

Intra-SADC Debt – A Growing Financial Phenomenon

Abstract

The concept of Intra-SADC debt (Southern Africa Development Community) is defined in this policy brief as any bilateral or multilateral financial lending and borrowing between or among SADC member countries and their development banks. The loans discussed in this policy brief have not been contracted in a transparent and inclusive way. The media in member countries did play a critical role in exposing the secrecy around loan negotiations and agreements between member countries concerned. Official public disclosure of information on the lending and borrowing processes in the region is absent. Moreover official information on the use of borrowed funds and loan contracts is not easily accessible. Information on loan agreements among SADC member countries should be accessible and available to the regional citizens in order for them to play an important oversight role.

A number of bilateral loan negotiations discussed in this policy brief collapsed largely due to conditionality attached. The use of conditionality is wide spread in most of the loan agreements analysed. Interesting to note is that developing countries, over the years have been attacking International Monetary Fund and western bilateral donors for using harmful economic conditionality but they are applying the same economic and political conditionality in their lending policies.

The Development Bank of Southern Africa (DBSA) is lending huge amounts of loans to SADC member countries. DBSA is based in South Africa and the South African Government is the only shareholder. SADC member countries have little say in what the DBSA does. The bank does work at bilateral level with SADC countries. The Bank is financing infrastructural development projects in the region worth over US\$10 billion. The ownership of the DBSA should be opened up to other SADC member countries. This will transform the bank into a regional bank in terms of its shareholders and not just in name. The transformed bank should then take the lead in regional financial resource

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Overall, SADC member countries have over the past years, increased their borrowings internally and externally for budget deficit financing, infrastructure development and development of their domestic financial markets among others. It is in this context that intra – SADC debts are being accrued as members countries borrow from each other. Unsustainable public debt stands in the way of citizens' enjoyment of their social and economic rights. Citizens of poor countries suffer an opportunity cost as debts have to be paid off at the expense of financing the Millennium Development Goals (MDGs).

Meanwhile, the same citizens who suffer from debt are not institutionally or legally recognised in decision-making processes on public debt management. Citizens' elected representatives also lack full capacity to play an effective oversight role due to weak legislation and the dominance of the Executive and creditor institutions in the process. This scenario leads to irresponsible borrowing characterised by the lack of strategy, lack of specialised agencies, borrowing for consumption and succumbing to creditors' harmful conditionality. This policy brief seeks to provide more information with regards to this new intra SADC debt trends and recommendations to policymakers and civil society.

Introduction

SADC is one of eight regional economic communities formally recognised by the African Union (AU) as building blocks toward achieving an African Economic Community. The member states share a lot of common economic and social policies despite the diversity of their political and socio-economic systems. Poverty is however ubiquitous and pervasive even in member states

with comparatively productive economies like South Africa. There are also significant challenges hampering progress on development for this block. These include socio-economic, health, trade, defence, security as well as political challenges which sometimes cannot be effectively resolved by individual members.

Table 1: Economies per capita by GNI 2012

| High Income | Upper Middle Income | Lower Middle-income | Low Income |
|-------------|--|---|---|
| | <ul style="list-style-type: none"> • Namibia • South Africa • Angola • Botswana • Mauritius | <ul style="list-style-type: none"> • Zambia • Lesotho | <ul style="list-style-type: none"> • DRC • Malawi • Mozambique • Tanzania • Zimbabwe • Madagascar |

Source: UN-Statistical Annex

The build up of intra-SADC debts bring an interesting dimension to the whole debates of creditor-debtor relations and if not checked will add to the complexity of the debt situation in the SADC region. The new intra-borrowing phenomenon is being driven by lack of financial resources, aid and concessional loans from the International Financial Institutions (IFIs) triggered by the global economic downturn. The fact that member countries in SADC are able to lend financial resources to each other is commendable especially in times of need. What is of concern to civil society is the secrecy surrounding these loan negotiations and use of contracted funds.

