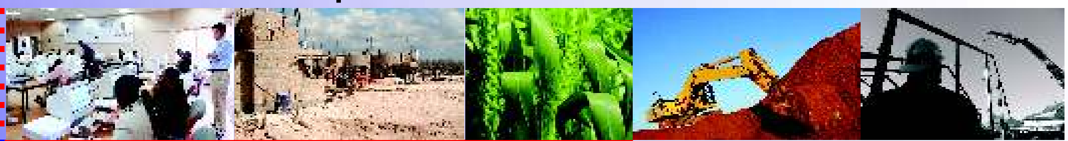
sadc dfrc

SADC Development Finance Resource Centre



2006 annual report

southern african
development community

development finance
resource centre

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

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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 DFI 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
ICM	Integrated Committee of Ministers of SADC
IDC	Industrial Development Corporation of South Africa
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IOD	Institute of Directors in Southern Africa
JAI	Joint Africa Institute
JBIC	Japanese Bank for International Cooperation
JICA	Japanese Internation Cooperation Agency
KfW	Kreditanstalt Für Wiederaufbau, Germany
MDB	Multilateral Development Bank
MEFMI	Macroeconomic and Financial Management Institute of East and Southern Africa
MOU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
NDC	National Development Corporation of Tanzania
ODA	Official Development Assistance
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
RDBs	Regional Development Banks
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
WITS	Wits University Business School
WTO	World Trade Organisation

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.

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

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
Chief Executive Officer
National Development Bank, Botswana
FCMA, MA, B. Com (Accounting)
Trustee since: March 2003

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

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

Chairman's Report

Mr. Peter Madara
Chairman, Board of Trustees
SADC- DFRC

Introduction

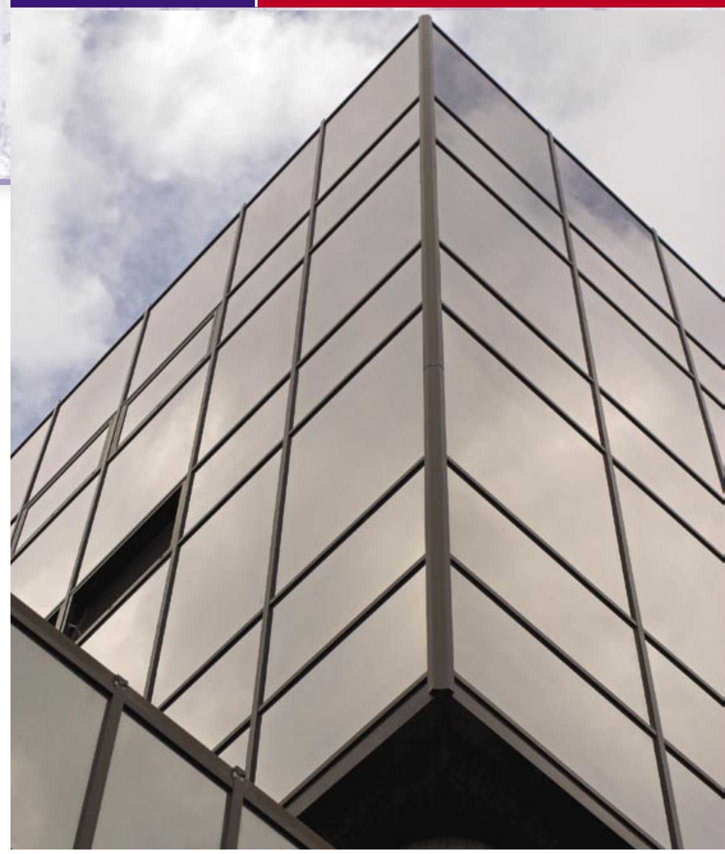
This year I will be vacating my position as Chairman and as a Member of the Board of Trustees of the SADC Development Finance Resource Centre (DFRC). Since the adoption in August 2001 of the Trust Deed establishing the DFRC, and my appointment on its original Board, I have served in the capacity as a Board member and Chairman for this period to May 2006.

In our first year of service as a Board our responsibilities were minimal: during this period and, as one of our primary tasks, we adopted the formula for contributions of the Development Finance Institutions (DFI) Network Members to the DFRC's recurrent expenditure. Except for the legal and procedural rules that we approved, which would govern the DFRC's existence and membership on the Board, and other than attending the annual meetings of the DFI Subcommittee, we had not erected the DFRC as a corporeal entity. It existed through its legal instruments and in name only.

With the help of others we have come a long way

However, in the last 3 years of my service on the Board, and as its Chairman, I am gratified to state that I witnessed the physical establishment of the institution in Gaborone, Botswana and have played a key role in guiding its creation, recruiting its management and staff, and nurturing the growth and early maturation of the institution. Several institutions and individuals also played a supportive role, whether great or small in the establishment of the DFRC, and I would like to take this opportunity to acknowledge and thank them here.

I want to recognize first the commitment and enduring support that we have received from the Development Bank of Southern Africa, and its successive Managing Directors, Dr. Ian Goldin and Mr. Mandla Gantsho. Since 1998, and following the



adoption of the FISCU Study on Development Finance (DFS98), the DBSA has steadfastly supported (both financially and technically) and guided the work of the DFI Subcommittee of SADC in its efforts to establish the Network and the DFRC, and implement the recommendations of the DFS98. Initially through the activities of its Policy Business Unit, then through the active involvement of the management and staff of the (former) Southern Africa Business Unit (Dr. Bane Maleke, Mrs. Lolette Kritzinger van Niekerk, Dr. Piet Viljoen and Mrs Irma Weenink) and the Corporate Secretariat (Dr. Paul Kibuuka and Mr. Bernard Mhango), and last but not least, through the secondment in 2002 of its development finance professional Dr. Rosalind Thomas, the DBSA has been instrumental in ensuring that the Network and the DFRC have become a reality in the SADC Region. Words could not express the gratitude nor quantify the debt that is owed to that institution.

In the early days of its establishment and while it was still mobilising resources from its members, the DFRC sub-let two rooms from the SADC-GTZ Office in Old Lobatse Road for a period of 6 months to December 2003. The organisation benefited in this infant stage from the generous support of the management and staff of Germany's GTZ in Botswana, and specifically we wish to acknowledge with thanks the assistance of their representative at the SADC Secretariat, Mr. Helmut Mueller-Glodde.

In January 2004, and given our need for greater space as the institution accelerated its recruitment drive, we moved out of the GTZ offices and sub-let prime office space from the then Kingdom Bank Botswana, which was situated at the time on Independence Avenue in central Gaborone. Sharing support services and common areas including the Reception facilities and Board Room, this arrangement allowed the DFRC to consolidate its finances and grow in strength. The majority of the DFRC's staff was recruited during this period. Residing in harmonious co-existence with our landlords, the DFRC spent 23 months at these premises. During this time, a solid relationship was built up between the DFRC and the management and staff of the Bank, and specifically with its Managing Director, Mrs. Irene Chamney, and following her departure, her successor Mr. Nigel Chanakira. While their institution witnessed significant change and has since been transformed, we are reminded of those days and remain appreciative of an arrangement which worked remarkably well.

In December 2005 the DFRC came of age when we moved into our purpose-designed headquarters – measuring 550 m^2 of real estate - at the BIFM/Fairgrounds Office Park, Block B. This has now become our permanent home. On the 19th January 2006, our offices were officially opened by the SADC Chairman of Council, and Chairman of the SADC Committee of Ministers of Finance and Investment (COMFI), Honourable Baledzi Gaolathe, Minister of Finance and Development Planning of the Republic of Botswana. This was an extremely satisfying moment for us and given its enormous significance, I will return to this event a little later in my Report.

Dr. Rosalind Thomas, DFRC, Mr Tony Dixon, Institute of Directors, Southern Africa, Ms Lone Spanner, Danida

Special thanks to DANIDA...

This part of my Report would not be complete without a special word of thanks for the tireless and continued support received from our financing partners in the International Donor Community. The Government and peoples of the Kingdom of Denmark must be singled out for special mention. Not many people are aware that DANIDA has been a steadfast partner of the DFI Network since 1997. Beginning with the secretariat of the DFI Subcommittee which was then hosted at the DBSA, DANIDA has consistently and with vision, recognised the critical role that national DFIs can and are playing in the SADC Region, and have supported these efforts for as long as I can remember. Their belief in our cause and their continued financial support to the DFI Network and its activities has made them the partner of choice for the Network. The DFI Network and the DFRC are especially grateful for assistance from DANIDA.

And the other International Co-operating Partners (ICPs)

Other ICPs have also had an impact on our ability to meet our objectives. Mention is made in particular of the African Development Bank, Japanese Bank for International Cooperation (JBIC) and the Joint Africa Institute for supporting our first capacity building initiatives, as well as FIRST Initiative for helping us to define our areas of need. The Public Private Infrastructure Advisory Facility (PPIAF – an agency managed by the World Bank) assisted us in our infrastructure/PPP programme. Germany's KfW supported our work on the Project Preparation and Development Fund of SADC. Japan's International Cooperating Agency (JICA) gave us financial support through the DBSA for the DFI Network's capacity building needs on SMEs in particular. Between them, they have all made it possible for the DFRC to achieve much since we opened our doors in 2003.

I am certain that the DFRC will continue to be a relevant player – working with the ICPs in supporting financial sector strengthening and capital markets development, infrastructure delivery and SME development, including supporting the increased involvement of women in the economy. It is poised to achieve great things in the coming years. We face great challenges and we will continue to engage the ICPs for greater support - and I have no doubt that the DFRC will succeed.

Yes, we have indeed come a long way since 2000 when the MOU was signed and 2001 when the initial DFRC Trust instrument was adopted by all parties. Between 2000 and 2002, we hardly dared believe that we could achieve implementation of the commitments made to establish the Network. Nor did we contemplate that the DFRC would actually materialise as a solid functioning institution, hosted in Botswana. I therefore want to take this opportunity to review our achievements to date, to highlight significant milestones accomplished since we opened its doors in Gaborone in July 2003 and to record important events.

Establishment and growth in membership of the Network

As you are aware, the DFI Network, of which my institution, the Industrial Development Corporation of Zimbabwe Limited is a founding member, was established in May 2000 through the signature and adoption of a Memorandum of Understanding (MOU), which has since become Annex 8 to the draft SADC Finance and Investment Protocol (FIP). This latter instrument is expected to be adopted by SADC Ministers of Finance in July 2006, and submitted to SADC Council of Ministers and the Summit in August 2006 for their approval.

Fifteen (15) DFIs from the SADC Region signed that MOU and agreed to set up the Network. Today, approximately 6 years later, I am pleased to advise that the Infrastructure Development Bank of Zimbabwe which replaced the old Zimbabwe Development Bank, has now joined the network. Several more DFIs existing in the region (from the Democratic Republic of the Congo (DRC), Lesotho and Mozambique) have indicated their intention to join in this financial year. A full list of members is to be found at the back of this Annual Report.

We are also witnessing the creation of (or intention to create) several new development banks in SADC, in countries that have not previously had any such DFIs. These include Angola and Madagascar. A third SADC country, Malawi is in the process of winding up the affairs of its old Malawi Development Corporation (MDC) (itself a member) and en route to engaging expert advice to investigate the feasibility of setting up a new development bank. We are pleased to advise that the DFRC has been requested to provide some assistance to the stakeholders in two of these cases.

Support of the SADC Secretariat

During the first three years of its establishment the DFRC walked an uneven and somewhat difficult path with its mother institution, the SADC Secretariat, as the latter grappled to understand the nature of the DFRC and its operationalisation

Dr.Tomaz Salomao,
The Executive Secretary of SADC

under the concept of subsidiarity. In this regard, I am extremely glad that we have since January 2006 turned a corner in our relations and that concrete efforts have been made to strengthen the relationship between the two institutions. We need to remind ourselves that it is crucial for their operational effectiveness that the DFI Network and its DFRC are seen to enjoy the full support of SADC and its organs if the support of the International Cooperating Partners (ICP) is to be tapped effectively for delivery.

The objectives we pursue within SADC are the same, and include sustainable economic growth through private sector-led investment to generate employment for our people and eradicate poverty. The DFRC would like to play its role in achieving these goals and we have demonstrated our capacity to do so. With the Secretariat's support and the support of our key stakeholders, we believe we are poised to assist the Secretariat and Member States to achieve greater heights in conquering under-development and poverty, to achieve the Millennium Development Goals (MDGs) and to accomplish sustained economic growth.

Support of Member DFIs

I noted earlier the support of the DBSA throughout the period of establishment of the Network and the DFRC. The DBSA's support is consistent and continues to date and has advanced to include support for not only the institutional set up of the DFRC, but also for its programmes and activities. Through its Vulindlela Academy, we have succeeded in developing complementary training interventions for both the DFIs and their SME clients. They are supporting the DFRC's resource mobilisation drive and recently succeeded in obtaining a multi-year funding facility of ZAR5 million from Japan's JICA to finance these training interventions. In addition, the DBSA is a leader in providing secondment support to the Network, providing lending facilities and in taking equity in Network members. All of these initiatives are supportive of the MOU (Annex 8 of the FIP) of the DFI Network, and demonstrative of the DBSA's commitment to development in the Region. The DBSA and the DFRC are considering adopting an MOU to formalize the areas of cooperation between the two institutions.

Likewise, the Industrial Development Corporation of South Africa (IDC-SA) has also played a supportive, albeit more muted, role in the early years in supporting the Network and its DFRC. However, and since late 2005 and 2006, they have begun to scale up this support and to offer secondments, attachments and training to the Network members. It is expected that through their African Business Unit and their Africa Development Programme at the HR Department, they will be more than willing to assist Network DFIs in SADC with Technical Assistance (TA) for inter alia, strategic and business planning, project financing skills development and enhancement, and some financial support in respect of feasibility and other studies. The DFRC is currently engaged in discussions with their management to explore potential areas for engagement, and remains hopeful that such support will be forthcoming. In any event we anticipate that over this year we will witness greater involvement and investment by the IDCSA into the projects and activities of the other Network members in the Region, so as to support the NEPAD and SADC regional development agendas.

One area where we are keen to see the IDCSA play a stronger leadership role is in relation to a planned workshop to come up with minimum prudential standards for DFIs. The objective here is to bring together international financial institutions (IFIs), regional and national DFIs, central banks and other stakeholders to discuss and agree parameters for these standards. This project includes the development of an Africa-specific credit rating methodology for Financial Institutions – especially DFIs - and is directed at improving overtime their creditworthiness to international best practice levels, thus enabling them to access capital markets for long-term finance. The SA National Treasury has agreed to work with us on this but a sponsor is still required.

Other support is also provided between and among the smaller DFIs in the Network. This past year for example, we witnessed a mission from Botswana's CEDA to Tanzania, to learn from the experiences of the Small Industries Development Organisation of Tanzania (SIDO).

Progress and achievements to date

Over the last three years since 2003 I have been pleased to see the DFRC develop and deliver first-rate training programs and deliver advisory services and facilitate institutional strengthening and other support in the following areas:

- **Investment Appraisal and Risk Analysis Training Programme**

  In partnership with the John Deutsch International Executive Programs of Queens University Canada, this flagship international training programme is held annually at the Eskom Leadership Development Centre in Midrand South Africa. Financial and Economic Modules were held in July and November 2005. Thirty four participants from DFIs in SADC benefited from the training. Five of the most outstanding participants will participate in the DFRC's "Train the Trainer" programme in Canada in July 2006.

Corporate Governance Workshop for Chairpersons of DFI Boards of Directors, May 2005

• Appraisal of SME Credits - Training Programme for Network DFIs

In collaboration with the DBSA, the DFRC will be working on training of Project Appraisal for SMEs and Infrastructure/PPPs in a multi-year (5 years) funding facility from JICA totalling ZAR5 million under their New Partnership for Africa's Development programme (NEPAD), to strengthen DFIs delivery on their SME responsibilities.

• Corporate Governance Training for Board Directors

A very successful workshop for Chairpersons of 17 Network Members was held in May/June 2005 in collaboration with the Institute of Directors of Southern Africa, South Africa, followed by two in-country workshops for the Boards and Senior Management of the Three DFIs in Namibia (February 2006) and 3 DFIs in Swaziland (April 2006). Further in-country workshops are planned for later this year in the other SADC countries. Additionally, we have succeeded to raise through the Global Forum for Corporate Governance (an IFC managed facility) a USD 300,000 multi-year facility for corporate governance training and strengthening of DFIs and SMEs in the region.

• Risk Management Workshops for Network DFIs

We are currently developing follow-up programs on Credit Risk Management and Asset/Liability Management for 2006 and for Risk Management training for DFIs, after our very successful workshop in Cape Town in November 2004. Collaboration is taking place between the DFRC, the DBSA, the IDC of South Africa and the African Development Bank in this regard.

- **NEPAD Study- Quantitative & Analytical Approach to PPI in SSA**

The draft final Report to develop guidance material for public sector units in appropriate quantitative and analytical techniques and methods in appraising PPI which is funded by PPIAF and managed by the DFRC has been completed and submitted to the NEPAD Secretariat. A workshop is planned to discuss the Report but its timing is dependent on the availability of the NEPAD Secretariat.

- **Establishment of a PPP Unit at the NDC Tanzania**

This PPIAF funded pilot project to establish a PPP Unit at the NDC in Tanzania, was launched on 16th February 2006 in Dar es Salaam. The winning bidders will assist NDC to appraise three (3) infrastructure projects in the Mtwara Development Corridor and develop Requests for Proposals (RFPs) to select a transaction advisor to help them package these projects for auctioning to investors. The Consultants are in residence and a unit has been established, and includes two seconded personnel from Malawi and Mozambique.

