Repositioning the efficiency of DFIs in a classical emerging market: The Case of South Africa

A Dissertation

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By

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TABLE OF CONTENTS

ABSTRACT

The research study investigated the roles and challenges of DFIs in stimulating economic growth in an emerging market using DBSA and IDC, South Africa as a case study. The research study used a convergent mixed method research in understanding various intricacies surrounding challenges faced by the DFIs, by combining primary data obtained through a propulsive sampling of executive managers, senior managers and heads of divisions in a sample size of seven respondents for the qualitative analysis and quantitative secondary data obtained from annual reports and annual financial statements of both DBSA and IDC spanning five years. Moreover, the research study identified the role of DFIs in national economic policy formation and challenges hindering DFIs from meeting their mandates using qualitative analytical method of discourse and narrative analysis.

Development banks across the globe play a sacrosanct role in stimulating economic development and economic growth in their respective jurisdictions. South Africa has various DFIs involved in different sectors of the economy. The country has seen minimal economic growth in recent years, and this is evidenced by the GDP growth rate, inequality and high unemployment rate.

The research study findings revealed that the level of South African DFIs contribution to the total GDP value of the country is incredibly low when benchmarked against other emerging markets DFIs contribution to their countries' GDP. The study also found that there is less participation on the side of the DFIs in policy-formulation. Moreover, the research findings further discovered that some of the targets entrenched in the economic policy frameworks guiding these institutions are impossible to achieve, let alone realise, rendering some of the targets as nothing but sheer chimera. The failure of other major state-owned entities places added responsibilities on these DFIs thus causing an overlap in their policy mandates.

DFIs are faced with a conundrum of extending long term financing whilst remaining financially sustainable in the long run. Unlike many state-owned development banks from around the world, South African DFIs lack development capital from the government. While South African DFIs are active, well run and profitable, regrettably however their investments have not translated into meaningful economic development and this research study investigates why.

LIST OF FIGURES

LIST OF TABLES

GLOSSARY OF TERMS

AFD: Agence Francaise De Developpment

ANC: African National Congress

ASIDI: Accelerated Schools Infrastructure Delivery Initiative

BEE: Black Economic Empowerment

BIP: Black Industrialist Programme

BRICS: Brazil, Russia, India, China and South Africa

BRT: Bus Rapid Transit

CBA: Cost Benefit Analysis

CSIR: Council for Scientific and Industrial Research

DBSA: Development Bank of Southern Africa

DBSA Act: Development Bank of Southern Africa Act. No 13 of 1997

DFIs: Development Finance Institutions

DIRCO: Department of International Relations and Cooperation

DNDES: Brazilian National Bank for Economic and Social Development

DTI: Department of Trade and Industry

ECIC: Export Credit Insurance Corporation of South Africa

EDD: Department of Economic Development

EIB: European Investment Bank

EPC: Engineering, Procurement and Construction

ESG: Environmental, Social and Governance principles

GDP: Gross Domestic Product

GEAR: Growth, Employment and Redistribution

IDC: Industrial Development Corporation

IDA: Industrial Development Act, No of 22 of 1940

IFRS: International Financial Reporting Services

IPAP: Industrial Policy Action Plan

IPP: Independent Power Producer

IRP: Integrated Resource Planning

NDP: National Development Plan

NGP: New Growth Path

NPC: National Planning Commission

PICC: Presentation Infrastructure Coordinating Committee

PFMA: Public Finance Management Act

PPP: Public-Private Partnerships

RDP: Reconstruction and Development Programme

SADC: Southern African Development Community

SANRAL: South African National Roads Agency SOC Ltd

SEFA: Small Enterprise Finance Agency

SDGs: Sustainable Development Goals

SMMES: Small Medium Micro Enterprises

SOEs: State Owned Enterprises

SSA: Sub Saharan Africa

CHAPTER 1
INTRODUCTION

1.1 Background to the Study

The role of development finance in fostering economic growth and development is of critical importance in policy making, strategy formulation and in governance. South Africa as a developmental state has a myriad of Development Finance Institutions (DFIs), involved in many sectors of the economy, from agriculture, housing, infrastructure development, SMMEs funding and energy amongst other things. The research study at hand seeks to examine the effectiveness of DFIs with specific reference to the two largest DFIs in the country, Development Bank of Southern Africa (DBSA) and Industrial Development Corporation (IDC) as engines of economic development. These are the two largest DFIs in the country not only in terms of assets, number of staff but also large in terms of developmental finance they provide to their respective clientele. South African government views these two development banks as instrumental policy tools toward spurring economic development, however in spite of their importance, the economic impact wrought by these DFIs through their lending practices is very limited. To this end, the research study seeks to fill the gap by assessing the role played by DFIs in national economic policy formulation and looks at challenges faced by DFIs in achieving and meeting their policy mandates.

While both DBSA and IDC are wholly government-controlled banks, they are equally independent and are often insulated from undue political interference. This pair is therefore entrusted by the government to play a counter-cyclical role in the economy and thereby address the market failure including to stimulate economic growth whilst engendering economic development through their lending practices. These DFIs are characterized by the strong orientation to service private sector capital market gaps and to provide financing to emerging entrepreneurs with the aim of attaining good sustainable returns.

