

The Role of Development Finance Institutions: Lessons from Southern Africa of Best Practices for Their Effective Management

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30 September 2004

With Acknowledgements to Lewis Musasike & Ted Stillwell

Contents

1. Introduction to the DBSA
2. Vision and Mission
3. Capitalisation and Funding Modalities
4. DBSA's Triple Role, Products and Services
5. Review of Lending and Investment Activities
6. The Knowledge Organisation
7. Challenges in Managing the DBSA
8. Overcoming the Challenges – Lessons of Best Practice

Introduction to the DBSA

- ❑ Established by An Act of Parliament in 1983 and is wholly owned by the Republic of South Africa
- ❑ Initial focus was on “bantustans”/homeland governments under apartheid
- ❑ Since 1997, geographical coverage extended to the rest of SADC region
- ❑ Mandate focused on infrastructure since transformation of the Development Finance System (DFS) in 1984-1996
- ❑ Independent Board of Directors, predominantly private sector
- ❑ Reporting under the DBSA Act; and the Public Finance Management Act. Regular reporting to National Treasury and the Reserve Bank for specific information
- ❑ Total assets of R22,87 billion (US\$ 3.41 billion)
- ❑ Total borrowings R10,55 billion (US\$ 1.57 billion)
- ❑ International grade credit ratings: Standard and Poor’s BBB; Moody’s: Baa2
- ❑ Domestic ratings: Fitch: AAA

Vision and Mission

VISION

- ❑ The progressive realization of an empowered and integrated region, free of poverty, inequity and dependency
- ❑ To be a leading change agent for sustainable socio-economic development in the SADC region, and a strategic partner in Africa south of the Sahara

