



southern african
development community
development finance
resource centre



DFRC

ANNUAL REPORT
2005



2005 ANNUAL REPORT

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The SADC-DFRC is an
autonomous SADC Institution
established under the Principle of Subsidiarity



Vision:

“To be the centre of excellence, aimed at catalyzing the SADC DFI Network Members’ collective efforts to be at the cutting edge of financial services delivery in the priority areas set by the RISDP.”

Mission:

“To be a lean virtual organization providing capacity building and policy research and advice to the DFI Network and SADC governments in support of financial and operational effectiveness and efficiency so as to enhance their contribution to economic growth and development in the SADC region.”

Governance Structure:

- Shareholders: SADC-DFI Network Members.
- Chairman of the Board of Trustees: Mr Peter Madara, Deputy CEO and Group Financial Controller, Industrial Development Corporation, Zimbabwe.
- Board of Trustees: Five members, appointed for two-year terms.
- Chief Executive Officer: Dr Rosalind H. Thomas

DFRC Corporate Profile

Mandate

The SADC – DFRC is an autonomous institution established under the SADC principle of subsidiarity. It is collectively 'owned' by the SADC-DFIs Network as its 'self – help' organisation. Only the twenty three members of the Sub-committee that have signed the MOU of May 2000 are members of the Network. Through technical and capacity building support, as well as policy research and advisory services, the DFRC's mandate is to promote the effective mobilisation of resources by the financial sector, in particular the DFIs, for investment in key areas with the potential to stimulate growth, generate employment and alleviate poverty, in line with the objectives of SADC under the RISDP.

Key Focal Sectors

To effectively deliver on its mandate, the DFRC has identified the following areas in its Five-Year Strategic Business Plan as key sectors:

- Financial sector reforms and strengthening and capital markets development;
- Institutional support, encompassing capacity building;
- SME Development; and
- Infrastructure/ PPP delivery.



Efforts by DFRC in these focal areas will support other sectoral efforts under the SADC-RISDP geared towards achieving the Region's goal of regional integration. They are therefore complementary of and in line with the NEPAD/AU strategy for Africa.

Approach

The DFRC is a lean organisation manned by a small highly qualified group of staff. Cognisant of this and to achieve its mandate, it has adopted a collaborative approach which involves utilisation of strategic partners in all its areas of strategic focus. The DFRC, thus, will primarily operate as facilitator, coordinator and catalyst to the DFI Network and regional governments.

Financing of Activities

The administrative budget of the DFRC is funded through contributions by DFI Network members on the basis of an agreed formula. Activities in line with the Centre's work programmes in the areas of research and advisory services, SMEs, infrastructure/PPPs and capacity building are funded from donor sources. Overtime, the DFRC is expected to strengthen its capacity to generate own resources and reduce dependency on subscriptions and donor support.

Abbreviations

AERC	African Economic Research Consortium
AfDB	African Development Bank
APDF	Africa Project Development Facility
AU	African Union
CCBG	Committee of Central Bank Governors of SADC
CDE	Centre for the Development of Enterprise
CISNA	Committee on Insurance, Securities and Non-banking Financial Authorities of SADC
COMFI	Committee of Ministers responsible for Finance and Investment of SADC
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DFRC	Development Finance Resource Centre
DKK	Danish Kronar
ECA	Economic Commission for Africa (see also UNECA)
EU	European Union
FANR	Food, Agriculture and Natural Resources Directorate of SADC
FDI	Foreign Direct Investment
FISCU	Finance and Investment Sector Coordinating Unit
FIRST	Financial Sector Reform and Strengthening Initiative
GDP	Gross Domestic Product
GIBS	Gordon Institute for Business Sciences
GIMPA	Ghana Institute of Management and Public Administration
ICM	Integrated Committee of Ministers of SADC
IDC	Industrial Development Corporation of South Africa
IFC	International Finance Corporation
IMF	International Monetary Fund
IOD	Institute of Directors in Southern Africa
JAI	Joint Africa Institute
KfW	Kreditanstalt Für Wiederaufbau, Germany
MEFMI	Macroeconomic and Financial Management
MOU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
NDC	National Development Corporation of Tanzania
ODA	Official Development Assistance

PEP Africa	Private Enterprise Partnership for Africa
PFI	Private Financing of Infrastructure
PPDF	Project Preparation and Development Fund
PPIAF	Public Private Infrastructure Advisory Facility
PPI	Private Provision of Infrastructure
PPPs	Public-Private Partnerships
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SDIs	Spatial Development Initiatives
SMEs	Small and Medium Scale Enterprises
SSA	Sub-Saharan Africa
STO	Senior Treasury Officials of SADC
TA	Technical Assistance
TIFI	Trade, Industry, Finance and Investment Directorate of SADC
TNC	Trans-National Corporation
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WEF	World Economic Forum
WITS	Wits University Business School
WTO	World Trade Organisation

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Board of Trustees

The Board of Trustees provides strategic leadership and oversight to the DFRC and ensures good corporate governance. It approves all policies of the DFRC and ensures sound financial management of the institution. The Board interacts directly with the DFI Network and with the policy levels of SADC Governments. The current board has been in place since September 2004.



Colonel Joseph L. Simbakalia
 Managing Director
 National Development Corporation, Tanzania
 M. Eng. (Manufacturing Methods),
 B. Eng. (Mechanical),
 Chartered Engineer (UK)
 Dep. Chair since: March 2003
 Trustee since: August 2001



Mr Oaitse M Ramasedi
 General Manager
 National Development Bank, Botswana
 MA, B. Com (Accounting)
 Trustee since: March 2003



Mr Peter Madara
 Dep. CEO/Group Financial Controller
 Zimbabwe Industrial Development
 Corporation, Zimbabwe
 MBA (UZ), Dip. B.S. (UZ), FCIS, R.PACC
 Chairman since: August 2002
 Trustee since: March 2002



Mr Benyram Chooramun
 Managing Director
 Development Bank of Mauritius, Mauritius
 MBA, B. Acc, CIS
 Trustee since: September 2004



Mr Alan Mukoki
 Chief Executive Officer
 Land & Agricultural Bank, South Africa
 B.Com. (CAIB), EDP (Wits)
 Trustee since: September 2004

Retired Members

Mr Khaya Ngqula
 Former Chief Executive Officer
 Industrial Development Corporation, South Africa. (1997-2004)
 B.A. (Admin), EDP (Wits)
 Trustee since: August 2001

Mr Stanley Matsebula
 Managing Director
 Swaziland Savings and Development Bank, Swaziland
 MA (Applied Economics), BA (Social Science,
 Dip. Finance (RAU), Dip. Advanced Banking (RAU)
 Trustee since: March 2003

The Chairman's Report



Introduction

This Annual Report is the first Report of the Development Finance Resource Centre (DFRC), and the DFI Network of SADC. Both of these institutions are new "self-help" creations of SADC, aimed at supporting regional economic integration and effective delivery on the development challenges facing the sub-region. They have specifically taken on the challenge of supporting the SADC Regional Indicative Strategic Development Plan (the RISDP) which is the region's 10-15 year strategic development agenda, and which has at its centre the achievement of the Millennium Development Goals (MDGs). In the context of the NEPAD philosophy of "African Solutions for African Problems," therefore, these institutional mechanisms for delivery comprise a Southern African solution to addressing some of the region's most pressing problems. This report, coming one and a half years after the DFRC's establishment, is therefore timely.

The Need for a Development Finance System in the SADC Region

The DFI Network and the DFRC form two elements of an emerging development finance system for the SADC region. The third element is to be comprised of the SADC Project Preparation and Development Fund (PPDF). The latter, which is still being discussed by Member States, is a facility aimed at the packaging of bankable projects for investment in the SADC region.

The finance system is the outcome of a study funded by the European Union (EU) entitled 'The SADC-FISCU 1998 Research Project on: Development Finance and the Need for a Sub-Regional Development Financing System in SADC' (the DFS98).¹ The study recommended that, instead of establishing a sub-regional bank, SADC should create a SADC-wide network of existing national DFIs and a Development Finance Resource Centre to support the network's capacity building needs. The Centre, it recommended, should also have a policy research and analysis capacity and offer advisory services to SADC governments and DFIs. In addition, the Network and the Centre should be complemented by a Development Fund.

All of these recommendations have been heeded by SADC Governments and by the DFIs and hence the activities of the SADC-DFRC are targeted towards supporting interventions aimed at their achievement.

In supporting the idea of a Network of DFIs, the study acknowledged the weaknesses of African DFIs, but nevertheless noted the continued need for them in Africa, stating that:

'a case can be made that the need for development finance remains. It will continue to do so until financial systems in Africa develop the same capacities as in other regions of the world.

Despite recent progress in implementing financial reforms, financial systems in Africa remain at either a primary or intermediate stage of intermediation.² As a consequence, DFIs are still needed to fill a gap caused by momentary deficiencies in African capital markets. DFIs were in any event created to compensate for imperfections and gaps in inadequately developed financial systems and capital markets.

¹ This being one of three studies carried out under the same project. The other two studies were on Macroeconomic Convergence and on Investment. Let us revisit some of those recommendations and examine their importance for the Region.

² Only two (Mauritius and South Africa) were considered to be at an advanced stage. Development Finance Needs for Private Sector Development for SADC

In under-developed systems as exist in Africa, DFIs are indispensable for offering a range of financial services, from longer-term capital and related development services to stimulating industrial development, trade finance and leasing facilities. They also provide financial services tailored for agricultural development and housing, focused on the lower end of the market.

However, the processes of economic and financial sector liberalisation happening in all SADC countries have so far had little influence on the role of DFIs, their functions and financial products. DFIs, therefore, need to achieve financial self-reliance, and thus limit Governments' future fiscal exposure. For this to happen, financial reparation in terms of re-capitalisation and providing for bad debts is necessary, and needs to be complemented with the introduction of proper financial management systems and the right operational priorities. This requires appropriate prudential regulations and enforcement - a necessary condition for restoring much-needed credibility in the DFIs.

The study counselled that DFIs in SADC need to become more market-oriented, market-sensitive and market-responsive in targeting and addressing those risks which private commercial sources of finance are unwilling to contemplate taking for the time being. Additionally, and for them to be able to accomplish this, they need to expand their shareholder base as well as their domestic and foreign sources for resource mobilisation. Within a reasonable period of time, and given these developments, the DFIs would then be transformed in an orderly manner from being dependent on public assistance to becoming full service, investment or universal banks. Thus, the strategy proposed in the study is not only prudent but, this is what SADC's DFIs should aspire towards.

Added to this, according to a recent study by the United Nations Economic Commission for Africa (UNECA), in order for SADC to meet the challenges of delivery set by the Millennium Development Goals, the region needs to grow by 6.2%. This growth requires an annual investment/GDP rate of 37.8%, of which domestic savings (both public and private) will meet 19.6% and ODA flows 11.8%. This leaves a development finance gap of 6.4% of GDP which could, the ECA has warned, widen as ODA continues to decline. They therefore argue that foreign direct investment (FDI) will continue to be a critical source of investment for the sub-region. In this regard too, regional DFIs can play a role in facilitating FDI flows, especially for infrastructure investments.

Funding Gap: Development Finance Needs for Private Sector Development in SADC and SSA.

