
</tr>
<tr>
<td>NHFC</td>
<td>Housing and Mortgage type of finance</td>
<td>No</td>
</tr>
<tr>
<td>Landbank</td>
<td>Still to be decided</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: DBSA Mandate Document (February 1997)
Before the transition to a majority government in 1994 the division of labour between the South African development finance institutions (DFIs) was not clear-cut. However, during 1995-97 the South African government attempted to define, with more clarity, the role of each of these institutions, to ensure that no overlap exists among them; that public funding of the DFIs is geared up with private funding and that wherever reasonable they are given a SADC mandate. Presently the DBSA, IDC and Khula have a SADC mandate granted by the South African government, their major shareholder. Of these, only the DBSA to date has a mandate endorsed by the joint SADC finance ministers. Of the three DFIs with a SADC mandate, only the DBSA and the IDC were of real significance, given that Khula only finances the smallest businesses, and so far has not undertaken any such project financing in the region.

In terms of its mandate, the DBSA will, however, only be able to co-finance and manage projects related to infrastructure. Hence the SADC countries would have to rely on other financing institutions for projects related to manufacturing industries. The IDC in South Africa is one potential partner in this regard given that it too has a SADC-mandate from the South African government.

The DBSA and SADC
The History and Present Role of the DBSA
The DBSA was established in 1983 with a share capital of R2 billion, of which R200 million was paid up. Members included South Africa and the so-called independent states (Transkei, Ciskei, Venda and Bophuthatswana) and non-independent, self-governing territories such as KwaZulu. The DBSA’s objective, within the framework of ‘grand apartheid’, was to develop the region economically and its main focus was to fund agricultural and rural projects, although it also funded the establishment and expansion of factories and industrial infrastructure.

Following the country’s first democratic election in April 1994, the DBSA has been gradually transformed by government to bring it in line with the Constitution and to support government’s efforts at the economic transformation of the region, now understood, at least in theory, in broader developmental terms.

Ownership, Mandate and Credit Rating of the DBSA
In April 1997, the Development Bank of Southern Africa Act was passed, confirming the DBSA’s new mandate as a development bank in the SADC
region. At the same time the authorised share capital was increased to R5 billion. The South African government is the sole shareholder in the DBSA and the minister of Finance serves as the shareholder representative.

The DBSA’s mandate is to:
  • finance sustainable development in partnership with the public and private sectors;
  • focus on investments in the area of infrastructure;
  • respond to development demands and act as a catalyst for investments.

DBSA financial assistance tends to be granted as a complement to other sources of loan or equity capital, in order to ensure the implementation of development projects or infrastructure programmes. The DBSA Board has established as a guideline that a maximum of one third of loan commitments should be extended to SADC countries outside South Africa, with the remaining two thirds reserved for South Africa itself. The DBSA has no international credit rating but the rating bureau Fitch IBCA in South Africa has applied a domestic credit rating of A1+ (short-term) and AAA (long-term), which are the highest possible ratings a financial institution can obtain.

Organisation and Finance
The Bank has 450 employees, all based at its headquarters in Midrand, South Africa. The DBSA is organised as a matrix organisation with a high degree of decision making power decentralised to project managers. The SADC section has a total of 15 professional staff. While based in South Africa, the staff undertake so-called Investment Promotion Visits to SADC countries as the need arises. Such visits are typically of one-week duration, and the aim is to identify potential projects for financing.

The DBSA experienced a declining net financial surplus up to and including 1996/97 due to the transition process in South Africa, during which time its loan and investment activity appears to have fallen off. However, after the new DBSA Act was passed in April 1997, the Bank showed a very positive growth in the financial year 1997/98. Its lending activities increased substantially despite the fact that development loans to the value of R3.2 billion to the former Homelands were converted into government bonds. Due to the rapid expansion in the Bank’s lending activities, the general risk provisions have increased substantially. It should be noted that the DBSA, so far, has not had any substantial loan losses on its portfolio.
The DBSA’s liable capital amounted to R6.1 billion at March 31, 1998, which was used as a basis for financing 52 per cent of its total assets of R11.9 billion. The authorised capital of the Bank is R5 billion of which only R200 million has been paid up. Consequently the Bank had another R4.8 billion on call, which strengthened the capital base.

