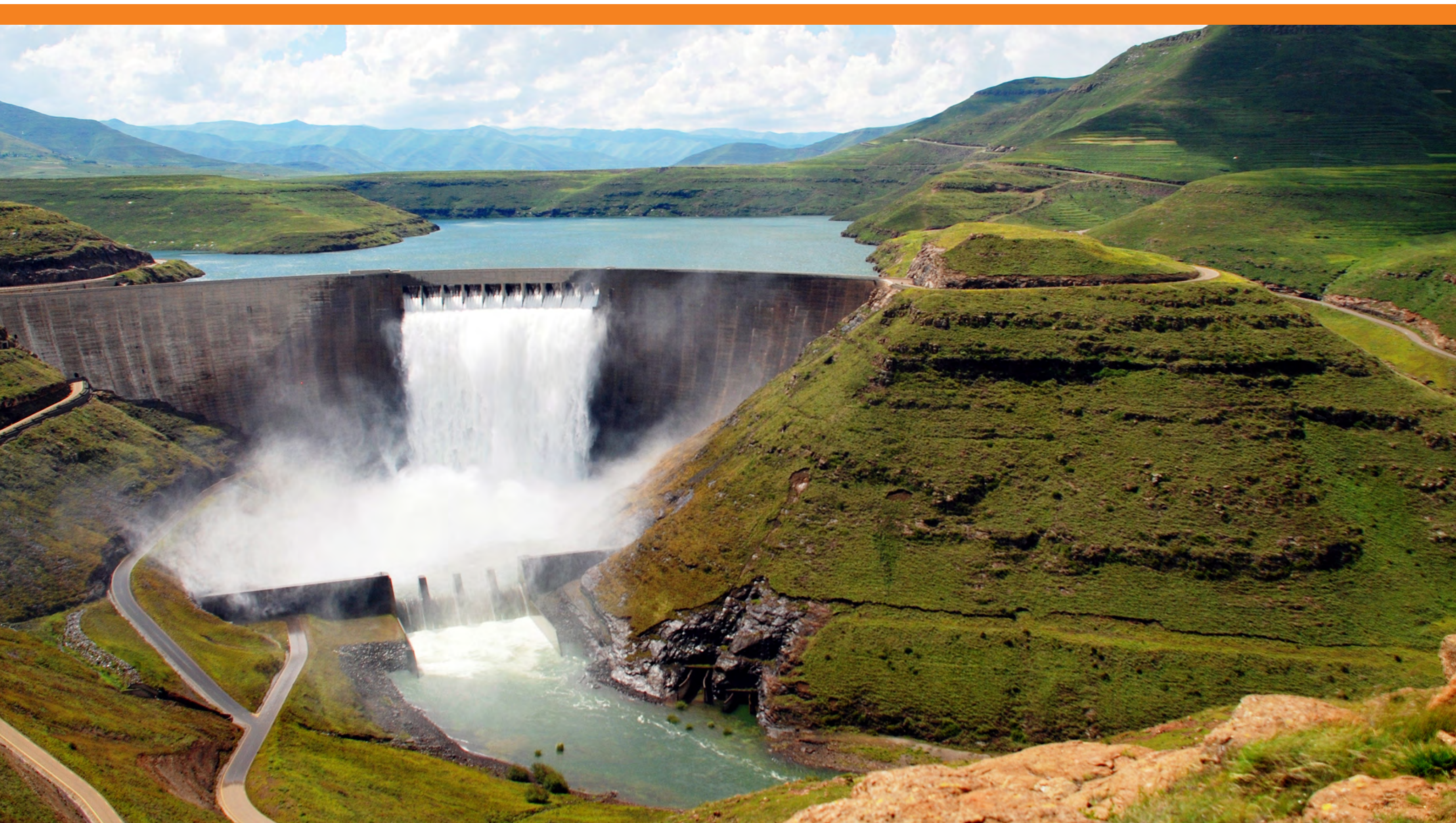
GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

DISCUSSION PAPER | JUNE 2018

SADC REGIONAL DEVELOPMENT FUND

OPERATIONALISATION IMMINENT?

Lesley Wentworth, Chelsea Markowitz, Zinhle Ngidi, Tulo Makwati & Neuma Grobbelaar



GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

ABOUT GEGAFRICA

The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

The programme is expected to help create an international system of global economic governance that works better for the poor in Africa through:

- undertaking substantial research into critical policy areas and helping South African policymakers to prepare policy papers for the South African government to present at global economic governance platforms;
- ensuring that African views are considered, knowledge is shared and a shared perspective is developed through systematic engagement with African governments, regional organisations, think tanks, academic institutions, business organisations and civil society forums; and
- disseminating and communicating research and policy briefs to a wider audience via mass media and digital channels in order to create an informed and active policy community on the continent.

The programme will be focused on three thematic areas: development finance for infrastructure; trade and regional integration; and tax and transparency.

GEGAFRICA is funded by the UK Department for International Development and managed by a consortium consisting of DNA Economics, the South African Institute of International Affairs and Tutwa Consulting.

Cover image: Katse Dam, Lesotho
© iStock.com/YolandaVanNiekerk

DISCUSSION PAPER
JUNE 2018

SADC REGIONAL DEVELOPMENT FUND

OPERATIONALISATION IMMINENT?

Lesley Wentworth, Chelsea Markowitz, Zinhle Ngidi,
Tulo Makwati & Neuma Grobbelaar

GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

CONTENTS

INTRODUCTION 4

GLOBAL AND REGIONAL PERSPECTIVES ON ECONOMIC DEVELOPMENT 9

The Industrialisation Strategy and Roadmap and the Regional Infrastructure Development Master Plan: SADC's two major economic strategies 11

A SADC REGIONAL DEVELOPMENT FUND 16

The RDF: What do we know? 18

Are SADC countries well positioned to support the sustainable financing of the RDF? 20

Fiscal positions of SADC countries *20*

Public (and external) debt *21*

Concessional borrowing by SADC member states *26*

Conditionalities of external finance 28

REGIONAL CHALLENGES IN INFRASTRUCTURE DEVELOPMENT 31

Project conceptualisation 36

Project development and capacity *38*

The North–South Corridor Rail 40

Regional and national dynamics *41*

Commercial viability 42

Coordinating preparation activities 45

ASSESSMENT 46

Concerns regarding the establishment of a new regional structure 47

Important considerations 48

Four capacity development proposals *49*

ANNEX 1: FINANCING ACCESSED BY SADC PRIORITY REGIONAL PROJECTS 53

EXECUTIVE SUMMARY

Infrastructure development, as an enabler of economic growth and catalyst for poverty alleviation, is an integral part of the economic development agenda of most African developing countries. New estimates by the African Development Bank suggest that the continent's infrastructure needs amount to \$130–\$170 billion a year, with an annual financing gap of between \$67.6 and \$107.5 billion. The lack of financing for the enormous infrastructure deficit that countries face has been exacerbated by rapid urbanisation, the global economic slowdown, rising debt levels, climate change and the commitments that governments have made to the achievement of the Sustainable Development Goals (SDGs). African governments' public finances are insufficient to address this deficit without additional inputs. In Southern Africa there has been ongoing discussion about establishing an infrastructure financing mechanism to support the region's ambitious industrialisation plans. In 2017 SADC decided to operationalise the long-anticipated SADC Regional Development Fund (RDF). This paper critically examines the need for and potential role of the emergent SADC RDF in addressing SADC's infrastructure needs. The authors consider the focus placed on infrastructure development in SADC via various global, continental and regional infrastructure plans and initiatives, and analyse the implementation of these plans. The challenges at each stage of the infrastructure pipeline in SADC are explored, drawing on current financing mechanisms. The typical shortcomings in addressing early stage project development – from project conceptualisation to feasibility decisions – are also highlighted as critical stages that require concentrated effort, technical expertise and stakeholder inputs. Finally, proposals are set out for the focus and ultimate operationalisation of the SADC RDF.

AUTHORS

Lesley Wentworth and Tulo Makwati were based at the NEPAD Business Foundation at the time of writing. Lesley has now joined the Tutwa Consulting Group. Chelsea Markowitz, Zinhle Ngidi and Neuma Grobbelaar are based at the South African Institute of International Affairs.

ACKNOWLEDGEMENT

The authors would like to express their appreciation to Peter Varndell for the valuable inputs made into this paper, as well as the interviewees who gave so generously of their time to meet with us.

INTRODUCTION

The financing gap for infrastructure in Africa is currently estimated at $130–$170 billion a year, with an annual financing gap of between $67.6 and $107.5 billion.[1] The need for infrastructure development is exacerbated by rapid urbanisation in African cities, the global economic slowdown, rising debt levels, climate change and governments' commitment to the achievement of the Sustainable Development Goals (SDGs). African governments' public resources are insufficient to address this deficit without additional inputs.

Infrastructure that supports socially equitable, poverty-alleviating and environmentally responsible economic development is an explicit objective of the 2030 Development Agenda as encapsulated in the SDGs – adding additional requirements to an already full African infrastructure development agenda. Infrastructure development lies at the heart of three of the 17 SDGs, namely SDGs 6, 'Ensure availability and sustainable management of water and sanitation for all'; 7, 'Ensure access to affordable, reliable, sustainable and modern energy for all', and

1 AfDB (African Development Bank), African Economic Outlook 2018, 2018, p. 63, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf, accessed 19 March 2018.

9, 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation'.

When considering how to integrate the 2030 Development Agenda into global and regional discourses and policy processes relevant to infrastructure development, various forums have located infrastructure financing at the centre of their discussions. For instance, the Global Infrastructure Forum, a co-initiative of the multilateral development banks (MDBs) – the African Development Bank (AfDB), Accelerated Industrial Development of Africa, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank (EIB), Inter-American Development Bank, Islamic Development Bank, New Development Bank and the World Bank Group – in partnership with UN agencies and development partners, has been established to help bridge the infrastructure gap as key for achieving the SDGs.

There is an important correlation between the need for innovative financing mechanisms for infrastructure and Africa's ambitious industrialisation and economic development plans. The continent's overarching development strategy is the AU's Agenda 2063. Adopted in 2013, the agenda is a long-term vision for the 'Africa We Want' over 50 years. Two key AU infrastructure action plans and initiatives support the achievement of the AU vision. The first is the Action Plan for the Accelerated Industrial Development of Africa (AIDA) of 2008. AIDA is complemented by regional industrialisation strategies for implementation by Africa's regional economic communities (RECs).

SADC's response to the challenges around regional infrastructure development, industrialisation and economic growth and development has been to adopt the SADC Regional Infrastructure Development Master Plan (RIDMP) in 2012 and the SADC Industrialisation Strategy and Roadmap in 2015. The imperative to fund

The imperative to fund SADC's industrialisation and infrastructure strategies has arguably accelerated the decision to move ahead on the SADC Regional Development Fund

SADC's industrialisation and infrastructure strategies has arguably accelerated the decision to move ahead on the SADC Regional Development Fund (RDF), even though its establishment has been on the cards since 1992 at the signing of the SADC Treaty. The main purpose of the SADC RDF is to create a financial mechanism to mobilise resources from member states, development partners and the private sector to support regional development and deepen regional integration, as foreseen in Article 26A of the SADC Treaty.

On 16 August 2017 the SADC Council of Ministers (COM) endorsed the decision by the Committee of Ministers of Finance and Investment (COMFI) to operationalise the SADC RDF. In addition, the COM approved an analysis of existing funds and how these could be incorporated into the RDF. An agreement to mobilise approximately $1 billion in seed funding for the SADC RDF was signed in August 2016 by SADC member states. Ratification of the agreement by member states and the subscription of capital are necessary to start operations.

While the RDF has a relatively broad mandate, the focus of this paper is on its infrastructure development component and related industrialisation elements. As noted earlier, these interlinked economic strategies have clear implications for (re) defining the region's infrastructure needs by prioritising projects that enhance and improve socio-economic development. This is also a more economically prudent approach than providing support to projects that are favoured for their political dimension.

For SADC to position itself more competitively in developing regional value chains and link into global value chains, regional economies must invest substantially in the development of cross-border-enabling infrastructure. To accelerate the operationalisation of SADC's regional industrialisation and infrastructure development strategies, it is thus necessary to improve regional resource mobilisation within SADC, especially at the very early project preparation phase.

Improvements to support early stage project development are arguably the most urgent priorities facing the region – even more pressing than the establishment of a new institution. The challenges of building new institutions, including set-up costs, appropriate staffing and support services, are significant, especially as these costs are compounded when establishing a regional public institution.

The financial modality of the RDF has not yet been decided, and careful consultation will be required to determine how the fund is set up and governed. Based on interviews, it is understood that the RDF is to be set up as a trust governed by the SADC finance ministers – which will likely be onerous at a regional ministerial level. Important lessons must be taken from the SADC Project Preparation and Development Facility (PPDF), housed within the Development Bank of Southern Africa (DBSA) and managed by a steering committee, given the complications associated with receiving approvals at ministerial level. It is prudent to consult stakeholders who have been involved in the PPDF's establishment to avoid similar bureaucratic delays and devise the best mechanisms to balance the need for regionally representative oversight with efficiency.

It is expected that the level of contributions will likely be skewed, and responsibility will rest with a few member states. However, none of the SADC members, including South Africa, is wealthy enough in relation to its own needs to make sufficient redistributive contributions to a SADC RDF. This calls into question the real commitment and buy-in to a functional regional fund. Many member states struggle to raise public funds for their own infrastructure needs, for instance to provide essential public goods such as health, education and water. Therefore, the prioritisation and initial domestic financial commitments necessary for regional projects are often hard to finesse from both a political and a developmental perspective.

As soon as a project is viewed as 'regional', national governments no longer consider it their responsibility, in terms of accountability to their electorate. Ultimately, there is an over-reliance on international cooperating partner (ICP) funding for many regionally significant projects, which both slows their development owing to a host of bureaucratic procedures and prevents strategic projects from getting off the ground because of ICPs' risk aversion.

There is an over-reliance on international cooperating partner (ICP) funding for many regionally significant projects, which both slows their development owing to a host of bureaucratic procedures and prevents strategic projects from getting off the ground because of ICPs' risk aversion

Moreover, the lack of member state contributions and the emphasis on ICP contributions in regional finance initiatives create a disconnect between member states' and ICPs' priorities and stymy the development of more successful initiatives. The decision whether to include some form of sanction for member states that do not meet their contributions adds additional complications, as strategic regional projects may still traverse the territory of non-contributing countries, raising important free-rider considerations.

Nonetheless, the changing nature and unpredictable future landscape of overseas development aid (ODA) should serve as a significant motivation for member states to contribute to regional infrastructure development (as will be elaborated below). For regional infrastructure resources to add value and contribute to the ultimate purpose of supporting regional economic development, it is important that initiatives target those projects and sectors currently receiving the least support but that could be transformative in spurring development.

An important consideration is the infrastructure development project stages, where the greatest proportion of resources should be directed. From the study, indications are that the proposed RDF can technically support the whole project lifecycle, from project definition to operation. However, within this broad ambit there is little clarity on what resources would be devoted to specific stages. Stakeholder interviews indicated that there would be an emphasis on project finance, in line with the fund's objectives to show results and ensure financial sustainability.

Instead of primarily concentrating on project financing, this paper promotes the view that member state contributions to regional infrastructure development (which are expected to total a minimum of $120 million under the proposed RDF) must support early project stages. This amount is small compared with the financing requirements of regional megaprojects, and therefor such funds would potentially have greater impact in supporting earlier stage activities that unlock investment.

It has been noted that the SADC PPDF does support early stage work, and it is anticipated that this instrument will be absorbed into the proposed RDF. Utilising the existing PPDF will significantly lessen the burden on the region and allow existing expertise and structures to be leveraged. The challenge is that the PPDF is mainly ICP funded, creating the impression in some quarters that it is not serving the interests of the region.

Perceptions of South Africa as the regional hegemon also feed into SADC's regional dynamics. South Africa is the only country in SADC with sufficient capabilities to mobilise domestic finance for infrastructure development and attract consistent private finance. Yet any regional infrastructure project or programme spearheaded by South Africa is inevitably viewed with scepticism, as promoting South Africa's own economic interests. With the considerable economic disparity between South Africa and the rest of SADC this dynamic is unavoidable. However, there is room for improvement in the way South Africa engages with the region to build better rapport, with one example being that it could create more space for regional learning and capacity building in the infrastructure projects that it spearheads, so changing perceptions. Stakeholders note that the location of the PPDF in the DBSA does create an impression of a South African bias. To change this perception, it is critically important that member states contribute substantial resources to the PPDF, as part of the RDF, to enable a more representative regional structure and decision-making process.