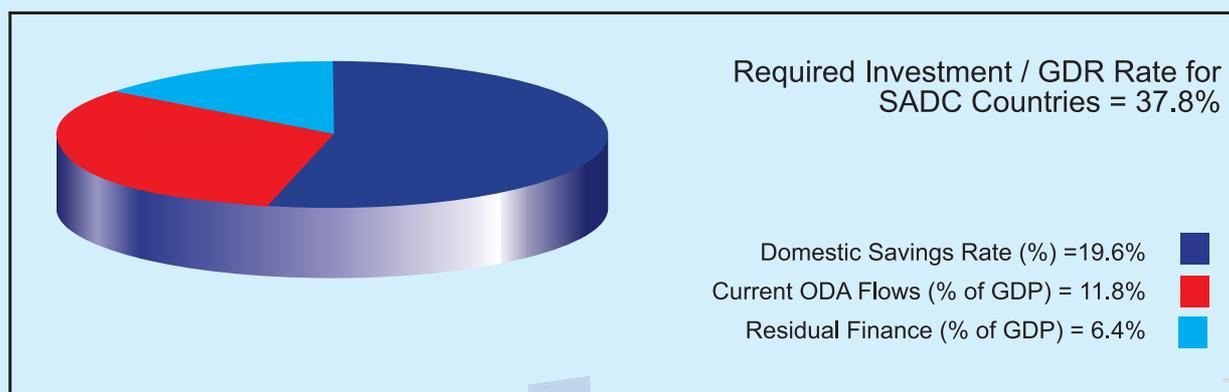
Table I

Variables (per annum)	SADC	SSA
Required GDP Growth Rates (%)	6.2	6.8
ICOR*	6.1	5.0
Domestic Savings Rate (%)	19.6	14.9
Required Investment/GDP Rate (%)	37.8	33.0
Required External Finance (% of GDP)	18.2	18.1
Current ODA Flows (% of GDP)	11.8	8.9
Residual Finance (% of GDP)	6.4	9.2

*Incremental Capital Output Ratio

Development Finance Needs for Private Sector Development for SADC

Fig. 1



Sources: ECA "Economic Report on Africa 1999", Addis Ababa, 1999

Supporting financial sector reform and strengthening and capital markets development and deepening

Like the DFIs of Asia and Latin America, the SADC DFIs should overtime be able to adapt and compete with other financial institutions (domestic and foreign) by expanding their range of services, products and clients and at the same time, transforming their resource mobilisation and allocation activities.

In so doing, DFIs can play a natural role in supporting financial sector strengthening and capital markets development and deepening. National DFIs have the potential to play an accelerating rather than a retarding role in supporting the process of privatisation, considered an important mechanism for ensuring capital markets development and deepening. Further, and because of the strong relationship that exists between the national DFIs and their Governments, they potentially have a strong and influential role in supporting financial sector policy reforms.

The DFRC's Role and Purpose

The DFRC was established with the purpose of serving SADC DFIs to become more efficient delivery agents. It is seen as a vehicle for supporting, amongst other things:

- The capacity-building needs of national DFIs to strengthen them and enable them to play a meaningful development financing role at the national level and in the region;
- Supporting sub-regional cooperation and the achievement of regional integration through, inter alia, the SADC Regional Indicative Strategic Development Plan;
- Policy research and analysis to support DFI interactions with SADC governments on issues of resource allocation, regional and international resource mobilisation and sub-regional project and investment development;
- Advisory services to SADC governments and to DFIs; and
- Providing a central hub for information technology and DFI information systems.

The DFRC is, therefore, a critical institution for supporting the development of the financial sector.



To this end, and in addition to the support it receives from its stronger Network Members, the DFRC is developing strong collaboration partnerships with a number of key players both within and from outside of the Region. From within the Region, the Secretariat of the SADC Committee of Central Bank Governors, and the Secretariats of both the Financial Services and Capital Markets Regulators and the Commercial Banks are critical partners.

Similarly, outside of the Region, the DFRC is establishing cooperative partnerships with the African Development Bank (AfDB) and the World Bank, including the International Finance Corporation (IFC) – in an effort to harness their expertise and resources more effectively for the achievement of its mandate.

Finally, the DFRC has begun to address the capacity building challenges facing the DFIs in the Region and, to this end, it has held successful training interventions in collaboration with some of its partner institutions. Key among these has been the AfDB, the Joint Africa Institute (JAI) and the DFI Network's stronger members, the Development Bank of Southern Africa (DBSA) and Industrial Development Corporation (IDC) of South Africa.

You will notice from the information on activities and accomplishments for 2004/5 that the SADC-DFRC is beginning to make an impact on several fronts, including in respect of the main areas of the DFI Network and the DFRC's strategic focus for 2005-2009 on institutional strengthening of the DFIs, financial sector issues, infrastructure delivery (and PPPs) and support for SME development.

I would like to thank the management and staff of the DFRC for their commitment to the vision and mission of the DFI Network and the DFRC. I acknowledge in particular the tireless effort and contributions of the Chief Executive Officer, Dr. Rosalind Thomas and the Manager, Finance and Administration, Ms. Vero Kgakge, in making this first year of the DFRC's existence a successful one. It is not easy to set up a new institution, build its capacity and develop its credibility - all in its first year of operations. Yet through their assiduous labour, enthusiasm and absolute dedication to the aims and objectives of the DFI Network, they have managed to establish a strong institution and to recruit an impressive team of Programme Managers and support staff to enable the institution to deliver on its mandate.

I have also been privileged to work with a strong and committed Board. I want to acknowledge and thank first the former Board members who retired by rotation in September 2004. I specifically mention Mr. Khaya Ngqula, former MD of the Industrial Development Corporation of South Africa and Mr. Stanley Matsebula, MD of the Swaziland Savings and Development Bank, for their commitment and continued support of the DFRC and the Network's activities. They took their fiduciary responsibilities seriously and provided the Board and the DFRC with the wisdom of their counsel.



I recognise also my current colleagues on the Board, Col. Joseph Simbakalia, MD of the National Development Corporation of Tanzania and Vice-Chairman of the Board of Trustees, Mr. Oaitse Ramasedi, General Manager of the National Development Bank of Botswana, Mr. Benyram Chooramun, MD of the Development Bank of Mauritius, and last but certainly not least, Mr. Alan Mukoki, CEO of the Land and Agricultural Bank of South Africa. I look forward to their continued dynamic contribution in providing strategic direction and leadership to the organisation.

I want to recognise and thank our “shareholders”, the DFI Network Members for their unwavering support and belief in our ability to deliver for them, and through them, our Governments and policy makers. Specifically, I want to recognise the Ministers responsible for Finance and Investment of SADC and the Senior Treasury Officials, for their sustained support and confidence in us and our mission. Throughout our establishment they have held our hands, guided and encouraged us.

A special and final word of thanks is reserved for the support received from our financing partners from the International Donor Community and our clients and stakeholders in the regional communities we serve. In particular, I want to mention the Government and peoples of the Kingdom of Denmark, for their belief in our cause and their continued financial support of the DFI Network and its activities. Mention should also be made of the AfDB and the JAI. Between them, they have made it possible for the DFRC to achieve much in this first year of its operations.

I am certain that the DFRC will continue to be a relevant player – working with its partners in supporting financial sector strengthening and capital markets development. It is poised to achieve great things in the coming year and especially to ensure targeted support to its member DFIs in both strengthening them as financial institutions, and enhancing their delivery in the two areas in which they have agreed to cooperate – infrastructure development, including supporting greater involvement of the private sector in the provision of infrastructure, and entrepreneurial development, including supporting the increased involvement of women in the economy. These are worthy challenges and I have no doubt that the DFRC will succeed.

Peter Madara

Management & Organisational Structure

Management & Staff Profiles



Dr Rosalind H. Thomas

(South Africa)

Job Title:

Chief Executive Officer

Status:

Regional, contract

Area of Expertise:

International Economic Law,
Risk management, Economics
(Trade, Finance & Investment)

Academic qualifications:

PhD (Wits U.), MA (Law &
Economics) (JHU-SAIS), LL.B; B.L.
(Hons) (U. Zim)

Dr Thomas was the interim CEO for the SADC-DFRC since its establishment in July 2003. She was seconded by the National Treasury of South Africa from the Development Bank of Southern Africa (DBSA), a member of the SADC DFI Network, to drive the policy work on development finance in the Region and to set-up the Institution and recruit staff. She was appointed substantive CEO with effect from 1st March 2005. Dr Thomas is currently managing the Infrastructure/PPP Programme of the DFRC.



Ms Vero Kgakge

(Botswana)

Job Title:

Manager, Finance and Administration

Status:

Regional, contract

Area of Expertise:

Finance & Administration

Academic qualifications:

B. Com (University of Botswana)

Ms Kgakge joined the SADC-DFRC in September 2003, coming from the Finance Division of the SADC Secretariat. She was involved in the establishment of the institution including, developing and maintaining the finance and administration systems, policies and procedures.



Dr Herrick Chota Mpuku

(Zambia)

Job Title: Programme Manager – Capacity Building
Status: Regional, contract
Area of Expertise: Human Resource Development, International and Development Economics
Academic qualifications: PhD, MBA (Economics & Corporate Planning), MSc. Development Economics, BBA & Fellow, ICM

Dr Mpuku joined the SADC-DFRC in October 2004, from the USAID Mission in Zambia, where he served as a Programme Economist. Prior to this he served in the Zambia public service and academia.

Mr Stuart Kufeni

(Zimbabwe)

Job Title: Programme Manager – Policy Research & Advisory Services
Status: Regional, contract
Area of Expertise: Banking and macroeconomics
Academic qualifications: MA Economics (University of Manchester), BSc (Hons) Economics (U. Zim.)



Mr Kufeni was previously employed by the Reserve Bank of Zimbabwe for 24 years. He left the position of Director, Financial Markets Department and joined the SADC-DFRC, in November 2004. He previously held the position of Director, Economic Research and Policy Department, with the Bank.



Mr Joseph William Nyamunda

(Zimbabwe)

Job Title: Programme Manager – SME Development
Status: Technical Advisor on secondment
Area of Expertise: SME and Micro Finance
Academic qualifications: MSc Economics, BSc (Hons) Economics

Mr Nyamunda is on secondment to the SADC – DFRC since November 2004 from the Small Enterprises Development Corporation (SEDCO), Zimbabwe, where he was the Chief Executive Officer. He has over 20 years experience working on SMEs.

Chief Executive Officer's Report



Introduction

This Annual Report is the SADC-DFRC's first and comes almost two years after we first opened our doors for business on 1st July 2003. It details the process that was followed to establish the DFI Network and the DFRC, including the approval of their establishment by Council, the DFRC's operations, strategic focus and activities as well as accomplishments to date.

An emerging regional development finance system for SADC

The SADC FISCU study on Development Finance approved by Ministers of Finance in March 1998, recommended the establishment of the DFI Network, the DFRC and the Development Fund. In May 2000, the Network, comprising of national DFIs in the SADC region, was established by Memorandum of Understanding (MOU). In August 2001, a Trust Deed establishing the DFRC was adopted and, based on an agreed formula, DFI Network Members agreed to finance its recurrent administrative expenditure from start-up, and to approach donors for all of its programme costs in support of their technical and capacity building needs. A Board of Trustees was appointed and began meeting regularly to direct the activities of the DFRC.

As the centre of the DFI Network, the SADC-DFRC was mandated amongst other things, to facilitate the following:

- Dealing with non-performing assets of national DFIs;
- Increasing the financial autonomy and independence of national DFIs;
- Encourage cross-border strategic alliances and operational partnerships for the efficient and optimal use of development finance for projects at both the national and the regional level;
- Help to corporatise and privatise financially sound DFIs; and
- Encourage DFIs to take cross-shareholdings in each other.

As an adjunct to the Network and the DFRC, the Study proposed a SADC Development Fund and recommended that a full feasibility study be carried out to determine the viability, sustainability and potential modus operandi of such a fund. This latter recommendation was implemented with a two-phase feasibility study (paid for by Germany's KfW) and undertaken by the DFI Network under the overall management of the DFRC and with South Africa's DBSA as implementing agency.

Phase I examined the desirability, viability and sustainability of a fund. It began in December 2002 and culminated in a report to the DFI Network by consultants in June 2003. The study recommended a Project Preparation and Development Fund (PPDF), for the preparation, promotion and development of bankable projects. Its recommendations were adopted by Ministers of Finance on 7 August 2003 and endorsed by the SADC Council at its Meeting in Dar Es Salaam, Tanzania in August 2003.

Phase II began in 2004 and examined the modus operandi, location and potential structuring of the Fund. Germany's KfW again funded this phase of the project. A draft report was discussed with the Network DFIs and Senior Treasury Officials in January 2005, and a final report completed in May 2005. This report will be discussed with Ministers of Finance at their next meeting which is expected to take place in the second quarter of 2005.

The three institutional mechanisms – the Network, DFRC and the PPDF – are three essential components of an emerging development finance system in SADC and will provide an exceptional and mutually supportive circle of close cooperation for development, while maintaining their independence and separation of responsibilities.