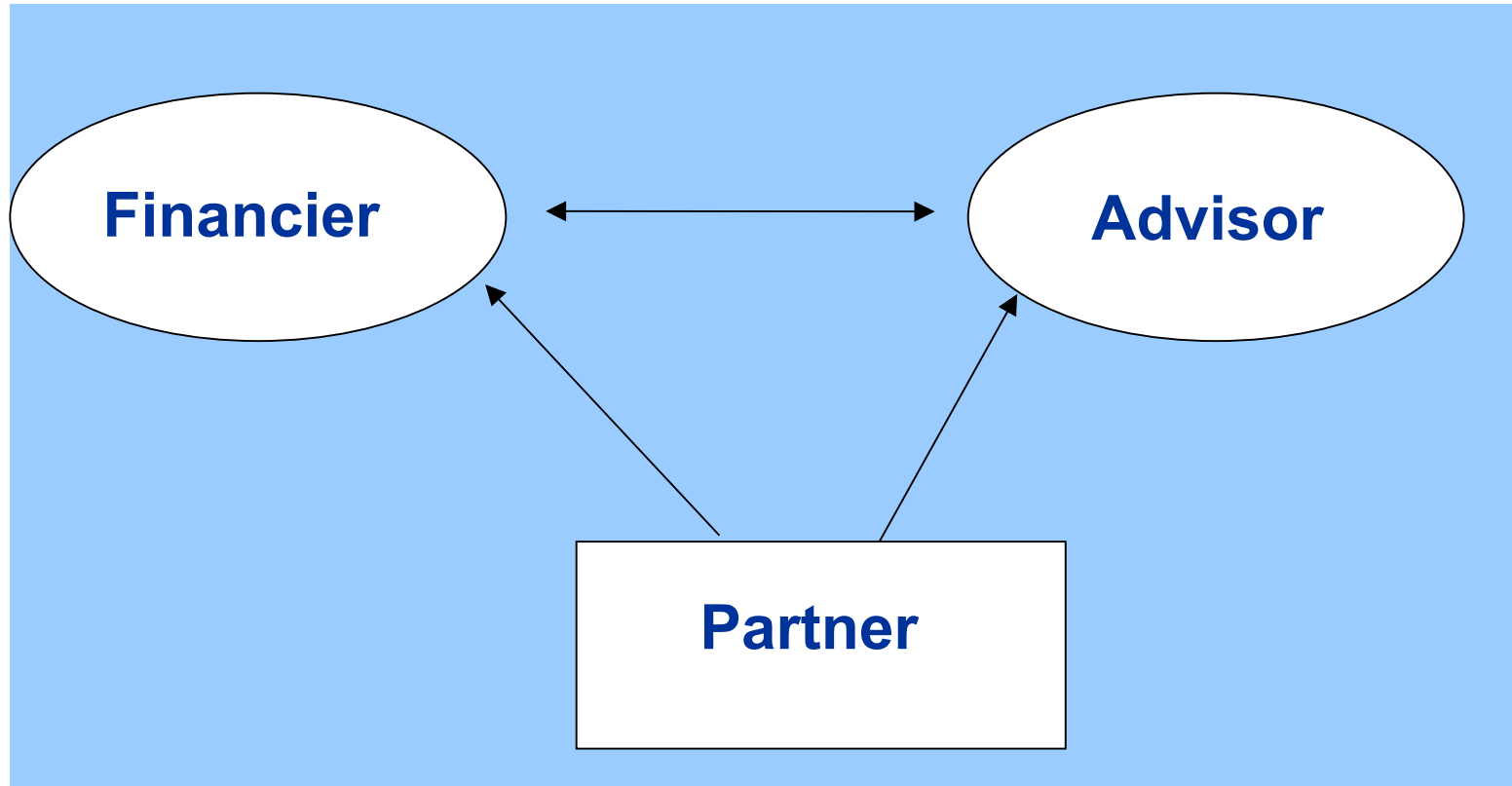
MISSION

- ❑ To maximise our contribution to development by mobilising and providing finance and expertise and by establishing partnerships to develop infrastructure, in order to improve the quality of life of the people of southern Africa

Capitalisation and Funding Modalities

- ❑ Initial capitalisation of R200 million
- ❑ Supplemented by callable capital of R4.8 billion
- ❑ Up to 1994, Bank recipient of annual budgetary transfers
- ❑ With net surplus built since creation; total capitalisation stands at R11,49 billion (US\$ 1.71 billion)
- ❑ No taxes and dividends, for now!
- ❑ Domestic and international markets are major sources of funding to supplement internal reserves
- ❑ Funding mainly through bond issues in rands, and loans from international development financial institutions in foreign currencies

DBSA's Triple Role: Products and Services



Financier	Partner	Advisor
Fund mobiliser	Catalyst	Policy analysis
Grant-maker	Leverage	Advocacy
Lender	Agent	Capacity building & training
Investor	Development Facilitation	Research & Evaluation
Under-writer		Development Information
Arranger		

The DBSA Development Fund

- Build sustainable capacity-building in South Africa at municipal level

- Support municipalities in enhancing service delivery and local economic development

- Products and services
 - ❖ Funds
 - ❖ Expertise
 - ❖ Development facilitation

Lending and Investment Activities

- Sustainable development effectiveness
 - ❖ Economic, financial, technical social, institutional, environmental modules
- South Africa and SADC countries' limit
- South Africa (Two-thirds)
 - ❖ Clients mainly local government
 - ❖ Black Economic Empowerment initiatives
 - ❖ Project financing for critical infrastructure
- SADC (One-third)
 - ❖ Infrastructure, economic growth sectors, capital markets developments
- No preferred creditor status

Lending and Investment Activities (Cont.)

- ❑ Total approvals to date: R29,8 billion (US\$ 4.45 billion)
- ❑ Total disbursements to date: R26,3 billion (US\$ 3.93 billion)
- ❑ Investment in Debt and Equity Funds: R902 million
 - ❖ Comafin
 - ❖ SA Franchise Fund
 - ❖ Africa Infrastructure Fund
 - ❖ Millennium Consolidated Investments
 - ❖ Women's Private Equity Fund
 - ❖ Ethos Technology Fund
 - ❖ African Millennium Fund
 - ❖ New Africa Mining Fund
 - ❖ Pan Commonwealth African Partners Fund
 - ❖ Anthuri Growth Equity Fund
 - ❖ Emerging Africa Infrastructure (debt) Fund.