While ICPs will still be called on to provide critical support, through much-needed concessional finance in the region, as member states increase their contributions they will have more influence over the direction of infrastructure financing so that it meets the region's most pressing needs.

The paper recommends key capacity-building initiatives that regional infrastructure financing for technical support to member state-identified institutions, which can serve as early stage champions for potential projects. This ensures that SADC projects secure a dedicated project sponsor (which could be a development finance institution [DFI], state-owned enterprise [SOE] or private consultant) and support for meetings required to secure buy-in from necessary actors such as governments and SOEs. Moreover, 'soft' issues such as regulatory and legislative harmonisation and supporting infrastructure should not be neglected.

Financing should also support continuing reviews and restructuring of the RIDMP, to remove unfeasible projects that were either ill-conceived or purely politically motivated, and support the refinement and de-risking of projects with real potential

As an ongoing effort alongside support for specific projects, financing should also support continuing reviews and restructuring of the RIDMP, to remove unfeasible projects that were either ill-conceived or purely politically motivated, and support the refinement and de-risking of projects with real potential. This requires a clearer prioritisation of projects from national, regional and continental plans based on their economic development impact and potential to contribute to SADC's industrialisation strategy.

Beyond a change in focus in existing regional resource mechanisms, there is a need to materially improve the coordination of such mechanisms. While the Infrastructure Consortium for Africa (ICA) has identified this need and created the Project Preparation Facility Network (PPFN) for this purpose, the network has lost momentum and failed to reach its potential. A concerted drive to increase African input into and ownership of the PPFN is needed, so that, as the custodian of regional projects within SADC, it is possible to address the information gap on the status and funding of SADC regional projects. This will facilitate the availability of key information and data for potential investors in other stages of the project lifecycle.

Against this backdrop, member states need a sober assessment of the true financial scope of establishing a new fund, and whether scarce resources and efforts should instead be channelled into existing mechanisms (and their coordination) that address the bottlenecks in particularly the early project preparation phases.

GLOBAL AND REGIONAL PERSPECTIVES ON ECONOMIC DEVELOPMENT

Improving infrastructure that supports socially equitable,[2] poverty-alleviating and environmentally responsible economic development is an explicit objective of the 2030 Development Agenda as encapsulated in the SDGs. Infrastructure development is central to SDGs 6, 7 and 9: ensure availability and sustainable management of water and sanitation for all; ensure access to affordable, reliable, sustainable and modern energy for all; and build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

In considering how to integrate the 2030 Development Agenda into global and regional discourses and policy processes relevant to infrastructure development, various forums have located infrastructure financing at the centre of their discussions.

In 2016, with China presiding over the G20 Summit in Hangzhou from 4–5 September 2016, the G20 Heads of State launched the Global Infrastructure Connectivity Alliance (GICA)[3] to strengthen infrastructure development plans globally, especially in energy, transport, water, and information and communications technology (ICT). Hosted by the World Bank Hub for Infrastructure and Urban

2 Socially equitable infrastructure includes targeting the needs of marginalised groups, rural communities, women and the youth.

3 GICA (Global Infrastructure Connectivity Alliance) Secretariat, 'G20 Global Infrastructure Connectivity Alliance 2017 Work Plan', 2017, https://www.bundesfinanzministerium.de/Content/DE/Downloads/G20-Dokumente/GICA-2017-work-plan.pdf?__blob=publicationFile&v=2, accessed 29 March 2018.

Development in Singapore, the GICA Secretariat has several members in its network, notably the Global Infrastructure Hub launched in 2014 under the Australian G20 Presidency, the Organisation for Economic Co-operation and Development (OECD), MDBs, international organisations, UN organisations and interested countries. GICA supports infrastructure connectivity by working across regions, disciplines and the World Bank's Global Practices to promote cooperation, knowledge exchange and meaningful progress in global interconnectivity. SADC's RIDMP Vision 2027, in support of its ambitious industrialisation plans, is included under key GICA projects that are considered transformative infrastructure initiatives requiring infrastructure finance to improve the inter-connectivity of their respective regions.[4]

Under Germany's leadership of the G20, infrastructure financing received a further boost. The Hamburg G20 Summit from 7–8 July 2017 noted a series of Collective Actions focused on global infrastructure development that also had clear relevance to and implications for Africa's infrastructure development needs. These include a multi-stakeholder dialogue on infrastructure investment; improvements in public investment management to ensure efficient use of resources for sustainable infrastructure investment; the crowding-in of private financing for infrastructure investment; support for GICA aims, and use of the Global Infrastructure Hub to build the technical capacity of developing countries to manage infrastructure risks more effectively.[5]

The Global Infrastructure Forum, a co-initiative of MDBs in partnership with UN agencies and development partners, has been established to help bridge the infrastructure gap, which is crucial for achieving the SDGs. The initiative seeks to:

- continue to support country-led approaches to planning, executing, supervising and evaluating sustainable, resilient, inclusive and well-prioritised infrastructure programmes and robust infrastructure frameworks; as well as the involvement of all stakeholders in planning, financing through domestic resource mobilisation and national/international financing, and operating infrastructure services, including governments, consumers, the private sector and civil society; and
- consolidate and scale up where possible existing multilateral mechanisms to promote greater knowledge transfer, project preparation and implementation support in the form of global and regional platforms and tools, including de-risking and risk allocation mechanisms that have already been developed in close cooperation by MDBs, such as the Global Infrastructure Facility, the Global Infrastructure Hub, the International Infrastructure Support System, the PPP Knowledge Lab, Infrascope, the public–private partnership (PPP) certification programme, and environmental, social and governance standards.

These proposals are of particular significance to Africa, where there is a huge backlog of bankable projects, largely because of a significant lag and difficulties in graduating projects beyond the pre-feasibility phase.

4 *Ibid.*, p. 43.

5 G20 Germany, 'Hamburg Update: Taking Forward the G20 Action Plan on the 2030 Agenda for Sustainable Development', June 2017.

The Industrialisation Strategy and Roadmap and the Regional Infrastructure Development Master Plan: SADC's two major economic strategies

In the regional context there is a strong correlation between the need for innovative financing mechanisms for infrastructure and the continent's ambitious industrialisation and economic development plans. The overarching development strategy for the continent is the AU's Agenda 2063. Adopted in 2013, the agenda represents a long-term vision for the 'Africa We Want' over 50 years. Two key AU infrastructure action plans and initiatives support the achievement of the AU vision. The first is AIDA, published in 2008.[6] AIDA has seven programme clusters, focused on industrial policy; upgrading productive and trade capacities; infrastructure and energy promotion; industrial and technical skills; innovation and technology research and development; financing and resource mobilisation; and sustainable development for responsible investing. AIDA is complemented by regional industrialisation strategies for implementation by Africa's RECs.

African countries are pursuing industrialisation to meet citizens' demands for consumer and industrial goods and services; create employment for the ever-increasing number of youth[7] entering the job market; and ultimately reduce poverty through increased and higher-value employment. Recent studies support the premise that labour-intensive industrialisation is directly and indirectly linked to poverty reduction, especially in countries in the early stages of development (as is the case for most SADC countries).[8] The UN Economic Commission for Africa[9] reports that increases in poverty elasticity (ie, the responsiveness of poverty reduction to gross domestic product [GDP] growth) are lowest in African resource-rich countries, further supporting the need for diversification and industrialisation. A key factor hindering industrialisation in Africa has been the low reserves of productive infrastructure, ie, power, water and transport services that could increase the productivity and competitiveness of firms operating domestically.

In the 2017 SDG Index and Dashboards report, which measures countries' progress in meeting the SDGs, all countries in sub-Saharan Africa with the exception of South Africa received a 'red' rating in the achievement of SDG 9 (Industry, innovation and infrastructure). Red indicates that a country faces significant challenges and

6 AU, 'Action Plan for the Accelerated Industrial Development of Africa', EX.CL/379 (XII), Annex II 2008, https://au.int/sites/default/files/documents/30985-doc-plan_of_action_of_aida.pdf, accessed 29 March 2018.

7 Estimated at 12 million, according to the AfDB, *op. cit.*, p. 64.

8 UNECA (UN Economic Commission for Africa), 'Industrializing through Trade: Economic Report on Africa 2015', March 2015, http://www.un.org/en/africa/osaa/pdf/pubs/2015era-uneca.pdf, accessed 3 April 2018; Athukorala P-C & K Sen, 'Industrialisation, Employment and Poverty', ICRIER (Indian Council for Research on International Economic Relations) Discussion Paper, 26 August 2014, http://icrier.org/pdf/26aug14/Athukorala_paper.pdf, accessed 3 April 2018.

9 UNECA, 'Greening Africa's Industrialization: Economic Report on Africa 2016', March 2016, https://www.uneca.org/publications/economic-report-africa-2016, accessed 3 April 2018.

is furthest away from meeting the SDG.[10] On SDG 6 (Water and sanitation) and SDG 7 (Access to energy), all sub-Saharan countries received either the lowest or second lowest rating. This not only signals barriers to poverty reduction through industrialisation but also raises urgent concerns around access to water and energy as basic human rights.

TABLE 1 SUB-SAHARAN AFRICA: INFRASTRUCTURE DEFICIT (2008)

	LOW INCOME	LOWER-MIDDLE INCOME	UPPER-MIDDLE INCOME	SUB-SAHARAN AGGREGATE	SOUTH ASIA	EAST ASIA & PACIFIC	EUROPE & CENTRAL ASIA	LATIN AMERICA & CARIBBEAN	MIDDLE EAST & NORTH AFRICA
Total road density[a]	137	215	293	152	306	237	576	740	599
Paved road density[a]	31	94	238	49	149	59	335	418	482
Fixed-line telephone density[b]	10	106	120	33	39	90	261	197	100
Mobile telephone density[b]	55	201	422	101	86	208	489	350	224
Internet density[b]	2.0	5.1	10.3	2.8	1.7	6.6	16.4	14.1	10.1
Electricity generation capacity[c]	37	256	246	70	154	231	970	464	496
Elecricity coverage[d]	16	35	28	18	44	57	–	79	88
Clean water[d]	60	75	90	63	72	75	87	90	85
Sanitation[d]	34	48	39	35	48	60	78	77	77

a Km/1,00 km2
b Subscribers per 1,000 people
c MW per 1 million people
d Percentage of households
Note: Km = kilometer; MW = megawatt

Source: African Capacity Building Foundation, 'Infrastructure Development and Financing in Sub-Saharan Africa: Toward a Framework for Capacity Enhancement', Occasional Paper, 25, 2016, https://www.africaportal.org/publications/infrastructure-development-and-financing-in-sub-saharan-africa-toward-a-framework-for-capacity-enhancement/, accessed 19 June 2018

The second key infrastructure initiative supporting the implementation of Agenda 2063 is the Programme for Infrastructure Development in Africa (PIDA), launched in 2010 at the 15th AU Summit in Kampala, Uganda.[11] PIDA is a strategic continental initiative for mobilising resources to transform Africa through modern infrastructure via 51 cross-border infrastructure projects comprising about 400

10 SDG Index & Dashboards, 'SDG Index & Dashboards 2017 Report', http://www.sdgindex.org/, accessed 3 April 2018.

11 See AU, Virtual PIDA Information Centre, 'What is PIDA?', http://www.au-pida.org/, accessed 31 March 2018.

actionable sub-projects across the energy, transport, transboundary water and ICT sectors.[12]

Overall, the implementation of PIDA has been lacklustre and some projects have stalled, raising questions on how to spur regional infrastructure development in support of Africa's industrialisation drive more effectively. PIDA acceleration programmes have been rolled out in SADC along the Beira and North–South corridors with approval from the SADC ministers of transport and infrastructural development and with the assistance of partners, including the AU Commission, the NEPAD Planning and Coordinating Agency, DBSA, the SADC 3P Network, the NEPAD Business Foundation (NBF), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the EU.

SADC's response to the challenges encountered in regional infrastructure development, industrialisation and economic growth and development has been to adopt the SADC RIDMP in 2012 and the SADC Industrialisation Strategy and Roadmap in 2015.

The RIDMP, a 15-year (2012–2027) regional infrastructure development blueprint for SADC, is a precursor to SADC's industrialisation strategy. It is[13]

> aligned to the Programme for Infrastructure Development in Africa (PIDA), as well as the COMESA–EAC–SADC [Common Market for Eastern and Southern Africa–East African Community–SADC] Inter-Regional Infrastructure Master Plan, and prepares the foundation for the development of the African Economic Community, as espoused by the Lagos Plan of Action and the Abuja Treaty.

According to the SADC Secretariat, implementation of the RIDMP will help to consolidate the SADC Free Trade Area and the COMESA–EAC–SADC Tripartite Grand Free Trade Area, made up of 26 countries with an estimated aggregate GDP of $1.3 trillion.[14] The RIDMP has an estimated capital requirement of $500 billion for regional infrastructure development.[15]

To mobilise financing for the RIDMP, SADC members have agreed to set up the RDF. However, when considering SADC's ambitious infrastructure and industrialisation

---

12 *Ibid*.

13 SADC, 'Regional Infrastructure Development Master Plan: Executive Summary August 2012', http://www.sadc.int/files/7513/5293/3530/Regional_Infrastructure_Development_Master_Plan_Executive_Summary.pdf, accessed 3 March 2018.

14 tralac (Trade Law Centre), 'Botswana to sign tripartite free trade agreement', 25 January 2018, https://www.tralac.org/news/article/12630-botswana-to-sign-tripartite-free-trade-area-agreement.html, accessed 3 March 2018.

15 Wentworth L, 'PERISA Case Study 2: Financing Infrastructure', SAIIA (South African Institute for International Affairs) & ECDPM (European Centre for Development Policy Management), August 2013, https://www.saiia.org.za/special-publications-series/452-perisa-case-study-2-infrastructure-financing-of-infrastructure-by-lesley-wentworth/file, accessed 3 April 2018.

plans it is also important to recognise the underlying political economy drivers in the region.

The Industrial Strategy and Roadmap is SADC's industrialisation blueprint. It aims to:[16]

- increase the region's share of manufacturing value added in GDP to 30% by 2030 and 40% in 2050, up from less than 20% in 2015;
- raise the share of medium and high technology from its current level of less than 15% to 30% by 2030 and 50% by 2050;
- increase regional economic growth to 7% annually from 4% since 2000; and
- increase the share of industrial employment to 40% of total employment by 2030.

This blueprint emphasises the development of regional value chains to promote intra-regional trade. Hence, the Industrialisation Action Plan[17] calls for decisive action by SADC member states to promote national policies that, collectively, provide coherence and support to the regional economy's productive capacity to achieve regional industrial integration and participation in global value chains.

It is also important to note the structure of the region's economies and the extent to which they are geared to supporting manufacturing. Figure 1 shows the level of manufacturing in each country. While some of the relative percentages seem high at an individual country level, it is important to consider the relative size of each economy, the nature of manufacturing activities (especially how high up the value addition ladder countries are positioned) and the relative competitiveness of the manufacturing sector in each country, compared to each other and globally.

