CHAPTER 1
GENERAL INTRODUCTION

1.1. Introduction

Development indicators and observation of development trends point out that economic development is necessary for facilitating and promoting the improvement of people’s quality of life. With reference to Southern Africa, development indicators show a decline in human development and that the region has not made progress in raising the living standards of the people (University of Cape Town Development Policy Research Unit, 2001: 1). One of the ways of improving the living standards of people is through economic development. With reference to economic development, industrial development with its pre-requisites of plentiful raw materials, labour, skills and infrastructure, is necessary for processing and production of goods and provision of services in order to meet the needs of the people and the economy as part of development (Burdette, 1990: 75). For industrial development it is not only raw materials, labour, skills and infrastructure that are needed for economic development. Finances and the political will are further aspects necessary for economic development and to facilitate human development. With reference to finances as one of the resources needed in financing development, Southern Africa as a region is faced with financial constraints for financing economic development initiatives.

The Southern African region (to be discussed later), comprised of African countries to the south of the equator, is focussed on economic development as one of its development aspects (United Nations, 1994: 2; Aryeetey and Oduro, 1996: 11; United Nations, 2000: 1-20). In Southern Africa, economic development, among other factors, involves industrial development as part of regional development. Economic development is not a challenge facing the Southern African region only, but is a worldwide concern that should be directed at assisting people in meeting life’s basic needs (shelter, water, etc.) as part of development

With reference to economic development in Southern Africa, finances are necessary to implement industrial development projects that should be directed at widening the means of
improving people's lives in the region. Economic development should facilitate the reduction of poverty and the advancement of the people’s quality of life. Economic development programmes of industrial development should be directed at employment creation, eradication of poverty and reducing the socio-economic inequalities in tandem with a growing economy (Ravallion, 1997: 631-638). This is supported by the United Nations (1948: 1) in the United Nations (UN) Charter and Chowdhury & de Waart (1992: 7) who argue that people have the right to employment as one of the means to better living standards. In any type of economy, whether subsistence, industrial or agrarian, barter or monetised, capitalist or communist, there must be improvement in the lives of the people. Therefore, financing of economic and industrial development programmes should be directed at creating employment opportunities and widening the means and access to a better life as part of development. If financing excludes people from accessing the means to a better life, it can be concluded that economic development programmes, the finances and the economic system are hostile and illegitimate, as people’s rights to development are violated. It should be pointed out here, however, that the issues of the impact on external financing of economic development programmes and the hostility and illegitimacy of the economic system that limits people from accessing the means for a better life, are not part of this mini-dissertation.

The African countries to the south of the equator, individually as well as collectively, are faced with financial challenges that hinder their progress in developing their economies. Southern Africa as part of Africa needs financial resources for financing and implementing economic development programmes (Smith, 2002: 1). With reference to finance as one of the resources for development, neo-liberalism, an aspect that unfolds as the study progresses, posits that financing economic development through external finance brings about development. For finances to flow into Southern African countries there has to be changes that amongst other factors include regional integration. Having undergone regional integration to form the Southern African Development Community (SADC), the Southern African regional members are keen on developing their economies (SADC, 1998: 11; SADC, 2000a: 14). The member states of the SADC region speak collectively amongst other things of economic development. The finances for economic and industrial development are crucial in this regard. In Southern Africa, financial capital is seen to be necessary in implementing programmes of economic and industrial
development as part of regional development. The above comments about the SADC as a political entity and the Southern African regional organisation are discussed later and are referred to in this section as regional development.

Economic development in the Southern African region must be different from that in the developed regions, such as the North American Free Trade Area (NAFTA) whose aim is to have dominant influence on trade and world affairs, and the European Union (EU), which is focused on not becoming marginalised in the globalised economy (Lindert & Pugel, 1996: 203; Luiselli, 1998: 107-109; El-Agraa: 1999: 1-23). Economic development initiatives and the financing economic development projects in Southern Africa should be directed at improving the welfare of the people. In the quest for regional development the SADC as a regional body has invited development financing institutions (DFIs) to assist with the funding of economic development in the Southern African region.

The SADC’s call on the DFIs to help in financing regional development in Southern Africa has been heeded by a national DFI, the Industrial Development Corporation of South Africa Limited (Spira, 1998: 1; IDC, NdCl: 1). The fact of the matter is that the Industrial Development Corporation of South Africa Limited (IDC) is not a Southern African regional DFI and is still committed to the national economic development objectives of the Republic of South Africa (RSA or SA). Thus far the facts are that the finances from the IDC in any foreign economy are foreign direct investment (FDI). Therefore, the use of IDC’s finance for development in any country other than South Africa under the banner of regional development is in actual fact FDI. With reference to the IDC’s finance as FDI, the question is whether the IDC’s finances in the SADC region truly are directed at regional development. The IDC gives money to finance and implement cross-border economic development initiatives in Southern Africa under the banner of regional development as FDI. External funds as FDI are controversial in development as they can be seen as a form of what Pheko (2002: 4) calls economic imperialism where means of production in a national economy are dominated, owned and controlled by foreigners. FDI may serve a subliminal role in keeping dictators and illegitimate regimes in power and help in the perpetuation of dependency, underdevelopment and mal-development (Tandon, 2002: 4). Southern African states and most African countries are no strangers to FDI (Tandon, 2002: 4).
The question is whether the IDC’s finances as FDI bring about development in the Southern African region.

However, the IDC (to be discussed later) heeded the call after the South African government in 1997 amended the Industrial Development Act No 22 of 1940 to allow the IDC to expand its geographical mandate to finance economic development in Southern Africa (Republic of South Africa, ND: 1-14; Republic of South Africa, 2001). It is stated in Section 4 paragraphs (a) and (b) in the amended Industrial Development Act No 22 of 1940 that through its finances the IDC has powers to finance and lend money towards the promotion and assisting with industrial undertakings in Southern Africa (Republic of South Africa, ND: 1-14; Republic of South Africa, 2001).

In this mini-dissertation the SADC’s plan and programmes of development and the act of financing of economic development initiatives in the region by the IDC is referred to as regional development in Southern Africa. The question of whether the IDC’s finance have developmental impact or not, is not part of this study, neither are the questions of the human development impact nor the impact on jobs and economic growth. The focus is on explaining what the IDC currently does with regard to financing development in Southern Africa.

Therefore, the title of this mini-dissertation is *the role of the Industrial Development Corporation in regional development in Southern Africa*. The reasons for the choice of the topic are highlighted in the next section.

### 1.2. The motivation for the choice of topic

The topic was chosen to enrich my research skills and to enhance my understanding of the international dimensions of development challenges. The intention thereof is to shed light on challenges facing the Southern African region with regard to matters of the economy and financial resources for development, and development in general. The topic highlights the fact that the lack of finances can scupper development initiatives. It also highlights the fact that underdevelopment or development in any neighbouring state or in one of the regional member
states can cause socio-economic instability. The socio-economic instability is manifested, for instance, when people from Mozambique crossed borders to South Africa in search for better living conditions. It also highlights democratic changes and political transformation in South Africa. The fact that South Africa is no longer a pariah state is demonstrated by its integration into the community of states and being a participant in regional development. South Africa’s financial role in regional development is not political, and this is noted in the financial role the IDC plays in the region. Through the IDC South Africa (SA) has also enhanced its presence in the region by extending the IDC's geographical mandate to finance economic development initiatives in Southern Africa (IDC, 1999b: 1; IDC, NDb: 1).

This mini-dissertation does not attempt to obliterate political adversaries and socio-economic instabilities caused by South Africa against its neighbours during apartheid. The topic tries to state that development challenges have a financial implication that has political, historical and international dimensions. This is demonstrated later when the study progresses with the aspect of cross-border financing of economic development projects. The international dimension to development challenges is noted when the citizens of another country that is seen to be lagging behind in development, cross borders to another state in search of a better life (Leysens & Thompson, 1999:7; Nel, 1999: 55-56). This justifies the notion that states should change their unilateral behaviour and activities to form bilateral and multilateral relations in addressing development challenges (Leysens & Thompson, 1999:7; Nel, 1999: 55-56). This study will also indicate that there are changes like regional integration and globalisation that have affected South Africa, Southern Africa and the world. The changes that affected Southern Africa also led to democracy in South Africa and finally resulted in the formation of the SADC of which South Africa is a member.

1.3. The objectives of the study

This mini-dissertation analyses and explains that the role the IDC plays in regional development is mainly to finance industrial development in Southern Africa. The IDC’s financial resources as external finance to implement industrial development projects in SADC member states is part of economic development. Within the context of economic development, in this mini-dissertation,
the use of external finances to implement industrial development projects is interpreted as FDI. FDI in industrial development in the economy of another country involves practices where there is ownership and control of means of production and profiting from the investments thereof. Within the context of profit, the financial gains that are generated from FDI are taken out as part of wealth accumulation that may be used to finance other industrial development initiatives elsewhere. Therefore, this explanatory mini-dissertation highlights that the IDC’s finance in the SADC member states is having FDI. The objective of the explanation is to indicate that in maintaining its characteristics of being a self-sufficient DFI, the IDC has to have revenue bases for its financial resources and for financing other industrial development initiatives. While explaining the role of the IDC in financing industrial development in the region, the study concluded that the Corporation’s presence in the Southern Africa is part of its continuous quest for financial resources that it should have to finance and to realise its national economic development mission (to be discussed later) which it was established for. In this mini-dissertation there are exploratory elements with the intention of contributing to the established body of knowledge, as light is shed on the dynamics and developments around financing, development and the IDC in Southern Africa (Mouton, 1996:102,192; Babbie, 1983: 75).

It must be borne in mind that during the era of state-driven development in apartheid South Africa, the IDC financed and initiated industrial development to realise the economic development objectives of the apartheid regime. Since its inception, the Corporation through its industrial development mission has had a plurality of roles that eventually contributed to economic development, growth and human development in South Africa. Through the financial capital that the Corporation channelled into its economic development function, it contributed and is still contributing to realising the South African national economic development objectives (IDC, 1971: 3; Republic of South Africa, ND: 1-14).

Having determined the current IDC’s function in the region, this study will propose ways in which the SADC can enter into any development financing agreement with this DFI regarding the matters of financing development.
1.4. The statement of the problem

There has been scepticism about economic development in Southern Africa ever since the 1980s, the period of the Southern Africa Development Co-ordinating Conference (SADCC), the precursor to the SADC (Maphanyane, 1993: 174; Oden, 1993: 222; SADC, 1992: 10). At that point it was questioned whether Southern Africa would ever rise from the abyss of lack of economic development. Sceptics went to the extent of calling Southern Africa a dark and a hopeless sub-continent, a war zone of doom and gloom with a dark cloud hanging over it (SADC, 2000b: 1-10). In this view, Southern Africa was a ‘basket case’ that is dependent on foreign finance and unable to reach its development potential. The perception still is that Southern African member states and their respective institutions do not have regional interest at hearts. Countries and their respective institutions enter into multilateral regional relations with a lack of allegiance to the region and its institutions and missions of regional development.

However, the vision of regional development as outlined by the SADC regional body holds out the hope that Southern Africa will change for the better. These comments raise the question as to whether currently the IDC with its finances is helping in realising regional development objectives of the SADC region in Southern Africa. Is the IDC helping in realising the regional development objectives of the SADC in Southern Africa?

1.5. The research methodology

Through an analytical and investigative method this mini-dissertation explains what the role of the IDC is with regard to financing of development in Southern Africa. In explaining the IDC’s role there are continuous references to what it is currently being done in the region in terms of financing. In this mini-dissertation explanations are given by referring to projects financed by the IDC. The qualitative data of what the IDC is currently doing is presented through explanations and illustrations that show its financing role in the region. The references are necessary to explain what the IDC does in Southern Africa, to show the capacity that the IDC has and what it should be doing in the region. The empirical qualitative and quantitative data available about the IDC, the SADC and development were obtained from South African government departments,
the Corporation and general literature on the topic. The empirical evidence regarding financing of development is supported and illustrated by highlighting the projects outside South Africa in which the IDC has had a supporting role.

The research is bolstered by substantial literature reviews where books are analysed and synthesised using a content analysis technique or analytical technique. The reports from the SADC, newspapers, pamphlets and annual reports from the IDC form part of this literature as published work and 'grey literature' as unpublished work. The books, journals and research articles helped in simplifying issues of finance, development and industrial development. The significance of literature is that published and unpublished materials serve as a ‘map’ of the place that researchers have ventured into before. The literature also gives insight about the financing and regional development phenomena that are studied, so that it helps when exploring, analysing and explaining it (Mannheim & Rich 1995: 130; Mouton, 1996: 119). Unpublished work from the IDC also helped. Relevant newspapers and appropriate magazines give reports on developments in the SADC region. All the data obtained from the aforementioned sources were analysed and synthesised. The Internet was also used and is referenced by acknowledging the authors’ work.

The secondary information is supplemented with interviews. In addition, the secondary information is supported by reference to projects as evidence of the IDC’s participation in financing development. This was conducted through structured, formal, face-to-face and telephonic interviews with well-informed people (Mouton, 1996: 36; Mannheim & Rich, 1995: 209-213). Interviewees included knowledgeable people in their respective fields of specialisation in the specially developed Africa-SADC unit within the IDC (Corporation). Two personnel representing the South African government, i.e. one each from the Department of Trade and Industry (DTI) and the Department of Foreign Affairs (DFA) were interviewed. The DTI representative was interviewed because the IDC deals with finances as well as industry and it operates as part of the this ministry. The representatives from these two South African ministries were interviewed to determine how these government departments (DTI and DFA) interact on matters where domestic financial resources are used in a foreign country. The DFA with its diplomacy informs the DTI which, in turn, consults the IDC on matters of industrial development.
in the SADC region. The telephonic interview technique was used to reach people in the DTI and DFA ministries in Pretoria. However, face-to-face interactions helped in getting in-depth explanations from the representative of the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) as interviewees. The SACP–COSATU representative, Mr Mapaila was interviewed purely to obtain these two organisations’ perspectives on the subject of regional development and the IDC’s finance.

1.6. Limitations of the study

There is not much literature available on the IDC. Visits to libraries, and the IDC itself, turned up only the Corporation’s annual reports, the Industrial Development Act No. 22 of 1940 and a dated book that was published in the 1970s. Although there was a question of whether confidentiality or secrecy played a role in the functioning of the IDC, the challenge was to pursue and look for more data so that in the long run there can be recent information about the Corporation and financing of regional development in Southern Africa.

1.7. Overview of the study

Chapter one outlines the issues of the study. It looks at the reasons for regional development with reference to economic development. It clarifies and elucidates reasons for regional development as a concern in the SADC region that focuses among other things on economic development. The aims and objectives of the study are to analyse and explain the role of the IDC in the SADC region. It also gives the logic for the choice of the topic. It further highlights methodological aspects of the topic, including the methods and the “why”, “what”, “when” and “how” of gathering data.

Chapter two deals with the theoretical framework of financing regional development. It clarifies and analyses concepts that are used throughout this study. These terms are development, regional integration, regional development, region, economic development, FDI, industrial development, development financing, DFI, etc.
Chapter three deals with the SADC and looks at its origin, and the socio-economic conditions and development status of the region. This is done in order to indicate what the development needs of the region are.

Chapter four deals with the IDC’s origin, objectives, policies, funding criteria, its mission and what it currently does in terms of financing development in Southern Africa. It looks at the Industrial Development Act of No. 22 of 1940 that led to the IDC’s establishment and its amendments to effect the Corporation’s involvement outside South Africa (Republic of South Africa, ND: 1-14; Republic of South Africa, 2001). The projects where the IDC is involved are also discussed in chapter four with the aim of indicating what it is currently doing in terms of financing economic and industrial development for regional development in Southern Africa.

Chapter five is a concluding section that presents recommendations as to what the IDC should be doing and how the SADC should enter into a development financing agreement with this DFI in terms of financing development.

1.8. Conclusion

The focus of regional development in Southern Africa is on developing the economies of member states through economic and industrial development. The challenge facing the SADC region is the financial resources for development. The SADC region invites the DFIs to come and help in implementing economic development programmes as part of regional development. The SADC’s call for the DFIs is a way to overcome the financial challenges and to operationalise regional development programmes. The DFIs are asked by the SADC regional body to help with financing and implementing of economic and industrial development in southern African region. The IDC as a DFI heeded the call.
CHAPTER 2
THEORETICAL PERSPECTIVES ON REGIONAL DEVELOPMENT

2.1. Introduction

This section concerns the theoretical framework of regional development with the aim of locating regional development within a particular theory and to compare and contrast theories so as to provide an alternative approach to development. There is an illustration of what the phrase regional development means, what it entails, how it is coined and what processes a region like Southern Africa has gone through as it talks about regional development. The illustration of the meaning of the phrase *regional development* is facilitated through the definition of the italicised concepts i.e. *development, economic development, industrial development, region, regional integration, development integration* and other related aspects. *Development* is defined in tandem with italicised aspects and is also expanded to encompass their meanings. After the definition of the concepts and illustrating what *regional development* is all about, the term finance for development or development financing comes in. *Financing development* or *development financing* is defined because of the fact that this mini-dissertation often refers to financing of development. In defining finance for development this study is looking at the elements that constitute and characterise the ability or the inability to use *internal finance* and *external finance* for development. This approach to this study is necessary to make the concept applicable to the study and relevant to this mini-dissertation as it concerns regional development and development financing.

Regional development and development financing happen within the context of modernisation. Both regional development and development financing do not have political aspects only, but they also entail economic development (Harrison, 1995: 62-69; IGD, 2001:19-33). In development, modernisation is one of the strategies to develop the economy and to improve the lives of the people. On the economic front, modernisation entails economic development that stresses structural changes in the production sectors of the economy to maximise production and to meet the needs of the economy and people as part of development (Kegley and Wittkopf, 1997: 145). There has to be a change from an undesired state to a desired objective. The changes
in the structures of production in the economy should be aimed at maximising production of goods and services in order to meet the ever-changing needs of the people and to adhere to the rules of international trade. Modernisation presupposes that economic development and structural change economy is accompanied by *industrialisation* and industrial development towards maximising and enhancing employment opportunities. In modernisation economic development through industrial development and industrialisation leads to development where there is the ‘trickle-down’ effect of *economic growth* and widening and expansion of the means as well as access to better living (Hunt, 1989: 120-131). With reference to economic changes towards economic development as part of development, finance is necessary. Modernisation as a strategy and a theory of development includes aspects such as regional integration, development integration and regional development. The process of regional development, its aspects of economic and industrial development as well as the implementation and financing thereof are located within the context of modernisation.

In modernisation, to develop the economy towards a growth path, financing is needed. This is evidenced in Southern African regional integration that is based on neo-liberalism, an approach through which the SADC regional body solicits external financial capital from the DFIs. The financing of economic development as part of regional development in Southern Africa is dependent on finances from the DFIs that are not part of the SADC regional structures. The use of non-SADC finances to finance regional economic development is part of external financing for development. The use of external finance implies that Southern African domestic regional finances for development are not sufficient (SADC, 1998:1-14). External financing for development is polemical as there are arguments coming from dependency school of thought who argues that there is a drain of economic surplus and control of resources for development by foreigners. If finances for economic development come from a foreign source, such external finances have conditions and practices that amongst others include shareholding and ownership by foreign nationals of means of production in the national economy. The dependency school of thought has argued against the side effects of financing economic development using external finance. External finance is conditional, and in economic and industrial development is often referred to as investments. As external finance are investments there is a practice that lead to the draining of economic surplus because such funds are directed to where profit is the main focus
(Cardoso, 2000: 169-178). When there is a drain of economic surplus there is a lack of self-reliance and sustainable development which is accompanied by the perpetuation of dependency. Dependency manifests itself through underdevelopment, exploitation, draining of economic surplus, plundering of economic resources and mal-development. The side effects of relying on external finances are evidenced when there is a lack of human development and the inability to meet the basic needs (Tandon, 2002: 1-10).

The implementation of economic development projects using foreign financial capital is made possible by the fact that there are frameworks and conditions that the funders look for. The condition may include amongst others the creation of the investment climate because the providers of finance regard their moneys as investments. The implementation of economic development projects using foreign financial capital is made possible by the fact that there are frameworks and conditions that the funders look for. The condition may include amongst the other the creation of the investment climate because the providers of finance regard their moneys as investments. The implementation of economic and industrial development projects using external financial capital is part of modernisation, and is influenced by neo-liberalism, an aspect that unfolds as the study progresses.

On the political front, modernisation emphasises political changes and the formation of new institutions for development. Political changes are noted in Southern Africa as member states are integrated through a process of regional integration. Regional integration emphasises social, economic, political and institutional changes towards forming a region and regional body through which member states speak collectively of development. The extent of integrating the different states can be noted when regional integration process proceeds to a level in which countries speak collectively of development and whereby underdevelopment in a particular neighbouring state affect other member countries when nationals cross borders to look for jobs as means and access to better living standards. In this case South Africa is better off in terms of development when compared to its neighbours in the region. Through changes and interventions politically at a multilateral level regional integration resulted in development integration where the SADC member states talk of regional development.
The foregoing comments set the precedents within which development and other related aspects are defined, operationalised and actualised or made applicable and made meaningful in this mini-dissertation.

### 2.2. Development

In development discourse, philosophising about development began after World War II where the quest for development took the form of fighting poverty as one of the indicators of underdevelopment. Underdevelopment manifests itself in many forms i.e. economically, politically, socially, educationally, etc. Socially, underdevelopment manifests itself through poverty, an indication of low level in the standard of living. Economically, in a situation of underdevelopment, there is a lack of economic and industrial development, low per capita income, slow growth, and exploitation and draining of resources for development in the domestic economy (Hunt, 1989; 163). Poverty as part of underdevelopment is a condition and a reality is when opportunities and choices to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity and self-respect are denied (UNDP, 1997: 15).

Development as a constantly changing phenomenon refers to the socio-economic and historical-political process of change that should or can lead to effective sustainable control of the environment and sustainable improvement of people’s quality of life within their respective environment. Within the current money exchange and capitalist economy that the SADC regional development is part of, economic and industrial development should be directed at reducing poverty and facilitating the improvement of the people’s living standards as part of development. The beneficiaries of development should not be wards of benevolent guardians but should drive their own development process to avoid depending on external help and external funds for economic and industrial development. External help should just come in to act as a catalyst for development or to supplement development efforts. Rather, with its capital and without dependence on external funds the country with its funds must be the architect of its own economic and industrial development. The United Nations Economic Commission for Africa (UNECA) further states that development is a process of sustained empowerment and shared responsibility by people within their territory, as the benefits of any development-related
initiatives must not result from external funds, benevolence or charity (UNECA, 2001: 1-16). This is necessary to effect self-reliance, and sustainability, and to reduce dependency and avoid being dominated and avoid the expropriation of domestic resources. Within the current monetised economy, economic and industrial development should be planned and financed according to the people concerned and using mainly domestic local funds. This is necessary for the attainment of sustainability in human development, sharing of economic development and growth benefits, sustainable mobilisation of finances and utilisation of domestic resources.

The use of domestic financial and economic resources for financing economic development should not be directed at profit but on sustainability in financial resources. The main objective should be to widen and expand the access to income for people as beneficiaries of development with a hope that in the long run there will be an income that will be ploughed to continue helping to improve the standard of living of people. The SADC’s regional development objectives as they focus amongst other things on industrial and economic development should have an economic growth focus that is aimed at ploughing back the growth benefits to widen and expand employment opportunities as part of the means to improve the living standards of the people. This is necessary to benefit a kind of development where human development (employment, alleviation of poverty and reduction of inequality, etc.) is considered in financing of economic and industrial development as part of regional development.