The DBSA’s activities within SADC

Extension into the broader SADC geographical region represents a new set of challenges for the DBSA. Its activities within this area were not initiated until its new mandate was promulgated in 1997. However, the activities of the DBSA within the rest of Southern Africa has increased rapidly, accounting for seven per cent of total fixed commitments as of March 31, 1997, 14 per cent as of March 31, 1998 and 20 per cent of loans approved during 1998/99.

The latest figures and information (year-ending March 1999) shows further rapid growth in the DBSA’s ties with SADC countries. The Bank had a pipeline of projects in 11 of the SADC countries, in addition to the 13 already on their books. Over that year the DBSA approved a total of R713 million for infrastructure and telecommunications in SADC. These included support funding of R322 million for the R6.9 billion Mozal aluminium smelter in Maputo; R105 million for a R225 million submarine fibre optic cable also in Mozambique; R26 million for the R99 million Zamcell GSM cellular network in Zambia; and a R76 million loan for Mobitel analogue telecommunications network in Tanzania. The DBSA was also active in large projects in Lesotho and Swaziland (Engineering News, September 10, 1999).

It is significant to point out that the loans approved by the DBSA in SADC countries appear to be predominantly commercially-viable projects which often generate cash flows in strong foreign currencies, while the profile of the projects approved within South Africa itself appear to be more typically developmental-oriented projects.

<table>
<thead>
<tr>
<th>Million ZAR</th>
<th>South Africa</th>
<th>SADC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 7.5</td>
<td>Project Manager</td>
<td>Project Manager</td>
</tr>
<tr>
<td>7.5-25</td>
<td>Chief Executive Officer</td>
<td>Full DBSA Board</td>
</tr>
<tr>
<td>25.0-100</td>
<td>Investment Committee of the BSA Board</td>
<td>Full DBSA Board</td>
</tr>
<tr>
<td>100 and over</td>
<td>Full DBSA Board</td>
<td>Full DBSA Board</td>
</tr>
</tbody>
</table>

Source: Interviews with DBSA staff, April 1999.
Table three shows that there is a marked difference in DBSA procedures regarding projects within South Africa compared to projects in other SADC countries. Staff members of the Bank have a greater autonomy in decision making with regard to most South African projects. For South African projects the project manager can approve projects up to R7.5 million, the chief executive officer between R7.5 and 25 million, the Investment Committee of the Board R25-100 million, and the full Board of DBSA approves projects above R100 million. In contrast all SADC projects above R7.5 million have to be approved by the full Board.

**Project Selection and Appraisal Criteria**

When the DBSA receives a preliminary application for financing, the Bank makes a brief screening of the potential borrower’s financial standing and the project's eligibility in terms of the policies of the Bank. If such an evaluation is positive, the project will be included in the DBSA project pipeline and the potential borrower or project sponsor will start preparing the necessary documents and material needed for the loan appraisal.

The DBSA has elaborate procedures for its planning, execution and control activities. The appraisal methodology of the DBSA is structured into five modules which focus on the macro-economic context, the incremental economic benefits of the project (cost-benefit analysis), technical aspects, financial aspects, and social and institutional aspects. In the course of our research it became clear that these sophisticated procedures for appraisal were satisfactory to the European Investment Bank (EIB) and the German Kreditanstalt fur Wiederaufbau (KfW).

Our own investigations, based on a careful scrutiny of two summary appraisal reports, found that DBSA appraisal procedures were of high quality and in accordance with international best practice as utilised by organisations such as the International Finance Corporation and the World Bank.

One aspect of the recent Danida study into the DBSA’s capacities related to an assessment of its appraisal procedures in respect of environmental and occupational health and safety criteria. The findings confirmed that the DBSA procedures with regard to the impact of projects on the external environment were quite elaborate. However, procedures with regard to occupational health and safety issues appeared rudimentary.