- **Advisory Services to SADC Governments and DFIs**

The Governments of the Republic of Malawi, Angola and Madagascar have variously and independently and formally or informally begun discussions with the DFRC on the possibility of assistance on the establishment of new development banks in their countries.

- **Technical Assistance to IDBZ (Zimbabwe) and TIB (Tanzania)**

The DFRC has been requested to assist the new IDBZ of Zimbabwe to strengthen its skills in project financing and capacity building to develop in-house skills for appraisal of infrastructure projects. The DFRC has also been working with the TIB Tanzania on their transformation into a full-fledged development bank following the decision by the Government to re-establish a comprehensive development finance system.

- **SME Project Activities**

The DFRC has been facilitating exchanges of experiences and Information on SME programs among DFI Network members. As a pilot project, and as I noted earlier, CEDA of Botswana has been assisted to visit member DFIs in Tanzania, South Africa and Zimbabwe so as to gather new experiences in respect of SME support.

- **Assistance with Resource Mobilisation**

The DFRC has assisted one DFI and is assisting two further DFIs to access funding (debt and equity) from the DBSA, NORSAD and the Enterprise Banking Group (EBG) Botswana, for their development programmes.

The Official Launch of the SADC-DFRC

On 19 January 2006, and as I mentioned earlier, as the climax of my Chairmanship of the Board, I had the honour to co-host the Official Launch of the SADC-DFRC at its new premises located at BIFM/ Fairground Office Park. The Honourable Baledzi Gaolathe, Minister of Finance and Development Planning of the Government of the Republic of Botswana, honoured us with his presence and officiated at this event in his capacity as Chairman of the SADC Council of Ministers, and Chairman of the SADC Committee of Ministers responsible for Finance and Investment.

In launching the DFRC, the Minister spoke to a broad-based group of invitees, including SADC Government representatives, Senior Officials from the SADC Secretariat, Members of the Diplomatic Corps present in both Botswana and South Africa, International Cooperating Partners, other Invited Guests and the members of the DFI Subcommittee. He noted that the DFRC was a new member of the SADC family, and the first institution to be established under the SADC Principle of Subsidiarity. In highlighting the role of the DFRC and the Network, he alluded to the past poor performance of DFIs in Africa noting that –

Honourable Baledzi Gaolathe, Minister of Finance and Development Planning of the Republic of Botswana and Chairperson of the SADC Council of Ministers

"DFIs became an issue as they were seen to exert undue pressure on the fiscus to finance their operations. In many cases, Government and donor support was withdrawn for some DFIs and they were left either to adapt to the changing liberalized environment or close shop. Notwithstanding the financial liberalization and the expected resultant resource allocative efficiencies, it is clear that gaps and imperfections continued to exist in some financial systems and capital markets. As a result, availability of resources, particularly long-term financing got severely restricted, especially to informal, small and medium-scale enterprises (SMEs) and infrastructure."

Nevertheless he recognised that more than 50% of our economies are informal where SMEs play a pivotal role as an employer and source of livelihood for a significant proportion of our populations. This situation, he noted, was partly explained by the risk-averse nature of commercial banks towards this important sector and their emphasis on short-term lending. With infrastructure financing on the other hand, especially through PPPs, he recognised that the problem is somewhat different and that investment is hindered by a lack of bankable projects. To this extent, he emphasised that as agents of development, DFIs will continue to play an indispensable role in addressing these gaps and ensure that resources are channelled to sectors that are the engines of growth. Quoting the SADC FISCU Study of 1998 (the DFS98) he concluded; "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". For him therefore, it was very important that, as developing countries, SADC governments should strive to support and integrate the DFIs, within the emerging liberalized and market-oriented financial systems. They also needed to ensure that the necessary supervisory and regulatory frameworks that recognize the uniqueness of development finance institutions are put in place.

From my vantage point, the occasion was a great success, and we were gratified not only by the fact that the honourable Minister left his vacation to attend and officiate at the launch – but we were extremely pleased with the turn-out we received.

Expectations of the DFRC going forward

My expectations of the DFRC for the coming years following my retirement is to see the institution fulfil its mandate and achieve what it was set up to do for the DFI Network in particular and the financial sector overall. It remains a critical institution for supporting integration through financial sector reform and strengthening, capital markets development and deepening and support for supply-side interventions. It was set up as a vehicle for supporting, especially:

- **Sub-regional cooperation and the achievement of regional integration through, inter alia, the SADC Regional Indicative Strategic Development Plan (RISDP);**
- **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;**
- **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;**
- **Advisory services to SADC governments and to DFIs;**
- **Providing a central hub for information technology and DFI information systems.**

In this respect I would like to see the DFRC and the DFI Network play a greater "back-room" role in helping the SADC Secretariat implement and deliver on the huge challenges that face the Secretariat in the region. In its strategic business plan and its financial sustainability strategy, the DFRC recognises all of these and more, and places greater emphasis on supporting especially the achievement of most of SADC's priorities, especially in respect of (i) trade development; (ii) infrastructure investment; and (iii) food security.

To the extent possible and as the representative of a founder member (the IDC Zimbabwe) I pledge to continue to support the management and staff of the

organisation and will be happy to continue to mentor them. I hope to see the DFRC become the centre of excellence it aspires to be in its Vision Statement and count on it to always being true to its mission. The DFRC's role is a difficult one – and it needs to remain steadfast and committed to ensuring delivery in the SADC Region and supporting the SADC Member States and the SADC Secretariat to achieve on the Common Agenda.

Farewell & thanks to colleagues on the BOT & Member DFIs

As I mentioned in our first Annual Report last year, I have been extremely privileged to have had the opportunity to work with a strong and committed Board. I therefore want to acknowledge and thank my colleagues: first I would like to recognize the Vice-Chairman of the Board, Col. Joseph Simbakalia, MD of the National Development Corporation of Tanzania. He and I were among the first appointees to the original Board. The Colonel has consistently provided insightful and careful perspectives on matters arising at the Board and has played a significant leadership role. I will miss the collegial camaraderie that has built up between us over the years.

Second, is Mr. Oaitse Ramasedi, Chief Executive Officer of the National Development Bank of Botswana whose wise counsel and keen understanding of issues have always brought value to our discussions. Mr. Ramasedi would have terminated his participation on the Board this year but the DFI Subcommittee has seen the value he has contributed to date and have returned him for a second term. I wish to congratulate him and acknowledge that the confidence shown by the Subcommittee in him through his re-election is well deserved.

Mr. Benyram Chooramun, MD of the Development Bank of Mauritius strives always to keep us on a fiscally prudent footing, and his skills in this regard are much appreciated. Last but certainly not least, I want to acknowledge Mr. Allan Mukoki, MD of the Land Bank of South Africa and his Alternate, Mr. George Oricho, who has always taken a keen interest in the DFRC and DFI Network's affairs. I have enjoyed working with the Board and will surely miss the fellowship and the solidarity. As an ordinary member of the DFI Network and representative of a shareholder, I look forward to their continued dynamic contribution in providing strategic direction and leadership to the organisation. I wish you all "adieu."

I want to recognise and thank our "shareholders", the DFI Network Members for their continuous 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 guided, supported and encouraged us.

Welcome to the New Board Member

At the last meeting of the DFI Subcommittee in Zanzibar, we elected two Board members – one, Mr. Ramasedi was returned for a second term. The other, Dr. Vincent Mhlanga, CEO of Swaziland Development Finance Corporation (Fincorp), will be participating for the first time. I want especially to welcome Dr. Mhlanga, who has always demonstrated strong interest in the DFI Network and the DFRC's affairs. I am convinced that he will be an asset for the Board and will complement the existing members. I am also especially pleased that we have succeeded to have Mr. Ramasedi re-elected given his past performance on the Board which – as I have indicated – has been exemplary. I wish them both all the very best of luck in their responsibilities in guiding the DFRC and taking it to even greater heights of achievement.

Thank you to the CEO and Staff for their support

Lastly, I would like to express my sincere appreciation for the commitment and dedication of the DFRC's management and staff and to thank them for the sustained passion with which they continue to deliver daily on the institution's goals and objectives - striving to achieve the vision and mission of the Network and the DFRC, to serve the Region and to ensure that the master plan set in motion by our political masters – the Committee of Ministers responsible for Finance and Investment – is achieved. The Chief Executive Officer, Dr. Rosalind Thomas has spent over 17 years working on regional integration in SADC. Her intellectual support and energy over the years – first with the DBSA, and then during her secondment – have ensured that we as the DFI Network were able to implement what we had agreed to on paper. Together with her team of dedicated and highly qualified professionals: Ms. Vero Kgakge, Mr. Stuart Kufeni, Dr. Herrick Mpuku and Mr Joseph Nyamunda, and her support ensemble led by Mrs Mariam Ekenyane, she has shown that a lean, dedicated and well motivated team can make a difference and try to change the world. With absolute dedication and enthusiasm they have managed to put the SADC-DFRC and the DFI Network on the Map.

I am proud of our achievements to date and feel that I can retire from the Board in this year ending May 2006, knowing that the SADC-DFRC has indeed come of age and is ready now to take its rightful place in the Region and in the world as a serious, well-focused and strong agent for change and development in the financial sector.

Peter Madara
Chairman
Board of Trustees

Management & Organisational Structure

From left: Herrick, Rosalind, Vero, Kenny, Hawa, Mariam and Stuart (Missing: George and Joseph)

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 Ist of 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 (Accounting), 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 Service
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.

SADC Structures

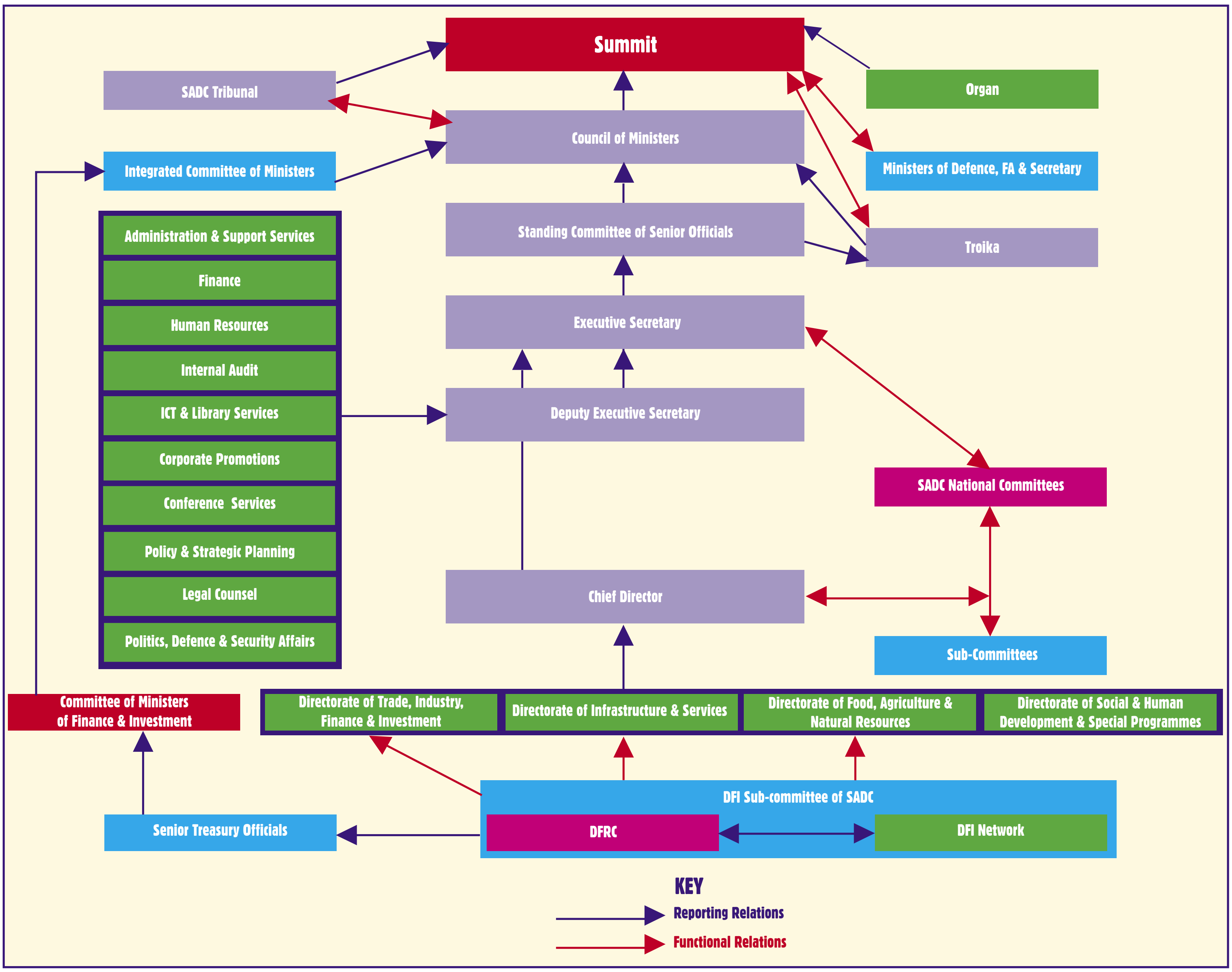
How the Network & the DFRC fit into SADC Structures

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.

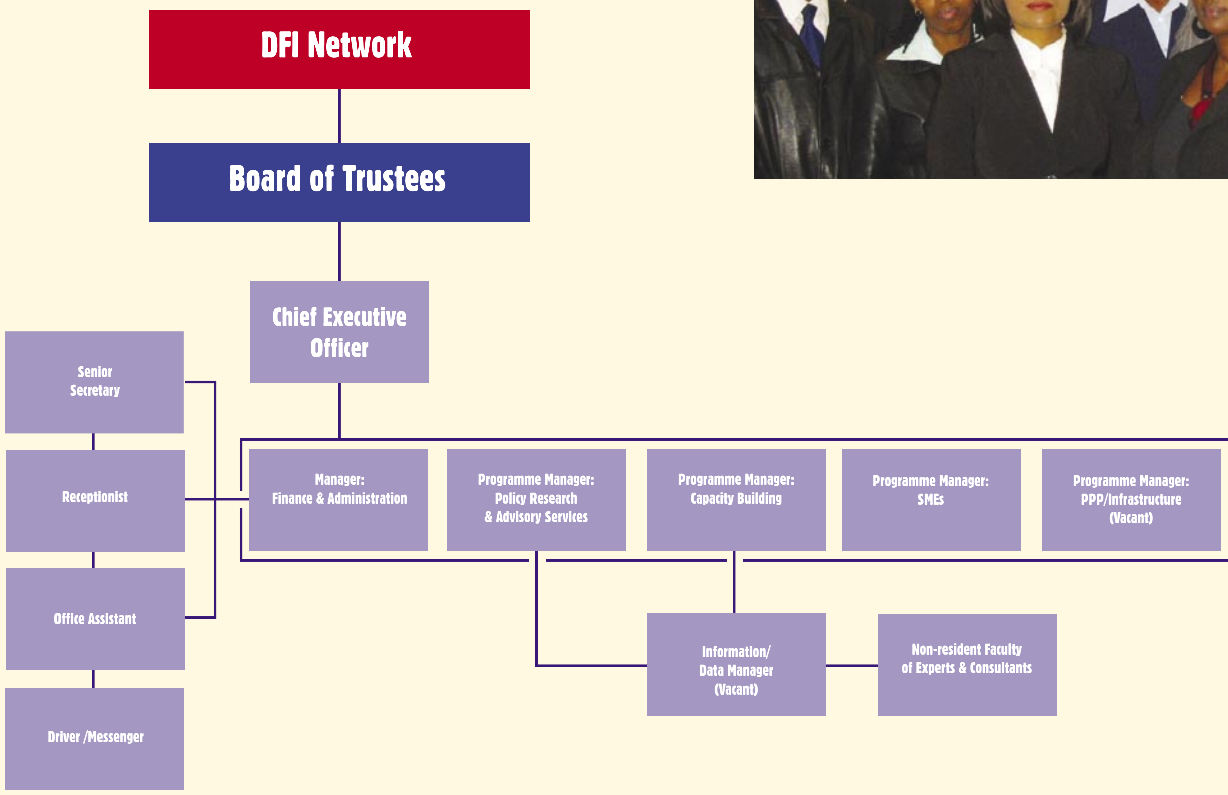
The DFI Subcommittee is comprised of all national OFIs in SADC member countries, is a subcommittee of the Senior Treasury Officials of SADC, and reports through them to COMFI.

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. One member from Lesotho, the Basotho Enterprise Development Corporation (BEDCO), has indicated its intention to join the Network. Two DFIs from Mozambique and the Democratic Republic of Congo are expected to join during the course of 2006.

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.

Chief Executive Officer's Report

Dr. Rosalind H. Thomas
Chief Executive Officer
SADC - DFRC

Introduction

The DFI Network and the DFRC continue to tackle the development challenges that confront us in the SADC region and which we recognize as critical intervention areas in our 5 year business strategy adopted in 2004. As we strive to make in-roads in addressing them, we acknowledge that 2005/06 has been a remarkable year. We have witnessed our programmes deliver some small, but nevertheless substantive results despite limited resource availability. In this respect we have also demonstrated that with focused application, good will on the part of our development partners and sheer tenacity, it is possible to achieve remarkable success in mobilizing supplementary off-balance sheet resources directly to projects. Let me explain what I mean by this by taking you on a survey of our challenges and achievements in this past year.

