IDC/DBSA MARCHING NORTH

IDC has head start with US5bn investment portfolio, says Shareen Singh in the Financial Mail, 27 September 2002

State-owned financiers the Industrial Development Corp (IDC) and the Development Bank of Southern Africa (DBSA) are preparing to finance the development of Africa's infrastructure in support of the New Partnership for Africa's Development (Nepad) initiative.

Nepad aims to uplift the continent through investment in infrastructure (telecommunications, roads, ports and harbours, water and electricity), better trade opportunities and good governance.

Nepad estimates that Africa would need R64bn/year to address backlogs in infrastructure and the two development financiers see a role for themselves in financing this need.

Given the quantum of the investment needed, Africa will have to look outside the continent for some of the funding. Already two big initiatives have been launched. These are the US305m (about R3,2bn) Emerging Africa Infrastructure Fund initiated by the UK government's department of international development (DFID) and the $407,6m (R4,29bn) AIG African Infrastructure Fund. The latter is sponsored by the American International Group (AIG), a US insurance group.

The DBSA is seeking approval from its board of directors to spread its wings outside Southern Africa. The bank is already eyeing participation in the R6bn initiative spearheaded by SA government-owned electricity company Eskom to develop electricity transmission lines on Africa's east and west coast.

The IDC and the African Development Bank, Africa's multilateral development institution, are also considering the electricity deal.

Of the two government-owned financiers, the IDC has a head start because the cabinet approved its mandate to invest throughout the continent in 2000. With 60 projects under consideration or in progress in 17 countries, its portfolio, outside SA, stands at $5bn.

Most of these investments are young and it's too early to gauge their returns, but the IDC is satisfied with progress on the projects so far, says Jorge Maia , head of the IDC's Sadec department. Sadec is a regional grouping of 14 Southern African countries.

Maia cites the Mozal aluminum smelter in Mozambique which has been so successful that shareholders BHP Billiton (49%), Mitsubishi Corp (26%) and the IDC (25%) are expanding capacity. Mozal produces aluminum for export and the new investment will double production to more than 500 000 t when the expansion is completed in 2003.

In addition to its contribution to Mozambique's economy, Mozal has had spin-offs for SA.

Over the three-year construction phase of Mozal 1, which started in May 1998, SA companies brought home about R1,5bn/year in exports of construction materials and services.

For Mozal 2, exports from SA are estimated at R530m/year, Maia says. During the operational phase, SA's exports of raw materials for the combined projects will amount to R980m/year, he says. At least 2 460 jobs will have been created in SA, with annual tax benefits of around R175m.

The IDC has arranged a 10-year, 250m loan from foreign banks to help Mozal 2 pay for imports of construction materials and services from about 150 SA companies.

Gert Gouws, the IDC's chief financial officer, is confident the investment will bring solid returns. There are strong indications that the demand for aluminium currently exceeds supply, he says.

Investing in the rest of Africa isn't without challenges. Each country has different regulatory systems, governance, business culture, language and skills shortages.

And then there's the perception that SA is the big coloniser of the continent, poking its fingers everywhere. The IDC is not perturbed. Its entry into Africa has been welcomed, Gouws says.

IDC PROJECTS