**Risk Management**

The DBSA operates in a high-risk environment, which demands a particularly prudent risk management. During the Bank’s transformation
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and restructuring phase, a Risk Management Business Unit and a Risk Management Committee were established to identify and manage this area within the project appraisal process.

The risk premium for each individual project is assessed by evaluating the social and environmental risk, the financial and the economic risk, the technical and institutional risk and finally the country risk. Following this assessment, each project is placed into one of three different risk classifications: High, Medium and Low Risk (with several levels within the different classifications). Projects are priced according to the total risk score. The risk premium will normally be from 50 base points (BPs) up to 325 BP pa, and the average risk premium is approximately 125 BP. In addition to the risk premium the borrowers have to pay an administration fee/premium of 75 BP pa.

The DBSA on-lending rate for Rand-denominated loans is composed of the average funding cost for the Bank (at present approximately 16 per cent pa) plus the risk premium and the administration fee. The average on-lending rate is at present 18 per cent pa, but in extreme cases it can go up to 20 per cent pa.

DBSA Experience with Soft Loan Financing
The DBSA’s present experience with respect to the administration of soft loan schemes is limited. However, the DBSA has received funding on partly concessional terms from a number of international financial institutions, among others EIB and KfW.

During the last four years the Bank has administered a French soft loan programme directed towards water projects in South Africa, but disbursements under this facility can only take place if a French supplier qualifies for it in an international competitive bidding process. So far, no disbursements have taken place under this facility.

The procurement requirements of the DBSA (which are part and parcel of its loan offer) insist on open tender for the international market to compete. For all projects inside and outside South Africa, it is required that every potential supplier be given an equal opportunity to tender.

The IDC and SADC
History and Present Role of the IDC
The Industrial Development Corporation of South Africa (IDC) is a registered public company established by the IDC Act (Act No 22 of 1940) in 1940. The Board of Directors is appointed by the South African
government, which also determines the Board’s rights, powers, and obligations. The IDC Annual Report is submitted to parliament through the minister of Trade and Industry. However, the IDC is a financially independent institution and does not rely on government transfers for its operations. The government delegates the IDC’s mandate to the Board of Directors and Management.

Following the country’s first democratic elections in April 1994, the IDC Act was amended to bring it in line with the government’s constitutional obligations and its developmental objectives in the SADC region. Today the IDC acts as a catalyst for development in all sectors of industry in South Africa. As a new focus of activity the IDC has since 1994 entered into projects within the SADC region. Its objective is to dedicate between 20 and 40 per cent of its loan book to the rest of the SADC region.

The Mandate of the IDC
In 1995, the Industrial Development Corporation Amendment Act was passed, confirming the IDC’s mandate as an industrial financing institution in South Africa. In 1997 the government further clarified the role of the IDC pointing, inter alia, towards the need to support black entrepreneurial activities, assure affirmative action within the IDC organisational structure, and extend its activities to the wider SADC region.

The main objectives of the IDC are:
• raising the rate of sustainable growth and development in the manufacturing sector of South Africa by promoting a high rate of industrial investment;
• promoting and sustaining employment creation and the incidence of labour intensive development;
• engaging in initiatives aimed at spatial development and increased economic activity and investment among members of the Southern African Development Community (SADC).

General policy and SADC-mandate
IDC policy stipulates that private sector partners in industrial financing should make a substantial financial commitment to projects. In general the IDC advances a third of the project costs. The contribution of the IDC takes the form either of loans or equity financing.

As indicated above, the IDC now has a SADC mandate. However, so far only one SADC project outside South Africa, namely a large aluminium smelter in Mozambique (the MOZAL-project) has advanced to the stage of
The IDC is preparing further major projects in Mozambique (including a steel mill, cotton production and processing, and prawn farming), Zambia (copper mines), Tanzania (cotton and precious stones), Namibia (zinc and uranium) and Zimbabwe (coal-bed methane).

