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Exploring the gap-filling development finance role of the Development Bank of Southern Africa (DBSA)

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Table of contents

1 Introduction 3
1.1 Performing a development function? 5
1.2 Problem and purpose statement 8
1.3 Research questions 11
1.4 Limitations 11
1.5 Outline of thesis and chapter contents 12
1.6 Conclusion 14
2 Introduction 15
2.1 Understanding the nature of the market failure gap 15
2.2 Exploring theoretical approaches of gap-filling 18
2.2.1 Understanding New Institutional Economics 19
2.2.2 Key assumptions of New Institutional Economics 20
2.3 The evolution of Development Finance Institutions (DFIs) 21
2.4 Defining a development bank: principal functions versus ownership 24
2.4.1 Ownership defining development banks? 25
2.4.2 Defining development bank on principal function dominates 25
2.5 Developing a working definition for DFIs 26
2.5.1 Working definition for a development bank as understood in this study 28
2.6 Locating this study in relation to other studies on DFIs 28
2.7 Conclusion 31
3 Introduction 33
3.1 Qualitative research approach 33
3.2 Case study research design 34
3.2.1 Application of the case study design as it relates to the DBSA case 36
3.3 Methodology 37
3.3.1 Research instruments 37
3.3.2 Interviews 38
3.3.3 Research population and sampling 39
3.3.4 Document analysis 40
3.3.5 Data description 41

3.3.6 Data analysis strategy 41
3.4 Limitations 43
3.5 Ethical considerations 44
3.6 Conclusion 45
4 Introduction 47
4.1 Establishing the DBSA 47
4.1.1 Context when establishing the DBSA 49
4.1.2 Aim behind establishment of the DBSA 51
4.2 Gap-filling: maintaining the Bantustans 1983-1993 56
4.3 Elements of confusion over mandate: the DBSA post 1994 61
4.3.1 Regional/location of activity 61
4.3.2 Sector focus 62
4.3.3 Nature of assistance: finance and/or technical assistance 63
4.3.4 Kind of borrower 64
4.4 DBSA and other development corporations 66
4.4.1 The IDC and DBSA 68
4.5 Increasing competition in the development finance space in post 1994 period 70
4.6 Further challenges to the DBSAs role: the challenges to working with municipalities 73
4.6.1 Under-capacitated municipal officials 74
4.6.2 Weak capacity to formulate policies 75
4.7 Implications of the challenging institutional environment 77
4.8 Conclusion 79
5 Introduction 82
5.1 Project finance cycle: A framework for the DBSA 83
5.1.1 Phases of project cycle 83
5.1.2 Step by step: DBSA project finance in practice 88
5.2 Development finance with impact? 90
5.3 Project Finance in reality 92
5.4 Financial and economic viability: motive for the DBSA's client-base? 97
5.5 Technical Assistance: a case of Siyenza Manje 104
5.5.1 Learning valuable lessons 108
5.6 Conclusion 109

6 Introduction 111
6.1 Who Finances the Financier? 111
6.2 Entering a new terrain: self-sustainability of the DBSA 116
6.3 Implications of self-sustainability model? 120
6.4 Development Fund: a mechanism to attract grants? 125
6.5 Business strategy and legislative framework 130
6.6 Exploring Relationships: the DBSA, Board and Government 132
6.7 Impact of funding-model: restructuring and more restructuring 137
6.8 Conclusion 141
7 Introduction 143
7.1 General Conclusions 143
7.1.1 DBSA initially established for development of Bantustans 144
7.1.2 Mandate of the DBSA is to fill an infrastructure development gap 145
7.1.3 Funding model: Financial sustainability at expense of development? 146
7.1.4 Development contribution made by the DBSA 147
7.2 Answers to research questions 148
7.3 The Way Forward 151
7.4 Areas of future research 153
7.5 Summary 154
Appendix A: Process to conduct interviews 156
Sources 157

Chapter ONE: Introducing the study on the DBSA

1 Introduction

Development Finance Institutions (DFIs) have traditionally been understood as vehicles to achieving economic growth. The primary motive of DFIs is to fill gaps within the market economy. These gaps are understood as emerging from market failure, where neither government nor the private sector is able to finance development projects. It is such an intermediation gap, that DFIs are designed to fill.

DFI's address imperfections in the market by delivering packaged support for development projects led by clients perceived by the private sector as having too much financial risk (Hoffman 1998; Scott 2008). DFIs such as the Development Bank of Southern Africa (DBSA) are intended to bridge obstacles such as this, providing development finance to borrowers who would otherwise not have qualified for development finance. In most instances, DFIs such as the DBSA finance projects of strategic importance for the state, such as infrastructure (Ligeti 1985:306).

A prime example of a project ideally taken on by the DBSA would be a road infrastructure and storm water-management project in Intsika Yethu, a municipality in the Eastern Cape. This initiative was introduced by the community's mayoral committee. Typically, a project of such nature would struggle to obtain funding from the private sector. This is due to the community's lack of capacity to absorb the development finance and translate it into a viable development project able to service its debt (DBSA Annual Report 2007/08).

The competitive market inherently excludes most municipal projects in poor areas. This, again, is due to such communities lacking sufficient income to be perceived as creditworthy. Therefore, a DFI would fill the gap by financing projects perceived as too risk by the private sector.

Also, in such an instance, even the national government would likely be unable to take on the full financial risk. So, in order to distribute this risk, such projects are often financed through a joint financial structure where both government and the DFI underwrite a certain portion of the project.

DFIs are not unique to the South African government since they are a result of post-World War II global developments, when focused financial and regional development was required in order to bolster economic growth (Stilwell, Mukhura, Jackson & Kirsten 2004:3).

The establishment of the Bretton Woods institutions in July 1944 (World Bank and International Monetary Fund) reshaped the international development and financial system. Development institutions such as the African Development Bank (AfDB), Asian Development Bank (ADB) and the Inter-American Development Bank (IADB), later followed in the 1960s (Musasike 2004: 2). It was within this context that the establishment of the DBSA was initiated in 1979, at the Carlton Conference held in Johannesburg (DBSA Annual Report 1988/89). By September 1983, the DBSA was officially established.

The DBSA was established with the intention of supporting economic development through loan finance of development projects in independent and self-governed Bantustan territories. The Bantustan territories were former homelands established by the Apartheid government to implement segregationist racial policies (Southall 1982; van der Kooy 1985; van Rensburg n.d). Bantustan territories were – amongst other things – structurally formulated to reinforce an unequal economic policy.

The Bantustan territories essentially provided a reserve of cheap black labour (Legassick & Wolpe 1976:87). Despite being morally flawed, since its foundation was based on racial prejudice, there were proponents of separate development. Bureaucrats and policy makers were sincerely invested in separate development as the best means to attain high levels of economic growth for the Southern African region.

It is clear from the Bank's establishment; the initial target client was the financially risky Bantustan territories and independent states. Moreover, the Bank's geographic coverage area was not limited to Bantustans, but also to the entire Southern African region. At the time, the region was dominated by the Republic of South Africa's (RSA) economy. Largely, in comparison to the RSA government, the Bantustan territories and independent states lacked the capacity and skills to formulate their own economic policies.

These challenges still affect the DFI arena today, where the DBSA is intended to perform its gap-filling role. Its purpose remains funding municipalities which do not have the ability to formulate accurate project capital proposals in order to attract development finance. In order to meet such deficiencies and perform gap-filling, the public sector should constitute the bulk loan portfolio of the DBSA.

The inability of municipalities to secure financing from the private sector is due to their historical underdevelopment. Low tax revenue reduces the likelihood of securing finance from the private sector (Sibisi 2009). As such, the DBSA would ideally step-in to fill the gap by extending capital to municipalities regarded as high-risk, low profit return clients.

When it was formed in 1983, the core purpose of the DBSA was to bolster separate development under the Apartheid regime. The aftermath of segregated development, resulted in a post-Apartheid DBSA embedded in a society with skewed levels of development. As well, pressing demands for infrastructure development has been a recurring theme of post-Apartheid government policies and strategies.

For instance, the National Infrastructure Plan (Presidential Infrastructure Coordinating Commission 2012) and National Development Plan (National Planning Commission 11 November 2011) are both policy instruments introduced to address infrastructure development backlogs in South Africa. It is within the framework of these government infrastructure policies that the contemporary DBSA is intended to align its infrastructure development mandate.

1.1 Performing a development function?

The Bank financed several projects in Bantustan territories such as the 1989 housing subsidy policy in Ciskei, now part of the Eastern Cape Province; the expansion of the 1988 electricity network in QwaQwa, now in the Free State; and the 1988 rehabilitation of roads in Bophuthatswana's western region. This area is now part of the Free-State and Gauteng Province. These projects, however, are listed in the DBSA Annual Report of 1988/89.

Such projects were initially categorised under six main development functions of the Bank. These included human resource development, bulk infrastructure development, state and regional development, rural and agricultural development,

urban development as well as business and entrepreneurial development (DBSA Annual report 1987/1988). The multiple roles of the Bank were particularly congruent to the needs of the Bantustans. This was largely because the Bank offered flexible and comprehensive financial aid along with associated support. Neither of which was extended by the RSA government or the private sector.

In 1994, following South Africa's democratisation, the Bank's diversified development finance mandate was streamlined. This saw the DBSA transferring some of its responsibilities to other South African DFIs, resulting in the Bank adopting a sectorial development finance focus.

The DBSA now focused on infrastructure. The Industrial Development Corporation (IDC) on Industry; the Landbank on Agriculture; Khula Enterprise Finance (Ltd) and the Small Enterprise Finance Agency (Sefa)[1] focused on small and medium scale lending and the National Housing Finance Corporation focused on housing (Musasike 2004:7).

By fostering separate entities for key development functions, the South African government introduced a more specialised and targeted development funding model. This meant the support of entrepreneurial projects such as the Ciskei Small Business Development Programme III (1988) – initially financed by the DBSA – post 1994, would be mandated to be financed by another South African DFI such as Sefa.

To cement the Bank's specialised role, the introduction of the Development Bank of Southern Africa Act (No. 13 of 1997), further set the precedent for a more focused mandate for the DBSA. The Act stipulated the Bank was to finance Infrastructure projects in order to promote economic growth in the Southern African region.

Gumede, Govender & Motshidi (2011:2) argue that for DFI's to be successful, they must be able to perform two functions well. The first is to "finance development projects effectively" and secondly, play a key role as advisors/facilitators/arrangers in providing "game-changing intervention" within the broader economic development strategies of their countries. Therefore, successful DFIs assume both roles of development finance while fashioning a state's broader national development strategy.

[1] Only established in 2012.

The DBSA plays a multiple role as financier, partner, advisor, implementer and integrator. This study's function is to understand the role of the DBSA as a DFI in its entirety. However, I am especially interested in finding whether or not it fulfills its gap-filling role. Gap-filling is the core purpose of DFIs coupled with their ability to "act as (a) catalyst for accelerated industrialisation, economic growth and human resources development" (Gumede, Govender & Motshidi 2011:1). This is largely realised through financing development-centred projects. Although the DBSA Act (No.13 of 1997) is open for broad interpretation of the intended role of the DBSA, the Act does outline infrastructure projects to be financed. These include water, energy, transport and telecommunications. By financing these projects, the DBSA is likely to be considered to be in line with its infrastructure development gap-filling role.

In order for the DBSA to perform its gap-filling role, this study proposes that a two-pronged approach be applied. Development finance should fall within the framework of infrastructure development while financing of infrastructure projects should also be in line with the broader "needs" of the client. Therefore, financing must be provided to "deserving" clients who have a weak capacity to obtain finance in the market (Delphos 2004; Thorne 2011). The DBSA best fulfills its gap-filling role when achieving both elements of financing for the most deserving client engaged in an infrastructure project.

Nevertheless, it should be noted that the meaning of gap-filler is contested. Some policymakers/scholars see the gap filling role of DFIs as addressing market failures. However, others argue gap filling is DFI's addressing state development failures such as institutional failure, capacity failure and information failure (Gumede 2008:1).

A 2005 United Nations report comments how DFI's are generally expected to address broader development policy objectives. These include development of poor people and/or regions, employment creation and income redistribution. This dissertation explores competing understandings of not only what is meant by gap filling but also how the DBSA transforms its development finance mandate into development operations. Therefore, this dissertation also explores competing understandings of the role DFIs are intended to play.

1.2 Problem and purpose statement

It has become apparent the DBSA has not been providing development finance according to the tenets of the traditional understanding of development finance. The problem is two-fold. The DBSA target client is not necessarily the most deserving and projects financed by the DBSA do not automatically fall within the infrastructure development mandate.

There has been instances post 1994, when the DBSA has financed projects which fit the above classification of gap filling (see previous section). For example the North West Sanitation Programme 2009 and the Lesedi Municipality electricity upgrade in 2007 are projects which fall within the infrastructure development mandate. They were initiated by provinces/municipalities which would otherwise not have received funding from the private sector (Lavelle 1999). These projects fell within the infrastructure development's specialised scope of activity.

However, many do not adhere to the definition outlined above. The two following examples are indicative of the DBSA failing to meet its gap-filling role:

1. In 2007, the DBSA financed the Cape Coral International Hotel. This development financed project was initiated by Coral International, a leading developer of boutique "dry hotels" based in the Middle East. By financing the development of a new dry hotel, the DBSA was not in line with both the criteria of most deserving client. As well, this project did not fall within the DBSA's infrastructure development criteria.

   At the time, the DBSA substantiated its support of this project as a unique Broad-Based Black Economic Empowerment (B-BBEE) deal that would contribute towards tourism and employment (DBSA Annual Report 2007-08).

   Moreover, by financing an already financially sound entity, the Bank failed to perform a gap-filling role since Coral International was likely to receive financing from the private sector. In order to perform its role as a gap-filler, the Bank must only finance projects unlikely to receive private sector financing – projects in impoverished underdeveloped municipalities (Musasike 2004).

2. In 2010, the DBSA extended a R15 billion loan to Eskom with funds to be disbursed over a five-year period. Thus, as of this study, it is the largest loan the Bank has ever extended to an obligator (Engineering News, 2010). The problem with such a loan is that Eskom had already secured a R60 billion subordinate loan from government.

This obviously suggests Eskom was in a position to broaden its funding options. Although, the DBSA was acting in line with its mandate of prioritizing energy, the Bank did not fulfill its gap-filling role in the market. What is of even more concern is that at the time of loan agreement, the DBSA was not in a propitious financial position to do so (DBSA internal Dataset 2008-2013.)

This study intends to identify if there was dislocation between the kinds of projects financed by the DBSA and its gap-filling role, during the two distinct eras of 1984-1993 and 1994-2013.

Unlike most studies which are interested in the phenomenon of market failure, or the evaluation of the performance of DFIs, this paper adopts an approach of questioning other somewhat overlooked occurrences. Therefore, it is less focused upon revealing the development impact of a project which is a financial recipient, but rather does the DBSA actually fill a gap in the market when financing a project? This study finds its purpose in the understanding of such a gap. This analysis also questions why the DBSA decides to finance some projects over others as well as the underlying factors behind such decision-making.

The evolving South African market economy has destined the traditional DBSA pre-1994 development finance monopoly held in Bantustans to be nonexistent in municipalities, post 1994. The DBSA has been met with the emergence of a stronger private sector and challenging municipal environment. Morever, changes in funding-models contribute to the blurring of the gap-filling role performed by the DBSA. For instance, in financing development projects, the strength of the private sector has led to a more competitive market system. Thus, in the South African institutional arena, further challenges are exerted upon the traditionally understood role of DFIs.

The further blurring of the DBSA's financier role reveals that, at times, the Bank acts as a strategic gap-filler to alleviate key state infrastructure development bottlenecks which the market is often unable to resolve. In other instances it is difficult to establish what kind of projects the DBSA finances while attempting to perform its gap-filling role.

This study draws insights from New Institutional Economics (NIE) as an umbrella theory best suited to explore the DBSA's gap-filling role. This is informed by limitations evident in classical and neo-classical theories which over emphasise market failure and underestimate the actors filling the gaps of market failure. NIE, on the other hand, advocates institutional context as important in a study.

Some research by Neo-classical economists has been conducted on the important role DFI's can potentially play in addressing financial market failures (Wallis 1999:11). However, little is known about the extent to which they actually implement their gap-filling roles in development, particularly when performing their core function of development finance to borrowers excluded by the market.

Moreover, most studies in International Political Economy (IPE) are centred upon the evolving history of DFIs and their role in establishing the developmental state (Scott 2008; Gumede 2008; Aron 2000). However, in the contemporary era, these studies fail to address the altered role DFI's play and the extent to which they are digressing from their development-centred mandates. As well, little has been expressed about the kind of gap the DBSA has been filling when providing development finance to South African projects.

The purpose of this study is thus to explore the gap-filling role of the DBSA. This study explores the extent of the disjuncture between the gap-filling role and what the DBSA has been mandated to perform. Also taken into consideration what the development projects the DBSA has financed are, as well as investigating why this deviation has been the case.

There are a number of studies on DFIs which focus on organisational structures, cultures and norms. This study however will focus on the gap-filling role of DFIs. The contribution this study makes to the literature is that it maps the experiences of a

South African DFI in the context of the traditionally understood role of what DFIs are expected to do as opposed to what they actually do in practice.

Instead of an overemphasis upon market disequilibrium as is the case in orthodox economics, this study draws on an alternative theoretical view of studying DFIs. That is, their role of filling gaps in the market, where neither the state nor private sector traditionally is willing to invest, as well as the institutional context shaping this role.

This study highlights the extent development agencies such as the DBSA are institutions which can potentially contribute towards economic growth, if it acts in accordance to its development mandate.

1.3 Research questions

In light of its Development Finance Role:

1. How has the DBSA interpreted and acted in relation to its mandate prior and post 1994 as set out in policy documents, strategies and DBSA Act?
2. What was the nature (client, value and sector) of projects financed by the DBSA prior to 1994 and post 1994? And, was it in line with the traditional understanding of gap-filling by DFIs?
3. What factors contributed to the DBSA's deviation from its gap-filling role?

1.4 Limitations

It would have been ideal to study the perceived role of the DBSA by the clients it has done business with. By so doing, this analysis would have married the study of the financier (DBSA) with a study of a myriad of clients (Public Sector – particularly municipalities, Provincial governments and State Owned Enterprises (SOEs). Both of which would not only have been impacted by a common institutional environment but also the perceptions of what constitutes a DFIs gap-filling role.

A study of both the DBSA and municipalities as equal units of analysis would have revealed the kinds of relationships (enabling/antagonistic) between the DBSA and its clients. Moreover, by exploring the experiences of the clients, the study would have been better positioned to highlight the shortcomings of the gap-filling role of the DBSA. Missed opportunities of development finance-led economic growth in South

Africa would also have come to light. However, time constraints rendered the possibility of such an exercise too difficult.

Since the study took place in 2012 at a time when the Bank was under a rigorous organisational restructuring epoch, inherent limitations of accessibility for personnel interviews were experienced by this researcher. Similarly, the knowledge repository of some staff members who have been retrenched or voluntarily resigned limited access to some documentation. The Bank, being a state institution, financing the Public sector means it is quite likely that access to some documents may be classified as highly confidential. Nevertheless, the study was able to access annual reports and conduct rich interviews which provided sufficient data to carry out this study.

1.5 Outline of thesis and chapter contents

Chapter 1: Introduction to the study – Provides the background for the study by introducing the nature of development finance as well as the rationale behind the establishment of the DBSA. The chapter introduces various challenges faced by the DBSA when performing its gap-filling role. This chapter formulates the problem statement, purpose statement and research questions.

Chapter 2: A review of literature on Development Finance Institutions (DFIs) – This chapter explains what is meant by the market-failure gap and the gap-filling notion of DFIs. Theoretical approaches of classical and neo-classical economics are also discussed and NIE is identified as the best suited theory to inform this study. The evolution of DFIs is discussed so as to provide context. A working definition for this study is developed and the chapter concludes by locating the study in relation to other studies on DFIs.

Chapter 3: Research methodology - The qualitative research approach is used, while the case-study research design is argued as best suited for the nature of the study. In this chapter the use of interviews and document analysis are introduced and clarification is made on how the chosen research instruments are applied in this study. Limitations of the study and ethical considerations were also presented setting precedent for the chapter which followed.

Chapter 4: The emergence of the DBSA: strategic gap-filler? – An account of the establishment and aim of the DBSA is discussed, as well as the changing circumstances in which the DBSA has worked. Elements of confusion regarding the mandate of the DBSA are also explored using a classification of: regional/location of activity, sector focus; nature of assistance, and the kind of borrower.

The periods covered are from the Banks inception in 1984 through 1993 to the post democratisation period of 1994 - 2013. The institutional context – other development corporations; private sector competition; challenging municipal environment – is mapped out in order to provide context for the study.

Chapter 5: Analysing development finance in action – This chapter unpacks development finance as performed by the DBSA in specific detail. To do this, the chapter explains the project finance cycle, phases of the project cycle and the actual steps taken by the DBSA when extending finance to a borrower. The kinds of projects financed by the Bank are then explored and argued to be misaligned to the gap-filling mandate of the DBSA. The use of the Siyenza Manje case highlights the findings of this study. The chapter concludes by noting the valuable lessons to be learned from the Siyenza Manje Case.

Chapter 6: Funding-model influencing the DBSA's gap-filling – This chapter maps the financial position the DBSA finds itself post 1994. It also examines the implications a self-sustainability model has upon the Bank's ability to perform its gap-filling role. The chapter illustrates how, despite attempts to establish the Development Fund - responsible to advance projects with high development impact - the Bank still failed to perform its gap-filling role. In response to changes in its funding model, the Bank underwent restructuring, as an attempt to realign with its gap-filling mandate. However, this was met with only limited success.

Chapter 7: Concluding remarks – The study concludes by summarising the research problem, research aims and objectives plus findings. The relevance of the research is also noted alongside recommendations for future research.

1.6 Conclusion

This chapter introduced the study by situating the DBSA in the traditional understanding of the role of DFIs – principally understood as a gap-filling role. Gap-filling has largely been understood as a means to address imperfections found in the market economy. Although formed post World War II, DFIs as a means to propel development, have remained an important advocacy tool for governments. In the case of the DBSA, development finance should be awarded to infrastructure projects presented by "deserving clients". This has been a key indicator of "gap-filling".

The problem however, is the DBSA has not always acted in line with the traditional understanding of gap-filling. This is particularly evident in the kinds of projects it financed in the post 1994 era. This observation prompted this researcher's keen interest in this study.

Providing funds to clients who would have otherwise received financing from the private sector was identified as a problem. This is not only because it meant poorer municipalities would have to forgo these funds, but it also questions the extent to which there is actual gap-filling. In particular, the Bank's development finance should be in line with national development policy and strategy documents. The literature review chapter which follows provides the theoretical and conceptual framework for the study.

Chapter TWO: Literature Review

2 Introduction

The following chapter positions the study of the DBSA within the broad literature of classical economics and New Institutional Economics (NIE) as well as the study of DFIs. Gap-filling, the topic of this study can be examined by drawing upon the theories and literature from a plethora of schools of thought. These include classical economics, institutional economics, heterodox economics and social science disciplines of sociology, political science et.al.

It is, however, important to illustrate that although traditionally studied under the umbrella of classical economics, this study draws on the theoretical contributions of NIE in particular. NIE provides useful insight for understanding how the Bank has behaved in relation to a changing institutional environment.

This chapter begins by explaining what is meant by development finance and the nature of "gap-filling". The chapter then provides a historical account of the development of DFIs. This is followed by a discussion of competing definitions in the international literature of development banks as well as their categorisation based on ownership or core function. A working definition of DFIs is then developed to underpin this study. By developing working definitions, the study is better equipped to address the research questions.

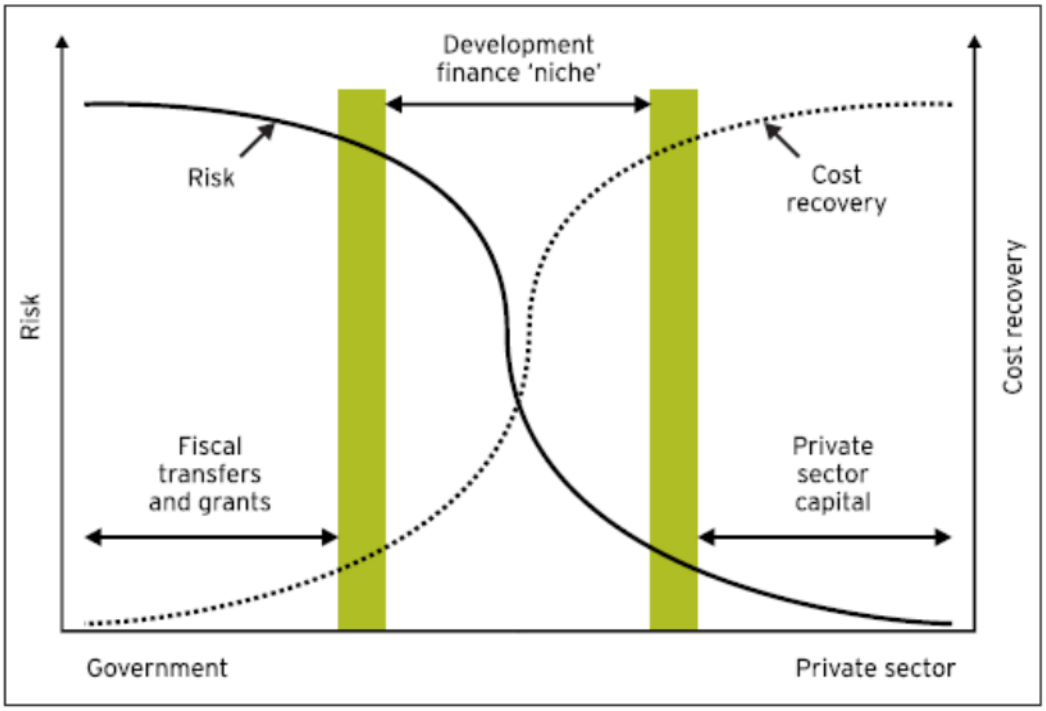
2.1 Understanding the nature of the market failure gap

Classical economics and institutional theorists argue that market failure is the core rationale behind the establishment of DFIs. States are supposed to overcome market imperfections in the same manner firms overcome market imperfections impinging on profits (Lavelle 1999:201). DFIs exist to bridge the gap between low-income borrowers and conventional finance. In the case of the DBSA, low-income borrowers would be various segments in the market. These include long term projects such as infrastructure; projects whose social benefits far exceed commercial benefits; new or risky ventures and clients; projects in low-income or distant regions, as well as projects that are small or lack collateral (Thorne 2011:6; Development Finance Forum 2004).

Development banks thus originated from a need to finance development projects not able to secure financing from existing money-lending institutions such as commercial banks. Often these financial institutions were far too specialized, lacked the qualified personnel to understand the nature of development finance (Ligeti 1985:297) and were not equipped financially to handle the risks associated with financing development projects.

As such, the limitations and incapacity commercial banks have to finance development projects gave rise to a gap in the market leading to the formation of development banks. Development banks would then ideally finance development projects which otherwise would not have been financed by traditional commercial banks. Figure 1 is an illustration of the kind of gap DFIs are intended to fill.

Figure: 1 Mandate of Gap-filling in Development Bank Finance



Source: Thorne (2011) adapted from a diagram by B.M Jackson (1998)

Government resources and market funding are provided to projects where limited cost recovery is possible. This is represented by a “Fiscal Transfers and Grants” in the diagram. The private sector provides funding to projects able to generate profits and this is represented by “Private Sector Capital” in Figure 1.

The private sector finances low risk projects with high profit returns, represented by the dotted curve in diagram. Conversely, government will finance high risk clients with low cost recovery. This is shown as a solid curve in the diagram. The gap between the Government and Private Sector is the niche area filled by development banks.

For example, since development banks were originally created to finance long term financing to industrial development projects. Such projects included infrastructure ventures having long gestation periods (Mathur 2003:799); this is where development banks step in to fill the gap. They provide finance for high-risk projects having limited profit generating potential (Thorne 2011:6).

The aim is to bridge the gap between projects funded by the government and those by the private sector. Development banks attempt to lower the risks of investment in these projects while still contributing to government development objectives.

Scholars such as Lavelle (1999), Hanke (1997), and Garten (1998) have argued that contemporary global financial crises have prompted the reevaluation of some DFIs, particularly the global DFIs. This is because there has been a growing trend for DFIs to move more and more away from pursuing their mandate of development finance operating within the “niche” area. Scholars such as Mathur (2003:799) have gone so far as to caution that the DFI model is failing. As an example, in India, the proliferation of state-funded DFIs has led to duplication of functions, tenuous governance structures and the unsustainability of DFIs.

Alternatives to rectifying the shortcomings of DFIs range from making DFIs more transparent, to disbanding DFIs to make room for the private sector to take over. DFIs have also been demolished and completely new institutions have been created. Despite criticism of them, there are still over 500 development banks internationally, which clearly illustrates the reluctance of governments to give-up on development banks as a policy instrument (Thorne 2011:4). However, there is still a need for institutions to fill the gaps the private sector and government are not willing to undertake.

2.2 Exploring theoretical approaches of gap-filling

Theories of government and market failure often "focus heavily on the desirability or otherwise of government in market or exchange processes rather than on the public sector per se" (Wallis 1999:61). Generally, researchers fail to focus on the public sector. Means in the market, the roles of government departments and agencies are seriously underestimated.

It also suggests a neglect of understanding HOW the various public entities have intervened in the market. For example, the roles played by State Owned Enterprises (SOE) and DFIs in the market tend to be overlooked. However, there are exceptions such as the economic theory of bureaucracy (Niskanen 1972) and its "derivative notions of bureaucratic failure". This theory attempts to explain the role of the public sector within the market.

Government and market failure, as argued by NIE, gives rise to the gaps organisations such as DFIs enter and rectify (Stalebrink &Sacco 2006:358). Since this study is not focused on economic theories of government or market failure per se – such theories most often explore the benefit or detriment of state intervention – so, such nuances are supplementary to the problem statement.

Rather, this study focuses upon NIE's acknowledgment of the role institutions such as the DBSA play in achieving stated outcomes in the market. Such efficiency can be achieved by filling gaps brought about by market failure as well as government fiascos (Stalebrink & Sacco 2006:358). This study is concerned with the DBSA as an institution operating in the market. It is the Bank's function to provide or not provide development finance as per the tenets of its mandate. Therefore, the NIE provides useful insight into undertaking this research.

The working definition of DFIs developed in this study (presented in section 2.5) settles well within the theoretical approach offered by NIE. Although classical and neo-classical economics are able to explain how the market gap comes about and the necessity to fill it; they fall short of providing concrete answers. Such theories fail to explain institutions such as DFIs which fill the gap. These hypotheses also neglect to identify the factors shaping how DFIs operate in the market.

Classical and neo-classical theorists thus place emphasis on the gap that needs to be filled. Conversely, NIE places emphasis on the actors filling the gap and the manner which institutions influence the actors' ability to fill the gap. This is important because not only do shifts in the market occur, but institutions themselves also take on different roles in response to change in its surroundings.

Interestingly, an institution's response to change in its surroundings can again alter those surroundings. This is the element of institutions and institutional context neglected by classical and neo-classical economics. Institutions and institutional context matter as NIE very well illustrates.

2.2.1 Understanding New Institutional Economics

The Ronald Coase Institute (2013) defines NIE as a conglomeration of theories on institutions pertaining to laws, customs, rules and norms. NIE uses a neo-classical economics theory base as core notions found in microeconomics such as scarcity and competition (Klein 1999:456).

NIE is repeatedly used as an umbrella term for theories of market failure and institutional analysis (Stalebrink & Sacco 2006:358). NIE does not dispute the neo-classical economic theory. Instead, it argues neo-classical theory lacks explanations of "asymmetric information, imperfect market structure, externalities and sub-optimal allocation of government sponsored goods related to the institutional environment of organizations" (Stalebrink &Sacco 2006:358).

In essence, NIE goes beyond examining the economy as an end in itself. As an alternative, NIE examines the role of institutions in preventing or furthering economic growth by uniting both theoretical and empirical research (Ronald Coase Institute 2013). Klein (1999:456) echoes a similar understanding of NIE by succinctly describing the goal of NIE as one that seeks "to explain what institutions are, how they arise, what purposes they serve, how they change and how – if at all – they should be reformed." NIE can thus be distinguished by not only studying institutions, but rather studying institutions embedded in an economic market system.

2.2.2 Key assumptions of New Institutional Economics

Instead of presenting a unified theoretical framework, NIE is composed of mutually overlapping and interconnected approaches (Picot, Bortenlanger & Rohrl 2006: 108). Unlike most theories that came about through a systematic collaboration of like-minded scholars, modern institutionalism (NIE's initial name) was developed through theoretical developments. It contains sub-fields such as public choice theory; law and economics; the principal–agent approach; transaction-cost economics; property rights and comparative economic systems.