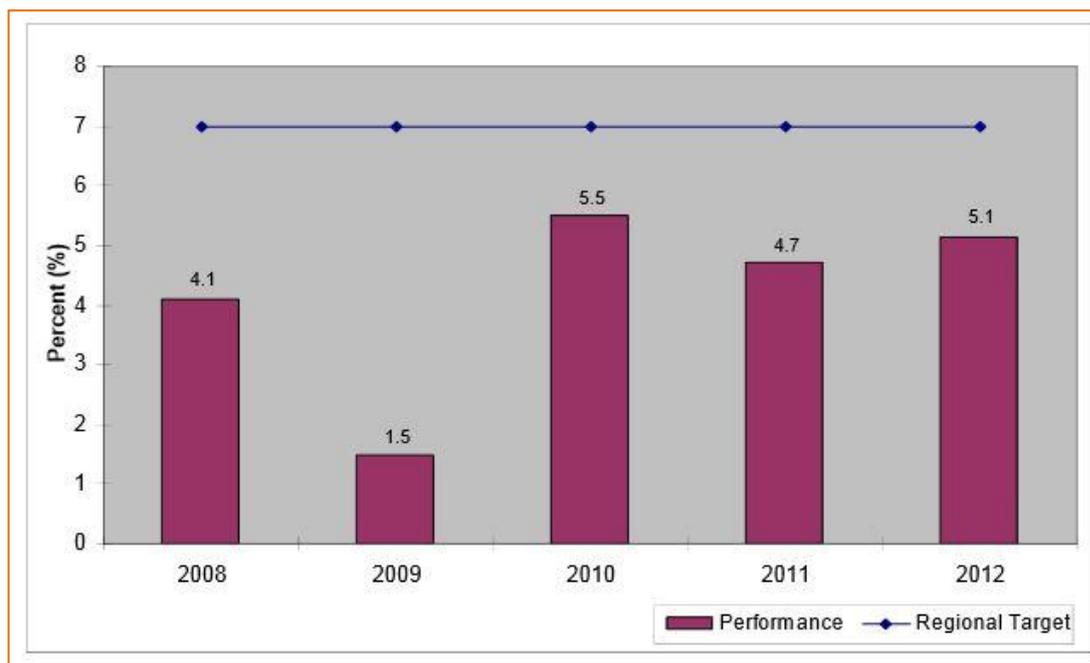
The SADC block is made up of four groups of countries in different debt scenarios. The first group is made up of member countries that have benefited from the IMF/WB debt relief initiatives, which are the Highly Indebted Poor countries (HIPC) of 1996 and 1999 and Multilateral Debt Relief Initiative (MDRI) of 2005. These countries are the Democratic Republic of Congo, Malawi, Mozambique, Tanzania and Zambia. The second group is made up of member countries that have relied mainly on external debt to meet their funding needs, but whose external debt indicators have historically remained low and

sustainable. These are Lesotho, Swaziland and Botswana. The third group is made up of countries that depend mainly on their domestic debt markets to meet their funding needs and these include South Africa, Namibia and Mauritius. The fourth and last group is made up of countries which currently have significant debt burdens and/or debt overhang and these are Zimbabwe, Madagascar and Seychelles.

In line with the Regional Indicative Strategic Development Plan (RISDP) Public Debt-to-GDP Macroeconomic Convergence Target of 60%, as of end 2013, 12 SADC member countries Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zambia had public debt to GDP ratios within/below the 60% target while 2 member countries (Seychelles and Zimbabwe) had ratios above the regional target at 68.8% and 76% respectively.

Seven countries remained within the threshold in 2008 with an average for the region at around 42.9% as shown in Figure 1 below. The average has however been falling and was at 39.1% of GDP in 2010. In 2011, Seychelles and Zimbabwe however recorded levels above the regional target of 60% of GDP.