Concurrently with the preparation of new SADC projects, the IDC is in the process of translating its SADC mandate into operational guidelines. A document entitled 'Proposal for Guidelines for IDC Involvement in SADC' (dated March 25, 1999) has recently been discussed and approved by Board.

The guidelines suggest that the IDC should dedicate between 20 per cent and 40 per cent of its loan book to projects in the SADC countries. This is based on the understanding that industrial growth in South Africa is dependent on complementary growth in the region. In the choice of projects, the guidelines point towards the reinforcement of regional supply chain clusters, which would have a substantial developmental impact while still being essentially commercial in character. The IDC also wants to ensure that its activities respect the SADC Trade and Investment Protocol and the organisation appears aware of the need to avoid a South African dominance of the projects.

The key features embodied in the guidelines include the following:

- the IDC will only enter into projects in the SADC region within mining and manufacturing. Projects should typically be larger projects, with the minimum prerequisite requiring finance of between USD5-10 million;
- the IDC may be willing to combine loan and equity financing, rather than provide only loan capital. This specific guideline appears to be based on the judgement that the IDC needs to be close to and involved with decisions taken in its SADC projects. Equity financing allows for such close participation, loan financing less so;
- the IDC will aim at having an equity share between 20 per cent and 30 per cent in SADC projects, with a preference for not exceeding 25 per cent. Again this stems from an identified need not to appear to be a dominating South African partner. In cases where the IDC equity share is below 25 per cent, it will, however, insist on minority shareholder rights;
- in order to avoid fear in neighbouring countries about a possible South African 'neo-colonial' dominance, the IDC will, wherever possible, prefer to avoid the involvement of South African companies in its SADC projects;
The role of South African financial institutions

• the IDC will, as part of its SADC engagement, prepare a set of 'ethical guidelines'. This specifically addresses practices of corruption, kickback arrangements or projects using child labour;
• the IDC is considering the establishment of representative offices in selected SADC countries in order to have up-to-date information and hands-on experience from the most important borrower countries.

Organisation and Finance
The IDC has 550 employees, all based at the headquarters in Sandton in Johannesburg, South Africa. As part of its transformation to the realities of the new South Africa, a total of 53 affirmative action appointments were made during the year 1997/98. While normally based in South Africa, the staff undertake visits to SADC countries to respond to clients' requests to investigate possible IDC-financing of a potential project.

The financial year for IDC runs from July 1 to June 30. The IDC Group's liable capital amounted to R9.3 billion as of June 30, 1998, thereby financing 55 per cent of the total assets of R17 billion. This financial position indicates that the IDC is a very solid financial institution.

Project Selection and Approval Criteria
When the IDC receives a preliminary application for financing, the so-called Development Committee will look at the proposal and authorise the Project Development Division (PDD) to assess the project proposal in more detail. These are professionals having experience of marketing, finance, and technology. Based on its findings, the team elaborates an appraisal report according to standardised and elaborate guidelines. The IDC hires external consultants to undertake any specialised analyses. The report is forwarded to a committee, which will decide on the proposal. Given that the SADC projects are mandated to exceed R25 million, the full Board acts as the decision-making body (see Table four below).

Table 4. IDC Procedures for Approval of Projects

<table>
<thead>
<tr>
<th>Name of Committee</th>
<th>Authorisation Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mini Committee</td>
<td>R500,000</td>
</tr>
<tr>
<td>Proposition Committee</td>
<td>R5 million</td>
</tr>
<tr>
<td>EXCO Project Committee and EXCO Finance Committee</td>
<td>R25 million</td>
</tr>
<tr>
<td>Board</td>
<td>above R25 million</td>
</tr>
</tbody>
</table>

Source: Interviews with IDC staff, April 1999.
In the course of our investigation we reviewed a full appraisal report and the IDC appraisal guidelines, and found that they are generally of high professional quality.