Similarly, NIE also borrows from several social science disciplines including political science, law, sociology, organization theory and anthropology. However, the primary language it is based upon is economics (Klein 1999:456). Such an eclectic identity brings with it a diverse methodological understanding of how to address organisational and institutional issues in a study (Furubotn & Richter 2008:15).

Methodologically, NIE regards the term institution as having a dual meaning – procedures/rules of the game as well as organisations such as government agencies. Both understandings of institutions are interdependent since social entities shape the normative rules in the institutional framework. In turn, those normative rules influence the behavior and decisions made by organisations and individuals in society (Zhu & Thatcher 2010:56). This study takes on the dual meaning of "institutions" by referring to both the DBSA and the context in which it operates.

Theoretically, NIE agrees with classical economics – as opposed to Neo-classical economics – on the following: "a preference for an 'evolutionary' rather than mechanistic approach to the economy; and an emphasis on empirical observation over deductive reasoning" (Klein 1999:457). It is greater emphasis on the latter, which best suits this study.

One cannot make any unilateral deductions about the DBSA's view on economic theory without conducting empirical research. This is largely because the DBSA is embedded in a particular institutional environment. The economy is part of the institutional environment shaping the South African arena. Further, the market

economy actively evolves, thus warranting the shifts in the kind of gap filled by the DBSA. This will be shown in chapter four.

Amongst other factors to be revealed by this empirical study, there are shifts in the institutional environment which contribute to the ability or inability of the Bank to perform its gap-filling role. This study draws its insights from the strengths of empirical research of institutions promoted by NIE.

The following section discusses the evolution of DFIs. This is of importance because it provides evidence for statements made in chapter one and this chapter. That assertion, of course, is: the establishment of DFIs was in direct response to market failure and the need to fill gaps in the economy.

2.3 The evolution of Development Finance Institutions (DFIs)

The earliest reported development bank was the privately owned Crédit Mobilier, established in 1848 in France (Thorne 2011:6). This bank managed to raise capital from middle class French investors and financed infrastructure projects to the Middle East, North Africa and Europe (Newmarch 1858:444). Crédit Mobilier was a model for many development banks such as the Industrial Bank of Japan (1900). This was because it was able to increase per capita income in Europe (Thorne 2011:6). The core assumptions at the time were DFIs could fill market failure gaps and contribute towards an increase in economic growth.

The era of Industrialisation and post-World War I reconstruction of Europe occurred through the facilitation of development banks. Two catastrophic events created the need for development finance at scale in Europe; the reconstruction after World War I and the 1929 Great Depression.

Both incidents gave rise to the need for long term finance (Thorne 2011:6). The market economy under the aforementioned events was unable to meet the demands of reconstruction. Institutions such as the Delcredere were founded by the Belgian government in 1921 i.e. after World War I (Delphos 2004:42). Delcredere was initially created to revive Belgian exports as well as providing political risk insurance.

Agence Française de Développement (AfD), established in 1941, is acclaimed as the "first true global" DFI (Delphos 2004:xii). AfD works on behalf of the French Government to realise France's Overseas Development Assistance policies through financing development (UNECE n.d.).

The International Bank for Reconstruction and Development was the first multilateral organisation focused upon economic expansion through development finance. Established in 1944 it was the original institution for the World Bank group (de Kock 1944) and began operations in 1946.

State sponsored development banks became a trend shortly after World War II. In response to the effects of the Second World War, many countries found themselves in a position where reconstruction efforts were to be bolstered with the implementation of new plans and strategies. It was then that a plethora of state development finance institutions were formed.

The United States (US) for instance, developed an organisation within the United States Agency for International Development (USAID). Named the Overseas Private Investment Corporation (OPIC), it was established in 1975. The main purpose of the OPIC was to support investment in developing economies (Delphos 2004: xi). Similar development agencies and banks mushroomed throughout the latter half of the twentieth century with a majority of them being informed by post-war development theories and concepts of post-colonisation.

Examples of post-World War II institutions include the German government-owned Kreditanstalt für Wiederaufbau (KfW) and the Japan Development Bank, the forerunner of the Development Bank of Japan (De Aghion 1999:85). It was through the establishment of DFIs post-World War II and post-colonisation that states believed DFIs could aid post-war reconstruction agendas.

The common thread running throughout the establishment of all DFIs is the need for DFI-lead market intervention. DFIs emerged as a remedy for events such as World War I and II, both of which necessitated the need for economic growth and immediate intervention. The DBSA was created in response to socio-political events in the RSA Apartheid regime. This then questions whether indeed DFIs are a

temporary remedy in response to economic anxiety or whether they are an irrefutable feature of permanent solutions to ensure the market serves all.

The emergence of various forms of DFIs ranges from a remedial response to socio-political instability or governmental policy. The different DFIs listed below illustrate the extent DFIs vary in ownership, geographic focus as well as motives for providing development finance:

- "Global Multilateral DFIs" these institutions, such as the World Bank Group, have a worldwide focus. A good example of this is the International Finance Corporation (IFC) (Delphos 2004:2-13).

- "Global Bilateral DFIs" were established to ensure sponsor countries "benefit from a more prosperous global economy" Delphos (2004:17). Global Bilateral DFIs have been in existence for several decades and finance projects expected to yield universal social and economic development. Examples are AfD and the Netherlands Finance Company (FMO). The latter was established by the Dutch government in 1970 (www.fmo.nl/ww.)

- "Bilateral DFIs Supporting Sponsor Country Investors DFIs" provide assistance where such financial assistance is in direct correlation with the sponsor countries' national interests (Delphos 2004:2-13). Often a sponsor country would have ownership interest in projects where the company's nationality is the same as the sponsor country. An example of this is Export Development Canada (EDC) which, in turn, provides trade finance services to Canadian exporters and investors in over 200 markets (Delphos 2004:45).

- Regional DFIs consist of a conglomeration of member states supporting development projects in member countries. One of the most widely published regional development banks is the Inter-African Development Bank (IDB), established in 1959. The IDB's mission and banking structure has served as a model for most Regional DFIs. Agencies adhering to this paradigm include the African Development Bank (AfDB) and the Caribbean Development Bank (CDB) (Barria & Roper 2004:620).

Within the AfDB, members of banking and financial institutions engaged in development finance activities in Africa establishing the Association of African Development Finance Institutions (AADFI) in 1975 (Baloyi 2011:44). Such associations are a common occurrence in regional DFIs.

- Quasi DFIs are those initially starting as traditional national DFI's but over time have merged or were acquired by other investment or commercial banks. This means they are functionally government-owned yet overall they are privately owned (Delphos 2004:213). A good example is the National Development Bank of Sri Lanka (NDB), which is listed on the Colombo Stock Exchange (www.ndbank.com).

It is argued by Mathur (2003:799) that in order to fill market failure gaps, the best suited type of development bank would be one established by state sponsorship, fully state owned and performing both financing and planning functions. Emerging in the 1950s another type of DFI is owned entirely by private shareholders. This was a World Bank initiative, albeit heavily supported by government. However, it was regarded as less likely to fill gaps as it was driven by a profit-making motive (Ligeti 1985; 302).

It is within the rationale of the former this study argues the DBSA was initially formed as a fully state owned and sponsored DFI. However as this dissertation will assert in Chapter four, the non-profit motive of the DBSA later became a mere ideal. The evolution of development banks raises an open-ended question: how exactly are development banks defined?

2.4 Defining a development bank: principal functions versus ownership

Definitions of development banks in international DFI literature either categorise development banks based on their ownership structure or their core motive for operation. A good example of this would be the principal functions performed by such a development bank (Ligeti 1985:298). The following sections discuss key differences between definitions of DFIs based on their ownership and those based on principal functions.

2.4.1 Ownership defining development banks?

A salient feature spanning all DFIs, is that the ownership structure of a DFI not only has implications on how development banks are defined, but also largely upon who funds the DFI. In most instances, the ownership structure has a direct correlation with the operations of the Bank.

For instance, privately owned banks are more profit-driven and thus acquire capital from financing less risky development projects (Ligeti 1985: 300). In contrast, state owned development banks are more engaged in national objectives such as infrastructure development. Therefore, they often undertake high-risk low-return projects privately owned banks are less inclined to finance. In ideal situations, state owned development banks are relatively cushioned from adverse losses since these Banks are guaranteed by the state.

There has been a shift to rather question the form in which a DFI is constituted. The form a DFI takes reveals not only the kind of functions the Bank performs but also whether or not in performing its function, the DFI fills a gap. The next section expands on the notion of defining a DFI based upon its function.

2.4.2 Defining development bank on principal function dominates

This study is more aligned with the contributions of Ligeti (1985:297) who states the greater question is not whether development banks are state owned or privately owned. Rather, the analysis should be focused on "whether development banks are profit oriented institutions or whether their promoting function, dominates." In other words, development banks are defined by their gap filling role, which is more concentrated on their development finance role as opposed to its ownership structure.

This study adopts the definition of development banks based on their principal function. This goes with the assumption that the dominating function performed by DFIs – development finance – is fundament because such DFIs essentially exist to fill gaps in development finance (Simon 1997:186).

Delphos (2004:xii) defines development banks as "multilateral or bilateral institutions providing the risk capital (debt and equity) guarantees, technical assistance, and/or insurance and that enables flows of foreign direct investment into less developed or emerging markets". From this definition, emphasis should be placed upon the key feature distinguishing development banks from other commercial banks. Development banks extend finance to "less developed or emerging markets".

Definitions by Nyhart & Janssens (1965:v) and Diamond (1957:2) defined DFIs as institutions granting medium and long term loans that have a primary role to promote and finance the private sector. However, this study does not employ such an understanding of development finance institutions. DFIs are better aligned to their gap-filling roles when providing finance to less privileged borrowers who are unable to secure finance from the market which may also include public borrowers.

Further, with regards to assets and other activities funded, this study is aligned to Ligeti's (1985:299) definition. Ligeti describes development banks as not only financing medium to short term assets, but also provide in addition to finance, "essentials of productive investment" such as technical skills and managerial experience.

The latter characteristic is an add-on to development finance as this offering is likely to be available in instances where the DFI has both the capacity and the institutional environment to support such efforts. This key feature of development banks is absent in commercial banks. Therefore, this difference is what this study adopts for understanding the idea of a development bank – particularly the DBSA. What distinguishes the DBSA from any other commercial bank is its mandate. It does not only extend development finance. It also provides technical assistance on occasions when the Bank has the institutional capacity to do so.

2.5 Developing a working definition for DFIs

Despite competing arguments about whether DFIs should be defined on the basis of ownership and core functions, Delphos (2004: xiii) offers interesting list of common DFI features relevant to this study. Firstly, he argues, DFIs are centred on issues of a "common good". By this, it is assumed the core existence of DFIs is focused upon improvement of the environment, reduction of poverty levels and unemployment, all

of which are normative issues. This study agrees with this characteristic since the function of development, as argued earlier, is one of the key defining factors distinguishing a development bank from a commercial bank.

Delphos (2004: xiii) further suggests DFIs have an appetite for supporting Greenfield and venture projects as they are acclimatised to the inherent risks. It is true the support of Greenfield projects is not a defining characteristic of DFIs. However, DFIs are often called in to reconstruct industries, sectors and aid SOE which would have otherwise not been recipients of finance from the private sector. It is the feature of financing Greenfield projects that this project does not fully advocate as a defining feature of all DFIs. Rather, this study does acknowledge it as a feature in some instances.

However, there are two characteristics this study does agree as common features of DFIs: they are reliant on government funding and are likely to be used as tools to achieve political objectives.

Secondly, although most DFIs are initially capitalised by government, they are expected, over time to become self-sustainable and maintain investment-grade risk ratings from international credit evaluation agencies such as Moody's and Standard and Poor's.

DFIs are placed in a delicate situation where they are expected to advance the policies of the main shareholders – typically the government – yet still remain non-partisan, development orientated and financially self-sustainable. In order to maintain self-sustainability, DFIs often secure their own finance from other sources beyond the state, such as borrowing from the financial market.

This two-fold characteristic succinctly outlines the situation of the DBSA. The common features offered by Delphos (2004: xiii) are all interconnected features in the case of the DBSA and offer nuances for developing working definitions for this study.

2.5.1 Working definition for a development bank as understood in this study

1. The conceptual framework developed for this study assumes that in order for a Bank to act in terms of its own mandate, it should perform in a manner prescribed by its policy documents and strategy.

2. In order for a Bank to be a developmental Bank, it should be focused on development projects. Such projects should not be primarily driven by a profit motive.

3. Regarding the ownership of the development Bank, government should also be a feature in the ownership structure.

4. In order for a Bank to play a gap-filling role, from a financial perspective, it should be financing projects which neither the government nor the private sector are prepared to take on. Gap-filling is also understood from the kind or nature of the gap to be filled i.e. the nature of the gap should be one which is development orientated.

5. In order for a Bank to have developmental impact, it must contribute towards economic growth objectives as set out in government policies .i.e. the Bank must support and focus upon economic development objectives identified by the government.

By developing the above definitions, this study is able to offer a solid approach towards studying development banks. Development banks are largely studied based on their contribution in addressing market-failure and/or government failure.

2.6 Locating this study in relation to other studies on DFIs

This study did not find any other studies which particularly focused on the DBSA's role as a development bank or gap-filler. Studies found were largely focused on the potential contribution of DFIs towards creating a developmental state as discussed by Gumede, Govender, & Motshidi (2011). These scholars argue the role of DFIs has gone beyond simply providing development finance as they must also respond to market failure. As well, DFIs are getting more broadly involved with addressing state development failure.

State development failures are categorised into the following:

- Institutional failure – failure to deliver mandated services;
- Capacity failure – skill shortages in institutions managing development;
- Origination failure – absence of innovative development ideas and;
- Information failure – challenges in development information asymmetry (Scott 2008 in Gumede, Govender, & Motshidi 2011).

Gumede, Govender, & Motshidi (2011), argue it is under such conditions of state failure that DFIs actually operate and extend their roles in the contemporary era. And, in performing these roles, they contribute to the developmental state.

In their publication, Gumede, Govender, & Motshidi (2011) discuss the many roles performed by DFIs in successful developmental states. The roles are to:

- "Provide counter-cyclical lending;
- Provide an enabling environment for enterprise and industry;
- Identify and develop strategic and longer-term profitable sectors, and steer long-term industrialisation;
- Expand infrastructure development;
- Promote and support their countries' national interests in the international arena;
- Play a part in institutional capacity building;
- Provide leadership in development coalitions and;
- Serve as model corporate citizens."

The above roles are discussed by use of case-studies and inferences are drawn of how successfully DFIs have bolstered economic growth when performing such. Little, however, was expressed about how the DBSA actually performs these roles. Large gaps are evident in the literature and this study aims to fill in at least some of those blanks.

Other literature on DFIs concentrate on the institutional environment DFIs must operate. For instance, Sibisi's (2009) study on Local Economic Development (LED)

notes the importance of LED as well as the limitations experienced because of a series of gaps – information gap, strategic gap, institutional gap and financial gap.

Contributions by Sibisi (2009) and Gumede, Govender, & Motshidi (2011) focus on development debates and the means which development can be achieved. Sibis's (2009) study proposes new ways of thinking of development in a manner underpinned by collective action based upon a hybrid glue of networks.

Lubeck (1992) instead argues that one must also look at the capacity of the African state to manage development as well as the kind of institutions such a state reproduces. In most cases, societies which are reproduced are those that resist market forces or state-centred development. From the above studies, it becomes evident development debates offer this study an opportunity to understand the complexity of the myriad of views on development in South Africa.

This researcher's study on the DBSA, advocates a DFI-led development approach to bolster economic growth. Unlike other development debates focusing on society-led development approaches, this study agrees with Thorne (2011) that development bank-led expansion initiatives can be successful tools to bolster economic growth.

Contributions by Gumede, Govender, & Motshidi (2011) and Sibisi (2009) offer insights into the institutional environment the DBSA is situated. The institutional environment is one mired by various "gaps" and "failures" such as the inability of municipalities to translate development finance received into viable and effective development projects.

Monyae's (2011) discussion paper titled "The role of South African DFIs in regional infrastructure development in Africa" is an effort to study the extent of DBSA's role as a DFI is indeed in line with its infrastructure development mandate. However, the paper fails to critically analyse the performance of South African DFIs, the DBSA and the Industrial Development Corporation (IDC).

The discussion paper instead notes the roles of the DBSA and IDC and places more emphasis upon recommendations for the DBSA and IDC to strengthen their impact in regional infrastructure development. Monyae (2011) makes strong contributions to

contextualise infrastructure development from a regional perspective and illustrates the extent of DFI-led development regionally.

Generally, projects/cases used in studies are underpinned by regional growth policies such as New Partnership for Africa's Development (NEPAD). Like most scholars delving into DFIs, Monyae's study focused heavily on assessing whether or not the objectives of achieving a developmental state have been served by DFIs.

International literature on DFIs interprets the role of DFIs as largely based upon whether they address market failure or not. Market failure intervention in this context is interpreted by the extent DFIs address import substitution as well as how they develop poor people/regions, develop or revive industrial sectors, create employment and develop the private sector (UN 2005).

While there are extensive studies on DFIs in relation to their constitution, funding structure and sectorial focus; there are few studies about the DBSA specifically and particularly in relation to its gap-filling role. Such a gap in the literature is what this study aims to fill.

2.7 Conclusion

The origins of development banks were largely informed out of the need for development finance in an international, post-world war context. Theoretical approaches informing the understanding of DFIs have principally been those of neo-classical and classical economic impressions of market failure. Government failure was also noted as an argument mainly presented by development theorists. However, this study found NIE was the best suited theory to guide this study on the DBSA and its gap-filling role. The benefits of NIE – providing context and dealing with institutions – was a key strength this study leveraged on.

Varying definitions of DFIs and the various kinds of DFIs existing provided context for this study. This chapter also highlighted the popularity of defining DFIs based on their ownership status, which undermines the core mandate of DFIs – being an agency to finance development. Instead, the chapter argues that DFIs were best defined by the principal function they perform.

The working definition developed, stated that for a Bank to act in terms of its own mandate, it should operate in a manner prescribed by its policy documents and strategy. In order to play its gap-filling role, the Bank should be focused upon development projects which neither the government nor the private sector are prepared to take on.

The ownership structure of a development Bank was noted as one having features of government ownership. By developing the working definition, this study is better positioned to address the research questions. This chapter concluded by positioning this study alongside other studies. It has noted the gap evident in the DFI literature and how no other studies had been conducted on the gap-filling role of the DBSA. As such, this chapter has revealed the importance of development banks as a whole and the importance of gap-filling, particularly as understood within the NIE framework.

Chapter THREE: Research methodology

3 Introduction

The following chapter outlines why the case study research design is the best means to answer the research questions. Methodologically, an emphasis on the study of institutions by use of the case study approach is customary for NIE scholars and this study mirrors such an inclination (Posner 2010:3).

The methodological research approach identified in this study is qualitative using case-study research design. The following chapter justifies the suitability of the case-study research design to collate data and answer the research problem. Research instruments, sampling frame and analysis strategy are discussed in further detail, along with limitations and ethical considerations of the study.

3.1 Qualitative research approach

The choice of the qualitative research approach for this study is appraised by the distinct features and strengths this approach offers in relation to the research topic.

Numerous scholars (Neuman 2011; Ritchie and Lewis 2003; Badenhorst 2007; Fielding and Fielding in Alasuutari, Bickman and Brannen 2008), have offered extensive differentiation between qualitative and quantitative research approaches. However, it is the differentiation of the qualitative approach offered by Neumann (2011), this study adopts.

This study hinges upon a key strength of qualitative research – reliance on interpretivism, the use of a non-linear research path and readily deals with contextual matters and cases (Neumann 2011:151). When approaching research, simplistically qualitative research seeks meaning, while quantitative research asks for significant quantity (Badenhorst 2007:3).

From Neuman's (2011:14) view, the difference between qualitative and quantitative research approaches are the methods of the latter and are described as data condensers, while methods of the former are understood as data enhancers. Neuman (2011:14) further argues that "when data is enhanced, it is possible to see key aspects of cases more clearly".

In light of Neuman's (2011:14) distinction, it is appropriate to maintain that in the pursuit of enhancing data, this study adopts a descriptive and analytical function of research, with the intended purpose of formulating and generating precise questions for future research.

In line with this study's purpose statement – to describe the gap-filling role of the DBSA, when performing its financier functions in South Africa – this endeavour is better able to answer research questions and generate new questions for future research pertaining to the changing role of DFIs. Such questions would delve into the relevance of the traditional understanding of DFIs in the contemporary market economy as well as the future of DFIs. Upon the completion of this study, I am confident cogent answers will emerge.

Since, quantitative researchers emphasise the measurement of variables and hypothesis embedded in causal explanations, the reliance on a positivist approach to social science. This coupled with a linear research path (Neuman, 2011:151) means there is often difficulty in quantifying social phenomena occurring in cyclical patterns.

As such, due to the descriptive nature of this study, it seems inappropriate to use a quantitative research approach. Although it may be possible to quantify milestone DBSA financed projects, these figures would fail to explain the DBSA's gap-filling role particularly in a changing institutional context. Thus, this study's research questions are best answered nestled in the case study research design of a qualitative research approach.

3.2 Case study research design

The case study research design is most suitable for this study because case studies are particularly useful when descriptions are complex and "involve a myriad of not highly isolated variables" (Gomm, Hammersley & Foster, 2000:24; Tellis 1997:1). Variables such as a changing institutional arena, South African government development policies, organisational factors, the DBSA's funding structure as well as a competitive market economy are all interrelated variables central to investigating the DBSA's divergence from its development mandate. It is within a myriad of such interrelated variables that a case study is used; when a "holistic, in-depth investigation is needed" (Merriam 2002:8).

Merriam (2002:8) defines a case study as an in-depth description and analysis of a bounded system. She states that the defining characteristic of case study research lies in determining the object of study – the case. Creswell (2009:28) agrees **"**in a case study, a particular individual, program or event is studied in depth for a defined period of time".

Merriam (2009:39) says "if the phenomenon you are interested in studying is not intrinsically bounded, it is not a case." She explains one technique of assessing the boundedness of a topic is to ask how limited the data collection would be. If there is no end to these, then the phenomenon is not bounded enough to qualify as a case (Miles and Huberman (1994:25).

The phenomenon under investigation in this research qualifies as a bounded system as it seeks to investigate the DBSA in particular the understanding of its role as a gap-filler in South Africa's competitive market economy. Interviewees and documents consulted are limited to variables concerning the DBSA's gap-filling role. Those interviewed are current and former DBSA staff as. These are the people involved in activities relating to project finance in South African development-centred projects. They are the most knowledgeable on the topic and will greatly contribute to data collection for this study.

The thesis statement of the DBSA's gap-filling role was explored through analysis of interrelated variables such as the perceived role of the DBSA, project finance particulars. This includes the type of client receiving development finance, the nature of the project, financial value of the project plus the era when finance was granted. Other factors taken into consideration are the competitive market economy, the DBSA funding structure, organisational dynamics as well as institutional dynamics possibly contributing to the DBSA's development finance.

By analysing these variables, the case study research design will reveal interplay among these inconsistencies and provide an understanding for possible conclusions regarding the DBSA's financier role in providing development finance. By noting the above variables, presenting detailed information about the case (DBSA) and drawing conclusions about the DBSA, the case study research design best serves the goals of this research.

3.2.1 Application of the case study design as it relates to the DBSA case

Case study strength is mentioned by Tellis (1997:1) who says "case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data." The use of multiple sources of data accommodates triangulation which is important for proving validity. The need for triangulation is particularly relevant in the case of the DBSA since there is a probability viewpoints from interviewed participants may differ.

By using documentation – publications and policy documents – as well as interviews, a richer, more detailed and accurate account of the gap-filling phenomenon is presented. This study seeks to maximize a detailed accurate account resembling the strengths of a triangulated research strategy (Feagin, Orum & Sjoberg 1991).

In order to attain triangulation, this research begins by reviewing annual reports and DBSA publications dealing with projects financed by the DBSA. The objective is to explore how the DBSA's development finance role has changed. This document review will be followed by interviews with DBSA personnel who have been with the organisation for a substantial number of years. Findings will then be cross-checked to attain triangulation.

A frequent criticism of the case study research design is whether it is possible to generalise from presented conclusions. This criticism is largely driven by the subjective nature of case studies and the dependence upon the context of the study (Badenhorst 2007). To counter this censure, Erickson (1986) argues that since the general lies in the particular, what we learn from a particular case can be transferred to similar situations.

This study supports Erickson's view that the case of the DBSA is likely to resemble the experience of other DFIs both locally and internationally, faced with a similar set of institutional circumstances. Generalisations from a case can be reached in instances where the narrative description of the case is presented well. Strengths of a narrative description present in the case study research design will override its weaknesses. Thus, using the case of the DBSA, this researcher is able to draw generalisations about DFI's in South Africa.

This study aligns to Yin's (1984) well-constructed differentiation between statistical generalisation and analytical generalisation. He asserts "in analytical generalisation, previously developed theory is used as a template against which to compare the empirical results of the case study" as opposed to statistical generalisations which leaves little room for analysis. Yin's (1984) work thus states generalisation can be made from theoretical relationships and by doing so, external validity is achieved.

A study conducted by Levy (1988) used a single case design for a study of the University of Arizona involving the nature of information technology acquisition in a university setting. Levy's research truly resonates with Yin's. Both studies replicated and added to the body of language, which initiated more studies by Danziger (1985) and Feagin, Orum and Sjoberg (1991) delving into information technology acquisition at universities.

Like the aforementioned scholars, this researcher's use of the case study design in analysing the DBSA is anchored in the desire to make use of the most appropriate research model. The case study approach will not only give rise to a focused description of the DBSA's gap filling role, but will also contribute to the body of research on DFIs.

3.3 Methodology

The case of the DBSA includes a number of variables all of which must be measured in order to support the thesis statement. Does the DBSA's gap-filling role resemble the traditional understanding of gap-filing performed by DFIs? The use of case-study research design is operationalised in the ensuing sections.

3.3.1 Research instruments

Having explored various research techniques such as focus groups, interviews, document analysis, field-notes and observation, this researcher has found a combination of interviews and document analysis to be the best suited techniques to conduct this study of the DBSA. Both instruments are utilised in order to attain levels of validity and reliability. This is achieved by cross-checking data generated from interviews against data reported in documents and visa-versa.

3.3.2 Interviews

Patton (2002:341) notes interviews are used to better understand people's perspectives, feelings, perceptions and thoughts; all of which cannot be directly observed. Classified according to the amount of structure, interviews may be highly structured; semi-structured or unstructured Merriam (2009:90).

This study conducted eight unstructured interviews. Of the eight; seven were with DBSA employees and one former employee. All eight interviews were no shorter than 60 minutes and no longer than 90 minutes.

Unlike a highly structured interview, which is rigid and adheres to predetermined questions, this study makes use of unstructured interviews. This allows the researcher to more readily access participants' perspectives of the DBSA's gap-filling role. Interviews conducted had a broad framework categorising demographic information, participants' perceptions of the DBSA's infrastructure mandate and the kind of projects the Bank should finance.

The nature of the questions themselves allowed fluidity in conversation and the interviewer had opportunity to probe for answers. The interview framework used to conduct interviews is attached as Appendix A. Questions asked served largely as a guide and were not exhaustive. Also, questions asked in the interview were thematic on perceptions of the DBSA's role. As well, interviewees were queried about the kinds of projects assumed to be more closely aligned to the gap-filling mandate of the DBSA.

The majority of interviews took place at some interviewee's offices at the DBSA in Midrand, South Africa, while others took place in residences. The location of interviews was largely determined by the interviewees based on where they felt the most at ease to conduct the interviews.

The distinct advantage of face-to-face interviews enabled the researcher to establish rapport with participants. This enhanced the use of the interview research instrument. Moreover, interviews have the distinct advantage of allowing the researcher, when appropriate, to clarify ambiguous answers (Leedy and Ormrod, 2001). Additionally, the interviewer is more readily able to gain follow-up information. Follow-ups are the pivot-point for attaining reliable results in a study such as this.

Follow-up information was particularly important for this study because it granted the researcher opportunity of referral as well as to consult DBSA publications supporting the claims/perceptions of the interviewees. Thus, conducting unstructured interviews are better suited to answer specific questions pertaining to the interviewees' unique perceptions, experiences and interpretations of the gap-filling role the DBSA is intended to perform.

3.3.3 Research population and sampling

A sample population speaks to whom the researcher will collect data from. Social enquiry requires that a researcher design and select samples for study (Ritchie and Lewis 2003:77).

Two techniques of sampling exist: random and non-random sampling (Merriam 2009:77). In a simple random sampling, elements of the population are chosen arbitrarily and have a known probability of selection (Ritchie and Lewis 2003:78). Simple random sampling is particularly useful in instances where large-scale surveys are conducted. However this sampling technique cannot guarantee the sample observed is representative of the overall population (Babbie 2011:182).

Although, simple random sampling enables the researcher to formulate generalisations about the sample population (Merriam 2009:77), generalisation in a statistical sense is not the priority of this research. Therefore, random sampling is inappropriate to use in this study of the DBSA.

Non-random sampling, on the other hand, is best suited to explore the changing development finance role of the DBSA and is the method used in this study. Non-random sampling is the most appropriate because the logic and power of purposeful sampling lies in selecting information-rich cases, for study Patton (2002:440). Information rich cases contribute to a great deal being learned – not only about the case itself but the purpose of the enquiry. Samples are chosen purposefully based upon prior knowledge and judgment of the researcher.

Through the use of a purposive non-probability sampling technique (Babbie 2011:179), this study focuses on a subset of a larger population in the organisation. A sample was selected on the basis of population knowledge, unstructured face-to-face interviews were informed and targeted at three DBSA employees (working for

DBSA for 20 years or more), four DBSA employees (working for DBSA for no longer than six years) and one former DBSA, Commercial Bank and IDC employee. The decision was made to sample the above mainly because they were the most representative of the era being studied.

The snowball sampling technique was used as it is most appropriate for this kind of research. It reveals various dynamics as well as detecting other important aspects of the population studied.

Recommendations from people about who to interview, which is the application of snowball sampling, was essential in this research. It provided the advantage of unravelling shared perceptions of issues such as what the DBSA's mandate was, the DBSA funding model and what projects were regarded as the most in line with the DBSA's development mandate and gap-filling role.

3.3.4 Document analysis

Existing records – reports, studies, evaluations and reviews submitted quarterly and annually – were read to identify activities of the DBSA. This was done to better understand how the agency perceived its mandate, changes over time, etc. The process started with a review of important literature and an analysis of annual and internal operational reports such as strategic plans and internal datasets.

Merriam (2009:152) lists the key strengths of using documents in research. They are usually produced for reasons other than research purposes and are therefore not subject to the same weaknesses as observation and interviews. The presence of documentation does not intrude upon or alter the setting in the way the presence of an investigator will. Nor are documents subject to the whims of human beings whose cooperation is essential for collecting good data.

However, in the case of the DBSA, this strength has the possibility to be a weakness. This is because their Annual reports are directed towards a specific audience. This study must therefore be aware of instances where the success of some projects may be over stated in the annual report. DBSA publications have an intended purpose and audience. Consequently the researcher must not fall into the trap of accepting all publications as authentic, absolute truths.

3.3.5 Data description

The quantity of the data collected was sufficient since the annual reports consulted spanned the years between 1988 and 2013. Moreover, strategic plans and extensive literature from DBSA publications provided a significant knowledge repository which was both detailed and indicative of a strong institutional memory.

The interviews conducted were not restricted to individuals with the most work experience and formal employment status in the DBSA. People considered experts in the field of development finance were also questioned. This was important as the DBSA's gap-filling role is not easily understood by most people.

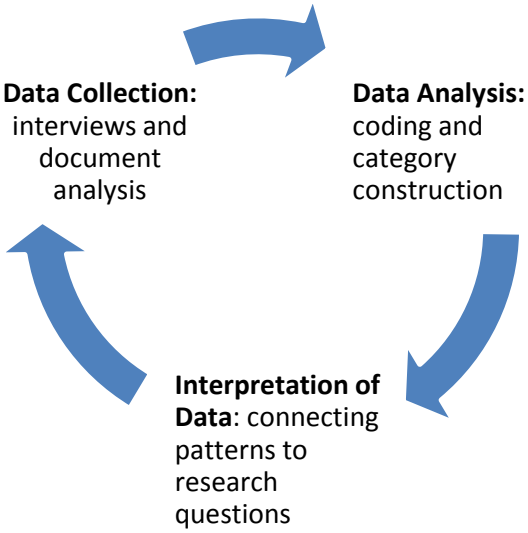
The rich oral history gleaned through unstructured interviews and document history in DBSA publications, and warranted the quality and ability of the data collected to answer the research questions. Instead of verifying and checking at the end of data collection, the material underwent a vigorous process of testing, probing, verifying and confirming during the collection process.