In a domestic economy, economic development amongst others is part of fiscal discipline that involves a high national capital expenditure budget for public works programmes where there is infrastructural development i.e. building of roads and transportation networks, communication networks, building of hospitals and other facilities as part of meeting the needs of development, economy and people. Economic development also involves structural changes where there is building of manufacturing industrial sectors of the economy to develop and to strengthen economic sectors so that they are able to contribute to meeting the needs of the economy, development and people. The setting of processing industries should be accompanied by employment, widening and expanding the means and access to better living standards as part of economic development. Economic development is not only about processing industries but also about the primary economic activities like agriculture and mining being strengthened and
developed in the economy. The strengthening of the primary sectors should be directed at complementing and servicing the needs of the secondary sector (manufacturing and processing industries). This is necessary so that the products from primary sectors are processed by secondary sector and distributed by the tertiary sector so as to contribute to economic growth. In turn the benefits of economic growth should be directed at widening and expanding income-earning opportunities or create employment for new entrants and improve people’s living standards as part of development (Stiegheler, 1976: 290). Economic development is a continuous process because in steering the economy towards a growth path there has be a strengthening of the weak, underdeveloped and under-performing sectors, activities and services of the economy to encourage employment.

Larkin and Peters (1983: 68) define economic development within the context of human development. Economic development should also be a process of improvement in welfare, especially for those people with the lowest incomes (Larkin and Peters, 1983: 68). There has to be the eradication of mass poverty with its correlates of illiteracy, diseases and low life expectancy. In addition, there should be changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production, away from agricultural towards industrial activities. The above aspects of human development (employment, eradication of poverty, fighting illiteracy through education, health improvement, etc.) are not part of this research.

The process of economic development may take place through public works programmes, agriculture rezoning, expanding, relocation and spreading of manufacturing industries to other places and in many other ways. The spreading and developing of industries should not be happening because of land-use zoning. It also should not happen at the expense of the environment where the real land value is reduced and not properly recognised. The development of industries should promote the socio-economic and financial value of the land, consider the real value of the land and proper land use to accommodate biodiversity and avoid distortion in land use. This is necessary to avoid shadow pricing which is an estimated price and value of a service when that service does not have a market price (Munasinghe, 1993: 9). The spreading and development of industries should take place as part of de-concentration and relocation of
industries from areas of higher concentration to areas of low industries. In the Southern African region most industries are concentrated mainly in a particular country i.e. South Africa. Therefore, the setting of industries must not take place on the basis of endowment theory and comparative advantage of the country in terms of cost, resources, skills and capital needed to set and to run the industry. It should happen as part of human development by developing and using local skills so as to avoid attracting expatriates. Industry building is part of and is necessary for economic development. It should be accompanied by structural transformation with a rise in share of manufacturing. This is necessary to achieve a balanced development and to complement the contributions by agriculture and other sectors in the economy (Naqvi, 1996: 975).

The economic development process can also be encouraged through people’s innovative and creative abilities, entrepreneurship and direct investments by individuals in a domestic economy. It should not be done for profit and investments but development should be the purpose (Bhattacharya, Montiel & Sharma, 1997: 3-6). The people’s creative and innovative abilities involve a case whereby the new economic culture and new activities introduced by people are developed and financed up to an industrial level so as to produce goods and meet the needs and services. Such a new economic culture and new activities have to be diffused to encourage their demand so that goods and services produced within that culture are encouraged and continue to be supplied.

Economic development presupposes and implies that there will be economic growth, which Todaro (1997: 688) defines as a process where the productive nature and capacity of the economy in a given situation e.g. a country is increased over time. The increase must bring about rising levels of economic outputs, reducing unbalanced or lopsided development where agriculture, industry and service sectors do not complement each other in the economy. To observe that there is economic growth this paper takes the view that firstly there must be new entrants (absorption of economically active people or labour force in an economy). In a national domestic economy the new entrants can be accommodated through industrial initiatives by the government or individuals using bcal finances. The absorption of new entrants is necessary to widen the revenue base that is necessary to generate finances for development and it is part of widening financial national domestic direct investments (NDDIs). The NDDIs should
accommodate the marginalized, employing unused resources in the production and distribution of goods and services. As part of economic development and growth the new entrants should try to set industries that create jobs for the excluded. The economic growth gains should be measured in terms of the successes and the abilities to absorb labour and to meet the needs of local economy and not to depend on foreign goods.

The new entrants must be green-fields as new economic and industrial development projects. The green-fields must eventually supplement the services and goods produced, widen career choices, expand employment opportunities and accommodate the excluded where the government cannot afford to do so. Economic growth, economic development and industrialisation will be meaningless if there is still joblessness. Economic growth and economic development may be accompanied by institutionalising the idea of an industrial economy where there is a move towards industrial development and industrial development institutions (IDIs). The IDIs must facilitate and accelerate industrialisation. Within the context of this study industrial development is the process of institutionalising the idea of an industrial economy by establishing domestic IDIs. The IDIs must promote and accelerate industrialisation to benefit the people and the economy as part of economic development. Such IDIs will have to be dynamic by steering the economy to a growth path and making the economic sectors adapt to the needs of the economy, people and development as part of economic development. As part of economic development the IDI must be a DFI that initiates industries, mobilises resources and serves as a resource for industries seeking to expand and modernise.

With reference to the SADC region, these countries collectively have plans for economic development, industrial development and industrialisation as part of regional development. The region has not yet institutionalised the idea of an industrialised region. In the SADC region there is no regional IDI and no pool of financial resources to establish a functional regional development institution, or a multilateral development fund like in the EU. In addition, there is no regional IDI and regional development fund or regional financing institution to implement regional development programmes of economic and industrial development in Southern Africa (SADC, 1999: 60). The lack of a regional IDI is elaborated on later in the SADC’s financial scheme that calls on any DFI to finance economic development programmes in Southern Africa.
Industrialisation concerns the development of industries (Pearce, 1986: 200). Industrialisation as part of economic development and an aspect of modernisation is a general development strategy. In industrialisation there has to be a change in the production and economic structures towards establishing manufacturing and processing industries in the economy. Such changes should try to balance economic sectors and the production structures of the economy, create opportunities for new entrants and develop the underdeveloped and under-performing sectors or services and explore the unexplored areas in the economy. This involves driving the economic structures not to have primary and agricultural sectors only. Establishing manufacturing activities and supplementing the economy with secondary and tertiary sectors is part of modernisation and contributions to industrialisation and economic development. The structural change in the economy is a process, dictated by circumstances and economic conditions that are to be changed. Such structural changes may be pursued such that some sectors of the economy are changed and replaced by new activities.

In the current economic and development trends people’s lives depend on their economic activities and the environment. With reference to economic activities, people need skills to have access to income, to reduce poverty, to continue to develop skills, and for healthy living. This is necessary to develop and grow the economy and to have access to income (money) earning opportunities. If people are restricted from accessing income-earning opportunities, then the human development ideals of healthy living standards, poverty reduction, skill development as part of human capital and education will be compromised. Human development measures the success of development by means of the human development index (HDI) that looks at the basic needs for a normal living. The HDI looks at whether industrialisation, industrial development, economic growth and economic development as part of development benefit people in terms of employment, education, health, etc.

Human development as a process is directed at various factors concerning development. Human development as a process is directed at widening people’s income earning opportunities by bringing the question of economic growth practices and its ills to the attention and what the meaning of development should be. Human development critically considers economic growth
ills by using the HDI through which the economic growth results and benefits are assessed. The HDI among other things looks at whether people have access to means of income to improve their living standards, have skills to meet the demands of structural changes in the economy and whether socio-economic or income inequalities are reduced (UNDP, 1995; 1996; 1997). The United Nations Development Programme (UNDP) further says that human development is a process of enlarging people’s choices of living a long healthy life, acquiring knowledge and having access to the resources needed for a decent standard of living (Streeten, 1995: 26; UNDP, 1997: 13-15). If there is economic growth that is characterised by joblessness, then the reduction of poverty through access to income earning opportunities will not be realised. Within the context of human development and regional development in Southern Africa, this mini-dissertation is of the opinion that the financing of regional development efforts in the SADC region should be directed to cases where at least 80% of the population have access to income and healthy living. In such cases there will be a minimal low level of human development challenges in the region. In the Southern African region one of the strategies for development is regional integration, an aspect that is elaborated on in the next section.

2.3. Regional integration

This section looks at regional integration with the intention of linking it firstly to development integration, secondly to regional development and lastly to financing of regional development initiatives in Southern Africa. The definition of regional integration looks at it as a theory, a strategy and a process of development. Regional integration in this research is seen as part of the globalisation process. Both globalisation (defined later) and regional integration provide a new set of socio-economic and political interactions between states. In both processes there is a gradual elimination of political barriers, and a concomitant increase in international exchanges and transitional interactions or transactions. Haarlov (1997: 15) defines regional integration as a process whereby national states create and improve conditions to maximise internal and external socio-economic and political interactions and benefits for each participating country. Nel and McGowan (1999: 328) in the glossary define regional integration as a process of closer economic co-operation and unification between neighbouring states. Generally regional integration should
transcend barriers by taking ethics, gains, motives, reasons, objectives and the process of regional integration into consideration.

In this research paper regional integration is defined as the coming together of separate neighbouring nation states to form a region (a plurilateral territorial and geographical area) with a regional institution. The regional institution has to oversee the process of regional integration where different countries politically and collectively talk about a particular concern i.e. development. The kind of regional integration that this study deals with concerns a case whereby countries i.e. Southern African states come together to speak collectively about development issues. This kind of integration where states as different political and economic units come together, speak collectively about development and integrate their development efforts is a model for regional integration. In integration, states can co-ordinate their development efforts and that leads to development integration as it was followed by the SADCC (Haarlov, 1989:4-29). Therefore, nation states can be in favour of regional integration to address issues of security, development, trade, cross-border control, etc.

In regional integration states as different and separate geographical, national and territories are not pieces of a jigsaw puzzle. For regional integration to succeed there must be a political will that needs human intellect to guide the process of integrating the different states as separate economies. In the Southern African case the process of integration is economically, historically, territorially and politically driven and it has development dimensions to it. Just like development, regional integration has socio-economic, geographical, political and other dimensions to it. In terms of the economies of the states that are to be integrated to form a region the focus may be on economic development of the Southern African region. In the Southern African case, the different states and their geographical territories that are to be integrated to form a region, have natural boundaries (rivers, lakes, grasslands, mountains, etc.). But different nationalities and states are kept apart by unnatural boundaries such as false political borders and border control. Regional integration seeks to remove these barriers.

Regional integration is a process through which the socio-economic and geographical barriers created by simply drawing boundaries through political decisions are gradually eliminated. The
elimination of borders is part of market integration. These borders partially limit nationalities from different states from interacting openly and freely with each other bilaterally and multilaterally on matters of mutual concern like development, trade, security, etc. Regional integration does not mean that states as individual geographical units have to diminish in terms of their existence and their functions. As part of international relations, regional integration expects that states organise, manage and transform their separate development actions towards a collective multilateral effort of regional development. In regional integration it is recognised that there are separate national geographical units as states that have development challenges. The development challenges are no longer confined to a single state because any development-related challenge in one national economy influences nationals from the neighbouring country. In international relations if a national economic mishap like lack of jobs crosses political borders and barriers as people go to look for employment it affects a neighbouring country. It subsequently becomes an international one as nationals migrate in the quest for greener pastures (Nel and McGowan, 1999: 1-17). In regional integration nation states interact with each other by organising, managing and transforming their different policies towards a collective common objective of development, control of resources, etc. In the case of this study regional integration is meant to make the SADC states interact collectively on matters of development in Southern Africa. This process of coming together involves political interactions towards integrating different states and their development efforts.

El-Aagra (1999: 2) says that one of the aspects of integrating different states is the move towards market integration where there is the removal of border control, impediments on trade and the elimination of trade restrictions. In market integration the powers of the state diminish. In integration there is also the modification of existing instruments and institutions and the creation of new ones to enable the nations of the integrated areas to interact collectively, properly and effectively to promote broader policy aims of the group or scheme (El-Aagra, 1999: 2). Politically, regional integration involves the voluntary relinquishment by national states of the power to make independent decisions and the shifting of loyalties, expectations and activities to a new centre. As a process regional integration is aimed at maximising efforts in the mustering of resources, the promotion of co-operation and trade and the reduction of conflicts that may results from the beggar-thy-neighbour policies.
There are various theories and strategies through which regional integration can take place. Theoretically, as well as in principle and practice, regional development and regional integration in general are interrelated and they interact with each other. To establish a region, there has to be regional integration as a process of forming a region. Firstly, regional integration on its own results in building, forming and strengthening of a region and its institutions. The formation of any region and the institutions thereof is driven by ideologies and theories. The ideology guides the form of regional integration that the different states pursue towards forming a region. Secondly, regional integration should result into development integration, a level where different states are integrated into a region and talk collectively in regional development of issues that may pertain either to development, trade, security, etc. In the SADC region one of the issues that member states in Southern African region talk of currently is development in the region.

There are different schools of thought with opposing views to regional integration. Theorists have views on regional integration that are broadly premised on Marxist and liberal schools. This makes the idea of a region and regional integration efforts polemic because political objectives are seen to have motivated their establishment or formation. The polemic nature varies as regional integration involves identity and cultural change, emasculation of the nation state and extinction or attenuation of defining borders (Jowitt, 1993: 9-11). The opposing views of regional integration often come from anthropologists who argue from the point of culture, and nationalists with political and economic views to protect nation states. The pro-regional integration perspectives are based on market-driven views that promote free trade, access to markets and the realisation of political stability and co-operation. The polemic nature of Marxist and liberal views on regional integration are not accommodated in this paper as it does not discuss the development of development theory or the views of each school of thought on the subject.

Amongst the different kinds of regional integration there is market integration where countries direct their regional integration efforts to free trade and create a common market area. Market driven regional integration schemes may be inclusive in the sense that they promote political unity, form a customs union and a complete market union of countries to form a region (El-
Agraa, 1999: 1; Lindert & Pugel, 1996: 201; Callagy, 1993: 175-176). Dolan (1993: 259) says market driven regional integration is unlike development-driven integration but as a socio-economic and a political process, development driven integration may become market driven regional integration. With reference to development-driven integration, like the one in Southern Africa, the focus is on development. Most forms of regional integration schemes around the world are premised on trade, security and the free market principles of neo-liberalism.

There are different levels to be reached in regional integration. According to this view the arguments for and against regional integration are to be understood within the forms, strategies, levels and approaches thereof. There is a federalist approach that hinges on political unity towards achieving peace and this approach resonates the highest level of regional integration. There is also the functional approach; functional integration that promotes sectoral co-ordination where each country in that inter-state co-operation co-ordinates finances, security and others sectors. There is also a kind of development integration that was followed by the SADCC and this integration advocated policies of economic development, sectoral co-ordination and integrated development of members (Lekalake, 1998: 1-3; Haarlov, 1989: 4-29). There is a market-oriented integration that entails aspects like common markets, customs union, free trade areas, etc. The arguments for and against regional integration as they stem from theorist are within the context of the above-mentioned strategies and their sub-aspects. Each of these will be briefly discussed next.

The arguments for the federalist approach to regional integration are that a federated regional group will be stable. In a federal integration there will not be inter-governmental conflicts. Senghor (1990: 19) further says that the objective of federalism is the achievement of peace and stability as the main priority. In a federalist approach there are elements of inter-dependence between states. That inter-dependence is called regional inter-dependence and regional community because members become a region and they rely on each other in establishing regional institutions, peace, stability, etc. In a federal approach individual states become part of a regional community, form a geographical area called a region with regional institutions that may evolve to a level like in the United State of America (Linder & Pugel, 1996: 201; El-Aagra, 1999:1). Regional integration based on federalism allows a region to have regional institutions. It
also allows autonomy and powers to states to discharge some duties, some of which can be performed at a federal and multilateral level by a central and federal institution (Robertson, 1993: 185-186). Regional integration through federation leads to a gradual surrendering of some powers to a central authority or multilateral body as regional members lose their autonomy to the centre. In federalism the powers of any regional institution as a central authority are capable of expansion. Such a level and an expansion may leave states with fewer duties to discharge. In a federalist approach and as a process of integration proceeds there are levels that are reached. As a result of federalist approach, the European Union (EU) is at a level that is described as a partial political union. The EU has central functional regional institutions, i.e. European Commission, European Parliament, European Court of Justice and other legitimate political, regional, multilateral structures that the independent states salute (European Commission, 1994: 4).

Another regional integration approach is sectoral co-ordination such as that which the SADCC followed. In sectoral co-ordination member states still maintain a high degree of autonomy (Robertson, 1993: 101-102). In sectoral co-ordination each member state has a development activity that it co-ordinates. This kind of regional integration is a functional integration and was what the SADCC followed. As there is now the SADC regional body, Southern Africa is no longer pursuing functional integration but it follows market driven integration. This is evidenced in the Southern African regional integration process that involves treaties as there is SADC protocol on trade that is based on modernisation and neo-liberalism (IGD, 2001: 19-33; Robertson, 1993: 284).

A third approach to regional integration is neo-liberal approach that originates from liberalism. Neo-liberalism entails various aspects like laissez-faire economy, civil liberties, common markets, customs union and free trade areas (Robertson, 1993: 284). The laissez-faire philosophy advocates free trade, free market operations as well as neo-liberalism. Neo-liberalism is a perspective that concentrates on the ways in which international organisations and other non-state actors promote development and change (Hunt, 1989: 293-300). Neo-liberalism destroys welfare states by advancing free market system of trade. Free trade includes free movement of goods, services, capital, etc. (Kegley and Wittkopf, 1997: 535). Neo-liberalism is a reaction to a welfare state as it is against economic nationalism and nationalisation and it seeks to reduce the
role of the state in development. The pervasive nature of the neo-liberal strategy is noticeable as it propels globalisation\(^1\) which entrenches capitalism\(^2\), which in money exchange and free market and open economy, capitalism has economic practices of greed, profit making, private control of wealth and production factors in the economy and development (Kegley and Wittkopf, 1997: 535). Globalisation fuels neo-liberalism, capitalism and capitalist practices. It fuels neo-liberalism in the sense that it becomes easy for big business and private corporations which are multinational corporations (MNCs) with their FDIs to have access and control and ownership of operations, resources, capital and other production factors in any economy or other countries. Neo-liberalism, globalisation and capitalism interact on each other.

The neo-liberal approach to regional integration is in line with a gradual move towards an economy where there is a removal of all trade barriers and a limited role of government. According to this approach most forms of integration should be in line with market forces to liberalise the economy and limit the role of the government (El-Agra, 1999: 4). This approach entails stages whereby countries within a region co-operate and become a free market area by removing trade barriers, maintaining their respective national barriers when trading with non-regional members, and develop regional collective common external tariffs against non-members (Lindert & Pugel, 1996: 201; El-Agra, 1999: 1). What the neo-liberal approach also includes is the fact that there must be a common market. This is a level that allows full freedom of factor flows (migration of labour and capital) between member states where regional citizens move freely from one state to another. The EU has reached this level (Lindert & Pugel, 1996: 202). Characterising the EU as the product of market integration and having reached a level of partial economic union where members unify all their economic policies (monetary, fiscal and welfare policies towards trade and factor migration) would not be incorrect.

Market integration, like globalisation, integrates economies of different nation states. Globalisation integrates countries on a worldwide scale while market oriented regional

\(^1\) Globalisation is a process that perpetuates and entrenches capitalism and its socio-economic and political capitalist practices of domination and control. In this process countries are integrated into capitalism as an economic system. Kegley and Wittkopf (1997: 53) say globalisation is the growth and intensification of political, economic, social and cultural relations across borders.

\(^2\) In capitalism, it is not only the government that is involved in the national economy. Individuals or private citizens have control, domination and ownership of production means (capital, labour, finance, etc.). Nel & McGowan (1999: 313) and Kreitener, O’Grady and Reece (1990: G-3) say private citizens utilise capital to produce and sell goods and services for profit.
integration and regional integration in general do so only at a regional level. Both market integration and neo-liberal globalisation create market opportunities for large corporations to have operations beyond their national borders for profit in the name of development. In a domestic economy it will not be wrong if globalisation is an interventionist strategy where MNCs come in with FDIs to supplement the industrial and economic development programmes and the development objectives of government. Therefore, globalisation and regional integration should be strategies that are not intended to perpetuate poverty and inequality and spread subliminally a culture of dependency, to make business maximise profit, impoverish and deny people the access to opportunities of better living standards. Regional integration, including globalisation, should consciously be directed at internationalising, diffusing and spreading means and access to human centred development. Both globalisation and regional integration should facilitate capacities and means to meet the humane acceptable living standards as presented by ever-changing development and economic conditions of the day. Globalisation and regional integration that are market orientated do not have human dimensions but they present challenges to regions and nation states to co-operate, and also to big corporations and other institutions to assess their focus, and restructure and position themselves with regard to the capitalist practices and neo-liberal principles.

Arguments in favour of the neo-liberal approach are based on the belief that a government regional authority must not be at the centre of development. Governments as central authority in nation states must allow markets to determine and drive the development. In a region like Southern Africa the adoption of the neo-liberal approach is part of the SADC protocol and treaty on trade (SADC, 1997: 3). The regional integration process in Southern Africa under the SADC is consciously moving towards neo-liberalism as it follows the approach of market integration to access finances. The finance comes in through DFIs as FDIs. The neo-liberal approach to integration will allow non-regional DFIs to enter into Southern Africa and non-national DFIs to finance development in a foreign economy. There is nothing wrong with neo-liberalism if development financing in Southern Africa is undertaken by different national DFIs from within the region who should co-ordinate development financing with the aim of realising the economic and industrial development to diffuse the higher standard of living and to realise the SADC objectives. The neo-liberal approach is good in large economies where there are various sectors
of economy and where nationals have a spirit of entrepreneurship and the benefits of the participating nationals can be ploughed back into other undertakings. Where there are no large economies, state institutions must introduce development and other industries for economic development. The SADC region is not a very large regional economy in terms of economic sectors and industries and still it has unexplored and underdeveloped sectors. There is nothing wrong with the neo-liberal strategy if the region steers development to benefit everybody through sustainable mobilisation and utilisation of finances and distribution of economic growth benefits. In Southern Africa it would be of great benefit if a regional DFI is formed by the DFIs of regional members by that should pool their financial resources together to have control, domination and ownership of economic development projects in the region. This is necessary to avoid economic imperialism and so that the economy can grow through regional and development integration.

2.4. The region

In accordance with what is said in the aforementioned discussion where there is coming together of separate socio-economic, political and geographical units (nation states) to form a region, in this mini-dissertation, a region is a product of regional integration, and it is a large geographical area made up of separate nation states. In trying to define region as a term, this research paper will be chasing a waterfall, as the concept itself is arbitrary. The definition of a region is structurally politically, socially and economically is not cut and dried. Morris (1985: 1041) in the American Heritage Dictionary says that a region is an area of land or division of the earth’s surface that has definable boundaries or characteristics as well as functions. A region is a geographical area or territory with defining characteristics that may include weather, particular events, activity and function, a certain status or accolade as distinguishing features, which may include resource endowment, socio-economic, financial, historical and political ones. In this study, in terms of size, a region is beyond a nation state because it is formed and composed by different independent countries.