Financing our Programmed activities has not been easy…..

Our efforts to raise financial resources to directly finance our programmes have had mixed results. This has largely been attributed to the lack of clarity amongst donors as to our relationship with our mother organisation – the SADC Secretariat. Happily this has all changed with the new management and we are extremely pleased to acknowledge this fact.

Apart for the strong and consistent support we have received from DANIDA for which we continue to be exceedingly grateful, all other resources have been raised at the project level and off-balance sheet. Primarily because of the reason I stated earlier, it has not been a simple task to persuade SADC's main development partners in the ICP to take a chance on us and support our activities directly. While all have indicated their eagerness to collaborate, some have noted that they are still en route

to developing their strategies for the Region; and others have preferred to have requests channelled through the Secretariat to simplify the administrative process. We have understood the former and had no problem with the latter requirement – but both have been slow to respond to our efforts. We are confident however, that in the new financial year we will begin to see an improved flow of resources to our programmed activities and consequently realise the fruits of our labours. That being stated let me now begin my survey with our Programme on Policy Research and Advisory Services.

Policy Research and Advisory Services…

Africa's weak investment climate and inadequate institutional framework persist, and bedevil its ability to make substantial progress in attracting significant investments. The reforms (both macroeconomic and those targeted at the trade and financial sectors) that have been carried out over several decades under the auspices of the Bretton Woods institutions and the recent WTO negotiations under especially the Doha Development Round have had far less-than expected impact on economic growth in developing countries. This is well acknowledged in numerous published reports and has been a point of acute discussions at conferences and symposia held to discuss the plight of Africa.

NEPAD has recognized this issue as a critical intervention area and the ICP has responded variously by setting up facilities such as the Investment Climate Facility for Africa. The SADC-DFRC has, in line with the NEPAD philosophy of "African solutions for African problems", developed a programme to address financial sector strengthening and institutional reform from the perspective of targeting the environmental and institutional needs of development financiers as a critical intervention area to enhance / improve their delivery capabilities. Yet, despite the strategic role of development finance in securing sound and sustainable development, our efforts to attract direct funding from the ICP are still to yield positive results.

Africa's weak investment climate and inadequate institutional framework persist, and bedevil its ability to make substantial progress in attracting significant investments...

Nevertheless, we have managed to accomplish some of our objectives in this past year. A fuller account of this Programme's activities, achievements and challenges are contained in the Report under the section on Policy Research and Advisory Services. For my purposes, however, I wish to highlight the following key events and activities. These include the completion of (i) the data management project, (ii) the launch of the DFI statistical return, considered critical if we are to understand the needs of our clients – the DFI Network; (iii) the launch of the Experts Database, essential for strengthening the DFRC's virtual capacity by identifying the requisite skills in the DFI Network and in the diaspora for supporting the DFRC's advisory services and carrying out technical assistance interventions in the region.

On the research side we have succeeded in completing the terms of reference for analytical and case study work which will be carried out to support our project activities in the development corridors (spatial development initiatives) of SADC, related especially to SMEs and the development of supply- and value-chains.

DFI participants attending the DFRC/Queens University Financial Module of the Investment Appraisal and Risk Analysis Programme at Eskom Leadership Development Training Centre, Midrand, 2006

Exciting activities under this programme going forward will include the following:

A high-level workshop with the International Financial Institutions, SADC National Treasuries, Central Banks and DFIs to agree on minimum prudential standards for financial sustainability and operational effectiveness of DFIs in the SADC region; this project will inform the -

- **Development of a Credit Rating Methodology for African financial institutions as an off-shoot of the first project and thus;**
- **A Pilot Credit Rating process for DFIs that are ready to take on these disciplines;**
- **The development of appropriate financial and capital markets instruments for supporting the long-term financing needs of DFIs to fund small-scale infrastructure and SMEs; and**
- **The development of effective business-linkages programmes at the regional level between Big Business/FDI and SMEs and PPI and SMEs.**

…Capacity Building

As a resource rich continent, Africa remains amongst the poorest – if not the most impoverished region of the world. Yet, if Africa is to exploit its natural wealth and achieve its rightful place in the globalizing economy, it will need to develop its most important resource yet – its people. In order to deliver on the enormous challenges that face the continent, Africa needs skilled, resourceful and motivated citizens.

In the context of our work with the DFIs in SADC, this means that for the DFIs to exploit and deliver on the development opportunities that exist in the region - the requisite skills base is essential. They need trained staff to enable them to

Participants on Module 1, Financial Analysis of the Investment Appraisal and Risk Analysis Training at Eskom, 2005

fulfil on their diverse mandates, and especially in respect of infrastructure development and SMEs financing and support activities.

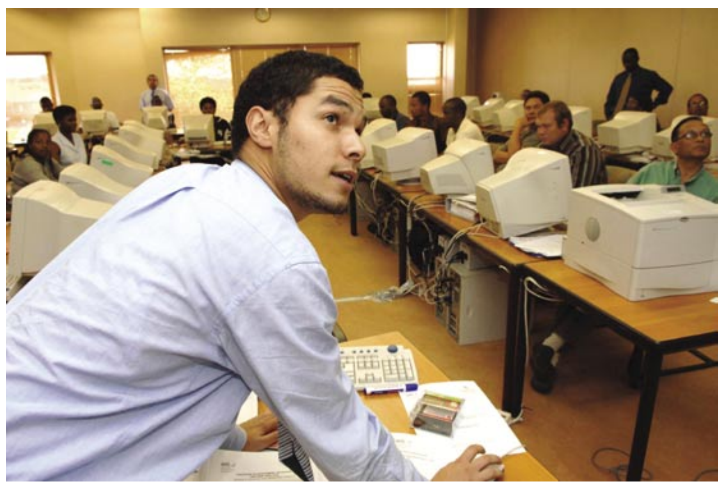
To ensure sound management and administration and corporate responsibility – accounting and auditing skills and corporate governance training are mandatory. Critical skills on the operational side include finance and risk management, investment appraisal, including financial modelling and economic and risk analysis, project finance, contract negotiations and environmental impact assessments and management, to name a few.

The DFRC is acutely aware of this challenge and to this extent and using our DANIDA resources our Capacity Building programme continues to be a priority. It is in fact our most successful intervention yet and, as with the previous year, we have succeeded in delivering across most of our planned intervention areas. These included training, secondments, technical assistance and placements on partners' training programmes.

I specifically wish to draw attention to the following achievements: of 5 workshops planned for 2005/06, we succeeded in delivering on four with the fifth, on risk management, being carried over into this financial year. The following training interventions have therefore been successfully completed in FY 2005/06:

- **investment appraisal and risk analysis (focusing on both infrastructure and SME case studies);**
- **3 corporate governance seminars for Board Directors and Senior Management of DFIs; and**
- **The appraisal of SME credits.**

Several inquiries were made and applications forwarded for secondments between DFIs and IFIs; so far only one has taken place although others are under negotiation; placements on the training programmes of partner institutions have also occurred with special reference being made to the Joint Africa Institute (JAI) of the African Development Bank (AfDB) and Galilee College in Israel. Placements are also under negotiation with DBSA's Vulindlela Academy and the IDC's Training Institute. Thus far 5 placements have been made in this year.



Participants working on Risk Modelling on the Investment Appraisal and Risk Analysis Training at Eskom, 2005

Technical assistance was sought from the Commonwealth Secretariat for credit analysis support and long-term support on PPPs/Infrastructure, and these applications are still pending. We are hopeful that this latter request in particular will be positively entertained.

The details of our achievements here are to be found in this Annual Report and are set out under our Capacity Building section.

SME Development an imperative …

For Africa to achieve any progress on the MDGs and specifically on the MDG goal of halving poverty by 2015, it has to ensure that employment generation is accelerated. All stakeholders (SADC Governments, the ICP, the Private Sector and Labour Unions, etc.) agree that focusing on developing the SME sector is critical for economic growth and a prerequisite if Africa is to achieve progress on this MDG challenge.

Yet many studies that have examined the state of SMEs in Africa and the reasons for their failure, have found that in several of our countries, restrictive regulations and practices (including rent-seeking by officials controlling licensing, procurement and other publicly managed functions critical for SME activities); the dearth of business support services; and the absence of long-term affordable finance are constraining SME activities and preventing the evolution of successful SMEs into medium sized enterprises. More specifically, it is widely recognized that this lack of access to finance is not the result of a lack of investable funds. Financial and capital markets in the region are awash with excess capital, albeit it is all short-term in nature.

The barriers preventing SMEs from much needed finance appear to arise from a combination of the following features:

- **Project size – there appears to be sufficient funding for micro and macro lending, but loans falling between these two ranges (i.e. USD10,000 - 1 million) seem to be harder to come by;**
- **Tenure – while short-term money is usually available, loans of duration from 2 -10 years are not;**
- **Cherry picking – there is a tendency for banks to pick projects that meet a particular success threshold while good projects falling just below the profitability ceiling are rejected;**
- **Start-ups and women-run SMEs appear to suffer most from being unbanked; and**
- **The business skills of the SMEs and the difficulties associated with improving their performance, including the high cost of technical assistance provision and the often poor quality of the service providers is viewed as a key risk.**

The shortcomings in the market for SMEs support underscore the need for DFIs to bridge the resource gap. Our business plan has placed enormous emphasis on these concerns and therefore our SME programme has been a major priority since its inception. Again, with the scarce resources at our disposal, this programme has also shown some limited but demonstrable successes.

This past year the programme focused on institutional strengthening of DFIs to make them more effective in supporting SMEs, and in this regard we identified shortcomings in the DFIs capitalization; with their financing instruments, their systems and procedures, and their staff skills. Seventeen DFIs were visited in five member states and of these, support programmes have been developed for two of our Network members.

Regrettably, while we have developed a strategy and forged partnerships for addressing this issue, we have struggled to source funding to get our women-focused programmes off the ground.

The Programme Manager's Report set out in our SME section, highlights in greater detail our activities in the past year and our challenges going forward.

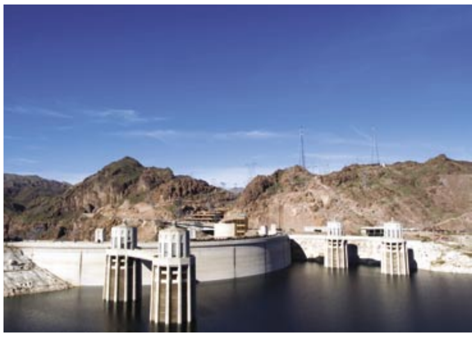
… Infrastructure the backbone of development

Investment in Infrastructure has been acknowledged as a top priority by NEPAD and the African Union, and by SADC Governments and the ICP at the recent Windhoek Consultative Conference. It was also highlighted by South Africa's Minister of Finance, Honourable Trevor Manual, on the occasion of the African Development Bank's (AfDB) AGM in Burkina Faso. The establishment of the Infrastructure Consortium for Africa led by the World Bank (the Bank) further confirms its critical importance. Significantly, the Bank's Antonio Estache, has noted that for Africa to achieve on the MDGs it would need to spend at least 9% of GDP on infrastructure annually.

At the recent June meeting of the World Economic Forum on Africa held in Cape Town, the critical importance of infrastructure for Africa's development and integration into the globalized economy was further underscored.

The Bank is correct in asserting that infrastructure is the backbone of a functioning economy, facilitating economic growth.[1] Thus, farmers need infrastructure (roads and railways) to get their goods to market and manufacturers and traders need infrastructure (i.e., dependable electricity supplies, reliable transport and state-of-the-art telecommunications services) to trade globally and compete. Without infrastructure, sustainable poverty reduction is impossible. There is global consensus that infrastructure is important for Africa's development.

But infrastructure delivery and financing is, as the Bank points out, difficult, contentious and extremely risky - it therefore requires careful and well thought through strategies and policies to facilitate better delivery by a multitude of players, including the private sector. Private involvement in infrastructure provision is still considered a sensible approach to tackling the infrastructure gap in the Region, despite the few well-publicised failures that have been experienced in especially the water and electricity sectors.



1 Scaling up Infrastructure: Building on Strengths, Learning from Mistakes, Infrastructure Network, January 30, 2006: The World Bank Group.

While we take cognisance of the Bank's recently expressed dissatisfaction with the performance of PPI - and while we agree that private investment in infrastructure has not delivered all that was promised (there are certainly good reasons why this is so) Africa is not ready to give up on the concept of PPI. The wholesale public provision of infrastructure through sovereign debt financing is not considered a long-term sustainable option nor is it viewed as desirable, especially for weak African Governments with limited tax bases, that have recently undergone severe austerity measures to clear up huge and debilitating debt situations.

The continued involvement of the private sector is certainly in line with the policy objectives of SADC Governments – and given the enormous infrastructure deficiencies in the region and the scarcity of available public finance to remedy the shortage, it is a stance that is completely justifiable.

What is critical for us however is that we learn from the mistakes of the past and derive lessons of experience so that we do not replicate them. It is also important that assistance in the form of ODA for infrastructure provision, especially in the rural areas, is augmented.

Finally, the multilateral and regional development finance institutions should play a role in supporting the financing of infrastructure through affordable financing instruments at both sovereign and sub-sovereign levels, where the institutional capacity to manage such investments, to be accountable and to ensure appropriate and efficient delivery is also assured.

As noted in the DFRC's Annual Report for 2005 we have been managing a project on behalf of the NEPAD Secretariat to develop a quantitative and analytical appraisal methodology for PPPs in Africa, which is funded by the Public Private Infrastructure Advisory Facility (PPIAF). The project is an attempt to review experiences elsewhere and learn lessons from past mistakes so as to develop guidance material for the Public Sector on the management of PPPs. It will be applied and tested in the SADC region. Phase I was completed in March and a workshop will be organized with all relevant stakeholders to discuss its contents, where after, we hope to facilitate further funding to roll out the remaining phases of this project for NEPAD. Additional resources are being sought from the ICP and we sincerely hope that the statements of support noted at the SADC Consultative Conference in Windhoek in April, will materialize into concrete funding. The Infrastructure section of this Report goes into greater detail on this project and its potential follow-on activities.

Additionally, the DFRC's first and "pilot" project to establish a PPP Facilitation Unit is now operational in Tanzania and two more are under development for establishment in Malawi and Mozambique. The latter two are under discussion with PPIAF regarding additional funding support.

This project in particular demonstrates the additionality referred to in my opening remarks. We are pleased to note that we have been extremely successful in leveraging extra resources off-balance sheet at a ratio of 1:8. Thus, in quantifying the development impact of the USD30, 000 of DANIDA resources applied for this particular activity and DFRC/DFI member in-kind contributions of USD 35, 000 (totalling USD65, 000) we were successful in raising approximately USD494, 000 of PPIAF funding to the project.

We are confident that we will be able to achieve similar success this coming year with the additional PPP Units to be established, and should we succeed in obtaining TA to drive this programme beyond what we have managed, we hope to achieve a great deal more for the Region.

Appointment to PPIAF Programme Council's Technical Advisory Panel (TAP)

In October 2005 I was appointed at the recommendation of DFID London (Infrastructure) as the first African and second woman to the 5 member panel of experts (TAP) which advises PPIAF's Programme Council, represented by 14 Donors. The selection to TAP is based upon knowledge of private involvement in infrastructure in developing countries. The purpose of this appointment is to ensure the quality and relevance of PPIAF financed activities. TAP members assist the Programme Council in inter alia, providing advice on specific issues associated to PPI; reviewing and commenting on PPIAF's strategy and annual work programmes; and evaluating the impact of their programmes through ex-post review of selected activities. This appointment is for a three –year term to September 2008.

Official Opening and New Offices

Marking the beginning of the year and setting a positive tone for the DFRC, we were very pleased to have our shareholders represented by the Board of Trustees and the SADC DFI Subcommittee, meet in Gaborone Botswana on the 18th and 19th January. This enabled them to participate in the official launch of their secretariat, the DFRC, at BIFM/ Fairground Office Park. As noted by the Chairman in his report, we were privileged that the Honourable Baledzi Gaolathe, Minister of Finance and Development Planning of the Government of the Republic of Botswana, officiated at this event which saw amongst our guests, the Deputy Executive Secretary of SADC, Dr. João Caholo, and representation from the Diplomatic Community in Botswana as well as dignitaries and senior officials of the Government of Botswana.

Our new offices are purpose-built and provide a splendid institutional base from which to provide a targeted and superlative service to our immediate clients (the DFIs) and to our major stakeholders - the SADC Governments, the SADC Secretariat and other potential beneficiaries. We have two training rooms one for lectures, which is designed to accommodate up to 25 participants and allow for simultaneous translation into SADC's 3 main languages – English, French and Portuguese; and the other a computer laboratory capable of accommodating a small group of 12 trainees. We also have a wonderful Board Room equipped with state-of-the art Power Point projection facilities and seating for formal meetings of up to 14 individuals.

Our two training rooms require furnishings (translation and other equipment and furniture, including computers, projectors and retracting screens) and we are seeking support from the ICP and our stronger DFIs for this purpose. These facilities, once furnished, will be used by us for both our DFI meetings and for training delivered mainly to the SADC Secretariat and our local DFIs – and when not in use, these rooms (including the Board Room) will be available for hire by interested parties at an affordable cost.