3.3.6 Data analysis strategy

To make sense of the data for the purpose of answering the study's questions, the Category Construction data analysis strategy proposed by Merriam (2009:175) was used.

Category Construction is the most preferred data analysis strategy for this paper. This is because it assists to highlight themes offering more answers to the research questions as well as tentative conclusions concerning the DBSA's gap-filling role. Merriam (2009:175) proposes that making sense of data involves reducing, consolidating and interpreting data to find meaning. In a qualitative study, a key feature of data analysis is the hidden information within the data often emerges as the research develops. Likewise, the collection and analysis of data was done simultaneously in a cyclical process as per Figure 2.

Figure 2: Data collection and analysis strategy



In addition to the cyclical process as illustrated above, data analysis was carried out before and parallel to data collection. This was done since preliminary analysis was very important to determining areas needing to be examined in greater detail. Moreover, the interpretation of Data was accomplished through coding which entailed the grouping of interview transcripts and DBSA publications into segments of data, creating category themes (Grbich 2007; Silverman 2006; Strauss 1987).

The interpretation of category themes enabled the study to answer the core research questions. The selection of quotes from both the interview transcripts and publications was also used to support/justify the presented findings.

From a practical perspective, interview transcripts were analysed by categorisation on the perceived role/mandate of the DBSA, nature of DBSA's clients, kind and value of financed projects, plus organisational dynamics. Overall perceptions of the extent these categories were influenced by the prevailing era of the South African economic climate were flagged. The data was further sub-grouped based upon common perceptions of when the DBSA best fulfilled its gap-filling role.

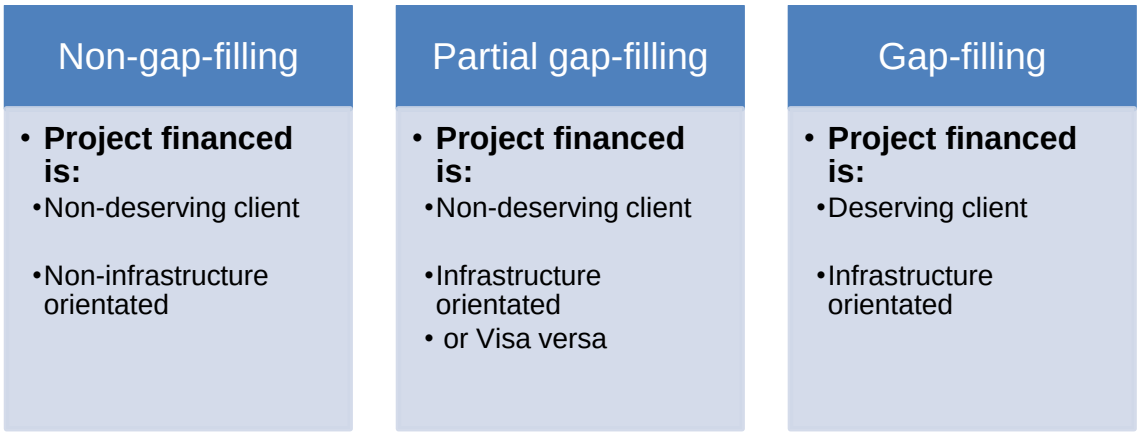
For the analysis of documents, this researcher compared annual reports based on the "Chairman's Report" which provided insights into the context of the South African socio-political environment of the financial year being reported. The remaining content of the annual reports, internal datasets and DBSA publications provided

detail about the kinds of projects funded and the amount of finance extended by the DBSA.

This researcher examined such documents for projects receiving the highest loan amounts. Next the recipients of funding were considered. Was the borrower for such a project likely to be excluded from the market? Did such a loan, fall within the infrastructure development mandate of the DBSA?

In instances where the DBSA financed projects both non-deserving and non-infrastructure orientated, these projects were flagged and placed into a non-gap-filling category. Where the DBSA financed infrastructure related projects, but to a "non-deserving client", the activity fell within the partial gap-filling category. On occasions where the project financed was both infrastructure development orientated and spearheaded by a deserving client, the activity was categorised as "gap-filling".

Figure 3: Categories constructed for DBSA gap-filling role in project finance



However, by creating these categories, the study was also mindful of the overarching context in which development finance of these projects occurred. It is within such a climate, that the study reveals the limitations of the traditional understanding of the gap-filling role of DFIs in general and the DBSA in particular.

3.4 Limitations

This is an explorative study concerning development finance roles of the DBSA. Alternatively, this study could have been carried out via a statistical investigation of the DBSA financial statements. With this mode of investigation, particular focus would have been placed upon the general trends of the balance of payments.

This study endeavours to provide a microcosm of the financial well-being of the DBSA. A detailed statistical review of financial reporting by the DBSA and RSA government/National Treasury could have added more value to the study. Granted sufficient attempts were made to consult DBSA financial statements. However, a statistical analysis without description would have been insufficient to address the research problem. As such, a statistical representation of DBSA financials would have been complimentary to the study. Still, it does not override the core need for description in this study.

This study is taking place at a time when the Bank is undergoing rigorous organisational restructuring. This brings inherent limitations of accessibility to personnel for interviews. Similarly, the knowledge repository of retrenched or voluntarily resigned staff further limits access to information and documentation.

Moreover, the Bank being a state institution financing the Public sector, there is likelihood access to classified or highly confidential documents will be limited. This impediment can be mitigated by the researcher by employing a referral system to gain trust and then develop a network of personnel who work at the DBSA.

3.5 Ethical considerations

To ensure the credibility of qualitative research, rigorous methods of inquiry and credibility of the researcher are essential components to be considered (Patton 2002:552). Of equal importance is the ethics of the researcher which also has implications on the validity and reliability of a study. Ethical considerations will be applied in this study by ensuring the informed consent of the interviewees regarding the purpose of the study, who financed the study and how the data will be used (Ritchie and Lewis 2003:66).

From the onset, anonymity and confidentiality were assured and other than the researcher, the identities of interviewees were not known to anyone. Although specialist personnel were interviewed, it is unlikely their identities were revealed due to the manner in which these interviews are presented in the study.

In order to ensure anonymity the interviewees are presented in the study as follows:

Table 1: Presentation of data for anonymity

	Duration of service in institution	**Reference in the study**
Category A DBSA employee	From 1984 to 2013 From 1988 to date From 1986 to 2013	Interviewee A1 (June 2013) Interviewee A2 (June 2013) Interviewee A3 (December 2012)
Category B DBSA Employee	From 2010 to date From 2007 to date From 2010 to date From 2010 to date	Interviewee B1 (December 2013) Interviewee B2 (December 2013) Interviewee B3 (December 2013) Interviewee B4 (December 2012)
Category C Previous employee of IDC and DBSA	Previous Employee of IDC,DBSA and Standard Bank (duration at DBSA from 2004-2006)	Interviewee C1 (January 2014)

From a document analysis perspective, annual reports are documents readily available for the perusal by the public. Therefore, the need for confidentiality is not necessary when making reference to them. However, some DBSA internal reports such as strategic plans and project specific spread-sheets published for day-to-day functions of the Bank were classified. Confidential documents, were simply referenced as: (DBSA Internal Dataset 2008-2013), (No. 1 Internal DBSA 2008), (No. 2 Internal DBSA 2012), (No. 3 Internal DBSA 2009), and (No. 4 Internal DBSA 2010).

3.6 Conclusion

This researcher has delineated the case study research design as the best suited methodology to carry out the study on the DBSA. It has been established that the research is qualitative and orientated to exploring the changing development finance role of the DBSA. This was achieved by conducting interviews and reviewing

literature. The chosen data collection instruments enabled the study to draw closer to answering the core research questions.

Cyclical and simultaneous data collection as well as the analysis strategy adopted in this study allows for greater triangulation. Additionally, further opportunities to create an audit trail have been created. This groundwork is particularly important for answering matters of validity and reliability.

The chapter which follows submits the case of the DBSA. The case is presented in order to apply the methodology outlined in this chapter and to ensure the data is depicted in such a manner that it is a microcosm of the DBSA.

Chapter FOUR: The emergence of the DBSA: strategic gap-filler?

4 Introduction

The previous chapter outlined the qualitative research approach and case study design as the most suitable for this study. This chapter begins by mapping the establishment of the DBSA and the context behind its founding.

The DBSA is a development finance institution initially created to provide finance to underdeveloped regions in Southern Africa. This chapter outlines the DBSA's role in "gap-filling" as translated in DBSA founding documents as well as how the DBSA has understood its role. Furthermore, this study explores how such an understanding has impacted the projects ultimately financed by the Bank.

This chapter is important for mapping the emergence and history of the DBSA as a gap-filler from inception to its contemporary state.

4.1 Establishing the DBSA

The concept of establishing a development bank for Southern Africa was formulated in 1979 at the Carlton Conference. This meeting held in Johannesburg, was attended by business leaders and members of the South African government and its territories (DBSA Annual Report1988/1989).

At the 1979 Carlton conference, key issues facing the Southern African institutional arena were discussed. First to be outlined was the need for an integrated regional development programme. Additionally, an effective development centred institution representative of all governments would be formulated. This body would need to be geared towards developing less developed regions and possess the ability to increase the scope for private sector involvement in areas such as Bantustans (van der Kooy 1985:64).

On June 30th, 1983 an agreement signed in Cape Town by members of the central South African government established the DBSA. The less developed areas of Transkei, Bophutatswana, Venda and Ciskei were tagged to be kick-off projects.

DBSA operations subsequently began September 1983 in temporary offices located in Sandton, Johannesburg. In a 1985 DBSA position paper, la Grange (1985:3) states:

> *"(the Bank was) …specifically set up and geared to mobilise private sector resources which it would apply together with the available public sector resources towards the promotion of economic development in the developing areas of the Southern African economic region".*

The developing areas spoken of in la Grange's quotation refer to the Bantustan territories as well as the states of Transkei, Venda, Bophutatswana and Ciskei (van Rensburg n.d:3). Transference of political authority from the central South African government to the independent and self-governing territories gave rise to the need for a more targeted approach for the development of these neglected regions (van der Kooy 1985:63). Political authority was not fully decentralised. Although appearing to be independent, much of the decision-making of the peripheral TVBC (Transkei, Venda, Bophutatswana and Ciskei) states was regulated by the central apartheid state.

In an attempt to appease the black threat against the survival of the Apartheid government, Bantustans were created (Legassick & Wolpe 1976:87). By placing a few educated elites in strategic positions of influence, Bantustans presented a perceived notion of independence (Chipkin & Meny-Gibert 2011). In this way, the Black population could be somewhat "managed".

However, the resultant effect of Bantustans was an upsurge of increasingly underdeveloped territories relying more and more on the core South African government. This study further discovered the rationale behind the establishment of the DBSA was to alleviate the heavy reliance of Bantustans on the RSA government's fiscal budget.

As alerted to by Interviewee A3 (December 2012) there was a great deal of pressure "to manage their fiscal arrangements to the satisfaction of the government in those days." The pressure for the RSA government to finance underdeveloped regions was largely because the RSA government was perceived as "modern" and industrialised.

Conversely, the Bantustan territories were underdeveloped and engaged in subsistence activities such as small-scale farming.

Given the framework of separate development, policy makers in the SA state felt there was a need for separate development programmes and instruments in order to stimulate underdeveloped regions (van der Kooy 1985:10). These development policies came in the form of regional development policies, of which the DBSA played a key role when providing technical assistance (van der Kooy 1985:28).

Further details of the kinds of projects financed by the DBSA in light of technical assistance, in line with Apartheid separate development policies are noted in the following sections.

4.1.1 Context when establishing the DBSA

The Bank was established in the context of a domestic socio-political arena where separate development was instiutionalised by the central government. Bantustans – also referred to as Homelands – were created by the Apartheid government as a façade granting independence and sovereignty to black people for the administration affairs of their defined territories.

Under the Bantu Authority System, traditional elites and senior bureaucrats could perform judicial and administrative functions (Chipkin & Meny-Gibert 2011:6). The assumption by the Apartheid government was that by granting independence, the Apartheid project could carry on without appearing illegitimate.

The political institutional arena giving rise to Bantustans was one evolving from 1910. In 1948, the National Party gained power of the central South African bureaucracy in Pretoria; referred to in this study as the RSA government. Thus began the introduction of a range of apartheid policies which deepened racial segregation.

It is within this context numerous laws were passed to control the movement, working conditions and residential areas black people were to live (van der Kooy 1985:57). Ensuing acts such as the Native Affairs Authority Act (1951); Promotional Bantu Self-Government Act (1959); Transkei Constitution Act (1963) and the Bantu Homelands Constitution Act (1971) (van der Kooy 1985: 58) were established. The

political institutional realm created divisions not only on racial lines but also on the rate of economic development.

Under the Bantu Homelands Constitution Act of 1971, self-governance and independence were granted to the states of Transkei, Bophutatswana, Venda and Ciskei (TBVC). This meant the RSA government would have no authority over their territory and they would cease to fall under the jurisdiction of the RSA government (van der Kooy 1985:57).

Ironically, it was claimed the TBVC were sovereign and independent. However, a large proportion of their sustainability was dependent upon the RSA government. In the 1982/1983 financial year, the RSA government had spent approximately R2 billion from the Treasury. This outlay came in the form of grants, services and other transfer payments to the independent and self-governed territories, while the total expenditure for the same period by these territories amounted to R2, 5 million (Engelbrecht 1985:3).

Such expenditure demonstrates substantial financial pressure on the central government due to accrued budget deficits. Financial pressure on the Fiscus budget also had political implications. Dissident factions consisting of interest groups and opposition parties decried that taxpayers' money was being thrown into a bottomless pit (Engelbrecht 1985:4).

The DBSA emerged within an institutional environment framed by segregate political ideologies and discontent about expenditure of public funds. The DBSA was designed to fill a financial gap by becoming a vehicle to channel development funds into TBVC states.

The RSA government would give the DBSA money to administer grants, technical assistance and development finance for performing such a function. At the time, it was assumed the Bantustans could eventually become self-sustaining and develop independently. Upon inception, it became apparent to the DBSA that the development backlogs experienced in the Bantu states and territories needed urgent economic development interventions.

From an international context, social unrest, rising levels of unemployment, persistent inflation and the 1973-1979 oil price hikes contributed to the slowing of the global economy and ultimately, the 1970s recession. With state-owned banks significantly contributing to foreign debt and fiscal deficits in their respective countries, gaps emerged in the availability of long-term finance and high risk projects (Thorne 2008; No. 4 Internal DBSA 2010).

By the end of 1970s and into the early 1980s, despite the World Bank continuing to finance the establishment of development banks under rigorous conditions, Banks unable to survive found themselves operating in a new international arena.

Conservative macroeconomic principles championed by Margaret Thatcher and Ronald Reagan dominated the economic scene (No. 4 Internal DBSA 2010). It is within this global climate DFIs began to mushroom across the world. With South Africa already experiencing international criticism for its Apartheid regime, the initiative to establish a development Bank for Southern Africa was viewed a feasible alternative to pacify criticism of separate development.

4.1.2 Aim behind establishment of the DBSA

The reason behind the establishment of the Bank was to address the emergent development gap between the industrialised/urbanised core and the impoverished periphery in the context of the homeland system. The vehicle to address imbalanced development was economic expansion through development finance in those territories and governments requiring assistance (DBSA 1989/90:3).

The Bank itself would not engage in the development of the region but rather by providing development finance. It was envisioned that the Bank would become a financial intermediary to support governments, independent territories and local corporations mandated to spearhead development.

As per the founding documents, the stated aim behind the establishment of the DBSA was to ensure development of the impoverished Bantustan territories, independent states and any other underdeveloped federations in the Southern African region. This view of independent states also referred to the self-governing territories of Gazankulu, KwaNdebele, KaNgwane, Lebowa, Qwaqwa and KwaZulu.

Incidentally, all these regions had previously, given their support to the establishment of the DBSA in 1983 (DBSA Annual report 1984/85).

The geographical focus of the Bank included the member countries (TVBC) and "all developing areas, regions and states" likewise, membership was open to any independent country in the Southern African region. Associate memberships were made also available to autonomous states outside the region (DBSA 1988/89).

The main concentration of the Bank's development finance as documented in Annual reports (1984-1990) was the prioritisation of the underdeveloped Bantustan territories and independent states. Most of these were characterised by low levels of economic growth and mounting poverty levels. Examples of projects in governments included the Lebowa government-construction of Seshego access road; the KaNgwane government's Nsikazi regional bulk water supply; and the Bophutatswana government's consolidation of the land farmer/settlement (DBSA Annual reports 1985/86;1986/87;1988/89).

Other than loan finance to the latter, recipients of DBSA finance extended to:

- Local Corporations (Kwa Ndebele National Development Corporation-industrial development project) (DBSA Annual Report 1988/89; DBSA Annual Report 1989/90);
- Neighbouring countries (Lesotho Highlands Development Authority- Butha-Buthe village project I; Lesotho National Development Corporation-Lesotho Industrial Development programme project I) (DBSA 1988/89;1989/90);
- Local business (Triple Trust Organisation – small business development projects in Khayelitsha) (DBSA 1988/89;1989/90) and;
- Strategic national agencies/councils (South African National Tourism Board-Strategic tourism development plan for South Africa; North-Eastern Natal/ KwaZulu sub-region- Agricultural development plan) (DBSA 1988/89;1989/90).

As supported above, the Bank granted development finance to diverse borrowers. However, Bank activities were not only limited to development finance since the Bank also provided technical assistance grants and loans for a multiple of disciplines. The DBSA also assisted institutional development and financial

management, region and state development policy and planning, as well as project research, preparation, training and development-related publications (DBSA Annual 1989/89;1990/91).

Technical assistance for the above often came in the form of the Bank performing a consultative role. Thus, this study agrees with Muller (1992:44) that from inception, the DBSA's role went beyond solely lending. However, the Bank was also actively engaged in economic reform issues and sustainable development debates as well as policy making.

For instance, the Bank was a member of the AfDB steering committee and made contributions to the study on the reintegration of post-Apartheid South Africa into the Southern African region. Such a study informed policy discussions for the South African government (DBSA Annual Report 1993/94:23).

Similarly, by 1993, the Bank had devoted considerable effort towards policy formulation and operational frameworks for the World Bank structural adjustment programmes. This involved interplay between central governments and regional governments/territories such as Venda and Ciskei. DBSA activity in policy research, and policy making contributed to development debates but from the beginning of the 1990s, it annually cost the organisation R11 million (DBSA 1993/94:23).

A synopsis of the development finance and technical assistance granted by the DBSA from 1984 to 1993 was succinctly noted in the 1984-1993 Annual reports. Such reports revealed instances of the Bank providing both development finance and technical assistance spanning across diverse fields and borrowers:

1. *Rural and Agricultural:* In 1988, the DBSA granted a loan of R4 523 970 to the KwaZulu government and KwaZulu Finance and Investment Corporation. This was for the provision of irrigation infrastructure and equipment to the Mhlatuze: Macekane sugar project. Here, members the private sector – Tongaat-Huletts and the Small Cane-Growers Financial Aid fund – also provided management and financial aid to individual growers (DBSA Annual report 1988/89:46).

2. *Human resource development:* In 1986, the Bank provided education and training services to projects financed by the South African central government itself. In light of an expansion of the Bank's activities, soon after 1986, the Bank began to take financial responsibility for such projects. Notable examples include the Collywobbles Transkei power station project which was initially guaranteed by the South African government (DBSA Annual report 1986/87:23).

3. *Urban, business and entrepreneurial development:* In 1984, the Bank provided technical assistance to develop a Queenstown/IIinge/Ezibeleni urban industrial development strategy. Since Ilinge and Ezibelleni were identified as industrial development nodes, the DBSA facilitated the engagement process in order to develop a coordinated urban development strategy (DBSA Annual Report 1984/85:18).

4. *Bulk Infrastructure:* The Lebowa and Groblersdal joint water scheme entailing the construction of a pump station and reservoir provided considerable benefits for both regions. Financial details of this project were not disclosed but it remains an illustration of the DBSA's development finance fostering cooperation between two independent regions/territories (DBSA Annual report 1984/85).

5. *Region and state:* The Bank provided technical assistance in 1987 when it was contracted to manage operational functions of the South West Africa/Namibia Fund consisting of R40 million. This endowment instituted by the cabinet of that territory sought assistance from the DBSA for development planning and programming, training of staff, advisory functions and research (DBSA Annual report 1987/88:18).

The above examples are indicative of the dual role played by the Bank. It takes on the role of a financier as well as strategic partner for technical assistance. Once formed, the DBSA became the first fully-fledged multilateral development structure in Southern Africa (van der Kooy 1985:67).

In response to development trends occurring globally, local development corporations already in existence in the self-governed and independent territories prior to the Bank's formation, began to establish more clout within the market. The resultant effects of these strengthened institutions resulted in the duplication of roles.

This occurred because both the DBSA and local Corporations were engaged in financing development projects in the same regions aiming at the same target client. A detailed description of local Corporations is found later in this chapter.

The core advantage local development corporations had over the DBSA was they possessed the institutional capacity to attract industry, had strong linkages with Bantustan authorities and had a better understanding of the needs of the target client. Due to its newness, the DBSA did not have any of these advantages (Hart 2002:156).

Designed to reduce duplication of development roles, the Bank was also intended to be the foremost development structure in South Africa. However, stiff competition came from amplified roles of local corporations. This, to some extent, suggests from the very beginning, there was a rejection of the Bank as a custodian for central development.

In the example below, local development corporations such as the Kwa-Ndebele Development Corporation functioned far beyond their actual duties. This is significant mainly because by taking on more responsibilities, they were actually taking on the local authorities' roles.

Interviewee A2 June 2013 noted:

> *"…in November 1988. At that stage, there weren't really municipalities in Kwa-Ndebele…The Kwa-Ndebele Development Corporation (was)…mainly involved in promoting or developing infrastructure for the industrial decentralisation points.* ***From a municipal angle I think the Development Corporation, to a certain extent, played the role of a municipality as well,*** *because they were providing infrastructure, not only for the industrial areas, but also for the surrounding residential areas in Umhlanga, Kwaggafontein and all those far outlying areas."*

From the above interview, it emerged that local development corporations had more responsibilities than to merely ensure infrastructure development. Rather, these

development corporations took on the traditional roles of development which would otherwise fall within the realm of local government structures such as municipalities.

It is within such an institutional environment, that the DBSA provided development finance not only to the Bantustans directly, but to local corporations which spurred development. This kind of development finance role was interestingly described by one interviewee (Interviewee A3 December 2012) thusly.

"…The Bank was essentially wholesaling its money (in a form of) retail financing". The Bank thus viewed its role as an intermediary between the RSA government and the Bantustans and local corporations. The use of terms such as retail financing and wholesaling, also suggests insights into the manner which the Bank itself approached corporations – being above all else, a financial intermediary.

The succinct background sections provided above provide context for the section which follows. It presents a combination of both findings and analysis in order to answer two research questions of this study:

1. *How has the DBSA interpreted and acted in relation to its mandate prior and post 1994 as set out in policy documents, strategies and the DBSA Act?*

2. *What was the nature of the projects – client, value and sector – of developments financed by the DBSA prior to 1994 and post 1994, and was it in line with the traditional understanding of gap-filling by DFIs?*

4.2 Gap-filling: maintaining the Bantustans 1983-1993

Several studies (Southall 1982; Hyslop 2005; Picard 2005) pertain to the histories of Bantustan territories, separate development and the democratisation of South Africa. These lay a framework for this study to broadly understand the DBSA's role of gap-filling in the apartheid period.

The gap-filling role of the DBSA in its initial years was principally defined by the prioritisation of the needs of its target client, the Bantustans. With funding from the Republic, the DBSA was established to provide development finance to poor Bantustan economies which were underdeveloped, lacked access to finance for development and essentially subsistence farming based.

Conversely, the central South African economy was predominantly industrialised (van der Kooy 1985:43), relying on the Bantustan economies for their large reserves of cheap labour. It was within such a mutually reinforcing system that the DBSA was positioned to in some way attempt to fill a gap in an institutional environment characterised by a skewed distribution of wealth and economic development.

The establishing mission of the DBSA was noted as "the broad promotion of economic development which will raise the living standards of the less developed areas of the Southern African economic region" (van der Kooy 1985:68). As noted in section 4.1, the less developed areas spoken of are the former Bantustan and independent states previously the recipients of large infusions of capital from the Fiscus budget.

In its initial years, the DBSA's broad economic development mission was one aiming to provide development finance to entities with the assumption such development finance would ultimately be translated into sustainable development projects.

In order to meet this mission, the DBSA was committed to three roles. First, it had to provide development finance on appropriate terms to the self-governed and independent Bantustan territories. Secondly, the DBSA had to provide technical assistance and training pertaining to the various levels of development policy actions and project proposals. And thirdly, it had to promote the investment of private and public capital into development projects, although this last role was a less prominent function of the Bank (van der Kooy 1985:68).

van der Kooy (1985:69) further notes such roles in this excerpt below:

> *"The Bank only provides loans for specific development projects, which are carefully appraised according to the contribution the project can make to the economic development of the country and the region. Through its technical assistance programmes, the Bank assists participating governments and their development agencies in identifying projects and preparing them for submission to the Board of the Bank. It can also assist the participating governments in building effective institutions to carry out these responsibilities."*

According to these functions, the kind of gap the DBSA was created to fill was for targeted development projects in the South African region. This was to be accomplished through development funding and technical assistance.

From the interviews, it emerged employees in Category A, who had worked for the DBSA for over twenty years, were able to juxtapose the gap-filling role of the Bank over those years. Category A interviewees were of the opinion the Bank was more aligned to its gap-filling role in its formative years compared to the post-apartheid era.

A review of DBSA Annual reports (1984/85; 1985/86; 1986/87; 1987/88; 1989/90; 1990/91; 1991/92; 1992/93; 1993/94;1994/95) revealed during that period, a large majority of projects reported in the annual reports fell within the category of development projects in Bantustan territories. Further, there was a general consensus the DBSA had gradually shifted away from financing sectorial development projects presented by deserving clients.

Such findings justified the views of Category A interviewees, that in terms of the ideology of the time, the DBSA played a role of providing finance to deserving clients (Bantustan territories) and for development focused projects. These interviewees did not question the moral correctness of the Bantustan system.

Rather, they chose to make judgments based on if the Bank had acted in line with the broader government policies as well as the DBSA policy documents and strategies. From the point of view of acting within the precepts of such an understanding of the mandate, category A interviewees viewed the actions of the Bank to be justified. Their perception was that indeed, the Bank did act within its set mandate of the development of Bantustans at the time.

In contrast, Category B interviewees, employed by the Bank for over ten years argued the DBSA was not in line with their development mandate of gap-filling. This view was justified by the idea that the DBSA's existence contributed to the maintenance of separate development.

It is their belief the Bank ultimately held back the overall development of South Africa post 1994. This group of interviewees chose to question the fabric of the separated

development ideology of the time. Interestingly, they were not so much interested in whether or not the DBSA acted in accordance to government policy or its own policy documents and strategies.

As interviewee (Interviewee B1 December 2013) argued:

> *"…It is a natural progression from being a tool of the State to do what we call clandestine economic activities of apartheid – that is what is was when it started, to becoming a State organ supporting legitimate development of the economy as a DFI owned wholly by the government. The DBSA is now serving the Government in a broader sense than when it was formed."*

The broadness spoken of above is the inclusive nature of development finance for all, free of segregate policies. These interviewees were of the assumption unequal development equated to no development impact at all. This was largely due to their belief the DBSA was party to the reinforcement of inequality. As such, whether or not development finance was accurately disbursed to the Bantustans, the target client, these interviewees believed such development finance did not equate to gap-filling.

A closer examination of the roles performed by the Bank positions the study to analyse the Bank's actions. Did it actually play its role as a gap-filler as per the definition of providing development finance to deserving clients who would otherwise not qualify for development finance, as outlined in chapter two?

4.1.1 Roles performed by the DBSA 1984-1993

The annual reports (1984-1988) suggest during this period, the DBSA focused upon six areas. These included: development planning; rural and community development; agriculture, forestry and fisheries; industry, commerce, tourism, mining and mineral affairs; urban development; manpower development and infrastructure.

The diversity of these roles illustrates the DBSA's broad mandate and the relative ease to align to such a mandate during that era. This was possible mainly because of the Bank's diversified activity base. Bank activities were not limited to one sector but instead were multi-sectorial and spanned all development needs of the Bantustan states and territories.

Moreover, lack of competition from the private sector coupled with strong financial support from the Republic of South Africa (RSA) government of the day, meant the DBSA had relative ease in doing business in the Bantustan territories (DBSA 2010:45). However, such conditions were short-lived.

Post 1994, the South African socio-political climate become rather challenging and the DBSA's gap filling role would be stretched far beyond the geographical focus of Bantustans. This study discovered the kind of gap filled by the DBSA in the Apartheid era had a different nature than what is traditionally understood as market failure gap-filling.

Primarily this was because the market system itself was formulated from a government policy perspective designed to exclude the Bantustans. Rather, the gap is geographical between the developed core RSA government and the Bantustan peripheries which were strategically placed to foster separate development.

The kind of gap filling role performed by the DBSA in the apartheid era was not so much one that ensured equal levels of development for both the core and the periphery. Instead gap-filling was spurred by segregate development policies according to the dictates of the South African government.

From this framing, the study found the DBSA was acting in line with its development mandate during the period between 1984 and 1993 since the DBSA focused its operations on the Bantustan and self-governing territories. This was in accordance with the prescripts of government policy as well as DBSA policies.

This study has found it difficult to establish if the DBSA contributed to the economic development of the region primarily because the available data was limited to the activities of the Bank. Therefore, it did not significantly speak to the DBSA's overall contribution to the economic development of SADC. Therefore, to illustrate the DBSA's economic development contribution the data was measured through a development impact matrix, which is explained in further detail in chapter five.

4.3 Elements of confusion over mandate: the DBSA post 1994

The DBSA Act (Nr. 13 of 1997) states the Bank's primary function as: one prioritising the promotion of economic growth and development, human resource development and institutional capacity building. These roles are what are defined by the DBSA Act (Nr. 13 of 1997), as the gaps in development needing to be filled in the democratic South Africa.

Evident in the interviews conducted and in documents reviewed, as the years have progressed, there has been much confusion over the specific mandate of the DBSA. The confusion is linked to four elements –the regional/location of activity, sector focus, nature of assistance and the kind of borrower. These elements of confusion are discussed below.

4.3.1 Regional/location of activity

Once reconstituted as a development finance institution, in terms of the Development Bank of Southern Africa Act (Nr. 13 of 1997), the DBSA took on a more focused infrastructure development role in the Southern African region. According to official documents, (No.3 Internal DBSA 2009), DBSA activity would occur in countries and institutions in the Southern African Development Community (SADC).

Following this directive, the DBSA provided technical assistance and development finance to TBVC states and independent territories between 1984 and 1993. However other countries receiving DBSA assistance included Mozambique (first project in 1988, R217 000 technical assistance loan for agro-forestry research); Lesotho (by 1988 seven projects approved worth R131 million in Lesotho Highlands Water Scheme) (No. 4 Internal DBSA 2010); and Namibia (1986 administration of Development fund) (DBSA Annual Report 186/87).

Post 1994, the DBSA broadened its frontiers by financing projects in most SADC countries. A sampling of DBSA financed projects are listed below:

- *Angola*: In 2009, the DBSA loaned the Angolan Ministry of Finance R50 million for an infrastructure project.

- *Madagascar:* In 2008, the DBSA extended a R18 million loan to Ripple Fish International Ltd for an agriculture project.
- *Democratic Republic of Congo:* In 2009, the DBSA extended a loan of R22, 2 million to a commercial entity, the Grand Karavia Hotel for a tourism project.
- *Zimbabwe:* In 2010 the DBSA extended a R45 million loan for Zimbabwe Platinum mines (Pty) Ltd for residential facilities.
- *Ghana:* in 2008 the DBSA extended a R4.9 million loan to an institution building project for the Ghanaian branch of the United Cities and Local Governments of Africa Non-Governmental organisation.

Extension of development finance to the latter is indicative of the confusion about which African region the DBSA prioritises as target infrastructure nodes. Ghana does not fall within the SADC region. Similarly, the interviews conducted failed to clarify exact regional boundaries for DBSA financing. Most interviewees made brief mention of municipalities while placing a greater emphasis upon the grand scope of DBSA activity not only across South Africa, but Africa as a whole.

