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## **Session VI:**

*Unlocking the SADC region's potential!*

**Can Development Aid and Partnerships with  
national DFIs provide the Key?**

Dr. Ros Thomas (CEO)

*Regional Consultation: Rethinking the Role of  
National Development Banks in Africa*

*Paris, France*

*27-28 June 2006*

## Topics to be covered:

- ✿ The workings of the SADC Development Finance System
  - ▣ Infrastructure & SME development a priority
- ✿ Inadequate Deal pipeline
  - ▣ Funding for project development
- ✿ Developing the capacity to appraise projects
- ✿ Development Partnerships for mutual success in delivery

## The SADC Development Finance System?

- ✿ 1998 Development Finance Study (DFS 98)
  - ❑ DFI Network (May 2000)
  - ❑ SADC-DFRC (July 2003)
  - ❑ PPDF (still under construction)

## DFIs still critical actors in SADC...

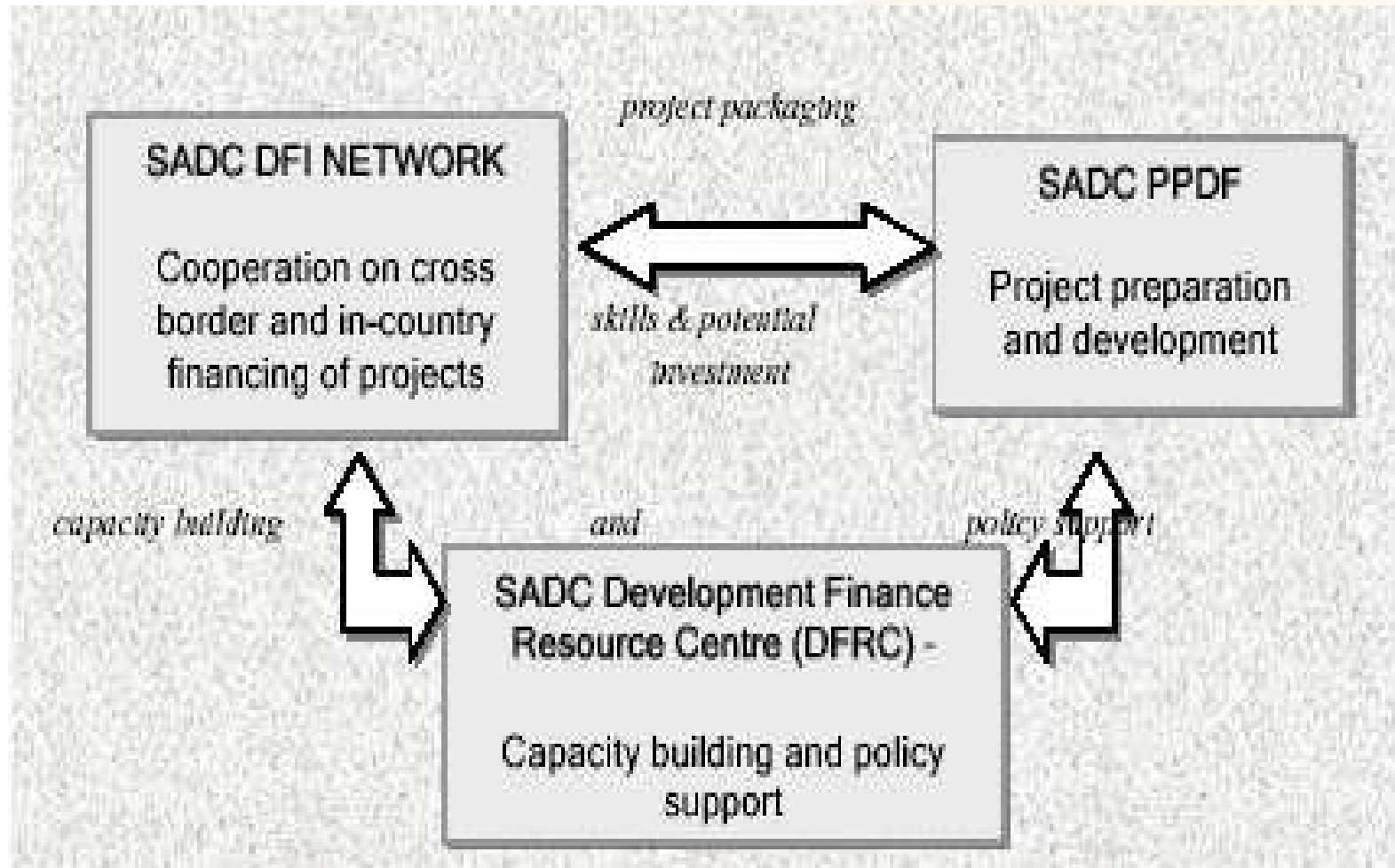
### ✿ Despite problems (DFS 98): -

- ❑ DFIs & development finance will remain part of financial landscape because:
  - Financial systems remain underdeveloped
  - They are important in sectors like agriculture; SMEs and housing
  - In absence of capital markets, liberalization programs failed to emphasize continued importance of DFIs
  - They can be strengthened to meet challenges
  - But this requires partnerships with stronger DFIs
- ❑ Network concept therefore adopted
- ❑ DFRC key to success of this strategy
- ❑ PPDF critical to develop deal pipeline

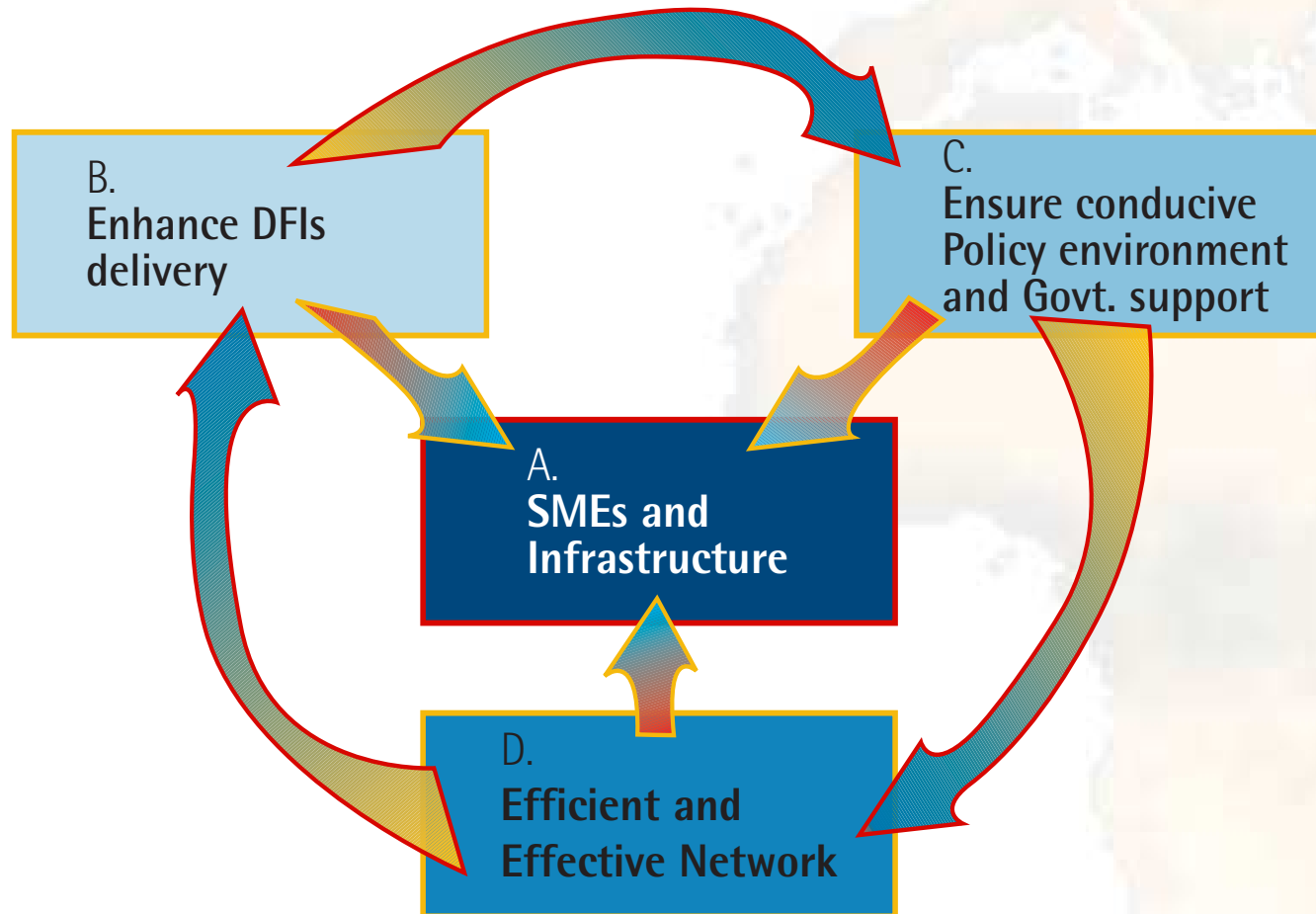


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## Workings of SADC Development Finance System



