

## **SDIs: The Business Case**

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### INTRODUCTION

The Regional SDI programme is an investment facilitation initiative of the South African Department of Trade and Industry (the dti). The programme focuses on high potential resource areas within the region with the following basic characteristics:

- Political commitment to the programme.
- Conducive policy and regulatory environment in place, or is emerging.
- The underlying resource base has the potential to attract investors.
- Key infrastructure components are in place, or almost in place.
- Collectively, there is a strong “business case” for the development of the SDI area.

In short, the SDI seeks to create the conditions and opportunities for successful new fixed investment within a specific area. Importantly the programme is negotiated with the countries in which the SDI is implemented and the host countries take full ownership of the programme. The dti through the Regional SDI Support programme, provides financial, contracting and technical support to the countries.

- SDI's, development corridors and transport corridors

The Regional SDI programme often includes more than one country and in many cases based on existing transport and logistics linkages between 2, or more countries. In some of the SDI programmes the transport link of land-locked countries to a functioning port is a key consideration. In such cases the focus is on identifying and preparing investment projects that could make the investment in the transport infrastructure more feasible. Clearly such SDI programmes make an important contribution to the economic and infrastructure integration of the region. Good examples of these are the Maputo Corridor between SA and Mozambique and the Nacala Corridor which improves access to the Nacala port for both Malawi and Zambia. Other SDI programmes simply focus on the investment opportunities within high potential areas where the pure transport function is less important, such as the Limpopo and Zambezi Valley SDI's.

The nature of the SDI programme and the underlying approaches therefore both requires a high level of economic, regulatory, policy and logistical integration. A key outcome of the initiative however is that it by necessity fosters integration at all these level through implementing the programme. The programmes are structured in such a manner that these matters are more readily dealt with within a more focussed project environment.

- Current corridors : 8 Active programmes in the SADC region. (Map in presentation.).

- Role of the SDI Unit and the DBSA

A project manager under the auspices of the participating countries manages the project. The RSDI Unit supports the participating countries and the project manager by providing the following:

- Co-funding support for the project manager, including S&T
- Co-funding of investigations, project preparation, feasibilities
- Technical support and strategic guidance to the project manager
- Contracting & legal support with regard to appointment of consultants
- Logistical support with regard to travel bookings

The Regional SDI Unit is hosted by DBSA and the financial, legal, logistical and contracting services are all supplied through the DBSA system. The Bank has played an important role in supporting the dti to establish the programme. It continues to do so and a close working relationship has developed between the RSDI Unit and the Africa Partnership Unit, PSI, the Agency Support Unit and the Nepad Secretariat.

## REGIONAL CONTEXT

Major changes in the investment climate are obliging the Regional Spatial Development Initiative (SDI) Support Programme to constantly review and adapt strategies to attract new investors to Southern Africa.

The programme has matured over the eight years since its inception, starting with the launch of the Maputo Development Corridor in 1996, followed by implementation of SDIs in South Africa and then in Southern Africa in 2001. However, increased and often fierce competition for new investment among countries and regions has been accompanied by a decrease in foreign direct investment (FDI), with less than 3% of FDI to developing countries coming to the Southern African Development Community (SADC) region. Moreover, investors are increasingly sceptical about vague, generic messages of investment opportunities.

The Regional SDI Support Programme therefore faces the demanding challenge to make not only an increasingly compelling business case for investment but to develop more effective approaches towards facilitating investment in Southern Africa. It must do so against a background in which:

- The region faces serious economic and development challenges. Growth rates remain stubbornly low (less than 2% for the SADC region over the last three years) and poverty is deepening. Capacity constraints at government level and weak infrastructure are inhibiting the inability to attract FDI to the region in meaningful volumes. Less than 3% of FDI to developing countries comes to the SADC region.
- The situation is exacerbated by the size of the SADC economy and the dominance of the South African economy, resulting in highly unequal trade flows within the region. In addition the economy is characterised by weak

linkages between countries and the lack of a development policy and strategy alignment among the countries.

- These development challenges require a comprehensive, integrated and consistent approach if they are to be addressed. This includes good governance, sound economic policy, infrastructure, human resource development, education, and effective safety nets for the poor and other vulnerable groups.
- The region is characterised by differences in terms of resource and infrastructure endowments. These differences are largely due to the quality and quantity of infrastructure, the quality and location of the natural resource base and the "readiness" of areas to attract new investment. Readiness refers to factors such as political commitment, institutional capacity to manage the investment process, and the general investment environment.

## THE SDI APPROACH

The SDI approach is different from a long-term comprehensive development strategy. Its basic point of departure is that private sector investment provides the essential kick-start to a sustainable investment process.

The SDI programme is convinced of the competitive opportunities the region offers to investors, and there is now substantial evidence that returns on investment in the region outperform those in many other developing and developed regions.

How does the SDI programme develop a compelling business case?

- Firstly, the programme acknowledges the sharp differences within the region, especially in terms of resource and infrastructure endowment. The SDI approach is to focus on areas with the best chance of attracting new investment.
- Secondly, the programme is constantly improving its investor intelligence to identify sectors, industries and investment opportunities based on real demand and, perhaps more importantly, to accurately match investment opportunities to appropriate investors.
- Thirdly, the approach is not simply to prepare a long list of investments, but to ensure integration of the programme at various levels:
  - The SDI needs to be consistent and integrated with regional, national and local priorities and strategies.
  - Key infrastructure components need to be available and/or investment in new infrastructure needs to be co-ordinated with investor requirements.
  - The SDI ensures strong linkages and complementarities not only between projects, but also between investment projects and infrastructure.
  - The total investment programme (by both public and private sectors) needs to contribute towards further economic integration of the SADC

region.

- The fourth underlying element of the business case is to facilitate strong agglomeration by ensuring a critical mass of private sector investment, matched by appropriate infrastructure.
- Fifthly, the SDI programme is taking deliberate measures to increase the development impact by:
  - Engaging investors to improve employment creation in investment projects.
  - Facilitating effective skills transfer to local workers and managers.
  - Increasing opportunities for local businesses to participate in new investments and improving their capacity to do so.
- Finally, the SDI programme works closely with other agencies to provide comprehensive support to new investors.

These elements contribute towards formulating a strong business case. However, nothing builds the business case like new investment. Identifying and developing an initial cluster of high impact projects therefore remains a key component of the SDI approach. Simply put: lead investments arguably do more to attract further investment than almost any public sector measure.

#### THE CHALLENGES:

Preparing and communicating the business case for a particular SDI is simply not sufficient anymore. The Regional SDI Support Programme and its partners face new challenges, especially to ensure that the development impact of investments is experienced more widely and deeply within society. Specific attention needs to be paid to the following issues in the Regional SDI Programme:

- Implementing measures to ensure new investments are accompanied by employment creation. Investors need to be encouraged and supported to design, plan and implement new projects with maximum job creation in mind.
- Similarly, new investments create opportunities for the establishment of local support and service businesses. Experience has shown that this requires a deliberate effort and does not happen automatically.
- Ensuring effective skills transfers.
- Improving economic integration of the region and especially trade flows between SADC countries.

The FDI process needs to be managed deliberately to achieve these objectives. Ensuring a sustainable development impact requires a greater effort from investors, but makes business sense over the longer term. Responsible investors typically respond with understanding, commitment and innovation to the particular challenges of the region.