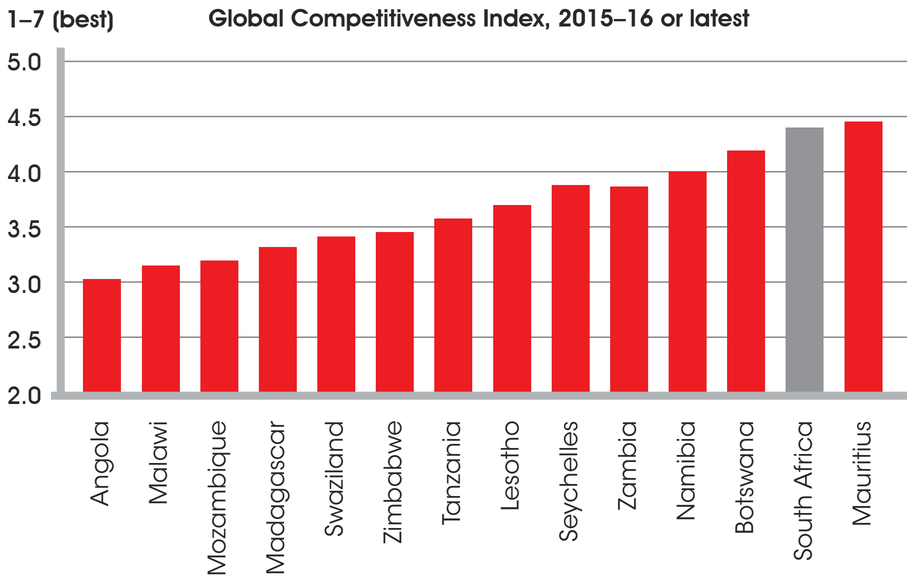
South Africa is SADC's economic powerhouse, accounting for 60% of SADC's total trade and about 70% of its GDP. As such, it plays a critical role in regional integration and is the only SADC country with the requisite economic capability and diversification to drive regional value chain development. While disaggregated data on South Africa's investment at a SADC level is not readily available, it was the fifth largest investor after the US, UK, France and China in the rest of Africa in 2015, investing $22 billion in the region.[18] Positive spillovers resulting from South African company investments in the region include creating jobs in neighbouring countries and increasing tax revenues to SADC governments.

16 SADC Secretariat, 'SADC Industrialisation Strategy and Roadmap 2015–2063', 2015, http://www.sadc.int/files/2014/6114/9721/Repriting_Final_Strategy_for_translation_051015.pdf, accessed 3 March 2018.

17 *Ibid*.

18 UNCTAD (UN Conference on Trade and Investment), 'World Investment Report 2017: Investment and the Digital Economy', http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf, accessed 26 April 2018.

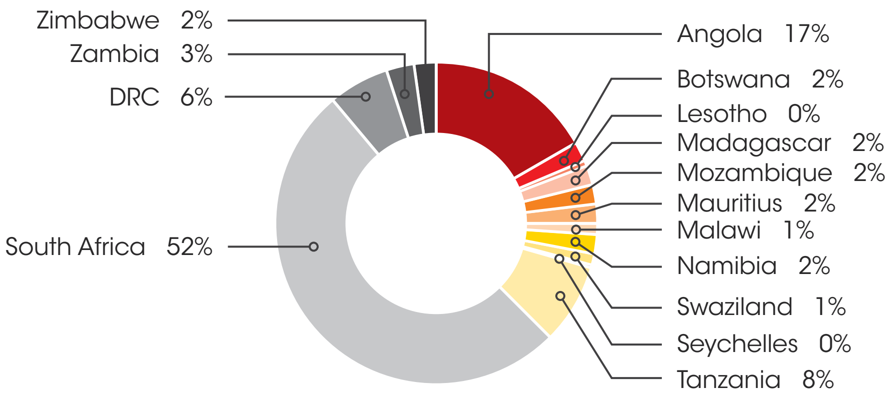
FIGURE 1 MANUFACTURING VALUE ADDITION AND COMPETITIVENESS IN SADC COUNTRIES



* Democratic Republic of Congo

Source: Fall F & B Gasealahwe, 'Deepening Regional Integration within the Southern African Development Community', Working Paper, 1450. Paris: OECD, 2017

FIGURE 2 SHARE OF SADC GDP, 2015



Source: Fall F & B Gasealahwe, 'Deepening Regional Integration within the Southern African Development Community', Working Paper, 1450. Paris: OECD, 2017

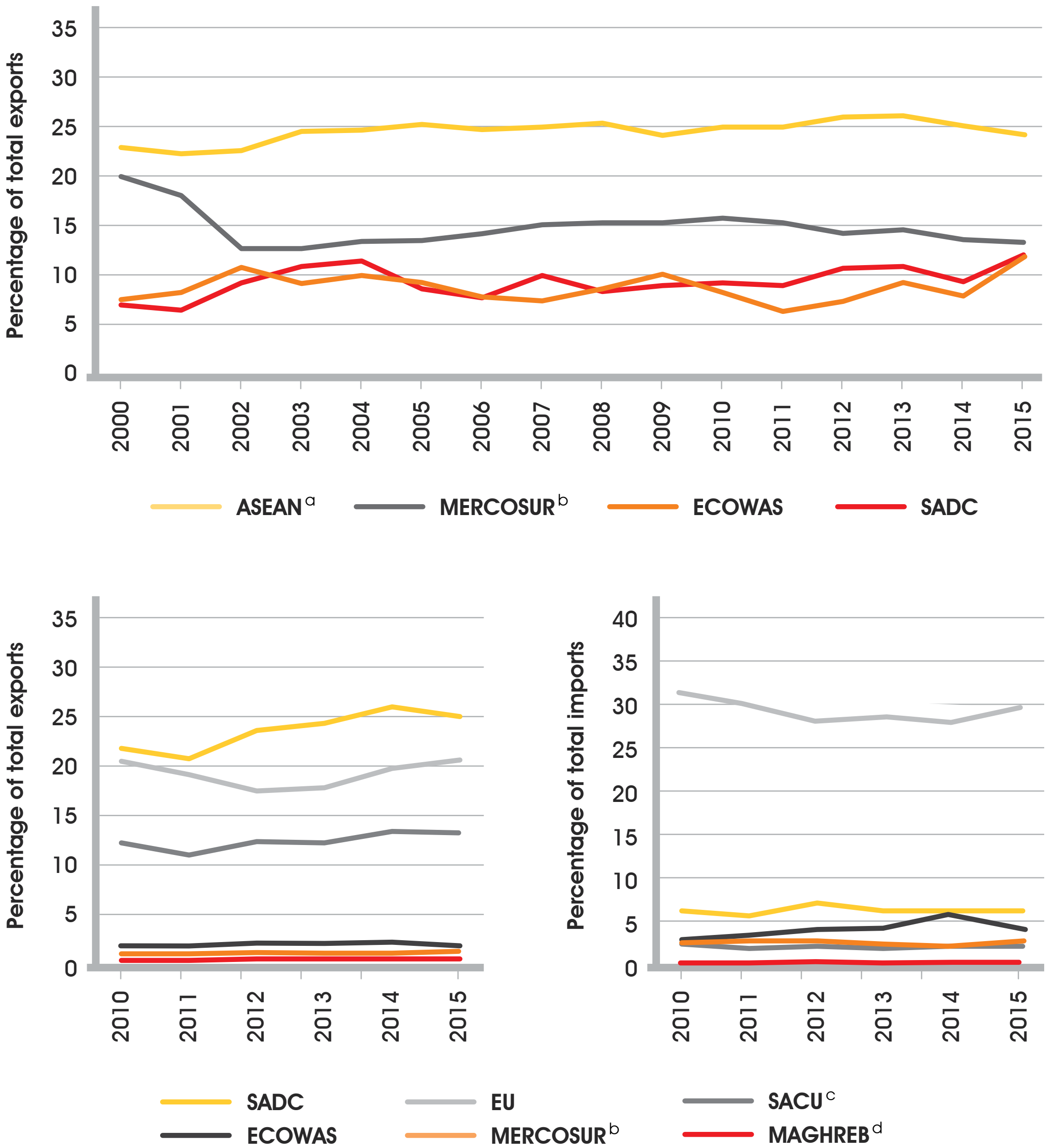
However, its economic dominance of the region also filters through to political dynamics, with many of South Africa's neighbours viewing it less as a partner and more as an economic and political hegemon and fierce competitor. This is one reason why SADC's ambitious regional integration strategy has faltered. However, these challenges are also in large part explained by the low productive capacities in many SADC countries. While SADC has committed to following a linear economic integration plan, moving from a free trade area (achieved in 2008) to a customs union (expected in 2010 and still not achieved), and eventually culminating in a common market (expected in 2015 and still not achieved) with a single currency (expected in 2018 and still not achieved), it has consistently missed its convergence targets. There has been a lack of political will and serious engagement in pursuing the integration plan laid out in the Regional Indicative Strategic Development Plan (RISDP) 2005–2020 – SADC's comprehensive development framework for regional integration. This is partly reflected in the low levels of intra-regional trade in SADC compared to other developing regions.

A SADC REGIONAL DEVELOPMENT FUND

The imperative to fund SADC's industrialisation and infrastructure strategies has arguably accelerated the decision to move ahead on the SADC RDF, even though its establishment has been on the cards since 1992. The main purpose of the SADC RDF is to create a financial mechanism to mobilise resources from member states, development partners and the private sector to support regional development and deepen regional integration, as outlined in Article 26A of the SADC Treaty.[19]

19 Kufeni S, 'The SADC Regional Development Fund Operationalisation: An Update', Presentation to the SADC DFI Subcommittee Biannual Meeting, SADC DFRC (Development Finance Resource Centre), 14 June 2013, http://www.sadc-dfrc.org/sites/default/files/kufeni_forum_zambia2013.pdf, accessed 20 March 2018.

FIGURE 3 SHARE OF INTRA-REGIONAL TRADE AMONG RECS



Note: ASEAN Association of Southeast Asian States

MERCOSUR Mercado Común Del Sur (Southern Common Market)

SACU Southern African Customs Union

MAGHREB Arab Maghreb Union

Source: Fall F & B Gasealahwe, 'Deepening Regional Integration within the Southern African Development Community', Working Paper, 1450. Paris: OECD, 2017

On 16 August 2017 the SADC COM endorsed the decision by the COMFI to operationalise the RDF. In addition, the COM approved an analysis of existing funds and how these could be incorporated into the RDF. An agreement to mobilise approximately $1 billion in seed funding for the SADC RDF was signed in August 2016 by SADC member states. Ratification of the agreement by member states and the subscription of capital are needed to begin operations. The key objectives for this fund are:[20]

- infrastructure: to provide financial support for the implementation of regional infrastructure projects mainly emanating from the SADC RIDMP;
- integration and adjustment: to support and facilitate member states' efforts to implement the SADC economic integration agenda (free trade area, customs union, common market, economic and monetary unions);
- industrial development: to support the industrialisation process of the region; and
- social development: to support the human and social aspects of the regional agenda and to incorporate all other related funds such as the HIV and AIDS Fund.

The RDF has a relatively broad mandate,[21] but this paper will focus on its infrastructure development component and related industrialisation elements. As noted earlier, these interlinked economic strategies have clear implications for (re)defining the region's infrastructure needs by prioritising projects that enhance and improve socio-economic development. This is a more economically prudent approach than providing support to projects that are favoured for their political dimension.

The RDF: What do we know?

TABLE 2 COMPOSITION AND SCOPE OF THE RDF

	DEFINITION	SOURCE
Composition	The RDF will be owned by SADC member states (51% share ownership), the private sector (37%) and development finance institutions (12%). $120 million of the initial seed funding of $1 billion will be contributed by SADC member states in three equal tranche payments according to their ability to contribute (GDP-based). This is part of Phase 1 (project preparation and development).	Southern African Research and Documentation Centre (SARDC)[a] SADC Development Finance Resource Centre (DFRC)[b]

20 *Ibid*.

21 Ndlovu A, 'Southern Africa: SADC countries to open development fund', *Nyasa Times*, 7 September 2016, http://allafrica.com/stories/201609070446.html, accessed 20 March 2018.

Hosting	The SADC RDF will be temporarily hosted by an existing SADC DFI while a self-sufficient institution is set up. The hosting agreement will be valid for three years renewable once.	SADC DFRC [c]
How does the SADC RDF differ from other major regional funds?	• Unlike the SADC PPDF, the Infrastructure Investment Programme for South Africa (IIPSA) and the NEPAD Infrastructure Project Preparation Facility (IPPF), it focuses on both project preparation and general project finance. • It draws more from member state contributions than ICPs (existing PPFs are almost entirely financed by ICPs). • It is structured to become financially sustainable, unlike PPFs, which rely on grants. • Unlike the recently operationalised Africa50 Infrastructure Fund, it will also finance social/public projects. The RDF is also specifically focused on the SADC region, while the abovementioned funds have a wider scope (aside from the SADC PPDF, which will be absorbed into the RDF).	Interview sources
Project selection and tendering	Staffing requirements • staff competent in project appraisal, monitoring and evaluation; • qualified staff with competencies in: » accounting and internal auditing; » treasury services; » legal services; » procurement; or » ICT. A DFI Evaluation Committee representing countries from the Double Troika (current, former and future chair of the SADC Summit, as well as the current, former and future chair of the Organ on Politics, Defence and Security) will be established.	SADC DFRC [d]
Conditionality aspects	The RDF will become a regionally owned and managed fund with a critical focus on developmental impact. It will most likely take a much more flexible approach than the bureaucratic and rigid requirements laid down by many of the multilateral and bilateral funders. However, this should not compromise the quality of the assessments or monitoring and evaluation.	AfDB (supporting SADC in the fund's establishment)

a SARDC (South African Research and Documentation Centre), 'SADC to finalise proposed development fund', August 2013, https://www.sardc.net/en/southern-african-news-features/sadc-to-finalise-proposed-development-fund/, accessed 2 April 2018.

b Kufeni S, *op. cit.*

c *Ibid.*

d *Ibid.*

Source: Authors' analysis

Are SADC countries well positioned to support the sustainable financing of the RDF?

Paramount to the success of the RDF is the ability of member states to contribute to the fund's initial capitalisation as well as replenishments thereafter. Currently many member states face increasing fiscal deficits, as well as high public and external debt. Moreover, SADC economies rely heavily on concessional funding, which exacerbates these challenges. The following section will explore these constraints in detail with reference to the financing requirements of the RDF.

Fiscal positions of SADC countries

The 2002 SADC Memorandum of Understanding (MoU) on Macroeconomic Convergence, an annex in SADC's Protocol on Finance and Investment (FIP), states that member states are required 'to achieve ratios of a budget deficit to GDP of less than 5% by 2008, decreasing to less than 3% by 2012 and maintaining that ratio through to 2018'.[22] While the majority of member states reached their fiscal budget targets in 2008, budget deficits have gradually increased since then because of the global financial crisis's impact on trade between the region and its major trading partners – especially the EU, the US and China. The increase in fiscal deficits poses challenges in how member states will finance the RDF, since SADC economies already have other pressing fiscal commitments such as funding their own public expenditure, including domestic infrastructure and social services. This raises important questions regarding the current proposed funding structure of the RDF and requirements for member states to contribute to the fund.[23]

Table 2 illustrates the fiscal positions of SADC countries between 2008 and 2017 and underscores that the widening of fiscal deficits in the majority of member states will make it difficult for them to contribute effectively towards capitalisation of the RDF. There are three exceptions: Botswana, the Democratic Republic of Congo (DRC) and Namibia. The five countries with the highest GDP in the region (indicated by an asterisk in Table 3) make up 85% of SADC's GDP and will presumably comprise the bulk of contributions to the RDF. Four of these countries, with the exception of the DRC, missed their 2017 fiscal target.

22 SADC, 'Budget deficit', http://www.sadc.int/themes/economic-development/macro-economic-convergence/budget-deficit/, accessed 12 March 2018.

23 The current proposed funding mechanism requires member states to contribute a fixed percentage to operationalise the RDF based on the size of their economy. This approach means that big economies will contribute more to the RDF, with small economies contributing less.

TABLE 3 FISCAL POSITION OF SADC COUNTRIES IN 2008 AND 2017

SADC COUNTRY	FISCAL POSITION ON 2008 MEASURED AGAINST 5% REGIONAL TARGET	TARGET MET OR MISSED	FISCAL POSITION IN 2017 MEASURED AGAINST 3% REGIONAL TARGET	TARGET MET OR MISSED
Angola*	-4,45	Met	-6,70	Missed
Botswana	-7,47	Missed	-0.05	Met
Democratic Republic of Congo*	-0,53	Met	-0,27	Met
Lesotho	7,38	Met	-4,46	Missed
Madagascar	-1,96	Met	-5,12	Missed
Malawi	3,69	Met	-5,25	Missed
Mauritius	-2,79	Met	-3,41	Missed
Mozambique	-2,13	Met	-7,35	Missed
Seychelles	4,32	Met	-4,84	Missed
Namibia	7,88	Met	0,66	Met
South Africa	-0,67	Met	-4,45	Missed
Swaziland	1,51	Met	-8,19	Missed
Tanzania*	-1,95	Met	-3,41	Missed
Zambia*	-0,67	Met	-7,97	Missed
Zimbabwe	-2,03	Met	-5,15	Missed
Regional Average	-0,48	Met	-4,41	Missed

* Countries with the largest GDP in the region

Source: IMF (International Monetary Fund), IMF DataMapper, 'Datasets' http://www.imf.org/external/datamapper/datasets, accessed 22 June 2018

Public (and external) debt

The SADC FIP requires member states to maintain a public debt threshold of 60% of their annual GDP. The debt–to–GDP ratio gives an indication of how likely a country is to repay its debt. Based on the SADC FIP, member states that accumulate public debt–to–GDP ratios of more than 60% face a high risk of being unable to repay their debts, while countries with ratios under 60% are considered relatively safe to borrow externally. External debt includes outstanding loans to foreign private banks, payments due to international organisations such as the International Monetary Fund (IMF) and World Bank, as well as outstanding payments towards a current account deficit (with payments due for imports).