4.3.2 Sector focus

Of the seven interviews conducted, the common understanding of the role DBSA played post 1994 was that of infrastructure development above all else. Upon probing further to understand what qualified as infrastructure development, an interviewee responded by saying:

> *"Roads, water, electricity and ICT. Those are the core sectors... In fact DBSA has publically admitted that in recent years the banks mandated to be very wide starting to even finance tourists and things... mining... the bank has now exited those sectors and is now focusing on the four sectors that we have defined." (Interviewee B2 December 2013)*

Similarly, another interviewee noted how, unlike in the past when the DBSA had multiple development roles, the DBSA's current mandate had been "trimmed" he explained:

> *"…the final trimming is now that we [are] looking at four sectors. Those are water and sanitation…energy, we [are] looking at ICT, we [are] looking at transport…So in other words it's less of a social economic infrastructure. It's more the hard core, which is water, transport and roads" (Interviewee A3 December 2012).*

It emerged that a majority of the DBSA employees had a traditional understanding of what constituted infrastructure development – that of roads, water, electricity and sanitation. Others such as Interviewee B1 (December 2013), spoke of an "infrastructure value-chain" suggesting the DBSA dealt with "anything related to infrastructure", whether it meant building a school itself, or constructing the roads and sanitation for the school.

All interviewees employed by the DBSA had a somewhat uniform conceptualisation of the Bank's mandate – that of performing a traditional infrastructure development role. However, there was a vagueness about which sector of DBSA infrastructure development was actually discussed. This is what seemed to cause much of the confusion.

The absence of a clearly defined sector-focus of the Bank means the open-ended interpretation of its infrastructure is not limited to specific sectors. Therefore the current DBSA mandate is really a continuation of the 1984-1993 era mandate.

From the above discussion, it is evident the development role of the Bank post 1994 – as interpreted by the DBSA through its publications and interviewees – has continued to be broad about infrastructure development. The vagueness in the interpretation of what constitutes infrastructure has also set precedent for confusion. Is the DBSA's infrastructure role limited to just development finance or does it include technical assistance? It appears no one at the DBSA can sufficiently answer this question.

4.3.3 Nature of assistance: finance and/or technical assistance

DBSA Regulations define the Bank's mandate as focusing upon:

> *"the provision of financial, technical and other assistance to achieve the objectives of the Bank, with a focus on its investment activities on infrastructure funding, broadly defined, and with the object of acting as a catalyst to maximize private sector access to opportunities in the provision of public funding" (No. 3 Internal DBSA 2009).*

The above excerpt suggests the DBSA's role as all-inclusive, meaning it is not solely focused on development finance but also on other "soft infrastructure" issues. This

would include technical assistance and encouraging private sector investment to move into infrastructure development.

Such a view resonates with the definition offered by Ligeti (1985:299) who defines development banks as not only financing medium to short term assets, but also provides – in addition to finance – the "essentials of productive investment" such as technical skills and managerial experience.

Although not articulated clearly, DBSA publication (No. 3 Internal DBSA 2009) initially overemphasised the infrastructure development role of the Bank. This confusion was somewhat appeased by acknowledging that although infrastructure development in the traditional sense (hard infrastructure) is crucial, infrastructure development from a human and institutional perspective (both of which fall under technical assistance) are of equal importance.

This publication suggested infrastructure as understood by the Bank at the time, also included human and institutional capital. The Bank viewed these as key constraints limiting overall infrastructure and economic development. This only added more ambiguity. Although, from interviews, it is clear infrastructure was understood in a traditional sense – hard infrastructure. Often these DBSA publications adopted a broad interpretation of infrastructure development which was inclusive of "soft infrastructure" issues of human and institutional capital.

DBSA interviewees associate the DBSA mandate as that of finance, human resource development and institutional capacity building. Human resource development and institutional capacity building are features existing only in some development banks. However, they were particularly present in the DBSA prior to 1994. The confusion of whether or not technical assistance is a DBSA feature falls in line with its mandate of gap-filling still remains contested in the Bank.

4.3.4 Kind of borrower

The kind of borrower the Bank is mandated to finance is the last element of confusion discovered in this study. As detailed in section 4.1.2 of this chapter, during the 1984-89 interval, the Bank financed TBVC states, independent states, local corporations, neighbouring countries, private corporations and strategic national agencies/councils (DBSA Annual reports 1988/89; 1989/90).

At the time, as per the founding policy documents, the focus of the Bank was intended to be on the TBVC states and independent territories. The proportion of development finance loans extended to the TBVC states and independent territories equated to the bulk loan portfolio of the Bank (No. 4 Internal DBSA 2010). By so doing, the Bank acted in line with its mandate of providing finance to the most deserving client.

Post 1994, it appears that the Bank continued to finance the same borrowers but with the inclusion of private clients able to secure finance from the private sector. One example is in 2010 when the DBSA extended a R150 million loan to Banco BAI, an Angolan private bank (DBSA Internal Dataset 2008-2013).

The confusion has been whether or not the Bank fulfils its mandate by financing deserving clients, or if the principle of deserving client is even of relevance at this juncture in time. This is particularly true if by receiving development finance, the client will be filling a development gap, especially if the project is developmental in its outcomes. A detailed analytical account of the nature of projects and clients financed by the DBSA is presented in chapter six.

The various elements of confusion pertaining to the DBSA's mandate are a result of the difficult institutional environment in which the DBSA operates. This environment is characterised by a target client – government entities and/or municipalities – unable to honour their commitment; competing understandings of senior staff in the DBSA; competing interests of board members and the influence of other players in the market such as a strong competitive private sector. All these factors contribute to the confusion in understanding the DBSA mandate and are discussed in further detail in chapter five.

The DBSA has thus found itself in a questionable regarding acting in line with its mandate. It has become a matter of great importance particularly when placed in the context of the assumptions of NIE theorists (Furubotn & Richter 2008:16). The DBSA, like all other actors in the institutional environment are able to shape and impact the market economy.

Other organisations seeming to have also played key roles in shaping South Africa's institutional environment have also influenced the DBSA's gap-filling role. This also includes the IDC discussed in the following section.

4.4 DBSA and other development corporations

This study found prior to inception and once established the DBSA's mandate was never clearly defined by the South African government. Hence the Bank has always found itself unable to express a clear sense of its development finance role. What follows provides a detailed history of development finance entities in South Africa. The purpose here is to substantiate the argument that unlike the IDC or any other development corporation, the DBSA's mandate was never clearly defined by the South African government. Moreover, by using the IDC as an example of a DFI understanding its mandate, historical and current shortcomings of the DBSA are revealed.

Prior to 1994, the South African government spoke of Corporations, which are equivalent to DFIs as they are known today. Corporations such as the Bantu Investment Corporation of South Africa Limited (1959); Xhosa Development Corporation Limited (1965); the Bantu Mining Corporation Limited (1969) and the IDC (1940) (van Rensburg n.d:181); all excluding the IDC, were created to promote economic development for the Bantustan territories (van Rensburg n.d). Corporations then emerged as a result of the Tomlinson Commission report of 1955. It contended the need for a development corporation to promote the development of Bantu territories and industrial undertakings (van Rensburg n.d 65).

Although constituted under the Bantu Investment Corporations Act (Act 34 of 1959) and the Development Corporations for Bantu Homelands Act, No. 46 (both later replaced by the Promotion of Economic Development of Bantu Homelands Act, No 46 of 1968) (van der Kooy 1985:58); these Corporations (excl. IDC) lacked clout. However, this was largely due to the inherently oppressive nature of the government.

For instance, the Bantu Investment Corporation of South Africa Limited was created to provide assistance and expertise on the development and extension of existing industries. Yet legislation such as the Native Trust and Land Act No 18 of 1936

made it difficult for the Corporation to obtain land (van Rensburg n.d. 69) thus limiting industrial development capabilities.

Furthermore, these Corporations were not only financed by share capital owned by the South African Bantu Trust (SABT), the President of the RSA was also a trustee. The Trust was also administered and managed by the Minister of Bantu Administration and Development. Therefore, such dependence upon the central government further entrenched the toothless state of these Corporations.

From a management perspective, the directors of the Corporations were nominated by the Minister of Bantu Administration and Development. Although appearing autonomous, in practice senior officials and the Secretary of Bantu Administration and Development had to be consulted in all matters.

These governing structures and background behind the formation of these Corporations reveal the institutional memory of the South African state. It emerged in the study there was continuity in the manner the DBSA was formed, organised and managed based on the traditions of the Corporations.

For example, the DBSA was founded on the share capital from the RSA government with oversight by the Finance ministry lead by Prof. Owen Horwood (No.4 Internal DBSA 2010). Moreover, the Bank was also created in order to finance the development of these territories.

The above description adds value to this study since it illustrates the same rationale used for the establishment of Corporations was also used for the establishment of the DBSA. Moreover, the DBSA was introduced into a climate already having competition from other corporations including the IDC.

However, due to the substantial government support in the form of capital insertions (discussed in detail in chapter five), the DBSA was propelled above the local Corporations. Still, the IDC, being one of the oldest Corporations in the country had many advantages over the DBSA. It is a prime example of a DFI having a clear understanding of its mandate.

4.4.1 The IDC and DBSA

The IDC was established in 1940 to primarily increase the industrial base of the central South African government (van der Kooy 1984). As well, the IDC was one of the first Corporations to appear in the South African institutional environment. Conversely, the DBSA was hastily formulated in 1983 to provide development finance for infrastructure advancement for underdeveloped regions.

What is unique about the IDC is that unlike the other Corporations, instituted in terms of the Industrial Development Act (Act No. 22 of 1940), the IDC was a statutory body in charge of decentralisation of the industrialisation policy (van Rensburg n.d. 75). As such, the core activity of the IDC was to finance industries throughout the Republic of South Africa and South-West Africa (Namibia) with the exception of the Bantustan territories.

To apply the decentralisation policy, IDC activities had to be present in industrial growth points such as homeland border areas (van der Kooy 1984). What this means is: unlike the DBSA which was created intentionally to finance Bantustans, IDC activities were centred upon the perpetuation of segregated development. This was achieved by financing industrial projects in the already well-established industrial zones of the South African republic.

Projects financed – such as industrial manufacturing projects – were regarded as being in the national interest. However, due to their marginal profit-making possibilities or scope, they were not considered attractive enough by the private sector (Van Rensburg n.d: 75).

What the DBSA shared with the IDC prior to 1994 was that they both occupied similar gap-filling roles albeit those were limited to defined economic activities – infrastructure and industrial development. As well, both served different target areas; Bantustans for the DBSA and Southern Africa for the IDC. One other commonality was both DFIs acted as agents to fulfill government policies of separate development and were fully financed by the central government.

However, post-1994 the DBSA was no longer mandated to finance industrial projects which previously fell in Bantustan territories. With the change in government, all

industrial projects irrespective of location in SADC would fall under the jurisdiction of the IDC.

From a management perspective, Mr M T De Waal, Managing Director of IDC at the time, was nominated to investigate the corporate development structure of the DBSA and published a report –Brand/De Waal report 1979. This document formulated a Strategy for the rationalisation of State Development Corporations and the Establishment of a Southern African Development Bank). Ultimately, this report spearheaded the establishment of the DBSA (van der Kooy 1985:63-64).

An interview with an individual who had held management positions post 1994 – with the IDC followed by the DBSA – revealed his perceptions of the two DFIs. He perceived the IDC as more focused and robust in its fulfillment of its industrial development mandate. However, his interpretation of the DBSA's mandate for infrastructure development was often blurred and subject to loose interpretation (Interviewee C1 January 2014).

He further added the DBSA Executive Committee would hold quarterly "council" meetings with the Executive Committee of the IDC. These meetings were intended to be a bargaining and trade-off opportunity where the DBSA and the IDC would broker which projects would receive joint participation and which would be on the individual books of the DBSA/IDC (Interviewee C1 January 2014).

Interviewee B1 December 2013 echoed the same sentiment but added these collaborative meetings were last held "four to five years ago". The reason stated for such a long gap between meetings was: "the Bank had to focus on itself".

The "IDC is our best buddy," this interviewee continued, "but also our biggest competition. But they are more our buddies than anything else because they are bigger and they play in a bigger space… [whereas] …the rest of the DFIs, we consider as cousins/siblings working together." The above statement suggests how the DBSA regards the IDC as a competitor despite both DFIs being mandated to operate in different sectors.

Throughout all interviews, little was mentioned about the synergy between South African DFI's and the platforms of collaboration. Rather, two of the seven

interviewees, spoke of international DFI counterparts such as the Brazil Development Bank (BNDES). They suggested a slight prioritisation of cooperation between international DFIs and local DFIs. There was no evidence to suggest cooperation with foreign DFIs was any more institutionalised than with domestic DFIS.

Additionally, the existence of legislation such as the Intergovernmental Relations Framework Act (13 of 2005) was intended to establish linkages between government departments and state organs. However, ongoing competitive behavior within South African government departments (Pieterse and van Donk 2008), was and still is an unfortunate consequence. This not only was evident in government departments, but also amongst DFIs.

Such relationships one could argue have footprints in Bantustan histories where ideologies of separate development have been carried over into a new administration by former Bantustan bureaucrats. These old-school administrators still tacitly advocate the inverse of separate development.

Linkage of the DBSA with the IDC adds value to this study. It has enabled this researcher to juxtapose the DBSA with its South African peers operating in the same institutional environment with the same end goal of economic growth of the country. Moreover, the IDC offered a framework to understand the evolution of the DFI model in South Africa. This is important for maintaining context in this study as well as the realisation of how a DFI with a clear mandate functions.

4.5 Increasing competition in the development finance space in post 1994 period

Another important player in the post-1994 environment is the private sector. The relationship between DFIs and the private sector is such that DFIs mobilise financial resources for development projects the private sector deems risky and less profitable.

However, by virtue of carrying the risk, DFIs can enter into partnerships with the private sector to encourage investment in these development projects (Gumede, Govender & Motshidi 2011:4), by so doing the private sector is crowded in. It is by carrying this risk initially, that “once the markets are developed, the DFIs gradually

withdraw and focus on developing other underdeveloped markets" (Gumede, Govender & Motshidi 2011:4).

The 1983 Articles of Agreement establishing the DBSA clearly stipulated the Bank would not compete with the private financial sector by extending loans directly to business enterprises. Instead, it would lend directly to governments and their development agencies (van der Kooy 1985:70).

Private sector involvement was understood "by the Bank" to mean the Bank would invest in infrastructure projects such as water, roads, rural and agricultural development. This would then "pave the way" for the private sector to invest in more lucrative profit-generating projects (van der Kooy 1985:70). Such an understanding is in line with the common discourse by scholars like Smallridge & De Olloqui (2011), who propose partnership of DFIs and the private sector to achieve economic growth.

Of all the interviewees, only one of seven linked the DBSA's partnership role as one which encouraged private sector involvement in infrastructure projects. The majority of interviewees spoke of the commercial banks as competitors and a threat to the DBSA's monopoly.

In the DBSA's initial years, the Bank did not experience any competition in the market (Interviewee C2 December 2013). Such invulnerability resulted in a certain degree of overconfidence. "…At some stage, the DBSA may [even] have been so arrogant as to assume [that] as an AAA globally-rated institution, we could go it alone" (No.2 Internal DBSA 2012).

This demonstrates an overemphasis on the assumed superlative position of the DBSA in the market. It also connotes a neglect of the DBSA's role to encourage private sector participation. Such competition was a direct contradiction of the DBSA Act (Nr.13 of 1997) urging a partnered role of infrastructure development in South Africa.

The DBSA is not intended to be in competition with the private sector. Its area of focus should be on the development of underdeveloped regions. In instances where the Bank does compete with the private sector, it is a clear indication of the Bank's misalignment with its gap-filling development mandate. The Bank can, however, play

a more partnered role with the private sector while still remaining within the bounds of its mandate.

Clear examples of the DBSA acting in line with its mandate to promote private sector participation in the economy were more evident in the era prior to 1994. Centrally planned policies set the framework for private sector involvement in the development of the Bantustan territories. The DBSA's actions were closely aligned to the Apartheid regime by targeting development finance in Bantustan territories and the DBSA inherently crowded the private sector into entering those markets.

For instance, No. 3 Internal DBSA 2010 noted how "a Regional Industrial Programme provided significant incentives for the establishment of industries in identified nodes". These incentives came in the form of government subsidies to firms setting up business in the allocated economic rezoned areas.

The presence of the DBSA in these economic rezoned areas was often in the form of the Bank setting precedent for the private sector. This was most often accomplished by illustrating the extent the Bantustan territories could be attractive investment opportunities. The DBSA would thus play a partnered role with the private sector attempting to attain economic participation in nodes of the country most likely to have been excluded.

Once reconstituted, the post 1994 institutional environment saw the rise of commercial banks becoming more involved in the municipal space (No.3 Internal DBSA 2012). This reflection is in line with Diamond's observations that not only were development banks created as gap-filling institutions, "the composition of the financial sector had changed" (Ligeti 1985:320).

In addition, as explained in the earlier section 4.7; the kind of space occupied by the private sector has grown to such an extent, it has become common practice for the DBSA to compete with the private sector to finance municipal infrastructure projects (Interviewee B4 December 2012).

Although this study agrees that the mere fact the DBSA is competing with the private sector, the Bank has fallen short of its mandate to fill a gap. The Bank has moved into an incorrect development space. The observation that the private sector has

indeed taken on more and more development projects is a salient success often not celebrated.

Such a success is what free-market economists would call the “invisible hand” in the market. This is a phenomenon which has taken care of the needs of the municipalities unlikely to have received financing. This data suggests the DBSA plays a role in contributing to filling gaps in the market by drawing the private sector in closer to the development space.

This is evident since “it has become common practice for banks and other financial institutions to check the DBSA’s presence in a municipality before doing financial business with them” (No. 4 Internal DBSA 2010:45). From the viewpoint of encouraging private investment into the development field, the DBSA has indeed succeeded in fulfilling an element of its soft infrastructure mandate. It has crowded private sector investment into development finance. The section which follows sets out the difficulties of providing development finance to under capacitated institutions.

4.6 Further challenges to the DBSAs role: the challenges to working with municipalities

The aftermath of Bantustan administration gave rise to a volatile municipal institutional environment. Not only are municipalities characterised by poor credit ratings, their weak revenue base bars them from accessing standard concessional loan agreements.

Similarly, due to internal capacity constraints, some municipalities struggle to access other government grants such as the Municipal Infrastructure Grant (MIG) (Sibisi 2009:14). Today, grants and concessional loan agreements are available to municipalities but most municipalities fail to meet the conditions of accessing the funds.

It is therefore not an issue of the availability of funds (Interviewee B3 December 2013), but an issue of eligibility of the borrower. The borrower – the municipality – as a former territory in a Bantustan was unable to perform key functions of administrative governance.

Two common themes characterising the municipal institutional environment in 1994-2013 were identified by this study. They are: under-capacitated public officials and the inability of municipalities to formulate policies. Both these matters contribute to municipalities' inability to attain development finance.

4.6.1 Under-capacitated municipal officials

The effect of separate development policies created an institutional environment characterised by many municipal officials who are highly unskilled and lack experience. This is because most were numbered among the former regime's under-capacitated black authorities (DBSA Annual report 1998/1999).

For instance, Chipkin & Meny-Gibert (2011:6) succinctly describe the calibre of the Bantustan officials which would, upon democratisation, be absorbed into the public sector:

> "*Collectively, Homeland officials were the least qualified and experienced. White, senior managers often consisted of those officials that had been transferred from the South African civil service because they were below grade. Below-grade, white, civil servants were joined by black officials, usually drawn from the ranks of the Chefferie, who were prized for their obedience and loyalty rather than their education and competence (p.297). For the rest, Homeland administrations consisted of tens of thousands of black, poorly trained subalterns, either performing menial or basic administrative tasks*".

Such calibre of personnel coupled with duplication of roles and a bloated public sector (Chipkin & Meny-Gibert 2011), set precedent for a challenging institutional environment. This not only occurred in the DBSA in its formative years; these effects would be felt well into the era of a democratised South Africa.

Having an under-capacitated target client, means although the DBSA is supposed to finance a risky client, municipalities have become even more risky than anticipated. Thus the extension of finance to such institutions has placed the Bank in a vulnerable position. The cause of weak municipalities cannot be blamed on the legacy of Bantustans alone. This unevenness is a result of a complex myriad of issues. Morgan et.al (2014:13) notes how unevenness is as a result of:

> *"long-term structural patterns combined with developments in the way that municipalities have been integrated and modeled since 1995, how they are staffed, and how they are incentivized and who is incentivized."*

It is within conditions noted above that the South African state is now being termed a "contract state" (Brunette et.al 2014). Increasingly, core functions of service delivery, which should be administered by the state, are contracted-out to private companies who tender for the work.

By so doing, not only do the local and national governments delegate their function, opportunities to develop expertise and know-how to administer service delivery is lost to the private sector. Moreover, the post 1994 economic and policy environment has also failed to equip and remedy evident unevenness and bottlenecks.

4.6.2 Weak capacity to formulate policies

The requisite capacity to develop and/or implement development strategies to fulfill broader government development policies is simply not in place in a majority of municipalities including metros and secondary cities (Sibisi 2011:11). Strategic planning and integration of government spheres, agencies and entities impacts the effectiveness and efficiency of government initiatives. To this very day, it remains a major challenge.

Sibisi (2011:11) cites contributions by (Berrisford and Kihato 2008) who argue a "lack of legislative clarity regarding the role of the different spheres with regard to planning" exacerbate the current challenges for development planning in South Africa. Pieterse and van Donk (2008) further argue that:

> *"The Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) also militate against interdepartmental and multi-sphere integration and synchronisation."*

From the above, it becomes apparent the obstacle is not only the inability of municipalities to formulate their own policies, legislation setting precedent for the manner municipal finances should be conducted is also limiting. From an institutional perspective, it is not to say policies in place during the Apartheid era were not met with their own institutional obstacles. As a 1984/85 DBSA publication noted:

> "*The lack of clear and comprehensive development policies, planning procedures and implementation capacity (often because of the lack of professional experienced staff) imposes significant constraints and will need the urgent attention of both borrowers and DBSA. The ability of the participating governments to create a positive climate for private investment also has an important bearing on the demand for infrastructure that can be financed by the DBSA"(DBSA Annual report 1984/85).*

Issues raised in a 1980s DBSA annual report acknowledge an institutional environment crippled by inexperienced staff heading governments. As well, a lack of clear and comprehensive development policies were cited as key stumbling blocks. This state of affairs continues to be an issue raised by the DBSA to this very day.

In all seven interviews conducted, the interviewees mentioned the difficulty of doing business in the municipal space. Similarly, the Development Fund Annual report (2005/06) noted how:

> *"The shortage of human and institutional capacity, especially at the municipal level where most service delivery is expected to occur, remains one of the main constraints on achieving the government's goals" (Development Fund Annual Report 2005/06:5).*

An attempt to address this institutional and human incapacity was evident in initiatives such as the Siyenza Manje which are discussed in further detail in chapter six.

Although the DBSA was in most cases financially equipped to provide development loan support, it was placed in a situation where the target client for development finance loans were most often inherently weak and grant-dependent municipalities. Such decline of the institutional environment has always been the case, even during the Bantustan era.

Even when grants or loans were accessed, there was an inability to account for or properly spend the money. Issues such as a lack of financial management capacity, inadequate operational systems and weak financial management systems revealed "the problem is as much an institutional one as it is a financial one" (Sibisi 2009:14).

To illustrate, in 2004 the Buffalo City municipality in the Eastern Cape, won a 'best municipality award'. Less than a year later, it was one of several municipalities listed

for “critical support measures from Project Consolidate – a national programme geared towards supporting municipal service delivery” (Hollands & Mageza 2004:4).

Such municipal characteristics were already evident in the era of the Bantustans. Regarding the DBSA’s target market, this study ascertained one cannot blame the nature of the municipalities or Bantustans as reason to justify the DBSA’s divergence from performing its gap-filling role.

The risky municipal institutional market calls for development finance from the DBSA and specialised grant funding from the state. It also requires a Bank and state able to develop more innovative development instruments customised for the riskier end of the market.

Therefore, development instruments should be accommodative of the implications of a changing institutional environment. The necessary adaptation is not so much about the Bank’s operating procedure. It is about overall functions and the way it does its business. In truth, the Bank has not adapted to the changing times and trends in the global economy.

4.7 Implications of the challenging institutional environment

The very nature of a changed institutional environment means the target of development finance may be of such high risk that it may be difficult to receive development finance. As well, the presence of private firms may be so strong that the kind of gap the DBSA has previously filled may become smaller and smaller.

Figure 4: Diagrams depicting size of institutional gaps in Bantustans and municipalities

Diagram 1: Size of DFI gap to be filled by DBSA in Development finance for Bantustans in 1984



Diagram 2: Size of DFI gap to be filled by DBSA in municipalities in 2013



Source: Author's own interpretation

Diagrams 1 and 2 illustrate examples of the gap-filling roles the DBSA has played and how it has shifted. In changing institutional environments, an opportunity exists for the Bank to fill a development gap where neither the state nor the private sector is able to accommodate.

Diagram 1 illustrates the perceived gap-filling role of the DBSA in 1984. It is likely due to the relative monopoly of acting in the Bantustans; the DBSA occupied a large proportion of the development finance market share. The private sector at the time was also highly concentrated in the more developed central state.

In Diagram 2, the private sector has started to occupy a larger proportion of development finance. This was a space previously occupied by the DBSA since the private sector began to have a larger appetite for risk. This change in business attitude was largely owed to global developments such as technological advancements and higher profit returns. The relative size of the DBSA in comparison to South African commercial Banks is noted in chapter five.

Therefore, the issue is not one of an unfavourable institutional environment inhibiting the Bank's ability to adequately perform its gap-filling role. The Bank itself needs to

adapt to the changing institutional environment. In essence, gap-filling is not a constant role performed on a predefined gap, the gap is constantly shifting.

Municipal space not only creates a challenging environment for the DBSA, but also emphasises that a very challenging institutional environment is, in essence, the space in which the Bank should be operating. To be more succinct, the Bank is intended to function in a challenging institutional environment as this is where it fulfills its gap filling role.

The issue then is not so much the difficulty of doing business in such environments. Rather, it is how the DBSA has aligned its actions, not only with the DBSA Act (1997) which established it, but also government development policies and changing needs of the Banks majority clients – the municipalities. Changes in the product needs of its borrowers, translates into necessity to fulfill such a need. This is often where the DBSA falls short and finds the private sector stepping in.

4.8 Conclusion

This chapter has presented an historical account behind the establishment of the DBSA. The institutional environment at the time the DBSA was established was one framed by political ideologies of separate development of blacks and whites.

The growing gap between the industrialised South African core and the subsistence farming/under-developed Bantustan territories set precedent for the need to establish an intermediary body to address Bantustan underdevelopment. By becoming a vehicle to channel funds from the Fiscus to the Bantustans, it was assumed the DBSA could spur development of the Bantustans while also easing discontent over Fiscus public funds being directly injected into a Black area.

This study found in its initial years, the DBSA had a broad mandate for its Bantustans target client. As such, gap-filling was largely defined by the target client who was underdeveloped and unable to secure financing from the private sector. It is from this perspective, which the study found the DBSA was acting within its gap-filling role by financing clients which were otherwise unable to secure finance.

Moreover, the DBSA also acted in line with the prescriptions of the separate development policies advocated by the main-shareholder, the Apartheid

government. In terms of policy goals of the time, this further warranted the conclusion that the DBSA was acting within its gap-filling role between 1983 and 1994.

However, in doing this, the DBSA also contributed to the underdevelopment associated with separate development. This mode of operation thus contradicted development as it is understood in its broader sense. The confusion over a mandate based upon the kind of borrower, sector focus, regional focus and nature of assistance further compounded the DBSA's ability to clearly articulate its gap-filling role.

Post 1994, the study found the institutional environment the DBSA found itself entrenched in chaos. It was one characterised by municipalities led by under-capacitated municipal officials, inability to formulate policies and too inept to properly use the available development finance.

An environment with such enormous institutional and human incapacity obstacles has been proffered as the reason behind the Bank being unable to efficiently perform its gap-filling role. This argument was a consensus among most interviewees and is prominently found in DBSA literature.

However, this study found a challenging institutional environment has always been an element of the South African socio-economic climate. Therefore, the argument that the divergence of the DBSA's gap-filling role was precipitated by a challenging municipal environment is of little or no consequence.

Rather, the presence of actors such as the IDC and the growing competitive private sector were factors far less dominant in the Bantustan era than they are today. Thus, this study's argument is warranted because the gap-filling space the DBSA traditionally filled has become smaller due to the growth of other actors in the market.

This study has also chosen to conclude that the mere realisation the DBSA was competing with the private sector was in fact an uncelebrated success. It suggested the DBSA had succeeded in crowding the private sector, into spaces traditionally viewed as high-risk, low-returns. This institutional environment chapter also set

precedent for the chapter which follows. From a perspective of organisational impediments, it provides considerable context for understanding the DBSA's gap-filling role.

Chapter FIVE: Analysing development finance in action

5 Introduction

The previous chapter detailed the establishment of the DBSA as well as the context and rationale behind the support for a Southern African development bank. This chapter delves further into the factors impacting the DBSA's ability to perform its gap-filling role. The previous chapter set the framework to understand the evolution of the DBSA.

The DBSA had to deal with the dynamics of a confusing mandate and changing interpretations of gap-filling. It was also thrown into a complex institutional environment characterised by other development corporations. Additionally, the Bank had to compete with the private sector and cope with very challenging municipal clients. The previous chapter argued that it is within such dynamics, the DBSA deviated from performing its development finance role. It is within such a setting that this chapter is better positioned to answer the second research question:

> *What was the nature (client, value and sector) of projects financed by the DBSA prior to 1994 and post 1994; and was it in line with the traditional understanding of gap-filling by DFIs?*

In order to answer this research question, this chapter presents examples of projects substantiating the DBSA's deviation from its gap-filling role.

When the DBSA started its operations on the 1st of February 1984, it took over 96 projects from the Department of Foreign Affairs, with a total loan value of R637 million. In addition, 42 projects were in the pipeline with a total investment value of R762 million (DBSA Annual report 1984/85). These projects varied from rural development and agriculture to industrial development.

The DBSA's initial loan book was thus not composed of projects chosen based on a clear set project classification and funding criteria. Instead, the DBSA project portfolio was a reflection of the Apartheid regime's targeted separate development initiatives of strategically placed industrial buffer-zones in less developed Bantustan self-governed and independent territories.

Almost three decades later, the DBSA continues to finance the same areas in South Africa, albeit now they are known as municipalities (DBSA 2004; DBSA Internal Dataset 2008-2013). This chapter provides more detailed evidence of the manner in which the DBSA has deviated from its gap-filling role.

Throughout this chapter, questions of the kinds of projects financed by the DBSA are asked in an attempt to provide a more detailed account of the DBSA's gap-filling role. To analyse the Bank's gap-filling role, this chapter investigates the kind of client, sectors and geographic areas obtaining development finance from the DBSA. This information will help identify whether or not the Bank is performing its development finance role of filling gaps in the market.

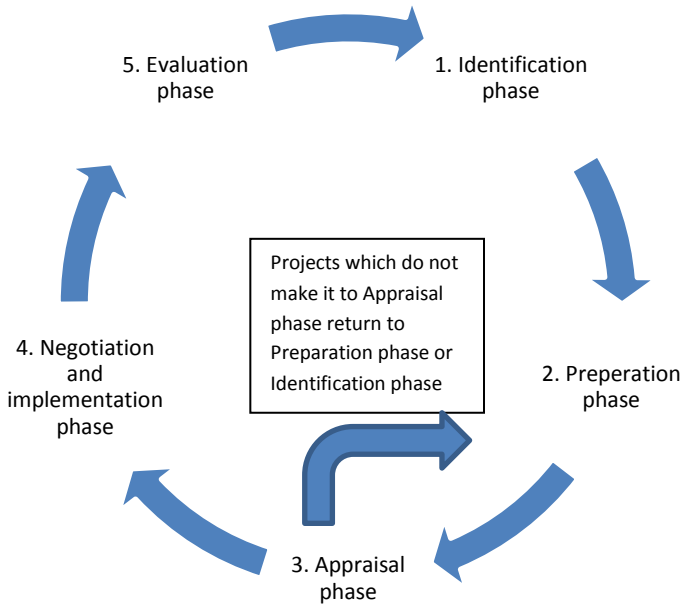
5.1 Project finance cycle: A framework for the DBSA

Project finance, being the key role performed by the DBSA, is carried out through a systematic cycle embedded in planning and thorough consultation. The DBSA's project finance cycles from 1985 to date offer little if any significant difference. The relevance of the project finance cycle is that it explains how the issue is not so much that the process is flawed – it is the fact that it is the same one used by most other finance institutions. Therefore, greater emphasis should be placed upon who receives finance and for what kind of projects.

5.1.1 Phases of project cycle

In the DBSA Annual report of 1985/86, the Bank notes the different phases of the project cycle. Figure 9 indicates a classic case of the project finance process but excludes instances where difficulties may arise.