Given limited expertise of government ministries from which these institutions receive oversight, South African government then charged these DFIs with the task of enforcing strategic developmental agenda and objective of the state. The scope of these DFIs is not only confined within the remits of South Africa but goes beyond the region and the continent as a whole. Both DBSA and IDC came into being in 1983 and 1940 respectively, established by previous administration as instruments and vehicles of driving Afrikaner capitalism and sought to direct resources towards Afrikaner businesses, alienating black majority from economic mainstream. The mandates of these DFIs have changed considerably in a democratic South Africa, they are now instruments for social, economic and environmental change. The aim of these institutions more than anything is to accelerate growth, and drive economic development as pointed out in their policy mandates.

The DFIs play a complementary role in addition to roles played by development agencies, international development finance institutions such as IFC an arm of the World Bank and various other multilateral development banks. A current conundrum faced by these DFIs is extending credit lines whilst ensuring that they remain sustainable in the long run. This is particularly true for South Africa that is engulfed by the need for infrastructure, agricultural, housing and SME finance thus a compelling need for active development finance executed by these DFIs. From this perspective, both DBSA and IDC are expected to provide the necessary development finance and thereby fill those gaps.

Despite good strides made by both the government and the country in advancing and promoting the developmental agenda, it is ostensibly evident that black majority still find themselves on the peripheries of the mainstream economy. Hence the government sought a need to direct more strategic resources towards emerging entrepreneurs from previously designated groups through the DFIs. According to Black Industrial Policy (2015) the tendency of DFIs has been to employ similar measures as those of commercial banks in determining eligibility for credit access. There is a need to systematically align the respective functions of these Development Finance Institutions towards a quantitative black economic empowerment output that will qualitatively alter the racial balance of industrial ownership.

The research study seeks to contribute to the growing body of literature in relation to the role of DFIs in enhancing economic development. The research study examines the lending behavior of these DFIs against the economic growth of the country. Moreover, the role of DFIs in national economic policy formation and systemic hindrances hindering DFIs from achieving and meeting their stated policy mandates, with the subsequent aim of identifying areas that need improvement and, in an effort, to identify sustainable and innovative solutions that will be used as a guideline by policy-makers.

1.2 Problem Statement

South African economic growth has barely recovered since 2008 global economic meltdown, this is evidenced by the current GDP' rate (Burger, Siebrits, & Calitz, 2016). Undeniably both DBSA and IDC play an important developmental role in their respective jurisdictions in which they invest, regrettably however it is worth mentioning that such investments have not yielded the anticipated outcomes in relation to economic growth, this is evidenced by the sluggish and lethargic economic growth that has in recent years and is currently bedevilling the country (Biekpe, 2016). Slow economic growth means that inequality and unemployment remain a major problem, that the country is producing less than it should, and that households struggle to make ends means. Furthermore, much as both DBSA and IDC play an important role in spurring economic activities and engendering economic development through their lending and investment activities, it appears that there are no direct broader economic effects emanating from their lending activities. The dismal performance of the economy has a direct indictment on both these major DFIs. The mismatch between the lending activities of DBSA and IDC means that these DFIs are having less or no obvious role in abating the socio-economic ills in the republic. By the virtue of being the largest development banks in the country, that means the expectation in relation to the contribution towards the country' economic development is huge.

Moreover, socio-economic indicators are in dissimilar direction with envisaged deliverables of policy economic frameworks that are guiding the direction of these DFIs. One element impeding the effective operation of these DFIs is transitioning from Apartheid based policy frameworks upon which these institutions were established which narrowly focused on extending financial benevolence exclusively to white minority industrialists and entrepreneurs. Post-apartheid DFIs are therefore faced with a responsibility of driving inclusive developmental objective of the government. Changes in their mandates and directives, as well as government' continued adoption of economic policies is not making it any easy for these institutions to substantially realise their stated developmental objectives. South African government through these DFIs has not been able to completely realise the full potential of economic growth as reflected in government strategic policy documents like NDP 2030, Industrial Policy Plan and Black Industrialist Programme amongst others allowing for greater participation of black and emerging entrepreneurs in targeted sectors of the economy i.e. manufacturing, renewable energy etc. Lack of cohesive working relationship and strategic partnerships between SOEs, private sector, development agencies and government also attributes to the lethargic performance of these DFIs.

Moreover, South Africa is having large infrastructure deficit, whether it be in transportation, railroads, telecommunication and housing. Much of the present infrastructure in the country is decaying, some of which should have been rehabilitated decades ago. Infrastructure is essential to country’ economic growth and allows for smooth integration between key sectors of the economy. Without sound and latest infrastructure development it will be most difficult for a country to realise sustained and optimal economic growth. In addition, infrastructure development is essential in order to bring about efficiency, effectiveness and development-oriented society. There is a welter of economic frameworks and plans which on paper sound and look good, however successful implementation of these policies remains to be been to seen. South Africa’ developmental objectives, plans and strategies have hardly translated into measurable impact in the light of high levels of poverty and inequality. A lot has to be done to remedy these precarious calamities and DFIs through their services are key to playing that interventionist role.

Moreover, there is minimal relationship by South African DFIs with regional counterparts especially in the light of South African investments into the continent being perceived as nothing but promotion of South African interests. Both DBSA and IDC operate in rather tough economic conditions, this comes after the country was downgraded to speculative grade by two major rating agencies in 2017. Consequently, this move eroded private investor’ confidence and will also weakened the relationship that existed between these DFIs and international DFIs. Equally important, political instability is a major concern, given unceremonious and midnight cabinet reshuffles that the country saw in recent times. Frequent cabinet reshuffles of finance ministers also did not bode and augur well for investors’ confidence. Such instances, undoubtedly weakened the position of Treasury the gate keeper of the country’ fiscus. Pronouncements of new policies like Radical economic transformation signalled the discontinuity and abolishment of prudent policy frameworks. Political turmoil, economic woes and ever rising government debt are also some of these factors that eroded international investors’ confidence.

