CHAPTER 9 CONCLUSIONS AND RECOMMENDATIONS

Introduction

9.01 The SADC Treaty specifically allows for creating a *development bank* to serve the financing needs of the sub-region. The need for such an institution has been examined now on four separate occasions since the Treaty was drafted, in:

- 1992-93 by the AfDB in its Study on Economic Integration in Southern Africa;
- 1994 by a firm of consultants on behalf of the DBSA;
- 1996 by consultants undertaking Phase I of this FISCU policy research project; and
- 1997 by the Price Waterhouse led consortium undertaking Phase II of the same project, of which this report is an integral part.

9.02 These analyses have been undertaken in different degrees of depth with the last being most comprehensive. What is important to bear in mind is that, in the five years that have intervened between 1992-97, much has happened to change the nature, context and content of the *development financing* paradigm. These changes have a profound bearing on the debate about whether the provision in the SADC Treaty for establishing a sub-regional DFI remains relevant. The study's recommendations are often embedded in its conclusions, which are elaborated upon below. They are not repeated separately.

The Evolving Global Context influencing the Role of Development Finance

9.03 Five main changes have had the most powerful effect on changing the nature of development finance. They are the consequence of processes unleashed during the 1980s decade of crisis, debt and intensive adjustment particularly in Latin America and Africa, the crisis of transition which has swept the former communist bloc in Eastern and Central Europe, and the public finance crises of OECD countries. These related changes include:

(a) Fundamental changes across the globe in notions of *public goods* and services, and the role of the state in providing them.
(b) The increasing pervasiveness and success of *privatisation* around the world.
(c) Tectonic shifts in the proclivity of private sources to finance developing countries; resulting in massive, sudden increases in *private capital flows* on a scale that has overwhelmed the significance of official flows.
(d) Consequent, dramatically *reduced reliance on public and development financing* accompanied by a concomitant increase in the role of private equity and debt for infrastructure; and
(e) A shift of MDB priorities away from financing DFIs toward supporting the more broadly based development of banking systems and *capital markets* in developing countries.

As a consequence of these changes, most successful DFIs have transformed themselves into universal or investment banks operating in domestic capital markets while the unsuccessful ones have gradually disappeared through take-overs or bankruptcy.

The SADC-Specific Context for Development Finance

9.04 The impact of these changes has been explored at length in **Chapters 1 and 2**. The principal conclusions, which arise from those chapters with reference to SADC, are that:

- Sub-Saharan and southern Africa, for their own political reasons, lag behind the rest of the developing world in privatising: (i) infra-structure companies engaged in power, telecommunications, water supply and transport; as well as (ii) sea-ports, airports and other terminal facilities; (iii) industrial, energy and mining firms; and (iv) banks, DFIs and other financial service firms (e.g. insurance and pension funds).

- Private capital flows to Africa and SADC have increased in absolute terms but remain insignificant as a percentage of such flows to developing countries (< 2% for SADC) as a result of:

  * insufficient progress with privatisation;
  * weak government commitment to fuller participation by the private sector in SADC economies with the state still playing too large a role in productive sectors;
  * general economic credibility and creditworthiness not yet being fully restored across SADC although performance in 1995-96 has been encouraging; and
  * the approach taken by SADC governments to attracting investment being based on incentives (yesterday's approach) rather than on fundamental changes in policy regimes - i.e. tax, monetary, exchange rate, and industrial location policies and a fundamental lowering of administrative and bureaucratic barriers to investment at all levels of government.

- Until more fundamental changes in SADC's economic systems are made -- with more reliance on domestic, regional and international capital markets as sources of investment funds -- the sub-region will continue relying on public and development finance to a greater degree than is necessary or desirable. In this respect, Mauritius and South Africa are leading the way for SADC in mobilising market capital for infrastructural investment.

Financing Infrastructure in SADC

- With tightening constraints on the budgets of SADC governments, greater reliance will need to be placed on the *private provision of infrastructure* (PPI). Effective public-private financing partnerships will need to be devised to permit the different risks involved in PPI projects to be distributed equitably and managed across different sources of funding. The availability of an adequate amount of development finance over the medium-term will be an important ingredient in seeing such PPI initiatives materialise.