Public debt, including foreign-based or external debt, has been increasing gradually since 2011[24] in the region, most notably in Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. It continues to increase in the DRC, Malawi, Mozambique, Tanzania, Madagascar and Zambia.

BOX 1 THE HIPC INITIATIVE

The World Bank, in collaboration with the IMF, launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 in an effort to reduce the debt burden on poor countries. Since then various international financial institutions and governments have joined to support participating countries. To qualify for funding under the HIPC Initiative, 'the ratio between a country's debt and its exports should not be higher than 150%.[a] According to the World Bank, a country with a ratio lower than 150% is earning enough export revenue to service its debt'. In addition, 'countries must meet certain criteria set by funders such [as a] commitment from recipient countries to implement policies which will reduce poverty, maintaining a good track record in accordance with set measures. When a country meets its commitments, full debt relief is provided.'[b] SADC member states experienced high external debt levels in the 1990s, estimated to have reached a total of $62.12 billion by 2001.[c] In SADC, five countries have benefitted from partial or full relief from the HIPC Initiative, namely Madagascar, Malawi, Mozambique, Tanzania and Zambia.

a Kanyenze J *et al*., 'Beyond the Enclave: Towards a Pro-poor and Inclusive Development Strategy for Zimbabwe'. Oxford: African Books Collective, 2011.

b SADC, 'Public debt', http://www.sadc.int/themes/economic-development/macro-economic-convergence/public-debt/, accessed 15 March 2018. IMF (International Monetary Fund), 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI): Statistical update', March 2016, http://www.imf.org/external/np/pp/eng/2016/031516.pdf, accessed 16 March 2018.

c SADC, Public debt', *op. cit*.

Table 4 shows that although public debt levels in member states are below the regional threshold target, they have been increasing since 2011.

24 This period saw the global financial crisis manifest in Africa, along with a slump in commodity prices and a food crisis resulting from severe droughts in many African countries.

TABLE 4 PUBLIC DEBT IN THE SADC REGION AS A PERCENTAGE OF GDP

COUNTRY	2011	2012	2013	2014	2015	2016	2017
Angola	30.6	27.5	24.5	32.8	47.4	61.9	52.7
Botswana	18.1	18.8	18.6	17.5	17.3	16.7	22.3
DRC	24.9	25.5	20.4	17.6	16.3	14.7	15.0
Lesotho	36.9	40.6	41.0	45.6	48.0	39.7	–
Madagascar	32.2	32.1	28.5	27.2	32.9	32.9	–
Malawi	33.9	48.1	56.5	48.0	54.3	52.1	54.8
Mauritius	58.7	57.9	60.1	60.7	63.7	64.5	65.0
Mozambique	37.5	39.9	53.1	62.4	88.1	130.8	122.2
Namibia	25.4	23.7	23.6	23.0	37.5	40.0	43.0
Seychelles	81.0	69.0	68.3	64.5	60.2	65.0	66.0
South Africa	35.1	38.6	41.1	43.8	46.5	49.0	50.9
Swaziland	14.9	16.0	17.1	17.8	15.5	18.8	17.8
Tanzania	24.2	22.3	25.0	25.7	28.9	29.9	29.8
Zambia	20.6	25.5	28.7	33.3	55.7	52.7	62.8
Zimbabwe	65.5	56.8	58.9	48.0	50.7	60.0	75.5
Convergence criteria (2013–2018)	Less the 60% of GDP						

Source: SADC Bankers Association, 'SADC macroeconomic convergence data: Public debt', https://www.sadcbankers.org/Lists/News%20and%20Publications/Attachments/224/SADC%20MEC%20Indicators%20-%20Public%20Debt.pdf, accessed 20 March 2018

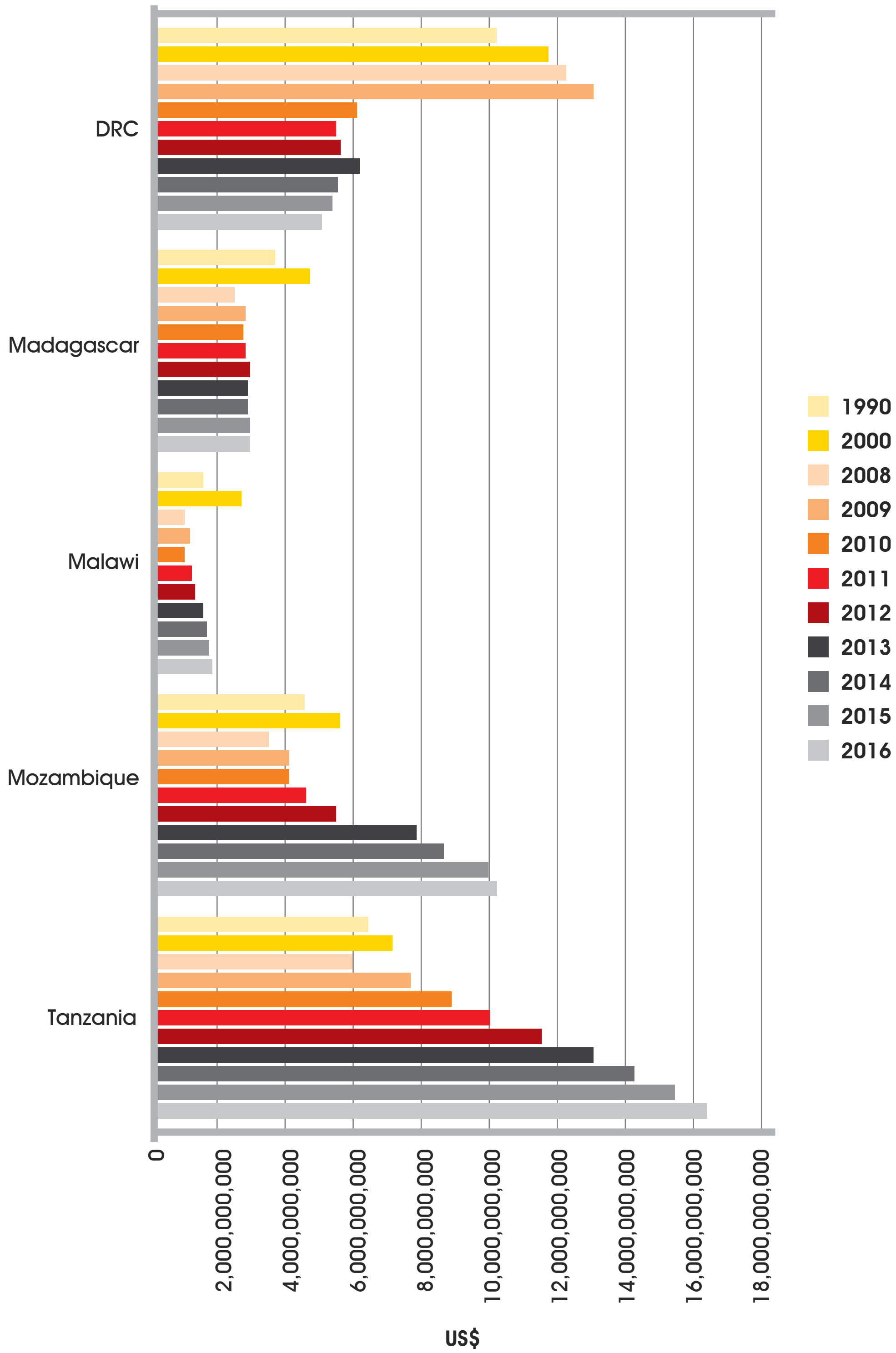
Figure 4 illustrates the external debt trends in member states that have received debt relief under the HIPC Initiative (domestic debt is not included in the figure). As noted above, an analysis of the external debt stock of these countries shows an upward trend in Mozambique, Tanzania, Malawi and Zambia, albeit at a lower rate in Malawi than in the other three countries.[25] The increase in public debt is attributed to the need to finance budget deficits and spending on infrastructure development,[26] which has been financed predominantly by borrowings from multilateral creditors and issuance of Eurobonds. The volatility of African currencies has further exacerbated the external debt situation, as debts must be repaid in the foreign currency of the lender, making the debt increasingly unsustainable.[27]

25 IMF, *op. cit.*

26 Mutume G, 'Whither the debt?: Despite HIPC, African countries still struggle with heavy debt payments', *Africa Recovery*, 15, 2, October 2001, p. 26.

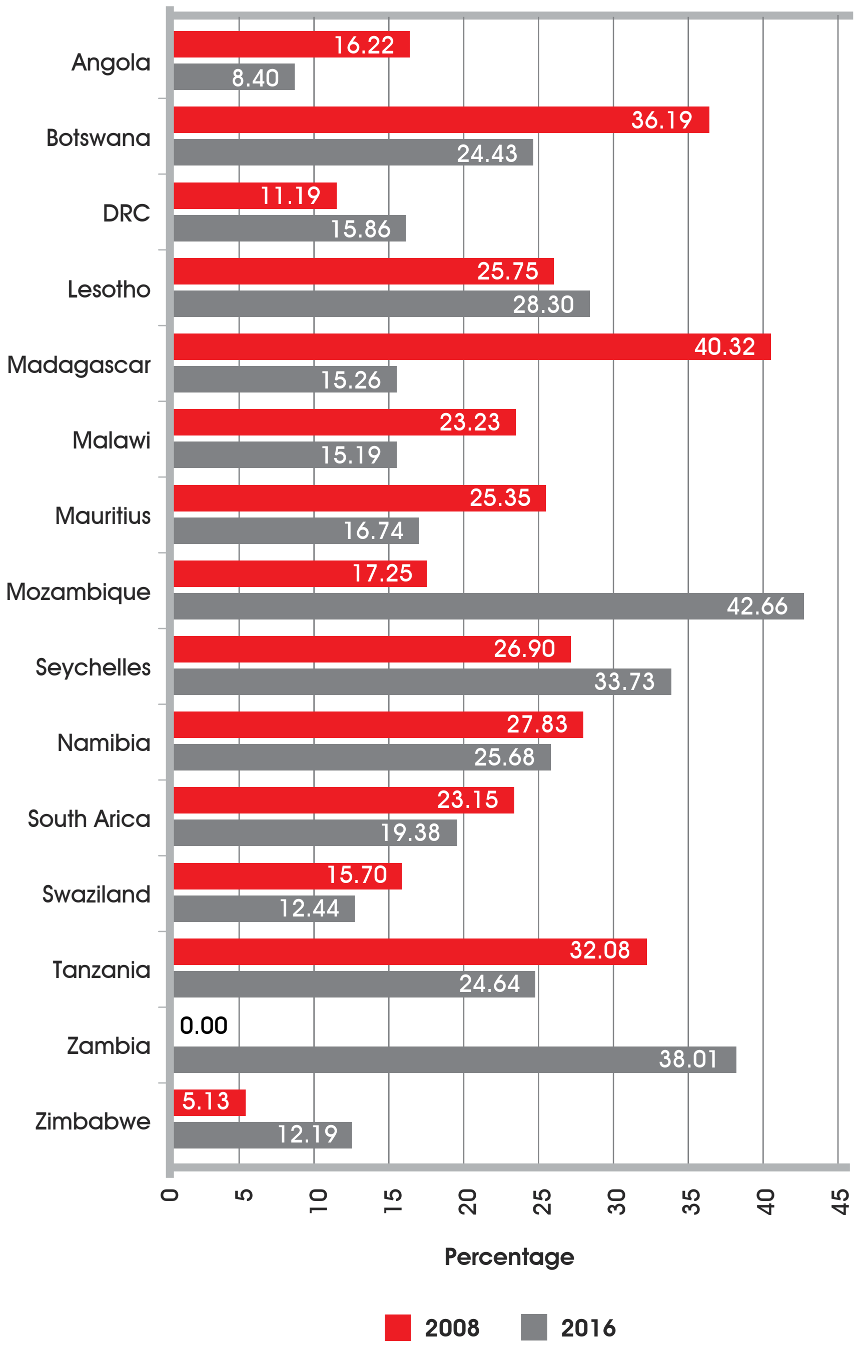
27 IMF, *op. cit.*

FIGURE 4 EXTERNAL DEBT STOCK TRENDS IN SADC COUNTRIES QUALIFYING FOR HIPC FUNDING



Source: World Bank, 'External debt stocks, total (DOD, current US$)', March 2018, https://data.world bank.org/indicator/DT.DOD.DECT.CD?view=chart, accessed 22 June 2018

FIGURE 5 CAPITAL EXPENDITURE AS A PERCENTAGE OF GDP



Source: World Bank, 'World development indicators', March 2018, http://databank.worldbank.org/data/reports.aspx?source=2&country, accessed 28 March 2018.

Figure 5 illustrates the gross capital formation of SADC countries.[28] Higher capital formation is good for long-term economic growth, as current investment leads to greater future production and income generation. Many SADC countries experiencing rising public debt are recording low capital expenditure, implying that a substantial portion of the borrowings are being allocated to recurrent spending. Comparative analysis of the capital formation of SADC countries in 2008 and 2016 indicates decreased capital spending in most. In Angola public debt as a percentage of GDP breached the 60% cap, but capital expenditure as a percentage of GDP was only 8.4% and has been significantly lower than the average in the region. Only Mozambique, Seychelles and Zambia have seen corresponding increases in capital expenditure and public debt. This highlights the dilemma many fiscally constrained countries face where resources should be funding capital projects such as infrastructure development, but are instead redirected to more urgent current expenditure, as well as debt restructuring and rescheduling.[29] This makes the possibility of significant contributions to the RDF's seed funding within a three-year minimum timeframe unrealistic without a serious recalibration of member states' economic policies.

Concessional borrowing by SADC member states

The International Development Association (IDA) is one of the biggest funders of the world's poorest countries, with 39 out of 79 located in Africa. The fund is managed by the World Bank and was established in 1960 to complement the World Bank's original lending arm – the International Bank for Reconstruction and Development (IBRD).[30] The IDA extends concessionary loans to poor countries that have a high risk profile and are therefore unable to access standard funding from the World Bank or other financing institutions. Recipient countries are assessed on 'their income levels, record of managing their economies and [progress on] their ongoing IDA projects',[31] among others. Terms of funding are highly concessionary, with long repayment periods, low interest rates, no interest payments or, in the case of grants, no repayment required. Countries with a high risk of debt distress qualify for grants, while medium-risk countries are given 50% of the loan in the form of a grant and the remainder as a loan. Lower-risk countries receive regular or blended funding, with options to access both IDA and IBRD funds, that is

28 'Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements; plant, machinery, and equipment purchases, as well as the construction of roads, railways. Social infrastructure, private residential dwellings, and commercial and industrial buildings are also included.' World Bank, 'World development indicators', March 2018, http://databank.worldbank.org/data/reports.aspx?source=2&country, accessed 28 March 2018.

29 Adams P, *Africa Debt Rising*, African Research Institute, January 2015, http://www.africaresearchinstitute.org/newsite/wp-content/uploads/2015/01/ARI-Counterpoint-SovereignBond-download.pdf, accessed 20 March 2018.

30 IDA (International Development Association), 'Financing', http://ida.worldbank.org/financing/ida-financing, accessed 26 February 2018.