Dr. J. Caholo, DES, SADC Secretariat, Mr P. Madara, SADC - DFRC Board Chairman, Dr R. Thomas, CEO, SADC - DFRC, Hon. B. Gaolathe, Minister of Finance and Development Planning and Chairman of SADC Council of Ministers and Col. J. Simbakalia, Chairman of DFI Subcommitte of SADC

Dr. R. Thomas, CEO of DFRC with Mr O. Simony, CEO of NORSAD, signing MOU

Partnerships – NORSAD, etc...

The use of strategic partnerships continues to be the preferred modus operandi for the DFRC to guarantee efficient delivery. On the 23rd March and on the occasion of the Board of Governors meeting of NORSAD at the Kgale Hill Offices of the SADC Secretariat, the CEO of the NORSAD Agency, Mr. Ole Simony and I signed an MOU to establish a partnership to address private sector development and strengthening in the SADC Region through SME development activities. The purpose of the MOU is to promote cooperation between NORSAD and the SADC-DFRC to strengthen the DFIs in the Region through information sharing, development and delivery of capacity building initiatives and the encouragement of NORSAD to take up equity and provide lines of credit to DFIs in the Network and support their re-capitalization.

Similarly, we have established a working relationship with the Enterprise Banking Group (EBG) a private DFI headquartered in Gaborone, to support the institutional strengthening of DFIs in SADC engaged in SME activities. EBG is prepared to take equity in these DFIs and assist them in strengthening their financing and TA support for the SME sector. We are encouraging our Network members to consider this option.

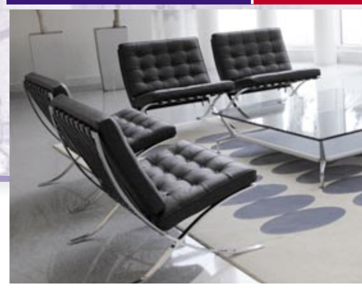
Earlier I had mentioned our approach to the Commonwealth Secretariat for TA - both short and long-term. It is our further intention, and we are in the process of firming this up, to collaborate with the Secretariat in a host of activities ranging from SME support, Infrastructure/PPPs activities to financial sector and capital markets support and development. This latter activity will be carried out in close collaboration with our sister SADC institutions, the Secretariat of the Committee of Central Bank Governors and the Secretariat of the Committee on Insurances, Securities and Non-Banking Financial Authorities.

Resource mobilization

Of significant importance and indicative of our enhanced relations with them, the SADC Secretariat has pledged to assist in facilitating the resource mobilization activities of the DFRC. We were therefore pleased to have been invited by the SADC Secretariat to attend and participate in the following meetings with the ICP:

- **The visit of the German Presidency to Botswana in mid-April where we attended the meetings with the Private Sector to discuss issues of common interest on investment, including in respect of infrastructure development and PPPs and support for the SME sector;**
- **The SADC Consultative Conference and SADC-India Forum in Windhoek Namibia – where, in addition to the Plenary Sessions, we supported the Secretariat's interactions with the ICP in the breakaway discussions on infrastructure development and PPPs.**

Additional to these meetings, we continue to engage in discussions with various development partners on funding of DFRC activities and programmes and have been advised that we should see our efforts come to fruition in this financial year



with some of the ICP. Of particular significance are proposals submitted to CIDA (Canada), via the National Treasury of South Africa; SIDA (Sweden); KfW (Germany); the Commonwealth Secretariat; and the Global Forum for Corporate Governance (GFCG).

In respect of the GFCG, we are pleased to record that our proposal for a multi-year facility to support Corporate Governance training for Directors and Senior Management of our DFIs and for their SME clients (which incorporates an element of training of trainers) has been approved and an amount of USD300, 000 will be allocated over two years for this purpose.

We are in discussions with the African Development Bank (i.e. the Financial Management Department at the AfDB) regarding further assistance for Risk Management training for the DFIs, which will be jointly delivered in the second quarter of the new financial year in collaboration with the AfDB, the DBSA and the IDC of South Africa. We will also be submitting a proposal in this coming year to the African Capacity Building Foundation in Harare, for funding support for TA and capacity building.

Finally in 2004 we had noted that the Royal Danish Embassy had 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. We are pleased to advise that we will soon receive the third tranche of this funding from DANIDA, having successfully utilised the first two for our Advisory Services (focusing especially on Institutional Strengthening), Capacity Building, SMEs support, and Infrastructure programmes. As noted earlier, we are very appreciative of this relationship with DANIDA which, as our Chairman has noted, dates back to 1997, and we are hopeful that we will be able to raise additional resources from DANIDA for the next few years going forward. The need to strengthen the role of DFIs in Africa to support development is only now gaining prominence with the international financial institutions. DANIDA was therefore visionary in recognising the significance of this strategy already in the 1990s and in staying the course with us.

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

Farewell to the outgoing Chair of the Board of Trustees…

It has been my singular honour and privilege to have worked these past 5 years with Mr. Peter Madara, the Deputy CEO and Group Financial Controller of the IDC Zimbabwe, and our outgoing Chairman of the Board of Trustees. Peter and I first met when I was seconded as an advisor to the SADC Secretariat, tasked with driving the development finance and investment agendas in the region. Peter's steadfast support and commitment to the work of the DFI Subcommittee in establishing the Network was evident in those early stages in his energetic participation and chairing of all its meetings, while he also held the position of Chair of the Subcommittee. He involved himself enthusiastically in our activities to establish the credibility of

Mr P. Madara, outgoing Chairman of SADC - DFRC Board of Trustees

the Network and the DFRC, including leading strategic meetings with important development partners such as the AfDB.

Peter hardly missed a subcommittee meeting in the 5 years that I have known him. It was he who championed our application to the Review Committee of SADC for our status as a SADC institution established under the principle of subsidiarity. He successfully convinced the Committee of our serious intent in setting up an autonomous institutional framework (the DFI Network and its DFRC) dedicated to support development finance for, and efficient delivery on, the SADC Common Agenda.

As the CEO of the DFRC since July 2003 (first as its interim and then its substantive CEO), I benefited from his wise counsel and leadership. I am grateful for the guidance given and for the collegial working relationship and support that I enjoyed over the years.

As Chairman of the Board of Trustees, Peter was a pillar of support and given his participation in the establishment of the DFRC was best able to guide new Board members and the newly recruited staff of the DFRC. He was particularly proficient in coaching our Manager: Finance and Administration, Ms. Vero Kgakge, on the auditing standards of the Board and guided her on the best approach to presenting the management accounts. Vero has matured under his tuition and guidance. Peter took his fiduciary responsibilities seriously and led the Board and the DFRC with fine judgment and prudent governance. We will miss his participation on the Board, but look forward to his continued involvement in the Subcommittee meetings and with the Network.

> The DFRC will continue to consolidate its activities in its key focal areas and begin to roll-out additional responsibilities as agreed with our members...

Looking Ahead

The DFRC will continue to consolidate its activities in its key focal areas and begin to roll-out additional responsibilities as agreed with our members in May. Following our earlier discussion with the SADC Secretariat in March, where it was agreed that our programmes and activities were indeed supportive of the regional strategy (RISDP), we intend to scale-up our support to the Executive Secretary and the Secretariat in respect of the SADC operational framework of trade development, infrastructure and food security. However, we recognise and appreciate that the support of SADC in resource mobilization is critical if we are to succeed in these endeavours and achieve delivery on our programmes. We welcome the support promised by the Secretariat and look forward to its materialisation.

In May the Subcommittee approved and adopted the DFRC's Financial Sustainability Strategy and authorised our implementation of revenue generating measures. The roll out for this strategy will however be deferred to FY2007/8 when we will again take stock of and review our Work Programmes for the 2007/8 – 2008/9 period.

Tributes and Salutations

Let me in my closing remarks offer my sincere appreciation and gratitude to the Board of Trustees – specifically the outgoing Chair, Mr. Madara, Col. Joseph

Simbakalia, Mr. Oaitse Ramasedi, Mr. Allan Mukoki and his alternate, Mr. George Oricho, and Mr. Benyram Chooramun, for their continued support and guidance. I welcome the return of Rev. Ramasedi to the Board for a second term and look forward to working with our newest Board member Dr. Vincent Mhlanga.

As regards the DFI Subcommittee, I am pleased that we continue to have their staunch support and appreciation for the efforts we make on their behalf and believe that acknowledgment of our successful delivery is evident in the fact that we continue to have new members join the Network. In May we welcomed the new Infrastructure Development Bank of Zimbabwe, admittedly replacing an old founder member, the ZDB. At the end of June we look forward to welcoming the Basotho Enterprises Development Corporation (BEDCO).

I thank the Donors and Cooperating Partners mentioned earlier for their continued support for the activities of the SADC-DFRC and the Network. Your constancy and cooperation in funding our activities is sincerely appreciated.

Last, but certainly not least, I would like to thank our Senior Advisors and the Staff of the DFRC for their dedication, loyalty and hard enterprise. Our Senior Advisors, Mr. Richard Stern and Mr. Claude Peyrot are always an email or telephone call away and ready to assist whenever we need their sound advice and assistance. They have helped steer our strategic thinking, especially around our sustainability strategy, and guided our business planning. They continue to provide unassailable advice and support for our institutional strengthening activities, our programme development and for resources mobilisation in respect of both the DFRC's activities and for the Network DFIs capitalisation. We are privileged to have them working with us.

Working on weekends has become part of the routine for the DFRC's Programme Managers and Finance and Administrative staff and I thank their families for their patience and understanding. I especially want to acknowledge Mrs. Mariam Ekenyane, Ms. Hawa Maseko and Mr. George Setlhaku, for the loyalty, dedication and energy that they bring to the work place. Without their backroom support I doubt that the rest of us could have achieved what we have been able to do in this past year. I would also like to welcome a new addition to our support staff, Ms Keneilwe Binang, the receptionist, who joined us in May this year. We are convinced she will be an asset to the institution.

This has been a long report but necessarily so. I am pleased to table it for your information and hope that it will answer whatever questions that you may have on the DFI Network, the DFRC and on development finance generally in the SADC Region. Enjoy it and thank you for your attention!

Dr. Rosalind H. Thomas
CEO: SADC-DFRC

Programme Reports

Mr Stuart Kufeni
Programme Manager

Policy Research & Advisory Services

The report is in two sections, the first covering progress under the 2005/06 programme and the second, projected 2006/07 programme activities.

Highlights during 2005/06 include policy research activities on two projects covering small medium-scale enterprises (SMEs) and the financial sector titled SME/Big Business Linkages and SADC Financial Institutions Rating Methodology. Under advisory services, the data management exercise was completed while work on the Experts Database is ongoing with information from member DFIs trickling in. In addition, two DFRC missions were conducted on mobilization of long-term capital, particularly for SMEs. Besides these major highlights, work has progressed in other areas, including the finalization of the DFI Statistical Return.

Progress Report: 2005/06

Data Management

The data project was completed with 21 DFIs out of the 23 members having responded. This good response benefited from the work of a consultant who was especially assigned to undertake a follow-up exercise with DFIs and finalise the project. The consultant was accompanied on the visits by the Programme Manager for Policy Research and Advisory Services. The exercise having been concluded in July 2005, compiled data was sent out to individual DFIs for final verification and confirmation. DFIs were also requested to provide data for information that was not readily available at the time of the visit by the consultant. Responses were received from six DFIs and those that had not responded by the deadline were presumed to be happy with the data.

DFI Statistical Return

Primarily as a result of the delays in completing the data exercise, the launch of the DFI Statistical Return fell behind schedule. At the time that the presentation of the policy research and advisory services work programme was made in May 2005, it had been envisaged that the return would be quarterly. However, further consultations with DFIs during visits on the data exercise showed that, most were in favour of a biannual return, particularly given that changes in their books tend to have a long cycle. It was then agreed that the DFIs would submit the return twice a year and for periods ending June and December of each year.

The first Statistical Return was then launched at the end of February and covered the position of DFIs as at end June 2005 and December 2005. DFIs were given until end of April to submit the returns.

The statistical return builds on the data exercise and is critical for the successful launch of the DFI Statistical Bulletin targeted for the second half of 2006.

Experts Data Bank

The Chief Executive Officer of DFRC sent out letters, accompanied by the appropriate form, to all member DFI CEOs in May 2005 requesting data on areas of competence of their senior staff for compilation of the DFI Experts Data Bank. Data from a number of the DFIs had been received by September 2006. However, more data was still outstanding as some DFIs had not responded.

To speed up the process a reminder was sent to DFIs in the next month, November, requesting their Human Resources Departments to assist with the compilation of the data. This resulted in some DFIs responding but some remained outstanding. As a result the exercise took longer than anticipated.

The experts database is critical to the DFRC's capacity building, advisory and consultancy programmes and is key to its financial sector strengthening activities. In tandem with efforts to build a database on regional experts, the DFRC is also compiling data on non-regional experts. However, in implementing its programmes, the DFRC would rely, where available, on Network experts and thus further strengthen regional capacity.

The experts database is critical to the DFRC's capacity building, advisory and consultancy programmes and is key to its financial sector strengthening activities.

The DFRC has also begun to compile a database of operational staff capable of being drawn upon to work with the proposed PPDF in the packaging of infrastructure and other projects. Successful staff that would have completed the Investment Appraisal and Risk Analysis training and achieved a minimum grade of 'A' would be eligible for inclusion in this database.

Research

Going by the 2005/06-2006/07 Work Programme, the DFRC would undertake a minimum of two research projects per year. However, in 2005/06, terms of reference were completed for three projects and these were submitted to donors for financing. Consultations with donors are continuing and, with the support of the SADC Secretariat, we are hopeful these will yield some positive response.

The three research projects are:

- **SME- Big Business Linkages**
  Terms of reference on this project, which includes a case study of the two phases of the Mozambique Aluminium (MOZAL) project, where completed in September and were submitted to the AfDB for funding under the Bank's own sources or alternatively under the Japanese facility which the Bank manages. The DFRC has also requested funding for the project from the Germans. No responses have been received from either source.

- **Credit Rating Methodology for SADC Financial Institution.**
  Discussions have been held on this project with the Macroeconomic and Financial Management Institute of East and Southern Africa (MEFMI) and the Committee of Central Bank Governors Secretariat (CCBG) and the terms of reference have been shared with the two organizations for their consideration. The latter is expected to play a leading role as the area of focus falls under its ambit. Initial efforts to get the support of FIRST Initiative were not successful but discussions are continuing. In the meantime the DFRC requested a number of international rating agencies to indicate if they would be interested in undertaking the exercise. A favourable response has been received from one rating agency.

- **Capital Markets Development & Integration**
  The DFRC is liaising closely with CCBG which has expressed interest in the area of Capital Markets Development and Integration. The AfDB had also requested the DFRC to look into the same subject on behalf of the SADC Secretariat and discussions are ongoing. The area of capital markets is crucial to the region's sustainable development and the DFRC is keen to see the project take off once funding is confirmed.

Advisory Services

As part of its long-term finance project the DFRC identified two member DFIs- DBZ and TIB – to work with as a pilot project. To this end, DANIDA resources were used to fund technical assistance involving the DFRC Senior Advisor, Mr Richard Stern, who accompanied the DFRC team that visited the two DFIs. These DFIs were selected largely because of the conducive macroeconomic environment prevailing in their host countries.

The objective of the project was to assess availability of long-term resources; review instruments available in the market; market liquidity conditions; the policy and regulatory environment; and the institutional arrangements, among others. As a result, the DFRC team held extensive discussions with the authorities in both countries. They met with senior officials from the central banks, capital markets regulators and ministries of finance.

Similarities were observed in both cases mainly in that capital markets were generally liquid in both countries. These conditions, notwithstanding, it was observed that efforts by the two DFIs to tap long-term funds had not been successful. Various factors militated against them and these included negative perceptions by markets of public enterprise and the generally short term nature of the funds. It was noted then that the decision by governments in both cases to privatize the DFIs would go a long way in helping them source local and foreign resources. However, there could also be need to facilitate the development of long term capital instruments.

At the end of the missions, the DFRC furnished the management of both DFIs with reports detailing its recommendations on long-term finance mobilization which they welcomed. In TIB's case, the team went further to look at their strategic plan following the decision by the Government of Tanzania to restructure the organisation as part of its efforts to resuscitate development finance in the economy. Work with TIB and the Government of Tanzania is continuing and the DFRC is keen to see this come to a sound conclusion.

Communication

As the DFI Network secretariat, the DFRC has to keep abreast of developments in individual DFI organizations relating to their operations, changes in senior management, shareholding etc. As such, it is important that it is included on DFIs circulation lists for publications and other relevant information. To this end, letters were sent to DFIs in November and the response has been favourable.

2006/07 Work Programme

Policy Research

Under research, projects for which research proposals from the previous year for which sponsorship is awaited will be carried forward to the 2006/07 research programme. These will be added to the following projects which had been earmarked for 2006/07:

a) Conditions for Establishment of a Supportive Business Environment for SMEs.

The objective of the study is to come up with a best practice sector-specific policy, regulatory and institutional framework for promoting growth of the SME sector. The study will, therefore, include the following areas:

- Evaluate existing policies, regulations and effectiveness of institutions set up for SMEs with a view to identifying key constraints and recommend solutions thereto.

- Evaluate and recommend the role of DFIs.
- Assess the impact of internal institutional factors.
- Evaluate effectiveness of existing incentive structures.
- Analyse sectoral distribution of SMEs.
- Review relevant case studies.

b) SME- Big Business/PPI Linkages

The objective of the study is to recommend specific strategies, in line with best practices, on business linkages for SME development, for adoption and implementation by DFI Network members and SADC member states to efficiently harness the full potential of SMEs as drivers of growth, employment generation and poverty alleviation in the region.

The study is in two phases.