- In the absence of sufficient public finance from tax revenues, especially in the aid-dependent countries, development finance will play an important role in: (i) developing PPI projects; (ii) undertaking the complex work involved in the financial engineering and packaging of such projects; as well as (iii) mitigating *country risks* and *policy risks* that PPI projects will confront until improved creditworthiness is achieved across SADC and until distorted tariff regimes (for public services) and relatively weak regulatory regimes have been overhauled

- But, as is happening in other parts of the developing world, SADC countries will have to shift from relying on public finance for 100% of infrastructure financing to a 70:30 ratio of public-to-private finance by 2005 and a 50:50 ratio by the year 2015. It is unlikely that the share of public finance in infrastructure will fall much below 50% even in the long run, given the amount of infrastructure investment that is not commercially attractive.

- Structured SADC Debt Funds and Equity Investment Funds for investments in infrastructure and large-scale industry have now become a possibility for flotation in regional and international capital markets. Again Mauritius has led the way with a bond issue for US$150 million in 1995.

External Resource Mobilisation Prospects For DFIs in SADC

- The proclivity of the World Bank and African Development Bank to continue lending to DFIs has diminished over the years. They would prefer to lend for broader capital market development. Therefore they should not be regarded as significant sources of funding for a sub-regional DFI.

- A country-by-country analysis suggests that DFIs in Botswana, Mauritius and South Africa would have relatively unconstrained access to borrowing from *regional and international capital markets*. DFIs from Namibia, Swaziland and Zimbabwe would have limited access while those from Angola, Lesotho, Malawi, Mozambique, Tanzania and Zambia would have virtually no access at the present time.

- It is in the asymmetry between these two halves of SADC - the large populous, low-income countries on the one hand and the middle-income and smaller countries on the other - that the crux of the development financing problem in SADC lies. The requirements for development finance are concentrated in the first group while the creditworthiness to support a sub-regional DFI is concentrated in the second. It is unlikely, in the present *political economy* of SADC, that the creditworthy countries would be enthusiastic about supporting arrangements that resulted in their credit capacity being used to finance uncreditworthy neighbours.

- *The Emerging Resource Gap in Sustaining High Growth*: In order to sustain annual growth rates of 5-7% in SADC *investment* (GDI) will need to be stepped up from around 18% of sub-regional GDP to a level of 25-30%. The growth target of 5-7% is not an illusion as the region’s economic performance in 1995-96 confirmed after an interregnum of two decades during which the sub-region's economy was stagnant and per capita income was declining. If present levels of *savings* (i.e. 17% of sub-regional GDP) do not increase substantially, a resource gap of 8% of sub-regional GDP would emerge. Assuming that in 1996 that size of resource imbalance had emerged, it would have amounted to US$14 billion.

- That size of resource gap could not be financed by either private or official flows from abroad under any reasonably conceivable set of circumstances. Therefore domestic savings in the region would need to rise from 17% of GDP to at least around 22-27% of GDP. Such an increase is unlikely to materialise in the short-run. But it is a target which all SADC governments must achieve in the medium-term if they are to achieve and sustain levels of growth needed to address the demands made by their growing populations and by the socio-political problems caused by burgeoning unemployment; reflecting a paucity of productive employment opportunities across the region.

- The aggregated net disbursements of all DFIs in SADC amounted to less than US$ 1 billion or about 0.6% of sub-regional GDP or 3.5% of GDI. Over 60% of the funds disbursed by DFIs were sourced from abroad. For DFI disbursements to finance a more significant share of GDI, additional capital would need to be invested in their DFIs by SADC governments in amounts at least equal to the present level of aggregate capitalisation. Moreover, DFIs in SADC would need to increase their aggregate borrowings to 3-4 times their present levels.

- These aggregates suggests that faith in creating a new sub-regional DFI -- to help fill a significant part (say even 20%) of the SADC resource gap that is likely to arise if growth rates of 5-7% are to be maintained -- may be misplaced.

The Case For Sub-Regional Development Finance and for a SADC-DFI

9.05 **Chapters 3-6** examined respectively: (i) estimates of development finance requirements for sub-regional projects at an aggregate and sectoral level where the information base (which is surprisingly weak) permitted doing so; (ii) the experience of other sub-regional development banks in Africa and the Caribbean; (iii) a retrospective on flows and uses of development finance within SADC; and (iv) the financial condition of DFIs in the sub-region. The general conclusions that emerge from these three chapters are that:

- *Sub-regional development finance* needs in SADC cannot be defined and identified clearly; nor do such needs (where they have been identified) appear to be obviously distinct from development finance needs at the *national* level.

