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THE SOUTH AFRICA DEVELOPMENT BANK
(DRAFT WORKING PAPER)

This draft working paper discusses the role and structure of a proposed new multi-lateral organization, tentatively named the South Africa Development Bank (the "Bank") (1). The working paper first sets forth the premises on which the Bank is based and defines its general mission. It then puts forward certain working hypotheses on the Bank's structure, capital and program components. The paper concludes with suggestions concerning the steps that should be taken next for the Bank's development.

Premises

The proposed South Africa Development Bank is based on these premises:

- * South Africa would not today be engaged in dialogue about a transition to democracy were it not for the outside pressure with which northern democracies formally supported the cause. If timely progress in

(1) The idea for the Bank originated at a June 1990 breakfast in New York City during which Nelson Mandela met with U.S. business and civic leaders. On that occasion, Rockefeller Foundation President, Peter Goldmark, informally suggested that such an initiative might warrant exploration. Mr. Mandela welcomed the suggestion and invited Mr. Goldmark to meet with him again on July 3, 1990 for further discussions. Mr. Mandela asked at that time that a working group including strong representation from South Africa (now encompassed by the Committee for South African Development) pursue the concept and develop options for its scope and structure.

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the transition is to continue, concrete and constructive steps are important now to signal continued clear international support for the cause of democracy.

- * Any political settlement reached on a non-racial democratic system of government under a new constitution will be inherently unstable unless the South African majority quickly develops confidence that there will be tangible economic progress in the future. Apartheid systematically excluded the South African majority not only from political participation but from economic opportunity as well, leaving deep structural barriers and extreme inequities which must be immediately addressed in the transition.
- * A new vehicle tied to the achievement of political reform is needed to mobilize international investment toward achieving substantial improvements in the equity of economic opportunity.
- * While the post-apartheid South African government, private capital, and existing national, regional and international organizations will all have significant responsibilities in the development of the post-apartheid economy, it is important that multilateral support be channeled through a transition mechanism which includes the democratic forces as founding sponsors and has legitimacy in the eyes of all South Africans.
- * The initial work and research to structure the Bank is being pursued now in order that its resources can become immediately available once certain triggering events associated with the transition to a post-apartheid system occur.

The Bank's Mission

The Bank's mission is to mobilize the moral and financial support of northern democracies to help South Africa achieve a stable transition to an equitable, unified and growing economic order. Through the program components described below, the Bank will focus its limited resources on development projects and on

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investments in entrepreneurial initiatives aimed directly at reducing poverty, increasing equity and broadening opportunity so that every citizen, regardless of race, can have a stake in South Africa's future.

Structure

In order to achieve its mission, the Bank is designed to complement and draw on the strengths of existing institutions. For the purposes of this working document, it is initially proposed that the Bank would:

- * Be structured to facilitate cooperative arrangements with existing international, regional and national development institutions such as the World Bank, the African Development Bank and the Development Bank of Southern Africa.
- * Be structured to facilitate cooperation with but to maintain independence from the South African government.
- * Be organized to channel resources to other implementing agencies and programs as well as to administer a loan program directly.
- * Have a two-tiered governance structure with a board of directors (led by South Africans) primarily responsible for day-to-day management, and with a board of governors comprised of subscribers responsible for allocation of capital among the basic program components described below, strong overall investment standards and the choice of a chief executive.
- * Be professionally but leanly staffed by managers trained in both private and public sector lending and investments.

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- * Be financed through subscriptions, primarily from the northern democracies with an agreed-upon ratio of paid-in and callable capital. (2)
- * Be initially capitalized at around \$5 billion. (3)
- * Have a strong private sector emphasis, with a charter clause that requires the Bank to invest at least 60% of its capital in support of private sector initiatives. (4)
- * Limit its initial investments to the support of opportunities in South Africa rather than investing in the region. (5)

The Bank's Investments

The Bank's investments would:

- * Be limited to economically sound projects designed to promote equitable economic opportunity and stimulate economic growth.
- * Emphasize projects and programs which stem from and support invention, organization and leadership in the communities they will serve.