The first phase will, among other areas, address the following:

- Examine extent and nature of linkages;
- Assess policy, regulatory and institutional factors and their impact;
- Evaluate existing incentive structures to support linkages;
- Analyse beneficiary sectors and the impact of mentoring;
- Identify potential partners and the role of DFIs in follow ups; and
- Review relevant case studies, including Mozambique Aluminium Company (Mozal), 1 and 2.

The second phase is a case study and will involve:

- an in-depth study of the Maputo Development Corridor SDI and/or selected SME-Big business/ PPI linkages model with specific emphasis on its/ their successes or failures in integrating SMEs;
- an evaluation of the nature of linkages; and
- Critical factors leading to the success of the SME-Big

Business/PPI programmes, including the nature of financial and technical support and financial products employed in support of these linkages.

Overall, the study will examine the extent to which the Mozal experience could be replicated in other SDIs in SADC countries with equal success.

The DFRC will still aim to undertake at least two research projects per year. We are hopeful that this year the research programme will take off and that funding will be forthcoming. Some donors have already indicated some areas of interest - PPIAF have indicated their preference for financial sector strengthening and reform and are likely to support studies in this area.

Policy Seminars/Workshops

The DFRC will this year organise the following workshop:

International Financial Institutions' Workshop on Prudential Guidelines for SADC DFIs

The objective of the workshop is to develop minimum prudential guidelines to assess governance structures and the financial viability of DFIs in the region.

The workshop will be in two phases:

Phase One will involve the collation of information from existing and current exercises on prudential guidelines. Some early work has been undertaken by the Association of African Development Finance Institutions (AADFI), by the DBSA and also by the World Bank. These will inform the workshop planned for Phase Two.

Once the guidelines have been developed, Phase Two will take the form of a Workshop of key stakeholders to discuss them leading to some consensus and the adoption of the guidelines and an implementation plan. Stakeholders will include IFIs, DFIs, AfDB, WB, DFID, Senior Treasury Officials and Central Banks.

The adoption of the prudential guidelines will complement other DFRC programmes on credit rating and corporate governance. These are all geared towards improving the creditworthiness of the DFIs to competitively mobilise resources both in the domestic and international capital markets.

Advisory Services

Depending on the success on its current long-term capital mobilization work, the DFRC would like to extend this project to other DFIs in 2006/07. The DFRC has also received enquiries to assist in the setting up of new DFIs in some SADC countries – Malawi, Angola and Madagascar. While we have noted that Mozambique is likewise establishing a new development bank, they have not sought our assistance in this endeavour. As regards the first three the DFRC has indicated its willingness to assist. Malawi has extended a formal invitation for us to work with them which we have acceded to. We have thus far not had any further invitations from Angola and Madagascar, but we intend to follow-up with these countries in this coming financial year.

Prof. Glenn Jenkins of Queens University (standing), with Dr. D.N.S Dhakal and Mr Z. Bellot, part of the Faculty for Investment Appraisal and Risk Analysis, in the background, 2005

Dr. Herrick C. Mpuku
Programme Manager

Capacity Building

The capacity building programme undertakes a wide range of activities in its portfolio including training, secondments, technical assistance, placements and other ad hoc interventions. The basis of the development and offering of these programmes is consistent with the in-depth and clear information conveyed to the DFIs on DFRC programmes, their purpose, quality and value. To date, the work programmes (with summaries of individual programmes) have been circulated to the Chief Executive Officers of the DFIs and other stakeholders. The circulation has also been extended to the Human Resources (Development) Managers who, together with their CEOs, regularly receive bulletins which announce up-coming programmes.

Programme Objectives and Achievements

Training

For the year 2005/2006, five workshops were planned on Corporate Governance, Investment and Project Appraisal, Risk Management and Long term Financing Instruments. A provision was also made for four secondments, four technical assistance programmes and five placements of staff on international programmes.

As at end of March 2006, six training programmes have been implemented, working with international organizations which have a credible track record in their area of specialization. These included delivery of Corporate Governance training workshop for Board chairpersons of member DFIs (17 participants), an in-country Corporate Governance training seminar for Board members and senior management in Namibia, and an in-country Corporate Governance training seminar for Board

members and senior management in Swaziland; as well as an Investment Appraisal training (Modules I and II) for 35participants from member DFIs. The evaluation of these programmes by participants suggests that they were well received, with appreciation for the excellent performance of the technical team and for the administrative arrangements for the workshops.

The other programmes are still under development with collaborating partners, and will be implemented in the new financial year.

Further, in this coming year, follow-on programmes on Corporate Governance will be implemented in-country to cover the remaining DFIs' Board members and senior management with special reference to the functions of Credit and Audit Committees.

It is notable in this regard that a multi-year proposal has been submitted to the GFCG and has since been approved for funding of in-country Corporate Governance programmes for the DFIs, with a possible escalation of these programmes to corporate and SME clients of the DFIs.

The DFRC is collaborating with the DBSA Vulindlela Institute in running a 5-year programme on Entrepreneurship Development and Project Appraisal for SMEs, which is held at Vulindlela Institute in Midrand and resourced by the University of Pretoria. The first programme attracted participants from the SADC DFIs, as well as other private and development institutions in the Eastern and Southern African region. The programme is funded by the Japanese International Cooperation Agency under their NEPAD programme.

As a follow-up to the Risk Management training implemented in 2004/05 in collaboration with the AFDB, the DBSA and the IDC of South Africa, the DFRC is planning a second Risk Management workshop to take place in collaboration with the same partners in the third quarter of this financial year.

In the tables below, we summarise the average cost of the programme per participant and the numbers of trainees attending the programmes by institution. These tables serve to highlight the level of investment being undertaken by the SADC-DFRC in human resource development in the DFIs.

Secondments

The SADC-DFRC has received some general inquiries about secondments, and has discussed with a variety of partners, including member DFIs on absorbing the seconded staff on specialized programmes, such as PPPs, SMEs and other related programmes. To date one short secondment has been made on Corporate Governance and Company Secretarial work at the Industrial Development Corporation of South Africa. A second long term secondment has been arranged with the IDC for the Development Bank of Namibia and the same candidate is likely to benefit from a short term secondment also with the IFC's office in South Africa. Additional arrangements are under consideration with the stronger DFIs in the Network as well as with IFIs like the IFC, with a view to absorbing more staff in a variety of areas.

Placements

The SADC-DFRC has also been working with international training organizations to seek placements of DFI staff on specialized and relevant training programmes. These institutions include the Joint Africa Institute at the African Development Bank and the Galilee College in Israel. The major South African Universities, with strong Executive programmes, such as the Gordon Institute of Business Sciences and the Witwatersrand Business School have also been approached. A general understanding has been reached, and some of the institutions are currently processing applications to their programmes.

So far five placements in international organizations have been made in the year under review.

Negotiations are currently underway with the University of Pholokwane, Limpopo Province in South Africa to develop a second training programme on Investment Appraisal and Risk Analysis for Southern Africa, to complement and supplement the DFRC's own programme.

Technical Assistance (TA)

TA programmes are still in various stages of development under the small medium-size enterprise development and PPP/Infrastructure programmes of the SADC-DFRC. When preliminary assessments are concluded and terms of reference agreed full-fledged programmes will be put in place.

Financing of Programmes

Most of the training workshop programmes have been financed in full by the SADC – DFRC which has met the cost of the tuition, board and lodging of all participants to the programme. The participants, or their sponsoring organizations, have had to pay their own travel costs and other incidental expenses. In the case of Investment Appraisal and Risk Analysis, at least one participant was drawn from a partner organization, outside of the SADC-DFI Network; the participant was required to meet the costs of accommodation and materials for the duration of the programme. It was expected that some places would also be availed to partner organizations in this category, but nominations from the private sector, if any, would be required to meet the full cost of the programme, including tuition. This process might also inform the principles of cost-sharing for SADC – DFIs to promote ownership and sustainability of the programmes.

The programmes relating to secondments have so far been met by the employer (for travel and full board) and the host organization (supervision, office space, etc), while placements have been met variously by the nominating DFIs, the SADC-DFRC and the training institution, depending on the availability and terms of scholarships.
With the TA programmes, which are still under development, the principle of cost-sharing has generally been agreed upon with the potential client DFIs. The SADC-DFRC will, on a case-by-case basis, have to negotiate the sharing of consultancy fees, travel, board and other incidental expenses depending on the strength of the recipient DFI and the availability of funds within the SADC-DFRC.

The financing of Capacity Building operations has been carried out with funds provided by DANIDA. Efforts, however, are on-going to seek additional sources of funding from other donor agencies.

Participants on the Asset Liability Management training as part of Risk Management Seminar, Cape Town

Costing of Programmes

With respect to the Corporate Governance workshop for Chairpersons of DFI Boards, the DFRC met the costs of air travel, board-and-lodge and tuition of all participants. In the case of Investment Appraisal and Risk Analysis, the DFRC met the costs of tuition and board-and-lodge, while the DFIs met their delegates' travel costs. On the Corporate Governance workshop, the average cost per participant for the DFRC for the seventeen participants came to USD2, 000. For the Investment Appraisal course (two 2-week modules), the average cost came to approximately USD4, 000 per person for 35 participants. Participating institutions and the number of trainees are shown in the tables. In Table 1, we break down the costing for the workshops.

Table 1: Costing of Workshops in USD

Workshop	Date	Total tuition	Board & Lodge	Air Travel	Total Cost	Average Cost
Corporate Governance -RSA	30th May to 1st June 2005	12,000		21,000	33,000	2,000
Corporate Governance -Namibia	9th to 10th February 2006	9,200	n/a	n/a	9, 200	368
Corporate Governance - Swaziland	3rd to 4th April 2006	9,500	n/a	n/a	9, 500	395
Investment Appraisal **	July 2006 November 2006	77,000	65,000	n/a	142, 000	4, 176

* Air Travel is inclusive of board and lodge. ** Per 2 week module.

Issues

During the implementation of the capacity building programmes a number of issues of concern have arisen to which some action may be necessary to improve the efficiency and cost-effectiveness with which such operations are managed in the future. These issues include the following:

i) The speed of response from the DFIs to programme notification has been tardy thus slowing SADC-DFRC from efficiently organizing and preparing all the conference and logistical arrangements in a timeous manner. A substantial cost is incurred by the DFRC in follow-ups for reconfirmations and clarifications on the participation. It may be necessary here to address the channel of communication to ensure that nominations are processed speedily and confirmed by the participating organizations.

ii) At times and even after confirmation, the DFRC has experienced last-minute withdrawals. In some cases, the participants on the programme have had to withdraw their involvement because of other work-based priorities. The consequence of this is that the SADC-DFRC incurs an irreversible cost of tuition (and sometimes, accommodation, food, etc.) but without achieving the desired training outcome in respect of particular individuals and institutions. This reduces the efficiency of utilization of scarce donor resources, which may otherwise be deployed to other institutions and activities.

Participants, Faculty and DFRC staff on the Investment Appraisal and Risk Analysis Training, Eskom 2005

Table 2: Delegates to Corporate Governance Workshop

Country	DFI	No. of Trainees
BOTSWANA	BDC	1
	NDB	1
	CEDA	1
LESOTHO	LNDC	n/a
MAURITIUS	DBM	n/a
NAMIBIA	Agribank	n/a
	DBN	1
	NHE	1
SOUTH AFRICA	IDC	n/a
	DBSA	n/a
	Land Bank	n/a
SWAZILAND	SS&DB	2
	SIDC	1
	FINCORP	1
TANZANIA	NDC	1
	TIB	1
	SIDO	1
ZAMBIA	DBZ	1
ZIMBABWE	ZDB	1
	IDC	1
	SEDCO	1
	Agribank	1
Total		**17**

The DFRC is considering adopting a penalty system to deter organisations from disturbing the overall training programme in this way. This may take the form of a charge for part of, or the full cost recovery for the programme for no-show participants and their organizations, unless they can demonstrate extenuating circumstances (such as illness) precipitating non-participation.

iii) In view of the incidences of ill health that have occurred during some of our programmes, we will also require that participants show evidence of a clean bill of health prior to the training programme. They should also put in place adequate health care arrangements to allow for care and evacuation in the event of unforeseen and unavoidable ill-health.

iv) There is need to identify and maintain key and regular contact points in the DFIs for the dissemination of information on DFRC programmes, so that the information reaches all potential participants as quickly as possible.

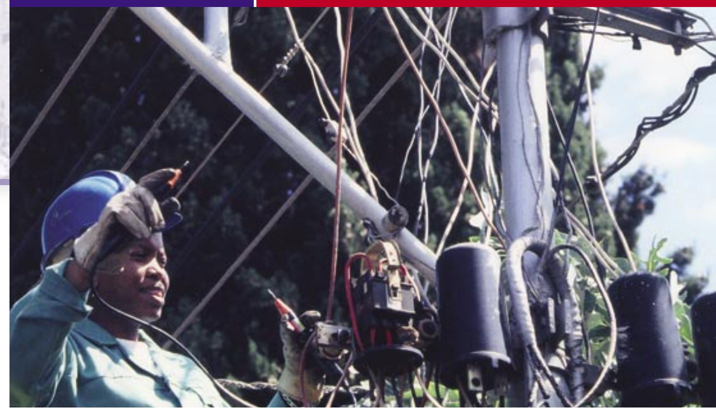


Table 3: Delegates to Investment Appraisal Workshop

	DFI	No. of Trainees Module I	No. of Trainees Module II
BOTSWANA	BDC	2	2
	NDB	2	2
LESOTHO	LNDC	2	2
MAURITIUS	DBM	1	1
NAMIBIA	Agribank	n/a	n/a
	NDB	3	3
	NHE	2	2
SOUTH AFRICA	IDC	n/a	n/a
	DBSA	4	2
	Land Bank	n/a	n/a
SWAZILAND	SDSB	4	4
	SIDC	3	2
	FINCORP	1	1
TANZANIA	NDC	2	1
	TIB	2	2
	SIDO	n/a	n/a
ZAMBIA	DBZ	1	1
ZIMBABWE	ZDB	n/a	n/a
	IDC	3	3
	SEDCO	3	3
	Agribank	1	1
Total		**36**	**32**

The overall average cost of the programme (Module I and II) per individual comes to USD8, 352.

Table 4: Delegates to In-Country Corporate Governance Workshops

Date	Country	No. of Particiants
9th – 10th February 2006	Windhoek, Namibia	25
3rd – 4th April 2006	Ezulwini, Swaziland	24

Mr Joseph Nyamunda
Programme Manager

Small and Medium Enterprises

Activities for the period under review focused on institutional strengthening of DFIs to make them more effective in supporting SMEs. Thus, the programmes accent was on identifying shortcomings of DFIs in such areas as capitalization, financing instruments, systems and procedures, and staff skills.

SME Survey and Institutional Support for DFIs

To the end of the period, seventeen DFIs in five member states (of which ten are Network members) were visited and support programmes were under implementation for two of the member DFIs, Citizen Entrepreneurial Development Agency (CEDA) of Botswana and TIB. The revised Statistical Return that was introduced in February 2006 will facilitate in-depth evaluations and the design of further DFI institutional support programmes.

The two DFIs (CEDA and TIB) provided reasonable information to warrant proper institutional evaluations. Projects to support these two DFIs were developed and agreed with the institutions' senior management and implementation is underway.

There are thirteen DFI members still to be visited. It had been planned to complete visits to the remaining DFIs in the first four months of 2006 but due to budgetary constraints and in some cases requests for postponement from the concerned DFIs the visits are most likely to be completed in the third quarter of the financial year 2006/07.

Exchange of Information and Experiences

Through the support programme the DFRC has facilitated exchanges of experiences and Information on SME promotion amongst the DFI Network members. As a pilot project, CEDA of Botswana has been assisted to visit member DFIs in the region so as to gather new experiences in respect of SME support. Visits have so far been facilitated with SIDO of Tanzania and plans are underway to visit SEDCO (Zimbabwe) and IDC (RSA).

Resource Mobilization/Capitalization of DFIs

The DFRC SME activities during the year also covered resource mobilization targeted at recapitalising Network Member DFIs. Two DFIs, the Development Bank of Namibia (DBN) and FINCORP of Swaziland are receiving assistance from the DFRC to access funding from both NORSAD and the DFRC's partner in the private sector, the Enterprise Banking Group (EBG) Botswana, for their SME programmes. This support will include Technical Assistance for capacity building. The DFRC is assisting with both Lines of Credit and new equity participation from the EBG.

SME Financing Instruments

Arising out of the survey the DFRC engaged in review of SME financing instruments, policies and systems of the visited DFIs. Reviews were done for two DFIs, CEDA (Botswana) and TIB (Tanzania). The CEDA exercise involved reviewing their entire programme from their Strategic Plan to its operational implementation. Based on agreed recommendations CEDA has embarked on a regional and international benchmarking exercise resulting in the institution developing a new Business Plan. With the assistance of the DFRC, they intend to revisit their Strategic Plan.

Through the support programme the DFRC has facilitated exchanges of experiences and Information on SME promotion amongst the DFI Network members.

The exercise on TIB Tanzania was at both institutional and country level and as such was carried out together with the DFRC's Policy Research and Advisory Services Programme. Recommendations for reform of the DFI into a more effective SME Development Finance Institution have been accepted by the Government and by the senior management of TIB.

Risk Management Systems and Practices

The project objective here is to work with DFIs and assist them to improve on their SME portfolios, and to raise their SME risk management to international best practice.

