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Exploring the Gap-Filling Development Finance Role of the Development Bank of Southern Africa (DBSA)

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Declaration

I declare this is my own unaided work. It is submitted for the degree of Master of Management by Research and Dissertation at the Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg. It has not been submitted before any other degree or to any other university.

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Abstract

This study focuses on the gap-filling role of the Development Bank of Southern Africa (DBSA). The use of development banks as a policy instrument to spur economic growth has been a practice followed internationally since World War II.

Development banks are intended to extend financing to undertakings in the market economy deemed by the private sector as posing too much financial risk. Usually, these are development-orientated, low-profit green-fields projects initiated by clients in the public sector. By financing such development projects traditionally excluded by the market, the development bank fills a gap in the market. The DBSA was established in 1983 to bridge the gap between the industrialised central government and the underdeveloped Bantustan states and independent territories.

At the time, the Bank could finance any development project so long as it fell within the Southern African region. However, post 1994, the DBSA mandate changed, shifting its focus to the public sector – low-income municipalities – and to particularly, specialise in financing infrastructure projects. Now altered, its development finance functions extended far beyond the Bantustan territories and independent states.

Interest in the DBSA's gap-filling role was generated by the observation that it had not been providing development finance according to the traditional tenets of understanding development finance. The problem was two-fold. The Bank's target client was not necessarily the most deserving. Additionally, projects financed by the DBSA did not automatically fall within the infrastructure development mandate.

This thesis has explored how, in light of its financier role prior and post 1994, the DBSA interpreted and acted in relation to its mandate as set out in its policy documents and strategies. This study also delved into the nature of projects financed and if they were in line with the traditional understanding of gap-filling. As well, this report investigated factors contributing to the DBSA's deviation from its gap-filling role.

To carry out this research, case study methodology was used in tandem with the qualitative approach. To answer research questions in-depth-unstructured interviews and document analysis were used. The study was both an exploration of the DBSA's gap-filling role as well as examination of development finance in action in the South African context.

The study drew on literature in New Institutional Economics (NIE) as an umbrella theory best suited to explore the DBSA's gap-filling role. It was found that prior to 1994 the DBSA did act in line with its gap-filling role. However, post 1994 the Bank most certainly deviated from its gap-filling role. Contributing factors to this divergence were found to be an increasingly competitive private sector, confusion

over its development mandate, a challenging municipal client base and a self-sustainability funding model.

Prior to 1994, the DBSA enjoyed a monopoly over its target client base, the Bantustan states and independent territories. It had a broad development mandate coupled with capital backing from the Republic of South Africa (RSA) central government. Post 1994, the DBSA mandate was infrastructure development targeted towards the public sector.

The Bank was required to adopt a self-sustainability funding model. This, coupled with entry into a competitive private sector moving into the development space, placed a great deal of pressure on the Bank. Therefore, it became necessary to finance profit generating projects rather than those initiated by its mandated low-income high risk client base – poor municipalities.

This study contributed to DFI literature by illustrating what functions DFIs are mandated to perform compared to what they do in reality. Also, this analysis has shown traditional market-failure studies assume DFIs perform a gap-filling role. This has to be re-examined taking into account the changing institutional environment. And, particularly in South Africa, more studies need to be conducted to further understand limitations and opportunities the DFI model offers for overall development.

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List of acronyms

AADFI	Association of African Development Finance Institutions
ADB	Asian Development Bank
AfD	Agence Française de Développement
AfDB	African Development Bank
B-BBEE	Broad-Based Black Economic Empowerment
BNDES	Brazil Development Bank
CDB	Caribbean Development Bank
DBS	Development Bank of Singapore
DFIs	Development Finance Institutions
DCOG	Department of Cooperative Governance
EDC	Export Development Canada
FFC	Financial and Fiscal Commission
FMO	Netherlands Finance Company
GTZ	Deutsche Gesellschatt fur Technische Zusummenarbeit
IADB	Inter-American Development Bank
IDB	Inter-African Development Bank
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
IPE	International Political Economy

KfW	Kreditanstalt für Wiederaufbau
MDFIs	Multilateral DFIs’
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
NDB	National Development Bank of Sri Lanka
NEPAD	New Partnership for Africa’s Development
NGO’s	Non-Governmental Organisations
NHFC	National Housing Finance Corporation
NIE	New Institutional Economics
OPIC	Overseas Private Investment Corporation
SABT	South African Bantu Trust
SADC	Southern African Development Cooperation
SAM	Social Accounting Matrix
Sefa	Small Enterprise Finance Agency
SOC	Small Enterprise Finance Agency
SOE	State Owned Enterprises
TBVC	Transkei, Bophutatswana, Venda and Ciskei
the dti	Department of Trade and Industry
RSA	Republic of South Africa
UNDP	United Nations Development Programme
US	United States
USAID	United States Agency for International Development