- Precise definitions of *sub-regional projects* are difficult to derive as is the clarity of delineation between such projects and national project. Thus it is equally difficult to distinguish between their respective development finance needs. This study concludes that the terms 'sub-regional projects' and 'sub-regional development finance' are suggestive and evocative rather than indicative or meaningful from an operational viewpoint.

- The SADC portfolio of projects under its programme of action (SPA projects) is mostly a 'wish-list' of 'hard' (physical investments) and 'soft' projects involving studies, training, research, seminars, modelling, planning, coordination and institution building In most of these projects the sub-regional element was elusive and opaque.

- The current SADC portfolio contains 472 'projects' of which 102 projects have not been properly identified or fully costed. Of the 370 projects that have cost estimates, 108 involved amounts of less than US$ 1 million and were for institutional bolstering and studies of various types.

- A total of 337 projects (including the uncosted ones) could be classified as 'soft' and ineligible for development financing on their own while the remaining 135 projects required some kind of physical investments to be made.

- Of the 135 'hard' projects there were 85 *national* infrastructure projects involving the rehabilitation of ports, airports, roads, power stations, transmission lines, telecommunications exchanges/networks, and railways. Typically these can be (and invariably have been) financed by national DFIs (if such projects are relatively small) or by the traditional MDBs (if they are sufficiently large).

- There is no clear need for a mezzanine level of sub-regional finance for such national projects except perhaps from private commercial sources in individual member countries with well-developed capital markets.

- There were 50 sub-regional infrastructure *linkage* projects between countries such as transport networks, telecommunications linkages and power transmission lines or oil/gas/water pipelines involving two or at most three countries.

- In the past, such projects have been financed either through the budgets of the respective national governments concerned, by their national DFIs, or by the MDBs, with coordination involved on the part of the governments concerned.

- Sub-regional projects involving physical investments which directly affected two or more countries were estimated to amount to a total cost of about US$1.8 bn to be invested over the next ten years.

Experience with other Sub-Regional DFIs and with National DFIs in SADC:

- The experience of sub-regional banks in other parts of Africa has been mixed. It has reflected poor financial and economic performance with most such DFIs experiencing severe portfolio problems.

- The experience of the Caribbean Development Bank has been more positive as a retailer of international development bank's wholesale funds to the small island economies of the Caribbean. The institutional context in which it operates in terms of country clientele and their individual institutional capabilities at the national level is quite different from the institutional environment and DFI assets that already exist in SADC.

- These other sub-regional institutions were established at a time when private capital flows did not feature significantly in the totality of financial flows to developing countries and the changes mentioned above had not occurred. In the environment and operating circumstances which exist today it is doubtful that such institutions would have been justified or have been established.

- A substantial amount has been invested by SADC governments in their national DFIs over the last 20 years by way of both: (i) *capital* - about US$ 3-4 billion for SADC as a whole at present exchange rates, or over US$6 billion at exchange rates prevailing when the investments were made; and (ii) *guarantees* for these DFIs of a further US$ 2-3 billion at present exchange rates. South Africa alone accounts for about 67% of these totals.

- Although the DFIs themselves claim credit for considerable development impact, the overall picture of economic performance in SADC - in a context of severe and sustained political and economic default by most of its former governments between 1975-94 - makes it is difficult to conclude that this investment in DFIs has paid off. What reliance on DFIs may have achieved was the sustenance and prolongation of unviable economic and political policies for too long through-out SADC in the form of: (i) apartheid in South Africa; and (ii) unviable statist-dominated economic policies in the rest of SADC.

- The consequence of public investment in DFIs throughout SADC since the mid-1970s has been the construction of an elaborate structure of general-purpose, as well as sector-specific, DFIs engaged in financing infrastructure, industry and mining, agriculture, rural development, low-cost housing, SME development and micro-enterprise financing. The number of such institutions throughout SADC exceeds the needs of the sub-region's real economy with many of these institutions being too small to achieve institutional critical mass.

- The financial condition of DFIs in SADC - outside Botswana, Mauritius, Namibia, South Africa, and to a lesser extent, Zimbabwe - is precarious, especially in Malawi, Tanzania and Zambia. That is also the case with the financial condition of the major banks in Angola and Mozambique which undertake a limited amount of development financing.

- There remains a significant overhang of non-performing assets in the DFI system in SADC which needs to be reduced and dealt with as a matter of urgency if these national institutions are to be revived and to begin to play a useful role again.