1.3 Research questions and objectives

Research questions

Given the problem at hand, the need for research questions and objectives then arises.

- What is the role of DFIs in stimulating economic growth of the country?
- How can these DFIs be used as catalysts towards crafting and implementing national economic policy frameworks, which have been nothing but political rhetoric by the governing party?
- What are the systemic impediments that are hampering DFIs from meaningfully achieving their stated policy mandates?

Research Objectives

In a bid to resolving questions, the study has formulated the following objectives

- Understanding the role of DFIs lending to economic growth
- Identify the role that DFIs play in the policy-formation of country' economic policies aimed at improving the economic development of the country.
- To evaluate the challenges and bottlenecks which hinder effective functioning of these DFIs and to determine interventions and sustainable solutions that these DFIs could implement to grow the economy of South Africa.

1.4 Justification of the study

There is a growing body of literature and research conducted on challenges faced by DFIs around the world. However, there is limited body of literature on challenges encountered by DFIs in emerging markets. The research aims to fill the gap by investigating systemic impediments faced by major two DFIs in South Africa. The country has been grappling with low economic growth, high levels of unemployment, and declining investors' confidence which have been exacerbated by political uncertainty together with political risks that have engulfed the country in recent times. The purpose of this study therefore is to explore interventions and sustainable solutions in which these DFIs can make use of in the wake of reclaiming its number one spot in Africa as the continent' leading economy, substantially abating unemployment and subsequently accelerating growth to 5% annual growth as projected in the NDP. Since the fall of apartheid in 1994, South African government produced economic policies almost in every new administration, but without tangible results on the ground. These developmental institutions seemed rather effective during apartheid era albeit servicing the exclusive minority. The rationale of the research study is therefore exploring ways to which these institutions could be used to benefit over 55 million South Africans, SADC and Africa at large.

In the advent of low levels of economic growth in recent years in South Africa, the study aims to also investigate systemic and inherent impediments that are prohibiting these DFIs from optimally realizing their strategic goals. Much as these DFIs are active, well run, profitable and independently managed, the success contained in the annual reports of these institutions i.e. DBSA and IDC does not necessarily corroborate with the actual impact on the ground. It is for these reasons that the study intends to investigate the ostensible mismatch, disjuncture and disconnect between stated developmental objectives of these DFIs, social change, development impact, talk of transformation, mainstreaming of previously socially excluded groups whom despite adoption of transformative economic policies by the government and establishment of DFIs still remain on the economic fringes.

Conclusively, following the identification of the systemic impediments, the study shall advance recommendations on measures and policies that the government through DFIs should adopt and implement in a quest to fast-track, accelerate and realise sustained economic growth and overarching development with ripple-effects from which all South Africans shall benefit. Moreover, the study shall present intercedent, medicinal, sustainable and innovative solutions that will serve as aiding toolkit that policy-makers can consider when formulating policies that these DFIs can implement to realise meaningful developmental impact and will also suggest areas for further research.

1.5 Organisation of the study

The research study comprises five chapters. Chapter 1 entails the background of the topic, the problem statement, research questions and objectives, the motivation for undertaking the study. In chapter 2 the research study focuses on literature review, this is done through extensive research of the existing theories and studies aligned to the topic, research questions, objectives and problem statement. To achieve this, the research examined fully using recent sources and even older ones for this inquiry. Chapter 3, the study demonstrates adequately the method followed in gathering data. In chapter 4 the focus of the research study is on presenting outcomes and key findings. Chapter 5 is the last section of the mini-dissertation, the focus is on summarizing the research study and it also provides recommendations for future research.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

In this section, the focus will be on previous related literature review on the subject matter, this will involve the role of DFIs, relationship between government and the DFIs, DFIs role in driving national economic policies, instruments used, their target market and mandate.

2.2 Overview of DFIs in South Africa

The concept of DFIs in South Africa is not a new phenomenon. In South Africa most DFIs were established by the old-regime to enhance and promote the exclusive economic welfare of the elite few, afrikaner capitalism and to advance the political ideology of the various apartheid administrations (see Feinstein, 2005, p. 75). However, in the post-apartheid South Africa DFIs had to evolve, and have had to adjust to the strategic direction of the new government dispensation. Against this background, the mandate of many DFIs shifted towards inclusive growth, transformational agenda, redress programmes and much emphasis placed on value creation in the society as a whole. The repositioning of DFIs was necessitated by the government' objective of enforcing equal participation in the economic activities and also with a view to overcome high levels of inequality that emanated from the apartheid era. South Africa has a variety of DFIs providing financing in different sectors of the economy, with different areas of specialization. However, all these DFIs have one common feature which is to play an interventionist role in driving the state developmental agenda since 1994.