Figure 9: Phases of DBSA project cycle



Source: Author's own diagram

The project phases displayed in Figure 9 above are:

1. Identification phase;
2. Preparation phase;
3. Appraisal phase;
4. Negotiation and implementation phase and;
5. Evaluation phase.

The Identification phase entails the identification by the borrowers of the key development projects likely to fall within the realms of the DBSA financing criteria.

The identification phase is then followed by the preparation phase which involves a "systematic planning process" to ensure plans submitted by borrowers are in accordance to the DBSA standards of finance application.

The preparation phase is often the longest and most demanding as it entails thorough research plus appointment of consultants and experts to ensure project details are in accordance to the development policy and representative of the strategy of the participating borrower i.e. The Bantustan state (in the pre-1994 era);

municipality; SOE. This stage involves interaction with DBSA project teams who are equipped to advise on the project application.

The third step is the Appraisal phase. This is the final planning stage ensuring projects are ready for "appraisal and final consideration" by the Bank. Most projects do not get to the appraisal phase. In such a scenario, they will revert to the preparation phase; or start the entire process again; or be rejected altogether.

In instances where a project is approved, it progresses to the negotiation and implementation phase. This phase entails the borrower reviewing the terms of reference of the loan. Once accepted, the loan agreement is signed between the DBSA and the borrower.

The evaluation phase is then the final stage which requires joint evaluation by the Bank and the borrower. Together, they analyse the outcome of the project as well as the effective and efficient use of resources to achieve development objectives. The evaluation will also reveal lessons to be learned and applied to similar projects.

The evaluation phase is arguably the most important of all as it is the most aligned to the DBSA's development mandate and distinguishes the Bank from other commercial banks. The consultation with the borrowers is not only an opportunity for the DBSA to revise their product offering; it also becomes the link between the DBSA and the main shareholder. During the evaluation phase, the Bank is in a position to evaluate if the proposed project contributes to not only the DBSA's mandate but most importantly, to the development objectives of the main shareholder – the South African government.

The above process enables the DBSA to act as a gap-filler primarily because it has time within engagements to gauge the development impact of the project and its alignment to the demands of the main-shareholder.

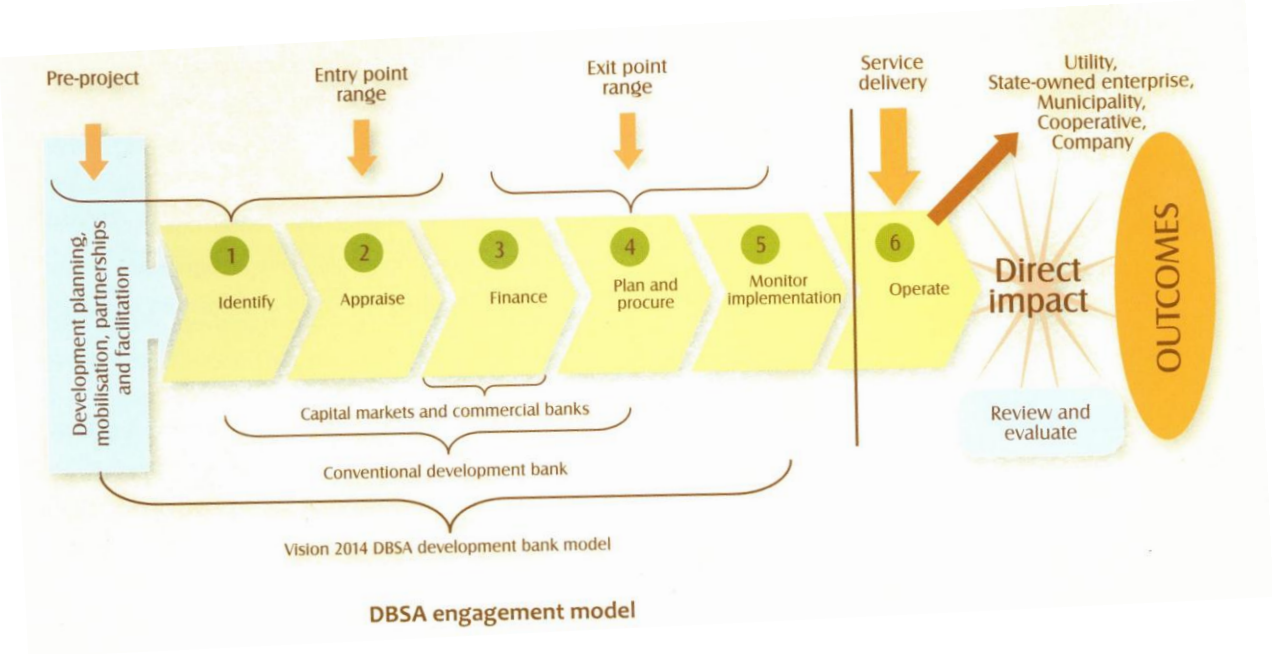
This study was unable to establish the means in which the Bank measured alignment to the development objectives of the South African government prior to 1994. However, post 1994 the measurement tool used was the Social Accounting Matrix (SAM) Model.

The SAM model is a standard set of indicators used by the Bank to measure development impact of its operations. Based on its funding portfolio, the Bank is able to calculate "a range of economic and socio-economic impact indicators" (Annual Report 2007/08; Interviewee A: 1 June 2013). Further details pertaining to development impact follow in section 5.2.

By evaluating the expected development impact of a project application, development impact is hypothetically a key component within the evaluation process of the project finance cycle. The evaluation phase is also an integral part of risk management practices and aims to ensure all present and future risks are avoided. According to the DBSA, this can be achieved by ensuring that projects are "socially responsible, environmentally sustainable, technically appropriate, and legally and contractually sound. All risks must be clearly identified, thoroughly analysed and prudently mitigated." (www.dbsa.org).

The project cycle discussed above, describes the process of project finance and provides important background to understand the framework the DBSA acts within. Likewise, the engagement model in Figure 10 fulfils the same purpose by further making a distinction between engagements by "Capital markets and commercial banks" and "Conventional development banks". The Model further illustrates the envisioned "2014 DBSA development bank model". This is important for this study as it illustrates the role the DBSA is intended to perform that is not performed by other financial institutions.

Figure 10: DBSA envisioned engagement model 2014



Source: No 4 Internal DBSA 2010

The top arrows “Pre Project”, “Entry point range” and “Exit point range” are all phases within the project finance chain in which the DBSA was already engaged.

“Capital markets and commercial banks” only finance projects as illustrated in Step 3 of the engagement model. Whereas a “conventional development bank” will go beyond financing the project to “Identify”, “Appraise”, “Finance” “Plan and procure”; all of which have been discussed in the earlier section. The role of a conventional development bank would thus end at the stage of “Plan and procure”.

The diagram also emphasises what was mentioned by Interviewee B: 4 (December 2012). The commercial banks only came into the development space to provide finance and not to provide technical support to plan project proposals and create implementation strategies. It is clearly depicted in the diagram, that “Capital markets and commercial banks” are only concerned with step 3 “Finance” and not with step 4, “plan and procure”.

Conversely, the “Vision 2014 DBSA development bank model” was proposed to go beyond steps performed by conventional development banks as it would “Monitor implementation”.

The 2014 DBSA development bank model would be at the forefront of "Development Planning, mobilisation, partnerships and facilitation", all in an attempt to ensure project success. By monitoring implementation, the role depicted above would be an important link to achieving government objectives of service delivery. The project would have a "direct impact" on the target population and be in line with achieving the development objectives of the South African government (Sibisi 2009).

The 2014 model as envisioned did not ultimately materialise. The Bank, undergoing restructuring in 2012, to be discussed in the next chapter, had an adverse impact upon DBSA approaches and strategies which had earlier been codified.

When a project application for finance is received, in practice, the steps below are the chain of events within the internal DBSA structures.

5.1.2 Step by step: DBSA project finance in practice

Step 1. Receipt of business plan from borrower.

This document details the nature, scope, organisational structure of the institution/sponsor. It demonstrates "technical and financial ability to plan and implement a project"

Step 2. Evaluation of the business plan.

DBSA assumes financial, environmental, economical, technical, legal and institutional aspects of the project with the project owner

Step 3. DBSA releases a "project appraisal report" and "term sheet"

This is the report submitted to Executive Management for approval and later, again reported to the Board of Directors

Step 4. Once approved, negotiations are entered into with clients

Negotiations regarding proposed terms and conditions

Step 5. Finalisation of legal documentation and disbursement of funds.

Once a borrower has submitted an application to the DBSA, the process time for appraisal and decision-making can take from two to three months. This is assuming the project application is indicative of a venture at an advanced stage of preparation with information readily available (www.dbsa.org).

In performing its gap-filling role, the Bank will not provide a loan for the entire project cost. Instead, it will fund a portion of the costs. For example, in the 1984/85 Annual report, the Bank granted a loan amounting to R1, 5 million to the Venda homeland, for the upgrading of electricity supply. However, the total project cost was R7,5 million . Likewise, in the 2006/07 Annual Report, it was stated the DBSA contributed R7,3 million to the R17,6 million Gillimburg Farming project based in Limpopo. The project entailed the establishment of an animal feed company for national and local distribution.

To address the gap of development finance, the DBSA would typically grant a loan over an extended period of time. For instance, in 1984, a loan of R21, 5 million at a 6 per cent interest rate over a 40 year term was granted for the construction of the Fika Patso Dam on the Namahadi River in Qwaqwa (DBSA Annual Report 1984/85).

Such a protracted lending period gives the DBSA a competitive advantage as most commercial banks only grant credit lines for a maximum of 10 years (Interviewee A1 June 2013). The extension of credit lines over such long periods of time continues to be a distinguishing feature of the current DBSA. In performing its development finance role, Interviewee A3 (December 2012) described the development finance process as retail financing "…the bank is wholesaling; essentially wholesaling its money" (Interviewee A2 June 2013). Such a view was in contrast to how development-centred project finance is ideally supposed to be described, as that of filling gaps in the market.

However, in practice the wholesaling spoken of in the project cycle is the pitting of some projects against others irrespective of high development returns. Interviewee A2 (June 2013) and Interviewee B4 (December 2012) also shared similar sentiments by adding that there was ambiguity regarding why some projects were granted finance while others were declined. On other occasions, projects were not scrutinised based on their contribution to overall development which goes against the traditional model of project finance. This then raised the question of the criteria used by the DBSA for project classification and the extent development impact was prioritised in the decision-making of which projects received finance and which did not.

5.2 Development finance with impact?

Musasike (2004:15) argued development impact can only be attained through "sound governance, fiscal and outreach policies". By this he implied that through policies embedded in the prioritisation of basic needs of under-developed areas, the impact is more likely to be felt by the beneficiaries of the development project.

In the case of the DBSA, the shareholder, measures the success of the DBSA's development impact through the yardstick of improved living conditions of affected communities. Processes adopted by the DBSA to measure development impact and its indicators are tabulated below:

Table 4: Development impact indicators (Figures calculated over last 10 years)

	Total approvals including co-funders	**Total DBSA loans approved**
Project Funding ($ million)	$10, 889	$3,723
Contribution to GDP ($million)	$7, 940	**$2,176**
Employment creation (numbers)	527,874	143,904
Skilled (numbers)	51,250	15,355
Semi-skilled (numbers)	227,027	63,100
Unskilled (numbers)	249,597	65,449
Impact on low income households ($ million)	$968	$328

Source: DBSA 2004, Ten Year Review. Development Bank of Southern Africa, Midrand, South Africa.

The column titled "Total approvals including co-funders" pertains to the DBSA's third-party funding it has leveraged to achieve development objectives both in South Africa and the Southern African region. Partnerships can include governments, regional bodies and even private enterprises. "Projects supported by the DBSA have contributed $2.176 million to the region's GDP over the last 10 years" (Musasike 2004:15).

Of all the interviews conducted, little was said regarding development impact, interviewee A1 June 2013) even noted that the SAM model was predominantly used for annual reporting purposes, and not so much in practice when project finance decision-making occurs.

It further emerged reporting making reference to development impact was essentially a practice to align with the main-shareholder. Although the Bank reports on the development impact of its actions (Annual Report 2004/05; 2005/06; 2008/09; 2010/2011; 2010/11), linkages between these activities and their relevance to broader South African development policies and priorities – particularly those about infrastructure development – were often difficult to follow.

For instance, the 2006/07 Phumalani Lodge Tourism Development project in Mpumalanga was centred on "stimulating the economy". This was to be accomplished through temporary and sustainable jobs through the establishment of an African Safari in the Lowveld area. The focus on tourism-led employment opportunities, although present in government policies, was not adequately reported with clear linkages to the DBSA's role in tourism development. This was clearly a role not included in the Bank's infrastructure development mandate.

This is in contrast to annual reports between 1984 and 1990 which recounted at length on linkage of activities with broader government policies.

As mentioned in chapter four, the stark difference from a reporting perspective is that the 1984 to 1989 DBSA annual reports (1984/85; 1986/87; 1988/89) appear as though they were government sponsored advocacy tools directly influenced by the RSA administration.

The 1989 to 1994 annual reports (1989/90; 1990/91; 1991/92; 1992/93; 1993/94; 1994/95) are clouded with uncertainty and an almost uneasiness of the changing institutional environment. It is apparent the restructuring of the Bank was meant for it to fit into an institutional environment characterised by an ailing economy and transitional political climate.

In contrast, the 1995 - 2013 DBSA Annual reports (1995/96; 1999/00; 2002/03; 2004/05; 2010/11; 2011/12; 2012/13) revealed a trend of gradually becoming less

reflective of government influence. Differences in reporting trends during the pre/post 1994 eras are important to acknowledge. This is because they are likely to reveal nuances of how the bank interpreted its mandate as well as the kind of relationship the DBSA had with its main shareholder.

Development impact was thus not always an evident contributing factor considered when decisions were made regarding which project would receive finance from the DBSA. The project cycle and envisioned engagement model discussed highlighted the differences between procedures and steps to be taken when conducting project finance and what happens in reality.

Development impact, although being a key determinant of the DBSA's alignment to the shareholder's development expectations, was not a contributing factor to project finance decision-making. The following section argues that the nature and kinds of projects financed by the DBSA are best understood by classifying them on their sectorial and geographical features and whether such attributes are in line with the DBSA's mandate of gap-filling as defined in chapter four.

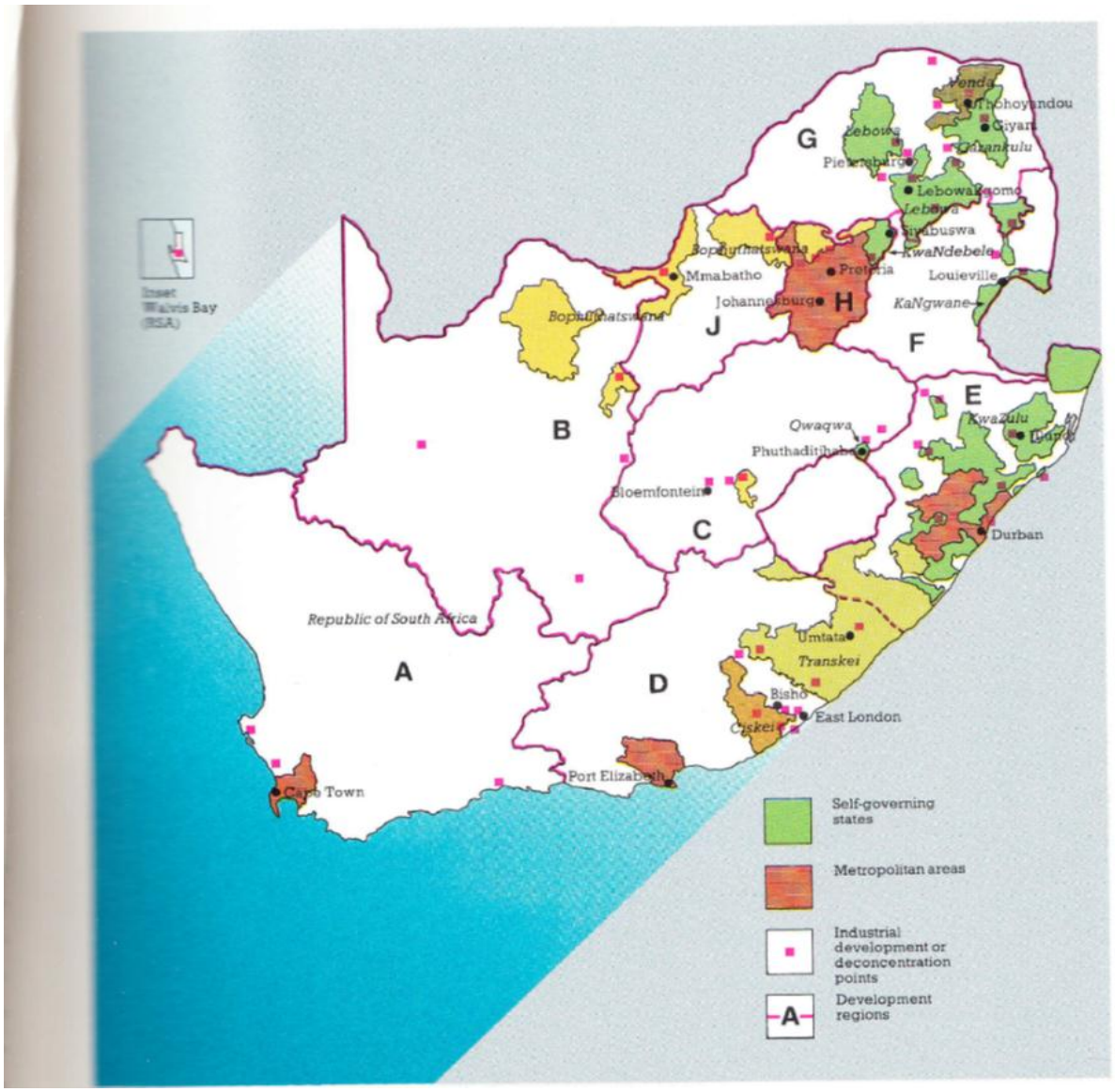
5.3 Project Finance in reality

The DBSA website (www.dbsa.org) notes how, in order to qualify for finance; projects are required to meet a set of criteria. These include risk management, alignment to the DBSAs sectorial and geographical mandate, development impact, institutional capacity and financial and economic viability. So, to answer the first and second research questions, the sections which follow present data and analysis. Queries to be answered are: does financing certain projects fall within the DBSA's sectorial and geographic mandate? Are such projects economic and financially viable?

A project "must be consistent with the DBSA's sectorial and geographic mandate i.e. support of infrastructure development within South Africa and the SADC region" (www.dbsa.org). Due to legacies of the past, the criterion of a geographic mandate mirrors that of the DBSA under the Apartheid regime – concentrated on the development of certain regions.

Figure 11 illustrates the geographical activities of the Bank during the 1985/86 financial year.

Figure 11: Development regions DBSA operated in 1985-1986

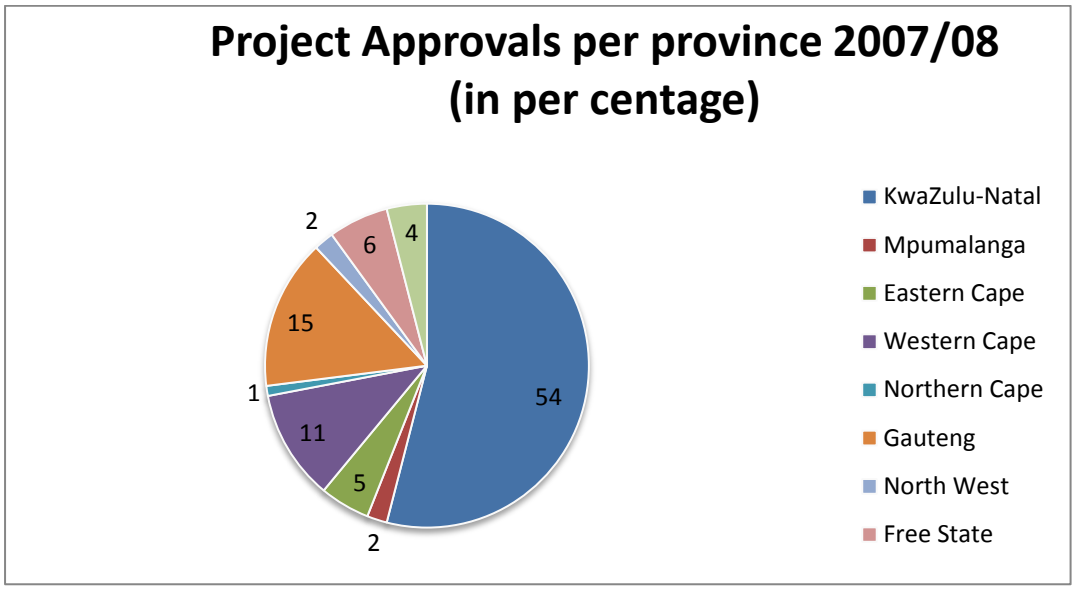


Source: DBSA Annual Report 1984/85

Region D followed by region E were the greatest recipients of Bank loans in 1984/85 (DBSA Annual Report 1984/85:12). Both regions fell within the industrial nodes in the Bantustans and supported infrastructure development and factories (No. 4 Internal DBSA 2010). From the above, it is clear that geographically, the DBSA's concentration of development finance strategically targeted designated nodes in the Bantustans. This was in line with its mandate of gap-filling in designated geographical areas. This outcome echoes similar findings discussed in chapter four

demonstrating that prior to 1994, DBSA activity was largely in the underdeveloped Bantustans.

Figure 12: Project approvals per province 2007/08 (in per centage)



Source: DBSA Annual Report 2007/08

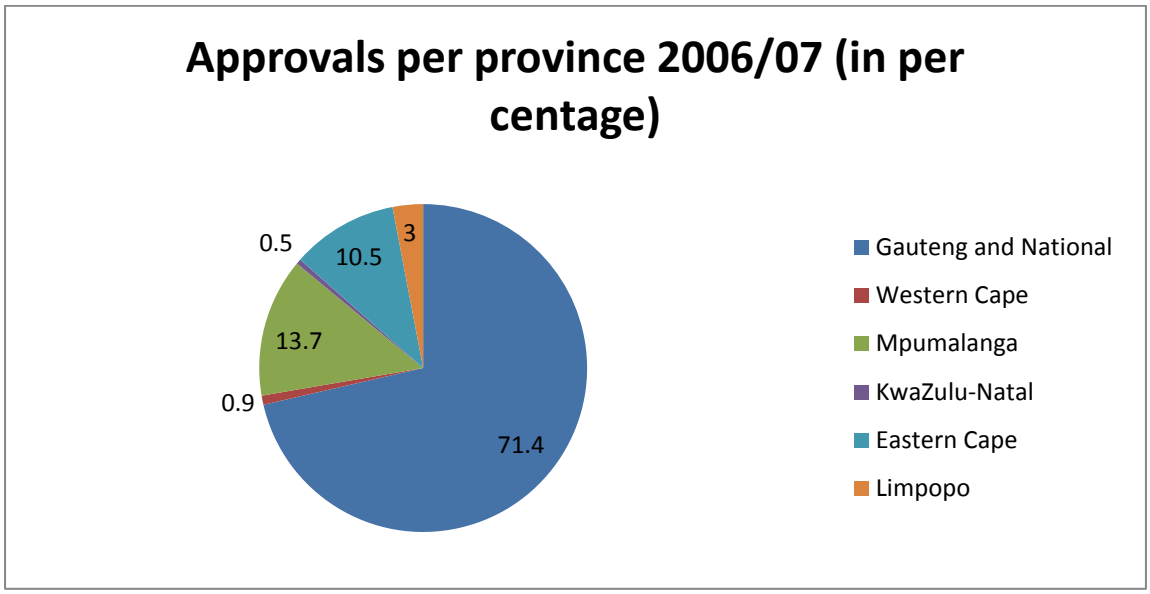
In contrast, the geographical focus of the DBSA in 2007/08 does tell quite a different story. As per figure 12, the (2007/08) DBSA Annual report recorded KwaZulu-Natal received the highest number of project approvals amounting to 54 per cent. This was followed by 15 per cent going to Gauteng. The reasons noted for this were:

> *"(these provinces had)…metropolitan municipalities and larger urban centres which continued to receive significant support, given their higher absorption capacity and the concentration of poor communities in urban areas" (DBSA Annual Report 2007/08).*

The above reasons contradict the DBSA's gap-filling role from the most deserving client perspective. Since the Bank is intended to provide financing for municipalities unlikely to obtain development finance, the focus on metropolitan municipalities and urban centres defeats the gap-filling role the DBSA is intended to perform. This is largely because these clients are likely to secure finance from the private sector. Although, the DBSA can provide finance to larger municipalities on the grounds of

high development impact, the proportion of finance to such clients should not exceed that of deserving clients.

Figure 13: Approvals per province 2006/07 (in per centage)



For instance, a year earlier, a similar trend was observed in Figure 13. Here Gauteng Province and the National government were the largest recipients of development finance, together accounting for 71.4 per cent. This was despite their being the most likely candidates to secure finance from the private sector (DBSA Annual 2006/07).

KwaZulu-Natal, in contrast, received the least amount of development finance at 0.5 per cent. The disparity of KwaZulu-Natal being the highest recipient of finance in one year followed by being the lowest the following year was a common finding in most annual reports post 1994. The difficulty to monitor trends was indicative of a somewhat scattered interpretation of the geographical focus and nature of clients prioritised for development finance.

Trends were more evident in the DBSA's annual reports prior to 1994. This was when the role of the Bank was wide-ranging warranting a broad scope of development finance in an array of sectors.

Prior to 1994, the Bank's activities predominantly involved Urban Development, Rural and Agriculture Development as well as Small business Development. In order

to carry out these pursuits, the Bank divided its operations into a variety of programmes. These dealt with agriculture, forestry and fisheries, industries, commerce, tourism, mining and mineral affairs, urban development and housing, manpower development and infrastructure (Annual Report 1984/85).

Of the loans disbursed in these programmes, the Industrial Development Programme in the KwaZulu Bantustan received the most financing. An amount of R79 million was allocated to the industrial development of the Madendeni, Isithebe and Ezakheni areas via the construction of factories and supporting infrastructure in the 1984/85 financial year (DBSA Annual Report 1984/85).

An examination of several DBSA annual reports (1987/88; 1988/89; 1990/1991) also revealed a similar pattern of the Bank being involved in regional segregation through the development of industrial nodes, as per the Apartheid government's strategy. For instance, 1984/85 Annual report noted how:

> *"Of the total 52 loans for 40 investment projects approved by the Board of Directors, 19 were for the promotion of Industrial development. This represented 78 per cent of the total investment value and 66 per cent of the total loan amount approved during this period"*

By aligning itself to Apartheid government policy, the DBSA was acting within its broad scope of gap-filling by backing industrial development in the Bantustan territories. As such, from a sectorial perspective as argued in chapter four, it appears the DBSA's activities were wide in scope and, so mandated the Bank to act within its wide authority.

Between 1994 and 1996, the DBSA continued to finance municipalities in the former Bantustans. However, annual reports seem to place greater emphasis upon bulk infrastructure development in rural and urban areas. The 1994/95 Annual Report particularly noted R 1 472 million in loans was disbursed. Of this, R917 million was allocated to infrastructure representing 62 per cent of all loans earmarked for bulk infrastructure development.

Breaking it down further, of the R 917 million, R400 million went to "connector and distribution infrastructure" such as water and sanitation, pipelines as well as electric cabling". However, electrical infrastructure finance was already a prominent aspect

of the DBSA's sectorial projects in 1994/95. This set precedent for the continuation of financing electricity in the years to follow. For example, in 2013/14, Eskom received additional project finance from the DBSA. Further details of this loan are discussed in the following section.

The above discussion of the geographical and sectorial focus of DBSA projects financed prior and post 1994 have illustrated how the Bank has been able to align itself to its geographic mandate of development finance prior to 1994. Post 1994, it appears the Bank has financed projects within the South African provinces.
However in most instances, provinces financed had strong metropolitan municipalities very able to have secured finance from other sources. In proportion to the size of loans extended, richer, less risky municipalities were chosen over poorer municipalities. Therefore, indications are clear, post 1994 the Bank has deviated from its gap-filling role.

An even clearer indicator of the nature of Bank financed projects is the kind of client base the DBSA has attracted over the years. However, such clients generally do not fall within the deserving client criteria.

5.4 Financial and economic viability: motive for the DBSA's client-base?

By definition the primary objective of a development bank is to endeavour to achieve development;

> *"…(the bank cannot be) oblivious to the profit motive… unlike a business enterprise, making the maximum possible profit may not be its obsession, yet it must make reasonable..., steady profits ... to maintain its viability" (Ligeti 1985:305).*

The Bank's likelihood to remain self-sustainable, yet still development centred lies largely upon who its client are as well as the ability of these clients to honour their obligations.

From all the annual reports reviewed, it became clear the DBSA's main client is the South African public sector. In order to perform its gap-filling role, the majority of the DBSA's client base should be the public sector. In particular, municipalities

perceived as being high risk clients and unlikely to secure finance should receive DBSA assistance (No. 3 Internal DBSA 2009; Smallridge 2011).

However, municipalities in metro areas such as Tshwane do not struggle to acquire private sector development finance (Interviewee A3 December 2012). In order to be a true gap-filler, the DBSA should be financing municipalities least likely to receive financing from the market due to being high risk clients who are unlikely to absorb the finance granted.

Some interviewee's (Interviewee B1 December 2013, Interviewee B4 December 2012, Interviewee A3 December 2012) did attest the DBSA does prioritise funding for under-resourced municipalities. Interviewee A3 (December 2012) advocated that:

> *"…when we analyse the provinces, we analyse the poorest of the poor provinces…in other words those (who) economically are on their last legs… and those are Limpopo and the Eastern Cape".*

From a review of literature on South African municipalities (No. 3 Internal DBSA 2009; Sibisi 2009), it is evident municipalities most in need of economic development finance, are the least capacitated to qualify for development finance (Sibisi 2009: 14). As noted in chapter 2 (literature review), the study used the assumption that [2]gap filling equates to financing both deserving clients in infrastructure projects.

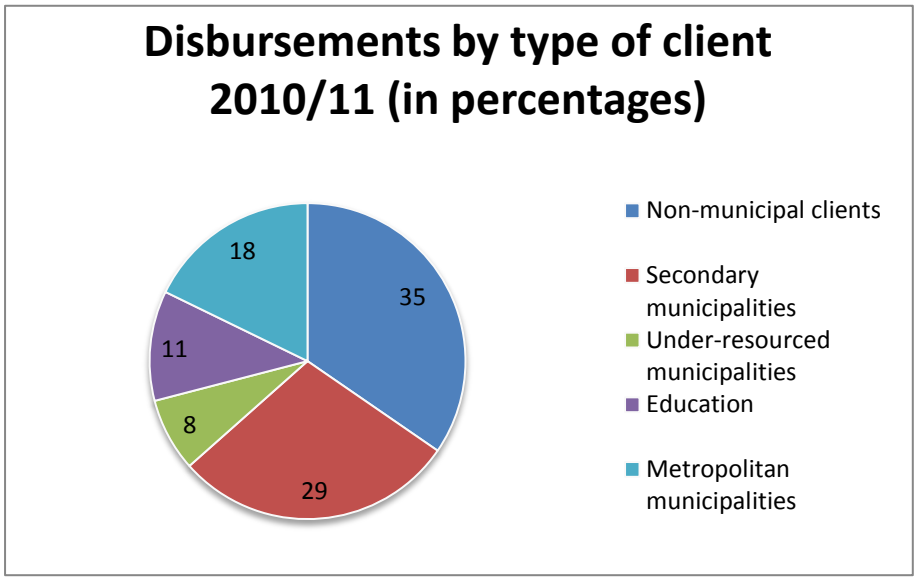
On many occasions, the DBSA did forgo financing poor municipalities in favour of profit generating clients such as Metropolitan municipalities and non-municipal clients. This caused the DBSA to be misaligned with its gap-filling, development finance mandate.

Moreover, since 2011, the Bank began the practice of increasing the minimum threshold of loans to R15 million. By so doing, the Bank has-out priced poorer municipalities (Interviewee A1 June 2013). Out-pricing poorer municipalities translates into the DBSA inherently institutionalising the crowding out of the

[2] In order for DBSA activities to be recognised as gap-filling, finance must be granted to projects led by both deserving clients and infrastructure development-centred projects.

"deserving client". The aftermath of such policies is evident in figure 14 which is an illustration of the DBSA client base for the 2010/11 period.