Establishing a Sub-Regional DFI: Purposes, Principles & Burden-Sharing

9.06 **Chapter 7** of this report examines the purposes of a sub-regional DFI and the burden-sharing issues involved in the event that SADC governments decide to proceed with setting one up. **Chapter 8** considers the main institutional options that SADC policy-makers might consider in assuring the adequacy of development finance in the sub-region. The principal conclusions reached by these two chapters are as follows:

- The investigations undertaken in the first five chapters of this study do not suggest that SADC needs a new sub-regional DFI. There is no clear case for such an institution on economic or financial grounds. If a case were to be made it would need to be on political grounds.

- There would be a significantly reduced need for relying on DFIs or on development finance if SADC governments moved forward (as they should) more aggressively with the privatisation of state-owned enterprises. More rapid privatisation would enable SADC and its members to avail more fully of the full range of financial options which exist in domestic, regional and international capital markets to rehabilitate, upgrade and expand infrastructure as well as productive capacity at the national and sub-regional levels.

- Privatisation would result in more rapid, wider and deeper regionalisation of infrastructure, and of industries and markets, than would be possible by resisting a change in the status quo and supporting parastatal institutions with additional public or development finance.

- If, despite the absence of a clear economic rational for doing so, a SADC-DFI were to be established then its operating remit should not be limited to a particular sector. It should have a wide, multi-sectoral operating remit rather than having its portfolio choices constrained artificially thus making it vulnerable to concentrated adverse selection risk as well as cyclical risk.

- In the event of its being established, a sub-regional DFI should not become involved in lending for smallholder agriculture and rural credit, SME and micro-enterprise development, low-cost housing or gender credit. These are areas in which national DFIs have a clear comparative advantage and where the intrusion of a sub-regional DFI would be counter-productive.

- A sub-regional DFI in SADC would need to develop flexible wholesale-retail financial relationships, cemented with co-financing arrangements, with the smaller national DFIs in individual SADC countries. It should be at the hub of a SADC network of the DFIs that already exist but do not, as yet, function as a network.

- If a sub-regional DFI were to be set up it should be launched with paid-in subscriptions from the 12 present members of SADC without involving non-SADC shareholders at the outset. The door should be left open for non-SADC shareholders to be invited at an early second-stage.

- The *authorised* capital of a SADC-DFI would need to be around US$5 billion (or ZAR 25 billion equivalent). The subscribed and *paid-in* amount in the first round of capitalisation would need to be US$1-2 billion (ZAR 5 to 10 billion). The gearing (or debt/equity) ratio of such a DFI could, in present international market circumstances be an all-inclusive 5:1.

- Capital would need to be contributed by all members in *convertible* usable currencies denominated in either one of the international reserve currencies or in ZAR providing that currency was stable and convertible. Initially it might be wiser to adopt a US dollar standard of denomination.

- Loans made by the sub-regional DFI could be in a range of international or regional currencies (depending on currency requirements for project costs or on the borrowing preferences of project entities) using derivative instruments to hedge risk and maintain values.

- No exchange risk should be taken by the sub-regional DFI on its own balance sheet in either its lending or treasury operations.

- The sub-regional DFI should not undertake lending or guarantee operations at subsidised rates or on intermediate terms. It should cover its cost of funding, its costs of maintaining liquidity, and its administrative costs. But its lending terms would need to be competitive.

- It should provide unique value-added inputs into complex project financing packages that enable risk mitigation and cost minimisation. Its product range should extend beyond straight long-term loans into a more responsive range of financial products and services including equity investments (on a common or preferred basis) and derivatives.

- A sub-regional DFI's borrowings would need to be backed by the joint and several guarantees of its member-shareholders. The guarantees most meaningful to markets would be those of the creditworthy SADC countries

- The sub-regional DFI would need to have preferred creditor status to enable it to raise resources on finer terms and provide it with leverage vis-à-vis its borrowers.

- The DFI for SADC should rely on a commercial corporate structure with the Board of Directors being the ultimate instrument of governance. One Board Director should be appointed by each country. Shareholders should be involved, through the Board, in appointing its Chairman and separating that function from that of the Chief Executive Officer. Shareholder involvement in senior executive appointments should stop at that point.

- If voting rights in the subject DFI were proportional to shareholding there would be a clear risk of the DFI being vulnerable to unilateralism. Therefore acceptable formula for a *disproportionate* voting structure would need to be agreed to avoid that risk from materialising.