This project was planned for implementation in the financial year 2005/06. A programme review, however, indicated that the project would best be carried out on completion of the exercise on SME financial instruments, products and services before moving on to portfolio quality. The project would also need to be matched with results of the data survey that is still to be completed. It was therefore considered prudent to carry out the project in the financial year 2006/07, in the expectation also that more resources would be made available from the development partners. The project is vital for the DFIs' creditworthiness and sustainability.

Improving SMEs Access to Financial Services

Two workshops were planned for the year for SME Loan Officers in project appraisal and Environmental Management Systems (EMS). The workshop programme for project appraisal was developed at the beginning of financial year 2005/06 in conjunction with SEDCO of Zimbabwe but implementation was postponed twice due to funding constraints. As reported under the Capacity Building report, through funding from JICA and DBSA, the first workshop took place in February 2006 at the Vulindlela Academy (DBSA) in South Africa and is likely to be repeated in the subsequent years.

The EMS workshop material will be developed in collaboration with other development partners, the International Network for Environmental Management (INEM) and CDE who are considering a DFRC request for funding of the workshop. The date for implementation will be set once funding has been secured.

Evaluation of PPP/Infrastructure and SME Linkages

The project objective here is to confirm the existence of successful SME/Large Business Linkages in the SADC Region for replication in the region. The project was to be carried out in two stages; the first being a preliminary evaluation of existing linkages followed by a second phase, a detailed study of the identified linkages and development of case- study/studies.

Identification and preliminary evaluation was done on MOZAL and concluded in July 2005. A detailed research and case–study development proposal was completed in conjunction with the Policy, Research and Advisory Services Programme. The research proposal was submitted to AfDB and German for funding requests to facilitate the detailed research and development of case studies for future research and training in SME business linkages. However, as reported earlier, we are still awaiting responses to these requests.

Collaboration with Donors/Development Partners

During the year the SME Programme established cooperation with the EU-SADC Investment Promotion Programme (ESIPP) in which two projects were discussed and agreed. The projects involved:

- The DFRC and DFI Network members participating in ESIPP organized Sector Promotion Meetings (SPMs) for the fostering of business investments through joint ventures between SADC and European companies. The first of the meetings took place in November, 2005 in Johannesburg for the Construction Sector. Nine member DFIs were invited but only three participated, Botswana Development Corporation, IDC (SA) and DBSA. IDC and DBSA were able to make presentations during workshops that were organized as part of the meeting. The second meeting on Light Engineering took place in February 2006 in Mauritius. ESIPP awarded three scholarships to the DFI Network to facilitate participation of DFI Network members. Three Network members participated at the meeting including some clients of the member DFIs.

- The second part of the agreement entails Network members raising grant funding for their SME programmes/projects from ESIPP. An application for funding of three projects for the Network was submitted to ESIPP in October 2005. The application is under revision to meet certain criteria of ESIPP.

Activities for 2006/07

Activities under this programme for 2006/07 are under development and will target support at the enterprise level for the following categories of SME clients:

- Women entrepreneurs;
- Agri-business including development of best practice standards;
- SME-linkages with FDI, PPIs and Big Business.

Implementation of the programmes hinges on success in getting the necessary support from the SADC Secretariat to facilitating accessing of necessary resources from development partners. Two project proposals on Women-in-Business Development and Agribusiness Standards have already been developed for discussion with development partners for implementation as pilot projects in selected member states.

Infrastructure/ PPPs *

Dr. Rosalind H. Thomas

The Infrastructure Programme has focused on three activities this past year and while two of them have seen successful delivery the third has been delayed for reasons outside of our control. These activities include the following:

- The NEPAD Study on quantitative and analytical methods for the preparation, appraisal, and management of PPI Projects in Sub-Saharan Africa (SSA);
- Establishment of the PPP Unit at NDC Tanzania to appraise projects on the Mtwara Development Corridor; and
- Phase III of the SADC Project Preparation and Development Fund (PPDF).

NEPAD Study on Quantitative and Analytical Methods for the Preparation, Appraisal, and Management of PPI Projects in SSA

The Phase I Report for this Project which was managed by the DFRC and funded by the Public Private Infrastructure Advisory Facility (PPIAF)[1], on behalf of the NEPAD Secretariat has now been completed and submitted to the Secretariat. The project aims at developing guidance material to strengthen the capacity of staff in public sector units responsible for the development of PPI projects in appropriate quantitative and 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.

* The Programme Manager for Infrastructure/PPP position is still vacant and in the interim the CEO, Dr R. H. Thomas, is responsible for the programme.
1 PPIAF is a multi-donor facility managed by the World Bank.

This project is supportive of NEPAD's strategy to encourage PPI projects in Africa's long-term development plans and recognizes that a number of African countries are now establishing "PPP units" to facilitate sustainable public-private partnerships. Because there is so little experience with PPI projects on the continent (apart for South Africa), officials in most African countries know very little about how to prepare these projects. For the PPI projects that have been completed, appraisal methodologies have been largely left to consultants and rarely detailed with any specificity in consultant scopes of work. As a result, projects have tended to be different in terms of feasibility assessment, justification, preparation, and documentation. Recommendations have been made by more experienced countries using it, that the PSC methodology (Public Sector Comparator) should be more widely used in developing countries, to ensure that these projects clearly demonstrate affordability and value for money before contractual agreements are concluded. However over the last few years the methodology has come under increasing criticism in countries like Australia and the UK.

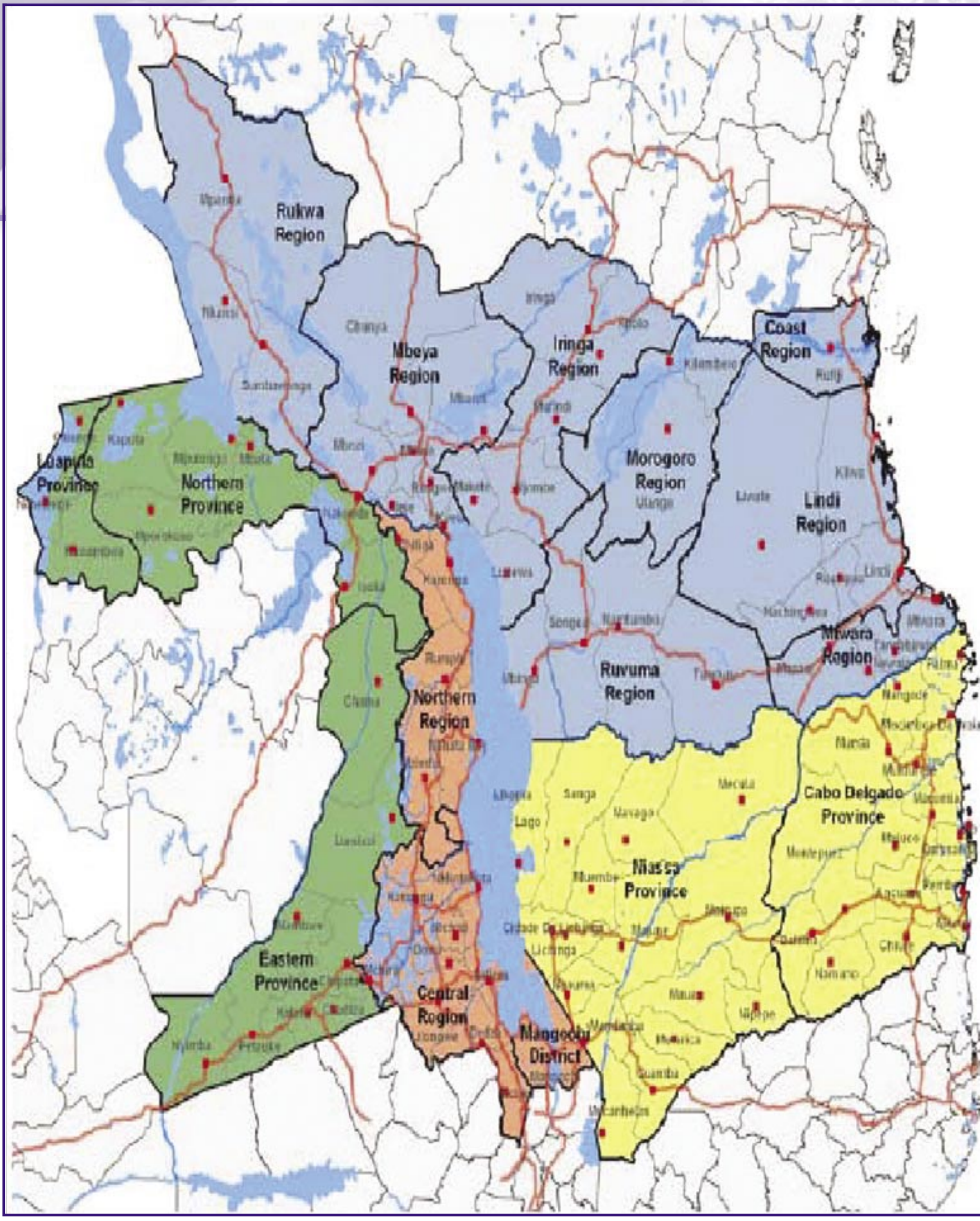
Phase I of this NEPAD project raises several questions about the conditions under which this quantitative project appraisal technique is appropriate in a developing country context. It has reached some tentative conclusions which it is hoped will be discussed at a workshop hosted by NEPAD and which will include relevant stakeholders in the Region. However the timing of the workshop has yet to be determined with the NEPAD Secretariat. The TOR for Phase II of this project are also under consideration, but will be informed by the results of the workshop.

Establishment of a PPP Unit at NDC, Tanzania and the appraisal of projects for investment on the Mtwara Development Corridor

This PPIAF funded pilot project to establish a PPP Unit at one of the DFI Network members, the National Development Corporation of Tanzania (NDC), had its kick-off on 16th February 2006 at the Offices of the World Bank in Dar es Salaam. The event was witnessed by all stakeholders and presided over by the Hon. Professor Simon M. Mbilinyi, Chairman of the NDC Board.

The project's aim is to develop the in-house capacity at NDC to appraise infrastructure and other projects, starting with three (3) infrastructure projects in the Mtwara Development Corridor. The winning bidders, the Canadian firm of CPCS Transcom, were appointed by the Task Managers at the World Bank to establish the PPP Unit, build capacity to appraise the 3 identified projects and to develop RFPs to select Transaction Advisors to assist in preparing these projects for investment.

CPCS Transcom is now in residence at NDC and a fledgling unit has been established comprised of 6 staff members. Two seconded personnel from Malawi



Map of Mtwara Corridor

and Mozambique are also in residence and receiving on-the-job training together with the NDC staff. A third candidate from Zambia however could not join the team due to capacity constraints within the sending DFI. The three projects identified for appraisal are:

- Muchuchuma Coal to thermal power station;
- the heavy duty ferry between Mbamba Bay and Nkhata Bay; and
- A portion of the road between Mtwara Port and Lake Nyasa.

This project is the first of its kind under the SADC-DFRC's Infrastructure/PPP Programme and is intended to inform further such interventions around the Region.

Two other projects adopting a similar technique, and taking lessons of experience from the NDC project, are presently under consideration by PPIAF with the aim also to establish PPP Units in Malawi and Mozambique.

This project also targets what the DFRC views as an important strategy for SADC and which is also a focus of our Capacity Building Programme. It is considered an essential strategy if the region is to succeed in getting more infrastructure projects to bankability stage. That is, it underscores the importance of developing a pool of

skilled personnel in the DFIs, capable of appraising projects and taking them to bankable stage where these deals can be viewed as attractive investment opportunities for investors. This way SADC will be able to grow the project pipeline in the region.

SADC Project Preparation and Development Fund (PPDF) Phase III

On completion of Phase II of the feasibility study into the establishment of the SADC-PPDF, the final report was tabled for discussion and approval by the Committee of Ministers responsible for Finance and Investment in Tshwane, South Africa, in August 2005. The Ministers raised concerns pertaining to the accountability, sustainability, and capacity of Member States to meet the capital and recurrent costs of the Fund. They also raised questions relating to the secondment of staff and governance as it related to the management of diverse funds from the cooperating partners.

A number of these concerns were addressed by the Chairperson of the DFI Subcommittee and accepted by the Ministers, but in giving their in-principle approval for the Report's recommendations, they however noted that further work needed to be done on the critical issues raised.

The DFI Subcommittee and the Secretariat decided to go through a third consultancy phase to address these final design issues and to raise appropriate funds to carry out this work. Terms of reference were prepared by the DFRC for discussion with all stakeholders and a request for funding made to KfW. However, with no firm commitment from the latter, in September the DFRC approached PPIAF who agreed to fund this last phase.

The PPIAF offer was subsequently reported by the DFI Subcommittee at the meeting of the Senior Treasury Officials held in October 2005 in Tshwane. However, in November the World Bank entered the discussions and indicated its interest to fund this phase – but for various reasons their offer could not be taken up. As we reach the end of the financial year, we are yet to finalise the funding arrangement for Phase III.

Effectively therefore, a delay of seven months has occurred in completing this final assignment. As soon as the funding has been secured by the SADC Secretariat, the activity will commence and be expedited. It is expected that this work will be completed within 5 months following signature by the Executive Secretary of a funding agreement.


9.79
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6546.89
98.97
5659.84

Annual Financial Statements 2006

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Board of Trustees Approval

of the financial statements for the year ended 31 March 2006

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 2006 on pages 5 to 14, 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 2006 set out on pages 5 to 14 have been approved by the board of trustees on 10th May 2006 and are signed on its behalf by:

Board Chairman

Trustee

General Information

for the year ended 31 March 2006

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 2006 the Centre had 8 employees (2005: 6 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
Allan Mukoki	
Oaitse Ramasedi	
Benyram Chooramun	

Registered Address

Plot 50676, BIFM/Fairground Office Park
Gaborone, Botswana

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 55 to 71 for the year ended 31 March 2006. 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.

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 statements 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.

In our opinion the Centre has kept proper books of account with which the financial statements are in agreement and the financial statements present fairly the Centre's affairs as at 31 March 2006 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The supplementary schedule set out on pages 70 to 71 does not form part of the 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

KPMG
Certified Public Accountants

10 May 2006
Gaborone

Income Statement

for the year ended 31 March 2006

US $	Note	2006	2005 (Restated)
Members contributions		865 640	750 000
Donor funds		1 088 971	811 786
Total revenue		1 954 611	1 561 786
Other income		21 088	6 943
Expenditure			
Staff costs		(412 544)	(320 192)
Program expenses		(1 380 515)	(436 922)
Administration and operating costs		(554 359)	(422 678)
(Deficit)/surplus for the period	1	**(371 719)**	**388 937**

Statement of Changes in Funds

for the year ended 31 March 2006

US $	Note	Accumulated funds
Balance at 1 April 2004		149 917
Surplus for the period (restated)	10	388 937
Balance at 31 March 2005	10	538 854
Deficit for the period		(371 719)
Balance at 31 March 2006		**167 135**

Balance Sheet

at 31 March 2006

US $	Notes	2006	2005 (Restated)
Assets			
Non current assets		150 018	34 118
Plant and equipment	2	**150 018**	**34 118**
Current assets		**281 654**	**678 013**
Accounts receivable	3	37 991	154 683
Cash and cash equivalents		243 663	523 330
Total assets		**431 672**	**712 131**
Funds and liabilities			
Accumulated funds		**167 135**	**538 854**
Non-current liabilities		**17 037**	**-**
Finance lease obligation	4	15 774	-
Operating lease accrual	5	1 263	-
Current liabilities		**247 500**	**173 277**
Accounts payable	6	242 573	173 277
Short term portion of finance lease obligation	4	4 927	-
Total funds and liabilities		**431 672**	**712 131**

Cash Flow Statement

for the year ended 31 March 2006

US $	2006	2005
Operating activities		
Members' contributions	846 568	739 505
Donor funds	522 971	811 786
Cash paid to suppliers and employees	(1 559 406)	(1 047 088)
Sundry receipts	27 685	3 503
Cash flows (to)/from operating activities	**(162 182)**	**507 706**
Investing activities		
Acquisition of plant and equipment	**(138 186)**	**(25 410)**
Financing activities		
Finance lese obligation obtained	28 941	-
Capital repayments made on finance lease obligation	(8 240)	-
Cash flow from financing activities	**20 701**	**-**
(Decrease)/increase in cash and cash equivalents	(279 667)	482 296
Cash and cash equivalents at beginning of year	523 330	41 034
Cash and cash equivalents at end of year	**243 663**	**523 330**
Cash and cash equivalents comprise:		
Petty cash	89	87
Bank balances - current account	24 298	37 897
- call accounts	219 276	485 346
	243 663	**523 330**

Significant Accounting Policies

for the year ended 31 March 2006

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, except for financial instruments which are disclosed at fair value. The financial statements incorporate the following accounting policies which are consistent with those applied in the previous year, except for the useful lives, depreciation methods and residual values of property, plant and equipment which are now reassessed on an annual basis and the recognition of lease expenses which are now recognised on a straight line basis over the period of the lease.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease

Significant Accounting Policies

for the year ended 31 March 2006

obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on the straight line method at the following rates, which are designed to reduce the cost of the assets to residual values at the end of their useful lives.

- Computer 33.33% per annum
- Furniture and fittings 15% per annum
- Office equipment 15% per annum
- Motor vehicles 25% per annum

The useful life, depreciation method and residual value are reassessed on an annual basis and any change therein is treated as a change in accounting estimate.

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 assets 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 assets 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.