Larkin and Peters (1983:199) say that a region is a geographical area defined on the basis of either relative homogeneity or a well-defined degree of functional interaction that characterises
it. In market terms the region may be referred to as an area of emerging markets, newly industrialising economies, rich, etc. Relative homogeneity and functional interactions as some of the distinguishing features include socio-economic, historical and political, and other factors that make the region differ from other regions. The homogeneity will be the similar level of development, language and aspects such as the type of society that lives there and the services that the area called a region provides. With reference to functional interaction this encompasses socio-economic and political aspects where there is a will and the need to develop economically. The will to develop also includes fighting against being marginalized, the will to engage collectively as a region in a globalised economy and to have an influence in international affairs, the World Trade Organisation (WTO) and other multilateral organisations. In terms of a well-defined degree of collective interaction for a particular purpose, nation states organise, transform and merge their individual developmental actions, duties and responsibilities for a collective entity known as the region. The collective interaction is for development and nation states collectively interact through the regional body which facilitates the process of regional integration and co-ordinates matters of development in a region. Therefore, in a region there has to be a regional body through which nation states integrate development efforts and attend to matters of socio-economic, historical, political and environmental challenges under the banner of regional development. The collective interaction by nation states as a region is a result of regional integration. A region is where there is a regional body through which nation states interact multilaterally, in that regional set up or organisation individual state are represented by their respective governments.

Naturally and geographically a region is characterised by identity. It is a specified and identifiable district, area or territory on the map. The nation states that form a region and a regional body through their governments should respect, develop, build, salute and swear allegiance to the region, regional body and its institutions because it is a legitimate structure that should be consulted when there are differences among member states. As it is in a nation state where there is a government with ministries that have different departments and institutions, the region has a multilateral body, an inter-state body through which member states interact and pledge allegiance to developing, respecting and saluting the regional structure and its institution.
A region is a socio-economic, geographical and political environment that is larger than state as its area is trans-frontier territory covering more than one state.

Quantitatively Southern Africa as a region is a geographical area with a certain number of nation states. Physically, geographically and naturally the region is larger than all the nation state that comprise it. For the region to have a status of being i.e. physically identifiable, it must have distinguishing characteristics, must be objective, legitimate and justifiable i.e. politically, economically, geographically, market-wise, culturally and socially. In the Southern African case, the geographical area can be identified as Africa to the south of the equator. Teleologically, Southern Africa as a geographical area, and the SADC as a political institution exist on the basis of natural, political, socio-economic and geo-political reasons. Moreover, as part of neo-liberal discourse and through a manipulative use of the term region to be applicable in financial, socio-economic and political fields, Southern Africa is referred to as the region of emerging markets that are becoming ripe for FDI. The existence of these member states as a region in terms of creation of direct investment climate owes itself to various reasons. These reasons among others include politics and the economic system within which the current regional development in Southern Africa takes place.

The region as a large continuous segment that is made up of states signifies regional metamorphism. Regional metamorphism may result in membership, structural and institutional changes. In the SADC region regional metamorphism is confirmed as the Southern African regional borders are redrawn as new member states join. Within a region like Southern Africa, regional metamorphism is noticeable in diplomatic relations as the region strategically expanded and it was reshaped. The expansion and reshaping of the SADC region is neither based on

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3 Regional metamorphism (RM) in natural sciences refers to a metamorphic action on a major scale. The pressure and the heat on the rocks associated with earth movements and vulcanicity results in mineralogical and structural change on earth (Monkhouse and Small, 1970: 245; Burckley and Ramsey, 1965: 196-217). The application of the term RM to this study is to emphasise forces of globalisation and regional integration as they emerge with a new set of conditions that present socio-economic and political changes that may have an impact on any nation state or region as defined in this study. The impact presented by both regional integration and globalisation include structural, socio-economic and political changes as well as organisational/institutional functions or focus and other factors that may lead to an overhaul or shake-up in a state, region, organisation or corporation.
underdevelopment⁴, resource endowment nor comparative advantage. It is rather based on the locality of the member to be co-opted into the development of the region and regional institution.

All regional institutions are artefacts of human intelligence and politics. A region is a designated territorial area with different nation states. The region’s existence is due to the will and locality of members and members’ sense of belonging to a region. The foundations, basis and the origin of a regional institution vary from territorial to interstate co-operation, inter-government or multilateral relations and the will to reduce conflicts and confrontation. The nature of the present Southern African regional group has its foundation in regionalism (political will, psychology, and allegiance by member states) and the quest for regional development is the next aspect for discussion.

2.5. Regional development

This section of the study looks at regional development, what it is and what it entails. The idea of regional development came as a result of regional integration where member states in a regional grouping speak collectively of development at a regional level. Firstly, it is presupposed that within the region and within regional member states there are development challenges, such as infrastructural development, building and developing of manufacturing industries and developing tertiary sectors. The development challenges have economic dimensions that result in socio-economic imbalances at a regional level, and these challenges are tasks of regional development.

In regional development it is acknowledged that any economic development challenges like poverty and other socio-economic ills in a country are likely to spill over borders and affect the neighbouring states. If socio-economic and political events cross borders then a regional dimension unfolds. In such cases it does not remain a national problem, but becomes regional development challenge. This inter-state or regional development challenge has to be solved by the affected nation states by attending to it collectively, either bilaterally or multilaterally.

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⁴Underdevelopment in a socio-economic, geographical and political setting like a nation state is not interpreted as a natural phenomenon or condition, but is a historical one, and its solutions can be brought about by understanding the history thereof (Frank, 2000:159). Underdevelopment, from an economic point of view is a process whose dominant feature is the persistent outflow of economic surplus generated, (capital and resources in the domestic economy) to the advanced capitalist economies (Frank, 2000: 162; Hunt, 1989: 163-173).
Regional development presupposes that there are development challenges within and among regional member countries. Southern African countries like Lesotho have poor infrastructure, fewer industries, fewer direct investments, a lack of access to finance for development, etc. Regional development efforts in the region should seek ways to address these inequalities within sectors and between member states in the region. Therefore, regional development should be the socio-economic process of change that includes the efforts, objectives, and mobilisation of resources (financial, human, capital goods, etc.) by member states through their respective departments and regional institutions to reduce inequalities. In regional development there must be the elimination of the Dutch Disease, which is a development of a particular economic sector within a region and a in a nation state leads to lopsided or unbalanced development (Jones, 1996: 171-172; Lindert & Pugel, 1996: 177). Regional development seeks gradually to eliminate extreme inequalities and poverty within and between the member states in the region through regional economic development.

The focus of regional development amongst others is on economic development where there should be building of trans-frontier road infrastructure, building of trans-frontier manufacturing industries, developing of tertiary sector and enhancing of agricultural activities across the frontiers of nation-state as regional member states. In the case of the setting and developing a manufacturing industry, the industry that is being built must be a trans-frontier industry or trans-frontier industrial project, which in terms of physical location should be on the borders or located in two or more regional member states as a trans-frontier economic and industrial development initiative. This is necessary to provide jobs mainly for nationals in their respective countries at the same time who also won’t be expatriated. Regional development should empower and make regional citizens benefit from regional economy and regional development that has to be financed through the help of the non-regional DFI. Financing, an aspect that follows next in our discussion, is crucial as development efforts of economic and industrial regional development need to be financed and implemented.
2.6. Financing development

This section of the study concerns budgeting for development and financing of development. It looks at money in development because financial capital is one of the resources that have a role in development. The section looks at the objectives of financing and budgeting, what it means and why it is done. It also looks at the sources of financial resources for development. The intention thereof is to indicate that finance as a resource no matter where it comes from refers to money that will be used to undertake the expenditure.

Finance is paired with development to bring about the phrase “development finance” or financing of development. The phrase financing development is suitable in this current capitalist and monetised economy\(^5\) and monetised development because within this study development is an expenditure that requires finance. In financing of development, implementing development programmes includes fundraising. Fundraising consists of financing an undertaking or project either using internal financial resources generated from within in a domestic economy or using external funds as money generated by borrowing from outside sources (Pearce, 1986: 144). Borrowed financial capital implies that there is a risk of not getting returns or the money back as loans are liabilities and debts. Loaning financial capital involves providing a pledge, guarantee or a security to a loan, and that guarantee is underwritten as insurance or risk cover to allay fears associated with investments, loaning and borrowing. The need for giving a guarantee to a loan implies that there is insurance underwriting as a risk cover to compensate losses and someone will be paying back the creditors if a development project that is funded through loans is failing. To the lender, a loan is the money owed and is a debt, which the principal capital is to be paid back with interest charged. The implementation of a development plan using money generated from borrowing creates debts. Debt repayment automatically means financial outflow as resources are drained, which is a normal practice in capitalism and money-exchange economies. Debt repayment implies that development initiatives have been implemented with the help of loans and FDI as external finances (Tandon, ND: 1-5).

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\(^5\) The phrases monetised economy, monetised development and money exchange economy are used to refer to development and economic activities where there is use of money to facilitate exchange of goods, services and commodities. Money is attached to any transactions and activities of development and economy (Sause, 1966:3-9).
External financial assistance that comes into a national economy in the form of grants, aid and official development assistance (ODA) normally is not paid back like loans, but ODA may have conditions that are attached to it. The practice of financing development using ODA as external finances is not a new thing. The United States of America through the Marshall Plan in 1947 provided financial capital i.e. ODA as development aid by providing dollars for reconstructing and renewing the European economies that were destroyed during the Second World War (Gillis, 1996: 395). After the Marshall Plan the provision of financial capital in a foreign economy as development aid took a new turn. It became ideologically (communist or capitalist) driven and it had conditions attached to it, where a recipient would have to be either capitalist (as in pro United States) or communist (as in pro Soviet) (Killick, 1997: 77-85). Providing financial capital can be done in different ways as it is influenced by the conditions where the financial capital is needed.

As part of neo-liberalism, and in a national economy where there are capitalist and money exchange practices there can be a case whereby there is privatisation. As some of form of fundraising, privatisation includes a partial or total sale of the control or ownership of interest in a development undertakings or enterprise undertaken initiated or owned by the state. In privatisation (partial sale) as some of fundraising, a development plan is put in place to develop a domestic economy but when coming to implementation the state and foreign corporations are in partnership. Such a partnership is a joint venture that is directed at implementing an economic and industrial development related project. As part of fundraising it may happen that there is a total sale of ownership by the state to finance development. In that total sale of ownership it may happen that private companies only go in jointly as equity partners with equity fund to form a business consortium or joint venture in financing the project. Such a financing programme is an investment where is risk as loses as well as a return of equity as interest or dividends. Similar to privatisation, the partial selling of ownership or seeking an equity partner to form a joint venture is also another form of fundraising to finance development. Similar to borrowing money, allowing multinational corporations to undertake and implement projects is another form of financing i.e. external financing.
External finances are investments and the intention of the investors is to get good returns or value and to make their money grow. Generally, financing of any economic and industrial development initiative, either from internal or external sources, is part of implementation that in business and market-driven practices is called an investment. Investment is a financial tool and a business practice for maintaining or increasing the expected value of today’s funds. A person who does it when lending out money, weighs or considers the liquidity (getting cash quickly without a loss), risk (ability to get money back) and return or profit (Stiegeler, 1976: 214; Kreitener, O’Grady and Reece, 1990: 547). An institution like the IDC through its finance is an investor in regional development. In this instance most DFIs like the IDC, have financial capital raised from loans, business practices, shareholders and money accumulated from industrial undertakings as projects that were financed. In business practices and in legal terms financing of industrial development initiative by giving a loan means that a creditor’s interest (money) has to be catered for. Acquiring a stake in an initiative through equity by putting some money in an industrial development initiative is a form of investment. Being a creditor and equity partner gives a financier a share in the undertaking that is financed.

Financing does not only involve the implementation of the plan by releasing, discharging and rolling over of the financial capital, but returns as potential gains against the cost and risks are also considered (Kreitener, O’Grady and Reece, 1990: 547). The challenge is whether the finances as direct investments, joint ventures, loans and other investment driven schemes benefit development. The practice of financing projects using external funds is not about development and benevolence or charity. The use of external funds in financing development results in situations where human-centred development comes as a result of an externality. External financing of development through loans and FDI is purely done for profit and continuous quest for maximising the creditors and shareholder’s value. In money exchange economy and as part of credit or loan practices the financier’s interests are to be catered for through agreements, conditions and in the form of profit for a loan.

In a money exchange economy, the savings and investments practices are part of a capital accumulation process for raising financial capital. For financial capital, some capital formation through savings and investments should be a practice that is accompanied by returns or benefits
in an economy. In a socio-economic, geographical and political environment that has practices of capitalist money exchange and an open market economy, savings, investments and capital formation are part of financing. Such are pre-requisites for fundraising as financing development-related initiatives could be undertaken by anyone. A state through its government and private person or groups may undertake capital formation through savings, capital accumulation, and disposal of liquid assets and enhancement of liquidity to finance development (Thirlwall, 1994:273).

Internally in a country the process of capital accumulation, i.e. savings by individuals and businesses as investments, involves cutting down on expenditure and reducing consumption to bring about savings and accumulation of financial capital as part of fundraising. Capital formation or fundraising through voluntary, involuntary or forced saving processes of cutting expenditure or reducing consumption by households may not yield enough savings or domestic capital to finance development. Under such conditions, and given that the country’s economy is at reasonable employment, some form of incentive such as finance, credit mechanisms, creation of strong financial intermediaries and reform in fiscal policy and monetary systems will be necessary. It will also be necessary to highlight the financial and monetary value of saving and investing by private individuals towards generating finance for development (Thirlwall, 1994:277). In a capitalist system the expected savings as fundraising or wealth accumulation by individuals and businesses is through deposits in the banks. Those deposits are in turn loaned to investors as entrepreneurs for development to establish domestic private corporations under the pretext of job-creation. Borrowing money from the banks, as financial intermediaries that lend money to borrowers for entrepreneurship and to undertake development-related initiatives, also is part of development financing. Such development financing is a speculative risk in the sense that there is debt involved.

The financial intermediaries, financial and monetary institutions i.e. banks, insurance and other money markets institutions are necessary for savings, wealth accumulation, lending and borrowing to complement the process of capital formation and flow of money (Stiegeler, 1976: 146). These intermediaries take the risk out of savers, and lend it directly to entrepreneurs (Stiegeler, 1976: 146, Gillis, 1996: 359; Thirlwall, 1994: 277). Therefore, the practices of capital
formation through savings to accumulate wealth and lending and borrowing and insurance underwriting via financial intermediaries are necessary. These induce the saving practices by reducing the individuals’ and businesses’ unwillingness to save and invest. In addition they allay the fears of individuals associated with investments and entrepreneurship as discussed in this paper. Instead of disposing the surplus money through unaccountable expenditure and consumption it is saved in the bank. That money will then find its way to financing development through lending and borrowing to investors and entrepreneurs. The entrepreneurs will take the risk of borrowing and undertaking development by borrowing money to finance investments and entrepreneurship programmes (Kreitener, O’Grady and Reece, 1990: 547). On a micro-economic level this mini-dissertation takes the view that this kind of savings and flow of money is possible if the domestic economy is at a reasonable employment level i.e. where at least 80% of the economically active population is employed. The 80% together with domestic private and public corporations should form part of the revenue or tax earning and contribute to domestic savings.

On a macro-economic level financial accumulation in a national economy is reflected through earnings from exports as opposed to imports. The Southern African nation states are part of international trade, money exchange and capitalist economy, where their domestic earnings or capital formation gained from export, tax collection and domestic savings should contribute towards their current account, national fiscus or balance of payment (Nel and McGowan, 1999: 313). The country’s ability to finance development is reflected in its balance of payment (BOP) and fiscus or budget which reflects the total expenditure (import expenditure, debt expenditure, capital expenditure, etc.) and revenue sources i.e. earnings from tax, i.e. corporate and individual tax, export earnings, etc. (Kreitener, O’Grady and Reece 1990: 690-713)

A healthy BOP presupposes that a country is able to finance its development using its domestic financial resources as it has:

A. a small, manageable or nil deficit in its budget,
B. a good balance of trade with surplus, good earnings from export, and less spent on import,
C. a large pool of income earners,
D. substantial tax earnings,
E. a reasonable number of domestic investments or private corporations that are part of the economy,
F. small or no debt at all, and
G. the ability to implement other development initiatives to keep the economy in full employment with internal financial resources. (Thirlwall, 1994: 273-287; Gandhi, Gray and Mcmorran (1997: 169-179)

Countries that have less or no BOP problems include developed and rich countries, particularly in the EU region, some members of the Organisation of Petroleum Exporting Countries (OPEC), like Saudi Arabia and Libya and the Group of 8 (G8) countries (Unsworth, 2003: 17).

In a national economy where there are BOP problems, there is big budget deficit that makes the national domestic economy unable to finance development using internal financial capital (Kreitener, O’Grady and Reece, 1990: 690-713). An unhealthy BOP is characterised by:
A. high capital expenditure,
B. limited tax earnings and savings due to few from income earners,
C. government debt and debt trap,
D. unfavourable trade balance - more expenses on import and less export earnings,
E. small pool of income earners to save,
F. the national economy not in full employment,
G. few or no domestic corporations, and private investments as part of national economy, and
H. inability to finance development from internal resources. (Kreitener, O’Grady and Reece, 1990: 690-713; Thirlwall, 1994: 311-319)

Most of the highly indebted countries, like Mozambique which need debt reduction programmes, have the above socio-economic, development and financial hallmarks of an unhealthy BOP. Under the financial conditions of an unhealthy BOP and national fiscus with high deficit, unethical borrowing and lending of money has to be reduced if not stopped. There is also a need for debt relief programmes, deficit financing and to mobilise external capital to supplement finance for development. In mobilising private capital there are neo-liberal policies that are followed and among them are trade liberalisation and creation of an investment climate (Brewer
and Jun, 1997: 109-119). Under such conditions there is deficit financing of capital expenditure, domestic financial resources are supplemented and development is financed externally through FDIs, borrowing and ODA. Development financing where domestic finances are supplemented through external finances is made possible by the fact that liquidity as financial resources do cross borders through institutional frameworks and procedures that exist in international trade.

In international trade it is not only finished goods and services that are traded. The International Labour Resource and Information Group (ILRIG, 2002: 16) states that financial capital is traded too, through portfolio investments, speculation, grants, donations, currency trade and borrowings as loans. The developed countries and institutions such as the commercial banks, the multilateral organisations like the International Monetary Fund (IMF) and World Bank and others have lent and do lend money to countries with BOP problems. The loan funding or money lent is part of real investments under the pretext of financing development to establish parastatals IDIs, DFIs, industries and as part of external finance for economic development (Pearce, 1986: 144; Stiegeler, 1976: 359). The high deficit in capital expenditure and the inability of the economies of the countries with BOP problems to finance development and to develop prompted the MNCs to establish operations and market their services in the weaker economies of developing countries. These services include electrification and infrastructure and industry building. In a national economy, the practice whereby economic development related initiatives, such as electrification, industrial development, mining and others are implemented through external financing and selling of ownership is called economic piracy, which is a perpetuation of a scenario where the resources generated in the domestic economy are drained (Pheko 2002: 5).

In this mini-dissertation the availability of finance particularly from external source may not lead to development. It is because of the fact that in development financing, the overriding goal is to make an appropriate investment that benefit the financier. With reference to external funds the benefits generated from development initiatives are drained. Notwithstanding the fact that the external financing of development in SADC region is not about loans and debts, the finance for regional development in Southern Africa does not augur well with development. In the SADC development financing there is sale of ownership of economically related regional development initiatives to the DFIs like the IDC that make their financial involvement be interpreted as FDIs.
The regional development initiatives would be dependent on outside finances from the DFIs that take out economic surplus generated to utilise it somewhere as investments. The SADC’s financial plan calling on non regional DFI is part of external finance of development and it is noted in the nature of finances in Southern Africa as discussed in this mini-dissertation.

In financing development there should be a co-ordination of financial resources by national DFIs from within the region to finance economic development programmes of regional development. In that financing programme, there would be benefits which are reaped by all regional members as part of investments known as regional domestic direct investments (RDDIs) that can come through DFIs, private companies and individuals from within the regional member states. The RDDIs have to take place but with the intention of helping with economic and industrial development. The external finances in the region should then come in not as FDI but rather to supplement and to help where the RDDIs are not able to deliver. The development financing in the SADC happens within the neo-liberal approach and it emphasises that finances for development are not enough, they can be supplemented by external finance (Pearce, 1986: 144). The objective of the financing function in the SADC’s regional development is on using external funds from the DFIs in development (De Beer, Faul, Pistorius and Van Vuuren, 1993: 442).

2.7. Conclusion

The section tried to define and expand development to encompass regional integration and regional development within the context of modernisation theory. It looked of financing of economic and industrial development and tried to contrast it with dependency to point the reasons for and against external and internal finances in industrial development. Having defined and developed development as a concept and a process, the study indicated where the areas of regional development focus are, which amongst others include economic and industrial development. Within the context of financing it looked at the sources of finance, practices of financing, strategies of fundraising for industrial development. In defining concepts the focus has been on development, development financing, regional development and the approaches to regional integration.
CHAPTER 3
THE SOUTHERN AFRICAN REGION AND THE SADC

3.1. Introduction

This chapter focuses on the Southern African region and the SADC as a political entity and a multilateral regional institution or body. It looks at the state of development, socio-economic conditions, SADC’s history and the politics. With reference to the state of development the intention thereof is to indicate what is needed in the region and what the role of the IDC should be. The SADC’s regional development plan is discussed to highlight what it entails. The state of finances is discussed so as to highlight the SADC’s reasons for planning and implementing the financial structure that calls on DFI to finance regional development. In addition, there is a focus on the financial capacity of the region and what regional development programmes should address in industrial and economic development. The aim is to indicate why the SADC region needs financial power to strengthen the economic sectors that it has.

The need for finances is demonstrated by looking at the economic sectors, structures of production, financial inflows, the nature of savings and investments and the regional development budget in Southern Africa. The intention firstly has been to confirm that regional development efforts in Southern Africa are part of market integration as the region is dancing to the tune of globalisation as defined in this paper. Secondly, Southern Africa, once under siege from slavery, and colonialism and later plundered by the MNCs in collusion with illegitimate regimes, also had conflicts, corrupt governments. Currently the region is beleaguered with debts, all of which are regional development challenges. In the quest for development and under the conditions mentioned above, the region cries for financial resources and has invited the DFIs to assist in regional development. The call on the DFIs is based on the notion that they have to act as a catalyst for direct investments in regional development. The SADC region hopes that as part regional development there would be FDI brought by DFIs. The call on the DFI to act as catalyst for FDI does not warrant the Southern African region to be referred to as an area of emerging markets that are getting ripe for direct investments as Mbuende (1998: 11-15) does. This is because of the fact that the SADC member states had long had relations with the IMF and the
World Bank and had been integrated in the capitalist global economy since colonial times. Therefore, Southern Africa is unlike former members of the Soviet system which are emerging markets that are getting ripe and opening up for FDI as they never had relations with the IMF, World Bank and other capitalist institutions (Nel and McGowan, 1999: 317).

3.2. A brief economic profile of the Southern African region

The level of development in the region has pressured the SADC to call on DFIs to help with regional development. The development level in Southern Africa has never been satisfactory.