31 *Ibid*.

often extended with maturity periods of between 25 and 38 years.[32] The AfDB has a similar concessional fund established in 1978; the African Development Fund (ADF). Unlike the IDA, the ADF's loans are reserved for African countries. Importantly, the ADF's first priority is projects of a regional nature. The ADF uses the IDA's categorisations as well as a country's creditworthiness to borrow from the AfDB to determine its country allocations, hence the similarities between the two. However, the ADF has an additional category of 'gap' countries, which are above the IDA cut-off point but do not have a high enough creditworthiness to borrow from the AfDB.[33]

TABLE 5 SADC COUNTRIES' IDA BORROWING STATUS

DRC	IDA only	ADF only
Comoros	IDA only	ADF only
Madagascar	IDA only	ADF only
Malawi	IDA only	ADF only
Mozambique	IDA only	ADF only
Tanzania	IDA only	ADF only
Lesotho	Blended terms	ADF-Gap
Zamiba	Blended terms	Blended terms
Zimbabwe	Blended terms*	ADF only
Angola	No longer receive IDA funding. Fiscal year of the last IDA credit is FY14	
Botswana	No longer receive IDA funding. Fiscal year of the last IDA credit is FY74	AfDB only
Mauritius	No longer receive IDA funding. Fiscal year of the last IDA credit is FY75	AfDB only
Swaziland	No longer receive IDA funding. Fiscal year of the last IDA credit is FY75	AfDB only
Namibia	Country has not received IDA funding	AfDB only
Seychelles	Country has not received IDA funding	AfDB only
South Africa	Country has not received IDA funding	

* Graduated from IDA funding in FY83 and re-entered in FY92. The country has IDA funding only on blended credit terms.

Source: World Bank, 'World Bank country and lending groups', 2017, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, accessed 22 June 2018; AfDB, 'ADF recipient countries', https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-recipient-countries/, accessed 22 June 2018; team analysis

32 *Ibid*.

33 Bertelsmann-Scott T, Markowitz C & A Parshotam, 'Mapping Current Trends in Infrastructure Financing In Low-Income Countries in Africa within the Context of the African Development Fund', GEG (Global Economic Governance) Africa Programme, November 2016, https://www.saiia.org.za/special-publications-series/1138-mapping-current-trends-in-infrastructure-financing-in-low-income-countries-in-africa-within-the-context-of-the-african-development-fund/file, accessed 22 June 2018.

Table 5 shows the IDA and ADF funding status of all the SADC member states. The countries are grouped according to the type of funding they have received. Those countries receiving the most concessional lending are ranked at the top, while those that do not qualify for IDA/ADF funding, given their stronger financial standing, are ranked at the bottom. In terms of concessional borrowing, 13 SADC countries have received World Bank support under the IDA mechanism, namely the DRC, Comoros, Madagascar, Malawi, Mozambique, Tanzania, Lesotho, Zambia, Zimbabwe, Angola, Botswana, Mauritius and Swaziland.[34] However, with economic improvements in some member states, countries such as Angola, Botswana, Mauritius and Swaziland no longer receive IDA funding. Zimbabwe is one of nine countries that previously graduated out of IDA funding, but it has subsequently been re-admitted. Tanzania is the third largest borrower globally with IDA funding amounting to $1.2 billion.[35]

South Africa is the only SADC country that has contributed funds towards the IDA and ADF.[36] With eight SADC countries receiving IDA and ADF funding in some form, it means that these countries have limited capacity to raise funds to contribute to the establishment of an RDF. Funding of the RDF will thus rest heavily on the remaining seven countries, some of which are plagued by other financial constraints owing to high debt levels and prolonged fiscal deficits.

Conditionalities of external finance

A primary reason cited for the establishment of the RDF is to assist SADC countries to move away from an over-reliance on external financiers.[37] The establishment of the fund has often been linked to the concept of sovereignty and ending dependence

34 World Bank, 'World Bank country and lending groups', 2017, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, accessed 20 March 2018.

35 World Bank, 'Financing', http://ida.worldbank.org/financing/ida-financing, accessed 26 February 2018.

36 The other IDA-contributing countries are: Argentina; Australia; Austria; The Bahamas; Belgium; Brazil; Canada; China; Cyprus; Czech Republic; Denmark; Egypt; Estonia; Finland; France; Germany; Hungary; Iceland; India; Indonesia; Ireland; Israel; Italy; Japan; Kazakhstan; Korea; Kuwait; Latvia; Lithuania; Luxembourg; Malaysia; Mexico; Netherlands; New Zealand; Norway; Philippines; Poland; Portugal; Russia; Saudi Arabia; Singapore; Slovak Republic; Slovenia; Spain; Sweden; Switzerland; Thailand; Turkey; the UK; and the US.

37 tralac, 'SADC Committee of Ministers of Finance and Investment agree to finalize the establishment of the SADC Development Fund', 14 March 2016, https://www.tralac.org/news/article/9252-sadc-committee-of-ministers-of-finance-and-investment-agree-to-finalize-the-establishment-of-the-sadc-development-fund.html, accessed 21 March 2018; telephonic interview, international cooperating partner (ICP) representative, Johannesburg, 14 March 2018.

on ICPs, most recently in speeches by former Zimbabwean and South African presidents Robert Mugabe and Jacob Zuma.[38]

Currently, a significant portion of funding for national and regional projects originates from both bilateral and multilateral ICPs. According to the ICA, approximately 28% of financing for infrastructure in Southern Africa came from these sources in 2016.[39] This number is undoubtedly higher for regional projects, which are often not prioritised by national governments, as will be elaborated upon below. There are clear benefits to this finance, in that it is often offered on concessional terms, incorporates technical assistance, and comes with a wealth of experience from financing infrastructure globally.[40]

However, ICP finance inevitably also comes with conditionalities that can be bureaucratically challenging and may conflict with countries' own vision of national and regional development. One such challenge is complicated and extensive paperwork – often from multiple funders at a time. There are also generally longer timelines to reach financial close, especially with sometimes rigid institutional requirements from multilateral funders.[41] Additionally, projects financed by external funders may not align with recipient country or regional priority projects, and are often influenced by governments and interest groups in lending countries.[42]

Conditionalities increasingly target important global developmental considerations, such as climate change, and therefore can benefit recipient countries. However, the diverse social, political and cultural contexts, including capacity constraints in recipient countries to deal with various conditionalities, may not be well understood. While external finance from emerging markets such as China may be less stringent in terms of procedure, this finance often comes with other conditionalities, such as

38 Mataire LR, 'SADC development fund gets nod', *The Herald*, 18 August 2017, https://www.herald.co.zw/sadc-development-fund-gets-nod/, accessed 21 March 2018; Fabricius P, 'SADC summit: Zuma wants regional industrialisation', *Daily Maverick*, 19 August 2017, https://www.dailymaverick.co.za/article/2017-08-19-sadc-summit-zuma-wants-regional-industrialisation/#.WrC7IehublU, accessed 21 March 2018.

39 The report's grouping of 'Southern Africa' is slightly different than SADC, with South Africa, the DRC, Seychelles and Tanzania not included. However, it gives a general idea of the financing breakdown in the region. See ICA (Infrastructure Consortium for Africa), 'Infrastructure Financing Trends in Africa – 2016', 2017, https://www.icafrica.org/fileadmin/documents/IFT_2016/Infrastructure_Financing_Trends_2016.pdf, accessed 21 March 2018.

40 Du Plessis R & C Markowitz, 'Exploring Collaboration Between MDBs and National Entities on Environmental and Social Safeguards: The Case of South Africa and Ethiopia', Occasional Paper, 271. Johannesburg: SAIIA, 2018.

41 Personal interview, DFI representative A, Johannesburg, 13 March 2018; Prinsloo C *et al.*, 'Informing the Approach of Multilateral Development Banks to Use of Country Systems', Discussion Paper. Johannesburg: GEG, 2017.

42 Du Plessis R & C Markowitz, *op. cit*.

requirements for employment and use of materials from the financing country, and infrastructure development in exchange for resources.[43]

ICPs are ultimately accountable to their home governments and are sometimes unwilling to support riskier projects that may have high developmental impact.[44] Stakeholder interviews suggest that this was one of the primary reasons for the delay in releasing funds for SADC's ICP-funded PPDF.[45] ICP funding is also subject to political and economic shifts in home countries, which increase its volatility. Therefore, the RDF is an alternative to the existing options for regional infrastructure financing, especially when conditionalities pose major conflicts with a project's proposed structure. These arguments should not downplay the importance of ICP funding in the region, as even with greater member state contributions, concessional finance needs will still be significant. In summary, the sources of public funds for a regional development fund are limited and their availability is becoming increasingly uncertain.

The development and financing of infrastructure projects in Africa are mainly being shaped by the following trends.

- Public capital spending levels are too low to address the region's infrastructure needs. Annual public spending on infrastructure was 2% of GDP in 2009–15. Two-thirds of total capital spending was on roads and 16.67% on electricity, water supply and sanitation.
- Public debt levels have been rising in the region and many African countries have to undertake much-needed development spending without jeopardising hard-won debt sustainability.
- External donor finance is at risk.
- Private sector participation in the planning, financing and development of infrastructure projects is growing.
  - » Institutions financing development are increasingly broadening their investment opportunities, have more innovative financing options and higher risk tolerance levels in developing markets, more greenfield projects and riskier infrastructure assets, with greater levels of private equity.

43 Hanekom J, 'Is China really helping Africa?', *Forbes Africa*, 6 September 2017, https://www.forbesafrica.com/economy/2017/09/06/china-really-helping-africa/, accessed 21 March 2018; Xiaoyang T, 'Does Chinese employment benefit Africans? Investigating Chinese enterprises and their operations in Africa', *African Studies Quarterly*, 16, 3–4, December 2016.

44 Humphrey C, 'Infrastructure Finance in the Developing World: Challenges and Opportunities for Multilateral Development Banks in 21st Century Infrastructure Finance'. Seoul & Washington DC: G-24 (Intergovernmental Group of Twenty Four on Monetary Affairs and Development) & GGGI (Global Green Growth Institute) Working Paper, June 2015; Telephonic interview, regional economic community (REC) representative, Johannesburg, 5 March 2018.

45 Personal interview, DFI representative A, *op. cit.*; telephonic interview, REC representative, *op. cit.*

» The crowding-in of private investment in infrastructure is increasing, but PPPs remain a small market in sub-Saharan Africa. Four countries (South Africa, Nigeria, Kenya and Uganda) accounted for 48% of PPP infrastructure projects in the region in the past 25 years. The energy sector, especially renewables, is attracting an increasing share of these projects.

Greater focus on innovative financing and the emphasis on renewable energy hold significant potential for the SADC region. This could become a potent combination in SADC economies. The use of hybrid financing models aimed at mobilising domestic financing sources is likely to see growth in SADC infrastructure markets, as is the case in other African markets. Solar and wind energy developments have already proven highly successful in South Africa, which has a very similar climate to most other SADC countries.

REGIONAL CHALLENGES IN INFRASTRUCTURE DEVELOPMENT

In the African policy and development space, there is a broad understanding of the infrastructure financing deficit in the region and the importance of addressing it to drive regional growth and development.[46] However, in recent decades the discourse has shifted to highlight the need for better-prepared, bankable projects that can attract existing finance.[47]

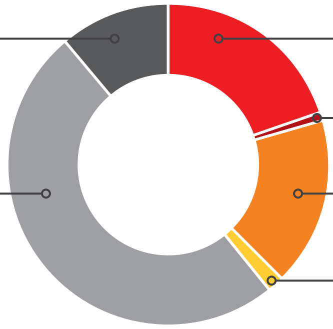
In exploring both the potential financing of the RIDMP and how it would complement existing infrastructure financing mechanisms in the region, it is useful to consider what has worked best so far in supporting the development of regional infrastructure and where the major obstacles to infrastructure financing are located. An exploration of the financing success of SADC PIDA projects provides a useful vantage point.

To position the region more competitively in developing regional value chains and link into global value chains, SADC must invest substantially in the development of a cross-border-enabling regional infrastructure. The infrastructure financing needs of the RIDMP are substantial, as illustrated in Figure 6.

46 Foster V & C Briceño-Garmendia, 'Africa's Infrastructure: A Time for Transformation'. Washington DC: World Bank, 2010; Gutman J, Sy A & S Chattopadhyay, 'Financing African Infrastructure: Can the World Deliver?'. Washington DC: Global Economy and Development at Brookings, March 2015.

47 Maier T & M Jordan-Tank, 'Accelerating Infrastructure Delivery: New Evidence from International Financial Institutions'. Geneva: WEF (World Economic Forum), April 2014; WEF & BCG (Boston Consulting Group), 'Africa Strategic Infrastructure Initiative: A Principled Approach to Infrastructure Project Preparation Facilities'. Geneva: WEF & BCG, June 2015; Danso H & B Samuels, 'Private Sector Project Developers Scaling Investable Infrastructure in Africa: Benchmarking Project Development Practices to Mobilize Private Capital', *Africa Investor*, May 2017.

FIGURE 6 RIDMP FINANCIAL REQUIREMENTS



Source: SADC Secretariat, 'Regional Infrastructure Development Master Plan' (RIDMP). SADC, 2012

While analysts agree that more financing is needed to implement the RIDMP and the Industrial Strategy, there is strong evidence that the infrastructure deficit is compounded by insufficient bankable projects, caused by a financing gap in the project preparation stage.[48] According to the DBSA, 'in 2009 and 2010, a total of US$55 billion was available to spend on projects in the region but was not disbursed due to gaps in project preparation and delivery'.[49] The DBSA's observations are borne out by investors, who say gaps in delivery are caused by:[50]

- lack of funding to overcome infrastructure financing bottlenecks;[51]
- lack of supply of bankable projects in the region;
- lack of skills and experience at project preparatory stages; and
- lack of technical capacity within government departments, resulting in poorly written terms of reference.

As shown in Figure 7, SADC projects still at the project definition phase constitute 18% of the total. In absolute terms, 15 projects are in this phase; 13 (87%) of which

48 See Figure 9, 'Stages of SADC PIDA infrastructure projects', which shows that 69% of projects are in the early stage of project development.

49 DBSA (Development Bank of Southern Africa), 'DBSA infrastructure financing investment in SA', Presentation, Gallagher Estate, Midrand, 1 October 2015, http://namibiacommercialoffice.org.za/wp-content/uploads/2015/12/DBSA-Infrastructure-Investme-in-Africa-Gallagher-Estate-Midrand.pdf, accessed 3 April 2018.

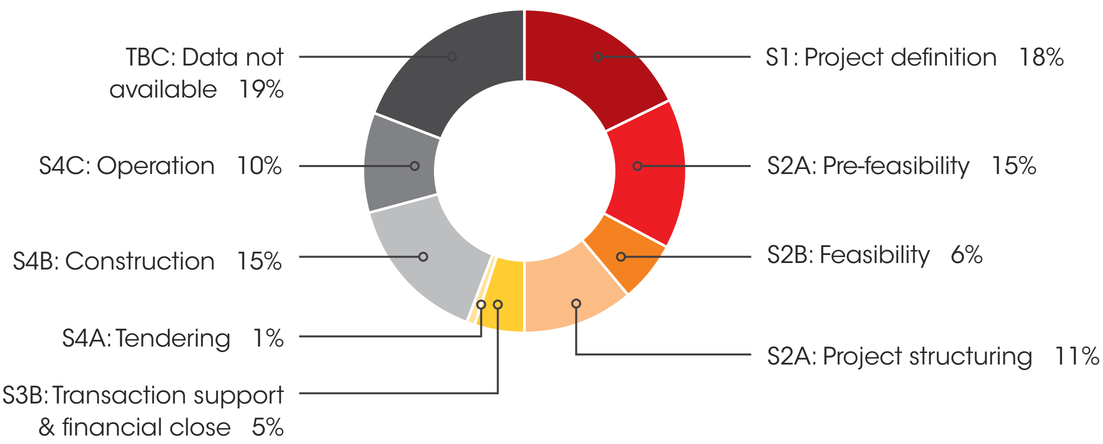
50 OECD (Organisation for Economic Co-operation and Development), World Bank & UNCTAD, 'Policy Impediments to Infrastructure Investment and the Way Forward: Lessons Learned from Investment Policy Reviews in Countries from the Southern African Development Community', OECD Report to the G20, September 2013, https://www.oecd.org/daf/inv/investment-policy/policy-impediments-to-infrastructure-investment.pdf, accessed 20 March 2018.

51 There may be a lack of either equity or debt, hence innovative financing methods or mechanisms would be required, such as viability gap funding.

have been in this phase for more than five years. Project definition has the longest lead times in the project life cycle, as defined in Figure 7. Out of the 81 SADC PIDA infrastructure projects, only 11% are at the project structuring stage. This is 10% lower than the number of projects that are at the pre-feasibility and feasibility stages.