The DFIs came into being to play a financial intermediary aimed at providing finance to emerging entrepreneurs who were locked out of the system by commercial banks due to varying reasons. This view is corroborated by Conor and his colleagues (2016) who find that in emerging markets many potential projects and emerging entrepreneurs fail to secure the required development loans from commercial banks owing to stringent investment and credit assessment criteria applied by banks and local capital markets. The government was then faced with a critical challenge of closing on substantial development gaps and thereby enact financial inclusion, value creation and subsequently mitigate financial constraints. A large number of individuals in the country had no credit access whatsoever from commercial banks, with only few privileged having access to formal financial institutions. As such, there were proportional gaps between the rich and the poor in relation to educational opportunities, access to healthcare, and gaps in infrastructure i.e. transportation, energy and access to clean water. Against this background, substantial financial resources were needed to close on these development gaps and to overcome these socio-economic developments. Charles (2014) points out that the government had budget limitations and could not accommodate financing these social needs. By tradition, private formal financial institutions are not structured adequately to finance such development needs, owing to their intrinsic profit motive. Hassen (2018) shows that development finance is a financial resource that could be used to complement domestic savings and it may also be utilised to build infrastructure or physical capital and for accumulation of human capital.

The objective therefore of DFIs were to essentially facilitate provisioning of microfinance to businesses that were turned down by deposit-taking banks owing to myriad of reasons including but not to limited lack of necessary marketable assets required by banks, perceived risk, high transaction costs and information asymmetry. The critical component of these stated-led development banks is that they are able to cover risks, able to lower exorbitant transaction costs, able to find innovative ways to reinforce economic mobility and diversification in underdeveloped areas, while providing financial resources to SMEs, social development, adding value creation and inclusive growth (see for example Adjasi, 2014).

Some of South African DFIs are not only engines of state' objective of driving economic development at the national level, but some of the DFIs go beyond the remits of the country and thereby provide capital injection both in the region and to some extent to the continent. The government through Department of Economic Development, Small Business Development, and Department of Trade and Industry views DFIs as vehicles for state intervention to promote economic development and require of DFIs to carry out government' political mandate of bringing about inclusiveness while remaining commercially viable in the long-run.

Accordingly, the South African DFIs are recognised as public entities in terms of Public Finance Management (Act no.1 of 1999) and are therefore required to abide by the provisions of this act and thereby carry out functions in manner that is efficient and effective. Moreover, Mzukisi (2015) points out that the IDC for instance is compliant with both the JSE listing requirements, Companies Act and further argues that it is compliant with King III in its bid of achieving good corporate governance. Mohan (2017) maintains that the DBSA funds projects that are environmentally, economically and socially sustainable. In essence, South African DFIs are ESG compliant and carry out their activities in accordance with international best practices. In addition, they execute their financial reporting in line with International Financial Reporting Standards (IFRS) and are audited accordingly by the supreme audit institution being the Auditor General South Africa and renowned auditing firms. Both the IDC and the DBSA comply with international best practices and often apply internationally accepted standards in their financing activities. DFIs economic policy frameworks are mostly determined by national departments more particularly from economic cluster departments in extensive consultations with DFIs as implementing and financing agencies. These sectoral policies give guidelines to targeted sectors of the economy that DFIs should target and demonstrate the way in which DFIs can stimulate the economy in economically challenging landscape and environment. South African government has undergone through an evolution of policy documents, with some having been a complete failure, while others were heavily criticised and some having been to a lesser extent efficient

This research study has a special focus on the two DFIs namely the DBSA and the IDC. These are two largest and oldest DFIs in the country and provide development financing in key priority sectors of the economy such as agriculture, manufacturing, infrastructure, industrial development, information and communication technology (ICT) amongst others. There is a notable vast dichotomy between these two DFIs with regards to policy mandate, governance and business strategy, however a common theme between these two is their role in addressing market failure by provision of both infrastructure finance and industrialisation finance in their jurisdictions of operations. Furthermore, these DFIs are from a homogenous setting, irrespective of their slight variations in terms of policy mandates.