Figure 1: SADC - General Government Debt, 2008 2012



Source: SADC Executive Secretariat Report 2012

Development Bank of Southern Africa (DBSA) loans

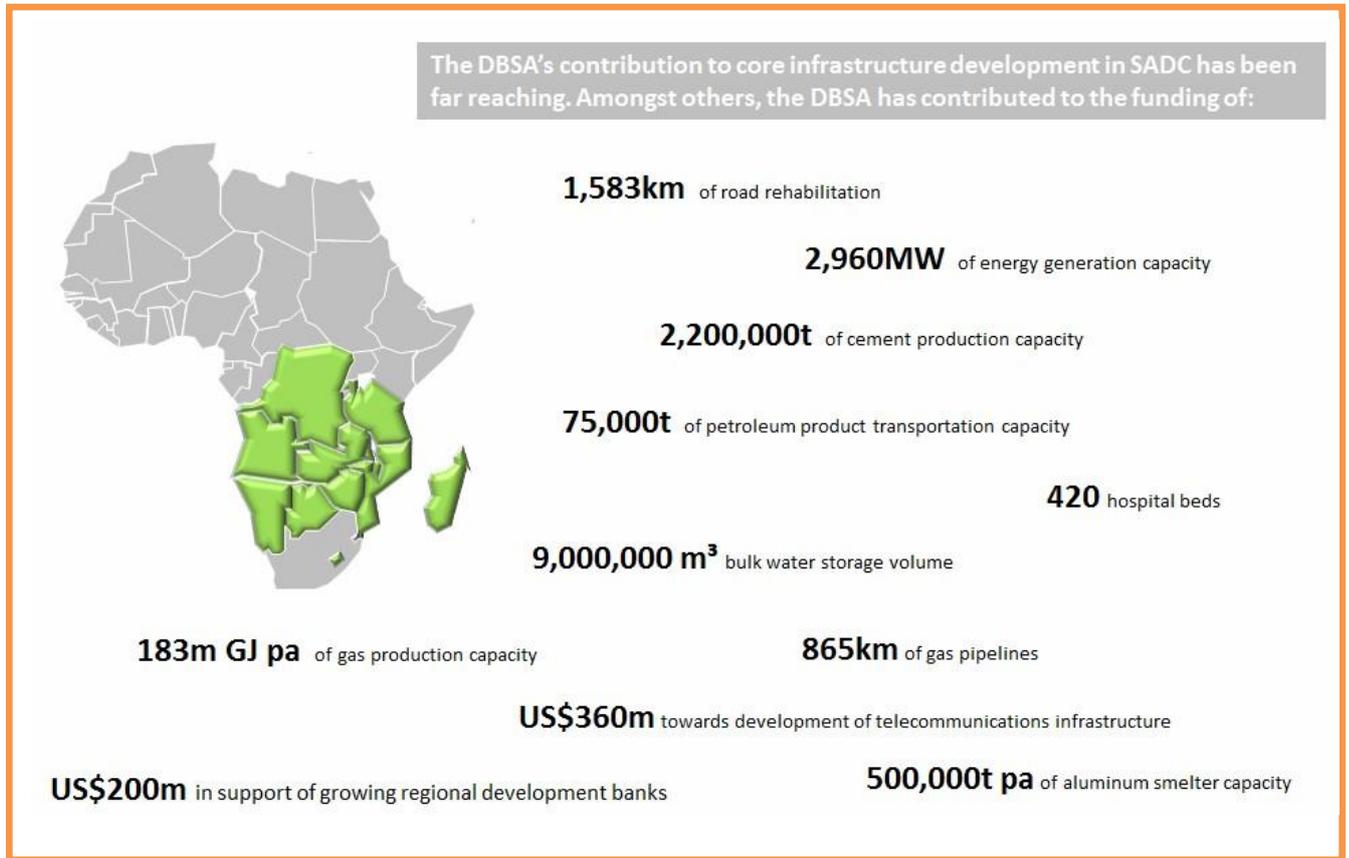
The Development Bank of Southern Africa (DBSA) has been the major source of loans to SADC countries within the region. DBSA is a leading development finance institution (DFI) established in 1983 and wholly owned by the South African Government. It plays a multiple role of financier, advisor, partner, implementer and integrator to mobilise finance and expertise for development projects. The Bank does support and accelerate socio-economic growth development in the region through investment into infrastructure development.

The Bank's International Division is responsible for the operations in the region beyond South Africa.

The Bank has supported several development projects worth around US\$10 billion. Figure 2 below highlights the major contributions made by DBSA to infrastructural development.

The Bank loaned Zambia, Tanzania, Namibia, Lesotho, Mozambique, Madagascar, Democratic Republic of Congo and Malawi to support various projects its road, energy, cement, gas and oil, health and water sector projects. The majority of the completed projects in the various countries have registered great socio-economic impacts. They have created jobs, low-income housing, better education and healthcare facilities as well as rehabilitated road infrastructure.