(2) Although it may become appropriate at some point in the future to admit privately held corporations to membership in the bank along with sovereign states, the practical and legal issues involved in such an arrangement are inconsistent with a timely start-up.

(3) Assuming an initial five year capitalization of \$5 billion and assuming that the U.S. subscribed 10% of the initial capital with 70% callable and 30% paid-in, the U.S. cash obligation would be \$30 million annually for five years.

(4) In this regard it is proposed that the Bank draw from the model recently established by the European Bank for Reconstruction and Development for its emphasis on the private sector.

(5) Given the interrelationships of economic development within Southern Africa and the importance of a productive economic environment in the region as a whole, it is appropriate that the Bank's charter contain a provision foreseeing the option of regional investment in the future.

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- * Pass strict practical tests for feasibility.
- * Meet mandated standards applicable to environmental protection and human rights.

Within the context of the vast post-apartheid development agenda which will entail development across a wide spectrum from housing and education to the provision of essential services and job creation, the Bank must focus on a set of lending and investment activities commensurate with its resources. It is currently proposed that the Bank's program encompass the following types of eligible investments:

- * Restructuring

- * The Bank would make equity investments in and loans to promising new (or expanding) small and medium-scale rural and urban enterprises, -- with the objectives of creating employment opportunities, stimulating rapid economic growth and opening access to employment through skill development and equitable hiring practices.
- * The Bank would provide the financial base for purchases by low-income South Africans of unit ownership in established companies -- with the objective of broadening the base of South African society which has a stake in the private sector economy, of increasing productivity, and of establishing collateral for such purposes as higher education, entrepreneurial initiatives and the downpayment for homes. (6)

(6) Analysis of the applicability to South Africa of experience in Malaysia with related voluntary restructuring plans and of experience with Employee Stock Option Plans (ESOPs) in the United States and elsewhere will assist the further development of this proposed area of Bank investment.

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* Micro-lending for small enterprise development

The Bank would provide financial support for micro credit and saving programs that lend to individual entrepreneurs at the local level -- with the objective of encouraging individual initiative, creating jobs, collateral and savings, strengthening local economies and widening participation in the private sector. (7)

* Infrastructure development

The Bank would finance carefully targeted relatively small human and capital infrastructure development projects which serve previously neglected communities, are designed to have a direct impact on the economic life of South Africa's poor and serve to integrate the South African economy. (8)

As an essential collalary to its investments, it is proposed that the Bank have the authority within sound business limits to:

- * Provide technical assistance;
- * Support practical programs teaching job-related managerial and technical skills.
- * Foster local skills in the design, organization and management of community development.

(7) Analysis of the experience of such micro-lending models as the Grameen Bank in Bangladesh, the Bank Rakyat Indonesia (BRI) Unit Desa System, and the initiatives of Accion, Inc. (e.g. the Prodem in Bolivia) will assist in developing this proposed area of Bank activity within the context of such existing and emerging initiatives in South Africa. (Loans in those three models range in size from \$10 to \$13,500; the average loan is approximately \$200.)

(8) The Bank will not have the resources (nor is it proposed that it have the depth and range of engineering and related technical expertise) normally associated with large-scale infrastructure development.

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The allocation of capital between the Bank's private and public-sector investments and among such specific activities as those identified above will be based on further analysis of the priority needs and capacities of the South African economy, resources likely to be otherwise available and on a detailed financial analysis of the balance of investment activities and policies required for the Bank's overall financial viability.

Next Steps

In view of the importance of timely action to structure the Bank, it is proposed that the following next steps be taken concurrently:

- * Initiation of high level meetings with government officials, primarily in OECD countries.
- * Early completion of consultations and a set of detailed financial analyses on which to base the Bank's capital structure and to inform its further definition and development.
- * Preliminary consideration of a draft charter and organizational materials.

It is intended that this paper serve as an agenda for those purposes. It is also intended to stimulate other consultations and comment.

Comments to the Committee for South African Development about the paper and requests for consultation or further information may be directed:

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