Table 1. The estimates and averages of socio-economic profile in the SADC region

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.Angola</td>
<td>13.3</td>
<td>692</td>
<td>7.7</td>
<td>2.11</td>
<td>9.203</td>
<td>3.6</td>
</tr>
<tr>
<td>2.Botswana</td>
<td>1.6</td>
<td>3000</td>
<td>2.5</td>
<td>1.7</td>
<td>4.11</td>
<td>7.7</td>
</tr>
<tr>
<td>3.DRC</td>
<td>50.4</td>
<td>369</td>
<td>1.3</td>
<td>0.88</td>
<td>5.5</td>
<td>5</td>
</tr>
<tr>
<td>4.Lesotho</td>
<td>2.1</td>
<td>420</td>
<td>0.257</td>
<td>0.798</td>
<td>0.903</td>
<td>4</td>
</tr>
<tr>
<td>5.Malawi</td>
<td>10.2</td>
<td>166</td>
<td>0.5</td>
<td>0.67</td>
<td>1.86</td>
<td>2.3</td>
</tr>
<tr>
<td>6.Mauritius</td>
<td>1.1</td>
<td>3102</td>
<td>1.6</td>
<td>2.2</td>
<td>3.6</td>
<td>4</td>
</tr>
<tr>
<td>7.Mozambique</td>
<td>17.6</td>
<td>211</td>
<td>0.3</td>
<td>1.2</td>
<td>2.1</td>
<td>8</td>
</tr>
<tr>
<td>8.Namibia</td>
<td>1.8</td>
<td>1946</td>
<td>1.11</td>
<td>1.14</td>
<td>3.19</td>
<td>3.1</td>
</tr>
<tr>
<td>9.Seychelles</td>
<td>0.81</td>
<td>8171</td>
<td>0.04</td>
<td>0.24</td>
<td>0.5</td>
<td>2.5</td>
</tr>
<tr>
<td>10.South Africa</td>
<td>43.8</td>
<td>3167</td>
<td>30</td>
<td>28</td>
<td>129</td>
<td>3.1</td>
</tr>
<tr>
<td>11.Swaziland</td>
<td>1</td>
<td>1300</td>
<td>0.83</td>
<td>0.83</td>
<td>1.18</td>
<td>2.5</td>
</tr>
<tr>
<td>12.Tanzania</td>
<td>32.5</td>
<td>303</td>
<td>1.28</td>
<td>2.93</td>
<td>6.67</td>
<td>5.2</td>
</tr>
<tr>
<td>13.Zambia</td>
<td>10.7</td>
<td>400</td>
<td>0.91</td>
<td>0.8</td>
<td>3.92</td>
<td>3.5</td>
</tr>
<tr>
<td>14.Zimbabwe</td>
<td>13.4</td>
<td>849</td>
<td>2.85</td>
<td>2.84</td>
<td>7.8</td>
<td>5.5</td>
</tr>
<tr>
<td>SADC region</td>
<td>190.8</td>
<td>1721</td>
<td>51.177</td>
<td>46.338</td>
<td>179.536</td>
<td>3.2</td>
</tr>
</tbody>
</table>

(SADC, 2000a; SADC, 2000b: 105-195; SADC, 2002: 122)
Table 1 above represents country-by-country economic and demographic profile. It includes the gains, earnings and growth in each country and it shows that the gross domestic product (GDP) per capita income in each country. It shows that in the SADC region the GDP per capita income for 2001 was US$ 1721. The economic gains reflected in the table as earnings generated from exports are calculated and the total is US$ 51.177 billion. The country-by-country's statistics that appear in Table 1 are added to make a total and average for the Southern African region. The significance thereof is to highlight the income inequalities and to vaguely indicate the countries’ level of economic development.

Table 1 above reflects that the trade imbalances between export earnings and expenditures on imports are stark when looking at each Southern African member country. This is highlighted by the fact that for instance South Africa exports earnings are more when compared to others. Looking at the economic gap between exports and imports there is overall a narrow gap and thin margins between the two. The import-export gap gives rise to the conclusion that there is a need to push for more exports to increase exports earnings and to reduce the import-export gap. In addition, as reflected in Table 2, all of the regional member states have debts and some are indebted countries characterised as highly indebted countries poor countries (HIPCs) whose debt repayments whittle away earnings from exports. These countries’ financial resources are drained by debt and loan-servicing that reduces development resources (SADC, 2000b: 101).

Debt repayment contributes to poor savings and financial outflow because the money is paid in dollars (United State of American dollar: US$). The US$ as foreign currency is stronger than the currencies of the SADC member states as it does not trade on a one-to-one basis when it is traded with the Southern African regional debtor countries like Mozambique and others. Although there is debt reduction programmes (DRPs) the SADC, region still exports financial capital through imports and servicing of external debts. The DRPs alone are not enough for regional development because the conditions attached to them contribute to underdevelopment.

Table 2 below represents averages and estimates of financial flows (investments and debts) in the region. Where the data is not available it is marked with NA.
Table 2. Estimates and averages of financial flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Angola</td>
<td>13.5</td>
<td>10.915</td>
<td>30.0</td>
<td>367</td>
<td>NA</td>
<td>279.0</td>
</tr>
<tr>
<td>2. Botswana</td>
<td>0.8</td>
<td>649</td>
<td>4.0</td>
<td>137</td>
<td>2,522.8</td>
<td>10.0</td>
</tr>
<tr>
<td>3. DRC</td>
<td>16.6</td>
<td>13.358</td>
<td>NA</td>
<td>74</td>
<td>NA</td>
<td>195.0</td>
</tr>
<tr>
<td>4. Lesotho</td>
<td>0.9</td>
<td>712</td>
<td>8.0</td>
<td>136</td>
<td>892.1</td>
<td>46.0</td>
</tr>
<tr>
<td>5. Malawi</td>
<td>3.2</td>
<td>2.594</td>
<td>4.3</td>
<td>32</td>
<td>NA</td>
<td>77.0</td>
</tr>
<tr>
<td>6. Mauritius</td>
<td>3.0</td>
<td>2.392</td>
<td>3.1</td>
<td>32</td>
<td>2.065.0</td>
<td>60.0</td>
</tr>
<tr>
<td>7. Mozambique</td>
<td>7.9</td>
<td>6.322</td>
<td>5.9</td>
<td>4709(FDI &amp; ODA)</td>
<td>NA</td>
<td>74.0</td>
</tr>
<tr>
<td>8. Namibia</td>
<td>0.2</td>
<td>178</td>
<td>3.6</td>
<td>108</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9. Seychelles</td>
<td>0.2</td>
<td>169</td>
<td>11.0</td>
<td>35</td>
<td>NA</td>
<td>33.0</td>
</tr>
<tr>
<td>10. South Africa</td>
<td>31.0</td>
<td>24.901</td>
<td>1.9</td>
<td>140(PPI, FDI)</td>
<td>29.130</td>
<td>19.0</td>
</tr>
<tr>
<td>11. Swaziland</td>
<td>0.5</td>
<td>437</td>
<td>3.9</td>
<td>39</td>
<td>1.067.5</td>
<td>15.0</td>
</tr>
<tr>
<td>12. Tanzania</td>
<td>8.0</td>
<td>6.358</td>
<td>4.3</td>
<td>100</td>
<td>1.88.9</td>
<td>70.0</td>
</tr>
<tr>
<td>13. Zambia</td>
<td>8.4</td>
<td>6.717</td>
<td>5.7</td>
<td>93</td>
<td>NA</td>
<td>174.0</td>
</tr>
<tr>
<td>14. Zimbabwe</td>
<td>5.7</td>
<td>4.566</td>
<td>22.7</td>
<td>79</td>
<td>NA</td>
<td>69.0</td>
</tr>
</tbody>
</table>

(SADC, 2001:75; IGD, 2001: 55-100)
Table 3. Production structures and economic sectoral contributions in % of GDP (1998-2000).

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture and mining in %</th>
<th>Industry in %</th>
<th>Services, transport, etc. in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Manufacturing</td>
<td>Processing and others</td>
</tr>
<tr>
<td>1. Angola</td>
<td>77 (includes oil and gas)</td>
<td>3.5</td>
<td>12.1</td>
</tr>
<tr>
<td>2. Botswana</td>
<td>56</td>
<td>6</td>
<td>6.6</td>
</tr>
<tr>
<td>3. DRC</td>
<td>55</td>
<td>14.9</td>
<td>10</td>
</tr>
<tr>
<td>4. Lesotho</td>
<td>16.3</td>
<td>37.7</td>
<td>3.8</td>
</tr>
<tr>
<td>5. Malawi</td>
<td>34.4</td>
<td>14.3</td>
<td>6.4</td>
</tr>
<tr>
<td>6. Mauritius</td>
<td>12.3</td>
<td>24.3</td>
<td>9.1</td>
</tr>
<tr>
<td>7. Mozambique</td>
<td>30.33</td>
<td>20.91</td>
<td>8.3</td>
</tr>
<tr>
<td>8. Namibia</td>
<td>19.3</td>
<td>12.7</td>
<td>18</td>
</tr>
<tr>
<td>9. Seychelles</td>
<td>20</td>
<td>37.9</td>
<td>8.8</td>
</tr>
<tr>
<td>10. South Africa</td>
<td>11.5</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>11. Swaziland</td>
<td>15.5</td>
<td>25.9</td>
<td>7.7</td>
</tr>
<tr>
<td>12. Tanzania</td>
<td>59</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>13. Zambia</td>
<td>28</td>
<td>43</td>
<td>12</td>
</tr>
<tr>
<td>14. Zimbabwe</td>
<td>23.2</td>
<td>26</td>
<td>14</td>
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</tbody>
</table>


The significance of Table 3 is to highlight the imbalances and the lopsided nature in the economic sectors, structures of production and development in regional member countries. Based on the data on Table 3 this mini-dissertation takes the view that there have to be more industries in these countries to contribute to the GDP, to get the economy growing, to reduce lopsided development and to contribute to employment.
In this regard as the focus is on economic and industrial development, there is a need firstly to develop underdeveloped structures of production and processing sectors of the economy and to maximise capacity or utilise under-utilised sectors and resources of the economy. The focus has to be on expanding and widening the existing activities in each sector. The focus should be on developing agriculture as part of eco-development and to maximise food production for survival and as one of the basic needs. The need to reduce lopsided development must be accompanied by the ability and the will to develop, enhance and maximise production structures and sectors in the economy. The DFIs should finance regional development initiatives not as FDI but as of supplementing the SADC’s regional economic and industrial development objectives (see Table 4). In addition, the finances from the DFI should not be directed at financing PPI’s because it’s like buying shares, a practice that does not help in industrial development. Therefore, the DFI with its finances should focus on economic and industrial development by financing initiatives that develop new sectors, revive, strengthen, and enhance underperforming sectors and develop agriculture for livelihood and income.

3.2.1. The SADC’s regional development budget.

For the SADC to undertake and to finance regional development financial resources are required and the costs of the development programmes have to be taken into account because the lack of funds protracts regional development plans. The SADC’s budget and financial data in table 4 is not in actual figures, but it is in percentages because of the level of secrecy. Table 4, shows the few changes in the SADC’s current savings and in the state of finance after supplementing the financial capital thereof with the ODA.

Table 4. The SADC’s regional budget for 1998 to 2000

<table>
<thead>
<tr>
<th>Current savings (as % of economic surplus of GDP)</th>
<th>Required savings</th>
<th>Required economic growth to contribute towards the required savings</th>
<th>Real economic growth</th>
<th>Deficit: SADC shortfall</th>
<th>ODA</th>
<th>Investments required</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.60%</td>
<td>37.80%</td>
<td>6.10%</td>
<td>1 – 3.2%</td>
<td>18.20%</td>
<td>11.80%</td>
<td>6.40%</td>
</tr>
</tbody>
</table>

(SADC, 2000a: 14)
The SADC’s insufficient current domestic savings of 19.6 percent from 1998 to 2000 has the targeted or potential economic growth rate of about 6.2 percent (SADC, 2000a: 14). In analysing the SADC economic growth rate, it was noted that it fluctuated between 1% and 3.8% in five years between 1995 and 2000, with the average being 3.2% (SADC, 2000a: 12). According to the SADC (2000a: 14) a GDP or current domestic savings of about 37.8 percent accompanied by 3.1% to 6.2% is required to finance economic and industrial development projects. Given the 18.2 percent shortfall, the deficit in the SADC’s budget and the fact that the ODA for capital expenditure and infrastructural development only reduces the deficit by 11.8, the region needs 6.4 percent of residual financing to be able to implement industrial development (SADC, 2000a: 14). It is noteworthy that in the SADC’s current savings there are trade imbalances and the GDP is drained by debts that contribute to financial outflows. The trade imbalances and debts in the SADC region are outflows that contribute to the problems of BOP in the region and within its member states. There is no surplus in the GDP after debts are paid, and this contributes to a budget deficit.

According to the SADC (2000a: 4), the financial help from DFIs like the IDC should be relevant in assisting with economic and industrial related undertakings. The IDC as a DFI is seen to be relevant in providing and attracting the needed 6.4 percent financial support to finance economic and industrial development initiatives. The reason for inviting DFIs like the IDC is to stimulate and facilitate more economic and industrial development programmes. Another reason is that the SADC could not approach the commercial banks to borrow money as such loans will create further debts. In addition, the SADC as a multilateral regional institution has not fully institutionalised regional development by establishing a multilateral institution that will initiate or finance economic and industrial development initiatives aimed at regional development. The SADC budget serves as one of the reasons for calling on outside financing from the DFIs in regional development.

In view of the above SADC budgetary analysis there is a need for mustering financial resources, and attracting direct investments for regional development in Southern Africa. According to table 4 there is a need for financial capital from the DFIs to supplement and to finance industrial and economic development programmes. The IDC as a DFI should provide finance and initiate
industrial undertakings and economic development. The acknowledgement by the SADC that it does not have enough financial capital for development is noted in the regional development financial plan. The plan calls for more economic and industrial development initiatives as FDI and more international financial inflows from the DFIs. As the SADC does not have a Southern African multilateral regional development financing institution, this makes regional development initiatives a free-for-all because there is no DFI that is given any particular regional development initiative to undertake. This leads to the question of why there cannot be a competition of coming to Southern Africa in the form of direct investments as it was during the colonial times when there was a scramble for Africa. This time it must be a new scramble in Southern Africa that must be ushered in by the SADC and facilitated by a DFI should not be for exploitation but for development.

3.2.2. The financial profile of the Southern African region

The financial profile of the region concerns mainly the monetary and economic data of each member state. This is necessary to come up with the current savings using the economic surplus generated in each member state to have the GDP of the region. GDP is the measure of income in financial terms generated in the domestic economy within a certain period of time. The GDP growth does not mean that there is economic growth, economic development and development as defined in this paper. For that matter the financial inflows as FDI and private portfolio investment (PPI) may supplement the finance, ease the BOP and contribute to GDP, economic growth and economic development, but that does not mean that there is development as defined. Current savings refer to the financial capital that is left after expenditures such as regular loan servicing, paying debts and other payments that are necessary to service and keep the domestic economy running. All these expenditures are carried through economic surplus that may cause a negative deficit that will be reflected in the BOP or current account in the economy.

In financial terms the national current savings is an income generated from international trade in exports, and income from the domestic economy in terms of revenues both form part of an economic surplus. The data thereof is in percentages, which implies that out of 100% generated from export earnings and internally, 80.4% of that financial capital does not go to current
savings. The 80% of all income generated is drained out as capital outflows to service debt, import goods and to pay for other activities and expenditures in the economy. The data on capital inflows in Southern Africa is inconsistent. The United Nations Conference on Trade and Development (UNCTAD) in its World Investment Report finds that the inflows as FDI in Africa went up from US$ 9 billion from 1995 to 2000 and also rose to more than US$ 17 billion in 2001 (UNCTAD, 2002: 480). The increase in terms of development is unknown. Other sources attribute the 1995 increase of about US$ 576 million and the 1996 ones of US$ 1141 million in financial inflows into Southern Africa to South Africa’s liberation in 1994 and to the creation of the enabling environment for FDI (Lekalake, 1998: 1-3; UNCTAD, 1999: 1-20). In addition, the increase in inflows is attributed to the fact that the firms continue to globalise their services and production processes as governments pursue policies of liberalising trade and investments regimes (Brewer & Jun, 1997: 109). With regard to the increase and the value of the inflows is that there were no development benefits and no increase in the number of economic and industrial development projects (UNCTAD, 2001: 1-50). On the other hand the FDI inflows into the region have dropped from US$ 5.3 billion in 1998 to 3.9 billion US$ in 2000 (Mnyanda, 2000: 1). This mini-dissertation is of the opinion that the decline is attributed to the fact that out of US$800 billion global FDIs, 75% went to developed countries and emerging markets such as former Soviet states. Such instability is a blow to development but in market terms such instability in the inflow and outflow of capital can be interpreted as part of investor or market sentiments. Although the SADC countries are seen to be leading in terms of GDP growth rates, there is still a need for more financial capital as their BOP, finances and level of development are not healthy.

The notion that the region is seen to be important in terms of FDI as it is leading in GDP growth rates has less value to development. This is because of the fact that FDIs goes with profits and that is why there are few number of jobs created. In addition to the jobs as means to a better living the region calls on the DFIs like the IDC to help with finances to implement development related initiatives. In general the SADC region does not have enough regional DDIs, and between 1998 and 2000 there has been a decline in FDI (SADC, 2000b: 14; Mnyanda, 2000: 1). The SADC’s plan that calls for DFIs like the IDC to help with implementing economic development programmes is part of development and quest for change in Southern Africa.
3.3. The state of development and changes in the Southern African region

In this mini-dissertation, the state of development in the region is characterised as unsatisfactory. The unsatisfactory state of development requires socio-economic and political changes as part of regional development. The changes in the SADC region as they happen under the banner of regional development are part of regional integration that includes socio-economic, political factors, membership and organisational transformation in Southern Africa. Historical, political, market and socio-economic pressures influence the changes. The socio-economic and political factors or changes originate from within the region and also from the wider world. The changes are accompanied by a paradigm shift that sways regional member states to a particular ideological orientation, i.e. neo-liberalism. Regional integration in Southern Africa means the conscious and systematic move towards regional development (institutionally, economically, politically and socially). The SADC’s regional integration is directed at development of the Southern African region. It happens within neo-liberalism and is part of market-driven globalisation as defined earlier in the mini-dissertation. Central to Southern Africa is the SADC, the multilateral, interstate and intergovernmental organisation in which countries through their different governments go beyond mere co-operation with one another (Nel and McGowan, 1999: 12). The SADC must manage change, integrate and meld the diverse nature of its member states into a strong multilateral institution as part of development. The changes in Southern Africa include creation of a climate for external financial resources that are needed to finance economic and industrial development initiatives as part of regional development. The factors that characterise the SADC states are geographical, historical and political as well as socio-economic inequalities. The relative homogeneity and unity in the region concern politics and the historical process of colonialism, underdevelopment and inequalities within and between the SADC members.

The concept and the phrase Southern Africa is a geographical term. Southern Africa alludes to the name of the region and a group of countries in Africa to the south of the equator. At the centre of this geographical area there is a relatively well-defined degree of functional interaction and co-operation that is co-ordinated by the SADC regional body. The functional interaction in Southern Africa is continuously facilitated and overseen by the SADC. Through the SADC the
member states hope to improve co-operation, fast-track integration and interact on matters of development. The Southern African region is a geographical area whose territory encompasses fourteen countries as SADC members. Presently, Southern Africa stretches from the west coast of Africa in Angola to the east of the continent into the Indian Ocean to include Mauritius as well as the Seychelles. Southern Africa stretches from SA to the Democratic Republic of Congo (DRC), the former Zaire and Tanzania (SADC, 1998:15; IGD, 2001: 19-25).

Figure 1. The 14 SADC member states forming the Southern African region.

The fourteen states have limited financial capacity to finance economic and industrial development challenges that date back from slavery to colonialism. As a result of the region’s colonial experiences and development status, and its post-colonial approach to addressing socio-
economic inequalities, Southern Africa is an area beleaguered with debts that drain financial resources, and suffering from underdevelopment, unequal and unbalanced levels of development.

The region’s level and state of development is partly a consequence of its role as a peripheral economy, as an exporter and supplier of raw materials to the international economy. The past practices of slavery and colonialism where there was a draining of resources and loss of regional talent as well as intelligentsia contributed to the current state of development (SADC, 2000b: 14; Keegan, 1991: 36). Colonialism as it was resisted and experienced by the SADC member states made economic and industrial development internally in the colonies happen according to the interests and needs of colonial powers upon whom these regional members as colonies depended for development (Bush, 1999: 1). That on its own contributed to resource expropriation and exploitation of raw materials as they were exported out of the periphery (colony) to meet the needs of the centre i.e. the colonial power (Burdette, 1990: 75; Schuurman, 1993: 1). The processes of exploitation and exporting raw materials are historically, economically, socially, politically and market-driven. There are still countries which through their governments as well as multinationals benefit from exploiting raw materials. To minimise these practices of exploitation it will involve a transition from a peripheral region and an exporter of raw material to one with a reasonable level of industrial and economic development. Slavery, colonial legacy, Southern Africa’s role in the international economy, trade imbalances and lack of access of SADC goods to international markets contribute to the socio-economic challenges that are to be addressed through regional development. The attempts to change the current state of development in Southern Africa involve regional integration and regional development, the processes that the SADC regional has to oversee.

Economically the region is classified as unbalanced in terms of development. An economic base analysis shows the unequal contributions by each sector in the economy (see table 3 above). The mentioning of the contributions by each sector is based on the fact that the regional development process also involves mainly the economic sectors, utilisation of resources in production, trade and wealth accumulation (Larkin & Peters, 1983: 64). An economic base analysis or theory also looks at the fact that the region was engaged internationally through colonialism as merely a centre from which to source capital. This engagement and the region’s role in the international
economy affect resources and contributions by sectors in the economy. These socio-economic challenges are to be addressed economically through industrial and economic development (SADC, 2000b: 14). When compared to the EU and in terms of the size of economic sectors, and contribution to the world economy, Southern Africa is a small sized economy. In this comparison and relationship Southern Africa functions as a source of raw materials, cheap natural resources, labour and mineral resources for the global economy. The SADC region exports raw materials and imports them back as finished products. The SADC as a regional body intends to change the Southern African current state and level of development and economic conditions through regional integration and regional development.

3.3.1. The SADC as a Southern African regional organisation: From the SADCC to the SADC

This section of the study looks at the SADC as a regional organisation and a political entity in Southern Africa. It looks at the evolution and the current state of regional integration in Southern Africa. This section juxtaposes the SADCC and SADC organisations. This section looks at the relationship between the SADC and Southern Africa and also offers reasons for the organisation’s existence as a multilateral body. Both the SADCC and SADC are recognised as products of multilateralism, the process and the idea of integration through which Southern African states in general interact, forge interstate relations and intergovernmental organisations for regional development, jointly addressing issues of mutual concern, monitoring global events and collectively engaging in global affairs (Gill, 1997:1-7). The intention thereof is to highlight the challenges and continuous quest for development in the Southern African region which involves amongst others the integration of activities and multiple regional groupings like the South African Customs Union and other formations into the SADC (Gibb, 2001: 70-83). This section looks at the SADC, its regional development objectives, development strategies and development policies.