Figure 2: DBSA contribution to SADC Infrastructural Development



¹ <http://www.dbsa.org/EN/DBSA-Operations/Pages/International-Financing.aspx#>

Government bilateral loans

i) Botswana loan to Malawi

In 2013, Botswana extended a soft loan of US\$10 million to its famine stricken neighbour Malawi to help boost its agriculture and health sector. As both governments had already established a Joint Permanent Commission of Cooperation, they also agreed to establish an Investment and Promotion protection agreement in a bid to expedite provision of credit lines and fast track private sector engagement.² The soft loan was agreed to be paid in the course of a ten year period with interest to market value. The loan agreement was signed by the two Heads of State, President Ian Khama and President Joyce Banda of Botswana and Malawi respectively. Apart from the loan, a donation of 150 cows was also made by Botswana for the "A Cow a Family" project- a Malawi's newly launched project. The soft loan was offered with conditions attached. The government of Malawi was supposed to purchase goods in the Botswana market. Among the goods agreed for purchase included livestock vaccines, cattle and fuel. This conditionality was meant to benefit Botswana business enterprises and not Malawi domestic market and its local entrepreneurs.

ii) Malawi to Zimbabwe loans

The Government of Malawi through the Reserve Bank of Malawi (RBM) in June 2007 gave a loan of US\$100 million to the Government of Zimbabwe through Reserve Bank of Zimbabwe (RBZ) for the purchase of maize from Malawi. This loan which was given under President Bingu wa Mutharika's government was meant to help Zimbabwe deal with the critical food shortages that were being experienced at that time. According to the RBM Report and Accounts for the year ended 2010, the loan agreement was rescheduled in December 2009 to run up to 31 December 2010. The Bank however considered the recoverability of the loan as being doubtful owing to a number of times RBZ has defaulted on the payment of the principal plus interest, and subsequently impaired the loan as at year-

² SADC News (2013): Updates on SADC Member States

end. However, Zimbabwe in 2012 has managed to repay the balance of the loan in fuel supplies following pressure from the new Malawian government to do so.

iii) South Africa Loan to Zimbabwe

In 2013, the then Zimbabwean Minister of Finance, Tendai Biti approached its neighbouring country South Africa for budgetary support of US\$100 million (R906 million) to help fund elections. This loan request attracted a lot of controversy.³ On contrary to the announcement of the loan approval by Tendai Biti, the South African Central Bank's governor Gill Marcus argued that the central bank did not have a mandate to decide on the granting of the loan to the cash-strapped government of Zimbabwe. Due to criticism on the loan and the economic challenges that were being experienced by the country the loan was withdrawn.

Zimbabwe is still pursuing over US\$200 million in loans which was pledged 5 years ago in 2009 by regional countries to revive its dwindling economy. The countries, South Africa, Angola and Botswana had promised to bail out the country and pledged US\$100 million credit line, US\$50 million and US\$70 million respectively.

iv) South Africa loan to Swaziland

Swaziland turned to South Africa for a loan request. The two countries concluded and signed a R2.4 billion (US\$355 million) loan agreement in June 2012. South Africa had built in key conditions to the loan agreement including a demand for an inclusive political dialogue and economic reforms. The loan went topical and was heavily criticised by governing partners of South Africa's ruling African National Congress who said it propped up a repressive regime.⁴

³ <https://www.newsday.co.zw/2013/04/18/sa-loan-to-zim-torches-storm/>

⁴ Source: DIRCO briefing- South African Foreign Policy Initiative (SAFPI) Current political situation in Swaziland

The loan however failed to materialise, it seems to be off the table for now. Swaziland indicated in January 2013 that they would no longer need it. For South Africa, the loan was still on the table only if Swaziland implemented the required conditions and submitted documents like a loan book as requested by National Treasury and Reserve Bank.