2.2.1 Development Bank of Southern Africa (DBSA)

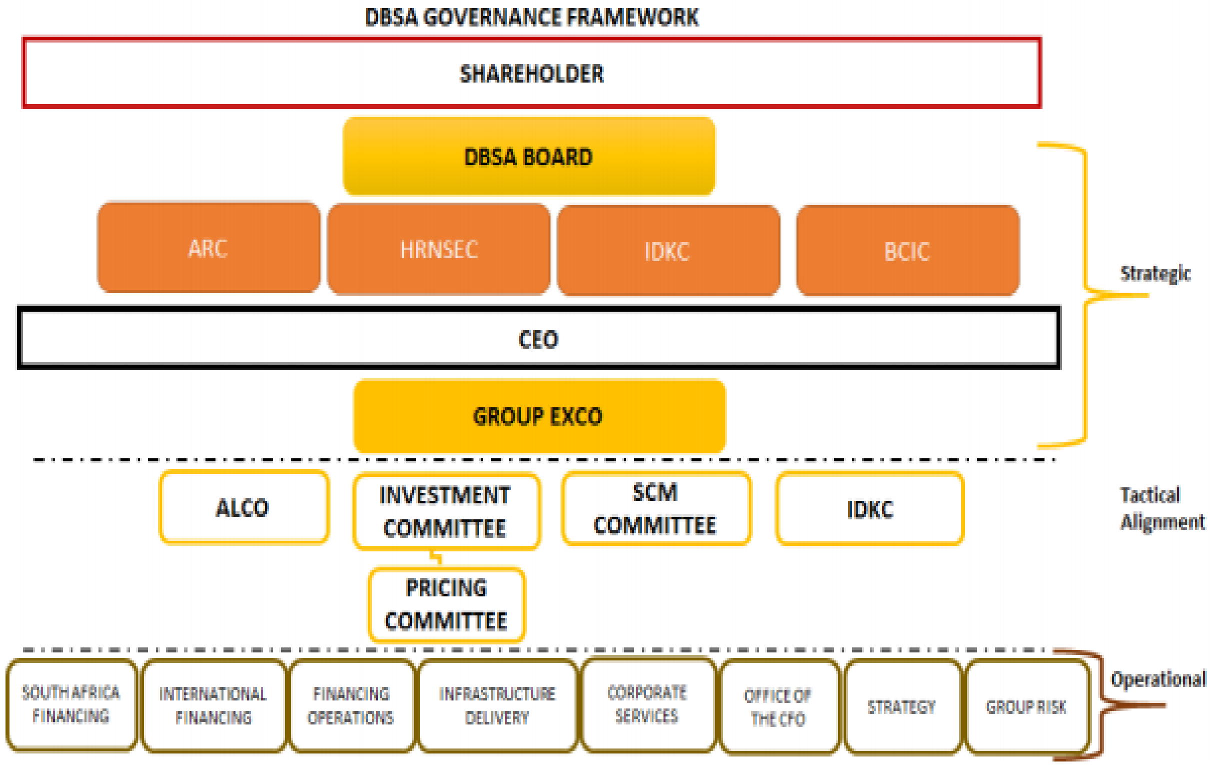
The DBSA is administered in terms of Development Bank of Southern Africa Act No. 13 of 1997. It was established in 1983 by the previous regime with the sole intent of performing the economic development function in the country therein. However, in 1997 the role of this bank was reconfigured in terms of the promulgation of the DBSA Act 1997. The new mandate of the DBSA was therefore aligned to economic dispensation of the new government. Effectively, the bank main objective is to advance societal-development agenda, drive infrastructure development, facilitate access to development funding, enforce regional integration and thereby grow the economy of the country and the region (see for example DBSA, 2018).

Governance Framework and Regulation

The bank is primarily regulated by DBSA Act No.13 of 1997. The DBSA is classified as section 2 public entity according to the PFMA (Act No.1 of 1999) and is therefore subjected to provisions entrenched in this financial legislation. The DBSA just like many other SOEs and government departments is expected to function, safeguard and handle its assets and finances in a sustainable and efficient manner. The bank is accountable to parliament through finance standing committee and also receives oversight from the National Treasury. Mzukisi (2015) shows that South African government has the full ownership and thus is able to hold the board of directors and the accounting officer (CEO) accountable for running the bank in a fashion that aims to fulfil the bank' developmental mandate. The bank is independently managed and it enjoys large degree of autonomy with regards to decision making.

The following diagram indicates the governance structure at the DBSA.

Figure 2. 1: DBSA Governance Framework



Source: DBSA Informational Manual 2016

South African government views the DBSA as the fundamental instrument to service infrastructure development in underdeveloped markets domestically and to some extent in the region. Gerard and Ganesh (2017) maintain that the state-led development banks raise capital through issuing equity both in international and domestic capital markets, however government retains ultimate control in these DFIs. As such, DFIs are able to raise substantially more capital through international borrowings than they ordinarily would with government grants, subsidies and in domestic capital markets. Similarly, the DBSA raises capital through international, domestic capital markets and by issuing listed bonds. In addition, it raises capital through credit lines from international DFIs, commercial banks and also receives allocations from the National Treasury (see DBSA, 2018; Qobo & Motsamai, 2014).

Sectoral focus and Strategy

From the operational standpoint, the primary function of the DBSA is to aid the South African government to close down on infrastructure deficits, address infrastructure gaps, facilitate coordination, finance infrastructure development and thereby achieve sustainable development. To achieve this, the DBSA works closely with municipalities across the country in an effort to facilitate infrastructure implementation programmes in key priority areas i.e. education, healthcare, housing, roads, water and sanitation. The bank has a greater focus on both economic and social infrastructure. In terms of economic infrastructure, the focus is to address backlogs, improve capacity in a quest to optimise and ameliorate economic development and thereby service underdeveloped strategic sectors of the economy, these include and are not limited to transportation, telecommunications, subways and electricity. With regards to social infrastructure, the bank' focus is to address infrastructure bottlenecks in a bid to enhance fundamental social services such as housing, education and health. To culminate this infrastructure development, the bank then provides market research, planning, financing and implementation support to stakeholders concerned (see for example DBSA, 2018). Moreover, the DBSA has regional investment footprint within Southern African Development Community (SADC), wherein it funds infrastructure projects in an effort to enforce regional integration.

2.2.2 Industrial Development Corporation (IDC)

The Industrial Development Corporation is by far the oldest DFI in South Africa. Established in 1940 through Industrial Development Act, No 22 of 1940, it was established as an industrial bank to extend developmental capital to domestic businessmen and thereby elevate the economic welfare of the exclusive minority. Its main objective was to drive industrialisation and in the process helped to pioneer Afrikaner' industrialists. Feisten (2005) as cited in Mzukisi (2015) points out that during the apartheid regime, in its state-intervention effort to advance economic growth and development, the then government used the IDC as the instrument and the engine to facilitate that role. At the time South Africa was experiencing the international trade isolation having been sanctioned by the international community as a result of its discriminatory and apartheid laws, to this end the government sought to utilise the IDC to develop inwardly in a quest to be a self-sufficient, self-reliant and achieve efficacy without international aid. Some of the biggest commercial corporations such as South African Coal, Oil, and Gas Corporation (SASOL), Phosphate Development Corporation (FOSKOR), and Iron and Steel Corporation among others benefited from the financial benevolence of the IDC (see Qobo, 2015).