Mr Paul Thulare (2002) of the Centre for Policy Studies pointed out in an interview that the present regional integration, regional development efforts and the philosophy of regionalism in the SADC are unlike that of the old SADCC, the SADC’s predecessor. The differences are in the
periods, objectives, approach and theory, in numbers of member states and in terms of the regional development. In the SADC regional integration and regional development there is a modernist and neo-liberal approach that has brought ideological and structural changes (economically, politically, geographically, socially, etc.) as well as regionalism as a sense of belonging to the SADC as a multilateral organisation. What characterises Southern African regional integration and the sense of allegiance to the SADC is neo-liberalism. This is noted as there is a move to eliminate economic barriers by signing the SADC trade protocol for the free movement of financial capital, more openness to trade and to remove or reduce exchange controls (IGD, 2001: 1-30). The geographical changes and regional integration processes are characterised by the expansion of the regional borders and the implementation of a liberal vision of borderlessness and functionalism where the focus is on regional development. Firstly, there was the name change from the SADCC to the SADC. Secondly, there was the issue of the entry of new members. Thirdly, these changes were accompanied by organisational restructuring.

The old SADCC’s form of co-operation was characterised as sectoral co-ordination and it was based on confederal principles whereby the then Frontline States advocated the protection of organisational members against apartheid destabilisation. The co-operation as pursued by the SADCC was based on efforts to contain the former white minority government of SA in the 1980s, reduce dependence on SA infrastructure and to attain economic liberation (Maphanyane, 1993: 174; Oden, 1993: 222). The SADCC had weak confederal and co-ordination programmes which the neo-liberal approach has changed. In Southern Africa the pursuance of neo-liberalism brought about organisational change i.e. from the SADCC to the ushering in of the SADC. The SADC through regional integration tries to maximise, promote and consolidate interstate development efforts in Southern Africa. The SADC was established in 1992. The SADCC was established on the 1st of April 1980 in Lusaka by the independent states, the Frontline States. The Frontline States were Lesotho, a landlocked South African enclave, Zimbabwe, Botswana, Swaziland and Zambia (SADC, 1992: 1).

The efforts of mere co-operation and coming together by the then Frontline States are viewed in this paper as a product of interstate co-operation on matters of politics. The SADCC as an entity had no legal status but through majority decision or rule and voting it tried to gain recognition by
advocating development in the region and to reduce underdevelopment that was influenced by dependency on SA. It is not clear which ideological orientation the SADCC followed as during its existence there was a bi-polar world (a world with two super-powers, namely the United States of America with capitalist views and the Soviet Union with its socialist ideology). These efforts were part of multilateralism as they brought about the SADCC that aimed to control the destabilisation caused by the then South African racist regime. The treaties that were signed to contain, isolate and to marginalise South Africa had been part of *pacta sunt servanda* (binding legal agreements in a diplomatic arrangement) and *sine qua non* or essential conditions in international relations to set up a multilateral SADCC and for effective co-operation and integration into the structure (Kegley and Wittkopf, 1997: 536). As part of the agreements membership was not extended to the South African apartheid regime, but South Africans actually participated in the SADCC through the Pan African Congress and the African National Congress as the then liberation movements. The naming of the SADCC as a supra-national organisation was mainly for the functions and objectives of creating conditions where there could be a co-ordination of development efforts, forging links for the creation of regional integration and reducing dependence on South African infrastructure.

The changes in the structures and legal treaties of the SADCC and in countries within Southern Africa brought about new relations and the formation of the SADC. Within the countries in Southern Africa the changes included Namibian independence, a transition to majority rule in South Africa, and on the international front there was the collapse of the Soviet Union accompanied by globalisation itself. As a geographical territory and a region, the changes in Southern Africa and the SADCC included a change of focus, and inclusion of new members that eventually brought about the present SADC. The changes paved the way for co-operation, co-option and the official integration of South Africa and other countries later. This gave rise to a change in the organisation’s name and composition i.e. from the Southern African Development Co-ordinating Conference to become the Southern African Development Community. Unlike in the SADCC and in the early years of the SADC where there was strong sectoral co-ordination e.g. South Africa was co-ordinating finance, in the current SADC each member state will sooner or later no longer be empowered with its own sectoral co-ordination responsibility. The regional body is continuously transforming itself towards establishing sub-institutions that to co-ordinated
development related tasks for Southern Africa (SADC, 2000b: 10-25). As the SADC (1998: 58-60) says, the continuous process of transformation is noted as there is the Finance and Investment Sector Co-ordinating Unit (FISCU) which will in the long run focus on finance, investment and regional development funding in the Southern African region.

Although sceptics still see the SADC as a vehicle of underdevelopment, in this mini-dissertation the Southern African regional body is a structure and a vehicle in Southern Africa that must finish the foundation of economic development laid by the SADCC. In this mini-dissertation the SADC regional body is also a vehicle that must effect what it has started, viz. maximise, promote and strengthen co-operation, promote regional integration and regional development. The SADC is not a regional government but it is an inter-governmental and inter-state regional structure that acts like a government in the region to co-ordinate efforts of regional development.

3.3.2. The SADC and regional development in Southern Africa

When the SADC was inaugurated in 1992, Southern Africa was still facing economic and industrial regional development challenges. Currently these challenges still face the SADC region and the regional body hopes to address them through regional development.

The focuses of regional development in the SADC member states are on economic and industrial development which needs financial capital to be implemented. The nature of the finances in the region is not healthy and the region’s expected GDP growth rate of 6.2% cannot be realised under the current contributions by the economic sectors (SADC, 2000a: 14).

The statistics show that the region’s growth rate between 1998 and 2000 fluctuated between 1% and 3.2%, which is not enough for regional development (SADC, 2000a). Regional development programmes include projects and industries that require both large and small capital outlays, and they can only be undertaken if financial resources are available. The SADC’s regional economic development is not for public works programmes but is for it is for industrial development as FDI that is be financed by the DFIs. The monetary constraints have forced the SADC to review
its regional development plan on the basis of the budget by looking at a cost-benefit analysis, capital expenditure on projects and the climate required by an investor.

In the light of the above it must be noted that industrial related regional development cannot be held ransom by the SADC’s financial and budgetary constraints. The availability and the willingness of a DFI to finance economic and industrial development initiatives do not mean that there will be development. It means that the DFI as a financier and a catalyst in attracting and facilitating FDI needed for towards economic development and to realise the SADC’s regional development objectives.

Of the SADC’s development objectives that are in line with the process of regional development, the study focuses only on the two of them, i.e.
A. achieving economic growth, alleviating poverty, enhancing the standard and quality of life of people, and
B. promoting and maximising productive employment and utilising resources of the region (SADC, 1998: 12).

This research paper is focused on the above two SADC’s objectives that should be realised through economic and industrial development. The nature of the SADC’s finance and the region’s financial capacity as discussed earlier indicates that for implementing economic and industrial development programmes and to realise the above objectives, external financial capital is needed.

The regional development objectives that are highlighted are of socio-economic concern and fall within economic development. Therefore, these objectives need to be addressed through a relevant economic development plan and human centred economic development programmes. Within the context of the above objectives, the role of a DFI like the IDC, in both objectives is to finance the SADC development programmes of economic and industrial development initiatives. The role the IDC as a DFI should play in regional development is to initiate and finance economic development initiatives for industrial development as part of the SADC regional development.
The SADC’s regional development strategies hinge on the budgetary constraints and the nature of the human development challenges of poverty and inequality within its territory. The development imbalances in the present Southern Africa are not new because the SADC inherited these development inequalities from the SADCC. With reference to development imbalances, South Africa as a peripheral economic powerhouse in the region does not have equal and similar development status to Botswana, and Zimbabwe does not have equal developmental level to Lesotho or Tanzania (Block, 1991: 87-102). Development inequalities give the region the status of underdevelopment and unbalanced development within and among its member states when compared to the EU (Block, 1991: 87-102). The achievement of development and reduction of imbalances in Southern Africa is seen to be attainable through the strategies mentioned in the SADC’s regional development objectives of economic and industrial development.

One of the strategies pursued by the Southern African region in financing economic and industrial regional development is the SADC’s call on the DFIs. The SADC appeals for financial resources from the DFIs to help with implementing regional development programmes and to be a catalyst that facilitates and attracts direct investments. This call for DFIs to participate in the financing of regional development hinges specifically on the following strategies:

A. securing international understanding, co-operation and support and mobilising the inflow of public and private resources into the region,
B. creating appropriate mechanisms for the mobilisation of requisite resources for the implementation of the programmes of the SADC, and
C. mobilising the peoples of the region and their institutions to take initiatives to develop and participate fully in implementing economic programmes of SADC (SADC, 1998:12).

Against the background of highlighting the SADC objectives and strategies, it is noteworthy that this organisation’s ambitions are enmeshed in economic, financial, political, strategic and institutional complexities. Among them are globalisation, the politics within the region and its member states and challenges of regional and development integration. Market oriented regional integration in the region is one of the strategies used to muster financial resources for development. Market oriented regional integration expected political changes within the regional members and the organisation. Therefore, it is not only the political changes in the Southern
African region as discussed earlier that also encourage the IDC to partake in cross-border financing, but the aforementioned strategies do empower the IDC to finance regional development. The Corporation and its country, South Africa, are in the region as there is a need to implement economic programmes to help in realising the regional development objectives. In this case, the focus of the IDC as a DFI is on implementing industrial and economic development towards economic growth as part of development in Southern Africa. The IDC finance as capital inflows refer to the FDI that are directed at financing or undertaking economic and industrial development initiatives as part of regional development. Considering the fact that the SADC has not solely given the IDC solely and specifically a mandate to finance industrial development the IDC as a DFI has to be able to finance and secure the confidence of other financiers. In doing so the IDC must partake in financing and initiating development-related undertakings and securing funds from within and out of the region.

The SADC’s regional body and the IDC of SA understand very well that market driven regional integration or regionalisation is part of market driven globalisation as defined in this paper. With reference to globalisation, an entity like the IDC wants to globalise itself and is in favour of neo-liberalism and globalisation. In the SADC (1998: 1-10) and the IDC (1999a: 1-4) it is stated clearly that market driven regional integration in Southern Africa happens within globalisation also as a process through which institutions internationalise and globalise their services and try to have operations beyond their national borders solely for profit. Within the context of market driven globalisation, the IDC has to take advantage of market oriented regional integration and the SADC’s call to help with regional development in Southern Africa so that the Corporation markets its services. The SADC states clearly that a DFI like the IDC must take advantage of regional integration in Southern Africa towards globalising and exposing its services to the whole world. The IDCs’ participation in regional development happens within regional integration and that on its own serves as the IDC’s globalisation strategy. The SADC’s regional development financing strategy gives the IDC as a DFI a chance to use its finances in the region. The SADC’s call as a financing strategy and financing programme widens and expands the financial resources base for the IDC so that it has the ability to mobilise financial capital generated from other operations it finances towards initiating and financing regional economic and industrial development. This mini-dissertation sees the SADC’s fundraising programme and
regional development financing strategy as being guided by the regional development policy that hoped for all the DFIs from regional member states, not only the IDC, to take part in financing regional development in Southern Africa.

This research paper takes the view that the SADC’s regional development financing plan assumed that the DFIs from all the Southern African member states would take part in regional development and expose them to what is done internationally, and with the hope that the surplus generated by the DFI’s would be used again within the region for regional development (SADC, 2000a: 15). The status and the nature of the policy and the plan go beyond national territories as they emphasise regional development through cross-border and direct investments as RDDIs. The forms of cross-border direct investment include developing industries that can boost the economy, bring about development and generate financial resources for the region. In addition to job creation and growth as major concerns, balanced development is also a concern and no sector (agricultural, manufacturing and other industries) should behind in regional development (Fry & Martin, 1991: 115).

In the light of the above, any regional development initiative in Southern Africa should be guided by the objectives, strategies, policies and socio-economic benefits are taken into consideration the fact that industrial development initiatives should benefit the region financially and economically to effect a sense of financial sustainability. Therefore, a development-financing institution like the IDC (discussed in the next chapter) has to enter the SADC with a plan to address the regional development objectives of industrial and economic development. Moreover, the industrial projects that it undertakes and finances must involve manufacturing, processing and agriculture so that there is financial sustainability where financial gains are ploughed back into other regional development initiatives.

3.3.3. The SADC’s regional integration, DFIs, regional domestic direct investments (RDDIs) and FDIs

The SADC’s regional development efforts are actualised and operationalised through regional integration that is based on the free and open market practices driven of neo-liberalism which
stress economic freedom to attract and use external financial resources in development. This is seen in the structural socio-economic and political reforms in some countries. There is an emphasis on a free market economy, stability for a friendly investment and investor-friendly climate, multiparty democracy and the rooting out of corruption within the region. In my discussions with Nokukhanya Jele (2002) and Ross Herbert (2002) it appeared that regional instability among the conflicting and corrupt member states in the SADC created a general negative perception that was not good for direct investment. This in the long run, according to the neo-liberal view, hindered regional development efforts in Southern Africa. Through the SADC’s market driven regional integration, Southern Africa seeks to adhere to neo-liberalism, allay fears of investors by reducing the risk, and creating an investment climate that will attract the external finances. The external finances are mentioned as part of the financial capital to finance economic development as FDI or RDDIs for industrial related economic development initiatives. The mentioning of the investor friendly climate as Shihata (1988:1-20) says is based on the fact that direct investment is intricate and it is expected of the SADC to guarantee the safety of investments (security, agreements to protect investors as FDI and RDDIs, assets, insurance, risk, tax, etc.). With this, the SADC characterises the region as an area of emerging markets and newly industrialising economies (NIEs) that needs direct investment.

The SADC assumes that regional integration, an investment-friendly climate and the financial help from a DFI like the IDC will facilitate FDI and RDDIs and will allow the regional economy to grow and become more industrialised. In this paper the development which the SADC hopes for will only come as an externality or a by-product, not as part of the intended objectives of regional development. This is because of the fact that the finances from DFI as FDI are not enough and are meant for profit.

Regional integration in the SADC region involves developing an investor-friendly climate that includes good infrastructure, a stable labour market, tax incentives, privatisation, minimal involvement of the state in development, good governance, etc. These changes as stipulated by neo-liberalism, presuppose that some regional members have been characterised as no-go or no-investment areas due to the form of governments, labour laws, instability in labour markets and unfavourable economic and political systems. Moreover, the above comments highlight the
developments, processes and strategies pursued in mustering finances and attracting investment for regional development.

The SADC region is continuously preparing itself through market oriented regional integration to attract direct investments, to be able to get funds to supplement its budget and to create a good investment climate for investors, markets and institutions like the IDC to take part in financing economic and industrial development as FDI. The fact that the SADC pushes its members to open up their economies assumes that regional development efforts are not solely for inter-state organisation but other actors like the DFI from within and outside the region can assist as external finance is favoured in development. External finances will be facilitated by the SADC’s development financing policies that attract direct investment for regional development. Because of debts, lack of finance and neo-liberal orientation, through market driven regional integration, the SADC applies a market-driven strategy and not a welfare approach in regional development. It will do Southern Africa no good if the SADC applies the welfare approach to when financing industrial development. A welfare approach in industrial development needs a sustained fiscal discipline and a sustainable regional fiscus to finance capital expenditure and public work programmes. Through the SADC the Southern Africa region emerges out of being a closed and protected economy as there is a sale of ownership of industrial related economic development initiatives. This paper is for regional development but it is not in favour of the neo-liberal approach and the financial scheme (external financing) to development that the SADC as a regional body has opted for. It is because of this fact that there is a sell-off of ownership of economic development projects as these external finances are FDI. FDI do not bring about sustainability and self-reliance.

3.4. Conclusion

Regional development in Southern Africa has dimensions that include industrial and economic development that the DFI like the IDC specifically must deal with. Regional development in Southern Africa expects socio-economic and political structural changes. As part of the changes there must be regional integration because development efforts are to be jointly attended to by the regional member states through regional and development integration that is facilitated by the
SADC regional body. As expected within modernisation and neo-liberalism there have been political and economic changes within regional member states and the Southern African region towards an open economy and they were facilitated by market oriented regional integration. With reference to political changes there has been an institutional transformation of the SADCC to the present SADC which has trade protocol as part of multilateralism. The changes to the SADC influenced member states collectively to talk of development efforts, and this led to regional development. One focus of regional development is economic and industrial development that is implemented through external finance which its availability depends amongst others on investments climate and trade agreements and protocol. The economic and underdevelopment status of the region was approached by looking at the history, finances, sectors and production structures of the economy with the aim of highlighting the reasons for industrial development that should be financed by the IDC, a DFI that is discussed in the next chapter.
CHAPTER 4
THE INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA LIMITED

4.1. Introduction

This chapter focuses on the Industrial Development Corporation as a DFI as well as a financial and an economic institution. Within the context of development it looks at the IDC from economic, financial, legal and political aspects. On the economic and development aspects the objective of thereof is to point out that the IDC is a South African national DFI. As a national DFI, the IDC thus is still committed to the national economic development objectives of the Republic of South Africa. There is a discussion of the Industrial Development Act No 22 1940 that led to the incorporation of the IDC. The Industrial Development Amendment Bill that amended some sections of the Industrial Development Act No 22 of 1940 to allow the IDC to finance development in the SADC region is also discussed. Finally this chapter also indicates that the IDC is still committed to realising the economic development objectives of the Republic of South Africa.

On the political front, the RSA is no longer a rogue state. South Africa is now integrated into the SADC region. The RSA’s integration into the SADC region implies that the IDC is also no longer a pariah Corporation. This was noted when the South African government in 1997 and 2002 amended the Industrial Development Act No 22 of 1940 to expand the IDC’s geographical mandate to allow it to finance industrial development initiatives in Southern Africa and Africa as a whole (Financial Mail, 2002a). The Industrial Development Amendment Bill does not state that the IDC has to change its national economic development mission to encompass the economic development objectives of the SADC region or any Southern African member state.

In financing industrial development initiatives outside South Africa the IDC anticipates economic spin-offs from export earnings for South African companies (Financial Mail 2002b: 20). The IDC also considers what is in for its finances and the South African economy in terms of the returns for its finances. This is noted as the IDC’s finance in the region is interpreted as FDI by the IDC. In expanding its geographical mandate to finance industrial development the
IDC as a self-financing DFI it does not mean that the Corporation is loosing track of the mission that it was established for i.e. continuously financing industrial development to realise the development objectives for SA economy. In defining its geographical mandate the IDC is allowed by the South Africa government to finance industrial development as FDI and in turn, have access to and control of the means of production in another country.

4.2. The origin and mission of the IDC in South Africa

The development of the IDC as a state-owned enterprise, parastatal and a public company was part of modernisation, promoting South African products and a risk aversion strategy to steer industrial development and to balance development for economic development. During economic development when there was a discovery of gold in SA signs of unbalanced growth and lopsided development appeared and that amongst others was due to the unwillingness, failure and financial incapacity of the private sector as development financing institutions to undertake industrial development.

The establishment of the IDC as an industrial development institution (IDI) and a DFI was part of development through industrial development and industrialisation particular for realising the national economic development objectives of South Africa. As the IDC’s establishment resulted from intervention by the South African government to address industrial and unbalanced development, the incorporation of the Corporation was necessitated by the fact that the South African economy had hallmarks of agrarian, subsistence and pastoral economic activities (Abedian & Standish, 1992: 1). The IDC’s establishment was also part of an import-substitution strategy, reviving what the National Bank and National Industrial Corporation (discussed later) dreamt of and to meet the needs of the wartime (Second World War) economies (IDC, 1971: 14-17). During the establishment of the IDC the government of the day also took advantage of the conflict that was prevailing around the world as one of the factors. This is noted as the IDC’s incorporation was influenced and prompted by a need to develop the industries for armaments to meet the needs of the wartime economies during the Second World War (IDC, 1971: 14-17). In addition, it was a form of central development planning to promote industrialisation and industrial development as part of economic development. There was also a need to balance the
sectors of the economy as South Africa already had activities of primary sectors like mining and agriculture (Abedian & Standish, 1992: 1). Apart from the reason to balance sectors of the economy, the establishment of the IDC was part of developing tertiary sectors that would have industries to process, manufacture and produce goods to service the needs of the economy. In addition, the South Africa government was in line with the trends of that time whereby a nation-state through its parastatal could channel national economic development to a particular path. It was part of reducing dependency and to create a sense of sustainability and self-reliance in development where not all economic development projects would be financed through external finances. Therefore, domestic financial resources as public funds would have to be employed through the IDC in national economic development. Based on the foregoing comments, the use of IDC’s finance in financing development projects within its national borders was not for and is not done solely on the basis of investment, but was and is still mainly done to realise the national economic development objectives of the RSA. In addition, it shows that there was a political will that was channelled by the South African government. That political will was accompanied by the establishment of a state-owned-enterprise (SOE), the IDC through which the South African government directs and has a say in industrial development.

4.2.1. Where it began with the IDC: From the National Industrial Corporation to the IDC

Before the IDC there was the National Industrial Corporation (NIC) of South Africa (IDC, 1971: 6). The NIC was a DFI and a privately owned company of South Africa. Its functions were in line with mustering, disbursing and rolling out of financial capital necessary to finance industrial development in South Africa. The NIC was established in 1919 by the National Bank. During the 1920’s recession the National Bank went under and that led to the NIC as a private DFI calling off its industrial development-financing mission and mandate. The floundering of the National Bank in 1926 as the parent company, founders and shareholders led to the closure of its subsidiary (the NIC) and its functions (IDC, 1971: 6). The NIC went out of business and subsequently was liquidated. The closure of the NIC was a blow to the mustering of capital to establish essential industries in South Africa. With the failure of the NIC, the future of the IDC and industrial development of South Africa was planned by engineers and economists, whose plan became a bill and an act called the Industrial Development Act No.22 of 1940 (IDC, 1971: 6).
9). The Industrial Development Act No 22 of 1940 set procedures and provisions for the establishment of the Industrial Development Corporation of South Africa Limited. The IDC was established in 1940 for the purpose of industrial development. Its establishment was during the middle of transitional periods i.e. from a pre-industrial to an industrial economy where industrialisation, industrial development and the idea of an industrialised South Africa were conceived and institutionalised. Since its inception, the IDC had been operating, existing and functioning on business principles. As a DFI it was and still is financing industrial development initiatives for the purposes of economic development, industrial growth and economic growth in South Africa (IDC, 1971: 3).

The incorporation of the IDC as a national public company falls mainly within the domain of company law (Benade and Cilliers, 1982: 41). The Industrial Development Corporation of South Africa Limited is registered as a public company under the Industrial Development Act No 22 of 1940. Within the context of company law, the incorporation of the IDC automatically meant that it had a business plan that highlighted its mission, rights, property, etc. (Benade and Cilliers, 1982: 92). As stated in the Industrial Development Act No 22 of 1940, the IDC’s business objectives refer to undertaking, financing and loaning money for industrial development.

4.2.2. The Industrial Development Act No 22 of 1940 and its amendment

The Industrial Development Act No 22 of 1940 was promulgated and ratified by the South African government in 1940 to realise its industrial and economic development policies and objectives (Financial Mail, 1995: 65). The passing and the ratification of the Industrial Development Act No 22 of 1940 signalled the fact that an industrial economy is institutionalised by establishing the state owned IDI and a DFI known as the IDC. The IDC would be tasked with industrial development in South Africa. The questions like how, why, what and where the IDI could conduct its business are highlighted in the business, development plans and objectives that were tabled at that time in parliament.

The Act prepared for the establishment of the incorporation and the registration of the IDC as a public company. The purpose of the Act was to give a green light to constitute a DFI and IDI.
The IDC’s objectives of industrial development for economic growth in the Republic of South Africa are pursued to the end that the mission which was established for and is accomplished on an on-going sustainable basis.