Figure 14: Disbursements by type of client 2010/11



Source: DBSA Annual report 2010/11

Figure 14 illustrates those secondary towns, known as district municipalities, were the second highest recipients of development finance; accounting for 29 per cent. Although secondary municipalities may be able to find funding from other sources they remain the DBSA's ideal client. This is because they are more likely to honour their debt obligations but are not always granted financing from the private sector.

However, collecting the greatest amount of development finance are non-municipal clients who received 35 per cent of DBSA disbursements. This study does acknowledge that if the data was interpreted from a perspective of grouping all municipalities together, the cumulative would be greater than the "non-municipal clients".

Nevertheless, the unevenness between the most deserving clients and non-municipal clients is glaringly evident. Under-resourced municipalities received 8 per cent of the DBSA's funding while non-municipal clients were awarded 35 per cent. This remains a key finding not to be ignored. Further examination revealed non-municipal clients included mining companies, State Owned Enterprises (SOEs),

Universities and Trusts. Such a discovery was disturbing as a majority of the above were more than likely to secure grants and finance from the private sector.

A closer examination of the make-up of mining companies constituting some of these non-municipal clients revealed they were B-BBEE companies. This echoes similar findings to be discussed in the next chapter regarding Board members who have vested interests in DBSA-financed B-BBEE projects.

The Banks involvement in supporting B-BBEE projects did not come as a surprise. As early as 1994/95 Annual Reports revealed the Bank's involvement in the restructuring of the construction industry so to "include black contractors".

DBSA internal Dataset (2008-2013) also revealed B-BBEE companies receiving DBSA loans were mostly entrepreneurial, entering into green-fields projects. By financing B-BBEE entrepreneurs not focused on infrastructure development, the DBSA was not operating within its mandate. This is because such companies fall within the realm of other South African DFIs such as Sefa.

Unlike the DBSA's mandate prior to 1994, which included entrepreneurial development (DBSA Annual report 1985/86), the post 1994 mandate clearly makes a distinction: The DBSA should only be engaged in infrastructure development projects and not the incubation of entrepreneurs.

Of all the non-municipal clients, Eskom received the highest amount of development finance – R1 billion for the 2010/11 financial year. However, for the 2010/2011 to 2012/13 period that amount rose to R15 billion (DBSA Internal Dataset 2008-2013; Engineering News 2010). In the history of the DBSA, this particular loan extended to Eskom was the largest ever granted to a single borrower (DBSA internal Dataset 2008-2013; Interviewee B1 December 2013).

In 2010, prior to the DBSA loan, Eskom had already received a R60 billion subordinate loan from the government, "as well as guarantees set at R350 billion" (Engineering News 2010). To add to this rather complex Eskom case, is that the company's infrastructure building programme had "escalated from R84 billion to R395 billion" in the space of only five years with no recorded explanation (PARI 2004).

Eskom is a particularly interesting case since at the time of receiving finance the Bank had experienced substantial financial losses. This is discussed in detail in next chapter. Extending such a massive loan to Eskom created strain on the already fragile DBSA reserves (No. 2 Internal DBSA 2012; Interviewee A1 June 2013).

In summation, the DBSA's decision to finance some projects over others was quite unpredictable. This rendered the possibility of establishing a clear pattern rather problematic. *However, what became clearer to explain was the strong correlation between the changing institutional environment, the Bank's financial stability and the kinds of projects the DBSA would support.*

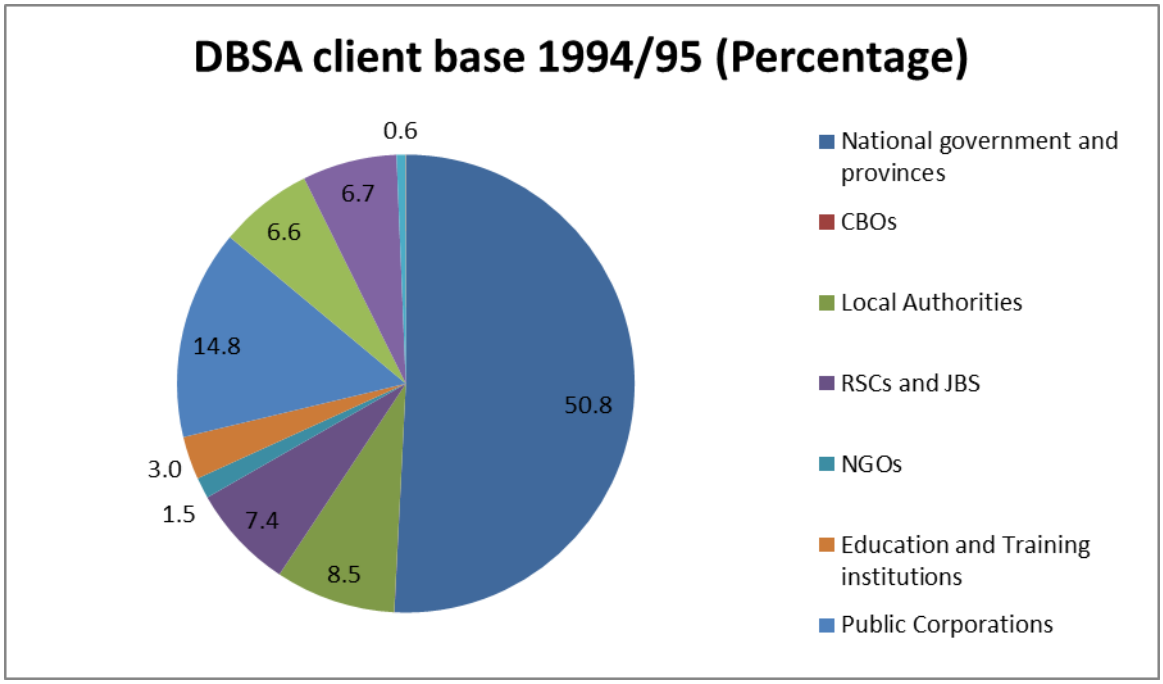
This was/is fundamentally shaped by pressures created by the Bank's funding model which is analysed in detail in the chapter that follows. Other institutional factors influencing the Bank's decision-making have been illustrated in previous chapters i.e. the competitive market economy and the challenging municipal environment.

A clear illustration of an institutional context element influencing the DBSA is the choice to finance projects advocated by B-BBEE companies. This is despite these companies not falling within the infrastructure development mandate and/or the deserving client criteria.

By financing such projects, the DBSA would be in line with fulfilling expectations of the main-shareholder – the South African government. With the advent of the new, democratic, regime strong emphasis was placed upon the empowerment of previously disadvantaged communities and their entry into the formal economy under B-BBEE policy (DBSA 2004). However, financing B-BBEE projects cannot be simplified to that level only and this has already been discussed earlier in this study.

Figure 14 illustrates how pressures of a competitive market economy and policy expectations from the main-shareholder can define the norms of how a body such as the DBSA behaves in order to survive within the institutional environment (Zhu & Thatcher 2010:56).

Figure 14: DBSA Client base 1994/95



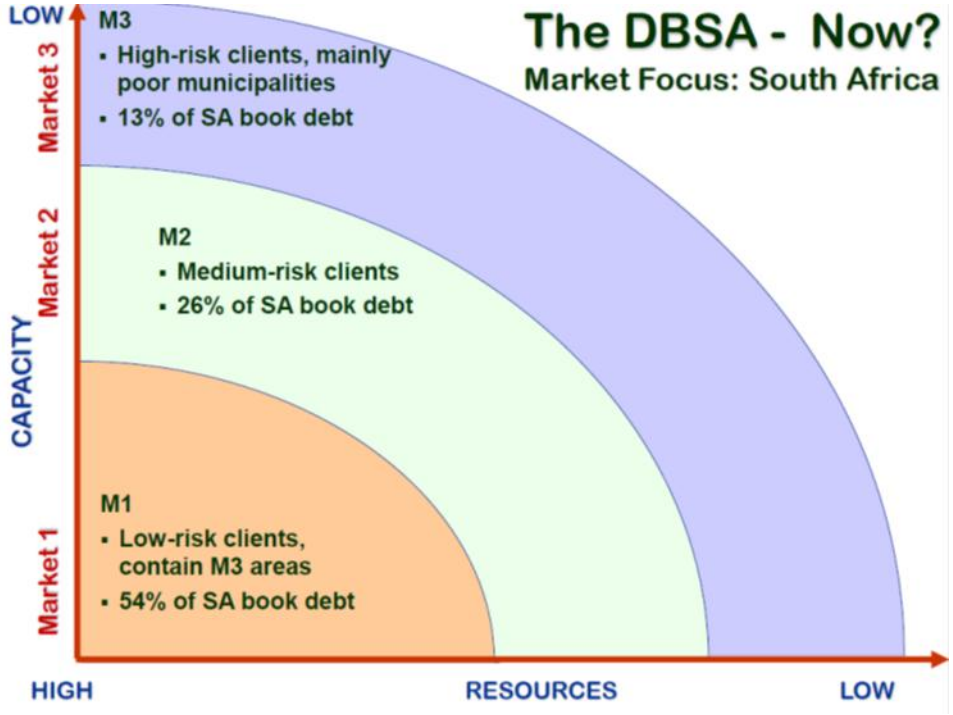
Source: Annual Report 1994/95

During 1994/95, the Bank was principally involved with institutional building (DBSA Annual Report 1994/95). This explains why in one fiscal year 50.8 per cent of DBSA funds went to the National government and provinces. At that time, rezoning of former Bantustans was one of the Bank's highest priorities (Sibisi 2009). Furthermore, at the time, the DBSA mandate was not specific to infrastructure development (i.e. the DBSA Act introduced in 1997).

Figure 14 and 15 illustrate the core argument presented throughout this chapter. Despite having specific criteria for project classification, the Bank has repeatedly chosen a client-base which is less risky and able to receive funds from the private sector. Post 1994, such decisions have caused the Bank to fail in performing its gap-filling role.

Figure 15 which centres on the 2004 market focus, clearly states how by 2004, 54 per cent of the SA book debt was from low risk Metropolitan municipalities. Medium and high risk municipalities, prime candidates for the DBSA's gap-filling programme, were relegated to second and third place.

Figure 15: DBSA market focus 2004



Source: Jackson 2004

As argued by a report by the Finance Fiscal Commission (2010), this study agrees that "Metros should be treated differently as they have the resources to compete…in the open market".

From the above discussion, findings have revealed post 1994; the DBSA has not acted in line with its mandate to be a gap-filler. Municipalities most in need of development finance are excluded from obtaining project finance and overtaken by SOE's such as Eskom and Metropolitan municipalities with the organisational capacity to compete in the market economy.

Why then has the DBSA become reluctant to finance poor municipalities? As noted in chapter four, the most common theme arising from the interviews was generally, people in poorer municipalities lacked institutional capacity. They fundamentally did not have the capacity to properly administer development finance. A probable remedy to address such institutional weaknesses, was thought to be the introduction of Siyenza Manje.

5.5 Technical Assistance: a case of Siyenza Manje

As noted on the DBSA website, a crucial principle for project finance is the implementing agency "has the institutional capacity to plan, implement and manage the project". Capacity not only means the ability to properly allocate development finance, but also to manage it and see the project through to successful completion. However, the hard fact is: the DBSA's primary clients – the municipalities – are headed by people incapable of translating development financing into fully realised development outcomes. This has led to further initiatives aimed at addressing such shortfalls.

Post 1994, the first DBSA flagship project for capacity building was the "Siyenza Manje" Project – translated as: "we are doing it now" – commencing in May 2006. However, this was not the first capacity building project introduced in South Africa. Earlier government-led initiatives included Project Viability introduced in 1995. This programme was established to discourage the culture of non-payment for services among communities (No. 2 Internal DBSA 2012).

Project Consolidate was inaugurated in October 2004 as a reaction to the underperformance of ailing municipalities (Financial and Fiscal Commission 2010). The Siyenza Manje programme was premised on the same practices and principles as Project Consolidate (Development Fund Annual Report 2005/2006:5).

Capacity building of municipalities is a recurring theme of the DBSA's approach to rehabilitate ailing municipalities or regions it supports. As far back as the early 1980s, the Bank was actively engaged in what it termed "Technical assistance" (DBSA Annual report 1987/1988). "Technical Assistance" programs introduced throughout the existence of the DBSA culminated in 2006 (DBSA Annual Reports 1984-2005). The aftermath of the Bantustans resulted in an uneven institutional environment. Financially sound Metropolitan municipalities were able to garner financial support from the market while poor local municipalities grapple with both strategic and functional operations.

The inconsistency of the institutional environment is described well by Chipkin & Meny-Gibert (2011: 4):

> *"…the uneven character of public sector performance, especially at provincial and local government level, for example, is partly a function of the uneven and differential relations of new provincial governments to former Homeland administrations and administrators. This is likely true of local governments too. The viability and the institutional fortunes of post-apartheid, local and provincial governments owe a lot to the history of their emergence, in particular, the process of integration of former black and white, local authorities."*

As documented above, changes in the socio-political climate during democratisation had a resultant effect of unevenness in the South African public sector. Some municipalities were unable to adequately oversee development finance offered by the DBSA.

In order to bridge the gap and the unevenness, the DBSA spearheaded the Siyenza Manje programme. This initiative operated alongside a joint collaboration with the Office of the Presidency, National Treasury, Department of Provincial and Local Government, Department of Water Affairs and Forestry, Southern African Local Government Association (SALGA) and provincial governments (Annual Report 2007/2008: 24).

The central aim of the Siyenza Manje programme was municipal capacity building for infrastructure development through the deployment of expertise, to provide hands-on financial, technical and planning support, as well as on-the-job training.

Initially, the programme was created to "strengthen engineering and project management capacity. However, this was later expanded to include financial management capacity" (Financial and Fiscal Commission 2010). By strengthening these facets of municipalities, it was assumed the programme would open bottlenecks and accelerate the expenditure of the Municipal Infrastructure Grant (MIG) funding, offered by the South African government.

To ensure capacity building, the Siyenza Manje programme consisted of a two-pronged approach. Senior/retired professionals – engineers, planners and finance

professionals along with young professionals – were deployed to municipalities identified as having weak capacity (Financial and Fiscal Commission 2010:6).
Interviewee B1 (December 2013) was at the forefront of managing this programme and commented on the kind of skilled professionals employed.

> *"We employed finance experts, chartered accountants, and town planners – those three sectors. We deployed them into municipalities who would otherwise not be able to afford to employ them on a fulltime basis. We employed them and positioned them in that municipality to support the municipality to deliver on infrastructure, manage its finances/books, and do proper planning."*

In Interviewee B1's (December 2013) opinion, the Siyenza Manje was a "ground-breaking programme" and a success in the municipalities it was implemented. The Siyenza Manje was so successful it was reported in numerous Development Fund annual reports between 2006/2007 through 2010/2011.

By 2010/2011, Municipal Infrastructure Grants (MIGs) to the value of R8, 7 billion had been expedited (1 114 technical and 1 994 non-technical projects were completed). A total of "826 professionals had been deployed to 186 municipalities and 20 provincial departments" (Development Fund annual report 2010/11).

Although there were pockets of success with the Siyenza Manje programme, it met with much more criticism than praise. Of the seven interviews conducted, a majority – four out of seven – believed the Siyenza Manje programme became a liability.
Even though the Siyenza Manje had an accumulative development impact, the Bank's financial commitments to it were increasing yearly.
Similarly, the Financial and Fiscal Commission in its report to the Finance committee in Parliament revealed the Rand value of budget allocations to Siyenza Manje from the National Fiscus and the DBSA Development Fund between 2006/07 and 2009/10:

> *"Between 2006/07 and 2010/11 the Siyenza Manje project was allocated an amount of approximately R1.445 billion. Of this amount the contribution of the national Fiscus was slightly above R1 billion and that of the DBSA Development Fund was in the region of R433 million."*

Table 5 confirmed the statement made in Parliament:

Table 5: Siyenza Manje budget allocations (2006-2011)

R million	Audited outcome				
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Fiscal Transfers - Siyenza Manje	258.3	168.9	246.8	267.4	93.0
DBSA- Siyenza Manje	-	36.4	94.0	137.0	123.0
Total	258.3	205.3	340.8	404.4	216.0

Source: Financial and Fiscal Commission 2010

From the table above, it is also clear the outlay to keep Siyenza Manje afloat was increasing. The table also shows that from the inception of Siyenza Manje, the DBSA contributed comparatively little – less than 34 per cent of total budget allocations – while the Fiscus contributed the remainder.

An interesting trend, however, begins to emerge where the DBSA increases its contributions between 2007/08 through 2009/10, while Fiscal transfers consistently remain within the R170-R250 million ranges. The increase in commitment by the DBSA suggests a somewhat overcrowding and almost lax financial approach by the government.

Interviewee A2 (June 2013) succinctly described the position the DBSA finds itself: "…The DBSA Siyenza Manje project was met with limited success primarily because the DBSA was acting as a supportive entity, with zero decision-making capacity in the municipalities." The subsequent failure of the project, he claims, was because "government decision-making and support to sign-off something as little as procurement for a paper-clip was filled with red-tape". This was within the context of the Bank increasing its financial contributions and commitments.

From the above, it emerges the DBSA was within its municipality building capacity, yet the Bank had limited power to make any decisions. Interviewee A3 (December 2012) noted:

> *"…there was no decision taking on the bank's side. We just go in there and provide the assistance and help them up to a level. They (the municipalities) were the ones who had to make decisions. And that is in essence when the dynamics of the relationship started to give us problems as well."*

The DBSA operated in the internal realm of municipal day-to-day functions. Yet their mandate did not call for them to be a "gate-keeper" for municipal management. Moreover, the presence of Siyenza Manje "de-ployees[3]" started to cause the inverse of what it was intended to achieve. Interviewee A3 (December 2012) noted:

> *"Siyenza Manje was better paying, it attracted skilled and experienced people from [the] municipalities, thus creating huge vacancy rates, and leaving capacity to root the programme within municipalities thin. DBSA experts became gap fillers, instead of transferring skills. As a result, the possibility of municipalities being perpetually dependent on the Siyenza Manje experts was high."*

Siyenza Manje reveals an important observation. The DBSA initially performed contributory functions such as shaping municipalities. Yet the Bank did not have the full mandate to decide the final trajectory of these municipalities. Thus the DBSA, although acting in good faith to provide technical assistance, its activities were misaligned to accomplish its gap-filling role.

The Bank poured enormous amounts of capital into the bottomless pit called Siyenza Manje. This capital could have been extended to other projects far more deserving of development finance.

5.5.1 Learning valuable lessons

The Bank, along with its partners, should not have defined human capital as the only element of capacity building. Rather, they could have adopted a multidimensional view taking into consideration organisational and human resource complexities such as recruitment and retention of permanent municipal staff. As well, being a money lender, the DBSA should have understood the institutional constraints impacting the overall performance of municipalities.

[3] De-ployees: Employees on the DBSA pay-roll who have been deployed and contracted to work under the Siyenza Manje programme.

The Bank should have offered its services within the limitations of its mandate as a gap-filler, and not overriding the role of the state. It is from such a context, the DBSA could have defined its soft-infrastructure role; specifically taking into consideration its own development finance gap-filling responsibility.

The programme also failed to generate a clear outline of measureable timelines, targets and objectives clearly stating the conditions of exit of a municipality from the programme. Likewise, the lack of a specific time frame created a situation where municipalities developed an expectation of long-term support. This left room for dangerous presidents leading to a "dependency syndrome" (Financial and Fiscal Commission 2010).

The Siyenza Manje project created a division of the core capacity-building functions of municipal infrastructure and finance. These functions were divided between the National Treasury and the Department of Cooperative Governance (DCOG). The National Treasury operated by initiating the Municipal Finance Improvement programme. The Department of Cooperative Governance (DCOG) utilised the services of the Municipal Infrastructure Support Agency (MISA).

What the Siyenza Manje case adds to this study is: it provides an answer to the question of whether or not the DBSA acts within its infrastructure development mandate. The capacity-building role played by the DBSA was predominantly the constitutional mandate of several government departments; not its own. Moreover, the request by the government for the DBSA to execute such tasks without changing the DBSA's legal statutes perpetuates confusion about the DBSA's mandate. The Bank's directive is often interpreted quite broadly, as was discussed in chapter two. However, from the above discussion, it becomes very apparent the DBSA has quite often not acted in line with its infrastructure gap-filling mandate.

5.6 Conclusion

This chapter laid out the project finance cycle and the various steps the Bank undertakes during the project appraisal phase. What this study confirms is the DBSA was established fulfil the needs of the Apartheid government and its establishment does not follow the gap-filling assumption as proposed by classical economists. Instead, the Bank's decision to finance some projects over others has been

influenced by institutional pressures as well as the interpretation of what sort of gap the Bank is perceived to be mandated to fill.

Despite initiatives such as Siyenza Manje, the Bank has had limited success in addressing existent bottlenecks in the institutional environment. This is primarily because the well-being of the public sector falls within the mandate of the state, not the DBSA.

This chapter has also revealed the nature of projects financed is not so much one of a geographic or sectorial nature. Rather, it is of the kind of clients the Bank grants financing to as well as the extent the project falls within the infrastructure development realm.

The analysis of these findings has reiterated the DBSA's misalignment to its gap-filling role of financing infrastructure projects to the most deserving client – poor municipalities in the public-sector. Although the DBSA has the ability to finance projects outside the realm of the public sector – as long as they contribute towards development – the majority of finance should be directed towards the most deserving client within the public sector.

In instances where the Bank has failed to prioritise development-centred projects commissioned by poorer municipalities, this chapter has argued, the DBSA has deviated from its gap-filling role. But why would the DBSA at times make the decision to embrace high-profit low development returns projects over those more closely aligned to its mandate? The following chapter analyses the complexities of the funding-model and its contribution towards the DBSA's deviation from its gap-filling role.

Chapter SIX: Funding-model influencing the DBSA's gap-filling

6 Introduction

The previous chapter has illustrated that the Bank fills gaps by providing development finance to the public sector. However, a large portion of its client base is non-municipal clients able to have secured finance from the private sector. In instances where the Bank provides finance to non-municipal clients such as State Owned Enterprises (SOEs), Universities and Trusts, the study argues the DBSA fails to perform its gap-filling role involving development finance.

The previous chapter also outlined the project cycle, phases and various kinds of projects financed by the DBSA prior and post 1994. This chapter builds on the findings by examining the Bank's ability to perform its gap-filling role of development finance by arguing that the DBSA is intrinsically linked to its funding-model.

There was difficulty in establishing clear trends regarding the geographical prioritisation of DBSA project financing in the previous chapter. In the following chapter this study delves into the Bank's funding. This is much needed insight into understanding the rationale behind the types of projects financed.

The Bank's funding-model of self-sustainability was broadly informed by global trends of liberalised economies, government policy decisions and legislation. The resultant impact of these factors has reflected in the organisational functionality of the Bank and its deviation from performing its gap-filling role. This chapter also answers the third research question:

> *What factors contributed towards the DBSA's deviation from performing its gap-filling role post 1994?*

6.1 Who Finances the Financier?

Before a financial institution can extend a loan to a borrower, it needs to secure its own finance. The means by which an institution secures backing is referred to in this study as a funding structure. The funding structure pertains to understanding not so

much who, how and when the DBSA provides development finance, but where the DBSA gets the financial backing?

Between 1983 and 1994, the DBSA's source of funding was through borrowing on local and foreign markets. This was combined with capital injections from the Fiscus of the South African government (DBSA Annual Reports 1984/85; 1985/86; 1987/88; 1988/89; 1989/90; 1990/91; 1991/92; 1992/93).

The very establishment of the DBSA was achieved from a conglomeration of funding sources. However, financing did not just come from the five original member countries – the RSA government and the TBVC territories. Cash resources also came from local and foreign markets (No. 4. Internal DBSA 2010). The Articles of Agreement establishing the Bank, stated how in proportion to the size of their economies, the TBVC contribution to the share capital of the Bank was R2 billion (van der Kooy 1985: 68).

Of the R2 billion, R200 million had to be deposited into the Bank's development fund (No. 4. Internal DBSA 2010). In the interval between 1983 and 2000, the DBSA Fund was not a fully-fledged organisation as discussed in detail in section 5.4. Instead, the development fund was merely a capital account within the broader financial matrix of the Bank.

For the first five years of the Bank's existence (1984-1989), the RSA government pledged R150 million per annum to the development fund (DBSA Annual Report 1984/85). Between 1990 and 1994, the government committed itself to an annual additional R170 million in the form of a five-year top-up funding cycle (No. 2 Internal DBSA 2012).

Government funding was consistent and created a situation of "non-inflationary recycling [by transferring] resources from the [more] rapidly developing regions to the less rapidly developing regions in Southern Africa. This was accomplished via the transfer of funds on an annual basis from RSA government to the Bank's development fund" (van der Kooy 1985: 69).

This funding was a form of "non-inflationary recycling of resources". This was because funds injected into DBSA coffers would ultimately be used by the less

developed regions of the Southern African region, Thus, in this process, there was far less pressure upon the RSA Fiscus compared to directly transferring capital into the independent and self-governed Bantustan territories.

A comparison of annual financial statements from 1984/85 to 1989/90 reflected the disbursements of R150 million from the SA government Fiscus into the development fund. Likewise, Annual reports from 1990/91 through 1994/95 revealed the five-year top-up cycle of funding reflecting inflows of R170 million. The 1994/1995 Annual financial statement was particularly interesting as it illustrated no change in the sum total of the development fund. The figure recorded in 1994 was R3 792 000 and in 1995, that number remained the same.

Through DBSA financial statements issued between 1984/85 to 1994/95, this study observed the Bank enjoyed extraordinary financial stability. This was due to contributions made by the RSA government and net interest accrued. At this time, the development fund had grown from R400 million to R3.792 billion (DBSA Annual reports 1984/85 and 1994/95).

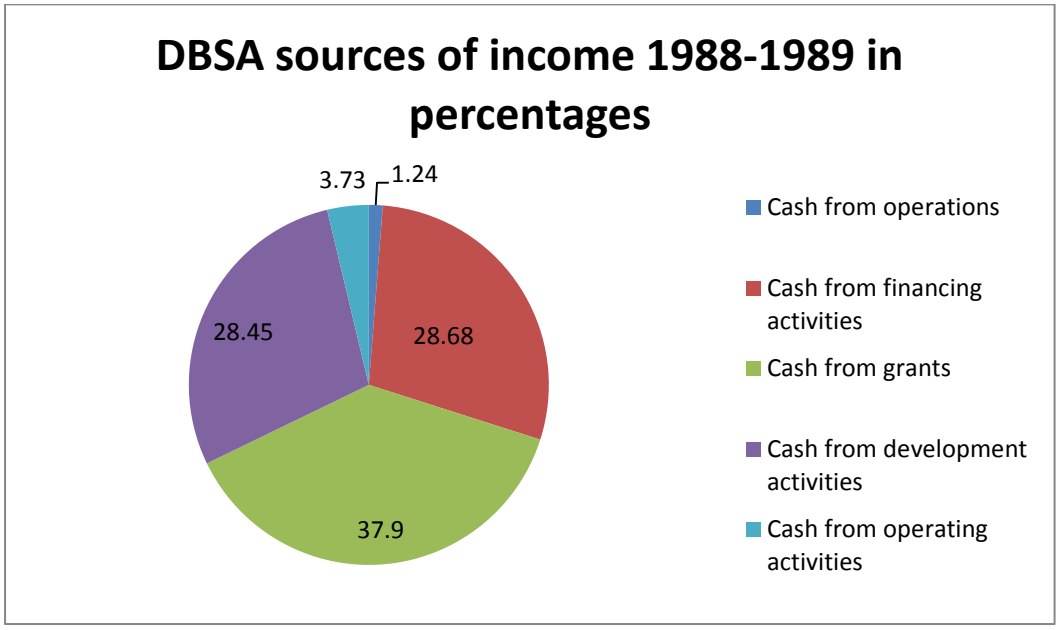
These financial statements also revealed beyond the R150 million pledge from the RSA government, during the “initial years”, the Foreign Affairs Department would also transfer funds into the development fund. This financial support was noted in the 1984/85 Annual Report as “consideration of a commitment taken over” and R298 000 was deposited into the development fund.

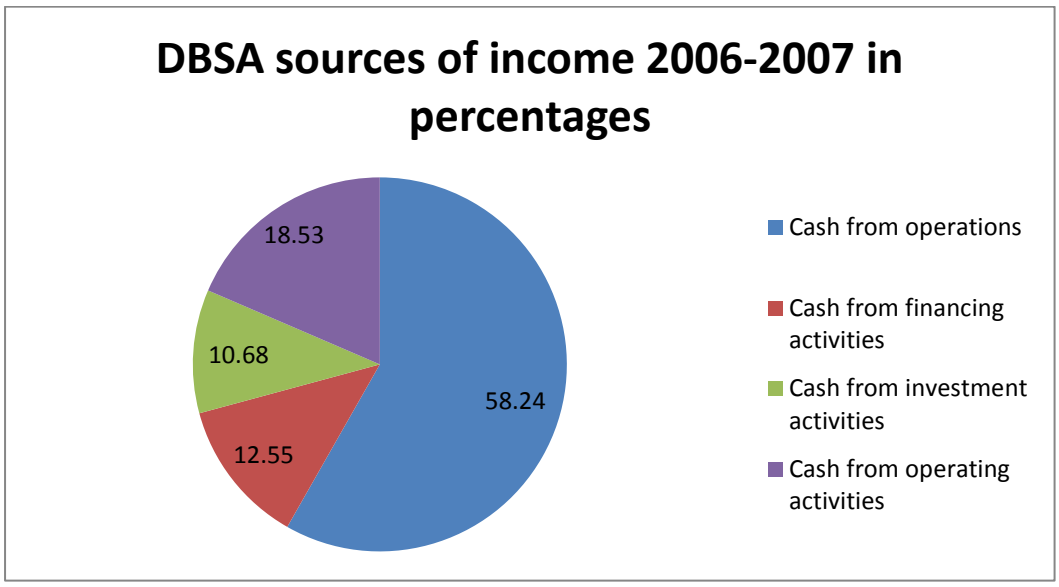
The financial support by the RSA government into the development fund is in line with the extensive literature (La Grange 1985; Picard 2005; van der Kooy 1985; van Rensburg n.d) reviewed which noted the heavy presence of the RSA government and the transfer of former Foreign Affairs department’s development responsibilities in the Bantustans and independent territories to the DBSA.

The Bank had sound liquidity levels during the period 1984-1994 due to the cushioning provided by the RSA government, i.e. from a financial stability point of view, the Bank had a safety net. Moreover, since the Bank did not have to rely on borrowing from the international capital markets, the Bank was protected from Forex losses.

Figure 6 is an illustration of the Bank's funding sources for the periods 1988-1989 and 2006-2007. Fundamentally, the study was unable to aggregate funding sources over a five-year period because each financial statement displayed different trends of income.

Figure 6: DBSA Sources of income for 1988-1989 and 2006-2007





The first pie chart (DBSA sources of income 1989-1989) indicates "cash from grants accounted for 37.9% of overall income. Grants spoken of in this cash flow statement came from the National Treasury. The second highest source was "cash from financing activities". This aggregate is derived from the difference between amounts

borrowed by the DBSA from financial intermediaries and amounts repaid. And, the third largest income source is “cash from development activities”. Again, this sum is derived from loan disbursements against loan repayments.

For DFIs, this is the principal source of revenue. However, in the 2006-2007 Annual financial statements, the “cash from development activities” was in fact a negative figure and did not account for income contributions in the period. This observation is worrying as it illustrates the extent which the DBSA was disbursing loans. However, since they were not being repaid, the Bank was not making any profits from development loans.

Another interesting observation is illustrated in the 2006-2007 pie chart – the majority of DBSA income was derived from “cash from operations”. Conversely, in 1988-1989 “cash from operations” accounted for the least amount of income.

Cash from operations is interest income from the Bank’s overall operations. In a nutshell, it translates into the DBSA’s total earnings before taxes. The second highest source of income for 2006-2007 was “cash from operating activities”. As described before, this is primarily interest from development loans, investments and dividends received (DBSA Annual Report, 2006/07).

However, since the bulk of the Bank’s income came from operations and operational activities, one must not be misled to assume the DBSA was financially fit. In section 5.2, Bank income is analysed in proportion to its financial stability requirements.

In essence, the difference between the two pie charts in figure 6 is this: in 1988-1989 DBSA funding came from grant disbursements. Comparing this to the 2006-2007 report, core funding came from operations and operating activities. Another key difference is that “cash from investment activities” is an aspect present as a funding source in 2006-2007 but absent in the 1988-1989 financial years.

Income from investment activities includes financial market assets. Due to the socio-political pressure of the time, the DBSA was excluded from participating in some international financial markets. As such, it was exempt to gain from certain financial market assets.

This observation echoed documented findings that the DBSA in 1984-89 did not possess foreign market assets. Likewise, access to foreign donor aid at the time was limited. From 1984/85 through 1993/94, DBSA financial reports showed no record of foreign donor contributions. In contrast, the 1994/1995 Annual report revealed the beginning of a trend – the introduction of donor contributions into the DBSA funding pool.