Strategic Mandate

IDC is one DFI that has been active in the sphere of industrial development, manufacturing, and large-scale projects both within and outside the borders of the country. Post 1994, the IDC was retained as a national development finance institution and its mandate considerably changed, as such it was then tasked to pursue and drive the government developmental' agenda. In essence, the objective remained more of the same, except greater focus and emphasis was then channelled towards individuals from historically disadvantaged groups. The empowerment of black entrepreneurs and transformation into mainstream economy was then enabled. However, the geographical scope of the IDC was amended accordingly under Industrial Development Act of 1997, to broaden its mandate. The amendment sought to enable the IDC to expand its investment and funding of projects in the SADC, allowing for economic integration between South African and the rest of the region. The amendment also served to widen the IDC' scope and thereby encourage the launch of South African companies in the region (see Qobo & Motsamai, 2014).

Furthermore, the mandate of the IDC was amended in 2001, wherein the geographical scope of the IDC was then enlarged from SADC to the rest of the continent. To this end, a unit within the IDC known as the Rest of Africa Division was then established, to fund development initiatives with potential for growth and development (see IDC, 2018). However, Mzukusi (2015) offers an opposing view and indicates that questions have been raised as a result as IDC' resolve to expand to the rest of the continent, when socio-economic issues i.e. unemployment, poor healthcare and abject poverty remain the greatest challenges in South Africa.

The IDC was also assigned a mammoth task to revive the defunct manufacturing industry, and thereby provide development loans and capital to new and existing ventures in the manufacturing space. South Africa, like many other African states experienced reduction in production and employment particularly the textile industry as a result of strong competition from Chinese manufacturers. Isaac et al (2017) show that South Africa lost between 23000 and 85000 jobs in this sector, they further argue that South Africa lost its market share, while trade between African countries declined. It is for these reasons, that the IDC was then tasked by the government to resuscitate and salvage local producers against stiff and unhealthy competition from China.

Corporate Governance

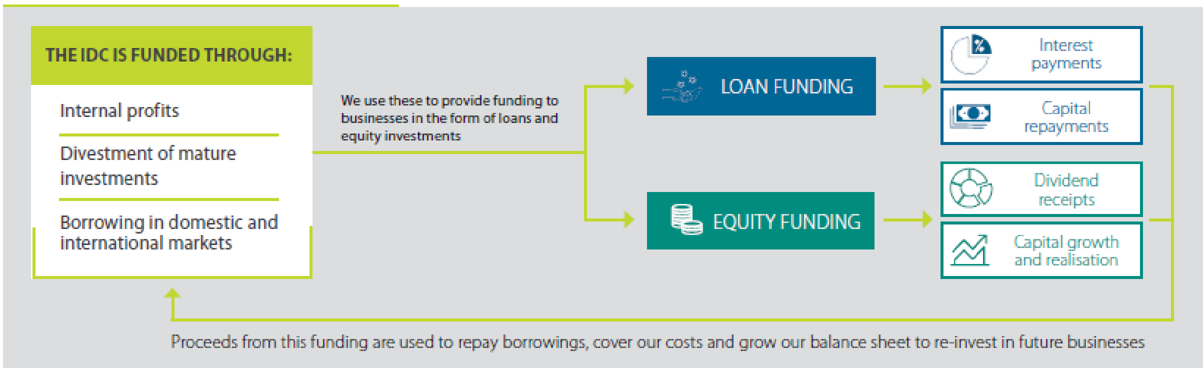
As a public entity, the IDC is administrated by a number of legislative precepts and various other governance frameworks. These legislations include the PFMA Act. No 1 of 1999, Companies Act of 2008, and Industrial Development Act. No 22 of 1940. In so far as cooperative governance frameworks is concerned the IDC is governed by King Code III, Treasury Regulations, the Board Charter and various other policies, including international best practices such as ESG principles. As such, the DFI has to abide by the provisions of these legislative frameworks and is duty-bound to implement the recommendations of these governance frameworks (IDC, 2017).

Funding Model

Unlike many SOEs and various other public entities, the IDC does not receive government allocations. The IDC is a self-sustaining entity and is subject to corporate tax in terms of the law. The bank receives its funding from its investment profits, divestment of mature investments, borrowings in capital markets i.e. domestic and international markets. For continuity, since it does not receive government allocations, it relies heavily on profits from its investment activities. For sustenance, the IDC provides development loans and capital to new ventures in an effort to parlay those investment initiatives into high returns, on the other hand it provides equity capital in others in a bid to become equity partner in those business ventures. The type of financing provided is predicated on a business by business case, including financial risks and various other financial considerations (see IDC, 2017; Qobo, 2015).

