



SADC executive secretary Tomaz Salomao: "What is important is that we all come together to agree on how best we can live together. We can't have a situation of winner takes all."

## SADC2010 A \$100bn Ambition

As the World Cup kicked off the greatest event on earth in South Africa, a Southern African Development Community (SADC) team launched a very different programme. The 15 heads of state and government of the regional group kick-started SADC2010. Our special correspondent, **Barry Baxter**, reports from Gaborone.

**S**ADC2010 is an ambitious initiative that is seeking investments of around \$100bn to fund infrastructure to accelerate the economic integration of the region. The first stages of an all-encompassing programme have already been set into motion and a programme has been agreed on. The investment will be channelled into transport corridors, water, energy, ITC, trans-frontier conservation areas and tourism development at macro and micro levels.

But SADC is looking even further ahead. The ultimate goal is the economic integration of SADC with the member states of the Common Market of East and Southern Africa (Comesa) and the East African Community (EAC) to create a 26-nation economic bloc.

Speaking to *African Business* at the SADC headquarters in Gaborone, Botswana, Executive-Secretary Tomaz Salomão said:

**SADC member states:** Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

**COMESA member states:** Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe.

**EAC member states:** Burundi, Kenya, Rwanda, Tanzania, Uganda.

"It is time for us to start bringing together the three regional economic communities within the framework of continental integration. We have all separately achieved the first milestone to integration, a free trade area (FTA). The next aim is a common FTA by 2012." As final barriers to the movement of goods and people come down, monetary union becomes possible and the development of infrastructure is addressed on a regionally shared basis.

But SADC acknowledges that thorny integration issues have to be resolved. These include the question of sovereignty, the dominance of South Africa in the region and the fate of economically weaker SADC members.

"The starting point is to agree we are moving towards a community. The next step is to decide what kind of community and which and where member states, including South Africa, have comparative advantage," says Salomão

"These are decisions that cannot be taken with regard only to national sovereignty. When and how member states will be ready to allow somebody seated somewhere else to decide issues for them will be the most difficult decision they have to make."

South Africa would have to live with the economically smaller states of the region and they with it. "It is the engine of the region. It is a reality that we have to accept, whether we like it or not," he says. "What is important is that we all come together to agree on how best we can live together. We can't have a situation of winner takes all." Development in one state must not undermine development in others; policies must be in place to avoid the risk of an influx of people to the economically stronger countries.

"The way to avoid these problems arising is to put together the SADC Development Fund (see page 43), help member states to improve the quality of their infrastructure and put the right institutions in place to avoid a multiplicity of traditions and rules. We need to be guided by one instrument that has been agreed by all of us," Salomão says.

Monetary union remains on the integration agenda, and Salomão is not deterred by what has happened in Europe. "We don't have any inclination to change any of our established milestones," he says. "Yes, we have to

SADC Director of Trade, Industry and Finance, Boitumelo Gofhamodimo.

learn from what is going on in Europe and also to try to understand why the UK is not willing to join the Eurozone. Maybe there is something we have to learn and appreciate.”

### Private sector involvement

There is a consensus that participation by the private sector and civil society is essential to the success of the programmes. “Our governments have been playing the critical and major roles, but when it comes to the implementation of their decisions and projects, the private sector must have a say,” Salomão says.

“It is already happening. A number of adjustments to our trade protocol have been the result of consultations with the private sector. In our final investment protocol – the integration of stock exchanges, the role of the banking sector and so on – we will have to have the private sector involved otherwise it will be difficult for us to achieve our major goals.”

The region must learn from its own history that the best way to deal with challenges and difficulties is through dialogue as no one can survive alone. “Our elected parliaments are the best way to address differences among politicians, but we need to go deeper and beyond that. We need to bring the whole of society on board,” Salomão believes. “The only option we have is to consolidate the policy of reconciliation and deepen the culture of peace, peace, peace and peace again. We cannot afford to repeat the same mistakes we made in the past.”

Without economic integration, it is feared, the region will face deterioration in the quality of life of its peoples. “There are countries in this region which cannot survive without the support of one or more of their neighbours,” Salomão says. “It is the right move. I strongly believe that I have the full support of all member states.”

### Better than the EU

“SADC is a good bet for investors,” says Africa development consultant and former head of the Anglo American Chairman’s Fund, Clem Sunter. “Over the past 10 years African economies have outperformed the global economy by 2% per annum,” he said during a Cape Town NKC *Investment in Africa* conference. “The Johannesburg Stock Exchange index has trebled, growing from 9,000 to 28,000, while the FTSE has gone



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*More information about investment opportunities presented by the programme will be given in subsequent reports in African Business.*

from 6,900 to 5,300. Investors in Europe have actually lost money over the last 10 years.”

He argues that taking a long view into those developed economies is becoming risky. “You have to go into the developing world; China is the top of the list, then India, but Africa is third. All things being equal, there is absolutely no reason why SADC, as a trading unit, should not do a lot better than the EU,” he said.

Economist Christie Viljoen agrees. “Integration is the answer,” he says. “It would be a high enough profile move for people to sit up and take notice; an important positive factor. SADC has to move away from politics and base its collective efforts more on economics.”