- South Africa would dominate the shareholding in any SADC-DFI that was set up. Its share would be between 50-58% of total equity. Botswana would have a share of around 9%.Angola, Tanzania and Zimbabwe would have a share of between 5-7% with the remaining seven countries would have shareholdings ranging between 1.5% to 4%.

- Because the ability of a sub-regional DFI to borrow would rest heavily on the creditworthiness of Botswana, Mauritius, South Africa and, to a limited extent, on Namibia's and Zimbabwe's intermediate creditworthiness, the viability of such a DFI would depend heavily on the political views and proclivities of these three countries.

- Given their domestic economic pressures, problems and priorities it is not obvious that these countries would be enthusiastic about supporting a new sub-regional DFI which depended so heavily for its resource mobilisation capacity on so asymmetric a distribution of credit-bearing capacity. The political under-currents in a sub-regional DFI that depended on the creditworthiness of three out of twelve members would result in inherent instability. The DFI would be subject to political and managerial capture by the creditworthy countries. It could become alienated from its client base in the poorer countries. It is difficult to see how, in such circumstances, sub-optimal outcomes in the management, operations and finances of a sub-regional DFI could be avoided.

- The creditworthy countries in SADC have *national* DFIs which are financially strong. They would be less dependent on a sub-regional DFI. The situation is the opposite for the uncreditworthy countries whose national DFIs are in a precarious situation.

- If a SADC-DFI is established it would be wise to apply allocation criteria which resulted in: (i) no more than 25% of the outstanding portfolio of the SADC-DFI exposed in any one country; and (ii) aggregate outstanding exposure in any single borrowing country being limited to no more than 5 or 6 times its relative share of the DFIs' accumulated net worth, subject to the overall portfolio exposure limit of 25% being respected. The second limit would apply only to countries other than South Africa whose share in any SADC-DFI would be well in excess of the first limit.

- A sub-regional DFI will need to apply transparent eligibility criteria in selecting the *projects* it finances. If the SADC-DFI is to be self-sustaining and viable over the long-term, it should finance projects that generate independent cash flows.

- A sub-regional DFI should apply prudential exposure limits in managing its portfolio. It should have limits on the proportion of its portfolio that is committed to any single sector to avoid covariant or cyclical risk as well as concentration risk. It should not finance more than a minor proportion of the total cost of any single project; and should apply prudent debt/equity ratios for the projects it finances. It should apply similar exposure limits to investments in projects, companies and to groups of associated inter-linked companies. Total exposure to *public enterprises* across the region should not exceed 50% of a SADC-DFI's total loan and equity portfolio.

- From the viewpoint of mobilising resources for investment in SADC, a sub-regional DFI may be a more attractive borrower to *private* capital markets than national DFIs in countries other than Botswana, Mauritius, and South Africa. Bond-issues by a sub-regional DFI on regional or international capital markets are unlikely to attract a maturity of longer than five years in the initial rounds except at a fairly high premium. However, maturities might be lengthened through structured World Bank or AfDB guarantees or other tailored credit enhancements to provide capital markets with the degree of comfort necessary to assume longer term risks.

- A sub-regional DFI in SADC is unlikely to attract loans from traditional MDBs. Other multilateral sources - in particular the European Union and the European Investment Bank - may favour supporting a SADC-DFI. For their own reasons, and based on their special experience in Europe, these sources of funds may believe that an institution similar to the EIB is a necessary component of the sub-regional institutional infrastructure that southern Africa needs to bring about progressively closer integration. That belief may be shared by some bilateral official sources (European aid agencies, export credit corporations and bilateral investment companies) which might find it easier to deal with a single sub-regional DFI is capably managed than with a plethora of smaller national DFIs.

- Some sources of aid funds may permit a sub-regional DFI to incorporate a soft-window in its structure for concessional bilateral or EU funds to be deployed for regional development. This possibility could be explored by SADC governments with the EU and with individual European governments at the policy-making level in order to obtain a more accurate assessment of its likelihood.

Institutional Options for Development Finance in SADC: The Optimal Choice

9.07 **Chapter 8** considered four institutional options for securing adequate *regional* development finance in SADC. These were: (i) converting the DBSA into a SADC-DFI; (ii) setting up a new sub-regional institution; (iii) creating a SADC-wide network of national DFIs; and (iv) establishing a SADC development fund. Apart from the first two, these options were not deemed to be mutually exclusive. A combination of Options 3 and 4 would be the optimal strategy for SADC.