Policy recommendations

The drying up of concessional loans from the International Financial Institutions (IFIs) triggered by the global economic downturn in 2009, has forced developing countries to look for alternative sources of development finance. Regional economic blocks such as SADC, through its member countries and development financial institutions are right in extending loans or bailing out each other in times of need and crisis. The following policy recommendations must be implemented for the loans to yield intended benefits.

i) Information on loan agreements among SADC member countries should be accessible and available to regional citizens in order for them to play an important oversight role.

ii) There is need for governments to improve on their loan contraction processes. Parliaments should approve loans before contracts are signed so as to ensure that the loan contraction process is done within established guidelines and laws with clear purpose, terms and conditions.

iii) Effective and responsible Parliaments must mitigate the risks of excessive and unproductive borrowing by reinforcing the countervailing mechanisms of government accountability and legislative scrutiny, and should exert pressure on the Executive to improve fiscal and budgetary performance.

iv) The use of conditionality is wide spread in most of the loan agreements analysed. Interesting to note is that developing countries over the years have been criticising International Monetary Fund and western

bilateral donors for using harmful economic conditionality but they are applying the same economic and political conditionality in their lending policies. This calls for the review of the conditionality in the bilateral loans.

v) The ownership of the DBSA should be opened up to other SADC member countries. This will transform the bank into a regional bank in terms of its shareholders and not just in name. The transformed bank should then take the lead in regional financial resource mobilisation.

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| Borrower | Lender/ Financier | Purpose/ Name of Project | Year | Amount | Loan Maturity Terms/Conditions | Status/Comments |
|--|----------------------|---|-------------------|--|--|---|
| Malawi | Botswana | To boost agriculture and health sector | 2013 | US\$10 million | -10 years loan maturity -Goods would be purchased from Botswana -Botswana commercial banks to open up lines of credit to boost joint venture investments by Botswana businesses in Malawi, in agricultural, trade and tourism sectors. | Loan is still yet to be repaid |
| Zimbabwe | Malawi | To purchase maize | 2007 | US\$100 million | Loan was to be used to purchase maize from Malawi. Loan payment was Rescheduled to 2010 | US\$76 million was repaid and the remainder paid in fuel. |
| Zambia | South Africa (DBSA) | Lunsemfwa Hydro Power Project | 2004 | US\$3 million | To enable the Hydro Power Company to acquire two power stations and expand power production from 38,5 MW to 52,5 MW. | |
| | | | 2006 | US\$8,5 million | Rehabilitation of the Mulungushi Power Station | |
| | | | 2011 | US\$8 million | To enable the company to introduce a fourth power-generating unit | |
| | | Kasumbalesa border rehabilitation | 2009/10 | US\$12 million | Kasumbalesa border post infrastructural modernisation | |
| | | Advancing the North-South and Western Corridors | 2010/11 | US\$262 million | Rehabilitation of five Zambian priority roads | |
| | | Kariba North Bank Extension | 2010/11 | US\$105 million | Development of the Kariba North Bank Extension hydro power project | |
| Zimbabwe (ZINARA) | South Africa (DBSA) | Input credit programme for small-scale cotton farmers | 2009/10 | US\$20 million | Input credit programme for small-scale cotton farmers in Zimbabwe | |
| | | Roads rehabilitation programme | 2012 | US\$141 million | Rehabilitate Harare–Plumtree and Harare–Mutare road links | |
| Tanzania (Tanzania Ports Authority) | South Africa (DBSA) | Maweni Clinker and Cement Plant | 2008/09 | TZN31,9 billion | To strengthen synergies between east and southern Africa in power, transport and telecommunications | |
| | | Dar es Salaam port upgrade | 2008/09 | US\$40 million | To upgrade the Dar es Salaam port | |
| Namibia | South Africa (DBSA) | Ohorongo Cement plant | 2009/10 | €25.6 million | To generate more tonnes of cement per year at the Ohorongo Cement plant | |
| | | | 2010/11 | and R196 million | | |
| | | Energy for the Future project | 2010/11 | €12,3 | To provide alternative renewable energy solution for the Ohorongo cement plant | |
| | | Line of credit to Development Bank of Namibia (DBN) | 2010/11 | US\$74 million | To provide a line of credit to DBN | |
| Lesotho | South Africa (DBSA) | Lesotho healthcare project | From 2008 to 2012 | R1.08 billion senior loan & R60 million mezzanine debt | To build and operate a new 390-bed hospital and refurbish 4 filter clinics | |
| Mozambique | South Africa (DBSA) | mCel ICT expansion | 2010/11 | US\$25 million | For the expansion of ICT in the country. | |



**AFRICAN FORUM AND NETWORK
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