Conversely, fewer projects pass the project structuring stage: 5% are in the transaction support and financial closing stage with 1% at tendering stage. As expected, beyond the tendering stage, project turnover increases, as indicated by the 15% of projects that are at the construction stage and the 10% at the operation stage. This indicates that the bottlenecks that cause the infrastructure deficit are typically at the project preparation stage.

FIGURE 7 STAGES OF SADC PIDA INFRASTRUCTURE PROJECTS



Note: Total projects: 81 (2013–2017)

Source: AU, Virtual PIDA Information Centre, 'Project stages and key milestones', http://www.au-pida.org/project-stages-and-key-milestones/, accessed 19 March 2018

The largest concentration of SADC PIDA projects is in the ICT, energy and transport sectors. Of the 81 projects, 55 are upgrades, two are rehabilitations, one is a study and only 23 are new (greenfield developments). The lead times for upgrades are not significantly better than for other types of projects, as 42% of all upgrade projects have been in the same project stage since 2013, including those projects where data is not available. All new projects have been in the same stage since 2013. This highlights that projects experience long lead times at different stages of the project life cycle, in most instances even before the construction phase.[52]

52 Analysis by project team based on assessment of project stages of PIDA. See AU, Virtual PIDA Information Centre, 'PIDA projects dashboard', http://www.au-pida.org/pida-projects/, accessed 27 February 2017.

The availability of ODA and bilateral finance for infrastructure from OECD countries, as well as a growing menu of non-traditional financing options such as equity, debt, institutional investments and bilateral finance from emerging economies, has created a broad consensus that bottlenecks in project development and preparation are now the most serious constraints in the region. [53] This limits the ability to access project finance. While project preparation is most commonly associated with standard feasibility studies such as environmental impact assessments and economic feasibility studies, the full project preparation process is much more comprehensive and can take a decade or more to complete. Table 6 provides a description of the various procedures and preparatory activities that must be undertaken before a project reaches financial close and implementation can begin.

TABLE 6 OVERVIEW OF PROJECT STAGES

PROJECT STAGE	ACTIVITIES WITHIN EACH STAGE
Stage 1 **Enabling environment**	• Design legislation • Defining regulatory approaches • Identifying institutional reforms • Capacity and consensus building
With a robust enabling environment in place, Stages 2 through 6 can be facilitated, yet each respective stage will be project specific, depending on the sector and project modality.	
Stage 2 **Project definition**	• Identifying desired outputs and project parameters • Comparison with alternative projects • Planning implementation tasks • Undertaking prefeasibility studies
Stage 3 **Project feasibility**	• Technical Option analysis • Financial Appraisal • Socio-Economic appraisal • Environmental impact assessment • Other specialist studies
Stage 4 **Project structuring**	• Assessing Project Finance options (Public, Private, PPP, etc.) • Legal Structuring • Developing Technical/Engineering designs
Stage 5 **Transactions support**	• Finalising project finance structure • Finalising legal structure • Finalising technical designs • Procuring goods and services (after financial closure)
Stage 6 **Post-implementation support**	• Regular monitoring of outputs and outcomes • Impact evaluation • Renegotiation/Refinancing

Source: ICA, 'Assessment of "African Infrastructure Project Preparation Facilities: Lessons Learned and Best Practice"', December 2015, https://www.icafrica.org/fileadmin/documents/Publications/Report_on_Assessment_of_IPPFs.pdf, accessed 22 June 2018

53 Maier T & M Jordan-Tank, *op. cit.*; WEF & BCG, *op. cit.*; Danso H & B Samuels, *op. cit.*

While the public sector should ideally support these phases, resource and capacity constraints in the region make this difficult. In addition, private financiers and even DFIs are reluctant to support the earliest phases owing to a higher risk that projects will not reach financial close, as they have not undergone extensive planning and due diligence.

To target this bottleneck, project preparation facilities (PPFs) have proliferated over the past two decades, specifically to support the project phases before financial close (stages 1–5 in Table 6).[54] In addition to specific facilities, bilateral and multilateral ICPs and DFIs also provide support in these early stages. The World Bank, AfDB, Japan International Cooperation Agency (JICA), EU, KfW Development Bank and DBSA are active in project preparation and infrastructure finance in the SADC region.

A rough estimate by NEPAD in 2014 put the project preparation financing gap for Africa at $25.2 billion until 2014.[55] Table 7 gives a condensed summary of the different types of early stage/project preparation funding available, divided into five categories based on the authors' assessment of their relevance to priority SADC regional projects.

TABLE 7 SAMPLE OF PROMINENT OF PPFS/OTHER FUNDERS SUPPORTING PROJECT PREPARATION IN SADC

PROJECT STAGE		ACTIVITIES WITHIN EACH STAGE
Enabling environment	• PPIAF [a] • World Bank • AfDB	• Support for public sector/institutional reforms • Sector strategies, PP frameworks, national priority project selection • Need for these exists within SADC but less relevant to spearheading os specific projects
Climate Specific	• GEF [b] • SEFA [c] • GCF [d] • SE4All [e] • AREF [f]	• Fund preparation for climate change mitigation and adaptation infrastructure, i.e. water conservation, flood management, renewable energy • Less relevant to large-scale SADC regional infrastructure projects
Private-focused facilities	• InfraCo Africa • Infraventures • DG DEVCO • Africa50	• Offer concessional finance, but only support private sector project • Often in energy • Often provide support from project development through financial close, with private partners receiving equity in operations

54 ICA, 'Assessment of "African Infrastructure Project Preparation Facilities: Lessons Learned and Best Practice"'. Abidjan: ICA, December 2015.

55 Chaponda T, Nikore M & M Chennells, 'Effective Project Preparation for Africa's Infrastructure Development'. Abidjan: ICA, November 2014.

DFIs	• DBSA • DfW • AfDB • EIB	• Provide preparation support from feasibility studies onward • Not necessarily profit seeking but cost recover necessary
Grant-based PPFs	• NEPAD-IPPF • SADC PPDF • EU-AITF • World Bank • AfDB IPPF • IIPSA • DBSA PPFS	• Support early stages (i.e. pre-feasibility and project definition, where other funders are unwilling to lend • Not financially sustainable/no cost recovery • Rely on replenishment from ICP's
Technical assistance/CB	• JICA • AfDB • World Bank	• Provide specific grants fro technical assistance and capacity building • Can be linked to specific projects or general

a PPIAF – Public-Private Infrastructure Advisory Facility
b GEF – Global Environment Facility
c SEFA – Small Enterprise Finance Agency
d GCF – Green Climate Fund
e SE4All – Sustainable Energy for All
f AREF – Africa Renewable Energy Fund
g DEVCO – European Commission's Directorate for International Cooperation and Development

Source: Team analysis of PPFs, March 2018

Studies[56] have detailed the strengths and weaknesses of various PPFs, as well as the general challenges of securing project preparation funding both in Africa and globally. However, the deeper nuances of project preparation are beyond the scope of this paper. Rather, the sections below will seek to tease out specific issues as they relate to SADC's regional infrastructure needs and the proposed RDF. They will also address the challenges encountered in bringing SADC regional infrastructure projects to bankability, and the tools to target them.

These challenges include the arbitrary selection of priority projects under the RIDMP, the lack of financial resources and capacity in early stage project development, the complexities of supporting regional and public projects, and the coordination challenges of project preparation funding. This analysis will help to clarify potential recommendations for the RDF.

Project conceptualisation

At the core of SADC's regional infrastructure development is the RIDMP, which outlines SADC priority infrastructure projects in six sectors: energy, tourism,

56 ICA, 'Assessment of Project Preparation Facilities for Africa: Volume A: Diagnostic & Recommendations'. Abidjan: ICA, November 2012; Chaponda T, Nikore M & M Chennells, *op. cit.*; ICA, 2015, *op. cit.*

transport, ICT, meteorology and water, totalling $500 billion.[57] These projects are either cross-border or priority national projects expected to benefit the region.

Progress on RIDMP implementation has been slow. As indicated in Figure 7, only 10% of SADC PIDA projects (which can be extrapolated for the RIDMP estimates) are currently operational. While it is important to acknowledge that the infrastructure project development lifecycle takes time, most of the RIDMP projects were first advanced well before the strategy's development. The release of the RIDMP also did not bring about the intended boost in a viable project pipeline.

Stakeholder interviews highlighted that a major flaw in the RIDMP was the arbitrary way in which projects were advanced. Many projects in the RIDMP are not fully conceptualised and could be more accurately labelled 'ideas' rather than actual projects. This is because of both inadequate planning capacity in national departments and overly politicised processes that stymy proper due diligence.[58] No further vetting was completed by SADC or external parties before these projects were included in the RIDMP. The gaps in this process are further evidenced by the fact that some national RIDMP projects are not even included in member states' national development strategies.[59]

When examining the gamut of SADC projects within PIDA (2012), the RIDMP (2012) and the PIDA Virtual Information Centre (current), the lack of coherence among the three is noticeable.[60] While some divergence is to be expected, there does not seem to be a clear definition of 'regional' projects. The criteria for the RIDMP include economically viable projects that are either cross-border or national projects with regional impact; but how one defines regional impact, as well as the prioritisation within these criteria, leaves considerable room for interpretation.[61]

In strategic infrastructure plans, project priorities and profiles should be adjusted over time to accommodate changing internal and external conditions. However, the failure to clearly prioritise the region's developmental agenda and the continuing discrepancies hint at a disorganised system. This leads to an uncertain pipeline of bankable projects where updated information is hard to find. The lack of due diligence in developing SADC projects has hindered their ability to reach financial close and begin implementation.

57 SADC Secretariat, 'Regional Infrastructure Development Master Plan' (RIDMP). SADC, 2012.

58 Personal interview, DFI representative B, Johannesburg, 7 March 2018; Telephonic interview, REC representative, *op. cit.*; personal interview, DFI representative A, *op. cit.*

59 Personal interview, DFI representative B, *op. cit.*

60 SADC Secretariat, *op. cit.*; AU, PIDA Virtual Information Centre, *op. cit.*

61 Telephonic interview, REC representative, *op. cit.*

According to a KPMG SADC Review,[62] combined with a review of SADC member states' 'PPP readiness',[63] only 39 of 224 reviewed projects were identified as viable for PPPs.[64] While some important projects are less attractive for private participation (as will be detailed later), within a healthy project pipeline the percentage of commercial projects should exceed 17%.[65] Beyond the implications for project completion, insufficient and politically biased project conceptualisation adversely impacts stakeholder inclusiveness at the project design stage. Stakeholder consultations must begin at project conceptualisation and should factor in a wide range of impacts beyond the purely economic, such as environmental and social impacts on surrounding communities. Ideally, this allows projects with disproportionate social costs to be discontinued before further investment occurs.

Project development and capacity

These project conceptualisation deficiencies in RIDMP projects can partly be explained by capacity and coordination challenges at the project definition phase leading up to pre-feasibility. Before feasibility studies are undertaken, there is often a lack of clarity or capacity in member states to prepare projects to the point where they can apply for feasibility funding, as well as an inability to complete feasibility studies thereafter. At these stages sustainability issues are often overlooked, resulting in preventable social and environmental impacts that ultimately manifest upon project completion. Thus, more training and capacity-building initiatives are needed.[66] ICPs traditionally fund and undertake the project development process, which does not promote national capacity development – a necessary future focus.[67]

Many projects do not have dedicated project sponsors, which exacerbates challenges and prevents the project championing needed to work across departments and institutions

Many projects do not have dedicated project sponsors, which exacerbates challenges and prevents the project championing needed to work across departments and

62 Projects were primarily taken from the RIDMP but additional projects were also identified by the RISDP Short Term Action Plan and member states. See KPMG, 'SADC 3P Network Project Scan'. Johannesburg: KPMG November 2013.

63 Based on 1) macro-economic and political stability; 2) availability of domestic capital and debt funding; 3) judicial system; 4) governance and decision making; 5) ease of doing business in the member state; and 6) PPP environment in the member state.

64 KPMG, *op. cit*.

65 Personal interview, African regional institution representative, Johannesburg, 23 February 2018.

66 Personal interview, DFI representative A, *op. cit*.; Danso H & B Samuels, *op. cit*.

67 Personal interview, DFI representative A, *op. cit*.

institutions, generate buy-in for projects, and guide them through the various development phases.[68] These challenges are magnified in cross-border SADC priority projects, where coordination between government departments now extends to departments across borders, which have a much wider array of interests as well as different regulatory regimes with different levels of development. Additionally, it is more difficult to find project sponsors to drive these projects when they provide less direct national benefits.[69]

Regionally strategic projects also require some level of regulatory harmonisation across borders, which presents additional challenges. Countries have different regulatory agencies and laws governing different aspects of infrastructure development, such as PPPs, regulations for utilities and dispute resolution. These differences can cause conflict and delays throughout a cross-border project's lifecycle and increase risks for financiers if regulatory congruence is not achieved at project level.[70] One stakeholder gave the example of a cross-border transmission project where one of the three countries introduced legal changes in its energy sector. This pushed back the start of construction, causing a lag, while the other two countries had already begun construction.[71]

Although these early stage issues present some of the biggest bottlenecks to a viable pipeline of projects, there are also 'soft' issue challenges that are longer term (such as building capacity within government departments to develop projects that do not directly generate financial returns). These also entail greater financial risk, as there is more uncertainty as to whether projects will succeed in earlier stages. Therefore it is much more difficult to attract finance to support these processes.

As indicated in Table 7, category 6, specific funds and institutions support these processes, given that their mandate and structuring do not necessitate a return on investment (ROI). For instance, JICA often specialises in technical assistance activities that support capacity building in PPFs to undertake feasibility studies.[72] Despite this, stakeholder interviews emphasised that elements of this stage are often overlooked and do not receive sufficient support. Aside from the small pots of grant funding specifically earmarked for early stage project preparation (Table 6, category 6), new funds typically seek fully developed project pipelines, driven either by profit

68 Personal interview, African regional institution representative, *op. cit.*; personal interview, DFI representative A, *op. cit.*

69 Personal interview, DFI representative A, *op. cit.*; personal interview, DFI representative B, *op. cit.*; personal interview, African regional institution representative, *op. cit.*; Chaponda T, Nikore M & M Chennells, *op. cit.*; Danso H & B Samuels, *op. cit.*

70 Chaponda T, Nikore M & M Chennells, *op. cit.*

71 Personal interview, DFI representative A, *op. cit.*

72 JICA (Japan International Cooperation Agency), 'Technical cooperation projects', https://www.jica.go.jp/english/our_work/types_of_assistance/tech/projects/index.html, accessed 20 April 2018.

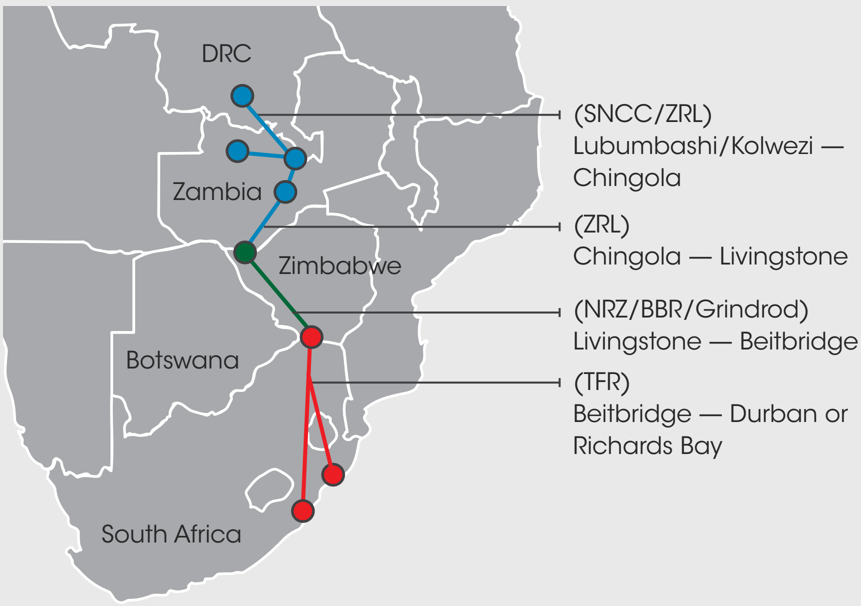
or by the need to show large and direct impacts. From the foregoing analyses, these fully developed pipelines clearly do not exist.[73]

Box 2 provides a more tangible example in SADC of the complex yet nuanced efforts that go into project development, where financial and capacity support is often lacking.