The following diagram depicts the funding model of the IDC

Figure 2. 2: IDC Funding Model



Source: IDC Integrated Report – 2017

National Economic Policy Framework

The IDC is focused on maximising the industrial development, driving the economic diversification, advancing economic mobility both in South Africa and the rest of Africa. To achieve this, the IDC invests in manner that is consistent with many government economic policy frameworks. In 2016, the IDC was tasked by the Department of Trade and Industry to facilitate the Black Industrialist Programme (BIP). The objective of this investment scheme is to encourage the participation of black industrialists and manufacturers and thereby aid them with financial incentives. Moreover, the IDC is also mandated by the government to carry out the Black Economic Empowerment (BEE) a transformative programme of the South African government to level the playing field in the economic spectrum given the continued dominance of white players in the key sectors of the economy. In addition, the IDC must invest in line with the NDP, which is the government overall plan to fight inequality, poverty, unemployment and stimulate sustained and heightened economic growth.

The IDC is also entrusted with the implementation of key economic frameworks i.e. New Growth Path (NGP) and Industrial Policy Action Plan (IPAP), which are meant to solidify key priority sectors of the economy from agriculture, mining, green economy, infrastructure development and to manufacturing in government' pursuit to play an interventionist role in the economy and thereby create value addition, alleviate poverty and create jobs. Through monitoring and evaluation after capital injection in new and emerging businesses the IDC ensures that these businesses (loan recipients) comply with environmental, social, economic and governance values as entrenched in the ESG principles (IDC, 2017).

Strategic Objectives

To capacitate the industrial development both in the country and within the rest of Africa the IDC provides both financing and non-financing mechanisms to new, existing and emerging businesses. The IDC allocates development capital to new businesses in a manner that is consistent with financial sustainability in the long-term Their financing criterion considers a number of financial and economic factors into consideration these include, the project' bankability, sustainability, viability and mostly its development impact (IDC, 2017).

2.3 Theoretical approach

2.3.1 The role of DFIs

DFIs differ as per specialization, scope, ownership structure, risk appetite, priority areas, and sectors of focus, scale of financing and according to geographic concentration. For sustenance, they raise capital in capital markets, from government grants, through issuance of equity and also from international borrowings from international DFIs. The unique differences in policy mandates and direction of DFIs are mostly determined by governments as the major stakeholder. Traditionally, DFIs are normally project-based and invest in commercially and sustainable projects. In addition, DFIs are also demand-driven, they sponsor private sector projects based on the prospects of decent financial return.

Nicholas, Danny and Karel (2017) highlight the importance of development finance institutions at the national level and posit that locally DFIs are concerned with enforcing national developmental economic plans, tailored and implemented through a country-adopted policies, which serve as guide for directive framework to realize country' developmental and overarching economic growth. South Africa like many other developing countries has a number of DFIs investing in underserved sectors of the economy these include and are not limited to agricultural, industrial, manufacturing, SMEs and housing finance. In essence, the mandate of these institutions is to act as financial intermediations with a view to foster economic mobilisation, improve productivity and effect social change through its allocation of financing and capital. Conor et al (2016) show that more than anything, the mandate of DFIs are rather clear and through their provision of financing wider and broad development impact can be realised in society including jobs, economic growth and increased local tax revenues that will enable the government to have an increased tax collection leverage.

Mzukisi and Dimpho (2014) studied the continental reach of South African DFIs into the continent and they find that at the domestic level, South African government views its DFIs as essential instruments to improving inter alia the quality of life, furtherance of infrastructure development and most importantly improving the economic growth and development. The contending view according to the Presidential Review is that these objectives should be embodied by any developmental state as opposed to solely relying on DFIs to achieve that development objective. It further argues, that DFIs objectives do not necessarily corroborate government' comprehensive goals, however, these objectives are indicative of the country' development trajectory. South African government also sees these institutions as engines of undoing the historical injustices and thereby uplift individuals from previously socially excluded groups (women, youth and black majority) into the mainstream economy in a quest of narrowing the gap between the rich and the indigent.

DFIs objectives are to contribute to the development by addressing market failures in markets through, investing in sustainable private sector projects, with the expectation of sustainable returns (Mundia, 2017). DFIs in financing for development and infrastructure development cannot be overemphasised. Their borrowing requirements are taken into account in the overall fiscal framework (Gordon, 2017). Historically, these stated owned development banks have been established by governments to fulfil long-term development and to support social development by filling market through extension of credit to SMMEs, support infrastructure programmes, agro-processing and to facilitate access to finance in underserved segments of the economy (Čihák & Demirgüç-kunt, 2013).

Lazzarini *et al* (2014) studied the role of state owned development banks in relation to the economic growth of the country and found that the lending of DFIs contribute substantially to the GDP growth rate. In 2012, the German, KfW total loan disbursement as a percentage of the country' GDP amounted to 15.5%. Similarly in China, the China Development Bank total lending represented 11.3% of the country' GDP. BNDES, a Brazilian Development Bank is a classical example of an effective DFI in an emerging economy with 12.4% of the total lending as a percentage of the country' GDP (Lazzarini, Musacchio, Bandeira-de-Mello, & Marcon, 2014).

Both IDC and DBSA act as financial intermediaries to domestic borrowers, since borrowing from international DFIs may sometimes have negative ramifications owing to exchange rates. While borrowing from international DFIs is permitted and even feasible, such borrowings often prove to be expensive to repay because of interest rates, repaying loans in foreign denominated currency and also exacerbated by the political instability, risk and local currency. Fedderkc and Garlick (2008) maintain that domestic borrowing, on the other hand, may make it more expensive for firms to borrow capital for other investments projects.