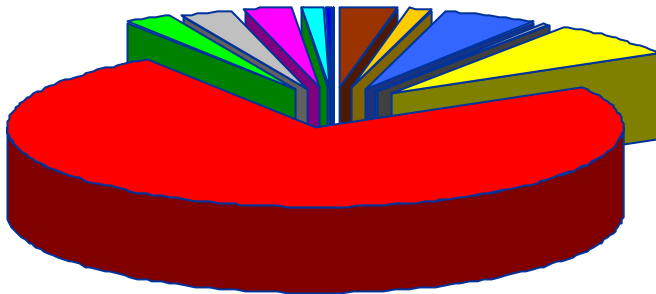
Lending and Investment Activities (Cont.)

Notable Projects

Project Description	Sector	Country	Amounts (R'm)	Amounts (US\$)
City of Johannesburg	Sanitation	South Africa	1,318,7	196.8
Toll Road N4	Transport	South Africa	200,0	29.9
Lesotho Highlands Dam	Water	Lesotho	380,4	56.8
Sasol	Energy	South Africa / Mozambique	650,0	97.0
Mauritius Central Energy Board	Energy	Mauritius	251,3	37.5
Mozal	Commercial	Mozambique	545,8	81.5
Emerging Africa Infrastructure	SME	Multi-country	2,043.5	305.0

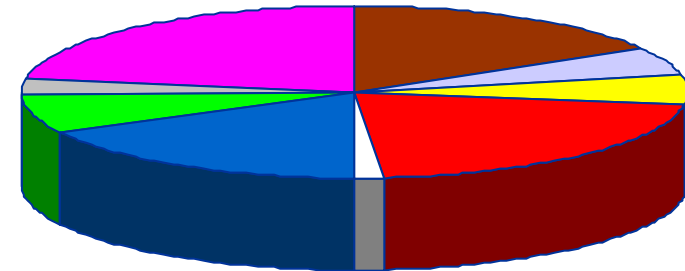
Loan Portfolio Management

Country Spread



Multi-State - 3.0%	Botswana - 1.3%
Lesotho - 4.8%	Malawi - 0.3%
Zimbabwe - 0%	Mozambique - 7.4%
South Africa - 74.0%	Namibia - 2.6%
Swaziland - 2.7%	Zambia - 2.4%
Tanzania - 0%	Mauritius - 1.2%
Seychelles - 0.3%	