BOX 2 LAYING THE FOUNDATIONS FOR THE NORTH–SOUTH CORRIDOR RAILWAY

The North–South Corridor, which spans eight countries from Dar es Salaam to Durban, has been identified by SADC and COMESA as a strategic route for infrastructure development to facilitate greater regional trade in Eastern and Southern Africa.[a] A key activity in the corridor development is the rehabilitation of dilapidated railways to allow migration from cargo transport via road (less economical in terms of cost, and subject to greater delays along the route, for long distances) to rail (a transport mode that has fallen into relative disuse because of a lack of infrastructure maintenance).

The North–South Corridor Rail



73 Personal interview, DFI representative A, *op. cit.*; personal interview, African regional institution representative, *op. cit*.

The groundwork required to prepare such a regional project to reach feasibility stage was significant. Firstly, it was important to secure a neutral project sponsor. In this case the NBF took on the role, and was fit for purpose as a regionally coordinated body tasked with drawing the private sector into regional integration projects in Southern Africa. Before this, the NBF undertook a groundwork exercise engaging South African utilities to assist in conceptualising the project and seeking out a champion. Outside of South Africa, institutional capacity to take these initial steps is limited.[b]

The project sponsor was the driving force in securing collaboration among the relevant rail operators in the five countries involved in the proposed project: South Africa, the DRC, Swaziland, Botswana, Zambia and Zimbabwe. This process took over two years and eventually led to an MoU to facilitate regulatory and institutional harmonisation. The project sponsors then sought higher-level political support from the SADC ministers of transport, as political will is a key soft issue that hinders projects from moving forward. Only then was this project able to secure pre-feasibility funding from the SADC PPDF, an application process in which a project sponsor's technical expertise is also needed.[c]

a ICA, 'North–South Corridor', https://www.icafrica.org/en/topics-programmes/north-south-corridor/, accessed 20 March 2018

b Personal interview, African regional institution representative, *op. cit.*

c Bangure K, 'North¬–South Rail Corridor', Presentation prepared for SADC Industrialisation Week 2017.

Regional and national dynamics

The politics surrounding regional projects often complicate both political will and the resources devoted to them. This is another reason why many RIDMP projects are not fully conceptualised, and contributes to the various project development challenges discussed above. The political challenges in SADC are well documented, relating to history, geopolitics, economic imbalances, language, populations and overlapping RECs. These challenges affect member states' overall willingness to cooperate on regional projects that could support national economic development in the longer term.[74]

Infrastructure projects present unique challenges at a regional level. For example, many member states struggle to raise public funds for their own infrastructure to provide essential public goods such as health, education and water. Therefore, the prioritisation and initial domestic financial commitments necessary for regional projects are often hard to finesse, from both a political and a developmental

74 Hagerman E, 'Challenges to Regional Infrastructure Development'. Johannesburg: TIPS (Trade and Industrial Policy Strategies), 2012.

perspective.[75] As soon as a project is viewed as 'regional', national governments no longer consider it their responsibility in terms of accountability to their electorate.[76]

Ultimately, there is a reliance on ICP partner funding for many regionally significant projects, which both slows their development, owing to a host of bureaucratic procedures, and prevents strategic projects from getting off the ground, owing to ICPs' risk aversion.[77]

Perceptions of South Africa as the regional hegemon also feed into SADC's regional dynamics. South Africa is the only country in SADC with the capacity to mobilise domestic finance for infrastructure development and attract consistent private finance. Yet any regional infrastructure project or programme spearheaded by South Africa is inevitably viewed with scepticism: as promoting South Africa's own economic interests. With the considerable economic disparity between South Africa and the rest of SADC this dynamic is unavoidable. However, there is room for improvement in the way South Africa engages with the region to build better rapport, with one example being that it could change perceptions by creating more space for regional learning and capacity building in the infrastructure projects that it spearheads.[78]

This dynamic is evident in the politics of the proposed RDF and the PPDF. The decision on a host DFI for the RDF has been contentious, and is one of the reasons for the delayed operationalisation of the fund.[79] This stems in part from tensions within SADC regarding the hosting of the existing SADC PPDF by a South African DFI, the DBSA. Interviewees point to a perception in SADC member states and the SADC Secretariat that the PPDF's project support is skewed towards South Africa, despite its regional mandate. This perception of bias at the DBSA is the underlying motivation for a new and separate host institution for the SADC RDF. This is a challenge, given that there is little capacity in SADC DFIs outside of the DBSA to manage regional infrastructure projects.[80]

Commercial viability

An important distinction within the analysis has been the difference between commercially viable projects and projects more likely to require concessional financing, even when well prepared. Even if they receive the necessary support, many SADC projects will still fall into the latter category and face persistent

75 *Ibid.*; personal interview, DFI representative A, *op. cit*.

76 Telephonic interview, REC representative, *op. cit*.

77 *Ibid.*

78 Hagerman E, *op. cit*.

79 SARDC, *op. cit*.

80 Personal interview, DFI representative A, *op. cit.*; Hagerman E, *op. cit.*; telephonic interview, REC representative, *op. cit.*; personal interview, DFI representative A, *op. cit*.

financing challenges. They should therefore be a key focus of the RDF, or of another new regional instrument.[81]

BOX 3 DISCUSSION OF THE PROPOSED SACU DEVELOPMENT FUND

SACU probably provides the best example of the difficulty posed by South Africa's hegemonic position in the region as a result of its historical subjugation of its smaller neighbours (Botswana, Lesotho, Namibia and Swaziland, or BLNS) and the post-apartheid policy reforms it embarked on to address this perception. The customs union was created in 1910 to make customs administration in the British territories and protectorates in Southern Africa easier to manage – thus a convenience for the colonial administration of the time, rather than a tool for economic development. Currently, South Africa contributes 92% of SACU's GDP and has over 87% of the region's population.[a]

The revenue-sharing formula embedded in the 2002 SACU Agreement distributes the revenues collected from customs, excise and additional duties in the common customs area among the SACU member states. The formula makes provision for an allocation of revenues to all member states for development, through a development component. However, this allocation has had limited developmental impact in SACU member states as it is not earmarked for developmental projects or capital expenditure.

The sustainability of the current revenue-sharing arrangement is questionable and renegotiating this formula has been on the table for about a decade. The 2002 SACU Agreement also creates provisions for the development of a common industrial policy for all SACU states. The shared aims focus more on developing regional policies with common benefits than on adopting a common industrial policy, given the disparities in industrial development among members.[b] These disparities are problematic when countries apply the policy tools available for regional development. Although a major reform of SACU tariffs may be timely, allowing the BLNS to access cheaper inputs and final products, it would also hold significant implications for member states that rely on SACU revenues as a major source of income, as customs collections on imported products is a major contributor to SACU revenues. It is essential to renegotiate the SACU revenue-sharing formula in such a way that regionally strategic socio-economic development across SACU countries is accentuated, thereby unlocking economic development in the region.

Given the substantive nature of the revenues and the fact that they are integrated into BLNS government budgets, there is little incentive to develop adequate alternative revenue bases, including tax revenues. The

81 *Ibid.*; personal interview, African regional institution representative, *op. cit*.

The South African National Treasury has prepared assessments of the current economic climate and future financial sustainability of Lesotho and Swaziland, as well as a proposal on the establishment of a SACU development fund that would help the SACU countries to attain financial stability.[d] The operationalisation of the SADC RDF could thus provide lessons for the conceptualisation and development of a SACU development fund.

a Ramsamy R, 'Why Does a SACU Development Fund Matter? Lessons from Other Regional Development Funds and SACU Trade Practitioners', GEGAfrica Discussion Paper, February 2018, http://www.gegafrica.org/item/645-why-does-a-sacu-development-fund-matter-lessons-from-other-regional-development-funds-and-sacu-trade-practitioners, accessed 19 June 2018.

b *Ibid*.

c Edwards L & RZ Lawrence, 'SACU Tariff Policies: Where Should They Go From Here?', CID (Center for International Development) Working Paper, 169, May 2008, https://www.hks.harvard.edu/sites/default/files/centers/cid/files/publications/faculty-working-papers/169.pdf, accessed 18 June 2018.

d South Africa, National Treasury, 'National Treasury Briefing to the Standing Committee on Finance, Reponses to the BRR Report, 2015–16 Quarter 4 Report', 17 May 2016.

Commercially viable projects typically generate high ROI and are therefore more likely to attract private finance (ie, projects selected as PPP ready in the KPMG RISDP review). Projects in the ICT and energy sectors are traditionally viewed as commercially viable, based on their ability to generate profits from user fees and the lower risks inherent in project development.[82] Within the region these projects are attracting project preparation finance from developmental private sector-focused funds such as the IFC's Infraventures and the Private Infrastructure Development Group's (PIDG) InfraCo Africa, or development banks such as the DBSA (Table 7, categories 3 and 4), as well as debt and equity finance for later stage development.[83]

Other project categories are traditionally financed – especially in the early stages – by the public sector and/or ICPs but are nonetheless important for the region.[84] More specifically, such projects provide the necessary infrastructure for industrial development and the resultant economic growth. They also have high potential 'developmental' impact, such as extending access to basic services, alleviating poverty, or increasing employment or environmental benefits, especially for the poor and marginalised who do not have access to private infrastructure services. These infrastructure projects also face greater risk in terms of development (eg, roads and railways have much greater project areas and therefore greater risk associated with impacts along the project route) and profitability, owing to the need for affordability and end-user access. Many cross-border projects fall into this category because of the higher transaction costs of dealing with coordination,

82 Gutman J, Sy A & S Chattopadhyay, *op. cit*.

83 See Annex 1.

84 Personal interview, DFI representative B, *op. cit*.

differing interests across countries, and regulatory incongruences, as indicated in the preceding section.[85] More visionary projects hoping to drive regional integration are also less quantifiable in terms of potential gains at the outset.

A regional resource mobilisation mechanism should emphasise this project category as this is where the greatest financing gap currently exists. Certain PPFs that operate on grant models, such as the SADC PPDF, the EU–Africa Infrastructure Trust Fund (EU-AITF) and the NEPAD IPPF, are capable of providing financing for these types of projects from project definition to feasibility stages. However, the nature of these funds means that they have finite amounts of available finance and consistently need to be replenished.

Stakeholder interviews confirm that the SADC PPDF, EU-AITF and NEPAD IPPF are either running out of financing or depleted (although the SADC PPDF has just secured an additional tranche of funding from the KfW).[86] A longer-term view of the persistent early stage financing gaps looks at whether innovative mechanisms of cost recovery should be applied to support non-commercial projects by shifting a proportion of profits from successful projects. Various mechanisms for cost recovery (including success fees, redeemable grants, revolving funds and equity stakes) are discussed in the ICA report on African PPFs.[87] The India Infrastructure Project Development Fund (IIPDF) provides an international example where there is support from both private and public projects, in comparison to the fully private cost recovery models mentioned above, ie, Infraventures, InfraCo Africa and Africa50. While initially capitalised by the government of India, the IIPDF uses a combination of success fees for commercial projects to replenish the fund and government repayment of loans for economically viable projects with low returns.[88] These cost recovery mechanisms must be an important consideration in RDF operationalisation discussions.

Coordinating preparation activities

With the mushrooming of finance pools available to support project preparation comes new coordination challenges. The ICA report provides extensive documentation of different PPFs and their available funding. What can be gleaned from the study is that there are many PPFs, each with relatively little

85 Chaponda T, Nikore M & M Chennells, *op. cit.*; personal interview, DFI representative A, *op. cit.*; personal interview, DFI representative B, *op. cit.*; telephonic interview, REC representative, *op. cit.*; personal interview, African regional institution representative, *op. cit.*

86 Personal interview, DFI representative, *op. cit.*; personal interview, African regional institution representative, *op. cit.*

87 Chaponda T, Nikore M & M Chennells, *op. cit.*

88 India, IIPDF (India Infrastructure Project Development Fund), 'IIPDF Guidelines 2013', https://www.pppinindia.gov.in/documents/20181/21751/IIPDF_GuideLines_2013.pdf, accessed 6 May 2018.

funds available.[89] This means that member states must seek financing from many fragmented sources for project preparation. The conditionalities experienced in general ICP funding are also evident in PPFs. Each fund has its own requirements as well as timelines, which often evolve when staff change and are complicated by language barriers, among other challenges. The stipulations laid out are also often prepared by policy representatives rather than technical experts within ICPs. As a result, many requirements are neither feasible nor fit for purpose. This ends up creating a plethora of bureaucratic procedures for already capacity-constrained member states.[90]

Additionally, a project will often secure financing for one component of project preparation, for example an environmental impact assessment, but will still need to find additional financing for other compulsory studies. This then leads to the expiry of some project preparation components as sponsors are working to secure other components.[91] In general, the set-up does not bode well for a cost- and time-efficient project preparation process.

In recognition of these challenges and to enhance coordination, the ICA has established the PPFN. The PPFN currently has 15 members that support infrastructure development in Africa.[92] It has served primarily as a tool to provide consolidated information on the funding available for project developers, with information on member funds and their requirements listed in an easy-to-use format. It has also assisted in connecting and familiarising different project funders, so that they can better collaborate and refer projects. However, according to stakeholder interviews[93] this now happens mostly on a bilateral basis.

ASSESSMENT

To accelerate the operationalisation of SADC's regional industrialisation and infrastructure development strategies, there is a need to improve regional resource mobilisation in SADC, especially at the very early project preparation phase. The following section draws on analysis throughout the paper highlighting important considerations and identifying focus areas requiring priority attention to ensure that the outlined challenges to regional infrastructure development are addressed and that SADC projects become practically implementable. A key finding is that many of these challenges can be targeted through instruments and initiatives already in place in the region. It is also important to draw lessons from the experiences of

89 ICA, 2015, *op. cit.*

90 Personal interview, DFI representative A, *op. cit.*; personal interview, DFI representative B, *op. cit.*; personal interview, African regional institution representative, *op. cit.*

91 Personal interview, African regional institution representative, *op. cit.*

92 ICA, 'Project Preparation Facilities Network (PPFN)', https://www.icafrica.org/en/project-preparation/project-preparation-facilities-network-ppfn/, accessed 5 March 2018.

93 Personal interview, DFI representative A, *op. cit.*; personal interview, DFI representative B, *op. cit.*; personal interview, African regional institution representative, *op. cit.*

other regional financing mechanisms. Therefore, the first section of the assessment cautions against the establishment of a new resource mobilisation structure without due consideration of the fund's focus, potential cost, sustainability and appropriate

To accelerate the operationalisation of SADC's regional industrialisation and infrastructure development strategies, there is a need to improve regional resource mobilisation in SADC, especially at the very early project preparation phase

governing structure. The second section highlights areas of focus that could assist in addressing SADC's most immediate regional infrastructure challenges, drawing on international best practice and stakeholder consultations.

Concerns regarding the establishment of a new regional structure

This paper emphasises that improving support for early stage project development is the most urgent priority facing the region – even more pressing than the establishment of a new, fully-fledged institution. The challenges encountered in building new institutions, including set-up costs, appropriate staffing and support services, are significant, especially as these costs are compounded when establishing a regional public institution. The financial modality of the RDF is not yet decided, and careful consultation will be required to determine how the fund is set up and governed. Based on interviews, it is understood that the RDF is to be set up as a trust governed by SADC finance ministers – which will likely be onerous at the regional ministerial level. Important lessons must be taken from the SADC PPDF housed in DBSA and managed by a steering committee, given the complications associated with receiving approvals at ministerial level. It is prudent to consult closely with stakeholders who were involved in the PPDF's establishment to avoid similar bureaucratic delays and devise the best mechanisms to balance the need for regionally representative oversight with efficiency.

The level of contributions will most probably be skewed and responsibility will likely rest with a few member states, as arguably none of the SADC member states, including South Africa, is wealthy enough to make sufficient redistributive contributions to a SADC RDF. This calls into question the real commitment to and buy-in for a functional regional fund.

Moreover, the lack of contributions by member states and the emphasis on ICP contributions in regional finance initiatives create a disconnect between member states and ICP priorities and stymy the development of more successful initiatives. The decision on whether to include some form of sanction for member states that do not meet their contributions adds additional complications, as strategic regional projects may still traverse the territory of non-contributing countries, raising important free-rider considerations.