Establishment Under the SADC Principle of Subsidiarity

The establishment of the SADC DFI Network and the SADC-DFRC, effected under the principle of subsidiarity, and the latter's location in Gaborone, Botswana, was approved by the SADC Council of Ministers at their October 2002 Meeting in Luanda, Angola. The principle of subsidiarity was adopted by SADC member states as one of the Community's core principles essential for facilitating delivery on SADC's Common Agenda, and is defined as follows:

“...that all programmes and activities should be undertaken at levels where they can best be handled based on consultations between governments and relevant stakeholders. The involvement of institutions, authorities, and agencies outside SADC structures to initiate and implement regional programmes using their own generated resources should be promoted and encouraged.”

The founding MOU establishing the Network and the amending addendum are incorporated into the draft Finance and Investment Protocol of SADC. When adopted by SADC Member States, the Protocol will transform the DFI Network and the DFRC (as well as the Fund when that is established) into full-fledged Treaty-based organisations of SADC.

The DFRC's Sources of Funds & Funding Strategy

The DFRC is financially independent in respect of its recurrent administrative and institutional costs, having adopted a formula-based approach for DFI Members contributions. The formula starts with a minimum base that is independent of any economic variable characterising the Member State's economy. To this equal amount contribution, additional contribution elements proportional to the Member States' GDP and population are included. The formula thus attributes one-quarter of the DFRC's recurrent costs on an equal share basis, one-half, is distributed among DFI Members in proportion to each country's GDP, and the second quarter according to each country's population size. The DFIs in the different countries then agree to divide amongst themselves the contribution required for their country. This approach to financing recurrent expenditure is deemed to be transparent and provides the element of sustainability.

The funding strategy of the DFRC makes provision for income generation from services rendered (training courses, developmental literature, etc), membership contributions by SADC DFI Network members and the sourcing of donor and private sector funding and technical assistance.

Over time, the DFRC aims to develop a strategy which evolves the institution from a cost to a profit centre.

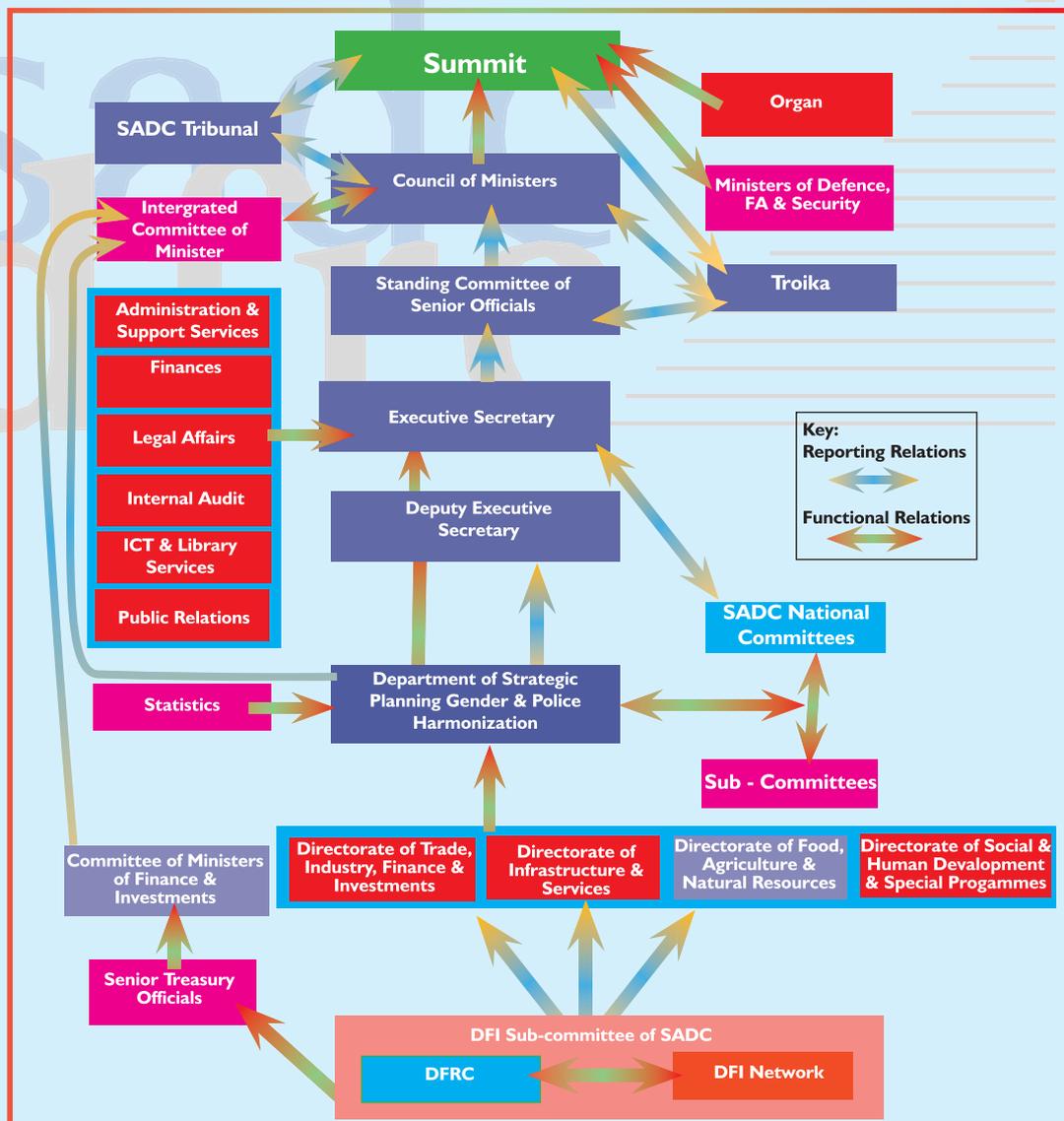
How the Network & the DFRC fit into SADC Structures

The SADC Committee of Ministers responsible for Finance & Investment (COMFI) is a permanent committee of the Integrated Committee of Ministers (ICM) which reports through to the SADC Council of Ministers. Figure 1 below sets out this relationship diagrammatically. COMFI is supported by the Senior Treasury Officials and the Committee of Central Bank Governors.

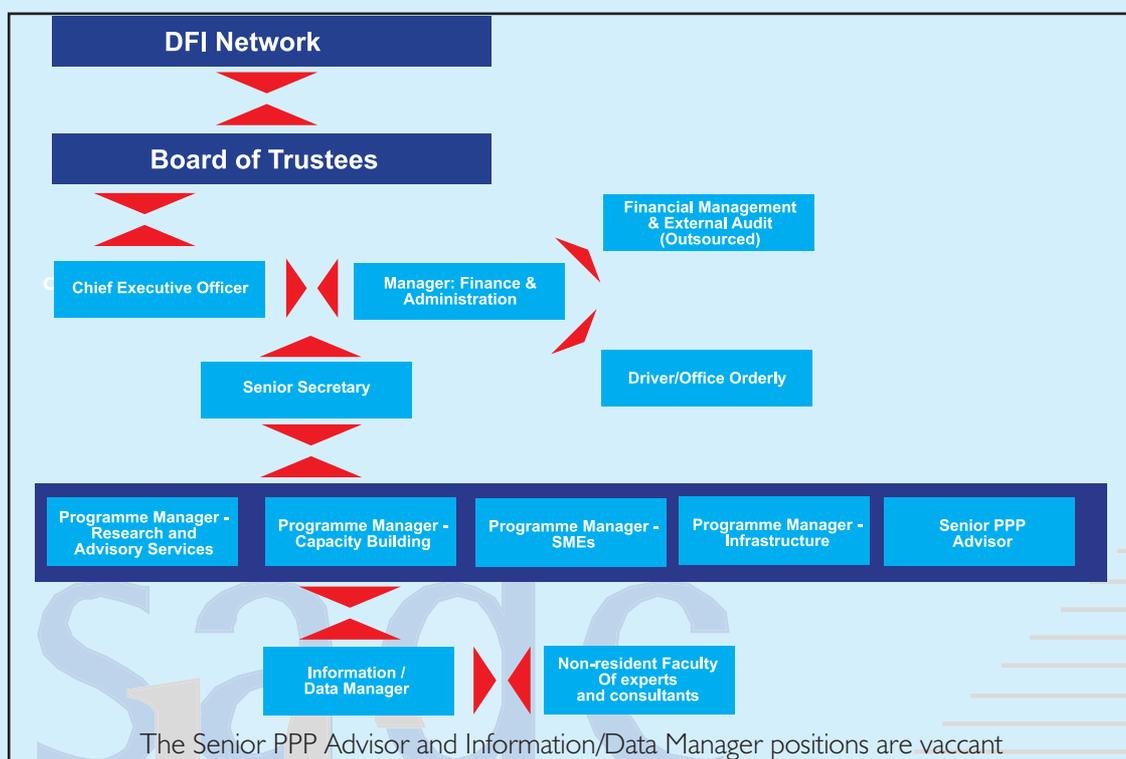
The DFI Subcommittee is comprised of all national DFIs in SADC member countries, is a subcommittee of the Senior Treasury Officials of SADC, and reports through them to COMFI.

The DFIs, through the DFRC, enjoy a functional relationship with the SADC Secretariat. Their main interface is through the Directorate for Trade, Industry, Finance and Investment (TIFI). However, strong operational links are being developed with the Infrastructure & Services and Food, Agriculture & Natural Resources Directorates (FANR).

The Relationship of the DFI Network and the DFRC to SADC Structures



DFRC Organogram



The Network & the DFRC

While all members of the Network are members of the DFI Subcommittee, not all DFIs represented on the Subcommittee are members of the Network. The Network is comprised of those DFIs that have signed the May 2000 MOU, which establishes it as an institutional mechanism of SADC.

The aim of the Network is to co-operate to ensure that adequate developmental finance is available wherever and whenever it is needed in SADC. Currently, 23 DFIs from 10 SADC countries have signed the MOU and are members of the Network. Two more members from Mozambique and one from the Democratic Republic of the Congo are due to join in 2005.

The Network arrangement permits greater flexibility, and is considered a logical and rational approach to development finance in the Region, involving better utilization of national DFI assets for regional purposes.

The DFRC is 'owned' collectively by all the DFIs in SADC as an 'industry-owned' self-help organization. It provides the vehicle for supporting advisory and capacity building services to the Network and the finance sector. The DFRC is expected to facilitate, through the Network, the emergence of a new 'internal market forces dynamic' aimed at addressing regional development financing needs. By being pro-active, the DFRC acting on behalf of all its members is expected to nudge the region's development financing capacity, knowledge and skills base gradually towards the cutting edge of financial services delivery.

As the centre of the SADC-DFI Network, the DFRC will attract financial, technical, advisory and resource-person assistance and support from the donor community as well as from private financial institutions

Relevance to SADC, NEPAD & the African Union Strategies

Development finance and DFIs will continue to play an important role in the SADC region for the foreseeable future. DFIs are especially important players for the provision of long-term capital for development projects (especially for infrastructure), for stimulating industrial development and value-adding, promoting entrepreneurship and private sector development, trade finance, capital markets development through facilitating privatisation of state-owned assets (e.g. in power, telecommunications, water supply, transport and mining), technological advancement, financing of agricultural development, microfinance and gender credit and support.

These intervention areas are critical for the successful achievement of regional integration and co-operation in SADC, and have been highlighted in the SADC RISDP as critical development focal areas. SADC has recognised the importance of the role of DFIs for financing aspects of the RISDP and its chapter on financing of the RISDP alludes to the importance of the Network's financing activities in achieving successful implementation of the Plan.

As a critical strategy of the African Union (AU), the New Partnership for Africa's Development (NEPAD) initiative also recognises the important financing role of DFIs in the African continent and the need to work through existing institutions like the Network and its members to achieve Africa's development challenges. Like SADC, NEPAD also focuses attention on capacity building and policy analysis and support as a critical development driver. The DFRC will provide support for this focus and is working closely with the NEPAD Secretariat to build capacities and develop strategies to strengthen the financial sector.

The AU's constitutive instruments identify the critical role of regional organisations and of development finance in harnessing Africa's potential. It targets capacity building, as one of the critical areas for achieving much needed economic growth and development. The AU's goals are, therefore, supportive of and have much in common with those of SADC, and have been embraced by SADC DFIs.

As a building block of the AU, SADC will need to play a role in achieving the continental long-term goals of the union, and in this respect, as an institution of SADC, the DFI Network and its DFRC will have a critical role to play.