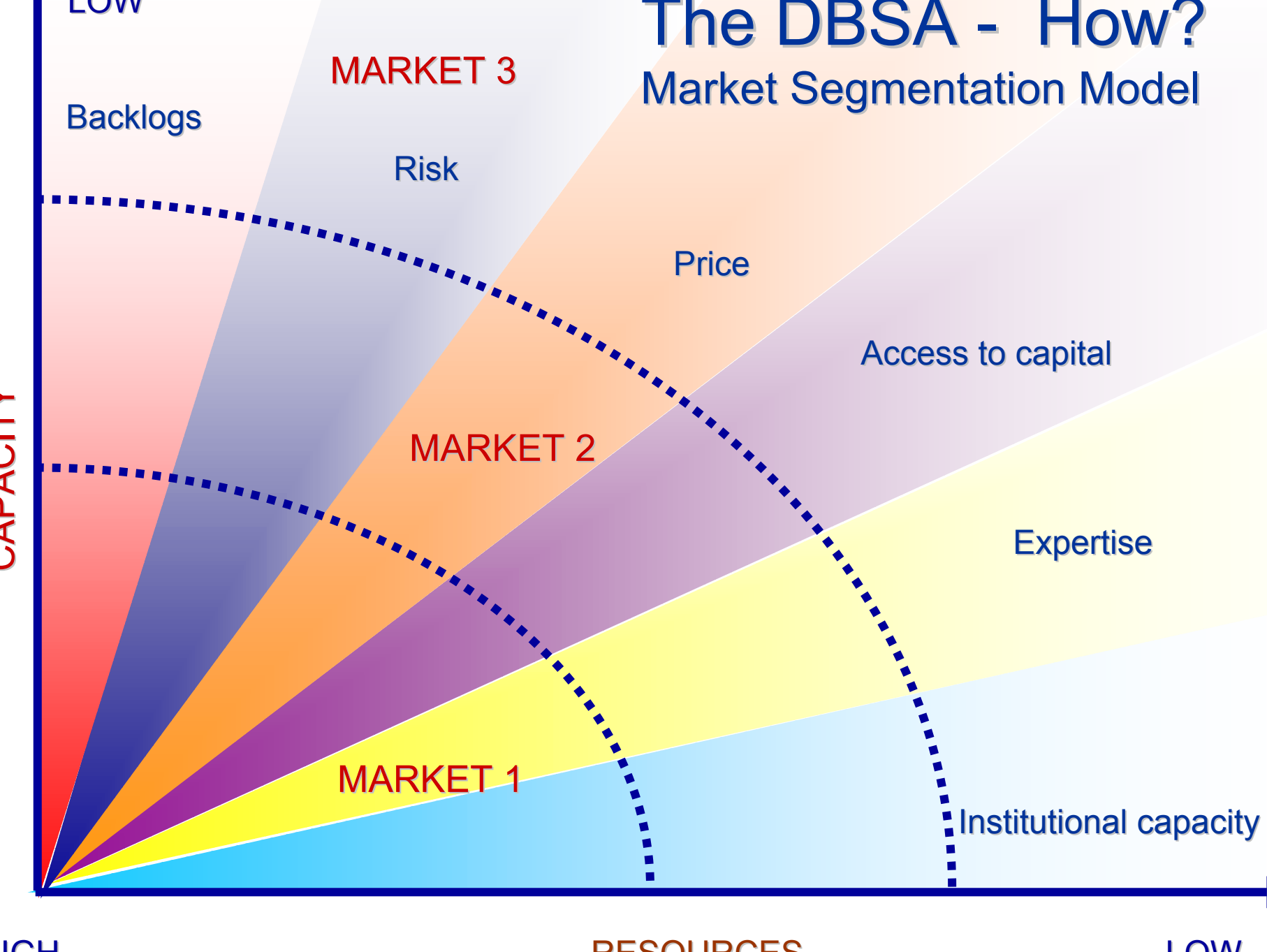
Sector Spread



Transportation - 0%
Commercial - 16.5%
Communication - 5.2%
Education - 5.6%
Energy - 21.4%
Residential Facilities - 1.2%
Roads & Drainage - 17.3%
Sanitation - 7.4%
Social Infrastructure - 2.8%
Water - 22.6%