Significant Accounting Policies

for the year ended 31 March 2006

Operating leases

Leases, which merely confer the right to the use of an asset, are treated as operating leases. Payments made under such operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Taxation

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

Financial Instruments

Financial assets

The Centre'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 impairment charges. Impairment changes are recognised when collection of the full amount is no longer probable. Impairment charges are written off as incurred.

Financial liabilities

The Centre'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 Centre.

Finance lease obligation

Finance lease obligations are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Annual Financial Statements

for the year ended 31 March 2006

US $	2006	2005 (Restated)

1. (Deficit)/Surplus for the period

(Deficit)/surplus for the period is stated after taking into account the following:

	2006	2005 (Restated)
Audit fees	5 000	4 650
Board costs	15 942	18 920
Bad debts	227 410	87 217
Depreciation	22 286	7 438
Foreign exchange loss/(gain)	11 308	(4 296)
Staff costs	412 544	320 192
Rent - premises	85 578	69 777
Rent - operating lease accrual	1 263	-

2. Plant and equipment

	Motor Vehicle	Computer equipment	Office equipment	Furniture & fittings	Total
Cost					
Balance at beginning of year	-	26 630	2 471	24 030	53 131
Additions	26 310	15 466	12 392	84 018	138 186
Balance at end of year	**26 310**	**42 096**	**14 863**	**108 048**	**191 317**
Depreciation					
Balance at beginning of year (restated)	-	6 489	245	12 279	19 013
Charge for the year	3 803	10 915	752	6 816	22 286
Balance at end of year	**3 803**	**17 404**	**997**	**19 095**	**41 299**
Net book value					
At 31 March 2005	**-**	**20 141**	**2 226**	**11 751**	**34 118**
At 31 March 2006	**22 507**	**24 692**	**13 866**	**88 953**	**150 018**

A motor vehicle with a book value of P22 507 (2005: PNil) is encumbered as per note 4.

Notes to the Annual Financial Statements

for the year ended 31 March 2006

US $	2006	2005

3. Accounts receivable

Members' contributions	5 649	138 765
Other receivables	32 342	15 918
	37 991	**154 683**

4. Finance lease obligation

Finance lease obligation with Wesbank	20 701	-
Less: short term portion transferred to current liabilities	(4 927)	-
	15 774	**-**

The finance lease obligation is secured by a motor vehicle with a book value of P22 507 (refer note 2). The lease obligation bears interest at the prime lending rate plus 1% and is repayable in 48 monthly instalments of P3 414 each, starting on 18 May 2005.

The lease obligation is repayable as follows:

Payable within one year	4 927	-
Payable within two to five years	15 774	-
	20 701	**-**

5. Operating lease accrual

Year end	31 March 2006	31 March 2007	31 March 2008	31 March 2009	31 March 2010
Long term accrual	1 263	3 722	4 212	1 944	-
Short term accrual	-	-	540	2 268	1 944
	1 263	**3 722**	**4 752**	**4 212**	**1 944**

Notes to the Annual Financial Statements

for the year ended 31 March 2006

US $	2006	2005
6. Accounts payable		
Trade and other payables	214 196	154 169
Member's overpayment	12 541	-
Payroll accruals	15 836	19 108
	242 573	**173 277**

7. Related party transactions

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

8. Lease commitments

Future minimum lease payments under non-cancellable lease relating to premises are as follows:

Cash payments	**31 March 2006**	**31 March 2007**	**31 March 2008**	**31 March 2009**	**31 March 2010**
Cash payments within one year	76 172	83 789	92 168	101 385	62 453
Cash payments after one year	339 795	256 006	163 838	62 453	-
Total future cash payments	415 967	339 795	256 006	163 838	62 453
Less: lease accrual (Note 5)	(1 263)	(3 722)	(4 752)	(4 212)	(1 944)
Future operating lease	**414 704**	**336 073**	**251 254**	**159 626**	**60 509**

9. Straight-lining of operating lease payments

The change in the manner of recognising lease payments arises as a result of a change in interpretation of IAS17 by Botswana entities in order to align the Botswana practice with that applied internationally. The effect of the revised interpretation is that operating lease payments will be recognised on a straight-line basis over the lease term, and not as cash is paid. The change in accounting policy in respect of operating lease payments had no impact on the financial results reported by the organisation during the prior year as the organisation entered into a new operating lease agreement during the current financial year.

10. Evaluation of residual values and depreciation rates

The change in the manner of evaluating residual values and depreciation rates arises as a result of revised International Financial Reporting Standards and specifically IAS16 (Property, plant and equipment). The effect of the change in accounting policy is that the residual values and depreciation rates applicable to classes of assets are now evaluated annually. The required adjustment has been made as required by IAS8 with the necessary restatement of comparative figures.

The above change, when applied consistently in 2005 and 2004 financial years, had the following impact:

US $	**2006**	**2005**
Retained earnings as previously reported	538 456	149 589
Decrease in the depreciation charge recognised in respect of office equipment	398	328
Retained earnings as restated	**538 854**	**149 917**
Surplus for the period on previous basis	388 867	149 589
Decrease in the depreciation charge recognised in respect of office equipment	70	328
Surplus for the period on new basis	**388 937**	**149 917**
Accumulated depreciation of office equipment as previously reported	643	346
Decrease in the depreciation charge recognised in respect of office equipment	(398)	(328)
Accumulated depreciation of office equipment as restated	**245**	**18**

Notes to the Annual Financial Statements

for the year ended 31 March 2006

11. Financial instruments

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

Foreign exchange risk

The Centre 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 Centre 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 2006 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.

Detailed Income Statement

for the year ended 31 March 2006

US $	**2006**	**2005 (Restated)**
Revenue		
Member contributions	865 640	750 000
Donor funds	1 088 971	811 786
	1 954 611	**1 561 786**
Other income		
Foreign exchange gains	-	4 296
Interest received	797	53
Rent received	20 291	2 594
	21 088	**6 943**
Expenditure:		
Staff costs		
Salaries and wages	397 589	287 514
Gratuity	9 440	14 470
Medical aid	3 163	3 031
Training costs	1 913	1 289
Recruitment costs	439	13 888
	412 544	**320 192**
Program costs		
Other programmes	566 000	238 150
DANIDA funded programmes	814 515	198 772
	1 380 515	**436 922**

Detailed Income Statement

for the year ended 31 March 2006

US $	2006	2005 (Restated)
Administration and other expenses		
Accounting fees	1 000	930
Audit fees	5 000	4 650
Bad debts	227 410	87 217
Bank charges	2 744	2 057
Board costs	15 942	18 920
Communication costs	12 948	9 251
Computer expenses	25 868	19 404
Conference costs	6 565	12 863
Consultancy fees	375	4 027
Depreciation	22 286	7 438
Equipment and motor vehicle leasing	6 090	3 652
Foreign exchange loss	11 308	-
General expenses	32 090	19 184
Insurance	4 664	1 840
Legal fees	2 194	1 032
Office rental	86 841	69 777
Small tools written off	1 793	7 736
Stationery and printing	12 875	12 756
Sundries	4 901	15 520
Travel costs	71 465	124 424
	554 359	**422 678**
(Deficit)/surplus for the period	**(371 719)**	**388 937**

This schedule is presented solely for the information of the trustees and is not covered by the audit opinion.

Effective Corporate Governance through Ownership:

the case of Development Finance Institutions in SADC

Mr R. Khoza, Chairman of Institute of Directors, Southern Africa, addressing the Chairpersons of DFI Boards, Johannesburg, May 2005

1. Introduction: Focus of Paper

This paper seeks to discuss the nature and importance of corporate governance, and the role that ownership and ownership structures can play in bringing about acceptable standards of control, this with particular reference to state-owned development finance institutions (DFIs), which in the main are the type of institutions that the DFRC deals with.

The paper briefly explores the flawed history of the public ownership of DFIs in Africa in the seventies and eighties and presents the mandate, programmes and initiatives of the SADC-DFRC that are evolving to transform these institutions and raise the standards of corporate governance in the SADC region.

Raising standards within SADC DFIs to industry best practice is considered essential for building market confidence and for improving their corporate performance as borrowers and as financiers to ensure more efficient and effective delivery.

The ownership structure of these institutions in particular, is considered an important criterion for appropriate governance practices to achieve the required levels of sustainability and performance, particularly in the context of financing for development.

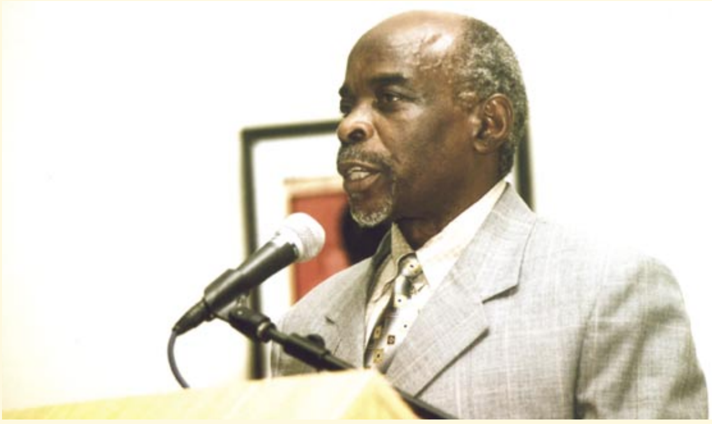
2. Historical Background: the Failure of Development Finance to yield results

- **From Global to National - the emergence of a tiered grouping of DFIs**

According to the FISCU Development Finance Study of 1998 (DFS '98) development finance as an element of the global financial landscape first came into being when the International Bank for Reconstruction & Development (IBRD - the World Bank) was established. In 1949 the IBRD began on-lending through national finance companies beginning with the Netherlands and Finland. When its private sector affiliate - the International Finance Corporation (IFC) was established in the mid-1950s, the practice of on-lending through national DFIs had spread to almost every developing country. Indeed in the developing world, the IFC was involved in the creation of new, special-purpose DFIs designed to fill gaps in the term-lending capabilities of local banks, in environments with undeveloped capital markets.

In the mid-1960s the Bank shifted the centre of this activity from IFC to itself. However it often acted jointly with the IFC to establish these DFIs, with the IFC investing part of the initial equity capital and the IBRD providing long-term debt. The World Bank thus acted as a wholesaler of development funds that were retailed through national DFIs.

Between the years 1955-90 five major Regional Development Banks (RDBs) emerged at a mezzanine level between the global and national DFIs. These RDBs were established successively for Latin America and the Caribbean (IADB - Inter American Development Bank), then Africa (AfDB - African Development Bank), followed by Asia (AsDB - Asian Development Bank), the Islamic world (IDB - Islamic Development Bank); and most recently for Eastern and Central Europe (EBRD - European Bank for Reconstruction & Development).



The Honourable Nahas Angula, Prime Minister of the Republic of Namibia, officiating on the occasion of the address by Judge Mervyn King on Corporate Governance, February 2006, Windhoek

The RDBs, were structured in the same way as the World Bank, however their creation did not arise from an inability of the Bank to meet the development finance needs of the respective regions. Rather, they appeared because the political economy of relationships between the developed and developing countries in each region resulted in demands for different, more user-friendly shareholding structures, along with a wider range of development financing services than those provided by the IBRD at the time. Political pressures for establishing the RDBs became compelling because regional rather than global shareholding structures appeared to allow borrowing member countries to have greater influence over policy-making and decision-making control in ‘their’ regional institutions than they ever could in a global DFI dominated by developed countries. (DFS 98)

In addition to the regional development banks, an assortment of sub-regional development banks (SRDBs) also emerged over the period 1960-80 to support first-generation regional integration arrangements (RIAs) between developing countries in different parts of the world - perhaps nowhere in greater number and not as much success than in Africa. These include the:

- **European Investment Bank (EIB);**
- **Caribbean Development Bank (CDB);**
- **Andean Development Fund (AnDF);**
- **Central American Bank for Economic Integration (CABEI);**
- **East African Development Bank (EADB);**
- **West African Development Bank (WADB);**
- **Central African Development Bank;**
- **PTA/COMESA Trade & Development Bank;**
- **Mahgreb Investment Bank in North Africa; and**
- **Development Bank for the Southern Pacific Islands in Asia;**

Within countries, national DFIs were set up by their respective governments and with the assistance of the World Bank/IFC to finance specific sectors: i.e. agriculture and rural finance; industrial and infrastructure finance; construction and housing; small and medium business enterprise (SME) development, etc.

However, the concept of ‘development finance’ at the national level was linked specifically to long-term credit for financing productive assets in the industrial and infrastructure sectors (principally through intermediating foreign currency loans); invariably through specialized public or private DFIs set up for that purpose. To a lesser extent, domestic currency resources were also mobilized by these DFIs, mainly for financing the permanent working capital requirements associated with large projects. (DFS 98)

Box 1:	The various tiers of DFIs - Global to National
Global:	The World Bank (WB)
Regional:	IADB, AfDB, AsDB, IsDB, EBRD
Sub-Regional:	CDB, AnDF, CABEI, EADB, WADB, MIB, SPDB, BADEA, PTAB
National:	DFIs for • Industry & Infrastructure • Agriculture & Rural Credit • Small & Medium Enterprise • Micro-enterprise • Housing Finance • Gender Credit

Source: DFS 98

In other sectors - especially agricultural and rural credit, SME finance, and housing/mortgage credit - specialised institutions quite distinct from the typical infrastructure/ industrial development DFIs, were established. They differed from the typical DFI in their lending disciplines and approaches; size of loans; number and characteristics of their borrowers; nature and quality and risks of their asset portfolios; collateral requirements; administrative structures and overhead costs; and operational, financial and repayment risks that they were exposed to. These specialized institutions focused on intermediating domestic resources. Their requirement for forex funding was much lower. Issues concerning foreign exchange risk (exposure which resulted in rendering most DFIs insolvent in the 1980s) and of adequate domestic currency resource mobilization therefore featured more prominently in the risk profiles of DFIs than of institutions operating in other sectors.

- **Governance Problems especially with African DFIs**

During the 1990s notions about development finance and the role of DFIs underwent fundamental re-examination for four different reasons. These were:

i) experience with development finance and DFIs during the previous decades;
ii) post-1990 developments in global capital markets;
iii) constraints on public finance; and
iv) Increasing privatization with a reduction in the role of the state in the market.

The second through fourth reasons listed above, while important, will for purposes of this presentation not be addressed. However the experience with development finance and with African DFIs during the 1970s and 1980s is instructive and informs the DFRC's mandate and activities in respect of supporting and facilitating the achievement of best practice in corporate governance for the DFIs in the SADC Network.

The emerging theoretical view in the nineties on development finance was that perceived needs for such finance were indicative of temporary imperfections and gaps in domestic capital markets and in the risk perceptions of international markets; elements which it was argued did not automatically suggest that a DFI was needed. Shortcomings in financial systems made private sources of finance reluctant to bear - fully or partially - the risks (political, commercial, country, transfer, maturity-transformation, etc.) associated with difficult country environments or in the case of complex, long-gestating infrastructure projects, even in the developed world.

Apart from a better notional understanding of what went wrong and why, there were also practical reasons for post-1980s cynicism about the usefulness of development finance. Africa's experience with DFIs suggested that they had become part of the problem, and not the solution, in meeting its development financing needs. The general picture for African DFIs was characterised then by the following impressions and conclusions which all relate back to the broader issues of corporate governance:

Judge Mervyn King, addressing guests at a public lecture on Corporate Governance, Namibia, February 2006

- DFIs had been subject to political influence resulting in credit diversion and the subordination of efficiency and profitability objectives to political priorities. Credit provided through DFIs was often redirected from intended beneficiaries to influential borrowers resulting in resource misdirection and misallocation;

- Subsidies on the cost of funds on-lent by DFIs, together with substantial losses on non-performing assets, had strained government budgets to keep national DFIs liquid and solvent. This practice compromised efforts to achieve monetary and fiscal control in unstable economic environments;

- DFI operations often aggravated rather than corrected the inadequacies of local banking and financial systems. They resulted in lower levels of financial intermediation and contributed (along with other macroeconomic policies) to obstructing capital market development;

- DFI lending in SSA was considered to have also contributed negatively to growth and income distribution. By directing credit to parastatals and the subsidiaries of multinationals, DFIs crowded out more efficient smaller private firms from formal credit markets, forcing them to rely on retained earnings or borrowing from informal markets at exorbitant cost;

- By allocating resources on the basis of fiat rather than market signals DFIs failed to allocate credit productively. With the exception of South Africa, DFIs in Africa had weak financial structures, poor management, and constrained portfolio choices resulting from the economic policies pursued by their governments (this was also seen as true of South African DFIs). Their lending operations directed scarce forex resources and long-term credit to public enterprises whose poor financial and operating performance resulted in contaminating their portfolios;

- As a result the majority of DFI assets in Africa were non-performing. Erosion of financial discipline and resource misallocation had rendered most African DFIs effectively insolvent. They were ineffective in mobilising domestic resources relying instead on foreign currency resources provided by the MDBs. Their project appraisal, risk management and monitoring and supervision capabilities proved inadequate. Along with the political interventions they were subjected to, that resulted in adverse project selection, the inadequate sectoral diversification and over-concentration in particular industries resulted in imprudent lending.

- Finally, DFI portfolios in Africa were over-exposed to cyclical risk, and default risk because of the excessively leveraged financial structures of the enterprises/projects they financed. Their indirect exposure to exchange risk proved to be unbearable. This risk was supposedly passed on to their borrowers. But the inability of borrowers to cope with the effects of spiral devaluations, triggered primarily by the adoption by countries of market-related exchange rate regimes in the absence of forward cover or hedging instruments, resulted in large-scale arrears and defaults.