Nonetheless, the changing nature and unpredictable future landscape of ODA should serve as a significant motivation for member states to begin to contribute to regional infrastructure development, as will be elaborated below.

Important considerations

If regional infrastructure resources are to add value and contribute to the ultimate purpose of supporting regional economic development, it is important that initiatives target those projects and sectors currently receiving the least support but that could be transformative in spurring development. From the analysis above, these include all regional projects, especially national and regional projects in the (non-commercial) transport sector and various water projects.

Those working closely with the operationalisation of the RDF have indicated that these gaps have been recognised and articulated at SADC level, which provides some reassurance that the focus of the RDF is on achieving long-term and sustainable socio-economic development.[94]

An equally important consideration is the project stages where the greatest proportion of resources should be directed. Available information indicates that the proposed RDF can technically support the whole project lifecycle, from project definition to operation.[95] However, within this broad ambit there is little clarity on what resources are to be devoted to specific stages. Stakeholder interviews have indicated that there will be an emphasis on project finance, in line with the fund's objectives to show results and ensure financial sustainability.

Instead of a primary concentration on project financing, the paper promotes the view that member state contributions to regional infrastructure development (which would amount to a minimum of $120 million under the proposed RDF) must support early project stages. This amount is small compared with the financing requirements of regional megaprojects, which further supports the notion that such funds could have greater impact in supporting earlier stage activities that would unlock subsequent investment.

Instead of a primary concentration on project financing, the paper promotes the view that member state contributions to regional infrastructure development must support early project stages

94 Personal interview, ICP representative, *op. cit*.

95 *Ibid*.

It has been noted that the SADC PPDF exists for this purpose, and it was reported that this instrument would be absorbed into the proposed RDF.[96] There is no doubt that utilising the existing PPDF will significantly lessen the burden on the region and allow existing expertise and structures to be leveraged. The challenge is that the PPDF is mainly ICP funded, creating the impression in some quarters that it does not serve the interests of the region. Stakeholders noted that its location in the DBSA also created an impression of a South African bias.[97] To change this perception, it is critically important that member states contribute substantial resources to the PPDF as part of the RDF to enable a more representative regional structure and decision-making process.

If member states also increased their public contributions they would be better positioned to influence the direction of infrastructure financing so that it meets the region's most pressing needs

While ICPs still have a critical role to play in offering much-needed concessional finance in the region, if member states also increased their public contributions they would be better positioned to influence the direction of infrastructure financing so that it meets the region's most pressing needs.

Four capacity development proposals

This paper recommends four key capacity-building initiatives that regional infrastructure financing should support.

First, technical support should be given to member state-identified institutions that can serve as early stage champions for potential projects.[98] National DFIs, in particular, often have limited capabilities to support infrastructure, and technical assistance efforts can seek to fill these gaps by sending experts directly to these DFIs to offer training and support throughout the process. Ensuring that specialists in fields relating to sustainability, such as public participation and environmental management, are included in this process will assist in embedding inclusiveness and poverty reduction in national project development processes.

Second, capacity building should support project championing and stakeholder engagement. This entails ensuring that SADC projects secure a dedicated project

96 Telephonic interview, REC representative, *op. cit*.

97 Locating the proposed RDF 'temporarily' in the AfDB, as mooted by some stakeholders, could result in Southern Africa's voice becoming even more muted, given the significant dominance of ICPs in the institution.

98 Personal interview, DFI representative A, *op. cit*.; consultations with SAG officials, Pretoria, 26 March 2018.

sponsor/manager (from a DFI or SOE, or a private consultant) and support meetings required to secure buy-in from necessary actors such as governments and SOEs.[99]

Third, capacity-building efforts should not neglect 'soft' issues such as regulatory and legislative harmonisation and supporting infrastructure (such as ICT connectivity along a transport route). While some MDBs dedicate significant resources to these aspects (indicated in Table 6, category 1, for example the World Bank and the PPIAF), such funding is usually directed towards broader policy development at national level (such as a PPP policy). There is thus still a need for tailored support for soft issues relevant to specific projects under development.

Fourth, as an ongoing effort alongside support for specific projects, financing should also support continuing reviews and restructuring of the RIDMP, to remove unfeasible projects that were either ill-conceived or purely politically motivated, and support the refinement and de-risking of projects with real potential. This also requires clearer prioritisation of projects from national, regional and continental plans based on their economic development impact and potential to contribute to SADC's industrialisation strategy.

While the idea of devoting the majority of funding to soft elements may appear counterintuitive to the vision of an eventually self-sustaining fund or bank, this is necessary both to catalyse funds from other sources (particularly private institutions) and, more importantly, to bring projects to completion. These first steps are necessary to ensure the health and sustainability of any future bank or fund, and there is no shortcut to producing bankable projects. As a secondary focus, regional finance should target subsequent steps in the project lifecycle, such as feasibility studies, project structuring and financial support, so that projects have the option of consistent support until financial close is reached, at which point more financing options will become available. The region should be open to seeking innovative partnerships with private sector actors even in these early stages, especially social venture funds and other blended options. The capacity-building process highlighted earlier will ultimately improve the possibilities of such partnerships, with projects being more thoroughly designed and clearly linked to revenue streams further down the line.

Beyond changing the focus of existing regional resource mechanisms, it is necessary to materially improve coordination among existing mechanisms. While the ICA has identified this need and created the PPFN to target it, it has lost steam. It is important that there is a concerted drive to increase African input into and ownership of the PPFN, as argued so frequently in this paper. Once this is achieved, as the custodian of regional projects within SADC, it would be possible to address the information gap on the current status and funding of SADC regional projects. This would facilitate the availability of key information and data for potentially interested investors in other stages of the project lifecycle.

99 Personal interview, DFI representative A, *op. cit.*; personal interview, African regional institution representative, *op. cit.*

Against this backdrop, member states need a sober assessment of the true financial scope of establishing a new fund, or whether scarce resources and effort should rather be channelled into existing mechanisms that address bottlenecks in the early project preparation phase.

Based on the assessment above, the paper makes the following recommendations:

- Project consultation processes must be inclusive of all stakeholders, should begin at project conceptualisation, and should factor in a wide range of impacts beyond the purely economic, such as the environmental and social impacts on surrounding communities. Ideally, this allows projects with disproportionate social costs to be discontinued before an irrevocable commitment to invest.
- Incorporate the SADC PPDF into the RDF, and draw substantially on its existing structures, to:
    - » counter the costs associated with the establishment of a new regional structure, given other pressing financing needs;
    - » boost infrastructure development through existing mechanisms and avoid the complexities and time required in setting up governing structures for a public institution with a regional mandate; and
    - » leverage scarce member state resources more effectively.
- Make the project preparation component the main vehicle for member state infrastructure contributions to the RDF, in order to:
    - » shift from relying on ICP funding to relying on member state contributions, allowing greater regional control of decision-making;
    - » retain a focus on the biggest project bottlenecks, including project conceptualisation, definition and preparation, paying particular attention to sustainability and inclusiveness considerations; and
    - » utilise existing human resources capacity and structures in the PPDF.
- Focus on the following regional capacity-building initiatives to support greater member state ownership and participation in regional infrastructure projects:
    - » technical support for identified champion institutions for regional projects (likely DFIs) in SADC member states;
    - » support for the identification and involvement of project sponsors and their most important activities, including securing buy-in and support from relevant stakeholders in the region;
    - » build capacity in 'soft' issues (understanding the regulatory harmonisation challenges that inhibit infrastructure development) relevant to specific regional projects; and
    - » continually review and restructure the RIDMP, targeted at achieving better project conceptualisation prior to project development.
- Restructure project preparation coordination activities, to:
    - » push for regional ownership and contributions to the PPFN, improving stronger buy-in; and

» develop a unified voice through the PPFN's encouraging ICPs to improve coordination in project preparation funding, drawing on existing global best practices.

In parallel, member states should consider the following, at a country level.

- Constrained government budgets necessitate increased infrastructure investment through innovative private sector financing options, structural reform and regulatory changes. A robust institutional and regulatory framework is critical in attracting private investment for infrastructure projects. Analyses of earlier reports[100] highlight sub-Saharan Africa's below-par performance in terms of 'readiness' for PPP implementation, especially in project preparation.
- The impact of public investment on growth can be enhanced by implementing policies that foster the efficiency of public investment. Countries with sound public investment management systems tend to have lower but more efficient levels of public investment, crowd in more private investment, and exhibit higher growth rates. Hence public debt must be managed prudently, as it exacerbates financial vulnerabilities and macroeconomic instability, which make private sector investment risky and unattractive.

On a regional level,

- review infrastructure and industrial strategies and continue to harmonise legislative and regulatory initiatives, as well as regional planning (eg, on gas).
- Finally, commission a detailed study comparing the cost-recovery mechanisms highlighted in this paper, including an analysis of key African case studies (Africa50 Fund), as well as global examples (IFC Infraventures, PIDG InfraCo Africa and the IIPDF) to determine the best model for a SADC regional fund.

100 Notable citations in the paper include the KPMG and SADC PPP Readiness Reports.

ANNEX 1 FINANCING ACCESSED BY SADC PRIORITY REGIONAL PROJECTS (WITH A FOCUS ON PROJECT PREPARATION FUNDING)

PROJECT	COUNTRIES	FINANCE PARTNER/S AND NATURE OF SUPPORT REQUIRED/ GIVEN	PROGRESS (INCLUDING DATE OF MOST RECENT INFORMATION)
Zizabona Power Interconnection	Zimbabwe, Zambia, Botswana, Namibia	NEPAD IPPF, EU (European Development Fund) Norway and SIDA have committed \$0.5 million, DBSA–PPFs \$0.5 million and Zizabona member utilities \$0.184 million	Feasibility studies have advanced with the project planned for completion in 2019. Project structuring. Currently seeking funding for construction (2018)
Central Transmission Corridor (Alaska Sherwood)	Zimbabwe	DBSA Project Preparation Unit (PPU), Norway, Swedish International Development Cooperation Agency (SIDA)	Project structuring (2017)
Namibia–Angola Interconnector	Namibia, Angola	IIPSA, SADC PPDF, Norway, SIDA	Feasibility (2018)
Mozisa Interconnector	Mozambique, Zimbabwe, South Africa	Project Preparation Feasibility Fund (DBSA/AFD), SADC PPDF	Current discussions on splitting up implementation. Project stage unclear (2018)
ZTK Power Interconnector	Zambia, Tanzania, Kenya	European Commission (EC) Preparation Funder, NEPAD IPPF, Nile Equatorial Lakes Subsidiary Action Program (NELSAP) Preparation Funder	Under construction (Kenya) Pre-feas (Zambia and Tanzania) (2017)
DRC–Angola Interconnector	DRC, Angola	No information found	Feasibility (2017)
Malawi–Mozambique Interconnector	Malawi, Mozambique	World Bank	Project structuring (2018)
DRC–Zambia Interconnector	DRC, Zambia	AfDB, World Bank, AREP, DBSA (feasibility) (NEPAD IPPF)	Feasibility (2018)
2nd South Africa–Zimbabwe Interconnector	South Africa, Zimbabwe	SADC PPDF	Feasibility (2017)
Mozambique Backbone System Transmission Project	Mozambique	EU AITF feasibility studies	Cancelled

Mozambique–Zambia Interconnector	Mozambique, Zambia	US Trade and Development Agency, NEPAD IPPF	Pre-feasibility (2017)
Mpanda Nkuwa Hydropower Plant	Mozambique	No information found	Financial close (2016)
Hwange Power Station	Zimbabwe	Secured loan from China-EXIM	Financial close (2018)
Luapula River Hydro-Electric Scheme	Zambia, DRC	SADC PPDF, DBSA PPU	Feasibility studies (2018)
Vaal Gamagara	Botswana, South Africa	Domestic finance	No updated information found (priority project of previous water minister)
Lomahasha Namaacha Water Supply	Swaziland, South Africa	GIZ, SADC Regional Water Fund	Unclear (SADC funding was sourced in 2018)
Ressano Garcia Weir	South Africa, Mozambique	World Bank	Pre-feasibility (2013)
Inga Hydropower	DRC	World Bank (suspended)	Project structuring (2016)
Kafue Gorge Lower/ithezi thezi	Zambia	DBSA, EU-AITF, NEPAD IPPF	Construction (2017)
Batoka Gorge	Zambia, Zimbabwe	World Bank (CIWA) prep studies, DBSA, AfDB	Financial close expected end 2018
LHWP Phase 2	Lesotho	Funding for both phases is heavily dominated by 'water bonds' being raised on the South African capital market. The cost of phase 1A amounted to EUR8 1.5 billion and attracted external funding from European export credit agencies ($380 million), the World Bank ($69 million), the EU Commission (EUR 50 million) and the EIB (EUR 23.5 million; EUR 3.5 million from risk capital resources for the initial feasibility study, EUR 15 million from risk capital resources and EUR 5 million from the EIB's own funds). Phase 1B is currently estimated at EUR 1.1 billion and has a similar funding pattern with, however, a larger amount (EUR 99 million) made available by the bank.	Construction (2018)
Songwe River Basin Development	Malawi, Tanzania	African Water Facility, NEPAD IPPF	MoU between the two countries (2017)

Food Security Upper Okavanga	Angola, Namibia	No information found	No information found
Lesotho Lowlands Water Supply Scheme	Lesotho	ADF, EU, World Bank	Geotechnical studies commissioned (2018)
Durban Port Expansion	South Africa	Domestic finance (Transnet)	Construction (2018)
Walvis Bay Port Expansion	Namibia	AfDB	Construction (2018)
Kazungula Bridge	Botswana, Zambia	EU-AITF, JICA, AfDB, NEPAD IPPF	Construction (2018)
Chirundu–Beitbridge	Zimbabwe	DBSA feasibility studies (2013)	Re-tendering after cancellation of current tender (2018)
Railways rehabilitation	Zimbabwe	Diaspora Infrastructure Development Group, Transnet, EU	Financial close expected June 2018
Lobito Corridor Feeder Roads	Angola	No information found	No information found
Dar es Salaam–Chalinze–Morogoro Road Capacity Upgrade	Tanzania	AfDB	Project structuring (2018)
Makambako Songea Road Rehabilitation	Tanzania	Initial World Bank support 2009	Feasibility (2012)
Plumtree–Mutare Road	Zimbabwe	DBSA	Complete (2012–2016)
Dar es Salaam–Isaka-Kigali/Keza–Musongati (DIKKM) railway	(reduced to Rwanda and Tanzania)	China-EXIM, AfDB, World Bank	Official launch set October 2018
Mtwara–Mbamba Bay Railway	Tanzania, Zambia, Malawi, Mozambique	No information found	Project structuring (2018)
Kisarawe ICD	Tanzania	World Bank (feasibility)	No information found
Kolwezi Dilolo Rehabilitation	DRC, Zambia, Angola	No information found	No information found
Kinshasa Inkisi, Ngindinga Mbanza Sosso Road	Angola, DRC	No information found	No information found

Kisangani–Niania–Buntu Beni–Kasindi	DRC, Rwanda, Uganda, Tanzania, Kenya	World Bank	Construction (2017)
Tshikapa–Kamuesha Road	DRC, Angola	AfDB (ADF) 2014 feasibility studies	No information found
Kolwezi–Dilolo Railway	DRC, Angola	No information found	No information found
Kinshasa–Ilebo Railway	DRC	NEPAD IPPF, ADF	Feasibility (2017)
Ponto Technobanine Railway	Mozambique, Botswana, Zimbabwe, South Africa, Swaziland	China (unverified)	MoU between countries (2016)
Sena Line Railway Rehabilitation	Mozambique	No information found	Completed (2014)
Nacala Rail	Mozambique, Malawi	AfDB, JICA, private finance, NEPAD IPPF	Financial close (2017)
Nacala Port	Mozambique	JICA, AfDB	Construction (2018)
Mbinga–Mbamba Road Upgrade	Tanzania	AfDB	Project structuring (2017)
North–South Corridor Rails	South Africa, Zambia, Zimbabwe, DRC, Swaziland	SADC PPDF, DBSA, NEPAD IPPF	Pre-feasibility (2018)

Source: Information collected from a variety of sources, including the PIDA Virtual Information Centre, news articles, and presentations from SADC Industrialisation Week, 2017.

GEGAFRICA

GLOBAL ECONOMIC GOVERNANCE