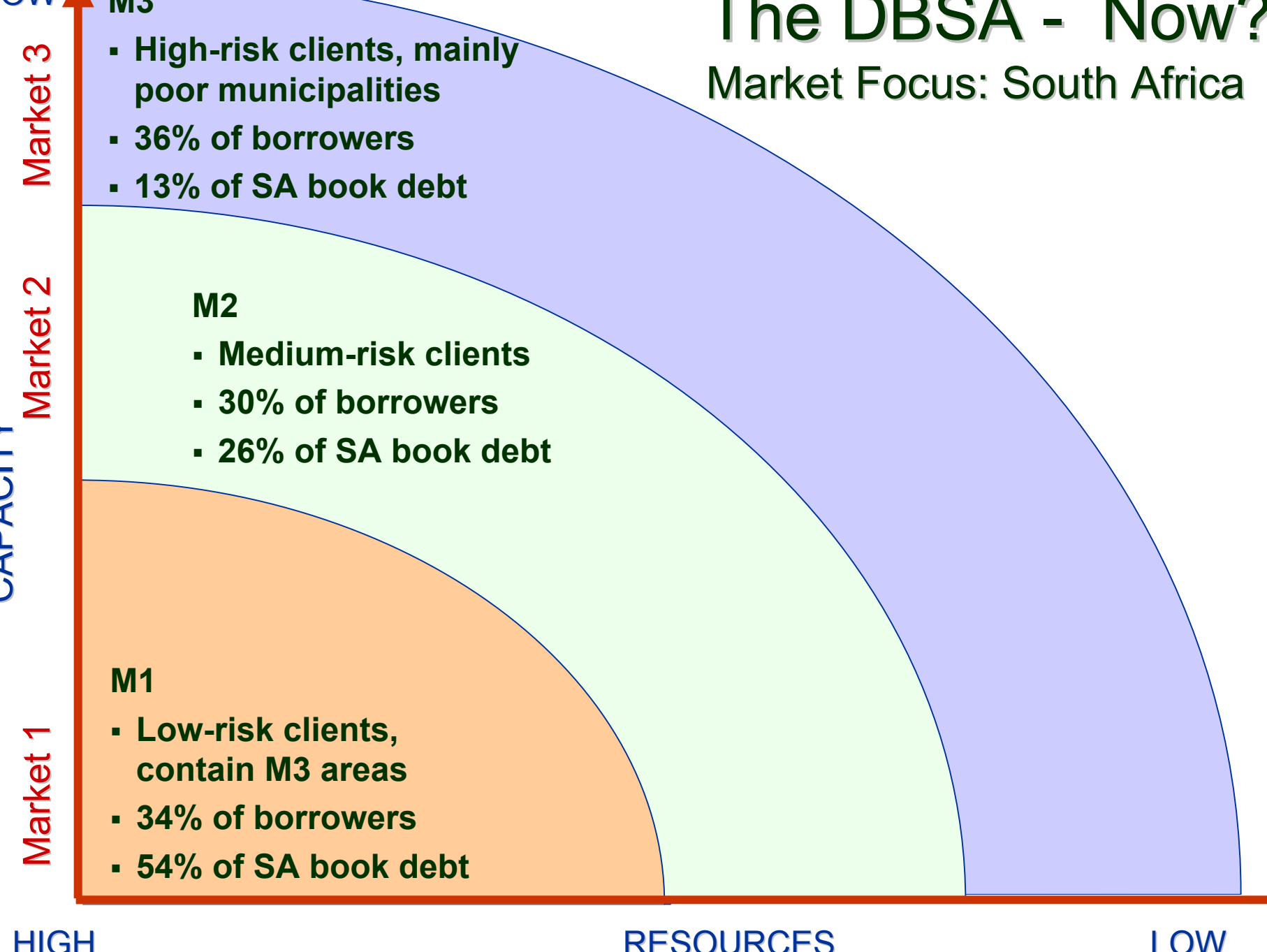
The DBSA - How?

Market Segmentation Model



The DBSA - Now?

Market Focus: South Africa



Advisor/Knowledge Institution

- ❑ Implicit common skills for finance and capacity building ~ 20 year track record
- ❑ Explicit recognition of huge pool of knowledge
- ❑ Structures in place to manage knowledge accorded equal importance to other DBSA functions.

Knowledge Programmes in Five Key Strategic Areas

- ❑ Propagating and entrenching a knowledge culture
- ❑ Becoming a learning organisation
- ❑ Exchanging and sharing knowledge in communities of practice and stakeholders
- ❑ Knowledge accounting through evaluation
- ❑ Building smart institutional partnerships for knowledge building and brokering.

Challenges in Managing the DBSA

- ❑ Focusing on Mandate – Board definition a challenge
- ❑ Tension between the development impact and commercial viability goals – 6 appraisal modules
- ❑ Exact role of DBSA in funding non-viable projects and programmes
- ❑ Poverty alleviation/eradication an overarching objective
- ❑ Extent of involvement of shareholder in policy decisions versus operational matters
- ❑ Differences in strategic direction among staff, management, Board and shareholder!
- ❑ Crowding in/out the private sector
- ❑ Lending terms and conditions, particularly for poorer clients
- ❑ No preferred creditor status in the rest of SADC
- ❑ Skills competition with private sector.

Overcoming the Challenges: Lessons from DBSA

- ❑ Develop clarity and unity of purpose
- ❑ Formal governance practices, including role of shareholder
- ❑ Autonomous Board of Directors
- ❑ Strong Government support
- ❑ DFIs can achieve enormous leverage beyond their capitalisation by establishing smart partnerships
- ❑ DFIs should be subject to strict commercial norms and practice; max debt : equity of 250%
- ❑ Prudent risk management and financial policies
- ❑ Diversify funding sources.

2 **THANK YOU**