

The role of South African DFIs in regional infrastructure development in Africa

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Index:

Introduction

Defining Africa's infrastructure gap

South Africa's post-apartheid policy on Africa

The track record of the DBSA and IDC in infrastructure development in Africa

Recommendations

References

The question of the role of South Africa in the continent will always come up, and will have to be addressed with courage and humility. South Africa, objectively, has the characteristics of a middle-power, which are: (a) a comparatively strong military; (b) a comparatively strong and dominant economic base; (c) fiscal stability; (d) relative social and political stability; and (e) a government that has effective control over its territory and borders. However, in order for South Africa to play a role in the continent, the country will need to start addressing its capacity to exercise such a role. (ANC, 2002:100)

Introduction

In recent years, global financial turmoil has sharply refocused the world's attention on the growing importance of development finance institutions (DFIs), especially in infrastructure development. Lack of infrastructure remains a major barrier to economic growth and development in Africa. The global financial crisis has left a vacuum in infrastructure financing, which has traditionally been handled by national governments and the Bretton Woods institutions, and international and regional DFIs are increasingly filling this vacuum. Recently, Africa has attracted the interest of DFIs in the developed countries as well as the emerging markets, especially those that make up the BRICS coalition (Brazil, Russia, India, China and South Africa). These DFIs are strengthening their "operating infrastructure and technology platforms to book over-sea transactions from a large network of local agencies, subsidiaries, and branches" (World Bank, 2008:81).

This policy brief examines the role played by South African DFIs, namely the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC), in boosting the government's efforts to champion regional infrastructure development in Africa. At the African Union Summit of Heads of State

and Government held in Kampala in 2010, President Jacob Zuma was designated as a Presidential Champion of African Infrastructure, a clear indication that South Africa continues to be seen as a leader in this regard. This initiative, which falls under the New Partnership for Africa's Development (NEPAD), seeks to give Pan-African rail and road infrastructure a much needed push, with a strong focus on the North-South Corridor linking Durban and Mombasa (DBSA, 2011).

South Africa relies heavily on its relatively established DFIs to pursue its infrastructure development goals in Africa. These goals are in line with its foreign policy objective of creating a "Better Africa and a Better World". The government's motivation for taking a leadership role in this area is captured in the newly released New Growth Path draft document:

Support for regional growth is both an act of solidarity and a way to enhance economic opportunities...South Africa should be the driving force behind the development of regional energy, transport and telecommunication. Government will work jointly with African partners to identify mutually beneficial opportunities for trade and development, mindful of regional differences in resources and development. On this basis, South Africa will undertake initiatives to strengthen SADC and connect it with the East African community and COMESA. (EDD, 2010:37)

The New Growth Path also outlines the steps needed to achieve these goals:

Government will work with South African development finance institutions (DFIs) and state-owned enterprises (SOEs) to address backlogs in regional logistics, water and electricity infrastructure. Government will launch an appropriately structured Africa Development Fund to assist in financing this kind of infrastructure, and at the same time play the role of a sovereign wealth fund

1

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in helping to achieve a more competitive rand. Priorities include: a) by 2012, developing and implementing proposals to improve the road/rail/ports system serving southern and central Africa; b) strengthening regional integration on energy, including the Southern African Power Pool, linked to urgent improvements in electricity interconnectors, and exploring other opportunities for enhancing clean energy across central and southern Africa, including gas; c) developing proposals to improve telecommunications and internet connectivity across the region and from the region to Europe, Asia and the Americas. (EDD, 2010:38)

Defining Africa's infrastructure gap

In 2009, the World Bank published a major report on the state of infrastructure in Africa. The report, *Africa's infrastructure: A time for transformation*, captured some of the key challenges in this regard:

- Africa's infrastructure lags behind all other regions in the world.
- Africa's infrastructure services are twice as expensive as elsewhere.
- Power is by far the continent's greatest infrastructure challenge.
- The cost of addressing Africa's infrastructure needs is around US\$93 billion a year.
- The infrastructure challenges vary greatly from country to country, and while fragile states face an impossible burden, resource-rich countries lag behind despite their wealth.
- A large share of Africa's infrastructure is domestically financed.
- Although institutional, regulatory and administrative reforms have only been partially implemented they are already having a positive effect on operational efficiency. (World bank, 2009)

South Africa's post-apartheid policy on Africa

After four decades of global isolation as a result of apartheid, South Africa's post-apartheid leaders faced a completely unfamiliar regional and international environment. Following the historic 1994 democratic elections, South Africa's foreign policy establishment adopted a new, more transformative approach to its international relations agenda.

This search for a new foreign policy identity was shaped by various factors. First, there was the end of the Cold War. South Africa's foreign policy makers found themselves operating on completely new global terrain, which was defined mainly by the triumphant Western countries with the USA at the helm. The USSR, former ally of some African liberation movements including the African National Congress (ANC) in South Africa, had lost its sphere of influence in Eastern Europe as the Eastern bloc disintegrated. Secondly, the

African continent was engulfed in intra-state conflict, civil strife and poverty. Thirdly, despite the advent of democracy in South Africa, the country's position in Africa remained questionable. Apartheid South Africa had pursued a policy of regional destabilisation that caused massive loss of human life and infrastructure in southern Africa, leaving behind an estimated "two million people dead and US\$62,45 billion worth of infrastructural damage" (Nolutshungu, 1982:5-6). The demise of apartheid did not remove lingering suspicions about the future role South Africa might play on the continent, with some African states harbouring fears that the country would seek to impose its will on military and economic issues.