## Financing of Infrastructure & SMEs a priority...



## Why Infrastructure/ why SMEs?

- ⊕ Key to promote regional trade, development & investment
- ⊕ Infrastructure key to employment generation, equity and integrated development
- ⊕ However - huge backlogs in critical infrastructure investments
  - ⊞ Size of investments often require cooperation/ joint financing
- ⊕ ∴ PPI must play an important role (scarce public sector savings are needed for other priorities)

## Why Infrastructure/ why SMEs?

- ⊕ Key to employment generation and poverty eradication
- ⊕ Promote backward & forward linkages
- ⊕ Engine of growth for Private Sector
- ⊕ Covers all sectors, impacts on all DFI Network Members
- ⊕ High returns to sharing successes & failures
- ⊕ Strong development impact

∴ **Both** key strategic emphasis of SADC's RISDP & NEPAD agenda

## But ...

- ❖ Insufficient throughput in deal pipeline
- ❖ Inadequate public finance (huge debt burdens of Governments.)
- ❖ Under-developed capital markets for local currencies
- ❖ Inadequate capacity to appraise projects – i.e. bankability an issue?

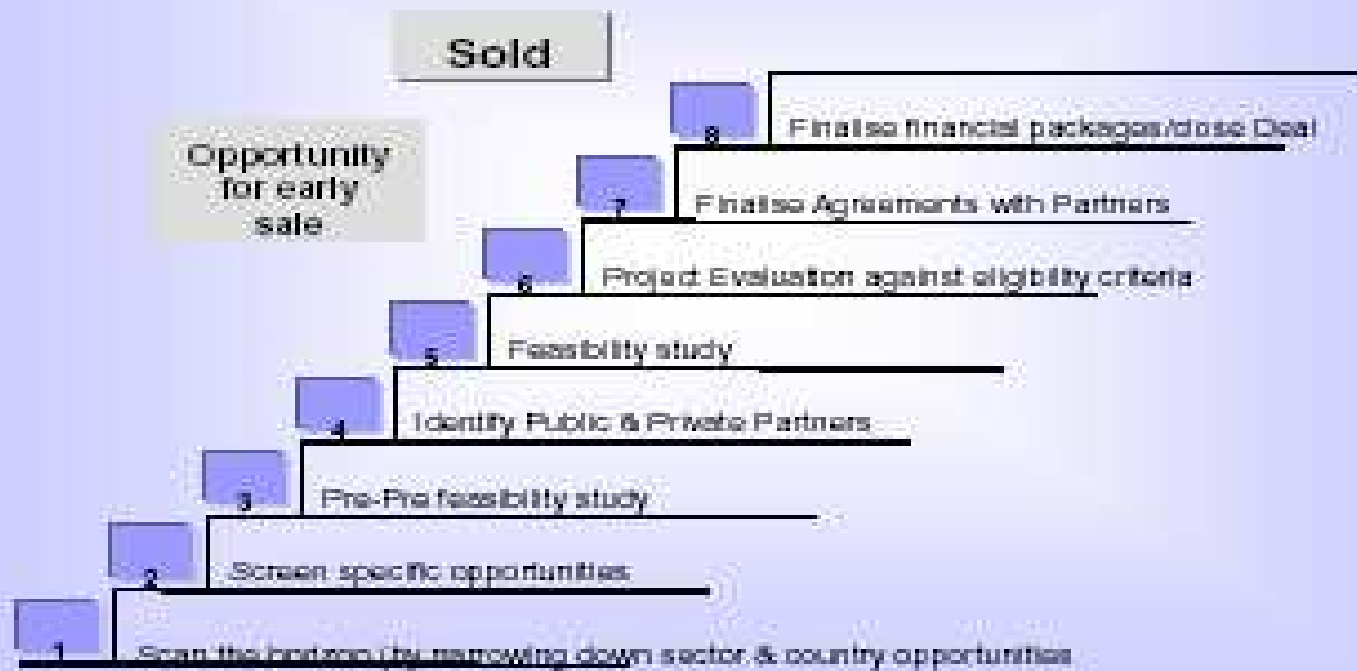
## Role of the SADC DFIs....