The Deutsche Gesellschatt fur Technische Zusummenarbeit (GTZ) GmbH contributed R227 000, the first instalment of a total R800 000. This funding was intended to support a planning advisory services project. Nonetheless, little detail was noted about this advisory services project. However, this study observed an almost natural shift to replace government aid with foreign donor financing.

Foreign donor aid itself comes with its own complications such as the interests of the donor taking precedence over that of the main shareholder. However, such debates are outside the focus of this study. The presence of donor aid is not a dominating feature of DBSA income. Rather, income is generated from interest and profits from development projects as discussed later in this chapter.

The trend of moving to donor funding was not nearly as significant as the decision to make the Bank self-sustainable in the 1995/96 financial year. Within a broader environment of national and international pressures, the decision was made by the National Treasury for the DBSA to adopt a self-sustainable model.

In the wake of widespread restructuring, privatisation and the closure of many development banks globally, the decision to reform the funding-model of the DBSA was in consideration to the evolving global finance climate. The decision to alter the Bank's funding-model contained serious implications relating to its gap-filling role. The following section argues how the DBSA's gap-filling role was particularly shaped by 1990s macro-economic policy choices advocating self-sustained development banks.

6.2 Entering a new terrain: self-sustainability of the DBSA

Post 1994/95 the main source of income for the Bank was net interest received from development loans disbursed, minus the liabilities of the Bank (Smallridge & De

Olloqui, 2011). From 1983/84 through 1994/95, the DBSA's net interest income reflected profits on funding derived from the RSA government.

In the 1995/96 financial year, it was agreed the government would no longer finance the development fund. This was due to a change in the South African political landscape. Fortunately, this shift opened new funding opportunities for the DBSA in the international financial markets (DBSA Annual report 1994/95: 45).

The first concessionary loans secured by the Bank were from France, China and Japan. Technical assistance grants for institutional building were obtained from Sweden, Ireland, Finland, the United Kingdom and Germany (DBSA Annual report 1994/95: 45). The means to secure finance was couched on the condition the Bank maintained positive assessments from global rating agencies such as Standard and Poors and Fitch.

Since the DBSA is a state-owned entity, its credit ratings are solely based on the potential support from the South African government. Through a R20 billion callable capital facility, the Bank is able to negotiate access to such funds in times of financial difficulty.

In 2013, the Bank benefitted from a R7, 9 billion loan from the callable capital facility. Further details of this disbursement are discussed in section 6.3 of this chapter. A model of self-sustainability means the Bank is responsible for its own financial stability and not at all dependent on support from government. A self-sustainability model means the Bank adopts traditional banking methods for profit generation – but must still advance a development-centred mandate.

In 1998, KPMG conducted a study of the four major South African banks – Absa, Standard Bank, Nedbank, and First National Bank. It related to *Bank margins and related profitability within South Africa.* It noted since the beginning of the 19th century, 51% of the return for commercial banks is generated from traditional lending activities. The remainder is derived from value-added services and trading (No. 2 Internal DBSA 2012).

Although the DBSA does not fall within the category of a commercial bank, the value of Bank margins and profitability is best achieved by adopting a self-sustainability

model. But, even though it is not governed by the Banking Act, the DBSA is still susceptible to all the same pressures faced by other South African lending institutions.

From the above it suffices to say the DBSA solely relying on its lending activities makes it more susceptible to risk. Furthermore, the development role the Bank is expected to fulfil, places it under even more pressure to perform.

When comparing its size in relation to commercial banks also financing development projects, the pressure upon the DBSA is further heightened. Commercial banks use their asset base as an indication of their level of cushioning relative to that of other commercial banks. All commercial banks are also players in the development finance arena and among them, the DBSA is dwarfed.

As of 2010, Standard Bank's asset base was approximately R1, 341 billion; Absa approximately R716 billion; and Nedbank R609 billion. The DBSA, on the other hand, had an asset base of approximately R47 billion (No. 2 Internal DBSA 2012). The Bank's vulnerable position further illustrates the level it is exposed to financial instability.

The bulk of the DBSA's income is derived from net interest meaning interest movements directly impact the Bank's profitability. Net Interest Income, is a key indicator in observing the balance between its lending activities and its profitability. The equation below illustrates how the Net Interest Margin (NIM) is calculated and the value it adds to understanding the financial status of the DBSA.

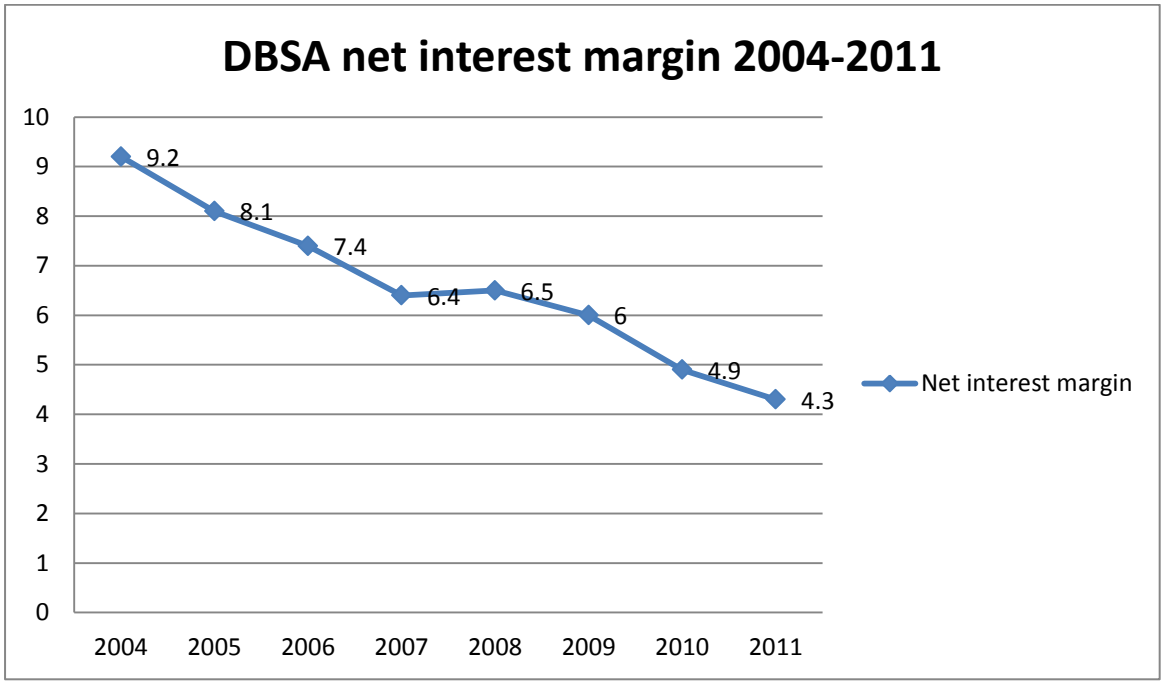
Equation 1: Net Interest Margin Calculation

$$Net\ Interest\ Margin = \frac{(Interest\ income\ -Interest\ Expenses)}{Average\ development\ loans}$$

The NIM reflects a Bank's profitability. In order to calculate NIM, "interest income" from development loans are subtracted from "interest expenses" – interest paid by the Bank to lenders. The difference between "interest income" and "interest expenses" is then divided by the "average development loans" which then yields the NIM percentage (Demirguc-Kunt & Huizinga 1999; KPMG 1998).

Therefore, the NIM percentage is the difference between the return on assets and the interest paid on borrowings made by the DBSA (No. 2 Internal DBSA 2012). In order for a financial institution to maintain financial stability, the NIM curve should display a positive upward trend. Upward trending is indicative of a financial institution able to secure income from interest earnings from loans and assets while still covering operational costs. Figure 7 suggests the inverse for the DBSA.

Figure 7: Net Interest margin 2004-2011



Source: No.2 Internal DBSA 2012 ; DBSA Annual Reports 2004/05; 2005/06; 2006/07;2007/08; 2008/09; 2009/10; 2010/11

The figure above illustrates a downward NIM curve for the period 2004-2011. The issue is not so much to fixate on the percentage values, but rather the analysis of the curve – regressive or progressive.

The NIM is valuable to understand the financial position of the DBSA. In theory, it is assumed the NIM should be wide enough to cover all operating costs. In the event interest is unable to cover operating costs, the Bank incurs losses and risks its financial stability (No. 2 DBSA internal 2012). The downward trend illustrated in Figure 7 is an indication of a year-on-year decline of the Bank's NIM resulting in greater inability to cover operating costs.

As a financial institution, the DBSA needs to be financially stable in order to extend loans to its clients. Financial stability boils down to having "the capacity to attract, on the basis of their own performance, the capital…required to pay…creditors, sustain… shareholders' interest, and support…its own growth" (Diamond 1996:12). Financial stability governs the financial welfare of an organisation. Insufficient financial stability results in pressure not only from operational levels but also diminishes an organisation's ability to perform its core functions (Diamond 1996:13). For the DBSA, the ability to perform its development finance role – to extend development finance – is hinged on its ability to be financially stable. As such, the Bank finds itself in a financial position where it is unable to cover its operating costs and failing to provide development finance. In instances where it does finance projects yielding high profit returns, the Bank can be accused of neglecting its development finance responsibilities.

Moreover, if the Bank concentrates its development finance activities towards unsustainable social projects, it risks losing its financial stability and face pressure from the main shareholder. Post 1995/96, the Bank found itself in is such a dilemma. It is succinctly described by Thorne (2011:23) who makes reference to De la Torre's (2002) Sisyphean syndrome. This predicament is constantly faced by some development banks.

The DBSA's vulnerable financial position is apparent in the discussion below. A self-sustainability model illustrates the extent the DBSA's funding-model is a key factor leading to its deviation from performing a development finance gap-filling role.

6.3 Implications of self-sustainability model?

Based on the previous discussion, it is clear the DBSA's ability to perform its finance gap-filling role is innately linked to its funding-model. In all interviews conducted, without probing, interviewees raised concerns about the Bank's difficult position. All interviewed were of the opinion the funding-model was ineffective.

The funding-model was described as one where the DBSA had to sustain itself financially. However, due to the nature of development finance – backing high risk clients – it was unlikely to receive high financial returns (Interviewee A2 June 2013; Interviewee B4 December 2012; Interviewee B3 December 2013; Interviewee A1

June 2013; Interviewee A3 December 2012; Interviewee B1 December 2013; Interviewee B2 December 2013; Interviewee C1 January 2014). The Bank is thus in a tenuous position where it expected to act as a financial intermediary within the constraints of executing a government development policy (Thorne 2011:7).

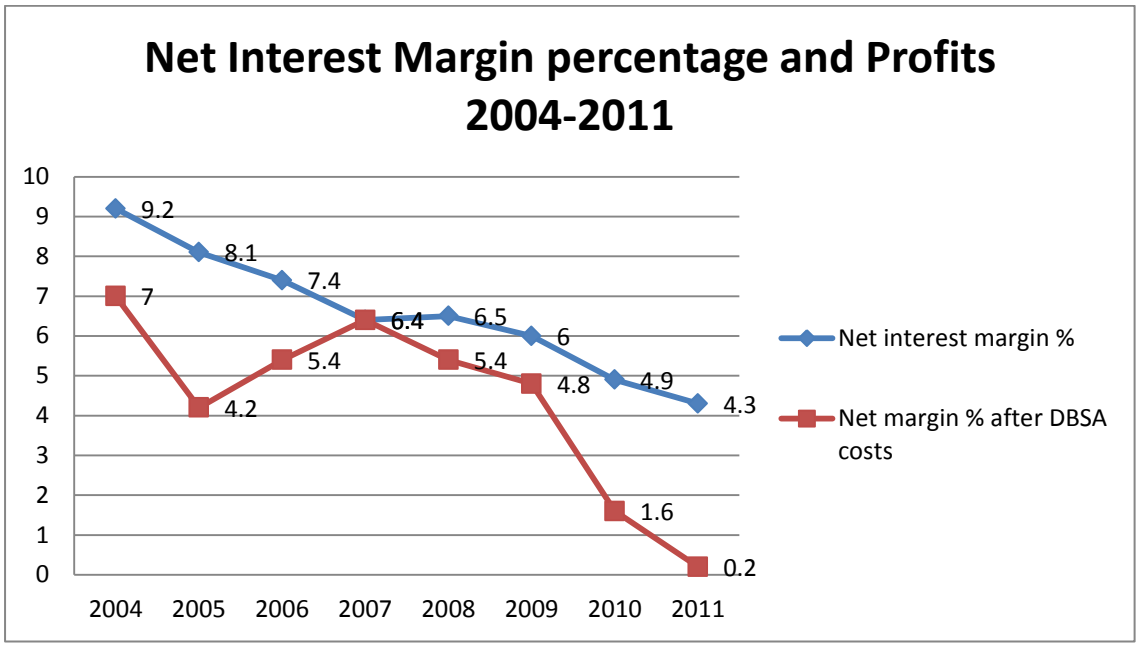
In light of the argument on NIM as an indicator of the Banks vulnerable financial position, this study has delved into the DBSA's operating costs. Additionally, the extent such costs contributed towards the Bank's propensity to finance more profitable projects in order to cover its overhead has also been questioned.

A detailed review of DBSA financial statements were, however, unable to justify the study 's initial assumption that high operating costs placed strain on the Bank. This was largely due to difficulty in benchmarking costs such as salaries, administration and other operational expenses. In addition, accessibility to such data was very difficult to obtain.

However, by calculating the NIM and its relationship with the Bank's overall costs, this study established a relationship between the NIM percentage curve and the Net Margin percentage after DBSA costs. This was the foremost determinant affecting DBSA operating costs and its ability to function as a development bank.

Net Margin percentage is the ratio of profits to revenue. In the case of the DBSA, signifies what percentage of each rand earned from development loan interest is indeed profit. Overall, figure 8 suggests the Bank is yielding lower profits relative to its operating costs.

Figure 8: Net Interest Margin and profits 2004-2011



Source: No.2 Internal DBSA 2012 ; DBSA Annual Reports 2004/05; 2005/06; 2006/07;2007/08; 2008/09; 2009/10; 2010/11

The net interest margin curve, represented in blue, reflects a downward curve in the Bank's inability to sustain itself financially. The "Net margin percentage after DBSA costs" curve, represented in red is an indication of Bank profits. From the above figure, it is clear the Bank is unable to sustain itself financially. This is based on the NIM curve. However, profits generated are below the acceptable NIM curve further emphasising the financial deterioration of the Bank.

From the above graph, it is evident the Bank was only able to break even in 2007, when the curves intersected at 6.4%. In a financially stable Bank, the NIM curve would reflect a positive trend, while the net margin percentage curve would be above the NIM curve. The graph above illustrates from 2004 through 2011, the Bank's financial standing followed a declining trend. In short, the Bank essentially is unable to sustain itself.

Most interviewees felt strongly the funding model was the most dominant factor contributing to the DBSA's inability to maintain a progressive NIM curve. They maintained this opinion despite the fact there were other factors such as market forces and the nature of the pricing-model contributing to the regression curve.

It was however clear the funding-model was a key factor contributing towards the Banks financial instability and ultimately, its deviation to perform a gap-filling role. Instead of focusing on financing development-centred projects, the Bank has been pressured to ensure such projects will not worsen its already fragile financial position. Another key factor leading to the Bank's vulnerable position was "Forex gains/losses" incurred by the Bank. Forex gains and losses are a key source of generating income for Banks. This is demonstrated in Table 2.

Table 2: Total Operating Income 8-year review

Operating Expenses per Annual Financial year (%) or basis points	2004	2005	2006	2007	2008	2009	2010	2011
Other expenses	0.65	0.84	0.78	0.75	0.75	0.81	0.62	0.47
Staff costs	1.62	1.57	1.82	1.72	1.61	1.44	1.50	1.50
Depreciation	0.06	0.06	0.04	0.03	0.02	0.02	0.05	0.04
Subtotal operating expenses per AFS	2.33	2.46	2.65	2.49	2.39	2.27	2.17	2.00
Other costs	0.07	1.97	0.06	-1.46	-0.76	-0.81	1.57	2.66
Forex gains and losses, etc.	0.38	0.23	0.19	**-1.71**	**-2.51**	**-2.44**	**-0.36**	1.21
DBSA grants and impairments loss	-0.32	1.73	-0.13	0.25	1.62	1.09	0.90	0.78
Grants to DF & Capacity deployment, etc.	0.00	0.00	0.00	0.00	0.12	0.54	1.03	0.68
Total cost before net profit	2.39	4.43	2.71	1.03	1.62	1.46	3.74	4.66
Plus: Net profit for the year	6.99	4.24	5.43	6.35	5.44	4.84	1.62	0.20
Total operating income	**9.39**	**8.67**	**8.14**	**7.39**	**7.06**	**6.31**	**5.36**	**4.86**

Source: No.2 Internal DBSA 2012 ; DBSA Annual Reports 2004/05; 2005/06; 2006/07;2007/08; 2008/09; 2009/10; 2010/11

In the 2007, the DBSA recorded Forex losses of -1.71 basis points[4]. While in 2008, it experienced all-time financial lows of -2.44 basis points. These shortfalls began in 2009 and lasted well into 2011. Forex losses are incurred when an institution such as the DBSA services its debt to its international donors.

To further explain, dealing with Forex is a double edged sword. In most international deals, the loan agreement is in US currency. Therefore, when an international borrower repays their debt, the DBSA incurs Forex losses when the rand value is low. Additionally, the DBSA must absorb Forex losses when it owes money to an international donor at a time when the rand value is lower than when the agreement was originally made.

As noted earlier in this chapter, the DBSA borrows money from the foreign financial market and the servicing of its debt is paid in foreign currency. Since the DBSA has operations in the African region, in instances of a weakened Rand against the borrowers' currency, the Bank incurs losses when interest is paid by those borrowers. Offshore equity investments are also a source of foreign exchange risk. This is particularly so when the Bank's equity portfolio is dominated by bonds in the international market (Fitch ratings report 2011).

Multiple Forex losses incurred significantly impact the Bank's financial standing. Compounding losses hinder the Bank's ability to extend competitive development finance loans as per its development mandate.

The Bank thus finds itself in a position where it must remain financially stable to cover its operating costs while remaining afloat from the knocks incurred by Forex losses. As illustrated in the last row of the table above, "Total operating income" took a downward trend initially beginning at 9.39 in 2004. By the end of the 8 year cycle in 2011, it amounted to 4.86 – almost half of the initial basis point of 7 years earlier (DBSA Annual report 2004/05; 2010/11). Since this income loss was the greatest in DBSA history, the Bank entered a rigorous round of restructuring (Interviewee A1 June 2013; Interviewee B1 December 2013).

In 2013, the government announced it would grant the DBSA R7.9 billion in recapitalisation funding the Bank could borrow against (Interviewee B1 December

[4] A unit of measure used to measure percentage in rate or value of a financial instrument

2013; Business Report 16 April 2013). This amount provided much needed relief for the Bank. As stated before, the Bank is reliant upon credit assessment from rating agencies such as Fitch and Standard and Poors. The R7.9 billion from the South African government serves as a guarantee for creditors such as the World Bank and International Monetary Fund (IMF). With such a sturdy financial standing, the DBSA will have little trouble obtaining loans.

This section has demonstrated financial pressures brought about by a demanding self-sustainability funding-model. This has been a contributing factor leading to the DBSA's deviation from its gap-filling role.

With the backdrop of financial pressure to remain stable while still providing development finance, in 2001 the Bank established the Development Fund as a new game-player. This was an attempt to ease financial pressure while still retaining its ability for securing development grants.

The following section explores the DBSA's attempts to mitigate its vulnerable position. The Bank has created a Development fund acting as both a channel to secure grants from international donors and the National Treasury as well as a technical assistance custodian for DBSA-supported development projects.

6.4 Development Fund: a mechanism to attract grants?

The Development Fund was formally established as a section 21 company on 21st December 2001. In terms of section 10 (1) (cN) of the Income Tax Act, and No. 58 of 1962, the Development Fund is exempt from income tax returns. The organisation was primarily created to be a vehicle to channel aid from both foreign donors and the South African government[5] as well as to buffer Forex losses.

Between 1984/85 through 1994/95, the DBSA retained financial stability and was cushioned from market shocks and Forex losses. Such cushioning is important for this study as it illustrates the extent the Bank flourished during this period. The DBSA was able to fully carry out its mandate of development finance without the pressure of ensuring financial stability.

[5] Through government sponsored programmes such as Jobs Fund and Green Fund

Therefore, with support from the national government as well as the Foreign Affairs ministry, Bank activities could easily be channelled to development-centred projects and development policies advocated by the government at that time. The funding-model of government fiscal transfers significantly impacted the DBSA's ability to perform its gap-filling role.

Post 1995, the self-sustainability funding-model meant the Bank had to source finance in the form of grants and other capital reserves. At the time of establishment, the Development Fund was assumed to be a viable solution to the challenging funding-model.

Once established, the DBSA was to continue fulfilling its development finance gap-filling obligations as per its mandate, with a less significant cushion for its financial stability. Through National Treasury backing into the Development Fund, the DBSA was in a position very similar to where it had been prior to 1995, when funding was terminated.

At this point, the Development Fund was introduced as a tool of the Bank. Operationally, the Bank could focus on more profit-generating projects to maintain its financial stability and channel some of its profits to the Development Fund. In turn, the Development Fund would carry-out development projects to meet the high development impact standards of the main shareholder.

Core functions of the development fund were to provide grants as well as technical assistance to municipalities (Development Fund 2006/07). In the DBSA's initial years, technical assistance was originally performed by the Bank itself. This has already been discussed in detail in chapter four.

In the 2010/11 Development Fund annual report, the Chairman noted how the "the DBSA Development Fund is the capacity building arm of the Development Bank of Southern Africa (DBSA)". What is meant by capacity building is the Development Fund is intended to facilitate and empower municipalities. It provides them with the relevant expertise to become more effective in meeting service delivery demands.

The Development Fund's core facilitation role was to fill a gap where municipalities lacked the capacity to plan and implement projects (Interviewee A2 June 2013). Lack

of capacity is an aspect of the South African socio-political climate discussed in chapter four. By so doing, the Development Fund essentially took on the DBSA's development facilitation function. This expedited, created a training ground to ensure those seeking DBSA development finance could approach the Bank with "better prepared project applications" (Interviewee A2 June 2013).

Interestingly, by delegating capacity building and other development oriented functions to the Development Fund, the Bank positioned itself to strategically focus on more "income generating projects". The gap-filling role was delegated to the Development Fund which functioned very much like an extension of the Bank's development arm. By so doing, the Bank was able to partially evade its development mandate, and still have its gap-filling responsibilities spearheaded by the Development Fund.

In the DBSA Annual reports – 2001/02 to 2012/13) – reporting of both the Development Fund and the DBSA is presented in one annual report. But with that said, the annual report document is separated into two distinct sections. Still, these joint Annual reports rendered it difficult to make clear distinctions between activities exclusively performed by the Development Fund and those of the DBSA.

To add to the ambiguity, all seven DBSA staff interviewed spoke of the Development Fund as if it were a unit within the DBSA and not an autonomous section 21 entity. The Development Fund is situated in the DBSA offices making use of Bank staff, facilities and services. For this, the Fund pays a management fee which "is charged at a market-related rate of 4% of disbursements" (DBSA Annual Report 2005/06).

One vanguard project administered by the DBSA was the R9 billion Jobs Fund announced by the Minister of Finance in the 2011 National Budget speech. As well, Interviewee B2 December 2013 noted how the Development Fund was solely reliant on grants from National Treasury and the DBSA. It had zero profit generating capacity. This view is supported by Table 3 below. The Development Fund Annual Report 2010/11 notes its only sources of income were from National Treasury and DBSA grants.

Table 3: Development Fund annual financial statement excerpt 2010/11

Financial results (R million)	**2010/11**	**2009/10**	**2008/09**	**2007/08**
Income				
Grants received from the DBSA	**257,0**	**340,9**	120,0	-
Grants recognised from the National Treasury	**288,4**	**319,6**	219,3	85,0
Expenditure				
Siyenza Manje costs	412,1	456,6	313,3	121,3
Grants	69,8	120,1	101,0	59,8
Other Operating expenditure	90,4	86,9	19,5	9,6
Funding reserve	20,9	10,2	10,1	104,2
Approvals for the year	33,6	109,3	61,8	49,3
Grant commitments at year-end	92,4	111,5	97,6	102,3

Source: Development Fund Annual Report 2010/11

In the 2009/2010 financial year, the development fund received R340, 9 million from the DBSA and R319, 6 million from the National Treasury. This financial year was during the global financial recession, although the true impact was felt particularly in 2010/11. The table above illustrates how Development Fund income disbursements for the 2009/10 financial years had decreased. The DBSA reduced its support from R340.9 million to R257 million and the National Treasury from R319.6 million to R288.4 million. From the above it is abundantly clear Development Fund income was susceptible to the institutional environment and more specifically, market forces. This conclusion is also supported by the NIE theory (Furubotn and Ritcher 2008:16, Coase 1964). Moreover, the same Forex losses incurred by the DBSA were felt by the Development Fund, rendering the sustainability of the Fund obsolete.

Following the DBSA restructuring of 2013, the Development Fund was dissolved (Interviewee B2 December 2013). The main reason given for the Fund's disbandment was the weight of its financial burden (Interviewee B2 2013; Interviewee B3 December 2013).

Why then, would the DBSA create an expensive to operate vehicle, precariously vulnerable to market forces only to dissolve it later?

In an attempt to explain, the DBSA is a state-owned DFI embedded in a self-sustainability model. As it is a lending institution which secures backing from other financial intermediaries through loans, it does not qualify for grants. Intrinsically, the creation of the Development Fund enabled the DBSA to indirectly qualify for grants. This way, the Bank could focus on activities to secure financial stability and transfer profits to the Development Fund. By so doing, the Bank was in a position to generate income to sustain both itself and the Fund.

The Fund would then be the vehicle to focus upon more development-centred projects and initiatives yielding the maximum amount of development impact yet minimal profit returns. By doing so, it was assumed the Bank could balance a dual set of demands. First it was expected to be a self-sustained Bank with financial stability to extend loans. Secondly, it was to be a responsible actor contributing to the economic development of the Southern African region.

Following the 2013 restructuring, the Development Fund was dissolved. By doing this, the newly reorganised DBSA now had to take full responsibility for technical assistance as well as development finance.

The Fund failed to achieve its objectives since it had become an expensive entity with limited development clout, primarily because its interventions had to be supported by government. In order to be effective, technical assistance at the municipal level requires government endorsement.

The above statement was discussed in Chapter five, in the Siyenza Manje case study section. Since the Development Fund failed as a strategy tool, the next section explores the DBSA policy and the extent this strategy was a contributing factor to the DBSA's deviation from its development mandate.

6.5 Business strategy and legislative framework

In order to achieve objectives noted in business plans, organisations adopt strategies to guide their alignment to their core business. Strategies are adopted by virtue of observation of the changing environment. Scott (1969:26) noted "corporations evaluate the changing environment they are embedded in and adjust their business strategy to fit into the environment; then choose the organisational structure best supported by the new business strategy."

Similarly, the DBSA has constantly adjusted its business strategy in order to not only fit into the changing institutional environment, but also to shape it. For instance, No. 3 Internal DBSA (2009) speaks of how one of the key DBSA strategic goals was to "co-deliver social and economic infrastructure, with public sector focus and to build human and institutional capacity with a focus on key intermediaries such as municipalities."

In order to achieve its strategic goals, the DBSA adopts a business strategy. The Bank's Business Strategy is framed by development finance. A business strategy is more likely to be implementable, if factors such as the organisation's structure are able to generate a favourable environment to implement such strategy (Scott 1969).

Organisations are sustained by the roles allocated to them (Reed & Hughes 1994: 27). The roles allocated to the DBSA, inform the strategy used by the Bank to execute the development mandate. Roles extensively reported in DBSA annual reports post 1994, include Financier, Advisor, Partner, Integrator and Implementer (DBSA Annual Reports 1996/97; 1999/02; 2004/05; 2008/09).

These roles have had a direct bearing on the organisational structure of the DBSA, but also on the kind of gap filled by it. The Bank's multiple roles illustrate the multiple "expectations" of the shareholder. Such multiple roles were problematic because they created confusion in the DBSA's primary mandate. This point was argued in chapter four. It is the Bank's function to provide infrastructure development financing to borrowers who would not receive financing from the private sector.

Similarly, in a DBSA presentation, Jackson (2004), noted one of the challenges the DBSA faced was the "differences in strategic direction among staff, management, Board and shareholder – the SA government. Such differences often translated into

polarisation of not only the kind of gap the DBSA is intended to fill but also the strategy best suited to fill the gaps.

The study found difficulty in acquiring a clearly defined DBSA strategic plan. Instead, the study found a propensity of reporting Bank activities. The lack of a defined strategy became clearer once the study understood the legislation establishing the DBSA. It provides for an overarching framework for the type of organisational structure the Bank is allowed to adopt.

The Bank was reconstituted as a development finance institution, while also being governed by the DBSA Act (No. 13 of 1997). Moreover, it is also regulated by the Public Finance Management Act (No. 1 of 1999) and sections 284 to 303 of the Companies Act (No. 61 of 1973).

Such a legislative framework places the DBSA in a difficult position. Provisos of a private company apply to it as well as principles of the Public Finance Management Act. To explain, the legislative framework has created a duality with the Bank being a public entity accountable to the government, but from an operational perspective, it is accountable to a Board, a typical feature of a private company.

Therefore, the Bank is placed in a position where it must balance expectations of an independent Board as well as the government. From this perspective, the phenomenon of the Bank deviating from its development finance role can be more clearly understood.

From a legislative perspective, the Bank is in a challenging position. However, the impact of the legislative framework upon the DBSA's deviation from performing its gap-filling role was not as significant as was the funding-model.

This is largely because the funding-model set precedent for numerous interpretations of the relationships between the Bank and both government and Board members. Additionally, Bank employee perceptions regarding Board members as well as government are best understood from the perspective of the Bank's funding-model.

6.6 Exploring Relationships: the DBSA, Board and Government

A common theme emerged from four of the seven interviews with DBSA officials (Interviewee A1 June 2013; Interviewee A2 June 2013; Interviewee B2 December 2013; Interviewee B3 December 2013) This was nature of the relationship between the DBSA and the main shareholder, the South African government. Two excerpts from two interviewees are quoted below:

> "*What we do is generate our own revenue so we have our own money, our own investments… We need to make money so that we don't depend on Government to do what we do. Otherwise we will be as good as a Government Department" (Interviewee B1 December 2013)*
>
> *"If you putting funding you can lever, if you not putting in funding, then you can't pull the shots" (Interviewee A3 December 2012).*

Both above statements, suggest a reluctance to be dependent on the South African government. There is a tacit assertion that being funded by the government has implications of administrative interference.

From the perspective of the interviewed DBSA employees, it appears the DBSA's autonomy to perform functions is dependent upon the source of the income. Furthermore, in instances where the state is the donor, the DBSA's gap-filling role can be channelled according to the interests of the government.

Ligeti (1985:306) makes mention of how in some countries, government interference often comes in the form of government influencing a DFI to forgo projects of national development interest. Instead, it favours projects that form part of a smokescreen for corrupt activity. Such unethical activity is likely to be found in state owned financial institutions characterised by "political interference, lack of transparency, low accountability to stakeholders, inadequate prudential regulation…" (Rudolph 2010: 2).

Studies by La Porta, Lopez-de-Silanes and Shleifer (2002: 268) further add day-to-day involvement by the state in state-owned financial institutions results in lower economic growth and slower financial development. This is the inverse of the intended function of DFIs – to accelerate economic growth.

State involvement in daily operations of a DFI increases the danger of hindering the allocation of development finance to deserving high risk borrowers who are unable to secure loans from the private sector. However, state involvement in a DFI is not completely destructive. The difference lies primarily in the extent which state involvement impedes the DFI's ability to perform its core functions.

Notable examples of negative government involvement in emerging counties are highlighted by Dinc (2005: 454). He provides evidence suggesting there have been increasing world-wide trends where state financial institutions increase lending during an election year.

However, Dinc's findings (2005:456) were not applicable to the DBSA, as one of the main assumptions taken in that study was in emerging markets; the book value of assets of the state-owned development Bank was twice as large as those of private banks. The inverse applies to the DBSA. Private bank assets are ten times larger than those of the DBSA (No. 2 Internal DBSA 2012). Therefore, the likelihood of the Bank dwarfing private banks and dominating the institutional arena is utterly improbable.