In the run-up to the first democratic elections, the ANC and its tripartite alliance partners, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), formulated the Reconstruction and Development Programme (RDP), the policy framework that would be implemented by the new government. This included a section on South Africa's policy towards southern Africa. The RDP acknowledged that South Africa played an important role in the region and asserted that aspects of its trade, investment, labour and financial sectors would need to be developed and expanded extensively to benefit southern Africa as a whole. It therefore proposed that relevant government organisations and institutions be used to support regional bodies involved in strengthening coordination and cooperation in the region (ANC, 1994).

In post-apartheid South Africa, foreign policy in general and policy towards Africa in particular were radically transformed.

The new basic objectives of this policy were:

- To integrate South Africa into Africa in a way that made the development of the continent one of the country's priority security and economic interests
- To prioritise an African peace and security agenda as a precondition for generating development and economic growth on the continent
- To emphasise good governance by African governments as a requirement for peace and security
- To promote a South-South cooperation agenda so that Africa, as an integral part of the global South, would benefit from the economic emergence of these countries and be integrated into the global economy as an emerging market
- To ensure that the African agenda on peace and security and on development was integral to North-South dialogue, as reflected in the G8's Africa Action Plan in response to the NEPAD initiative (Monyae, 2010)

Currently, South Africa is a member of several global structures and organisations, including IBSA (India, Brazil, South Africa) and the G20. South Africa also has non-permanent membership of the United Nations

Security Council for two years and will join BRICS (Brazil, Russia, India, China and South Africa) in April 2011.

The track record of the DBSA and IDC in infrastructure development in Africa

Since 1994, the DBSA and IDC have expanded their developmental reach in Africa significantly, as their growing economic footprint on the continent demonstrates. In 1998, the DBSA's mandate was extended to include southern Africa, while that of the IDC was extended to the rest of Africa. In 2002, both the DBSA and the IDC established units to support NEPAD.

The IDC's outward-looking approach to Africa has the following objectives:

- To improve Africa's industrial capacity
- To help realise the enormous market potential and untapped resources of the continent
- To win the support of the IDC's international network of partners for its projects and initiatives
- To use existing South African products and services in the development of the continent's various economies
- To play a prominent part in the development of Africa, which is often projected as one of the last frontiers of economic growth (Qhena, 2006)

In line with its regional mandate, the DBSA has done extensive work outside South Africa. Its first investment beyond the country's borders was made in 1987 and went to the small farmer development programme in Lesotho, Mozambique, Namibia and Swaziland (DBSA, 2010). While some saw this as insignificant at the time, it proved to be the first of many development initiatives in southern Africa.

In 2009, the DBSA had loans in ten SADC countries (Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania and Zambia) and in other multi-regional projects. Zambia was the highest recipient with R2 billion, and Botswana the lowest with R83 million (DBSA, 2010). The Bank is involved in a range of projects in various sectors, including energy, telecommunications and mining, with energy accounting for just under a third of its investments.

Recommendations

This policy brief has shown that the extent to which South Africa achieves its African Agenda depends on its DFIs, in particular the IDC and the DBSA. It has also pointed to President Jacob Zuma's position as a champion of infrastructure development in Africa. In its New Growth Path, the South African government has recommitted itself to working closely with its DFIs and SOEs to achieve NEPAD's strategic objectives, which include the linking of

Africa's infrastructure networks and the strengthening of regional integration. In doing so, the government and its DFIs will need to move away from the approach to NEPAD established under President Mbeki; rather than focusing on specific infrastructure projects, they should support a broad range of NEPAD initiatives.

What do the DBSA and IDC need to do in support of the NEPAD approach to infrastructure development?

Recommendation 1: Build a strong infrastructure knowledge base

If they are to play a leading role in developing Africa's infrastructure, South African DFIs urgently need to build a strong internal knowledge base. This will require intensive studies on how the envisioned infrastructure across the continent will be affected by the policies of different governments and the protocols of regional economic communities.

Recommendation 2: Create employment

While the pursuit of profit is important, DFIs must ensure that infrastructure projects in Africa benefit ordinary people. The creation of employment should be their priority.

Recommendation 3: Support the decent work agenda

South African DFIs should join their counterparts in Europe in supporting the broad decent work agenda. The infrastructure projects they fund should allow workers "access to productive employment and income opportunities; rights at work, particularly with respect to the core labor standards; systems of social protection; and a voice at work through social dialogue" (DFID, 2010:11). The European Bank for Reconstruction and Development, for example, is guided by the European Union's "commitment to decent work promotion in external policies" (DFID, 2010:11).

Recommendation 4: Be sensitive to environmental issues

Infrastructure projects must comply with the highest standards of environmental protection across the continent.

Recommendation 5: Establish smart and strategic partnerships with other extra-regional DFIs

South Africa's DFIs are facing stiff competition from their counterparts in developed countries as well as the emerging markets, especially China, India, Brazil and Russia. South Africa's DFIs must find ways to establish smart and strategic partnerships with these other critical players.

Recommendation 6: Work with the private sector

DFIs should work in partnership with the private sector to speed up service delivery in infrastructure development across the continent.

Recommendation 7: Support broad-based black economic empowerment in Africa

The South African policy of broad-based black economic empowerment should be extended to the rest of the continent. DFIs should find appropriate ways to involve

local people in business deals around infrastructure development. This will bring legitimacy and credibility to the entire process and counter the oft-repeated criticism that the South African government is “domineering” and its business is “exploitative”.

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