### ❁ Strategic Goal of DFIs in SADC ...

- ❁ have skills base to appraise projects; structure complex risk sharing contracts; provide badly needed intermediation between investors/ promoters & banks, capital markets & institutional investors;
- ❁ are able to engage Governments on policy constraints & mediate between Public and Private partners on PPI
- ❁ Can close the gap for SMEs and small infrastructure financing that large DFIs and Private banks won't touch
- ❁ Require access to long-term finance (local currencies)
- ❁ Can play a role in developing deal pipeline

## Role of the SADC-PPDF to support project development....

### Expected Core Activities



## Role of DFRC to address capacity/ institutional constraints...

### ✚ DFRC's Approach -

- ❑ Institutional Strengthening (corporate governance/ Credit ratings/ funds mobilization amongst others)...
- ❑ Appraisal Methodology?
  - Guidance Material – to develop quantitative & analytic techniques & methods for preparing, managing & monitoring PFI, PPP & similar types of PPI (analysis of PSC and Discount Rate)
- ❑ Establish PPP Facilitation Unit (NDC –Mtwara Corridor) & develop skills for:
  - Deal conceptualization
  - Consultant procurement
  - Project packaging
  - Proposal Evaluation and contract negotiation
  - Ensuring appropriate Govt. engagement in the project
  - Ensure Government attention to post-closure compliance monitoring of PPP deals

## Addressing capacity constraints in DFIs...

### ● DFRC's Approach (cont'd) ...

- Training on Investment Appraisal and risk analysis covering Financial & Economic Analysis of projects and Risk Analysis & modeling.

Participants -

- Plan and assess all aspects of investment projects
- Add value through the redesign of projects
- Prepare project financing agreements
- Design strategies to address stakeholder concerns

- Training of Trainers course to deepen local knowledge

- Project Management skills using *MS Project*

- All of this is (and more relating to SMEs) supportive of generating deal flow but requires resources including grant funding ...

## Development partnerships - critical for everyone's success:

- **Financing / Technical Assistance - including grants are essential from -**
  - MFIs
    - IBRD/IFC
  - Regional DFIs
    - AfDB
    - EIB
    - KfW/DEG
    - AFD/Proparco
    - DBSA & IDC (South Africa)
  - Development Agencies
    - PPIAF
    - DEVCO
    - InfraCo
    - GuarantCo
    - PEP Africa
    - ProInvest
- **All are chasing projects – So in everyone's interest to support strategy if end result = more projects for investment!**

## What interventions (given limited resources)?

### ❖ IFI /DFI Workshop – CCBG/ National Treasuries

- ❑ Minimum standards for DFIs agreed

### ❖ Grants aimed at strengthening DFIs- -

- ❑ Capacity Building
  - Technical/ Project Appraisal
  - Project Management
  - Financial & Risk Modeling
  - Financial & Risk management
- ❑ Credit Rating Methodology for FIs in Africa & CR of DFIs
- ❑ Assist with feasibility studies to establish/ help to close down/ assist with restructuring of DFIs (Angola/ Madagascar/ Angola/ Malawi/ Tanzania)

- ❑ Support for establishment of PPP Facilitation Units (e.g NDC on Mtwara SDI)
- ❑ Project Preparation & development activities
- ❑ Support for local capital markets development (driven by CCBG/CISNA/COSSE)
  - L-T financial instruments
  - Debt securitization
- ❑ Database development – project information
- ❑ ITC hardware, software and technical support for managing same
- ❑ TA & Secondments

## Given success in raising standards of DFI operations:

### ✿ Support for financing of Development

- ❑ Assist in development of new –innovative financial instruments (incl. risk mitigation)
- ❑ Access to financing
  - Information needed on what is available -(loans/equity/ guarantees/ partial risk guarantees, etc.)
- ❑ Use as intermediaries ► funding facilities ► SMEs

### ✿ Result?

- ❑ Increased deal pipeline
- ❑ Joint financing of projects
- ❑ DFIs crowding in Private Sector
- ❑ Deepening of capital markets

☉ **Thus a win-win situation!!!**

**THANK YOU**

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