The European and US focus on East Asia is now shifting to Africa. “The geography of where we need to be has shifted: it’s a new kind of Cold War, a resource war, a war for influence,” Viljoen added. “The complaint is that what the Chinese are doing is new colonialism. I say it is a more modern approach.”

The chief executive of Capital Securities Botswana, Gregory Matsake, is also positive: “The region is a good place for investment.

Is the environment conducive to investors? If you take only politics, things might look a bit messy, but otherwise it is,” he says. At present, he points out, portfolio investment into the region is mostly from outside Africa. “There is very little trading within the region. Investors still initially look at the individual countries, but once we start to interact with them they start to realise there is more out there,” he says. “Fund managers looking at Southern Africa perceive the recession in the region as more of a correction. For some time our markets had been overpriced; investors are now looking at us more seriously.”

### Removing all barriers to trade

The SADC free trade area seeks to eliminate all barriers to trade. “Over the eight years to 2008, we removed all tariffs on goods that can be traded. Non-tariff barriers are where we have a serious problem. Together with Comesa and the EAC, it is our current focus,” says SADC director of Trade, Industry and Finance Boitumelo Gofhamodimo.

Another problem is the development of small and medium-sized enterprises. “It is true they are key to the development of every nation. This is why most countries have specific policies for promoting their development. These businesses require a lot of support and it makes sense that comes from their national government,” Gofhamodimo says.

She has to draw the line between what a regional organisation like SADC and the member states should be responsible for: “For me, that is providing a conducive regulatory and enabling environment to facilitate their growth through regional trade. We do not expect SMEs to trade just in their own country and for this to happen, we have to make sure that the rules of the game are fair, the environment in which they have to operate supportive.” ■

**Thembi Langa: working on guidelines for the operation of the PPD Facility.**



Given the scope of its ambition, should SADC form a development bank for the region or rely on raising its funding from other sources, including the private sector? In the meanwhile, it is earmarking the type of projects that will be most viable.

## Does SADC need a Development Fund?

In 1998, SADC ministers of finance commissioned a study on the desirability and viability of a SADC Development Fund. The result of the study was that there was no immediate need for such a fund, there was ample finance in the region. The need was for a facility to assist in the preparation of projects.

“As everyone had come to realise, money for investment is not the biggest problem, the preparation of projects is the big issue,” Irma Weenink, Development Bank of South Africa (DBSA) executive and consultant, told *African Business*. “A development fund could come later – it is again under consideration – and the two should evolve into a two-window entity.”

A Project Preparation and Development Facility (PPDF) is now being established. “It should be operating by the end of the year,” SADC director of Trade, Industry and Finance Boitumelo Gofhamodimo says. “We will be able to bring selected infrastructure projects to bankable feasibility stage, packaged ready to be taken up by potential investors.” There is a project pipeline worth around \$100bn.

Gofhamodimo and senior project officer Thembi Langa are now working on guidelines for the operation of the facility. “Our plan is to start with projects in chosen sectors and then take others on board. For example, we have a lot of load shedding in the region, so sustainable energy supplies are an urgent focus, so is the sustainable supply of water,” Langa says.

DBSA will manage the facility for SADC. In conjunction with the SADC Secretariat, the bank first evaluates the value of the project to the region. “We ask ‘Does it fit in with the Regional Indicative Strategic Development Plan?’. Whether it has to physically cross borders or be in one country, it must have an impact on others in the region; for example, an airport or a large hydro scheme,” Weenink explained.

“It could also be a ‘missing link’; a rail line connecting the national networks of two countries, a line connecting a mining operation in a landlocked state to a port in another.”

When reviewing projects, the DBSA finds technical reports and environmental impact assessments, but very seldom any reports on legal and institutional arrangements for cross-border projects or financial modelling.

“There can be different legislations and different utilities, but they must be able to cooperate. Without reasonable proof of this, neither banks nor investors will look at the project,” Langa says. “Feasibility studies and reports cost money upfront and we have to find it. The amount depends on the size of the project, but roughly 10% of the total investment is required upfront. Right now we are looking to the donor market.”

The German Development Bank KfW has earmarked funds and the EU is thinking about it, but so far, the private sector has not been interested. Some donors will fund feasibility for private sector projects,

### SADC Development Resource Centre

The efforts of the SADC Development Resource Centre are directed at creating a level playing field for 27 regional and national Development Finance Institutions (DFIs) which vary in size, staff and available skills.

“In 2003 we did a skills analysis, which became rather a skills gap analysis,” says director Stewart Kufeni. “Since the 1980s, many of the DFIs that were state-owned institutions had not been performing very well. We are now working to ensure they deliver in terms of implementing the regional development programmes.”

An important element is to ensure that the DFIs and SADC governments speak the same language as international cooperating partners and potential investors in terms of regional development and integration. “There are a number of key areas in which the DFIs must be equipped; areas such as risk and project management, and corporate governance issues,” Kufeni says. “More recently, we have come to look at the issues surrounding public-private partnerships. These are becoming very crucial in terms of infrastructure development.”