In the Danida assessment, referred to above, a specific assessment of the IDC appraisal procedures in relation to environmental and occupational health and safety criteria was compared to those used by Danida. The findings concluded that the IDC procedures with regards to the impact of projects on the environment appeared to be sound. The IDC in each case looks at World Bank, South African and local requirements and chooses the most restrictive as its guideline for the elaboration of the particular Environmental Impact Assessment. On the other hand, procedures with regards to occupational health and safety issues appear, like in the DBSA case, to be very rudimentary.

**Risk Management**

Prior to approval of any project, detailed feasibility studies are conducted and various risk factors associated with marketing, technology, finance, environment and manufacturing risk are evaluated. Sensitivity analyses relating to reductions in sales volumes, prices or production yields, increases in costs such as overheads and materials or capital expenditure are also performed.

Recently, the IDC has also commenced risk assessments of particular countries in the SADC region. In the first two assessments undertaken, Mozambique came out with a relatively positive assessment (‘moderate risk’), while the IDC gave Zimbabwe a lower score (‘major risk’), which for the time being will prevent IDC financed projects in Zimbabwe. In the case of Angola and the Democratic Republic of Congo, the IDC has decided to discontinue any engagements as long as the two countries continue to be embroiled in a war situation. In these latter two cases the IDC found that there was no need to undertake a full country risk assessment. The IDC anticipates that it will undertake country risk assessments of the SADC countries on a regular basis.

The IDC charges a margin of approximately 1.5-2.5 per cent pa on its on-lending, depending on the risk evaluation of the different projects, plus swap costs if loans are granted in South African rands. The IDC sees no possibility of financing projects in the SADC countries outside the Rand area in their local currencies. Hence, the IDC has decided to limit its involvement to projects in SADC, which can generate an income stream in foreign currency.
Conclusion
The SADC region does not as yet have a dedicated regional financing institution, despite the fact that in recent years there has been a renewed demand for project financing for relatively large projects, especially in industry and infrastructure. However, South Africa, the economic powerhouse of the region and a full SADC member, has three DFIs which now possess a SADC mandate.

Although they were founded 40 years apart from one another, the IDC and the DBSA, which have formed the subject of this paper, have their origins and histories tied to the form of industrialisation and accumulation which prevailed within the logic of grand apartheid. However, following democratic elections in South Africa in 1994, both institutions have undergone major transformations, some of which are far from complete. Part of this transformation agenda relates to the narrowing of their fields of operational focus from general all-purpose financing to specific mandates (eg industry, infrastructure), while at the same time widening their geographic reach into the region.

The DBSA is already actively involved in financing projects in the region, while the IDC’s entry has been more limited to date. Various factors, including issues of currency volatility, wars and political conflict have limited their operation even within the SADC region. Furthermore, both institutions, wary about being seen as too domineering, have initially set rather cautious limits on their financing activities in the region. There certainly does exist the danger that their activities may be seen as one vehicle through which South African ‘hegemonic interests’ in the region may be advanced. Although the institutional and policy dimensions of their SADC involvement appear to be adequate, the issue that remains to be resolved relates to the way in which they are perceived by other SADC countries when extending their operations into new terrains. This is especially so, as both institutions may understandably be trying not only to promote and market South African products and services in the region, but also to strengthen economic development there as part of an attempt to reduce pressures on economic migration to ‘more prosperous’ South Africa.

Both the DBSA and the IDC are also the obvious institutions through which (western) concessionary finance may be channelled into creditworthy SADC countries which are eligible, in terms of OECD criteria, to receive such facilities. In this regard, potential donors need to know something
about their capacity, skills and financial soundness. Our research suggests that they are both well-established, well-managed institutions, with sound financial credentials. Their project appraisal and risk management procedures are high by international standards.

The demand for project financing in the SADC is already on the increase. Improved economic circumstances and greater political stability, may well ensure a greater role for the IDC and the DBSA in SADC. Given these developments it seems unlikely that a separate and new dedicated, all-purpose regional financing institution will be established, especially as neither SADC countries nor international donors are pressing for the establishment of such an organisation.

Bibliography