The 5-Year Strategic Business Plan & Work Program Roll-out

A Five-Year Strategic Business Plan (April 2004–March 2009) was adopted in May 2004 to guide and give strategic direction to the Network and the DFRC and provide a 'road map' guiding their activities and deliverables. The thrust, direction and objectives of the Business Plan are supportive of regional developmental initiatives under the RISDP and, at a broader continental level, of NEPAD. However, given the limited capacity of the DFRC, for optimal effect the Network agreed to prioritize and limit its interventions to a few select areas of strategic focus, ensuring the potential to impact significantly on the attainment of the RISDP goals of employment and poverty eradication. Consequently, the Five-Year Business Plan identifies SMEs and Infrastructure development as key strategic focal areas for the next five years.

SME development was selected because:

- Success with SMEs has a significant development impact;
- SMEs promote strong backward and forward linkages in the economy;
- They cut across various sectors and, therefore, provide an engine of growth for the private sector;
- SMEs have a high capacity to generate employment and are key to poverty eradication; and
- SMEs contribute to the development of a vibrant middle-class, which is essential for generating domestic savings, and therefore for mobilizing increased domestic investments.

Infrastructure delivery was viewed as critical because:

- Infrastructure development is indispensable for increased regional trade, investment and development;
- Huge backlogs exist in critical infrastructure investments;
- Infrastructure, particularly community-related infrastructure, is key to employment creation, equity and integrated development; and
- DFI Network members have a pivotal role in advising Governments on appropriate policy and regulatory environment to promote infrastructure delivery by the private sector, especially through PPPs which are critical to sustainable infrastructure.

By placing emphasis on these sectors, the Network and its DFRC are not only fulfilling their mandate but are also playing a critical role in supporting the attainment of the goal of regional economic integration.

Additional to these sectors, the DFRC also focuses on support for financial sector strengthening and reform and institutional strengthening of the DFIs to ensure delivery on their mandates. In this context, the DFRC promotes the liberalization of the financial sector, including the adoption of appropriate legislation to supervise and regulate the sector and to support the development and strengthening of capital markets. It also focuses on capacity building to improve the skills base of DFIs. The overriding objective is to promote efficient mobilisation and investment of financial resources by DFIs, in a stable financial environment.

The Business Plan provides the overall operational framework, and is a high level strategy which needs to be operationalised and rolled out through annual work programmes and budgets. The work programmes for 2005-2007 have now been developed and adopted by the Board and the DFI Network, and this document is available separately.

Progress Achieved

On Funds Mobilisation

On 16 July 2003, only 16 days after opening its doors, the DFRC had its first success in raising a technical assistance grant from Emerging Markets Economics Limited (representing the management unit of FIRST Initiative) a company registered in the UK and financed by a consortium of donor institutions including the World Bank, IMF, DFID, SIDA, CIDA, SECO and the Netherlands Ministry of Foreign Affairs. The grant facility of US\$80,000 was given to implement a TA project to carry out a Phase I Needs Analysis and Skills Audit of the members of the DFI Network.

While additional funding for capacity building and institutional strengthening and reform of DFI Network members is still being sought from the donor community, we can successfully report that in September 2004 the Royal Danish Embassy made available the sum of DKK9.5 million (approximately €1.276 million) towards DFRC programmes for 3 years from FY2004/5 to 2006/7 with the potential for additional funding for two more years after year three.

In November 2004, the African Development Bank's Financial Management Department assisted the DFRC to raise US\$200,000 for Risk Management training for the DFIs through the Japanese Trust Fund at the Bank. An additional US\$30,000 was also obtained for this purpose from the Joint Africa Institute.

We are extremely upbeat about our prospects for receiving funding from several of the International Cooperating Partners – although the process of approvals of funding remains slow.

On Partnerships

Since July 2003 we have largely completed our recruitment process and as a lean organization, we rely on a small but highly skilled staff complement. Given our lean nature, we have adopted a strategy which relies on the effective use of partnerships to maximize delivery.

...for Capacity Building

In respect of capacity building, we have held discussions with and are completing MOUs to cement partnerships with several best industry agencies, universities and technical schools, including but not limited to:

- The United States International University - Business School in Nairobi, Kenya;
- The Ghana Institute for Management and Public Administration (GIMPA) in Accra, Ghana;
- The Gordon Institute for Business Sciences (GIBS) in Illovo, Johannesburg, South Africa; and
- The Wits University, Business School, in Johannesburg.

Cooperation on capacity building is already taking place with –

- The African Development Bank;
- The Joint Africa Institute of the World Bank, IMF and AfDB; and
- The DBSA's Vulindlela Academy and the IDC's Training Academy in South Africa.

... for Research and Advisory Work

Collaborative research partnerships are being forged with the Secretariats of the Committee of Central Bank Governors of SADC (CCBG) and the Committee of Insurances, Securities and Non-Banking Financial Authorities (CISNA). They are also being forged with the DBSA's Policy Business Unit, the Human Sciences Research Council (HSRC) of South Africa and extra-regionally, with institutions like Canada's IDRC, Carlton University's Centre for Trade Policy and Law (also in Canada) and the African Economic Research Consortium (AERC) in Nairobi, Kenya.

... for SMEs Support and Delivery

Discussions are on-going with the International Finance Corporation, including its SME arm - PEP Africa (formerly APDF), in respect of collaboration on SMEs. An agreement to cooperate on SMEs already exists with the Centre for Development of Enterprise, a Brussels based EU agency which has opened a regional office in Gaborone, Botswana. We are also exploring with Anglo-American Corporation the possibility of replicating an SME support programme in the region that they have developed in South Africa.

... and for Infrastructure Delivery

Finally, in respect of our activities in support of infrastructure delivery, the DFRC has succeeded in having two projects approved through the Public Private Infrastructure Advisory Facility at the World Bank (PPIAF).

The first involves a multi-phase project that we are managing on behalf of the NEPAD Secretariat to develop a quantitative and analytical appraisal methodology for PPPs in Africa. This methodology will be owned by NEPAD and used first in the SADC region to appraise PPP projects in infrastructure. The objectives of this first phase include the following:

- To recommend the kinds of guidance material that would best serve the objective of the overall project, presenting alternative approaches where appropriate.
- To scope and outline the guidance material to be developed in detail in the next phase.

The eventual purpose of this project is to strengthen the capacity of staff in public sector units responsible for the development of PPI projects in appropriate quantitative analytical techniques and methods used in preparing, managing, and monitoring PFI, PPP and similar types of private-sector-participation projects involving infrastructure and infrastructure-related services.

In respect of the second project, the DFRC will begin a process of setting up PPP Facilitation Units at several DFIs engaged in infrastructure development.³ The first and “pilot” project is targeted for the National Development Corporation (NDC) of Tanzania given that the policy environment in Tanzania is substantially supportive of PPPs and the NDC has a full mandate to undertake these activities. The Mtwara Development Corridor will provide the seed bed for 3 greenfield projects which will be used to develop training around appraisal techniques for PPPs (using the methodology developed for NEPAD). South Africa’s DBSA will be a key partner in this endeavour, supported by PPIAF and the African Development Bank. The SADC Secretariat’s Directorate for Infrastructure and Services is also involved as both a partner and a key stakeholder.

In Conclusion

This year has been a remarkable year for us and we have grown in strength. The DFRC has been and is fortunate to have DFI “shareholders” that understand the importance of a “strong, inter-active sub-regional development-financing network” as a vehicle for delivering on the region’s agenda. Their continued support – whether through their actions, their intellect or financial support - is highly appreciated.

Since the DFRC’s inception, we have also been privileged to have a very strong, dedicated and supportive Board of Trustees, the members of which have taken their fiduciary responsibilities seriously. The current Board, and our Chairman, Mr. Peter Madara, have sustained and guided our activities and provided strategic direction astutely. They have mentored management as we have set up the DFRC, recruited staff and developed its policies, procedures and programmes.

I am pleased to say that given the extent of our mandate, we now have an excellent team of committed and well-qualified people working together to take up the challenges that we are facing. We have a demanding but exciting year ahead of us, and I am confident that with the management team and staff that I have to support me, we will attain even greater success for the Region going forward.

Dr. Rosalind H. Thomas

³ These will be at NDC, Tanzania; NDB, Botswana; DBN, Namibia; DBZ, Zambia; ZDB & IDC, Zimbabwe.



PROGRAMME REPORTS

I. POLICY RESEARCH AND ADVISORY SERVICES

Manager: Stuart Kufeni

Introduction:

As one of its core functions, the DFRC facilitates policy research and advisory services in the key areas of financial sector reforms, institutional strengthening, infrastructure delivery and SMEs development as identified in its Five-Year Strategic Business Plan. The overall objective is to influence effective policy and regulatory changes to enhance efficient resource mobilisation to underpin investment growth. Thus, by supporting these focal areas, the DFRC's research and advisory work complements other sectoral efforts under the RISDP and NEPAD to create an investment friendly environment, as a prerequisite for economic growth, employment generation and poverty eradication.

Developments:

The last six months of the year saw progress achieved in some areas, including the formulation and finalization of the roll-out plan for Policy Research and Advisory Services in line with the DFRC's Five-Year Strategic Business Plan.

Data Management

The DFRC would like to keep track of developments in the DFI Network and, where appropriate, render advice. This can be achieved with the assistance of a robust data bank on the operations of the DFIs. To this end the DFRC, with the assistance of its Senior Advisors, has visited the DFIs to collect the necessary data as part of a project initiated late last year. It is anticipated that the DFIs Data Project will be concluded by June 2005 and that the project report will form the basis for regular data submissions to the DFRC by DFIs. This will be achieved by means of a DFI Statistical Return, to be submitted on a quarterly basis to the DFRC. The first return is scheduled for the quarter ending September, 2005.

Experts Data Bank

The DFI Network is host to a large reservoir of expertise by virtue of its widely skilled staff base. It is the objective of the DFRC that this expertise is made available to the Network at large for advisory, research and training purposes. To achieve this, a Data Bank of Experts will be required and in this regard, the DFRC has recently approached regional DFIs to submit information on their senior staff highlighting appropriate qualifications, experience and areas of expertise. Non-regional experts, especially in areas where gaps exist, will augment the list as well as bring a global dimension to the region.

Partnerships

Cognisant of its lean nature and facilitative role in the provision of research and advisory services, the DFRC has forged links with regional as well as external strategic partners. These include multilateral or international organisations, universities, research institutions and members of the DFI Network with proven research and advisory capabilities. The process of identifying partners and associates is ongoing.

Activities for Next Year:

Areas of focus for the coming year are outlined in the work programmes and, while covering a number of new projects, some are a continuation of work already begun in the previous year.

Research

Policy research will place emphasis on financial sector strengthening and reforms and capital markets development. This is in recognition of the pivotal role that an efficient financial sector plays in mobilizing savings and channeling them towards investment opportunities.

By strengthening the financial sector and deepening capital markets, research will, among other areas, seek to:

- eliminate financial repression;
- bring about appropriate resource mobilisation instruments;
- stimulate competition;
- encourage market pricing of resources;
- stimulate savings; and
- reduce costs of transacting.

In addition to financial sector strengthening, research will also be conducted to support other key areas as identified in the DFRC's Five-Year Business Strategic Plan namely, institutional strengthening, infrastructure delivery and SMEs development. Consequently, a number of research projects have been identified under these key focal areas for the next two years.

Advisory Services

In the area of advisory services, programmes will mainly be directed at institutional strengthening of the DFIs and, to some extent, regional governments. Consolidation of the DFIs Data Project and the setting up of a reliable Experts Data Bank will form a solid foundation for advisory services which will in the main be in the form of technical assistance. In this respect, data on operations and Surveys on Technical Assistance requirements will be submitted by DFIs on a regular basis.

II. CAPACITY BUILDING PROGRAMME

Manager: Herrick C. Mpuku

In the year under review, the DFRC undertook some capacity building programmes, and was involved in a comprehensive planning process, encompassing, among other things, the roll-out of the capacity building programme for the next two years. The DFRC has also been developing strategic partnerships with international and regional public and private sector organizations.

Capacity Building

In line with its mandate, the DFRC has worked in partnership with other institutions to provide support in capacity building to DFIs in the region. In particular, three programmes have been run as follows:

Workshop on Treasury and Risk Analysis

The DFRC facilitated the attendance of five participants from the SADC DFIs on this workshop. The Workshop was run by the African Development Bank's Joint Africa Institute at their offices in Tunis, Tunisia.