- If development finance in SADC is to have a regional dimension then a supra-national DFI (whether new or converted) would probably be a step in the wrong direction. It would be better to sub-regionalise development finance by having national DFIs develop sub-regional capabilities through *co-operative* as well as *competitive* strategies. SADC governments should therefore:

  * Support a SADC-wide DFI-network with a *Development Finance Resource Centre* (DFRC) at its hub.
  * Attach it to the DBSA for administrative oversight over the DFRC in its formative stage.
  * Deal urgently with the problem of DFIs' *non-performing asset.s*
  * Increase the *autonomy and independence* of DFIs.
  * Encourage the formation of *operating partnerships* leading to *strategic alliances* between and among DFIs in SADC.
  * First corporatise then *privatise* DFIs through the sale of government-owned shares in domestic and regional capital markets.
  * Encourage DFIs in SADC to take up *cross-shareholdings* in one another wherever that results in consolidating strategic alliances.
  * Permit commercial and investment banking groups, and securities firms, to acquire control over privatised DFIs.

- Though attached to it, the DFRC should be independent of the DBSA. It should be 'owned' collectively by all the DFIs in SADC - as its subscribing members.

- DFRC should aim to achieve the following objectives: (i) capacity-building; (ii) training; (iii) sub-regional bonding; (iv) experience sharing; and (v) confidence-building; (vi) providing a central hub for information technology; (vii) developing a sub-regional policy research and analysis capability; and (viii) offering advisory services to SADC governments and to DFIs. It should be a resource centre not just for the DFIs financing industry and infrastructure but also for other DFIs operating in the agricultural and rural sector, for SME development, low-cost housing, micro-enterprise lending and providing gender credit.

- In fostering the development of a SADC network of DFIs, SADC’s Finance Ministers should establish a permanent Committee of DFI chief executives (one from each country) as part of the institutional infrastructure supporting FISCU. This Standing Committee should be seen as equivalent to the committees of key central bank officials and senior treasury officials. It should be charged with oversight responsibility for the DFRC and appointing its head. It should consider specific financing plans, drawn up on a co-operative basis for financing properly developed regional projects.

- The network option would encourage the emergence of a regional, multi-sectoral perspective in the DFI community which would enable a new ‘internal market forces dynamic’ to fill regional development financing needs. It would nudge SADC's development financing capacity, knowledge and skills base gradually towards the cutting edge. Such a strategy would result in providing inputs that are presently missing within the DFI system in SADC - i.e. those obvious gaps to which some SADC policy makers are reacting by looking for an institutional solution when the answer may lie in a network solution.

- A DFRC organised along lines suggested above should attract support from aid donors as well as from private financial institutions. It fits the thrust of the African Capacity Building Initiative (ACBI) and could benefit from strategic links with the World Bank's and African Development Bank's specialised training arms.

- The network solution should be complemented by a *SADC Development Fund* (SDF) financed by multilateral and bilateral donors with a combination of hard and soft resources (i.e. non-concessional as well as concessional). Such a fund could augment the *public finance* resources needed under productive public-private finance partnerships and applied in taking those specific risks which the private sector is unwilling or unable to take at the present time.

- The *SADC Development Fund* could be used for regional projects that might not be commercially attractive; i.e. for projects that have high economic returns but may not have assured and immediate financial returns through independent cash flow streams which can be applied to service debt or generate sufficient profits for eventual dividend returns on equity.

- Such a Fund would be useful for financing projects that were not large enough to justify the costs associated with external funding (from MDBs or donors) in each individual instance but where a number of such projects are ready to be financed. A SDF might initially be managed by DBSA and channelled through individual national DFIs providing they meet minimum tests of eligibility.

- The type of SDF being proposed could fulfil part of the role that structural funds play in European regional integration arrangements - i.e. accelerating development of poorer parts of the region so that their per capita income levels can converge over time with the richer parts.

- In establishing the proposed SDF there is a risk that extant aid flows to individual SADC countries *might* be diverted from the countries themselves and channelled instead through the sub-regional mechanism.

- Whether SADC decides to establish the SDF therefore depends on: (i) the expectations and preferences of donors and the poorer countries in SADC concerning aid flows and how both wish to see them channelled; and (ii) whether a regional funnel will prove to be a more efficient and effective resource allocation and results-oriented mechanism than the current basis of aid provision is deemed to be.