However, the possibility of the DBSA financing development projects based on cronyism is a scenario more likely to occur. As discussed in chapter five, the financing of some B-BBEE projects are regarded as questionable. For instance, one particular unconfirmed allegation emerged from several interviews (Interviewee A2 June 2013; Interviewee B4 December 2012; Interviewee B3 December 2013; Interviewee A1 June 2013; Interviewee A3 December 2012; Interviewee B1 December 2013).

From a document analysis perspective of annual reports from 1983 through 1995, symptoms of direct state interference were not apparent in the relationship between

the DBSA and national government. Although a state-owned institution, government interference in the DBSA's day-to-day operations remained limited. This finding suggests the Bank had a fair degree of autonomy to make its own operational decisions. Consequently, the Bank was not readily susceptible to making development finance decisions due to government pressure.

However, there is an indication of the state's direct involvement in the Bank's affairs. In (1994) the Minister of Finance appointed the DBSA Board of Directors – twelve from the private sector and two from the public sector (Musasike 2004: 6) as well as the CEO. All were political appointments by the ruling party.

Interviewee A1 (June 2013) boldly stated how:

> *"I ask myself the question who appointed him? That was a Government... a National Treasury and all the people involved in that appointment, even Cabinet. Cabinet doesn't play such a role that they look at the detail. They look at what is forwarded to them. I don't think they really understood the function of the Bank" (Interviewee A1 June 2013).*

Other interviewees echoed similar sentiments. Over the years, the DBSA Board has been met with much controversy particularly since its unorthodox interpretation of the DBSA mandate. The Board has approved financing of some profit-driven projects disguised as development projects.

One can assume prioritisation of high profit-generating projects came as a result of addressing financial stability issues. However, conflict of interest allegations emerged in four of the seven interviews. These particularly related to Board approval of B-BBEE projects where board members improperly benefited.

Examples of conflict of interest were found in DBSA Annual Report (2007/08) where eight board members disclosed their "related party" to projects under review for approval. Four of the eight conflicts of interest are noted below:

- A Board member was a Chief Executive of a Pan African Advisory, providing consultancy services to the Pan African Infrastructure Development Fund (PAIDF). The project had equity of US $ 100 million.

- The Gautrain infrastructure project was worth a R150 million in a senior DBSA loan and a R50 million DBSA standby loan. A Board member was the Chairperson of and shareholder in the J&J Group with interests in Murray & Roberts, also a member of the consortium.
- Neotel Bridging and Nexus Empowerment Equity Finance project borrowed an equity loan of R151, 5 million from the DBSA. The conflict of interest was a close family relation of a Board member was involved in Nexus.
- Debt funding of One & Only Cape Town Holdings where a member of the Executive Management was a BEE shareholder in the company.

For all the above cases, the DBSA noted the following:

> *"All transactions were approved at arm's length and the normal DBSA terms and conditions applied. All interests were declared at the meetings where the approvals were considered and the relevant Director did not form part of the decision-making process" (DBSA Annual Report 2007/08).*

Interestingly, this study could not establish whether or not the above occurred in reality. However, such close linkages of Board members with projects applying for DBSA loans were a cause for concern. And, several of the interviewees suspected favouritism for some projects over others irrespective of their development impact.

Moreover, a DBSA Corporate Plan justified the concerns of the interviewees by noting:

> *"The Banks mandate is informed by the policies and decisions of the Board of directors, which interprets the mandate and shapes the Bank's strategy" (DBSA Corporate Plan 2009: 6-7).*

The significance of the above statement is that the DBSA's mandate is "informed" by the "policies and decisions" made by the Board of directors is a cause for concern. The statement suggests that although constitutionally mandated to perform an infrastructure development function, in practice the interpretation of the Bank's mandate is implied. Hence, it is not entirely informed by the main shareholder, the South African government.

Therefore, in this instance, the development finance mandate, although framed by the DBSA Act (Nr. 13 of 1997) was determined and shaped by the interpretation of

the Board. The organisational clout of the Board coupled with their particular interpretation of the mandate warranted observers to conclude director influence was a factor contributing to the Bank's divergence from its infrastructure development role.

Direct political pressures from government officials also emerged in the interviews. However, the study was unable to verify the validity of such claims. As such, the study did not assume the Bank's divergence from its infrastructure development role was a result of constraints from government. The relationship between the DBSA and government is atypical. Being owned by the government, the DBSA's development finance role has always been framed by government policies.

The extent and nature of this relationship was revealed in the manner which the DBSA reported annually. From 1995/96 onward, there was a gradual disregard of extensively explaining linkages between activities conducted by the Bank and their relevance to broader South African development policies and priorities.

This finding was in contrast to the 1984-1990 reports where DBSA linkages with broader government policies were conveyed at length. The stark difference from a reporting perspective were the 1984/85 to 1988/89 DBSA annual reports appear to be government sponsored advocacy tools.

The 1989/90 to 1996/97 annual reports resonated a change in organisational direction. A "wait and see" approach towards the South African institutional environment was adopted and it was also during this time the DBSA Act (No. 13 of 1997) was codified.

The nature of this Bank/government relationship was not antagonistic. There are many examples in DBSA publications (DBSA Development Paper 2005) where the Bank worked in close collaboration with the government. Similar sentiments were expressed by Interviewee A3 (December 2012) who noted the DBSA would look at the performance of numerous sectors in various provinces, Following evaluations, the Bank would approach the applicable ministry, communicate the identified development gaps and propose how it could fill those gaps.

By so doing, the DBSA was "acting like an agent on behalf of government" (Interviewee A3 December 2012). It appears from the viewpoint of this DBSA interviewee, being an agent of the main shareholder translated to working jointly with the government. This partnership was formulated to achieve joint development objectives within the SADC region and South Africa in particular. By performing such actions, the DBSA acted in line with its development mandate of collaboration and alignment of its activities to government economic development policies.

In the study, it became clear the nature of the relationship between the Bank and the main shareholder post 1994 became more at "arm's length". There were no findings of government directly interfering in activities of the Bank. Likewise, the study found no evidence of Bank interference in core functions of the Government unless otherwise commissioned to do so. An example of this would be the administration of the Jobs Fund.

The study found no direct correlation between the kinds of development finance decisions made by the DBSA and government pressure. The importance of this discussion is to portray the DBSA's independence from its shareholder. Overall, the government's respect of the Bank's autonomy substantiates deductions made by this study. Government interference has not been a factor behind the DBSA's deviation from its gap-filling role. Rather, the funding-model has had an impact on the banks organisational functionality and the Board's role in interpreting the mandate within this environment.

6.7 Impact of funding-model: restructuring and more restructuring

By introducing a new funding-model, the DBSA underwent significant restructuring. Restructuring was not solely attributed to the funding-model, but rather to change in the political landscape. Following a 1988 visit to the IMF and World Bank, the DBSA's top management introduced an organisational development programme. This was in response to growth and complexity in the scope of the Banks operations (No. 4 Internal DBSA 2010).

The organisational development programme was met with much scepticism just as it had in the DBSA's early days. The Bank did not have documented systems and procedures in place and staff members were "learning by doing" (No. 4 Internal DBSA 2010). As such, the programme sought to introduce higher levels of delegation to the operations authority, revision of systems and procedures as well as "optimal development and utilisation of human resources" (No. 4 Internal DBSA 2010).

Scepticism of the programme translated into a form of resentment towards it. At the time, most staff felt such a programme would lead to the "bureaucratisation" of the Banks operating procedures. Moreover, another source of anxiety was "numerous confidential human resource initiatives and the Bank's participation in various task teams. Both led to rumours of corporate restructuring, demotions and outplacement of staff" (No. 4 Internal DBSA 2010).

Ironically, this very same anxiety experienced in 1988/89, due to restructuring and implementation of a development programme, was repeated 23 years later in 2012/13. Between 1983 and 1989, DBSA permanent staff had grown from 198 to 678. This called for restructuring the organisation to support its expanded workforce. Following financial strain in December 2012, management adopted a new operating model reducing permanent staff from 750 to less than 450 (No. 4 Internal DBSA 2010; Khuzwayo April 2013).

Critics (Barron 2013: 1; Khuzwayo: 2013) argue the DBSA's 2012/13 restructuring led to the departure of critical skill sets and much-needed development expertise, It is unfeasible to continue to adequately perform development responsibilities with limited human resources.

The contribution of the discussion on organisational restructuring is valuable for this study as it illustrates the internal dynamics of the Bank. Internal discontent in an organisation has serious consequences upon its ability to perform core responsibilities.

As argued by Thorne (2001) the way in which development banks are run have significant impact upon their rate of success. In particular, issues such as "the accountability and capacity of management, the availability and retention of skilled staff, and sound operational, risk and financial management" are the difference between a successful development bank and one which fails.

Interviews for this study were intentionally conducted in six month intervals – before, during and after the restructuring occurred. Of the two interviews conducted before the reorganisation (Interviewee A3 December 2012 and Interviewee B4 December 2012), the interviewees expressed some discomfort with the Bank's proposed organisational structure. They felt it was aligned closer to organisational structures used by privately owned commercial banks and Bretton Woods institutions. They believed this new mode of operation would not be particularly suited for the Bank's development mandate.

Similarly, such opinions were more emphatically expressed in interviews conducted during the restructuring (Interviewee A1 June 2013 and Interviewee A2 June 2013). Most employees were discontented with how the restructuring took place. As well, there were rumours of a "Bain report" conducted by an international consultancy "not even equipped to fractionally understand the kind of infrastructure development business the DBSA is involved in" (Interviewee A1 June 2013).

Such perceptions, fears and opinions echoed those of the 1988/89 when DBSA employees were in a very similar position because of a lack of thorough communication, transparency and engagement in the restructuring process (Interviewee A1 June 2013; No.2 Internal DBSA 2012).

With the initial 1988/1989 restructuring, the DBSA was – under the direction of management – responding to institutional pressure to build a more racially representative and expert-orientated staff. This came about because by 1989, "there was not a single black or female senior manager" (No.4 Internal DBSA 2010). The institutional environment at the time called for a more racially inclusive organisation,

in order to align itself to the main shareholder's introduction of racial inclusivity and redress policies.
Conversely, the 2012/13 restructuring was a response to institutional factors such as Forex losses resulting from the global financial crisis.

As a whole, this study found restructuring was often implemented without thorough consultation with staff. As a result, the majority of interviewees expressed much pessimism and distrust of the organisation and the changes being made. Adding to the complexity of the pessimism was highly qualified and experienced staff began to look at their options of moving to other organisations. Thus, the Bank risked further loss of skills.

As well, the study found the DBSA attracted a high calibre of educated specialists. Of the seven interviews conducted, two had PhDs; one in social sciences and the other in commerce. The remainder of interviewees had no less than post-graduate qualifications with specialisations including environmental sciences, business administration, and project management. Unfortunately, if they are not properly led, educated specialists can contribute little to an organisation.

As stated by Pieterse and Van Donk (2008:65)

> "*…International literature suggests that holistic development programmes require a high capacity for creativity and innovation… The technical, institutional, political and economic complexities of these programmes require managers who can work adaptively and not procedurally according to a rule book."*

In light of the above, in two interviews (Interviewee A1 June 2013; Interviewee A3 December 2012), references were made about the differences between senior management prior to 2006/07 and the incumbent senior management. Both interviewees noted the DBSA was gradually losing its "development edge". Also, the Bank was increasingly becoming polarised into a "development camp" and a "banker's camp". By 2006/07, the new CEO was categorised by both interviewees as more inclined to the "banker's camp" and introduced commercial bank practices, particularly those of Nedbank.

The new CEO was indeed from Nedbank and interestingly, a member of the first DBSA Board of Directors in 1983/84. This was GS Miller who was earlier Chief Executive of Nedbank (No. 4 DBSA Internal 2010). The DBSA's Nedbank connection has continued to the present time.

From an organisational perspective, the study did find indications of the Bank's inclination towards operating as a commercial bank as opposed to a development finance institution. It was discovered the Bank tended to prioritise more profit-generating projects rather than development projects. Also, the DBSA's corporate plans more aggressively targeted financially sound clients who could easily qualify for backing from commercial banks (No. 3 Internal DBSA 2009).

Interviewees adamantly believed the DBSA had deviated from its traditional development finance decision-making role and this has been substantiated as factual. The restructuring of the Bank has been categorised as a strategy to "rectify" losses and misalignment to its development mandate. However, as long as the current funding-model remains in place, the likelihood of realignment to development-centred finance will be extremely limited.

6.8 Conclusion

In attempting to answer the third research question – what factors contributed to the Bank's deviation from performing its gap-filling role – this chapter has made some interesting findings. The DBSA can be best described as suffering from Sisyphean syndrome. This is characterised by being in the difficult position of balancing self-sustainability with development finance. After 1995, the Bank no longer received generous cyclical capital disbursements from the government which had previously cushioned it from financial shocks of international financial markets.

The funding model adopted by the DBSA has made it susceptible to Forex losses; an enormous source of vulnerability. Such weaknesses have translated into the Bank's inability to extend development loans to deserving clients. This is primarily because the Bank's financial stability has fluctuated over the years.

However, the introduction of a Development Fund allowed the Bank to secure grants and spearhead development projects with high expansion impact. Nevertheless, jolts

felt in the market have resulted in the DBSA prioritising financial stability to safeguard its survival.

Perceptions of the triad relationship of the DBSA, the Board of Directors and government revealed that within the funding-model, the Board was pressured to finance more profit-orientated projects. This was executed in order to maintain the Bank's financial stability. Although there was evidence suggesting the motive for financing such projects was also self-interest.

Observations of the interviewees regarding the Board were found to be significant as they revealed some board members, as decision-makers, had conflicts of interest. The relationship between the DBSA and government was also found to be constructive and unlike other DFIs, the Bank did not suffer from state interference.

The decision for the Bank to be self-sustained has had consequences on its organisational strategy as well as internal organisational dynamics. Ultimately, restructuring has been the key feature of the post 1994 DBSA.

Chapter SEVEN: Concluding remarks

7 Introduction

The previous chapter presented the challenge of the funding-model and the DBSA's ability to adequately perform its gap-filling role. Financial stability was noted as a major contributing factor to the DBSA's deviation from its mandated role. By presenting the DBSA's funding-model as well as its relationship with the Board of Directors and the main shareholder, the South African government, this study was able to illustrate several factors leading to the Bank's inability to perform its gap-filling role.

As explained throughout this study, the DBSA has been mandated to provide development finance to borrowers such as municipalities which otherwise would not receive finance in the competitive market economy. By providing development finance, the Bank is deemed to be filling a gap which neither the government, nor the private sector is able to fill. The following chapter ties the study together by linking the problem statement, purpose statement and research questions to the actual findings of the study. By so doing, general conclusions about the DBSA's gap-filling role are made.

7.1 General Conclusions

The study set out to understand the DBSA's gap-filling role based on its alignment to not only its infrastructure development mandate but also to determine if it was financing the most deserving clients. The Bank's mandate was understood as one set by policies and legislative framework set down by its main-shareholder, the South African government.

The motivation behind exploring the Bank's alignment/misalignment to its mandate was largely to understand if it follows traditional theories on DFIs and notions of market-failure. To achieve this, the study made use of interviews and document analysis to gather data for rich description.

This study made the following general conclusions about the DBSA and its gap-filling role:

1. The DBSA was initially formed to direct development finance to the Bantustan territories for a broad scope of activities not limited only to infrastructure development. However, post 1994, as codified in the DBSA Act 17 of 1997, the Bank's mandate became specialised for infrastructure development targeting the Southern African region.
2. The mandate of the DBSA is interpreted as the Bank acting as a gap-filler for financing infrastructure projects.
3. The nature of the funding model has had repercussions on the Bank's ability to remain a development-focused financier while remaining self-sustained. In an attempt to maintain such a delicate balance, the DBSA has found itself deviating from its gap-filling role.
4. The changing institutional environment characterised by a strong competitive private sector and a challenging institutional environment has affected how the Bank performs its gap-filling role as well as its overall contribution to development.

The above general conclusions are later discussed in greater detail to substantiate the study has answered the research questions and achieved its purpose.

7.1.1 DBSA initially established for development of Bantustans

The initial understanding was the Bank was established to address development gaps between the industrialised RSA government and the underdeveloped Bantustans. Post 1994, the Bank's mandate become more specialised focusing upon infrastructure. However, at that time, because it had the ability to finance projects in the entire public sector, it could target a broad client base.

Key findings of this study are: the establishment of the DBSA was in line with classical economic thought on the need of DFIs to address market failure.

Discussed in chapter two, the privately owned French development bank, Crédit Mobilier, was established in 1848 in response to industrialisation. Very similarly, the

DBSA was initially formed in response to pressure for development of Bantustans, discussed in chapter four.

However, unlike most DFIs, formed for overall development of a region or nation, the establishment of the DBSA was specifically to pursue racial segregate polices in Bantustan territories predominantly occupied by black people.

This study revealed how financial pressure on the RSA government Fiscus could be eased by creating a development bank. The DBSA emerged as a vehicle to channel state funds into Bantustans to ease that financial burden. Once formed, the DBSA became instrumental in ensuring the industrialisation of strategic nodes intended to form buffer-zones between the RSA and the self-governed and independent Bantustan territories.

Being aligned to the prescriptions of separate development, the DBSA acted in line with its gap-filling role between 1983 and 1994. In doing this, the DBSA contributed to the underdevelopment associated with separate development. Therefore, the DBSA did the inverse of contributing to overall development as it is traditionally understood.

7.1.2 Mandate of the DBSA is to fill an infrastructure development gap

Once codified by the DBSA Act 17 of 1997, the Bank's scope of activities post 1994 became limited to infrastructure development in the Southern African region. This study established the definition of infrastructure development, as understood in the traditional sense, to be development of roads, electrification, water and sanitation.

This study concluded the extent the DBSA operates within its development finance role is not necessarily an issue of confusion over the definition of infrastructure in development finance. Rather, it is the understanding of the broader functions of development finance. According to its mandate, the DBSA should finance infrastructure projects led by deserving clients. Therefore, the Bank is most closely aligned to its gap-filler mandate when it provides development finance to clients unlikely to receive backing from the private sector.

The study has shown the Bank attempted to play a capacity building role through projects such as Siyenza Manje. However the Bank's statutory powers were restricted and consequently, implementation was also limited. Hence, the core business of the Bank should be development finance rather than capacity building initiatives. Later, capacity building fell within the jurisdiction of the state.

Although orthodox economists would argue imperfect markets create gaps, the NIE as discussed in this study, has rather sought to understand the way actors such as the DBSA adapt within changing rules and norms. Market and state failure are common aspects of the institutional environment. However, this study found such conditions give rise to opportunities for DFIs to fill development gaps.

By filling development finance gaps, this study has argued the DBSA is in line with its mandate. However, this mandate has been understood primarily based upon the Bank's role as a financier of infrastructure development.

7.1.3 Funding model: Financial sustainability at expense of development?

This study argues the DBSA's funding model contributed to its inability to fulfill its role as a gap-filler. Between 1983 and 1994, the Bank was the recipient of cyclical funding from the South African government. Government funding cushioned the DBSA from external market woes such as Forex losses.

As well, the Bank was able to perform its development finance function without the pressure of self-sustainability. Moreover, having such a cushion coupled with having a broad scope of activities placed it in an ideal position to align to its development mandate with targeting the Bantustans.

Post 1994, capital disbursements from government were discontinued. The Bank was suddenly faced with a specialised scope of activities – infrastructure development – requiring a specific skill-set and organisational structure.

With the restructuring and loss of specialised skills, the DBSA's ability to perform its core functions was severely impacted. Internal dynamics within the Bank's decision-making structures such as the DBSA's relationship with the Board was strained. Despite evidence suggesting some Board decisions were motivated by self-interest,

the predominant rationale behind the Bank's decision to finance more profit-driven projects was largely due to maintaining self-sustainability inherent to the funding model.

From a financial stability perspective, the DBSA was in a precarious position. The NIM coupled with Forex losses incurred by attempts to obtain foreign funding created a situation where the Bank's survival was dependent on financing borrowers able to service their loans. Therefore, since municipal clients are often unable to repay their debts, the Bank opted to finance non-municipal borrowers in order to survive. This dilemma was caused by the nature of the Bank's funding model.

The study also discussed the introduction of a Development Fund to secure grants and spearhead the Bank's projects with high development impact. Shocks felt in the market resulted in the Bank prioritising financial stability in order to survive.

After 1995, the DBSA had to find its own sources of funding in the foreign capital markets. However, the open market came with disadvantages such as Forex losses. Losses in the capital markets increased the Bank's vulnerability.

In the event the Rand weakened, the Bank would be expected to pay more when servicing its debt to creditors such as the Bretton Woods institutions. Once the funding model was altered, the DBSA found itself in the difficult position of balancing self-sustainability and extension of development finance – the latter being its core mandate.

7.1.4 Development contribution made by the DBSA

This study found the institutional environment where the DBSA operates not only contributes to the kind of gap it fills but also grants the Bank an opportunity to contribute to shifting the institutional arena. For instance, on occasions where the Bank financed high-risk borrowers such as poor municipalities, it was at times able to gradually "crowd in" the private sector.

Crowding in of the private sector is not always guaranteed. However, interest of the private sector in areas traditionally dominated by the DBSA suggested a success for the DBSA in its gap-filling function. Such occasions, were noted as successful

alignment not only to the development finance mandate but also to NIE assumptions that actors also shape institutions in which they are embedded.

The study found the institutional environment was not a hindrance to the Bank's ability to play its development finance role. Rather, the institutional environment characterised by municipalities with uneven development levels were deemed opportunities.

Strengthened commercial financial institutions moved into the arena traditionally monopolised by the DBSA. In doing so, they created shifts in the kinds of gaps the DBSA would fill. This narrowing gap between commercial banks and the government suggested the disposition of the gap filled by the DBSA was gradually becoming narrower.

7.2 Answers to research questions

1. ***How has the DBSA interpreted and acted in relation to its mandate prior and post 1994 as set out in policy documents, strategies and the DBSA Act?***

The DBSA's official role from 1984 to 1994 was to provide development finance for the Bantustan territories.

The study has argued for the 1983-1994 period, the DBSA was found to be more closely aligned to policy documents and strategies. This was because, based on its mandate at the time, the Bank was intended to fund a broad scope of activities so long as they fell within Bantustan territory.

Prior to 1994 the Bank's broad mandate meant it could finance any activities in the Bantustans ranging from urban and rural expansion to small business development. The Bank's mandate during the 1984-1994 interval was very clear; the scope of its activities quite broad and not solely limited to infrastructure development.

Between 1994 and 1996, the government narrowed development activities and distributed them among five national development institutions, thereby trimming the broad scope of activities the DBSA once had. The Bank's scope of activities became

codified in the DBSA Act No. 13 of 1997. It cogently outlined a mandate of infrastructure development.

The narrowing of the mandate by the main shareholder meant infrastructure projects were to be prioritised and, as per the development policies and strategies set by the government, the DBSA's main client was to be the public sector.

Interpretation of the new DBSA infrastructure development mandate was to be taken in the traditional sense –water, roads, sanitation and electricity. However, linkages between Bank activities and policies set out by the government were difficult to establish. Rather the majority of projects financed by the DBSA post 1994 were not in line with the Bank's gap-filling mandate.

2. ***What was the nature (client, value and sector) of projects financed by the DBSA prior to 1994 and post 1994, and was it in line with the traditional understanding of gap-filling by DFIs?***

The types of projects financed by the DBSA prior to 1994 were those in the Bantustan governments and independent territories such as Ciskei, Transkei, Venda as well as neighboring countries such as Namibia and Lesotho. Clients included Local Development Corporations such as the Kwa-Ndebele Development Corporation and local businesses (Triple Trust Organisation) and strategic government agencies or councils (South African National Tourism Board). Values of projects varied based on the kind of developments they were.

However, cyclical financial contributions made to the Bank by the government as well as its monopoly over the Bantustan governments and independent territories cushioned the Bank and enabled it to finance risky high-value projects. Likewise, its broad scope of activity varied from infrastructure projects to business development and agriculture development.

The Bank therefore operated in line with the traditional definition of gap-filing largely because its activities addressed development gaps between the developed RSA government and the underdeveloped Bantustan governments and independent territories.

Post 1994, the DBSA did not function in line with the traditional DFI understanding of gap-filling. This was because the Bank's client base was primarily made up of borrowers having low risk profiles and likely to receive finance from commercial finance institutions. Examples cited in the study included Metropolitan municipalities in Gauteng, Eskom and B-BBEE companies. Poorer municipalities, the ones most in need of development finance received the least DBSA development financing.

Several projects financed did not advance infrastructure development. For instance, as mentioned in the introductory chapter, the Cape Coral International Hotel received development financing in 2007.

With regard to the value of projects financed, this study also found the DBSA favoured borrowers and projects having high income generation capacity but low profit returns. Contrary to what actually occurred, the Bank is expected to favour development impact over profit gains.

Moreover, extending finance to Eskom even when the Bank was not in a financial position to do so further substantiated this stated claim. Therefore, the aforementioned is a glaring example of the DBSA doing the opposite of its gap-filling development mandate.

3. ***What factors contributed to the DBSA's deviation from performing its gap-filling role post 1994?***

Factors contributing to the DBSA's deviation from performing its gap-filling role were noted as the following:

- Confusion over the DBSA's mandate was clear in both strategy documents and conducted interviews as both suggested the Bank's misalignment with its gap-filling role;
- A change in the DBSA funding model applied pressure on the Bank to maintain financial stability at the expense of development impact;

- Emergence of a strong, aggressive and competitive private sector meant the Bank lost its traditionally held monopoly in development finance;
- Municipalities unable to adequately manage financed projects and translate them into actual development placed pressure on the Bank to introduce capacity building as well as development finance. However this was met with limited success since the Bank did not have enough clout to implement certain initiatives e.g. Siyenza Manje.
- Organisational dynamics such as a Board of Directors having conflicting interests and restructuring without adequate consultation are also end-factors contributing to the Bank's deviation from its gap-filling role.

The list above is not ranked based upon the strongest contributing influence. Rather these factors are interrelated and indicative of the situation the DBSA finds itself post 1994. In performing its gap-filling role, the Bank has been faced with many hurdles.

Ultimately in its decision-making, these factors have contributed to the Bank extending finance to some projects over others. This was done irrespective of level of development impact, alignment to government policy or gap filling – the reason why DFIs exist.

7.3 The Way Forward

However, the concern of this research was not to provide recommendations on how the DBSA can best act within its development mandate. The intention of this study is to understand and shed light on the nature of the gap-filling role performed by the DBSA.

An important realisation was made by this study – the Bank's funding model places considerable pressure on the Bank's sustainability. Stress on the Banks financial sustainability in turn, results in it providing development finance to borrowers who could have otherwise received development finance from the private sector. This negates its gap-filling role as the DBSA is mandated to operate in the space where neither the government nor the private sector is willing to venture.

This researcher understood fundamental challenges contributing to the DBSA's inability to perform its gap-filling role were due its funding structure. The Bank would be placed in a position where its sustainment would take precedence over development impact. For example, projects with the highest profit returns yet the least development impact would be favoured over those contributing to the least financial return, but much higher development impact.

In order for the Bank to be more aligned to its gap-filling mandate, this study recommends more focus should be placed on addressing the funding model. Other factors such as a competitive private sector and confusion over its mandate contributed to the sort of gap selected to be filled by the DBSA.

Also, the study found the institutional environment will always change. Therefore, in order to survive, DFIs must adapt their strategies in order to remain relevant. Despite DFIs self-sustainability being hinged upon their ability to secure funding sources more diversified and less dependent on the market. An example of this is state funding which is best suited for financing such as the DBSA.

However, the South African government is unlikely to be in a financial position to make such a commitment owing to an already stretched National Budget and bail-out seeking SOE.

Hypothetically speaking, if the DBSA were to receive such cyclical state funding, it would be cushioned from market pressures and better able to provide development loans to high risk clients. A change in the funding model is by no means a guarantee the Bank would operate within its gap-filling mandate. As this study has already shown, other contributing factors have characterised the decision-making of the Bank.

The extent of accountability of the Board of Directors for decisions affecting the DBSA's gap-filling ability is an important issue needing to be acknowledged. Moreover, factors such as a competitive market system have given rise to questions

of the relevance of the Bank in the contemporary South Africa. Commercial Banks have advanced on gaps traditionally filled by DFIs.

Debates about the future of development banks have also emerged in the milieu of a more competitive market system willing to take on more risky clients. Thus commercial banks are closing in on gaps traditionally occupied by DFIs. The future of development banks will, for quite some time, continue to be a topical issue in development, economics and NIE debates.

Whether or not the DFIs will be engulfed by the evolving competitive market, remains to be a question scholars are unable to agree upon.

What this study does however illustrate is traditional theories of market failure. However, gap-filling entities such as DFIs offer little information to understand the complexities of roles they are intended to perform and those they perform in reality.

The DBSA has illustrated how it does not perform a traditional role of gap-filling. Instead, it is fixated on self-sustainability rather than development. Self-sustainability has become an aspect of the Bank which initially had not existed. Such a change has revealed the extent policy decisions by the main-shareholder can impact an organisation's ability to fully function within its mandate.

Overall, this study has illustrated several limitations of how DFIs have been traditionally conceptualised. As well, it creates opportunities for further research on DFIs.

7.4 Areas of future research

By exploring the development finance role of the DBSA, this study has opened areas for future research in the South African DFI space.

There is a need to explore case-studies delving into the role of DFIs in South Africa. Particularly, this is because a large majority of studies focus on the role of global and regional DFIs. Literature recounting the contributions of South African DFIs on

economic growth and development are scant. Moreover, even fewer scholars have studied the linkages between increased levels of development and the amount that can be attributed to DFIs.

Further research on the synergy of South African DFIs could also be an interesting approach to offer much needed insights into the success and failures of the DFI model in South Africa. Particularly, cross-sectional comparisons of South African DFIs would expose performance and alignment to broader government development policies and strategies.

Benchmarking the performance of South African DFIs with other successful national and global DFIs could also be an interesting avenue for future research. Additionally, when benchmarking, exploration could go beyond alignment to mandate and take into consideration the funding model as well as the nature of gaps being filled.

The comparative study approach could also be applied to the various funding models of DFIs across the world. Such research could contribute to understanding the future role of DFIs and whether their roles are being superseded by a more vigorous and competitive private sector.

7.5 Summary

At the outset of this study, there was an impression that the DBSA was not functioning within its development finance role. Therefore, this exploration has sought to examine the Bank's changing development finance role and to determine whether or not it has deviated from its gap-filling function.

This study is centred on development financing in the challenging municipal environment. It also speaks to the broader issue of the nature of the South African sector which is intertwined with inefficiencies and the lack of capacity to implement and manage development projects.

The South African socio-political climate is one characterised by a mismatch of the institutions of the state and the functions they are mandated to perform and the execution of such functions. This study has suggested the DBSA is no exception. As analysed in this study, the Bank's alignment to government policies and development strategies as translated in the nature of projects it finances, suggests minuscule execution of effectual development financing.

Instead, the Bank has been placed in a position where by financing the Public sector – its main client – it is in line with its development mandate. However its main client is unlikely to repay its development finance loan. This is mostly because of the client's inability to take charge of the capital and translate it to a viable development project able to generate income.

In response to such a dilemma, the Bank chooses to ensure its survival by financing non-municipal clients. Thus, it risks being accused of deviating from its development mandate. Although not clear from the onset, the balance between self-sustainability and development-centred finance is the contradictory nature of the DBSA's role as a financier.

To conclude, in the final analysis, the DBSA is generally failing to perform its mandated gap-filling role. To maintain its own survival, it does not necessarily extend development financing to deserving high-risk infrastructure development borrowers. This in itself is the core failure to align to its gap-filling mandate.

Appendix A: Process to conduct interviews

The process will begin with a brief introduction, background and overview of what the research is about. Interviews will be in-depth and conducted in an unstructured manor to allow more discussion and probing.

The questions for the interviews will be divided into 3 sections:

Section A: Demographic Information
Section B: Participants' perceptions of the DBSA's gap-filling role in the SA context
Section C: Project finance and development

Sample of Framework Tool used to Conduct Interviews:

ITEM	QUESTIONS
A.	**Demographic Information**
1.	Name and surname
2.	Designation
3.	Number of years working in/with Organisation
B.	**Participant's Perception of DBSA's gap-filling role in the SA context**
4.	What is your understanding of the role of DFIs, particularly that of the DBSA?
5.	What role does your designation play in the implementation of the DBSA's mandate of financing development? How do you implement and/or report these mechanisms?
C.	**Project Specific**
6.	How projects are initiated, what is your involvement and what assessments have been conducted before development finance is granted – feasibility and impact assessments?
7.	What in your opinion are development projects closely aligned to the DBSA's role as a gap-filler?
8.	Do you think the DBSA's decision to finance Siyenza-Manje and Eskom supported or contradicted the DBSA's gap-filling development mandate?
9.	Are there any other issues relevant to the types of projects being financed?

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