Four of the participants were sponsored by the JAI, while the Development Bank of Namibia sponsored one of their employees.

Workshop on Investment Appraisal and Risk Management

The DFRC sponsored two participants from the SADC DFIs, to participate in a four week training programme on infrastructure in Pholokwane, in the Limpopo Province of South Africa, in September/October, 2004. The DFRC used funds granted by the Danish International Development Agency (DANIDA) for this programme. The workshop was well received by the participants, who felt it was relevant, and of practical value to their work.



Workshop on Risk Management

This workshop was jointly organized by the DFRC, the AfDB, the JAI, the DBSA and the IDC of South Africa. It was held in Cape Town, South Africa, from 15th to 19th November, 2004.

Fifty-six participants from 23 SADC DFIs, inclusive of 3 non-members, and three regional DFIs attended the workshop. The workshop was funded through the African Development Bank under the Japanese Bilateral Trust Fund

Corporate Governance Workshop

The SADC-DFRC has organised a workshop on “Corporate Governance and Board Effectiveness” for Chairpersons of DFI Boards of Directors to be held on 30th May to 1st June 2005. The workshop will be held in collaboration with the Institute of Directors in Southern Africa (IOD), using IOD-accredited speakers and is

expected to feature guest speakers from the SADC-DFI Network. These include Colonel Joseph Simbakalia, from the NDC of Tanzania, Ms Cynthia Anthony-Maistry and Mr. Ernest Dietrich from the DBSA and Mr. Thakhani Makhuvha from the IDC of South Africa.

Board Chairpersons or their Vice Chairs from each of the member DFIs are expected to attend the workshop.

Mr Mervyn King, SC, Chairman of the King Commission on Corporate Governance is expected to address the cocktail reception, while the Board Chairman of DBSA, Mr Jay Naidoo, will host a Dinner in honour of his visiting counterparts from the SADC-DFIs. The workshop will be funded by the Danish International Development Agency (DANIDA).

Roll Out of Capacity Building Programme

The DFRC began a comprehensive process of translating its 5-year strategic plan into concrete and specific programmes and deliverables. In this regard, information from needs assessments and discussions with DFIs provided a platform for developing programmes which would be deemed relevant and of practical value to the DFIs. This planning process culminated at year end with a draft two-year programme of various activities, and a supporting budget for consideration and approval by the Board of Trustees and the SADC DFI Sub-Committee.

Partnerships

As part of its planning process, and to facilitate the implementation of its planned programmes, the SADC DFRC began to engage various international, regional and national institutions with a view to cooperating with them in the implementation of various programmes. This would include cooperation in programme development and implementation as well as provision of resource persons, programmes and facilities. It is expected that the modus operandi of these cooperation arrangements will be contained in Memoranda of Understanding, currently under development, to be signed by the DFRC with the other parties.

Future Activities

As a consequence of the partnership arrangements and the planning process undertaken, the DFRC has planned to put in place a wide range of programmes, encompassing DFRC short-term training programmes, secondments and attachments within the DFI Network and beyond, as well as placements on canned training programmes run by partner institutions.

III. SMALL & MEDIUM ENTERPRISES DEVELOPMENT PROGRAMME

Manager: Joseph W. Nyamunda

The objective of the DFRC SME Programme is to assist DFI Network members to exploit the vast business opportunities that abound in SME activity in the SADC region. Most of the Network members are actively involved in the support of SMEs within the region, either directly or indirectly, through "linkage programmes" in which large enterprises are encouraged to establish backward and forward linkages with SMEs. Strengthening the SME capacity of member DFIs is therefore critical, not only for the sustainability of the DFIs, but to economic development of the SADC countries.

Survey of DFIs SME Programmes

Following the adoption of the Capacity Building Report sponsored by First Initiative, a questionnaire was developed to ascertain the extent of involvement of member DFIs in SME financing and other related support services. This was done as preparatory work towards the development of the DFRC Business Plan and Work Programmes. The questionnaire was distributed to DFIs in August 2004 and was followed up with visits to the DFIs for interviews with the DFI staff in September by the DFRC senior consultant.

The data collection exercise could not be concluded in the period ending March 2005 and will be continued into the first quarter of the Financial Year 2005/06.

SME Work Programme Development and Implementation

A first draft of the DFRC SME Development Programme was produced and discussed at the Workshop for Network members in early February 2005 in Johannesburg. The programme was noted with recommendation for modifications in the implementation process to allow for institution-specific action plans. The programme awaits adoption by the Board of Trustees and the DFI Network Sub - Committee.

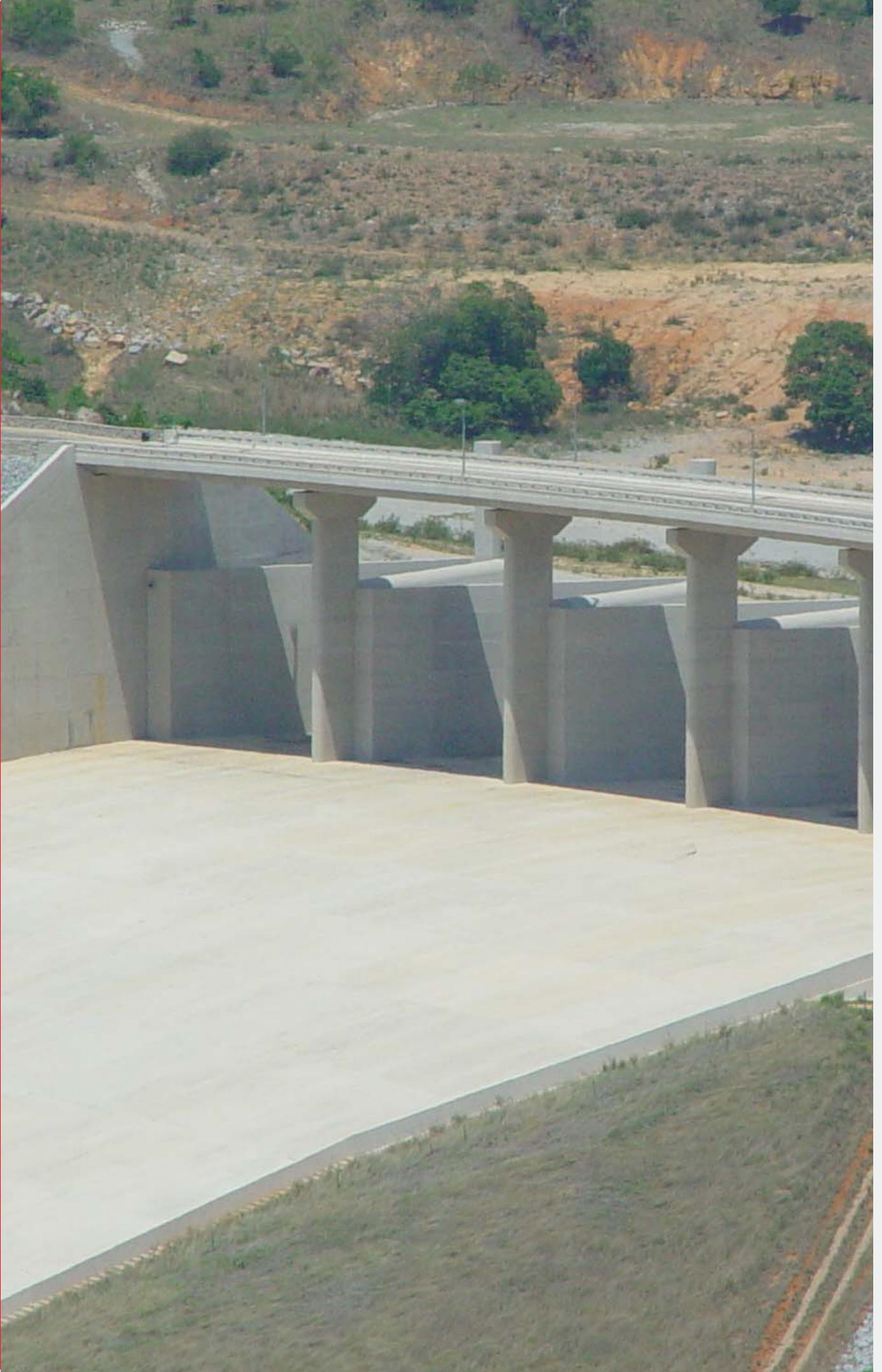
Workshops/Conferences

In pursuance of the DFI's requests and the DFRC mandate to research on and examine and recommend to member DFIs on SME development international best practices, DFRC Programme Manager for SME Development accepted an invitation from UNCTAD to attend an **"Expert Meeting on Promoting the Export Competitiveness of SMEs"** which took place in Geneva, 08-10 December, 2004. A full report on the proceedings of the meeting is presented separately in this annual report.

Activities for 2005/06

Activities will follow the Action Plan as approved in the SME Development Programme. Key elements of the programme will be anchored on a collaborative approach to optimize on resources and utilize expertise and experience of other development partners. During the first year emphasis will be placed on strengthening of SME financial instruments and support services delivery of DFIs. Gender sensitized programmes will be given high priority.





IV. INFRASTRUCTURE DELIVERY PROGRAMME

Manager: Still to be filled – (The programme is being managed in the interim by Dr. Thomas)

The PPP/ Infrastructure Programme will be developed gradually and will evolve as success is achieved in establishing the institutional mechanisms for supporting PPI in SADC in select DFIs.

Active Promotion of PPI in SADC

With the support of donors and the cooperation of strategic partners, the DFRC's objective is to actively promote PPPs and general infrastructure development by advocating an appropriate policy and regulatory environment for private sector participation and building the capacity of DFIs overtime in all facets of PPPs/ infrastructure project negotiation, implementation and management.

Synopsis of PPP Activities in SADC

Infrastructure financing activities of the SADC DFIs vary from one country to another and on the whole, have been remarkably inadequate especially in the area of PPPs/PPI. Very few DFIs have had meaningful experience with PPPs/PPI and these have been predominantly confined to South Africa's DFIs, namely: the DBSA and IDC. Various factors account for this, key among them are –

- The lack of a policy framework amenable to private sector participation;
- The paucity of good projects; and
- A lack of understanding on the part of governments, of such deals.

A review of past projects reveals shortcomings in the methodologies employed which have tended to differ from project to project in terms of feasibility assessment, justification, preparation and documentation. These have largely been left to private sector consultants. Governments are frequently left in a vulnerable position defending the projects in the event of problems arising during implementation or when the project has been handed over.

The DFRC is cognisant of the need to introduce PPP structures that are appropriate to the region, well constructed, which engage all stakeholders and are therefore sustainable and to this end, it will assist national DFIs in acquiring the relevant skills to negotiate, implement and manage such deals.

Activities for 2005/06-2006/7

Taking into account both the preceding and the absence of a Programme Manager for Infrastructure/PPP activities, the DFRC will, with the assistance of donors and cooperating partners, focus in the 2005/6-2006/7 period on two projects:

- Development of an Africa-specific Project Appraisal Methodology for PPPs: The purpose is to develop guidance material to strengthen capacity in appropriate quantitative analytic techniques and methods for preparing, managing, and monitoring PFI, PPP and similar types of private-sector-participation projects involving infrastructure and infrastructure-related services;
- Establishment of PPP Facilitation Units: These will be set up in a select group of SADC DFIs and will test and implement the appraisal methodology being developed. The work of the Facilitation



Units will include three basic tasks:

- i). Project management of PPP development -
- ii). Building the capacity of public partners to take ownership of deals
- iii). Building the capacity of national DFIs to participate in PPP deals.

Once in-house capacity to develop and manage the programme is recruited, the programme will evolve and expand.

ANNUAL FINANCIAL STATEMENTS

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Board of Trustees approval of the financial statements for the year ended 31 March 2005

The trustees are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Centre as at the end of the financial year and of the profit or loss and cash flows of the Centre for that year.

The trustees consider that, in preparing the financial statements for the year ended 31 March 2005 on pages 5 to 12, the Centre has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The trustees also consider that all applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The trustees are responsible for ensuring that the Centre keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Centre and which enable them to ensure that the financial statements comply with the Trust Deed and International Financial Reporting Standards.