The name of the entity is the Industrial Development Corporation of South Africa Limited that its objectives as stated in Section 3 (a) of Industrial Development Act No 22 of 1940, with the approval of the Minister in the Department of Trade and Industry (DTI), are to:

A. establish and conduct any industrial undertaking;
B. facilitate, promote, guide and assist in the financing of
   i. new industries and industrial undertakings; and
   ii. schemes for the expansion, better organisation and modernisation of and the more efficient carrying out of operations in industries and industrial undertakings (Republic of South Africa, ND: 2).

To attain its objectives the IDC have powers as stated in section 4 from (a) to (h) that are given to it by Act No 22 of 1940. The powers given to the IDC amongst others include:

a. lending money to any person engaged in or proposing to expand or modernise an industry, and
b. promote or assist in the promotion of companies for conducting industrial operations (Republic of South Africa, ND: 1).

Against the foregoing comments the establishment of the IDC was part of state-driven economic development, the revival of what the NIC dreamt of and to effect the maximum profitable utilisation of the available national resources to benefit the country. The focus of establishing the IDC was an anticipation that the industries the Corporation would develop, help in carrying out the apartheid programme i.e. poverty alleviation and creating employment for the whites. Moreover, at that time there was little entrepreneurship spirit in South Africa. The successful establishment of the Electricity Supply Commission and the Iron and Steel Corporation by the SA government (made the ambitions to develop green-field industries widen considerably) helped in the mustering of capital through shares to roll out the share capital for establishing the IDC (Block, 1991: 87-102).
Through the IDC the government has its tentacles in all the fields of industrial and economic development. This is noted with the economic development conditions as they were during the apartheid system. These preceding comments show that the IDC had a plurality of activities in its development-financing mission. They include among other things being an entrepreneur and doing research when it initiates, finances, undertakes and develops industries for economic development.

The discussion of the IDC as a public corporation highlights some reasons for having the state coming into play in national economic development (Cowan, 1990: 2-3). This approach by the state was neither monopolistic nor an attempt to replace the market with a socialist central system of planning and control in economy and development. As there was a high fear associated with industrial development, the state through the IDC took a risk at that time and used public funds for industrial development. Through the IDC, the state steered and directed the economy towards a desired economic and industrial development path. A partnership for industrial development between the IDC and some MNCs as foreign corporations developed. The partnership between the IDC and foreign corporations and the steering of the economy by the state is organic for economic development. The partnership is organic as part of reducing the risk and losses of financing industrial development. The partnership is also organic because the state has to intervene in development by steering the economy to a certain development path. The partnership is organic as it highlights the need for having a share by the state in the economy for the purpose of sustainability and whereby the economic surplus can be used within the country and not taken out by private corporations. Hadden (1977: 497) says that in technology industries where the cost of research and development is high, it is acceptable that public funds are utilised. In instances where public funds are utilised by the SOE, such as the IDC, in industrial and economic development, a non-monopolistic national enterprise is developed for public and private partnership purposes and to avoid economic imperialism and economic piracy.

It is noteworthy that the state through the establishment of a SOE can intervene in economic development. The IDC was established as an SOE using an interventionist strategy to undertake, finance and initiate industrial and economic development towards economic growth. This
interventionist approach and the role of the IDC in industrial and economic development also had political, financial and economic dimensions. In all these dimensions there was anticipation that the racial-centred development that catered for whites had to be realised (Block, 1991: 87; Doxey, 1991: 20). Moreover it shows that efforts directed at economic development are not a new thing in the development agenda in South Africa. Its (economic development) continuous presence on the development agenda confirms that the direct role of the state through the SOE would not disappear in reducing poverty. The IDC’s role is mainly in economic development through industrial development as it is stated in the Industrial Development Act No 22 of 1940 and its amendments.

The amendment of the Industrial Development Act No 22 of 1940 in 1997 implies that the IDC’s mandate is reshaped to allow the Corporation to finance industrial development in SADC region and in so doing should not forget its national mission and the economic conditions in South Africa. In this 21st century the Corporation is on the quest for fulfilling its national economic development objectives by going into SADC states to have FDI. The IDC has transformed, reshaped its mandate and realigned itself by expanding its geographical sphere of operation. It has redefined its geographical mandate to finance cross-border industrial development programmes under the banner of regional development and the New Partnership for Africa’s Development (NEPAD) (IDC, 2002: 56-57; Bridge, 2002: 1).

The expansion of the IDC’s mandate resulted in the establishment of the Africa Unit within the IDC that looks at the SADC region as part of the continent. Apart from the SADC’s call on the DFIs, and the budgetary and monetary constraints in the region, it is noteworthy that the legitimacy of the IDC’s involvement in the region among other reasons is due to the amendment of the Industrial Development Act No 22 of 1940. The amendment of the Act allows the IDC to globalise itself and take advantage of market oriented regional integration.

Through the Growth, Employment and Redistribution (GEAR) programme as part of neoliberalism the IDC operates beyond its borders with the pretext of benefiting Southern Africa and the rest of Africa (IDC, 1997: 54; IDC, 2002: 1-2; Department of Finance, 1996: 11-13). In
section 3 (b) of the amended Industrial Development Act No 22 of 1940 it is stated that some of the added objectives of the IDC with the approval of the DTI Minister will be to:

A. facilitate, promote guide and assist in the financing of:
   i. new industries and industrial undertakings, and
   ii. schemes for expansion, better organisation and modernisation of and the more efficient carrying out of operations in existing industries and industrial undertakings to the end that the economic requirements of South Africa may be met and industrial development within the Republic, SADC and Africa may be planned expedited and conducted on sound business principles, and

B. leverage foreign direct investments in RSA, the SADC and the rest of Africa through the use of its international network and presence (Republic of South Africa, 2001).

In Section 4 of the amended Industrial Development Act No 22 of 1940, the IDC has powers that among others include to:

a. promote or assist in the promotion of companies for conducting industrial operation in RSA, the SADC and the rest of Africa; and.

b. lend money to any company or person proposing to establish or to expand or modernise industry or industrial undertakings (Republic of South Africa, 2001).

The above is noted in the mission as well as in the IDC’s vision where the Corporation claims that it is the primary driving force of commercially sustainable industrial development and innovation to the benefit of South and Southern Africa (IDC, 1999a: 3; IDC, 1999b: 1-3).

With reference to the objectives and the powers of the IDC as it is empowered to have initiatives in Southern Africa, any industrial undertaking is done under the banner of regional development initiative. Industrial undertakings in a foreign country as FDI have financial, economic, and political dimensions. In financing any regional development initiatives the IDC limits its financial participation to 25% because of the various risk factors involved. The IDC’s financial dimension in the region concerns utilising financial resources to have FDI. When the IDC fiancés FD the DTI is aware and what happens is that FDI are new markets for the IDC’s finance. In addition, the DTI interacts with the IDC on potential FDI that may exist in another
country with which South Africa has diplomatic relations. The IDC’s financial resources are part of the public funds which makes it imperative for the Corporation to directly or indirectly liaise with the South African Reserve Bank and probably with the national treasury department about the amount of money that can leave the country. Also the Department of Foreign Affairs (DFA) has its role, as the IDC cannot enter into industrial development financing agreements with a country that has no diplomatic relations with South Africa. The South African Director General of Foreign Affairs Mr Abdul Minty (2003) confirmed this in his annual address at the South African Institute of International Affairs. He said that the RSA foreign policy is pro multilateralism and regional integration. South Africa must not follow a policy of isolationism by focusing on issues that concern her own development problems. Mr Minty (2003) indicated that in its foreign policy South Africa goes to the extent of somehow abandoning its sovereignty to cater for development in its neighbours. The cross-border development financing by the IDC is part of international relations, regional development and regional integration as the RSA cannot prosper with poor neighbours in the region. The IDC’s involvement in the industrial development of Southern Africa is linked to its principal role that is rooted in the financing of economic development programmes. In achieving its industrial and economic development objective, the Corporation’s human (IDC Board of governors and the employees) and financial resources are necessary. In addition, Mr Jorge Maia (1999) says that the IDC does not only contribute in financing industrial development, it also helps in the development of regional policy with regard to the fields of trade, investment and macro-economic integration (IDC, 1997: 59; IDC, 1999b 3).

In the discussion with Mr Tsolo Thokoane (2003), the Account Manager in the IDC’s Africa Unit it appeared that the Corporation’s financial role in Southern Africa is through loaning of money, being an equity partner and undertaking as well as financing industrial development. The ex-post, gains and results which the IDC’s financial role should have are economic and financial spin-offs for the South African companies and returns on loans, equities and investments. These gains will be postulated when there is financial sustainability of the project as one of the conditions for financing industrial development. Therefore, the IDC role in the SADC region is not driven by the philosophy of corporate social responsibility and human development. The IDC’s entry into any Southern African member state is project driven, financial sustainability of
the project and the economic spin-offs that the project has for South African economy. The project must have elements of returns on equity and loans, financial sustainability and economic development as beneficiation for processing and manufacturing of other goods that can be produced by using South African machinery and companies. For example, in a capital-intensive project that requires machinery, one of the conditions of beneficiation for South Africa is that the machines should be bought from South Africa.

It has to be noted that the IDC as a self financing DFI and SOE has its own objectives that will benefit its business motives, profit making and its globalisation drive.

4.3. The IDC as an IDI, a DFI and a SOE

Through the IDC, the South African government had been central in industrial and economic development of the country. In so doing the Corporation channelled and directed the country’s industrial development by developing, promoting as well as protecting the industries that it felt were essential for the apartheid SA national economy (Hirsch, 1991: 152; Keegan, 1991: 36). Some of the industries that the IDC developed and promoted as part of industrial decentralisation or deconcentration were buffer industries directed at keeping rural people in their Bantustans and to develop the homelands as peripheral areas of the metropolitan South Africa (Hirsch, 1991: 145.) These industries were partially viable as they used cheap black labour in the rural hinterland and from the peripheral areas of black societies as expected under the apartheid economic system (Keegan, 1991: 36). Some of the industries that the IDC developed tried to sustain the apartheid economy and some were part of import-substitution strategy, and they include Mossgas, Atlantis Diesel Engine, Iron & Steel Corporation as well as Suid Afrikaanse Steenkool Olie (Doxey, 1991: 87; Financial Mail, 1988: 41; Financial Mail, 1991: 26).

The IDC assisted the entrepreneurs and private sector with financing of new green-field industries, expansion and rationalisation of industries (Hirsch, 1991: 152). Presently the IDC has not lost its status of being a parastatal. From my observation of how the South African economy developed, the central role of the SA government in economic development is noticeable in various industries. It is noticeable in industries like the Iron and Steel Corporation, mining,
electronics and other subsidiaries where the IDC is a shareholder in the form of loans, equity and financier on behalf of the state (Financial Mail, 1991: 29). Some of these industries include sectors like agriculture, manufacturing, processing and services. One of them is the production of Ouma’s Rusks (IDC, 1971: 1-10). The IDC alone and in partnership with private companies kept the South African economy on its feet. The financing of Ouma’s Rusks, Iron and Steel Corporation and other companies was part of realising the economic development objectives of the country and to provide the goods and services for the South African economy. It was also part of the continuous process of industrial and economic development.

It can be stated that the IDC in the 21st century is still an SOE that has been restructured from serving the apartheid industrial development objectives to be an institution as well as an economic and a financial institution that has to serve the industrial and economic ideals of the democratic SA. The IDC as a DFI is now a cash cow and a cash-generating instrument for the democratic post-apartheid government of South Africa. Its role was, has been and is still industrial and economic development for economic growth. In this case and as part of the IDC’s mission most industries are seen to be concentrated in South Africa, the IDC’s role will be to help in financing industrial development initiatives that include decentralisation of industries to develop Southern African regional member states. Mr Minty (2003) indicated that the IDC role in the region is part of repairing the damage done previously, particularly in Mozambique, which was attacked by SA during the apartheid years.

Currently South Africa is faced with economic and racial inequalities and these pose a challenge to the IDC as to how to reduce the imbalances between poor black people, rich white and the emerging black elite. As an IDI and a DFI the IDC is financing industrial development in South Africa not as FDI but to effect economic empowerment of South Africans through partnership between the local entrepreneurs and foreign investors. In addition, the IDC as an IDI has to provide data about South Africa and finances to prospective private and public companies that want to partake in industrial development through entrepreneurship in South Africa (Peterson and Swart, 1996: 1-10). This time, Mr Silinda (2003), a Senior Legal Advisor at IDC pointed out that the Corporation also serves the economic objectives of the democratic country, which is the financing of national economic development, such as the South African economic empowerment
programmes i.e. black economic empowerment (BEE) to redress apartheid economic imbalances. As a cash-generating arm and a DFI, the IDC through its industrial development mission has to marry profit economic development and economic growth by not making losses in the financing of industrial development related programmes.

It is noteworthy that the IDC’s objectives and mission are to be accomplished on an ongoing basis. In doing so the IDC’s mandate has to be reviewed in line with the Industrial Development Act No 22 of 1940 which has to be amended depending on economic conditions that are to be improved.

4.3.1. The nature of the IDC

This section looks at the legality of the IDC as a self-financing, tax paying company, its implications in financing development in SADC region and its significance to the South African economy. It also looks at the fact that with globalisation, the approval by the government and the amendment of the Industrial Development Act No 22 of 1940, the IDC explores the economies of scale in the SADC region. The IDC is empowered by the Industrial Development Act No.22 of 1940 as it was amended to expand the IDC’s geographical mandate so that it can maximise and increase its cash-generating abilities as it is involved in FDI. As it explores the economies of scale, the IDC is a cash cow for the government and it enhances the self-financing characteristic it has. In doing so it maximises its shareholders value. To maintain and enhance its status the Industrial Development Act No 22 of 1940 had to be amended to allow the IDC to have equities and advance finances as loans for industrial development. The apartheid policies that led to the Corporation’s confinement to its national borders made the IDC unable to expand its mandate to finance development in other countries. As part of globalisation this section presupposes that the Corporation globalises itself to source funds and capital as income to maximise its shareholders’ value. The IDC status of being a national DFI and an economic and a financial institution are governed as it acts within particular agreements and principles.

In legal terms as it is in the company law, South African Companies Act and in the Registrar of South African Companies, the IDC of South Africa Limited is a public company that is subject
to taxation (Republic of South Africa, ND: 1-4; Morse, 1983: 37). Moreover, it operates on business principles as it was registered as a public company (Republic of South Africa, ND: 1-4; IDC, 1971: 3). To kick-start and undertake its business as a SOE, the IDC had to obtain financial capital from its founders and shareholders, the SA government. Procedurally and as part of fundraising finance a share capital of about R10 million was raised and rolled over as a start-up capital for the IDC to start its business. Now of late, the IDC as a self-financing entity must sustain itself by raise fund to finance and initiate new industrials undertakings. The new industrial undertakings are either financed using IDC’s internal finance (that were accumulated through divesting from mature industrial projects, loan profit and dividends from equities businesses and that yield profits) or external finance borrowed from foreign capital markets (Financial Mail, 1995: 65). As a tax-paying body like all the profit making companies, the IDC has a revenue base as markets and activities from which it generates income (Morse, 1983: 12-13). The IDC’s revenue bases are in the form of interest from loans it disburses, return on equities as well as from industries as they yield profit. With the ability to finance and to generate its capital, the IDC is sustaining itself and continuously fulfilling the characteristic of being a self-financing company and the objectives of maximising its shareholder’s value. Through the IDC the government does have ownership, control and a say in means of production industrial development inside South Africa, and in as FDI in economies of some SADC countries.

The IDC’s activities and operations of industrial financing are directed to its mission that involves the fulfilment of the national economic development of the country. The IDC will be continuously operating to the end that the ever changing national economic and industrial development objectives and requirements of the Republic of South Africa are met, planned, expedited and conducted on sound business principles.

Presently within the current development situation in the South Africa, the IDC’s mission is to contribute to the generation of balanced, sustainable economic growth and the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens (IDC, 1999b: 1). With reference to economic empowerment as one of the IDC’s current priorities, the Corporation seeks to redress the economic disparities and inequalities through economic empowerment of the historically disadvantaged in South Africa (IDC, 2002: 56-57).
The IDC hopes to achieve this by promoting entrepreneurship through financing of industries and enterprises (IDC, 1999b: 1). In South Africa, currently, for economic development and economic empowerment to succeed, the IDC must have strategies and ways of mustering resources. As part of budgeting and fundraising the IDC must employ strategies of mustering financial resources which it can use in its industrial development financing mission.

It should be noted that the IDC’s geographical mandate has been re-evaluated, redefined and changed based on the state of development and socio-economic conditions to be addressed. In the quest for accomplishing its mission the IDC is empowered by the Industrial Development Act of 1940 (as amended) to finance initiatives in the region that may directly or indirectly benefit the Southern African regional economy. In a conversation with Mr Moses Silinda (2003), the IDC’s Senior Legal Advisor, it appeared that there are additions in the Act as it is amended. The amendments allow the IDC to have operations in any country or territory as stated in section 3 paragraph (B) subsection (i) and (ii) and section 4 paragraph (A) and (B) of the Amended Industrial Development Act No 22 of 1940 (Republic of South Africa, ND: 1-14; Republic of South Africa, 2001).

The IDC’s mission now encompasses Southern Africa and the African continent (Bridge, 2002: 1). This is seen in the IDC’s establishment of the Africa Unit and the support for NEPAD and its objectives (IDC, 2002: 56; UNECA, 2001: 1-36; Bridge, 2002: 1).

4.4. The IDC’s approach to project development: A general overview

There are two approaches which are discussed here as they are employed by the IDC in development and financing of project. These approaches as indicated by Jorge Maia are proactive and reactive approaches. The discussion on the approach to project development is necessary to show that projects undertaken are not driven by the welfare approach and are not simply falling from the sky, as there are ethics, socio-economic, cost-benefit, political and financial factors to be considered. The IDC has to act responsibly when it evaluates and finances resource-based and agro-industrial projects of industrial development. Mr Vernon Harvey (1999), a project specialist in project development in the IDC, says that in terms of research for a
project the IDC can also develop projects that it finances. With reference to the socio-economic impact assessments of the project the data is obtained from consultants who do research. Regarding the dynamics of the project, its contents and operations these are provided by the developer of the project. This is done in order to ascertain whether intervention by the IDC on an economic and financial basis will help with regard to development, specifically industrial development. The Corporation specifies the data that it requires about the place on the basis of the project that has to be developed and financed. This information is focussed mainly on the nature of the place where the project is to be. It is followed by piloting the project and later the environmental and social impacts. What makes the IDC reactive is the fact that it can be approached for finance to implement a project. At times the IDC identifies and initiates and implements projects based on economic and financial merits that makes it pro-active as indicated in the following section of phases of project development.

4.4.1. The phases of project development

The following section concerns the stages followed by the IDC in the development and financing of projects. Vernon Harvey (1999) for general project development in the IDC says the stages in the development of projects involve the following:

A. identification phase,
B. evaluation phase:
   i. feasibility,
   ii. partners
   iii. pilot project;
C. financial re-/structuring,
D. implementation,
E. after care; and
F. exit.

The identification phase is part of the pro-active characteristic of the IDC’s project development. It involves a pre-feasibility study that concerns research where the IDC gets on raw materials, the nature of resources, infrastructure, people, technological level, etc (IDC, NDb: 1). The pre-
feasibility study is about the place where some form of industrial development has to be done. From the data collected during research the projects are identified. The data obtained gives the nature of the place in question and the resources thereof that help the IDC to identify opportunities to be explored (IDC, NDa: 1-10). After assessing the data, the IDC as a catalyst in development presents it to possible an entrepreneur who is willing to take an opportunity that can be explored in industrial development. At this level the IDC either waits for an entrepreneur or private investor to identify, initiate and undertake the project or it seizes the opportunity.

The evaluation phase concerns the feasibility study of the project that has been identified. The project is firstly assessed on financial sustainability, beneficiation for South Africa, socio-economic merits, environmental impact assessments and cost-benefit analyses based on the plan and its objectives. This is part of the reactive nature of the IDC as to how it responds to the projects that have to be financed. The evaluation of projects involves the questions of shareholders or partners in project implementation. In the case of the IDC, the Corporation itself at this stage looks for an equity partner as part of fundraising and mustering financial resources. Then the identified project is piloted whereby market-based research is done to check the extent of the risks once it is implemented. This is part of project planning and designing, and involves the possibility of markets, commercial viability, socio-economic benefits, cost-benefit analysis and the risk. This process is applicable to any project that the IDC initiates or finances. These procedures are adhered to so as to ascertain whether the projects will be profitable or not because the IDC is not willing give money in basket case and to projects that do not show signs of financial sustainability.

The next phase after checking whether the project meets the required expectation is the financing where money is released. In this phase, due to reasons that are discussed later, there is always a search for partners if the project to be financed is developed and initiated by an entrepreneur. In the Southern African region or any SADC state other than the RSA the IDC limits the finance to a particular percentage ranging from 20% to 35% with a possibility of increasing as time goes by. In this instance, the Moval is a good example as the IDC is an equity partner in a consortium called IDC-Billiton-Mitsubishi. The finances are rolled over to physically develop the project as
part of the implementation phase. In this phase there is a building of an industry or a firm. This involves setting the targets within which the project will have to be completed.

Jorge Maia (1999) says that financing of projects compels the IDC to use a certain classifying model. Projects are classified according to their share capital and different sectors that serve as the guidelines for indexing projects within a financial system and rate of returns on equity and loans. Each project is placed according to its sector, rate of returns, cost and developmental impact within a particular financing index as there are various financial schemes in the IDC which include equity funding, quasi-equity, wholesale fund, loans, export financing, etc. The IDC values a large project, whereby it puts up from at least US$10 million or more. Moreover, the IDC does not finance projects that do not make financial sense with regard to financial sustainability, returns on equity, investment values and economic beneficiation (IDC, NDa: 1-10). In economic beneficiation there have to be processing and manufacturing industries and economic spin-offs for the benefit of the South African economy. In the discussion with Mr Jorge Maia (1999) it appeared that the financing of a project as a FDI involves risk assessment where the countries’ political risk and investment climate are assessed and graded. The study tried to put the risk assessment and grading in Table 5 below.

Table 5. The ratings of investment climate

<table>
<thead>
<tr>
<th>RISK</th>
<th>PERCENTAGE</th>
<th>INVEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Low</td>
<td>20%</td>
</tr>
<tr>
<td>B</td>
<td>Medium</td>
<td>35%</td>
</tr>
<tr>
<td>C</td>
<td>High</td>
<td>50%</td>
</tr>
<tr>
<td>D</td>
<td>Very High</td>
<td>65%</td>
</tr>
</tbody>
</table>

(Maia, 1999)

The level of risk is represented in percentages. If the percentage is high (at 50% and more) when the country’s investment climate is assessed that means there is among others factors political instability and the risks of not getting investments returns are high. If the percentage is low (at 20%) or medium (at 35%) there can be less or none political risks and chances of getting returns
on investments are reasonably there. Between 36% and 49% chances are that there is a political risk and low investment returns that need to be nurtured to a tolerable level and acceptable investments climate of about 35% and 20%. The ratings on Table 5 are interpreted as follows:

A. low risk is classified as economically attractive in terms of investment returns with less political upheaval,

B. medium risk, is classified as attractive but invest cautiously,

C. high political risk is classified as not attractive as there are high possibilities of unrest and low investment returns,

D. very high political risk is not attractive, has a low rate of investment returns, with high chances of dishonouring investment agreements (IDC, NDc)

The significance of Table 5 is to stress that the current role of the IDC in the SADC region or any SADC state is purely for investment. The IDC has the means to assess the investment opportunities through which it can predict the anticipated rate of returns and adjustable foreseeable and unforeseeable rates. If it was for development and not purely for investment, Table 5 would be looking at human development aspects, such as the number of jobs that are going to be created.