The focus has been on DFIs, but now increasingly includes working with government departments. “We are introducing them to areas such as investment appraisal, risk analysis and project management in collaboration with our various stakeholders,” he says. “It is effort that is, in our opinion, one of the most critical areas in improving our investment climate and, through both public and public-private initiatives, the development of our regional infrastructure.”

Since the centre opened four years ago, it has trained more than 1,000 members of the DFIs and governments of member states. “We believe we have made quite an impact,” says Kufeni. “We are talking development, regional, and resource mobilisation for development. We are bringing to the fore development issues, such as capacity building. We are moving ahead in areas such as building the right regional development finance environment. And we are all speaking the same language!”

but with conditions such as an eventual re-fund, or conversion to equity if the project proves viable.

Some projects may have social viability for the region but may not necessarily be financially viable. Social viability is an issue solely for regional or international governments. "I don't think we will ever get project finance for a social project that has no economic or financial return," Weenink says.

### Fund or bank loans?

The proposal for a SADC development fund was put on the back burner by the finance ministers in 1998, but is once again under consideration. The idea does not have universal support. Critics point to the Development Bank of South Africa (DBSA) that has operated regionally since 1996 and, it might be argued, has the same agenda. There are also the international commercial and development banks and, it is pointed out, development funds in other regions have foundered.

"The Development Bank of South Africa is not a SADC development bank," says Gofhamodimo. "Let me draw a line between the development and commercial banks and a development fund. Banks loan money. A development fund would put together funds, by and large contributed by member states, but which could also come from other sources." The fund would be available to finance the regional development agenda. "Not in the form of loans – it would be our fund. We would identify, as a region, projects and programmes necessary to facilitate regional integration."

The inability – and often unwillingness – of member states in other regions to support development funds contributes to their failure. With the SADC member states clearly unable to finance the scale of development needed in their region, where would the bulk of the money come from for a SADC fund?

This Gofhamodimo cannot yet answer: "This is our most urgent issue. One source could be the international cooperation partners in our development process. Then there are European investment banks. Some do provide grant finance, but it is limited."

DBSA executive and consultant to the SADC, Irma Weenink, sees any issues surrounding the bank's credibility as purely political. "We do not belong to the region, we are a South African entity – the national treasury is our stakeholder. We are not subsidised by the South African government,



The former deputy governor of the Bank of Botswana, Keith Jefferis, says investors must see SADC's 15 national economies as one.

### Investors regain their appetite for Africa

The global crisis froze the commodities boom that leading southern African economies were enjoying, but over the last six to nine months, investors have regained their appetite for investment in Africa, believes Gaborone-based econsult director and former deputy governor of the Bank of Botswana, Keith Jefferis.

"The current times are positive. The world recovery is stimulating investment flows into the SADC countries. We have seen good rates of growth," he says. "The region is not the powerhouse of the world, that is China, but we are benefiting substantially from the growth which is being led by that country and other emerging markets. SADC has had great success in attracting foreign investment as the centre of gravity of the world economy shifts from developed countries to emerging markets."

The member states needed to converge around macroeconomic performance indicators: inflation, public finances and debt, and maintain exchange rates that are stable. "Investors have to see the 15 national economies as one," he said. There had been huge amounts of investment into mining and commodities, but these came with warnings to the usually one-commodity economies that received them. "Being reliant on single commodities is dangerous; Angola on oil, Zambia on copper, Botswana on diamonds; but it's fair to say that all the

SADC economies are trying to diversify to reduce their reliance on dominant export commodities," Jefferis argues.

"That might mean diversification within the mining sector so that the country can hedge its bets," he adds. "We have seen a lot of emphasis on processing, establishing downstream industries to add value."

Many SADC economies have agricultural sectors that are being developed to improve the sector's export component. Zambia, for example, has important floriculture industries that sell into the cut-flower markets of Europe. Other horticultural products are green beans, peppers and chillies.

### Manufacturing develops more slowly

There are some reasonable manufacturing sectors but they are difficult to develop, particularly in landlocked countries. An exciting development has been the potential for the services sector, one of the biggest being tourism, which has seen very rapid growth over the last decade. Many SADC countries have seen the potential of hosting call centres and business process outsourcing, undertaking the back-office work for businesses located in Europe and the US.

"Particularly in exports, it is the private sector that needs to play a leading role," Jefferis says. "Extensive privatisation, deregulation of tax rates and harmonising the environment have taken place across the region and contributed towards an environment for private sector investment much more favourable than it was 10 or 12 years ago, and given us markets that can talk to each other."

but were originally capitalised by it," she says. "In 1996 we were mandated to operate outside South Africa and we sort of got the nod from SADC that we would be accepted in the region."

The bank has been looking at how it could become more internationally – and regionally – acceptable. A decision from government and treasury is pending. DBSA has directed a

large slice of its funding to the development of South African municipalities (funding many would consider a national social responsibility) but has been recapitalised to cover that.

"Even in South Africa, we will not give loans that would put the borrower in a weaker financial situation," she says. "We choose to give money to projects that can generate their own income and pay for themselves." ■