The trustees are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the Centre and to prevent and detect fraud and other irregularities.

The auditors' responsibilities are stated in their report to the trustees.

The Board of trustees is satisfied that management introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the annual financial statements, to safeguard the assets of the Centre and to ensure all transactions are duly authorised.

Against this background, the financial statements for the year ended 31 March 2005 set out on pages 35 to 42 have been approved by the Board of Trustees on 22 May 2005 and are signed on its behalf by:



Board Chairman



Trustee

General information for the year ended 31 March 2005

Activities

The Southern African Development Community-Development Finance Resource Centre is a capacity building centre for the SADC Development Finance Institutions supporting them in their pursuit of good corporate governance, operational effectiveness and efficiency so as to enhance their contribution to economic growth and development. It is a centre of excellence supporting the objectives of the SADC Development Finance Institutions Network.

Number of employees

As at 31 March 2005 the Centre had 6 employees (2004: 2 employees)

Subsequent events

The trustees are not aware of any matter or circumstance arising since the end of the financial year, not dealt with in the report or financial statements that would significantly affect the operations of the Institution or the results of its operations.

Trustees

Members of the Board of Trustees are:

Peter Madara	Chairman
Joseph Simbakalia	Vice-chairman
Alan Mukoki	
Oaitse Ramasedi	
Benyram Chooramun	

Registered Address

Plot 133, Independence Avenue
Extension 3
Gaborone

Bankers

Standard Chartered Bank of Botswana Limited
PO Box 496
Gaborone

Auditors

KPMG
PO Box 1519
Gaborone

Report of the independent auditors to the trustees of the Southern African Development Community Development Finance Resource Centre

We have audited the annual financial statements of Southern African Development Community Development Finance Resource Centre set out on pages 5 to 12 for the year ended 31 March 2005. These financial statements are the responsibility of the Centre's trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We have examined the books, accounts and vouchers of the Centre to the extent we considered necessary and have obtained all the information and explanations, which we require. We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion:

- the Centre has kept proper books of account with which the financial statements are in agreement; and
- the financial statements give a true and fair view of the Centre's affairs as at 31 March 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Supplementary information

The supplementary schedule set out on page 13 - 14 does not form part of the annual financial statements and is presented as additional information. We have not audited this schedule and accordingly we do not express an opinion on it.

KPMG
Certified Public Accountants
Gaborone

Income statement
for the year ended 31 March 2005
US \$

	Note	(12 months) 2005	(9 months) 2004
Revenue			
Members contributions		750 000	364 485
Donor funds		811 786	21 836
		1 561 786	386 321
Other income		6 943	15 328
Expenditure			
Staff costs		(320 192)	(145 815)
Program expenses		(436 922)	(18 285)
Administration and operating costs		(422 748)	(87 960)
Surplus for the year		388 867	149 589

Statement of changes in funds
for the year ended 31 March 2005
US \$

	Accumulated Funds
Surplus for the period 2004	149 589
Balance at 31 March 2004	149 589
Surplus for the year 2005	388 867
Balance at 31 March 2005	538 456

Balance sheet
at 31 March 2005
US \$

	Notes	2005	2004
Assets			
Non current assets		33 720	15 818
Plant and equipment	2	33 720	15 818
Current assets			
Accounts receivable	3	154 683	140 747
Cash and cash equivalents		523 330	41 034
Total assets		711 733	197 599
Funds and liabilities			
Accumulated funds			
		538 456	149 589
Current liabilities			
Accounts payable	4	173 277	48 010
Total funds and liabilities		711 733	197 599

Cash flow statement
for the year ended 31 March 2005
US \$

(12 months) (9 months)
2005 2004

Operating activities

Members' contributions	739 505	236 215
Donor funds	811 786	21 836
Cash paid to suppliers and employees	(1 047 088)	(191 763)
Sundry receipts	3 503	2 467

Cash flows from operating activities 507 706 68 755

Investing activities

Acquisition of plant and equipment	(25 410)	(27 721)
Increase in cash and cash equivalents	482 296	41 034
Cash and cash equivalents at beginning of year	41 034	-

Cash and cash equivalents at end of year 523 330 41 034

Cash and cash equivalents comprise:

Petty cash	87	132
Bank balances - current account	37 897	3 702
- call accounts	485 346	37 200

523 330 41 034

Significant accounting policies For the year ended 31 March 2005

Statement of compliance

The financial statements of the Southern African Development Community-Development Finance Resource Centre have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the standing Interpretations Committee of the IASB.

Basis of preparation

The financial statements are stated in US Dollars denoted by US\$.

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the previous period.

Reporting currency and currency translation

All transactions have been translated into US Dollars at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities at the balance sheet date have been translated into US Dollars at the foreign exchange rate ruling at that date.

Any foreign exchange differences are dealt with in the income statement in the year in which the difference arises. Non monetary assets and liabilities denominated in currencies other than US Dollars which are stated at historical cost, are translated to US Dollars at the foreign exchange rate ruling at the date of the transaction.

Plant and equipment

Plant and equipment are stated in the balance sheet at cost less accumulated depreciation and any impairment in value.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of plant and equipment. The annual rates are as follows:

- Computer equipment 33.33%
- Office equipment 25%
- Furniture and fittings 15%

Income and expense recognition

Income and expenditure is generally recognised on an accruals basis taking into account the effective yield on the asset. Members contributions comprise amounts invoiced to members DFIs per annum.

Recognition and de-recognition of assets and liabilities

The Centre recognises an asset when it obtains control of a resource as a result of past events and future economic benefits is expected to flow to the Centre. The Centre derecognises a financial asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. A financial liability is derecognised when it is legally extinguished.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

When an impairment loss subsequently reverses the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

Taxation

No provision for taxation is required as the Centre is exempt from taxation items of the second schedule of the Income Tax Act (Chapter 52:01).

Financial instruments

Financial assets

The Center's principal financial assets comprise of the following:

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Accounts receivable

Accounts receivable, which generally have 30 to 90 days terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Financial liabilities

The Center's principal financial liabilities comprise of the following:

Accounts payable

Accounts payable are normally settled on 30 to 90 day terms and are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Center

Notes to the Annual Financial Statements

for the year ended 31 March 2005

US\$

2005

2004

1. Surplus for the year

Surplus for the year is stated after taking into account the following:

Audit fees	4 650	1 908
Board costs	18 920	3 233
Bad debts	87 217	7 290
Depreciation	7 508	11 903
Foreign exchange (gain)/loss	(4 296)	384
Staff costs	320 192	145 825
Rent – premises	69 777	15 781

2. Plant and equipment

	Computer equipment	Office equipment	Furniture & fittings	Total
Cost				
Balance at beginning of year	7 919	930	18 872	27 721
Additions	18 711	1 541	5 158	25 410
Balance at end of year	26 630	2 471	24 030	53 131
Depreciation				
Balance at beginning of year	1 010	346	10 547	11 903
Charge for the year	5 479	297	1 732	7 508
Balance at end of year	6 489	643	12 279	19 411
Net book value				
At 31 March 2004	6 909	584	8 325	15 818
At 31 March 2005	20 141	1 828	11 751	33 720

	2005	2004
3. Accounts receivable		
Members' contributions	138 765	128 270
Other receivables	15 918	12 477
	154 683	140 747

	2005	2004
4. Accounts payable		
Trade and other payables	154 169	43 373
Gratuity provision	19 108	4 637
	173 277	48 010

5. Related party transactions

Member Development Finance Institutions are the related parties to the Center and transactions relate to the annual contributions and rechargeable expenses.

6. Future lease commitments

Future minimum rentals under non-cancellable leases relating to premises are as follows:

	2005	2004
Within one year	67 757	34 526

7. Financial instruments

Exposure to foreign exchange, interest rate and credit risk are in the normal course of business.

Foreign exchange risk

The Center incurs foreign exchange risk on receipts and other payments that are denominated in a currency other than the United States Dollar. The currencies that give rise to this risk are primarily the currencies of the member state countries.

Interest rate risk

The Center invests with reputable financial institutions and is subject to normal interest rate risk. Interest earned on call deposit accounts are at market rates from commercial banks.

Credit risk

Exposure to credit risk is monitored on an on going basis.

The Centre's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as of 31 March 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

Fair values

The carrying values of financial instruments reported in the financial statements approximate their fair values due to the short maturities of these instruments. These financial instruments are held in the ordinary course of business.



Report on the Experts Meeting on “Promoting the Export Competitiveness of SMEs” UNCTAD, Geneva 8 – 10 December 2004

Introduction

In December 2004, the SADC-DFRC was represented at an Experts Meeting on “Promoting Export Competitiveness of SMEs” in Geneva, Switzerland.

The meeting was organized by the United Nations Conference on Trade and Development (UNCTAD) in recognition of one of the main concerns of developing countries with respect to their low level of participation in global trade.

It had been observed and agreed in previous meetings that developing countries' major weakness in global trade is their lack of competitiveness. The accelerating process of globalization has generated new global markets and enterprises, big and small. Globalization has also brought about intense competition among enterprises, a challenge which developing countries need to find solutions for.

The meeting brought together high-level experts from the public and private sectors, from international organizations as well as from regional organisations and academia. They came together to examine policies and actions, that can be taken by Governments, the private sector and international/regional institutions such as the SADC-DFRC to help improve the export competitiveness of SMEs. Additionally, they explored ways in which to contribute towards the sustainable development of developing countries.

The Importance of TNC-SME Linkages

The meeting examined different patterns of internationalization of SMEs through exports, and discussed policies and measures that could help strengthen the export competitiveness of SMEs in developing countries. Special attention was devoted to the issue of TNC-SME linkages, which are increasingly perceived as a way for SMEs to solve their traditional problem of access to certain critical resources such as finance, technology, managerial skills and new markets.

In his opening speech, Mr Karl Sauvan, the Director of the Division on Investment, Technology and Enterprise Development (DITE), UNCTAD, argued that different forms of integrated production networks and horizontal and vertical cooperation among firms could help raise the competitive potential of SMEs through synergies and collective efficiency. He noted that the changing international context might suggest that much of the growth of exports in the future will be situated in or around TNCs and global value chains. Linking with TNCs could bring benefits for SMEs, but it could also entail risks and costs that needed to be addressed with appropriate policies and measures. He stressed the importance of the existence of a strong local “partnership ready” SMEs sector, able to take advantage of integrating global production networks.

Globalization, he noted, posed threats for SMEs, and stressed the fact that few SMEs, even in developed countries, managed to build export competitiveness without government support. He expected the Expert Meeting to provide policy insights to government, private sector and international community to help raise consciousness and improve export competitiveness of SMEs in developing countries. He also highlighted the importance of exploring other ways of internationalization of developing country firms, in particular to investigate how these could become global players themselves through outward investment.

The Head of Investment and Enterprise Competitiveness, a branch of DITE, Ms Tatiana Krylova then introduced the meeting agenda item “Promoting the Export Competitiveness of SMEs”. She emphasized the point that new opportunities and challenges for SME development derived from the rapid path of the globalization process. This raises new challenges for policy makers in the developing world. She noted that a number of direct measures used in the past (trade restrictions, monitoring of Foreign Direct Investment (FDI) inflows, local content requirements for foreign affiliates) were being phased out as a result of the decline of interventionist policies and the rules agreed to in the WTO as well as other international agreements. Further, she noted the emergence of a consensus during the 1990s regarding the need for a flexible combination of state intervention and market freedom, macro and micro policies, and for public-private partnerships, in order to create dynamic exporting SMEs.

UNCTAD introduced the issues note prepared for the Secretariat, which outlined three key priorities regarding policy recommendations for promoting export competitiveness of SMEs.

i). Role of national governments in enabling exporting SMEs.

This included the coherence of macro-economic and micro-industrial policies, the creation of a national export friendly environment for local SMEs, the identification of segments of global markets and of export networks of large firms accessible to local SMEs.

It also included the facilitation of targeted business alliances and partnerships between SMEs and large firms, and the promotion of Public-Private Partnerships (PPPs) to provide promising SMEs with effective Business Development Services (BDS) and financial services.

ii). Role of business to business (B2B) relationships in enabling exporting SMEs.