Table 5 and the foregoing comments are highlighted by Shihata (1988:1-17), and are what investors look for before a project is developed and financed in any host country. This goes with pre-feasibility and feasibility studies, assessment of the political and investment climates and projects opportunities. This paper views the foregoing comments as part of a pre-feasibility study and analysis of the investment potentials in the host country. Moreover, the methods, criteria and the approaches listed above are the basis on which countries are rated. The ratings vary, as there are grades that differ according to the political risk and rate of investment returns.

The IDC through institutions like the Multilateral Investment Guarantee Agency (MIGA) and Credit Guarantee Insurance Corporation of Africa Limited (CGIC) obtains the information about the risks in any country where there are investment opportunities and possibilities of financing development. This also involves the investment and loan and credit guarantee that the CGIC and MIGA underwrite respectively on foreign investments. Therefore, all projects and host countries
where the IDC’s finance is involved are assessed and rated within economic and financial merits by the Corporation. The assessments and ratings are done within the context of an investment climate for FDI. The following highlighted points are also part of an investment climate that the IDC uses as criteria, methods and approaches to assess and in preparation for project identification, implementation, etc. The following as stated by Jorge Maia, head of Africa-SADC unit in the IDC, are points that are supported by Gandhi, Gray and Mcmorran (1997: 169) and Brewer and Jun (1997: 109-119) when development is financed using external finance:

A. institutional and policy aspects that concern issues like:
   i. political, and
   ii. government stability;

B. macro-economic policies that concern aspects of:
   i. currency transfer,
   ii. exchange rate,
   iii. labour policies,
   iv. trade policies,
   v. balance of payment, and
   vi. fiscus;

C. infrastructural aspects the components of which include:
   i. transport network,
   ii. skilled human resources,
   iii. technology,
   iv. labour discipline, and
   v. productivity; and

D. legal aspects, which focus on the rules and laws that govern direct investments like:
   i. labour laws,
   ii. tax regulation,
   iii. intellectual property rights,
   iv. respect of the constitution,
   v. settlement of disputes between investors and the host government, and
   vi. international agreements that are part of multilateral investment guarantee, etc.
It is noteworthy that the IDC can be involved in any project from the stage of identification to financing. Once the project is up and running the Corporation’s involvement is still noted as it is a shareholder until its shareholding is reduced through divesting and sale of its shares to a willing buyer.

The last phase of the IDC’s involvement in a project is when it finally reduces its presence when it exits by completely selling its shares. In this phase the IDC is divesting from the project by selling its shareholding at a particular price. As part of fundraising the IDC exits totally by selling the shares through sale of its stake at a profit making percentage so that it continues applying its reactive and proactive approaches in developing and financing other projects (IDC, NdB: 10). It sells its shares when the project is financially sustainable, running, matured and doing what it was established for. Although it is not discussed in this paper it is noteworthy that the IDC’s approach in other Southern African countries is not the same as in South Africa with regard to financing industrial development.

The IDC’s proactive approach is noted as the IDC is mandated to develop, initiate, finance and undertake industrial projects, which are deemed to be of importance in terms of finance and economy. In doing so, there are some procedures in the identification and development of projects that are to be followed by the IDC. These include ethos, legalities, cost-effectiveness, ratings, risk assessment, cost-benefit, finance as well as economic benefits and environmental impact analyses.

In view of the foregoing comments this paper states that by incorporating the IDC the government wanted to see to it that it pressed ahead with economic development through industrial development towards economic growth in South Africa. Later with the amendment of the Industrial Development Act No 22 of 1940 Southern Africa and Africa as whole is included for the benefit of the South African economy. Presently in the 21st century the South African government sees the presence of the IDC as it is discussed in this chapter as an instrument through which it reconciles with its neighbours by financing industrial development. It is also an institution through which the RSA is represented, participates in and presses ahead with the idea of regional development in the Southern African region. The IDC’s bilateral arrangement of
development financing in another country is through itself and government ministries i.e. the DTI and South Africa’s SADC unit within the DFA. The IDC does not enter into project financing in another country multilaterally through the SADC regional body. The IDC’s entry into SADC states is not driven by development based on corporate social responsibility. As an economic and a financial institution that finances development, its entry is based on economic and industrial development. If it happens that there is human development as socio-economic spin-offs, such gains may come as externalities or by-products that boost development. The IDC’s presence in the region is evidenced through some of the economic development projects that it financed. Among these projects there is Mozambique aluminium and Mozambique cotton textile that are discussed in the next section.

4.5. Some of the projects where the IDC is involved in Southern Africa

This section focuses on economic and industrial development projects where the IDC is involved with its cross-border financing of industrial development in one of the SADC member states e.g. Mozambique. The IDC’s cross-border development financing is with reference to the Mozambique aluminium smelter (Mozal) and the Mozambique Cotton Textile Company (Mocotex) projects as identified in this paper (IDC, NDc 1-3; IDC, NDd: 1-5).

With reference to Mozal mainly the there are other aspects influence the IDC’s involvement in cross-border financing of development. In my discussion with David Monyae (2002) of the Centre for South African and African International Relations it appeared that the South African economic conditions and the foreign policy stress South African integration into global society. Being part of the global and regional community should be through regional integration and regional development which both inform the IDC’s expansion into Southern Africa. Dr Masiza Zondi (2002) in the South African Foreign Affairs Department confirmed that the foreign policy of the RSA stresses integration and is pro-regional integration. Chris Landsberg from the Centre for South African and African International Relations states that the IDC’s involvement development financing in Southern Africa may be imperialistic because the RSA is the economic powerhouse in the region. The South African comparative advantage in terms of its level of development, infrastructure and economy when compared to other regional members informs its
foreign policy as it is seen to be giving leverage to the Republic to exert some economic hegemony on the region. The comments by the three interviewees as stated in section 4 paragraph (j) of the amended Industrial Development Act No 22 of 1940 also go to the extent of linking the IDC’s focus of trying to reduce the current socio-economic inequalities in SA through industrial and economic development. With these comments this mini-dissertation that the IDC’s participation in the SADC region is part of the continuous quest for realising the South African national economic development objectives. But this time the IDC’s quest for financing and realising the South African national economic and industrial development objectives takes a form whereby the Corporation’s fundraising involves having FDI.

Being part of the joint venture in financing of Mozal and Mocotex is part of the IDC’s risk aversion strategy and to share loses and the returns on equity with others. Mr Dick Du Mhango (1999), an economist at the IDC states that the financing of Mocotex and Mozal has been done on the basis of exploiting the comparative advantage that South Africa has in the region and exploring economies of scale in Mozambique where it is cheaper to build a Mozal and to have a cotton farm. Therefore, for the IDC to have both a cotton farm and a smelter in Mozambique is cheaper than to have them in South Africa. The current financing of economic development that the Corporation does is what Mr Solly Mapaila (2002) is critical of. Mr Mapaila is critical of it because the IDC does it best solely for investment returns. In a interview with him (Mr Solly Mapaila) it appeared that the current financing of economic and industrial development by the IDC is part of industrial clustering where there are Mozal dependent economic spin-offs such as cluster industries are like a cascade that depends on the industrial zone where the smelter. According to Mr Mapaila then a dependent economic and industrial development exists which he claims is unsustainable.

Against the foregoing comments it is noteworthy that already the Industrial Development Act No 22 of 1940 has been amended. In 1997 the Industrial Development Amendment Bill amended section 4 paragraphs (g) and (h) of the Industrial Development Act No 22 of 1940 to allow the IDC to have operations in Southern Africa (Republic of South Africa, 2001). This is noted in the IDC’s mission as it is highlighted in the Consolidated Business Plan 1999 and 2000 where it is stated that the IDC operates in a rapidly changing environment, demanding continuous
monitoring and corporate flexibility (IDC, 1999a: 1-2). Subsequently, it re-evaluated and re-focused its strategic direction to transform itself into a more efficient, focused organisation, aimed at driving development in South Africa and Southern Africa in a commercially sustainable manner for the benefit of the South African development and economy (IDC, 1999b: 2). In its continuous re-evaluation of its mandate the IDC begins by financing Mozal and Mocotex as projects chosen for this study.

Mozal and Mocotex were chosen because they were the first projects that the IDC implemented as FDI. They were also chosen to highlight the fact that Mozal and Mocotex as economic development projects are FDI. As they are FDIs both have beneficiation and economic development prospects. The IDC’s involvement in Mozal and Mocotex is interpreted as FDI because they were implemented using external financial capital. Although the socio-economic benefits of human development are not part of the study, both Mozal and Mocotex have unaccountable job prospects for the local economy. Therefore, Mozal and Mocotex for the purpose of this research both fall within the context of external financing.

The projects where the IDC is involved in Southern Africa appear on the project map (see appendix V). Next to each project there is the IDC logo (appendix VI). The significance of the IDC’s logo is to identify the projects which the Corporation is part of in financing. The Mozal that is discussed in the next section also appears on the project map.

4.5.1. The Mozal project

Mozal is a large capital-intensive project. Its existence in Mozambique implies that it is subject to or incorporated under the Mozambican company law. To incorporate and to set a physical structure of the magnitude of Mozal, a large amount of financial capital was pumped in. For Mozal to commence its business operations, an undisclosed amount of share or start-up capital was rolled in. In this instance Mozal as a plant a company, now has powers to borrow money from international markets to finance its objectives and business operation. Mozal falls within the context of industrial development. As it is in South Africa where there are two aluminium smelters (Bayside and Hillside) in Richards Bay, Mozal too is a plant and a factory i.e.
aluminium factory in Maputo, Mozambique that produces a light (non-heavy) metal called aluminium (BHP Billiton, ND: 1-5; Mozal 2001). According to Mr Thabo Mbeki’s (1998) regional development speech at Rand Afrikaans University Auditorium, a smelter in Mozambique was supposed to have been built in South Africa as a third aluminium smelter. But due to various factors which amongst others include the high cost of having it in South Africa, the fact that the Republic already had two it was relocated to Mozambique and built as Mozal. Accordingly, the IDC as a financing arm of the South Africa government it was approached by the government to look into financing, raising funds and take part in building a smelter in Mozambique for producing aluminium. Like steel, aluminium is a metal but is lighter than steel in terms of weight (Malan and Paterson, 1987:1). Ore is needed to produce aluminium. There has to be a plant with a smelter to burn and heat the mineral or ore as a raw material. Within the context of mineral economics, the natural composition and occurrence of aluminium in nature as it is contained in bauxite deposits, is a compound combined with oxygen and hydrogen.

For the production of aluminium as a metal, mining activity is involved. Firstly there is raw material from ore (a rock or clay material as a mineral or resource that can be economically mined for economic and production purposes) that has to be mined. Within the context of extraction the ore that contains the bauxite as the main raw material for the production of aluminium is mined. The mining of the aluminium ore is not done in Mozambique. The ore comes from Australia.

Mozal is indexed as a large project and its cost amounted to $US 1, 3 billion (IDC, NDb: 1-2). Moreover, Mozal is a FDI and a green-field project. Because of its newness in Mozambique since independence 25 years ago, there has never been anything like the Mozal until the construction started in 1998 (Mutschler and Tanzberger, ND). The production and shipping of aluminium ingots started in August 2000. The SADC does not own Mozal, and does not have a share in the project as it is only represented strategically through Mozambique and technically in terms of the trade protocol as well as policy formulation.

The question of why the IDC is investing in aluminium is slightly answered by referring to external financing of Mozal as it falls within the context of capital inflow and direct investment.
With Mozal only, Mozambique as a HIPC has had US$1.3 billion as financial inflows and direct investment (IDC, NDb: 1-2). In terms of shareholding and financial contributions the study tries to put it in a table form as shown in Table 6.

Table 6. The equity funding, loans, smelter cost and shareholding in the Mozal

<table>
<thead>
<tr>
<th>Mozal and FDI in Mozambique</th>
<th>Billiton</th>
<th>IDC</th>
<th>Mitsubishi</th>
<th>Financial loan from</th>
<th>Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital inflows in: US$ 1.3 bn</td>
<td>Total equity funding from the Billiton-IDC-Mitsubishi joint venture (Mozal shareholders) in US$: 500 mn</td>
<td>US$ 820 mn lent to Mozal shareholders</td>
<td>Country where Mozal company is</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholding in US$</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td>Undisclosed loan guarantee/security</td>
<td>Preferential shares in US$: 20 mn</td>
</tr>
</tbody>
</table>

Table 6 shows who has contributed what in the financing of a US$ 1.3 billion Mozal. It also shows sources of US$ 820 million residual finance that supplemented the IDC-Billiton-Mitsubishi US$ 500 million equity. Since some information is confidential, the table tries to simplify the complexity regarding financial agreements (Billiton-IDC-Mitsubishi joint venture as Mozal shareholders) and how Mozal is financed. It shows the total cost of putting up Mozal, and this include the size of the land, equity funding put by the IDC-Billiton-Mitsubishi joint venture and the guaranteed loans. It shows that Mozal is FDI in Mozambique, and therefore, the host country was not lent financial capital to finance Mozal. In addition, Mozambique did not put equity fund in Mozal, but it provided with 140 hectare of land as an industrial zone where the smelter is. In return for 140 hectare of land Mozambique is allocated preferential shares to the value of US$ 20 million (BHP Billiton, ND: 1-5). Therefore, the Mozambican government has only preferential shares of US$ 20 million as it contributed only with its territory as well as complicated agreements and an undisclosed number of years in tax incentives (Financial Mail, 1998: 48).

Regarding the allocation of preferential shares in return for 140 hectare of land, possibilities of shadow pricing may exist as the land value could be more than share value of US$ 20 million. In
addition to possibilities of shadow pricing and using the site as an industrial zone, preferably the land could have been used for agriculture, settlement and eco-development. Concerning a guaranteed loan, the Billiton-IDC-Mitsubishi consortium secured credit and got loan funding to the value of US$ 820 million from the Development Bank of Southern Africa (DBSA), the international financial intermediaries like the International Finance Corporation (IFC) and some registered South African banks (IDC, NDc: 1-5). The US$ 820 million loan required security as an insurance and risk cover. The IDC, CGIC, MIGA and other institutions participated in providing the undisclosed loan guarantee as part of reducing the risk of borrowing and lending of money. In the financing of Mozal the IDC participated in providing equity funding, loan funding, and it arranged security and risk cover (IDC, NDc: 1-5). Giving a security or surety and guarantee to a smelter as an investment and to loan implies that there is a pledge for risk cover as an insurance in case the Mozal fails.

In a discussion with Jorge Maia (1999) I adduced that there is industrial decentralisation in South Africa that led to locating a smelter in Mozambique, and this was done on the basis of the low cost of production of aluminium, low demand in wages and salaries in the labour market and a reduction in the cost of the shipping of aluminium for international exports. The IDC’s participation is based on the returns on equity and acting as a catalyst for attracting investments, fundraising finances for a smelter and to develop confidence in Mozal. In the Mozal the IDC financial equity and contribution is at US$ 125 million, and that excludes the undisclosed loan and the undisclosed insurance cover. Billiton’s contribution is US$ 245 million and Mitsubishi invested US$ 130 million towards a US$ 1.3 billion for the construction Mozal (IDC, NDc: 1-3; IDC, NDd: 1-3). Therefore, Mozal is part of economic and industrial development. It is mainly because 100% of Mozal funds are foreign financial capital in which the IDC’s real investment or expenditure towards financing the construction of the plant is US$ 125 million (25% of equity fund). This IDC equity funding, loan funding and insurance cover as real investment is part of FDI for the Corporation and the South African government.

The IDC’s status or value is measured in terms of its contribution in developing Mozal and percentages in shareholding when financing a project. Its shareholding in terms of equity funding is limited to 25% of the total cost of the Mozal. Its status is of high significance as it has
managed to organise and look for equity partners who have knowledge of aluminium as a mineral which Billiton and Mitsubishi do. Billiton contributed 49% and Mitsubishi 26% of the total cost of Mozal. The limited financing value and the approach of partnership is due to the risk that the IDC does not want to bear as it is still committed to national development of South Africa.

Within the context of projects like Mozal which are targeted and financed by the IDC, there are beneficiaions that come as added value to the economy. This involves the purchasing of the machinery from South African companies. In terms of job creation, Mozal has minimal contribution because it is a capital-intensive project which has high degree of uncertainty and high risk in terms of the returns on equity and the amount of financial capital it required. Therefore, development benefits from Mozal must not be understood within the context of human development where there is amongst others employment opportunities. The financing of capital intensive projects that require large amounts of financial capital on the bases of the number of jobs they create does not augur well with investment because there will not be employment as beneficiation that is expected as one of the aspects of context of human development. Due to the fact that Mozal was conceptualised and planned and financed with the idea cost cutting, financial returns on equity and investments financial returns the ideals of human development will be a dream.

The developmental benefits from Mozal for the IDC must be understood within the contexts of investment through which it was conceptualised, financed and developed. The gains thereof should be analysed and divided into phases as they include the construction and operational phase after construction, within its objectives. The gains from Mozal will vary from diplomatic, market, and socio-economic to political ones. Mozambique as a Southern African member state and the SADC as a regional body are not entitled to Mozal, except that the Mozambican has US$ 20 million as preferential shares not from equity fund. The SADC organisation never contributed a cent to the project. Bilateral agreements between the South African and Mozambican government brought about Mozal to enhance the diplomatic relations between the South African and the Mozambican governments. In Mozal also there are trade agreements as 500 000 tons a year of aluminium ore is imported from western Australia and 60 000 tons of alumina will be
exported to the Far East (Financial Mail, 1998: 48). Therefore, it’s a true reflection of the on-going regional integration efforts by the SADC member states under regional development.

As a capital-intensive project, Mozal is a world class, low cost and a high quality aluminium producer. In terms of job creation, which is not part of this study, there have been only 5000 jobs created during construction (Kriek, 2002: 1-10). This figure includes 2600 jobs in support industries and it’s justifiably assumed that 90% are being occupied by Mozambicans (Kriek, 2002: 1-2). After the construction of Mozal as a capital-intensive project, there will be a decline in jobs within the smelter from 5000 to a lower figure where jobs will be shed through mechanisation. There are spin-offs that come with Mozal and they include spatial development initiatives (SDIs) as projects that concern transport infrastructure (Lekalake, 1998: 1-3). These SDIs will have some employment benefits where jobs will be created. The economic spin-offs that will result from Mozal are SDIs because aluminium has to be shipped for export to international markets and beneficiation for the South African economy. Moreover, the ore for aluminium production and processing has to be imported from various countries that have aluminium ore deposits. Therefore, within the context and as part of SDIs the Mozambican harbours, rails and other forms of infrastructure for transportation purposes have to be revived and developed to serve Mozal. The performance of Mozal is that 1600 tons of aluminium ingots (bars or sheets of aluminium) from the smelter were shipped in August 2000 through the newly refurbished Mozambique Matole Harbour (BHP Billiton, ND: 1). In terms of expectations from Mozal, the smelter will generate 250 000 tons of aluminium per year for international exports and the production will be doubled as it also owes its presence to the high demands of aluminium world-wide (BHP Billiton, ND: 1; IDC, NDb: 1-2). In a discussion with Jorge Maia (1999) it was pointed out that the economy of Mozambique would be boosted by US$ 400 million in terms of foreign earnings from exports. In this mini-dissertation that US$ 400 million is not enough as there are still more human development challenges, debts and other problems that Mozambique faces.

Regarding returns on equity for the IDC, presently Mozal is paying dividends as undisclosed amount of money to the Corporation as a shareholder. The mentioning of dividends signifies the fact that external finances in development are a part of investments that contribute to economic
surplus generated in Mozal being drained. Instead of being used in a domestic economy for other industrial projects the surplus is taken out as dividends in investments. Mozal as a project makes financial sense as it is now self-sustaining through exports of the aluminium that is produced.

4.5.2. The Mocotex

Mocotex is a small project, agrarian in character and the secrecy of undisclosed share capital makes it incomparable to Mozal. The cotton project is small in character and is part of the host country’s (Mozambique) economic revival or renewal. Mocotex is one of the farms and a company in Mozambique where cotton plant is grown for the production of cotton fibre (Mocotex Limitada, NDa). In Mocotex the IDC has 75% of shareholding (Mocotex Limitada, NDb). It also has a ginnery, a factory where cotton is processed by being spun, woven and threaded for the production of cotton yarns and threads. There is a combination of growing activities whereby village people grow cotton that is later taken and sold to the nearby factory for ginning. In the growing of cotton according to Mr Dawid Van Wyk (1999), the IDC textile specialist, Mocotex is part of an outgrower concept. People in the outgrower concept do not have gins as machines. They only have the land on which they grow cotton (Mocotex Limitada, NDc). Once this cotton is fully-grown and ready for a ginner people sell it to a cotton industrialist nearby who also relies on these cotton growers. It means that there is co-ordination of work, as the ginner cannot work unless there is mature cotton, which is planted. A ginner and the farm complement each other. Cotton is a fibre from which materials for making clothes (shirts, trousers, etc.) are made. Like wool and silk, cotton too is natural and can only be made available organically and naturally by tilling the soil.

The Mocotex project is agrarian in character and encompasses environmental economics and an ecological dimension, hence eco-development. Although cotton is a cash crop and export oriented, it creates jobs and provides cash or income for some Mozambican village people so that they cannot only rely on subsistence living. It also has economic spin-offs as beneficiation for South Africa in terms of supplementing and protecting its textile industry.
Mr Dawid Van Wyk (1999) said that the project started in 1997 as it was realised that there was a need for enhancing the South African cotton industry. It became an opportunity for the IDC as it asked itself what it could do to enhance the cotton industry in South Africa that is undersupplied with the cotton. Moreover the agricultural industry in South Africa is undersupplied with cotton growing activities because the environment is not good for growing cotton within the country.

Mr Dawid Van Wyk of the IDC said that according to the South African Cotton board as a regulator of cotton supply, the South African cotton supply is presently at a half of 75% requirements, that is 80 000 tons per annum. South Africa is undersupplied with 40 000 to 45 000 tons of cotton. Based on the preceding comments the existence of Mocotex is based on the principles of supply and demand as the need for quality cotton in South Africa is high and at the same time the supply is limited based on nature of the land. As the IDC has a specialist in textile industries, namely Mr Dawid Van Wyk (1999), it was realised that with the advent of development integration some SADC countries’ agricultural sectors are good based on the nature of the land. It was that Mozambique is a place for growing cotton.

The enhancing and supplementing of South African cotton became a programme and a project that involved the identifying of a country where quality cotton could be grown. It appeared in the discussion in the identification phase and in the pre-feasibility study that the project site was identified as Mozambique because of the fact that during Portuguese presence there had been cotton-growing, spinning, weaving and ginning activities that were eventually arrested by war. In an interview with Mr Van Wyk (1999), he says that in feasibility studies it also appeared that in Mozambique where the project is to be, there are concession areas whereby there is land available to make a profit out of cotton.

The availability of the land is based partly on human development and the out-grower concept whereby the village people where Mocotex grow cotton as part of people’s economic activities and for income. Once cotton is grown in the village, it is sold for commercial purposes to farmers and factories with ginnery or gini-factories. In a ginnery there are machines for spinning cotton. As village people cannot afford to buy the machines for ginning of cotton, in some areas
cotton planting and production is shared by the villagers and the ginnery operators. The village people who grow it sell cotton for spinning to the people with the ginnery.