3. DFIs are still critical Actors in SADC

The 1998 SADC Study on Development Finance (referred to above) carried out by the then FISCU*on behalf of SADC Ministers of Finance found that despite the problems associated with DFIs as set out above and irrespective of the speculative arguments about their role in filling a funding gap, development finance and DFIs would remain an important part of the financial landscape in SADC for the foreseeable future. It argued that because financial systems in most SADC countries remained underdeveloped, DFIs were indispensable for offering a range of financial and other services to stimulate industrialization. They were also important for ensuring that the needs of other sectors such as agriculture, housing and small and informal enterprises are addressed.

The study acknowledged that the processes of economic and financial sector liberalization taking place in all SADC countries had had a profound detrimental impact on the financial position and performance of existing DFIs in SADC. But found that, in the absence of capable capital markets in these countries, liberalization programmes had been remiss in failing to emphasize the continued importance of DFIs and in indicating how their institutional structure, roles, functions, processes and financial products needed to be revamped and adjusted to meet the challenges that structural reforms had created.

Most national DFIs in SADC had not escaped the difficulties associated with adverse macroeconomic environments and changing economic regimes. Nor had they corrected quickly enough their inappropriate structures, processes and procedures. They remained too dependent on financing from regional and global MDBs. They lacked sufficient institutional capacity caused by a shortage of appropriate human resources and management capacity. They also suffered from being bound to politically mandated functions that did not have sufficient respect for commercial and financial viability. Subsidies on the cost of funds on-lent by DFIs, directed credit, and exchange risks, together with substantial losses on non-performing assets, had strained some governments' budgets to keep national DFIs liquid and solvent. That, in turn, had compromised efforts to achieve monetary and fiscal control. In all these respects, they were found to be no different (except in a handful of countries) to their counterparts in the rest of Africa.

The study recommended that in order for DFIs in SADC to achieve financial self-reliance and limit future fiscal exposure, financial reparation in terms of re-capitalisation and providing for bad debts should be complemented by the introduction of proper financial management systems and the right operational priorities. This would include appropriate prudential regulations and their enforcement. This would then go some way in restoring the much-needed credibility in DFIs. Most importantly, DFIs in SADC needed to become more market-oriented, market-sensitive and market-responsive in targeting and addressing those risks which private commercial sources of finance were and still are unwilling to contemplate taking for the time being. DFIs needed to expand their shareholder base as well as their domestic and foreign sources for resource mobilization with a view to transforming themselves in an orderly manner from being DFIs dependent on public generosity to becoming full service, investment or universal banks within a reasonable period of time (DFS 98).

* FISCU was the Finance and Investment Sector Coordinating Unit of SADC which until 2001, was situated at the National Treasury in South Africa.

4. The SADC-DFRC's mandate in respect of the DFI Network

Chairpersons of DFI Boards attending Corporate Governance workshop in May 2005, Johannesburg

In recognition of the need for transformation, and given their decision to adopt a strategy for the Region of establishing a Network of DFIs as a development financing vehicle rather than a sub-regional DFI for SADC (refer the same 1998 SADC Study), Member States also agreed on the need for the DFRC. It was established with the purpose of serving all DFIs including sector-specific DFIs operating in the infrastructure, industry, agriculture and rural sectors, SME development and low-cost housing and gender credit.

As the centre of the DFI Network, the DFRC is tasked 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.

The DFRC is therefore seen as a critical institution for supporting financial sector strengthening and reform and capital markets development. To this end it has begun to collaborate with Central Bank Governors, and other players in the financial sector including the Financial Services and Capital Markets Regulators as well as Commercial Banks in the Region. Such collaboration is considered essential given their roles as either regulators or players in both financial and capital markets.
In addition to supporting institutional strengthening and financial sector reform, the DFRC also engages in supporting the:

- capacity-building needs of national DFIs to strengthen their staff complement 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 (RISDP);
- 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;
- Providing a central hub for information technology and DFI information systems.

5. The Ownership structure of DFIs in the Network

The majority of the DFIs in the Network (and Subcommittee) continue to be either wholly or majority state-owned. In countries with a low international credit rating and operating under severe fiscal pressures, public ownership constrains the financing of these institutions. On one hand, their access to lines of credit from international or private financial institutions has become severely restricted. On the other, they cannot necessarily rely any more on fiscal transfers for recapitalization or loan funding. In the case of a few DFIs ownership is being broadened through 'privatization' in line with general liberalization policies, but also with the specific aim of mobilizing larger amounts of funding for these institutions.

In most SADC countries, the statutory DFIs do not fall within the purview of their countries' banking acts, which would subject them to being regulated and supervised by the central bank. Furthermore, the enabling acts of most statutory DFIs in SADC do not specify prudential requirements such as, for example, a ratio of liquid assets to liabilities to the public of at least 10%.* Other prudential requirements concerning capital adequacy, non-accrual policies, provisioning and the maintenance of statutory reserves are also conspicuous by their absence. This situation leaves the wholly/majority-owned public DFIs unduly vulnerable to pressures for achieving social, political or developmental objectives at the expense of their commercial viability as sound, self-sustaining financial institutions; particularly when their Boards of Directors and managements also reflect a significant influence by the governments concerned. This creates an environment where DFIs in SADC are susceptible to government interference in day-to-day operational decision making, resulting in a greater tolerance for non-recovery of debt and the associated risk of non-performing portfolios.

Annex 1 below shows the ownership structure of the DFIs that are members of the SADC DFI Network.

6. Actions taken to Improve Corporate Governance in SADC DFIs: the case of the Development Bank of Zambia (DBZ) and the Tanzania Investment Bank (TIB)

In the light of the failures referred to above under section 2, the SADC Governments were determined to restructure their institutions by changing ownership structures and strengthening the laws and regulatory frameworks in an effort to improve governance and strengthen management. In this regard, they also sought to change the board membership to allow for greater representation of the private sector and other stakeholders to capture a variety of skills and experiences, while strengthening the capacity for independent judgement on important investment decisions of the institutions concerned.
Some of these institutions were authorized to invite equity participation from the private sector to dilute the influence of government and resulted also in the requisite change in board membership to allow for independent private sector board members to represent the interests of their private shareholders.

The SADC-DFRC, as mandated by the Ministers of Finance and their shareholders the DFI Network, is actively engaged in supporting this process. In a needs survey and skills gap analysis of SADC DFIs carried out by First Initiative (2003), it was clearly identified that one of the critical institutional weaknesses that needed to be addressed was that of corporate governance. This was needed not only at the level of the Board, but also at the level of the supervising political authorities and the senior management of the organization. Out of the eighteen DFIs surveyed by the

* This was a requirement for example for the ZDB under the Zimbabwe Development Bank Act, of 1983 which governed it. The ZDB has since been subsumed into a bigger Infrastructure Development Bank of Zimbabwe.

First Initiative, ten indicated that they required capacity building interventions in the area of corporate governance.

There was also an identification of the need for institutional strengthening and capacity building of staff in respect of sound risk management (to address credit, market and operational risks).

To this end, and on the capacity building side, the DFRC has been conducting corporate governance workshops targeted at supporting the DFIs in this area. The first of these workshops was held in May 2005 and was conducted for the chairpersons of the various Boards of the DFIs in the Network. This workshop discussed contemporary issues and new developments in the field of corporate governance and yielded an enthusiastic response from the members. The workshop deliberations demonstrated that the challenges of corporate governance in the DFIs were very real and practical. What was required to address them was a deliberate and systematic process to induce awareness and promote dialogue of the issues amongst the key stakeholders in the management of institutions.

Additional country-based workshops are planned to address corporate governance training for the board members responsible especially for audit, credit decisions and for asset-liability management. These directors need the skills and knowledge to understand the operations and administration of their organizations, as well as their duties, responsibilities and rights as directors with reference to all other stakeholders of the organizations. Thus the DFRC will work with the DFIs to help them develop appropriate systems of surveillance, such as setting up of credit, audit, asset-liability management and remuneration committees, among others, with clear reporting structures and accountabilities.

It has also begun to run enterprise-wide risk management seminars with, or to facilitate access to the training of, its development partners for the DFIs in the Network. These partners are the African Development Bank., the Development Bank of Southern Africa and the Industrial Development Corporation (the latter two being South African institutions), Deloittes and Touche and the Joint Africa Institute. Training took place in September on Treasury Tools (JAI) and in November 2004 on credit risk, asset-liability management and on operational risk. Additional training drilling deeper into these subject matter, will take place in 2006 to consolidate the earlier training.

Accordingly, the DFRC will continue to work with its development partners to bring the state-of-the art and best practices in inter alia corporate governance, risk management and other required training for the DFIs management and staff, and through specially tailored and focused workshops for Board members. The workshops will explore new developments in the area, to demonstrate how governments and corporations are adjusting to the challenges of corporate governance.

In particular, the workshops will cover the functions and duties of the full Boards, Board Committees and Board members, their role in risk management, and integrated sustainability reporting, amongst others. A special effort will be made to ensure the relevance and applicability of concepts and practices to the experience of Development Finance Institutions through case studies, practical exercises and special presentations by other DFIs.

It is a strongly held view that such programmes should be a continuous feature of the DFI capacity building programme to allow for greater interaction and exchange of experiences amongst the SADC DFI Board members, to improve their understanding and practices in respect of their fiduciary responsibilities and to influence policy and legislation on corporate governance at a regional level.

A second approach taken by the DFRC is to look holistically at institutional strengthening to see how to support the reform initiatives described above (this section). Two case studies involving the DBZ and TIB serve to illustrate the approach taken in respect not only of addressing issues of ownership – but through that, of corporate governance. One relates to the privatisation of the DFI concerned – the Development Bank of Zambia (DBZ); the other to the change in mandate from a merchant-type bank to a development bank – the Tanzania Investment Bank (TIB). The selection of these two institutions for the pilot programme was, among other factors, largely based on the existence of an investment-friendly environment in the two countries, the outcome of sound macroeconomic policies being pursued by the respective governments.

The approach adopted by the DFRC employs a round table consultation where the various key stakeholders – government, including the central bank and other regulatory authorities, prospective private investors and the DFI management – discuss and come up with a roadmap or strategic plan for the future operations and governance structures of the DFI. The different stakeholders bring to the table different contributions with the government addressing the shareholding and regulatory issues. The private sector investors bring advice on conditions, including those touching on corporate governance, that they would like to see in place if they are to consider taking up shares or extending lines of credit to the DFI. This way, critical issues pertaining to regulation, private participation or government shareholding, capitalisation, legislation and the mandate of the new transformed DFI are discussed and commitments made on the way forward. Where necessary, the DFRC will employ a technical expert to facilitate the process.

While the DFRC has been guided closely by the above framework in its dealings with the two DFIs, it has had to vary this in some cases in recognition that, while both institutions are moving towards private sector participation, they are essentially at different levels.

However, in both cases the thrust by the DFRC has been to advise the adoption of a regulatory framework and legislation supportive of good governance and best practices. Thus, the privatisation process involves the registration and exposure of the DFI to the exigencies of the Companies' Act and, as financial institutions, their incorporation under the Finance and Banking Act and therefore, putting them directly under the supervision of the central bank. This is critical for private investors to take up equity in the DFIs and both local and foreign investors have underscored the need for this.

In the case of DBZ, a decision was taken to register it as a private company and this is expected to take place next year through a Privatisation Bill to be presented to parliament. Its present act, however, allows for government shareholding, presently in the majority, to be reduced to 25%. Government of Zambia will not capitalise DBZ but, besides taking over the non-performing book and converting it to equity, it has invited private sector investors to take up shares. This notwithstanding, and only until recently following the equity/loan deal with the DBSA, DBZ has had difficulty raising capital, even on the domestic market, due to the perception that it is a parastatal and therefore open to government interference.

The participation of the DBSA (a strong Network member) in DBZ has largely been encouraged by assurances and efforts by the Zambian authorities to deal with the governance issues and have the bank registered as a private company and supervised by the central bank under the Banking and Financial Services Act. These have been positively viewed by private investors as a prerequisite for good governance as they remove undue influence on the DFI regarding its lending operations, board selection and management appointments, among others. Local private investors have also welcomed these changes with some adopting a wait and see approach until these are fully in place. Their involvement is considered crucial if the DFI is to be sustainable as access to local capital markets is a sine qua non for long-term viability.

In supporting this process of institutional restructuring, the DFRC is also working with DBZ, and the DBSA to put in place a technical assistance programme to address some key skills gaps to improve on delivery and complement the privatisation thrust. It is also talking to other prospective investors who have expressed interest to invest in DBZ and the coming on board of DBSA would undoubtedly spur these efforts.

TIB, like DBZ, was left to its own means and has overtime evolved into a merchant bank taking deposits and its loan portfolio confined predominantly at the short end. Following the implementation of the First Generation financial reforms which resulted in the liberalisation of the financial sector, the Tanzanian authorities observed the absence of long -term development finance resources in spite of prevailing liquid conditions arising from net inflows of foreign currency mainly from donors. To address this gap, Government of Tanzania decided to resuscitate the development finance sector with TIB at the core.

Working through TIB, the DFRC is advocating a meeting of key stakeholder to formulate a strategy for the new TIB as a DFI encompassing, shareholding (clearly defining the role of the GOT which will be the major shareholder to begin with); its mandate, including target sectors; and organisational structures, clearly separating shareholder, board and management responsibilities to ensure independence. This will be achieved through discussions and, to this effect; a workshop of key stakeholders is tentatively scheduled for November this year. The DFRC will participate at the workshop to render advice to both TIB and the Tanzanian authorities.

To persuade private sector investors, GOT has indicated its intention to reduce its shareholding as part of the privatisation process of TIB. Cognisant that private sector participation may take some time it will initially recapitalise TIB. In addition, TIB as a deposit taking institution is already under the strict supervision of the Bank of Tanzania. As with the case of DBZ, the privatisation of TIB and the willingness of the authorities to remain as an ordinary shareholder -- albeit in an environment conducive to good governance and best practices will augur well for private investor interest in TIB. The DFRC is working closely with TIB in this transformation process and will also assist with a technical assistance plan for the institution once its strategic plan on the way forward is fully in place.

7. Conclusion

It is clear that corporate governance is critical for financial institutions like the DFIs, to ensure the confidence of the market. Notwithstanding sound financial reports, the supply of lines of credit by MDBs and other RDBs and the greater equity participation of private sector financiers will hinge on the extent to which these investors have confidence in the governance of the DFIs. As government shareholding and subvention recedes, the importance of accountability and openness in business dealings in attracting private sector investors becomes even more important.

Similarly, these institutions should ensure that the institutions to which they provide financial services have dependable governance structures, which are unlikely to damage their risk profile, on account of vital information having been concealed earlier.

The DFRC in its efforts to build capacity in the DFIs will continue working with the Development Finance Institutions to improve governance in the institutions, and to assist them to look for governance issues in their assessments of potential clients, through training, research and technical assistance.

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Annex 1: Institutional Structure and Nature of Network DFIs in SADC

Country/institutions	Ownership and control structure			Nature of institution		
	Ownership	Statutory institution	Corporate Entity	Single sector/ focus	Multi-sector/ focus	And Other financial service
Angola No DFIs						
Botswana						
• National Development Bank	Government	x			x	
• Botswana Development Corporation	Government		x		Industrial development	
• Citizen Entrepreneurial Development Agency	Government		x		SMEs	
Lesotho						
• LNDC	Government	x			Industrial development	
Mozambique No DFIs						
Malawi						
• Malawi Development Corporation	Government	x		Mining SMME	x	
Mauritius						
• Development Bank of Mauritius	Government		x		x	
Namibia						
• Development Bank of Namibia	Government	x		Infrastructure/ SMME		
• National Housing Enterprise	Government	x		Housing		
• Agribank of Namibia	Government	x		Agricultural development		
South Africa						
• DBSA	Government	x		Infrastructure	x (in SADC)	
• Industrial Development Corporation	Government		x		Industrial development	Export financing
• Khula *	Government		x	SMME		
• Land & Agric. Bank of SA	Government	x		Agriculture		
• NHFC*	Government		x	Housing		
Swaziland						
• SIDC	Government/ Foreign FI (now divesting)		x		Industrial development	
• SSDB	Government	x			x	Commercial banking
• Fincorp	National Trust/ Government	n/a	x	SMME		n/a
Tanzania						
• Tanzania Investment Bank	Government /Private Sector		x		x	Merchant/ investment banking
• National Development Corporation	Government		x		Industrial development	
• Small Industries Development Organization	Government	x		SMME	n/a	n/a
Zambia						
• Development Bank of Zambia	Government/ Private sector	x			x	
Zimbabwe						
• Zimbabwe Development Bank	Government	x			x	Trade and lease finance
• Industrial Development Corporation of Zimbabwe	Government		x		Industrial development	
• SEDCO	Government	x		SMME		
• Agribank	Government		x	Agriculture		

Key:
* -- Not member of DFI Network   x -- Applies to DFI   n.a. – Not applicable to DFI

DFI Network Members

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

Lesotho
4. Lesotho National Development Corporation

Malawi
5, Malawi Development Corporation (Under liquidation)

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

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

Zambia
19. Development Bank of Zambia

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

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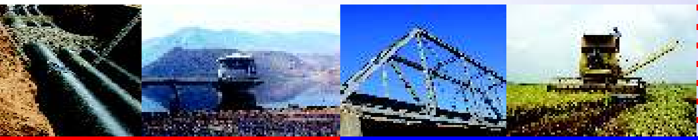

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