Some private agents were identified as particularly relevant in such undertakings including, trading firms, and manufacturing SMEs, internationalized SMEs, exporting SME clusters and districts, business associations, BDS, banking and other financial services.

iii). Role of international agencies in enhancing SMEs export competitiveness in developing countries.

Key to this was the need for assistance in effective participation in discussions on investment and trade agreements.

The debate that followed addressed the following issues: the concept of export competitiveness, different patterns of enterprise internationalization, TNC - SME linkages and global value chains as a bridgehead to export competitiveness, the importance of public-private sector dialogue in promoting SMEs export competitiveness and the role of the governments and of the national policy space in the new international context.

The Concept of Export Competitiveness

Different aspects of the concept of export competitiveness were analyzed during the meeting. It was argued that a competitive firm is one which clearly defines what to produce, for whom to produce, and is able to effectively and efficiently manage the acquisition and allocation of resources to fulfil its production and marketing objectives, and therefore achieve bargaining power. It was noted that a competitive firm has a sound management of resources - information and know-how, human, financial and physical assets and networks and relationships. There is also the external environment (national and international), which contributes

positively or negatively to its competitiveness. Therefore, there is a need to find a way to combine domestic and international measures to strengthen the competitiveness of SMEs.

Also highlighted was the analytical framework of the competitiveness report developed by the World Economic Forum (WEF). By using the growth competitiveness index the report attempted to highlight strengths and weaknesses of a large number of countries, including developing countries. The report is based both on hard data and surveys of enterprises from all sectors in the concerned countries. After processing these data countries are ranked based on three indices:

- i) The Technology Index;
- ii) The Macroeconomic Environment Index; and
- iii) The Public Institutions Index.

The WEF report aims at giving an indication of the economic situation in these countries and points out areas where efforts have to be made in order to improve the competitiveness of enterprises.

Participants discussed the methodology used for the conclusions of the report and whether countries with different production structures and levels of economic and technological development can be ranked at almost similar index levels. It was argued that the index provided important information to many of the countries and that it could be used by countries to benchmark themselves vis-à-vis similar countries. It was also suggested that two additional factors—infrastructure and illegal trade—should be taken into account as well.

Export competitiveness was also discussed at clusters level. In particular, issues of the changing patterns of clusters, the different drivers behind the changes, and how countries in the North and the South should respond to these changes were debated. Clusters have gone from being “passive” clusters without much interaction to deeper “intra-collaboration” clusters allowing for greater integration into the global value chain.

For companies in developed countries, this creates a need to restructure and develop new products, which often means transforming from manufacturing to services. In this case, being competitive means the capacity to build a whole complex logistical value chain, which is not easy to replicate by competitors. In this case, “time” has been identified as being of strategic value. For developing countries, logistic development becomes increasingly important since being able to supply the market within very short timeframes is becoming a necessity in order to sustain competitiveness. The issue of a need for assisting companies in the transformation of their businesses was raised and it was agreed that regional governments would be best equipped to provide the most efficient help in this regard.

Different Patterns of SME Internationalisation

Several speakers highlighted that, by exerting a strong influence on the production structures through both FDI and trade, TNCs play an increasingly important role in the economic growth of developing countries. For the SMEs the emergence of large lead firms induces threats, such as stronger competition, higher barriers to entry, and power asymmetries in the value chains. However, it also provides new business opportunities for SMEs, for innovation and new export markets through upstream and downstream linkages with the large firms and interaction among the SMEs themselves. The importance of the potential for partnerships between lead firms and developing agencies was also emphasized. Though there are many benefits for both parties one also has to be aware of the problems and conflicting interests that may exist.

The international environment of today makes linkages with lead firms a necessity for SMEs to survive. It is thought necessary that development agencies take into account changes in production structures and try to

prepare SMEs to be able to cope with the new conditions. One of the experts raised the issue of protecting SMEs in the light of the growing power of TNCs.

Participants discussed a practical case of the interaction between a multinational company and local SMEs. The following factors were emphasized as of particular importance:

- good relations with the local suppliers;
- high corporate reputation;
- long-term commitment for the presence in the country;
- mutual dependence on each other's growth and success; and
- skills and knowledge transfer.

The issue of using import substitution instead of export promotion as a way of increasing the competitiveness of local firms in developing countries was discussed and participants debated that it might be inefficient and costly in the long run and may be seen as protectionism. It was also debated that the problem of small domestic markets could partly be solved by the creation of larger trade blocs between smaller developing countries.

The importance of lead firms to SMEs in developing countries was confirmed by the delegates. Ireland was referred to as an example of the large contribution that these firms can make to the development of local SMEs. However, it was also noted that domestic SMEs in Ireland were often neglected in favour of multinational firms in the promotion of enterprises. The garment industry in Sri Lanka was cited as another example where alliances with lead firms had been successful.

Clusters and value chains were similarly discussed as a means of enterprise internationalization. One observer emphasized the importance of climbing the value ladder moving away from low value added activities towards more high value activities. It was noted that SMEs in clusters are in a better position than isolated firms due to benefits such as collective efficiency but that internal linkages are no longer enough. Instead one also has to focus on the external linkages with inclusion of clusters in the global value chain becoming more and more of a necessity. Examples were cited from studies on clusters and upgrading in Latin America.

Evidence shows that sectoral differences largely influence the upgrading process. In this regard different ways of promoting the upgrading of SMEs were also discussed. The "NDP Mexico" programme was mentioned which focuses on training of suppliers to enable them to attain the standards and rules required by lead firms as well as policies at the macro level such as fiscal incentives. Furthermore, the need for training and entrepreneurship development as well as institution and capacity guiding in developing countries was highlighted.

The issue of export consortia as an approach to SMEs export promotion was also raised. An Export consortium is explained as a voluntary alliance of firms with the objective to promote and facilitate the export of goods and services of its members.

SMEs involved in this kind of alliances are normally those that already have a product of international standard, firms already possessing some international experience or that find internationalisation to be too costly to do on their own. The reasons for export promotion were said to be risk reduction, improved profitability, efficiency gains and knowledge accumulation. Many export consortia can be found in industrialized countries and are emerging in developing countries as for example in Latin America. Starting up an export consortium can be very costly and time consuming for the firms. In this regard programmes to facilitate the establishment of these alliances such as the one developed by UNIDO could be useful.

Participants debated possible approaches to the export strategy for firms that are integrated into a value chain

based on a case presented by the International Trade Centre (ITC). It was discussed that a strategy aimed at promoting SME competitiveness has to take three levels into account:

- The management of an enterprise;
- The sector trade support environment; and
- The markets.

It also had to go through the four steps of:

- assessing markets and environment;
- a diagnosis of present situation;
- examining options; and finally
- Formulating a strategy.

Furthermore, the strategy is assessed on the two concepts of market - lead trade and business growth as well as on beneficiary ownership, ideas and working partnerships. The positive impact that the programme had on specific industries in a variety of countries was emphasized, for example on the rubber industry in Sri Lanka.

During the discussion, the problems that small distant island countries face in exporting their products were highlighted. One speaker noted the substantial problems his country experienced in promoting its products because of the distance to relevant export markets. He exhorted the panellists to take these issues into account and to think about strategies that could help such countries overcome their hurdles.

A participant from Tunisia presented a different country - specific case, related to the efforts taken to promote export development through targeted business development services. More specifically, he explained the function of the Tunisian Export Exchange, a centre created for meeting and exchange between Tunisian and foreign businesspersons. The centre provides a one-stop shop where all relevant authorities and organizations for exporters and investors can be found. Its role is to promote export by facilitating contacts and partnership between Tunisian firms and foreign customers. Access to important trade information and organization of trade fairs are some of the services that CEPEX provides.

TNC - SME Linkages and Global Value Chains: A Bridgehead to Export Competitiveness? The Case of India

Participants discussed a specific case of TNC-SME linkages and global value chains as ways to achieve SME export competitiveness using the example of a large Indian auto company and one of its SME suppliers.

The growing role of the Indian auto component industry was highlighted, with its firms increasingly supplying auto components to major foreign markets. This development was ascribed to the increasing quality and productivity marking out Indian auto companies, which greatly facilitates the creation of TNC-SMEs linkages.

With respect to the identification of linkage determinants, the need for collaboration between governments (in creating an enabling environment, reducing taxes, improving logistic costs and overcoming procedural delays), TNCs and SMEs with supply capabilities was emphasized. An all-round support strategy for SMEs was also needed, since the vast majority of SMEs are not able to meet the requirements set by TNCs and therefore remain totally de-linked. If properly supported' the informal sector could also contribute to a substantial increase in the countries export activity.

Before illustrating the features of the main supplier linkages and outsourcing schemes of a large Indian automobile manufacturer, the resource persons laid out the change that India's economy has undergone in the last decade that deeply impacted the auto industry in the country. India's business environment has been subject to structural change from being a controlled economy with import substitution, vertical integration and limited domestic competition (pre-liberalization phase) to an open economy with firms increasingly outsourcing aggregates and components as a predominant strategy for gaining competitive advantage.

In this context, outsourcing and value chain management started to play a key role, since TNCs could not become competitive without a competitive supplier base. Outsourcing from specific suppliers allowed the large firm to enhance its strategic flexibility, the possibility to focus on core competencies, to increase the competencies through reciprocal learning and to infuse technology in product integration.

In order to create a capable supplier base, a three pronged approach for supplier linkages development was needed, which consisted of:

- Encouraging global technology partnerships for components and systems, including involvement in product development;
- Improving capabilities and competencies in terms of quality, productivity and cost; and
- Providing business opportunities (vendor rationalization by deleting the non-competitive firms and foster competitive vendors).

Support from the TNC to the SME to enable it to become a competitive supplier was comprised of the following elements:

- declaration of supplier status;
- technical support for development as well as quality;
- project guidance;
- tooling support;
- financial support;
- training support;
- guaranteed business; and
- raw materials support.

A further element that helped the firm grow was the fact that the context of outsourcing by the buyer had shifted from solely components manufacturing to the assembly of entire aggregates. A team of senior officials had been made responsible for monitoring supplier quality improvement and to monitor the progress on the implementation of world class practices, a system from which the supplier greatly benefited.

Concerning the share of exports, the speaker mentioned the presently marginal export business but at the same time he referred to the enormous export potential for exporting into developed countries. As factors hindering the enhancement of the export capacity he cited problems of high costs of borrowing, the cost of corruption and the high price of competition from other countries.

For the most part, questions and comments received by the participants were related to the issue of financing. Following the question whether governments funded SME promoting projects in India, one of the panellists explained that the government should never directly finance an industry.

It was noted that while governments could provide SMEs with start-up capital (repayable loans) they should never give subsidies. It was viewed as more advantageous if initially, development finance institutions provided

long-term finance, followed by commercial banks, once the firm had established itself.

Another panellist raised the point that TNCs can make certification arrangements with banks so that suppliers are entitled to get their money from the banks as soon as they start supplying. Related to this point, one of the delegates pointed out that it was imperative by law for TNCs to pay their SME suppliers within 30 days and that this practice had resulted in great success in his country.

One delegate raised the question of the role of the Basle II accord and the problem of not being able to isolate the risk of SME from that of related TNCs. The question was answered to the effect that Basle II was not a stabilized system, with lots of constraints especially for weaker positions. In order to better isolate the risk SMEs should cooperate with Central Banks, which should address the matter with the Bank for International Settlements (BIS).

The question was posed whether there was any plan for the possible expansion and outsourcing of the Indian auto manufacturing company with respect to African markets. It was noted that the entire continent of Africa is an important destiny for the firm and that expansion plans for such South-South cooperation in fact exist.

The Importance of Public-Private Partnerships in Promoting SMEs Export Competitiveness – The Case of Malaysia

The export development policy of Malaysia was the subject of another case study presented at the meeting. Malaysia was described as an export dependent country that has experienced fast development towards a knowledge-based economy.

Support to the SME sector is huge in the country with both TNCs and government working to reduce the skills gaps between SMEs and TNCs. Clusters do exist but are losing in importance since enterprises are increasingly connected through the web.

During the presentation, the different stages in the export development of SMEs and the role that TNCs, governments and the SMEs themselves play in this development was explained. The success story of a Malaysian enterprise and how the government and TNCs in this particular case had helped make it a competitive exporter was also discussed.