The value of the IDC in Mocotex is linked to its shareholding and the socio-economic benefits thereof. The IDC’s involvement in holding 75% of cotton production in Mocotex falls within FDI (Mocotex Limitada NDlb). The reasons for undertaking this FDI are mainly linked to natural resources, access to cheap labour and growing raw materials like cotton, cost of operation and efficiency and desire to protect the South African cotton industry. The IDC’s decision to have a high equity fund in Mocotex is due to the fact that there were no equity partners willing to take part as Mocotex is a small low cost project with a share capital that is below R200 000. In Mocotex the Mozambican government has 25% share of equity fund. Mocotex is another economic renewal project as the IDC is involved in reviving what once existed and secondly in the quest to meet the demand of cotton in South Africa and for international markets. Cotton is in demand as it used for clothes that are of significance to the welfare of people in general.

Mr Dawid Van Wyk (1999) says that Mocotex was developed and implemented towards the general elections in Mozambique. Its successful implementation was controversial and politicised on the basis of the fact that the government used it to win the votes in the area where Mocotex is situated. Development projects like Mocotex have a high political content that can be clouded by controversy when their legitimacy is challenged.

4.6. The IDC, Mozal and Mocotex

Both Mozal and Mocotex do have qualities, expectations and characteristics of economic development objectives where it is anticipated that both have potential for expanding and widening income-earning opportunities in the form of wages and salaries. Mozal and Mocotex are located specifically in Mozambique, and that make them not trans-frontier economic and industrial development. Both do not qualify to have a quality of being true regional economic development projects in Southern Africa. Both are industries that are on the supply-side of the economy as they are meant for export purposes and particularly Mocotex utilise the resources of the region maximally. The questions of the extent to which the Mozal and Mocotex are valuable
to development require another study. In both projects the IDC is participating under the banner of regional development where the Corporation acts as a catalyst that facilitates FDI and attracts finances for financing of economic industrial development. The IDC’s participation is part of the SADC’s strategy of calling DFIs. With reference to financial inflows, the IDC’s finance in Mozal and Mocotex as FDI are justifiable because Mozambique’s HIPC characteristics. Considering the fact that Mozal’s share and venture capital is US$ 1, 3 billion and Mozambique’s GDP in 2000 was US$ 2, 1 billion, the country could not have afforded to set up the Mozal. Therefore, in Mozal the IDC has managed to contribute by acting as a catalyst to attract the financial capital and being part of the consortium. With reference to financial inflows in both the Mocotex which its share capital is ± R200 000 and Mozal, such FDI is still meagre because Mozambique and Southern Africa as part of Africa still remained firmly mired in the margins of the global economy as the continent received only a mere 1, 2% of the global FDI of US$800 billion in 1999 as the latest United Nations (UN) figures show (Mnyanda, 2000:1).

Implementing economic and industrial development projects through external financing involves a practice of profit making where the returns on equity or loans are the main concerns. Implementing industrial development programmes using external finances may lead to economic piracy, economic imperialism and perpetuation of the scenario where economic surplus is drained. With reference to Mozal and Mocotex, Mr Moses Silinda, a Senior Legal Advisor at the IDC, denies that the Corporation’s financing of industrial development projects involves a practice where there is profit making and a drain of economic surplus that is generated. In addition, the IDC in its mission states that its finances are not for dominating Southern Africa, not for economic piracy and it does not intend to exploit or drain economic surplus (Spira, 1998). Considering the fact that Mozal and Mocotex are FDI the question of draining economic surplus as one of the qualities and practices in FDI is inevitable. As Mozal and Mocotex are FDI, the IDC did not provide loans to the Mozambican government nor the SADC, but the Corporation is a shareholder and an equity partner in both undertakings. As the IDC is an equity partner in both projects, it is possible that in one way or another there will be a drain of an economic surplus. With reference to a financial structure in both Mozal and Mocotex, neither the SADC regional body nor the Mozambican government owns these projects. Both SADC regional body and the
Mozambican government contributed nothing in the implementation of both Mozal. In this mini-dissertation Mozal and Mocotex are FDIs implemented through external financing.

Although it is unaccounted in terms of economic development, it is anticipated that Mozal and Mocotex projects will contribute and boost the GDP of the host country. Both have the potential to contribute towards creating a balance in the structures of production and reduce lop-sided development in the economy. Mozal is a green-field and a capital-intensive project where there is mining and processing of aluminium ore to produce and manufacture aluminium. Mocotex is more agrarian in character. Therefore, both Mozal and Mocotex have the potential to supplement the structures of production in the economy because they are different sectors with different economic activities.

It is noteworthy that during the designing of this research Mozambique was the first SADC member state where the IDC participated in cross-border development financing. Other initiatives followed as the IDC is now financing development right across Africa.

4.7. Conclusion

The IDC has been discussed from the vantage point of being a financial institution, DFI, SOE and an IDI with a legal status and economic development mission. It has undergone some reforms that are in line with its mandate. Its mission was configured with enactment of the Industrial Development Act No 22 of 1940 to give the IDC a mandate of economic and industrial development. It does that by initiating, financing and being a partner in industrial undertakings that are part of economic development. It does that as part of the mission which it was established for. In its mission as a business and economic DFI, the IDC has to be a self-financing institute. In doing so the IDC must have revenue bases for being a self-financing institute. To maintain its status of being a self-financing state-owned IDI, the Industrial Development Act No 22 of 1940 was amended to allow the IDC to finance industrial projects outside SA. The projects outside South Africa are FDI and are part of economic development. The development financing approach in the SADC states will not be the same as in South Africa because of the fact that the expansion of the IDC’s geographical mandate does not mean that the IDC is a regional DFI. And
for that matter the IDC is still committed to the national economic and development objectives of South Africa. The IDC entry in regional development has historical and political dimensions that have been discussed from the legal point of view i.e. South African legal framework and with reference to the amendments that were made to the Industrial Development Act No 22 of 1940.

With reference to the projects like Mozal and Mocotex as FDI which the IDC financed these projects are to be understood within the contexts of industrial and economic development and external finances have been used in their implementation. The value of external finances in these projects is not measured on the basis of what their contributions are in terms of human development. It is according to return on financial equity as the expected rate of returns when divesting, selling off of shareholding and when the project is up and running as a point of exit. This also depends on how long the investors want to keep holding on to the projects. The implementation of cross-border economic development financing programmes by the IDC has been operationalised by the start in Mozambique and is boosted as well as aided by some of the projects that have been discussed. The IDC’s participation in implementing Mozal and Mocotex projects is part of the Corporation’s FDI programmes and globalisation strategy and also it is the partial fulfilment of what the SADC as a regional body cries for i.e. financial capital as foreign direct investment to finance industrial development in Southern Africa.
CHAPTER 5
SYNOPSIS AND RECOMMENDATIONS

5.1. Introduction

This chapter attempts to provide realities and a coherent picture of the current role of the IDC with regard to financing of industrial development in Southern Africa. It mainly looks at the financial implications of external financing of development projects. It looks at whether there are elements of development in regional development that is being financed by the IDC. It also looks at what is in for the IDC as it is involved in FDI. It also gives some recommendation with regard to how to finance regional development in Southern Africa.

The cross-border development financing that the study is about has been approached from the modernisation point of view where there has to be socio-economic and political change towards industrial development as part of development in Southern Africa. The changes within the member states and in the SADC region are part of the modernisation process that is happening within the context of regional integration, an aspect of globalisation. The need for regional integration and the results thereof are evidenced through political and economic as well as organisational changes in Southern Africa i.e. from the SADCC to the SADC. The changes involved integration and they resulted in market integration to allow the SADC members to talk collectively of regional development in the Southern African region. With regard to regional development in Southern Africa one of the focuses is to develop the economies of member states through industrial development. In implementing industrial development, finances are imperative and the need for financial resources is noticeable in the SADC’s financial plan that calls on the DFIs to help in implementing industrial development projects as part of regional development in Southern Africa. The implementation of industrial development programmes through external finances is made possible by the fact that there is neo-liberalism and the SADC trade protocol. The SADC trade agreements and the SADC’s fundraising and financial structure plan are part of neo-liberalism, a philosophy that emphasises external financial capital inflows in financing of development. Foreign capital helped in implementing Mozal and Mocotex as industrial development projects and FDI.
Regional integration agreements in Southern Africa which resulted from multilateralism and globalisation led to structural changes that brought about the vision of regional development and the inflow of external finances in industrial development. These changes include structural changes in South Africa and in other Southern African member states. The changes include the transformation of the SADCC which led to the formation of the SADC. The SADC focused on regional integration that led to market integration for industrial development. Regional integration, market integration and regional development efforts in Southern Africa have witnessed the entry of the IDC with the aim of financing industrial development in the region. The reasons for the IDC’s entry in the SADC region is amongst others the process of regional integration as it takes place within the context of neo-liberal principles. In addition, the IDC is empowered by the amended Industrial Development Act No 22 of 1940 to finance industrial development initiatives outside South Africa. The Corporation’s willingness to be part of development in Southern Africa is legitimate. The Corporation’s entry is also backed by the fact that the Southern Africa regional body invited the DFIs to finance industrial development as part of regional development because the SADC has limited financial capital and it does not have a regional development financing institution. Moreover, regional integration as it proceeds in the SADC region is directed at economic development in Southern Africa. The vision of economic development in Southern Africa is a good one. The strategies of financing regional economic development programmes do not augur well with the study because the IDC’s finances have implications which are highlighted in the next section

5.2. The IDC, FDIs, regional development and the financial implications thereof

The IDC’s financing of projects like Mozal and Mocotex as FDI are the Corporation’s investment for the purpose of industrial development where there will be return on equity in the long run (Stiegeler, 1976: 214 and 358). The finances as FDI from the IDC are what the SADC need for regional development. With reference to the Corporation’s and the SADC’s view of regional development in Southern Africa, there are different perspectives. These differences are noticeable in the approach by the SADC and the IDC in regional development in Southern Africa. The SADC does not contribute a cent in financing Mozal. In addition, the differences in approach are evidenced in the IDC’s financing approach The IDC’s finances are project driven in
a specific country. In this case the IDC’s finance as external funds are focused on FDI i.e. the Mozal and Mocotex as specific projects in Mozambique.

The SADC’s and IDC’s view of regional development is not what this mini-dissertation hopes for because it is a case where the Corporation deals with specific projects such as Mozal and Mocotex in a specific SADC member state. In addition, the amendment of the Industrial Development Act No 22 of 1940 to expand the IDC’s geographical mandate has nothing to do with realising development objectives of Southern African member states. The Corporation is a national DFI that is only interested in achieving its ever-changing national economic development objectives for which it is established. In the quest for achieving and having enough financial resources for its national development objectives, the IDC should participate in financing industrial development as FDI in Southern Africa. The IDC’s interpretation of development is limited to financial sustainability of the projects as FDI that must have beneficiation for the South African economy. Through the IDC the South African government has interest and ownership of production in Mozal and Mocotex as FDI. The question of how long the South African government will have these FDI is not part of this study. Regional development that the IDC and SADC talk about is one where the benefits of financing development in any Southern African member state results from externalities of any industrial development related project. In external financing of industrial development in SADC region, the ideals of regional development i.e. raising the living standards of the people as part of human development will come as neighbourhood effects or economic externalities of financing industrial development. Although external finances as FDI in a country have political implications that amongst others include resources drains, but there are elements of development that they have.

5.3. The elements of development.

The elements of development that the IDC’s financial role has in Southern Africa are within the context of FDI for economic development. With reference to a SADC state like Mozambique where the IDC finances are used there will be elements of development. The elements of
development will result in externalities in the form of economic externality or neighbourhood effects known as beneficial externality or beneficial effects (Pearce, 1986: 144).

Among other elements of development as economic externality in the financing of a green-field project like Mozal are the SDIs and opportunities for the new entrants as entrepreneurs and employment (Stiegeler, 1976: 291). Another factor as Kriek (2002: 1-34) says, SDIs as projects were developed and that benefited the economies of Mozambique, Swaziland and South Africa. In terms of economic development and as part of modernisation and changes in the structure, sectors and activities of the economy, Mozal is the best example. Mozal is the best example because it is a project where the IDC finances are employed to help in supplementing the sectors of the economy in Mozambique. Mozal as a secondary sector does require aluminium ore as a raw material from mines where there is aluminium deposits that are accessed through mining as a primary activity of the economy. The processing of ore in secondary sector in Mozal is followed by the distribution of a finished product such as aluminium ingots that require a tertiary sector. Having green-field project like Mozal is good for development, but financing it with external funds is something else which the study refers to it as South African or IDCs interest and FDI in Mozambique.

With reference to the idea of reducing unbalanced development in the economy and balancing the contributions by the sectors of the economy, the IDC has tried to diversify its financing role by financing Mocotex as an agrarian project. Although both Mocotex and Mozal are FDI, the role of the IDC in financing them is part of bilateral agreements between South Africa and Mozambique and is part of business practices where there is an establishment of joint venture.

5.4. The stylised facts about the IDC’s financing of development in Southern Africa

The reality of the IDC’s financing of development in Southern Africa is that of the beneficiation and continuous development of the South African economy. The IDC’s finance in implementing economic development initiatives outside South Africa is what Pheko (2002: 5) and Tandon (2002: 4) call economic imperialism. In addition, this paper sees the IDC’s finance outside South Africa as a strategy through which the corporation gets FDI and may be gradually behaving like
a MNC and a conglomerate or empire that finances industrial development. Although the beneficiation of the South African economy cannot be quantified, but within the context of FDI the IDC’s funds in Mozambique or any SADC state make the South African companies to benefit directly or indirectly. As it is said earlier on the IDC’s involvement in financing industrial development outside South Africa attracted the DBSA and other registered banks of South Africa which participated in providing loan funding to the IDC-Billiton-Mitsubishi consortium.

Although Swaziland, Mozambique and other nearby countries are said to benefit from Mozal and Mocotex, the focus is on the South African economy as the study concludes. The benefits to countries like Swaziland, Zimbabwe and other regional member states are not substantial in the sense that these states do not receive direct economic benefits. The South African economy is the main beneficiary in the sense that the exporting of financial capital by the IDC to Mozambique comes with conditions. These conditions include amongst others the fact that the physical capital such as the machinery for Mozal has to be purchased and imported from South Africa to Mozambique. That on its own generates export earnings for South African companies. In addition, the IDC as a shareholder in Mozal and Mocotex will in the long run sell its shares at a price to realise the return on equity. The financing of Mozal and Mocotex under the banner of regional development is incorrect or improper because these two projects are not trans-frontier industrial development or regional development projects and are specifically located within one country.

In financing development initiatives in Southern Africa the IDC talks of development but with a focus on financial returns. In projects like the Mozal and Mocotex there are gains that the study does not have an account of as they flow into the IDC coffers. As the IDC is now financing development in Africa it will be proper to look at what the Corporation does in the continent. This is necessary to clarify some issues that have not been addressed in this mini-dissertation.

5.5 Conclusion

Firstly, it is worthwhile to acknowledge that when this research was formulated, designed and conducted the IDC was only in the SADC region. During the time of collating and report writing
the IDC’s mandate was expanded beyond Southern Africa to cover Africa. This is noted lately as the IDC begins to finance NEPAD programmes. The IDC’s participation in Southern African economic development falls within FDI where the Corporation acts as a catalyst for attracting investments into Southern Africa. This is based on the fact that the Corporation is in partnership in Mozal and Mocotex. That in itself shows the success of the IDC in acting as a catalyst in attracting direct investments. FDI is what the SADC as regional body is looking for in industrial development in Southern Africa. The question of whether the IDC’s ability to attract more investment and finances into Southern Africa excluding South Africa will be sustained is marked by a high degree of uncertainty because internally in the RSA, the IDC’s focus is on economic empowerment for South African nationals.

The benefits from development efforts in Southern Africa are noted as there are projects like Mozal and Mocotex that have economic spin-offs. The spin-offs are noted as there are other projects like SDIs that are developed because of Mozal and the Mocotex. Although these projects including Mozal and Mocotex are still at early stages in terms of the period and the time of their development, they are meant to revive the economy of Mozambique and create jobs for the local people. The values of these two projects are not measured in human development terms because when they were conceptualised and implemented financial returns were a priority. This brings in the fact that the IDC’s approach in project financing in the SADC region is systematic and procedural as there are phases used from project development phase to appraisal stages. Their sustainability can only be assessed in ten years from the time of implementation to verify whether Mozal and Mocotex do live up to development expectations of SADC regional body.

For the SADC region to have a sound economic development approach what should happen firstly is that the vision of regional economic and industrial development has to be strengthened through institutional development. Institutional development should take the form of having an industrial development institution as regional a body. In doing so the SADC as a regional multilateral body has to set up a task team or a division within itself that will be in charge of industrial development in the region. This should involve the establishment of a regional development fund that will work with state owned DFIs and the private DFIs from regional member states in identifying and financing industrial development projects. Within this context what the IDC should be doing in the region is to assist with financing development initiatives not
as FDI. The IDC’s focus in financing mainly should be on helping with realising human development. Therefore, in doing so the IDC should be in partnership with the SADC regional body. The SADC as a regional body should then encourage other DFIs from regional member states to be part of financing industrial development in Southern Africa. If that does not augur well with the SADC regional body, then Southern African member states must fundraise by being equity partners and their financial contributions should form an equity fund of 80% of the cost of an industrial project. That 75% should contribute towards financing and undertaking industrial development projects in the region and to avoid what may appear as economic imperialism. If 80% of financial resources to implement industrial development come from within the region or a country where an industry has to be developed then external finances should be limited to 25% of financial inflows. That 25% of external finances should supplement the finances for industrial development and to help in realising human development in Southern Africa regional member where there is industrial development.
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Appendix I: IDC’s R55 bn injection nurtures NEPAD

Johannesburg – The New Partnership for Africa’s Development (NEPAD) has moved beyond being just a pie-in-the-sky African dream with the roll-out of R55 billion worth of projects on the continent by the Industrial Development Corporation (IDC).

Speaking at the Unpacking NEPAD conference in Sandton, Khaya Ngulza, the chief executive of the state financier, said the IDC’s investment of roughly R53 billion in about 37 projects in Africa underscored its belief that Africa was a worthwhile investment destination.

“The creation of an environment conducive to foreign direct investment requires that Africans invest at home. Right now we are breaking our necks to invest everywhere but here,” Ngulza said.

Statistics recently released by the UN show that foreign direct investment in Africa declined by 13 percent in 2000 to a total of $8.4 billion.

“The rule of law must prevail in Africa. That means no asset grabbing by governments or the private sector,” said Ngulza.

Working with NEPAD as its development mandate for the continent, the IDC has extended its geographical reach beyond the Southern African Development Community.

But Mozambique remains the largest beneficiary of the IDC’s African safari with the corporation agreeing to again partner BHP Billiton and Mitsubishi, for the $800 million expansion of the Mozal aluminium smelter near Maputo.

Ngulza said the IDC was spending about R2 billion in the Zambesi valley where it was helping revamp the rail system and Beira’s port.

He said the parastatal had bought into a gold mine in Algeria, an oil project with Petro SA in Nigeria and a manganese mine in Tanzania.

It had also invested in a bauxite mine and an alumina processing plant in Ghana. In Malawi it was helping to grow tea, coffee and macadamia nuts.

“This is not blue-sky projects, these are for real,” Ngulza said.

The IDC never takes a stake of more than 25 percent in any project, and, like the basic blueprint for NEPAD, it ensures it has a domestic partner on board and involves the local government.

“Central to African growth is the preservation of what we have,” said Ngulza, adding that Africa would need to develop a taste for innovation by nurturing its own knowledge and skills base.

“It’s simple – no brains, no bread,” Ngulza said.

(Bridge, 2002)
Appendix II: R1, 3bn smelter is one of first of many such projects

R1,3bn smelter is first of many such projects

IDC puts its money into southern Africa

BY JOHN SPIRA

The IDC-Billiton-Mitsubishi approval of a $1.3 billion aluminium project in Mozambique is likely to herald several more mega-projects in southern Africa.

On the basis that a country cannot prosper with poor neighbours, the prospect bodes well for South Africa's economic outlook.

But Dr Druze, the projects general manager of the Industrial Development Corporation, told Independent Business on Friday that the IDC was assessing capital projects in Congo-Kinshasa, Malawi, Botswana and Namibia.

He said the large projects would have dramatic effects on the four countries' economies. The Mozal project in Mozambique, for example, would add $1.6 billion when in full production to Mozambique's GDE which in 1996 was $1.7 billion.

“Mozal will have a significant economic, political and developmental spinoff for both South Africa and Mozambique.”

At the same time, Druze cautioned that the mega-projects required long gestation and that the IDC's financial and personnel resources were limited.

“The extent and number of projects in which we can become involved hinges on the need to maintain a balance between our income and cash flow.

“We must guard against overextending ourselves.”

The IDC has paid $125 million for 24 percent of the equity in Mozal, its first venture outside South Africa's borders.

The government broadened the IDC's mandate last year for it to play a role in SADC countries.

“Given our resource limitations, we decided the most effective role we could play was to identify and promote projects that would have a significant impact on the economies of those countries,” he said.

“Because of our experience in the region, we were aware of the opportunities. Thus, we could identify the viability of projects and be prepared to put our money where our mouth was by taking minority equity stakes.”

The IDC's preferred option was to attract other shareholders from outside South Africa, partly because it did not want South Africa to be seen as trying to dominate the region and partly because it sought shareholders who could contribute technical or marketing experience.

“Typically we would take 25 percent of the equity initiate the project, identify potential partners, develop the project together and help arrange the funding in the international market.”

The IDC identified Mozambique as its first option because it is the poorest of the SADC countries and is South Africa's closest neighbour.

“We decided, too, that Mozambicans must have a stake. They must identify with this project. So in our negotiations with any partner in these projects, we will reserve some of the shares through some vehicle to allow the local people to participate.”

Other criteria included local spinoffs during construction and operation to benefit local enterprises, and that the company should not be dependent on the IDC.

“Once a project has matured, we must be able to exit the project and that company must be able to carry on as if we weren't there. It must not go through trauma the moment we are no longer a shareholder.”

The IDC funded 50 percent of the Mozal feasibility study and arranged $565 million in funding for the project.

Druze had realised that to create a project of that size in Mozambique would create major funding problems. But he also realised that the problem could be solved by the IDC's involvement.

“Because of our involvement, international funding organisations took the project seriously. Our long relationship with all the major international financial institutions contributed to the speed with which the project got the go-ahead.”

Brian Gilbertson, the chairman of Billiton, said his company's investment in Mozal was based on compelling economic appeal.

“Matching the outstanding Alusaf Hillside experience with Mozambique's competitive power and fiscal arrangements should create a world-beating aluminium producer.”

He said that highly competitive electricity prices had been negotiated with Eskom and the Mozambican electricity utility until the end of 2025.

(Spira, 1998 May 17: 1)
Appendix III: Africa gets crumbs of US$ 800 investment

(Mnyanda, 2000 October 2: 1)
Appendix IV: Africa needs at least US$ 18 bn a year of infrastructure

(Smith, 2002 April 23: 1)
Appendix V
IDC project development in SADC

Key
N0 1: Aluminium, the Mozal
N02: Cotton, the Mocotex (IDC, 199b September: 5)
Appendix VII
IDC’s involvement in Africa

(IDC, NDd)
Appendix VIII: The Mozal

(Kriek, 2002)