It was noted that the globalization of SMEs requires a synchronized effort from all parties. For the SMEs it is important to constantly try to develop their capacity. The TNCs can on the other hand help them in many different ways by providing training and sharing research and knowledge. The resource person also emphasized that TNCs must start seeing SMEs as full partners and leaving the customers/client partnership behind.

While discussing linkages between TNCs and SMEs, concern was expressed on the risk of TNCs imposing additional costs on the SMEs in periods of downturns. According to one of the panellists one way for the SMEs to protect themselves from this risk could be to diversify their client base, and linking with companies in different parts of the world. Since downturns normally do not hit all markets at the same time and the negative effect could thereby be reduced. Another possibility could be to take advantage of large trading blocs. The importance of quality of the linkages with TNCs was also mentioned.

Furthermore, it was also noted that the vulnerability of SMEs largely depends on their place in the value chain. The businesses suffering the most from new market conditions are generally the ones present in activities at the bottom of the value chain - while enterprises involved in the finalization of the products have much higher chances of succeeding. The impact of the dismantling of the multi-fibre agreement in January 2005 on the textile industry in some countries was mentioned as an example.

The Role of Governments: What Policy Space is Left and needed in the New International Context?

During this session, a speaker questioned the broadly accepted idea of the narrowness of policy space left to governments to promote their SMEs sector within the new context of globalization.

He argued that on the contrary, there was a growing space for public policy in opened economies. He referred to the case of Latin American countries where a strong and deep process of liberalization, deregulation, and privatization has been implemented during the 1990s, which completely changed the face of the region and the environment for SMEs. As a result, industrial employment registered a dramatic drop and employment in the informal sector – an even more dramatic increase. The productivity gap between big firms and SMEs also increased. At the same time, while both exports and imports registered a huge increase (reflecting the trade openness of the economy), the productivity gap between Latin American firms and e.g. US firms remained almost the same.

In this context, public policies must be directed to resolve the problem of increasing structural heterogeneity, of reintegrating people from the informal to the formal sector, and reducing the productivity gap with external economies. TNCs can help to solve the problem for a specific range of SMEs that represent a very small part of total SMEs. Governments cannot rely on TNCs to solve the problem of employment, poverty and productivity gap. Within the new context of globalization there is a need and a growing space for an active policy.

Barriers faced by SMEs were identified as being at three levels: macro, meso and micro:

- i). At macro level, exchange rates stabilization and higher interest rates heavily affected the activity of SMEs.
- ii). At meso level the increasing heterogeneity between big firms and SMEs weakened the linkages with formal and exporting firms.
- iii). At micro level, the increasing technological gap with big firms placed SMEs in very low niches within the network hierarchy of international production chains.

Public policies must have a strategy of promoting SMEs taking into account how these macro, meso, and micro elements interact and affect each others.

Moreover, the resource persons identified three directions in which public policy can act.

1) Sectoral funds (raised for example from taxation of TNCs and big firms) used to bring together universities, big firms and SMEs to work on technology:

He gave 14 examples of such experiences in Brazil, and said that in Chile there is debate about implementing the payment of royalties from TNCs in the mining sector to finance technology.

2) Demand, public bidding and purchasing:

Creating domestic demand through adequate macroeconomic policy and not relying only on exports to boost production, and encouraging big firms to link with SMEs by including this element in public bidding conditions.

3) Competition Policy:

Which he said can be used not only to protect consumers but also to protect producers. Here the example of Microsoft in Europe was cited, where that company was accused of developing a strategy to prevent the technological development of competitors.

In subsequent discussion, the importance of the role of governments and the role of policy space to enhance productive capacity of SMEs was reaffirmed. Some experts shared their experience with measures implemented in their respective home countries. Several difficulties in creating and strengthening the domestic supplier base, even in the presence of TNCs, were reported. It was argued that on the one hand, TNCs can play an important role in upgrading technological capabilities but on the other hand, their interests do not always align with the interests of the respective host country. National policies are, therefore, important to solve and prevent problems that could arise out of conflict of interests.

Another presentation on the subject dealt with export subsidies in the WTO law from a developing country's perspective. After giving an overview of relevant GATT and WTO agreements, the speaker addressed the issue of the impact of export subsidies on the development of a country. Specifically, he argued that it is not proven that subsidies really help develop economies. As a more efficient way to development, he suggested there was a need to assess the effective impact of export subsidies on a country's development level, to examine the possibility of reintroducing a category for non-actionable subsidies in the WTO legal framework, as well as developing countries playing an active role in negotiations on disciplines on service subsidies.

During the debate, the panellist emphasized again the need for developing countries to concentrate on a proposal for re-introducing the category of non-actionable (green-light) subsidies and on the negotiations of services subsidies, where no specific rules existed. He also said that countries could concentrate on subsidies directed at infrastructure, which were fundamental to competitiveness and which were not prohibited by international agreements.

A representative from World Intellectual Property Organization (WIPO) highlighted the role of intellectual property rights. In general, SMEs, even in the OECD countries, are unaware of intellectual property rules.

A survey in developed countries such as the UK and Belgium showed that a vast majority of SMEs didn't feel the need to register their trademarks and were not using intellectual property. It was said that this was a challenge for the private sector, since currently the value of an enterprise is in its intangible assets. Therefore, there is a need to create awareness and knowledge among SMEs on intellectual property rights since only through the knowledge of existing policies and of the current system do developing countries' governments and enterprises have the possibility to create the necessary policy space to promote the competitiveness of SMEs.

During the discussion, it was pointed out that registering and maintaining patents can be extremely costly for SMEs, more so where there are legal problems with the patent. Questions were, therefore, raised as to the extent intellectual property actually increased the competitiveness of smaller firms. In Europe, one of the biggest costs involves the many languages within the regions, which also makes it difficult to develop a community patent.

Recommendations and Policy Conclusions

The discussions held at this high level experts meeting in Geneva were extremely constructive and illuminating and raised very interesting issues and strategies for further investigation. The issues raised were pertinent, current and essential for informing and strengthening an effective export competitiveness strategy for the region.

Given its focus on supporting regional economic integration through inter alia, SME support and development, the SADC-DFRC could act as a regional resource centre for policy dialogue around industry regulation, donor coordination, training, capacity building, establishment of standards, and improvement of transparency and the flow of information for an emerging SME industry.

In this context, it is important that the DFRC examines the observations from the meeting with a view to assisting SADC Governments, and in particular the DFI Network members, with policy action measures and where possible programmes for implementation.

The DFRC's Five-Year Strategic Business Plan, as approved by the Board of Trustees, recognizes that most of the DFRC Network is actively involved in the support and development of SMEs in the region. Most of their programmes encourage linkage programmes directly or indirectly where large enterprises are encouraged to establish backward and forward linkages with SMEs. This is clearly an area where the DFRC could provide some strategic support.

The Geneva meeting exchanged country information and experiences, compared best practices and established quite clearly:

i). The importance of the role of government and the role of policy space to enhance productive capacity of SMEs.

It was agreed that, for those country economies which have seen the marginalisation of SMEs through the process of liberalization, deregulation and privatization, public policies must be directed to resolve the problem of structural heterogeneity, reintegrating people from the informal to the formal sector thus reducing the productivity gap with external economies.

In this respect, governments should be called upon to act more positively in creating an enabling environment for a vibrant SME sector to enhance the sector's contribution in regional and international trade.

ii). That Public-Private Sector Partnership and TNC-SME Linkages play a significant role in promoting the export competitiveness of SMEs.

Different stages in the export development of SMEs and the role that TNCs, governments and the SMEs themselves play in this development was explored extensively, establishing the need for strong partnerships. In this context, outsourcing by TNCs and value chain management play a key role since TNCs become more competitive with a competitive supplier base.

Outsourcing from specific suppliers allows a large firm to enhance strategic flexibility and the possibility to focus on core competencies. Outsourcing by TNCs creates an SME competitive supplier base with a chain of benefits for the SMEs in the form of, technical support for development as well as quality, project guidance, tooling support, financial support and training support in special cases. While the SADC region has had some success with linkage programmes, e.g. Mozal, there is significant potential to expand these programmes. Many of the larger enterprises in the region are clients of member DFIs and there is therefore an opportunity to exploit these relationships and promote viable and sustainable SMEs.

Local SMEs in developing countries have remained de-linked mainly because they cannot meet corporate requirements as well as international standards on crucial production issues, such as price, quality, health, labour and the information, experience, contacts and above all the human and financial resources to implement urgently required changes in their managerial systems and technological base. It is therefore unrealistic to think

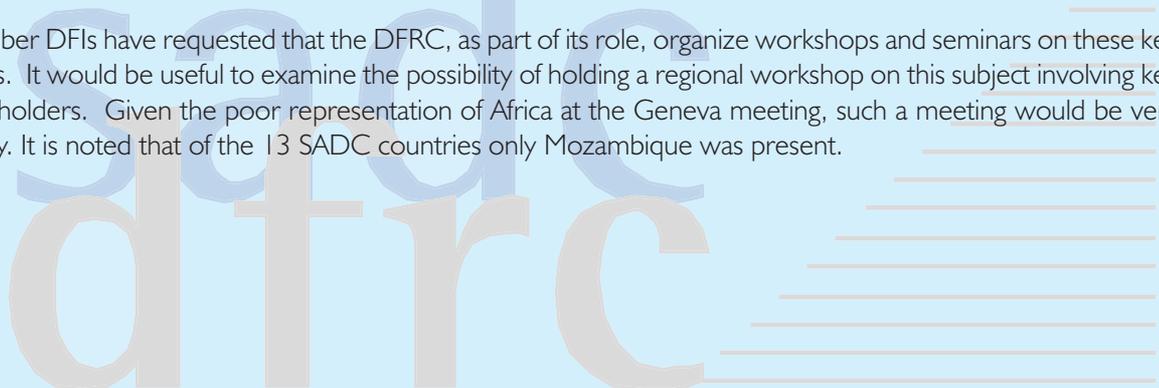
that in a world of economic giants, SMEs can become “partnership ready” without assistance. This is an area for policy intervention for the promotion of inter-firm cooperation or shared entrepreneurship.

UNCTAD has studied the impact of the business linkage process in 14 countries, including Malaysia. UNCTAD is also setting up TNC - Linkages programmes targeted at LDCs, starting in Africa – namely, Uganda and Ethiopia. Extension of the programme is under consideration in other Sub-Saharan countries and also in Asian LDCs and SADC countries need to take advantage of this development.

iii). That SMEs in clusters are in a better position than isolated firms due to benefits such as collective efficiency.

Clusters and value chains are a means of enterprise internationalization. Clusters have proved that internal linkages are no longer sufficient; instead country policies must focus more on external linkages with the inclusion of clusters in the global value chain. Clusters should be promoted around TNC activities and regional infrastructure projects, while the impact of export subsidies on the development of a country remains debatable, advantage must be taken now of the advice by the WTO to concentrate on subsidies directed at infrastructures which are critical to gaining export competitiveness by developing countries. Donors such as CDE are very keen to be involved in the SADC region in infrastructure projects which will benefit SMEs.

Member DFIs have requested that the DFRC, as part of its role, organize workshops and seminars on these key issues. It would be useful to examine the possibility of holding a regional workshop on this subject involving key stakeholders. Given the poor representation of Africa at the Geneva meeting, such a meeting would be very timely. It is noted that of the 13 SADC countries only Mozambique was present.



DFI NETWORK MEMBERS

BOTSWANA

1. Botswana Development Corporation
2. National Development Bank
3. Citizen Entrepreneurial Development Agency

LESOTHO

4. Lesotho National Development Corporation

MALAWI

5. Malawi Development Corporation

MAURITIUS

6. Development Bank of Mauritius

NAMIBIA

7. Agricultural Bank of Namibia
8. Development Bank of Namibia
9. National Housing Enterprise

SOUTH AFRICA

10. Development Bank of Southern Africa
11. Industrial Development Corporation
12. Land and Agricultural Bank

SWAZILAND

13. Swaziland Development and Savings Bank
14. Swaziland Development Finance Corporation
15. Swaziland Industrial Development Company

TANZANIA

16. National Development Corporation
17. Small Industries Development Organisation
18. Tanzania Investment Bank

ZAMBIA

19. Development Bank of Zambia

ZIMBABWE

20. Agricultural Bank of Zimbabwe
21. Industrial Development Corporation
22. Small Enterprises Development Corporation
23. Zimbabwe Development Bank

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