2.3.2 Involvement on national priorities and economic policies

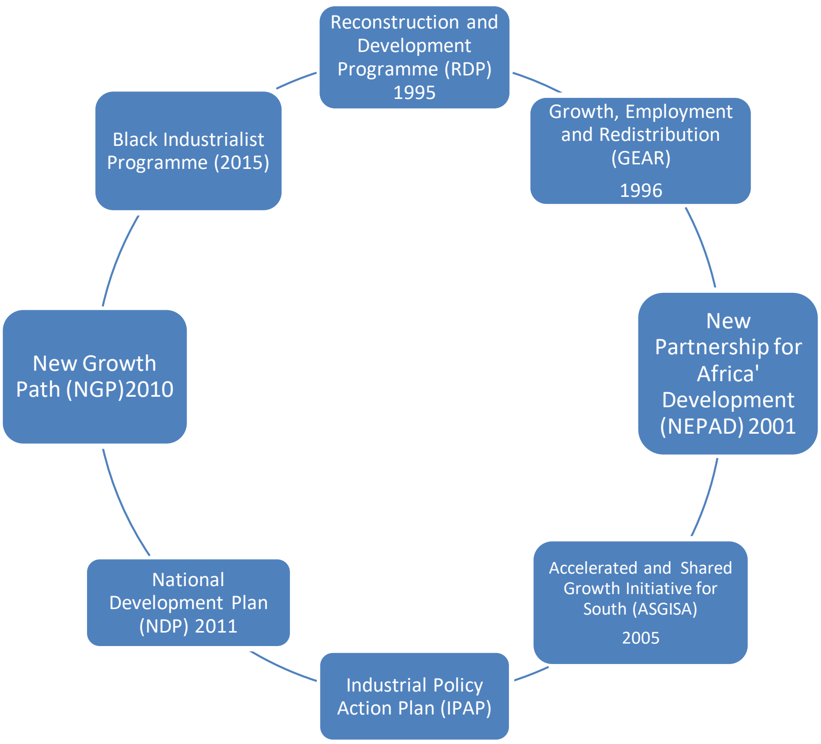
Over time South African government viewed this pair as catalysts in sustaining transitional economy inclusion (Qobo & Soko, 2015). This is evidenced by the government perennial reliance on these DFIs in driving national economic policies. Some of the key objectives as outlined in government economic policies are to, accelerate growth, enhance industrial development, stimulate economic growth to 5%, create 11 million jobs, plug infrastructure deficit, improve access to finance to smallholder firms, push inclusive growth, drive radical transformation agenda and allow financial inclusion of people from previously designated groups (Department of Economic Development, 2011; National Planning Commission, 2011; National Teasury, 2017). In its quest of producing 100 black industrialists, Department of Trade and Industry tasked IDC with the role of providing finance to emerging black industrialists operating specifically in manufacturing sector and subsequently facilitate employment creation whilst stimulating economic activity in areas of operation.

Unlike China that has a 100 year economic policy plan, South African government produces new policy frameworks almost every 5 years. The post-apartheid South African government kick-started its economic trajectory with the Reconstruction and Development Programme (RDP), ensued by Growth, Employment and Redistribution (GEAR) which was heavily criticised by the labour movements as the policy that stimulated the economy without the evidence of real jobs. Furthermore, New Partnership for Africa' Development (NEPAD) was adopted, then Industrial Policy Action Plan (IPAP), followed by National Development Plan (NDP) which is the comprehensive and overarching economic plan till 2030, then New Growth

Path (NGP) and more recently Black Industrialist Programme (BIP) the brainchild of Department of Trade and Industry (see for example Qobo & Motsamai, 2014).

Most of these policy frameworks have failed to essentially and adequately respond to economic ills such as unemployment and poverty because of populist political rhetoric by the governing party and opaque decision making processes. Despite constant adoption, enactment and promulgation of policies, these policies are characterised by a common theme being to grow the economy, create real jobs, poverty alleviation and consequently bring an end to unemployment. While these policy frameworks are critically important in transforming the economy, it would appear that they all sound the same and if anything competence for attention and relevance. The inefficiency and ineffectiveness of the economic policy frameworks despite their transformative and good intentions can be attributed largely to weak institutional capacity, unaccountable leaders charged with leadership of state-owned entities, patronage, and constant cabinet reshuffle driven by the narrow interests of politicians rather than advancing interests of the electorate (Adelzadeh, 1996; Qobo & Motsamai, 2014).

Figure 2. 3: South African Economic Policy Frameworks since 1994



Source: Author

Both these DFIs have been entrusted by both Department of Economic Development, National Treasury and Trade and Industry to play an interventionist role of implementing the NDP, New Growth Path and Industrial Policy Action Plan. However, Dimpho and Mzukisi (2014) point out that there is a lack of coordination among these government policies and plans, if anything they compete for attention and for relevance.

The need for development finance institutions in emerging market destinations cannot be overemphasized and is in fact underscored by a number of reasons including job creation, slow and lethargic economic growth. The need for development finance institutions more than anything, is to accelerate and fast-track economic growth in countries and markets in which they invest. DFIs can be found at different levels, at international, continental and even at national levels. DFIs exist both in developed, emerging and in least-developed countries. Gerard and Ganesh (2017) postulate that most DFIs provide long term financing, these are typical 20-30 years type of projects, which have a long-lead time, require a bit of infrastructure, expertise and have long term portfolio and subsequently have a long repayment profile.

Khadiagala (2011) as cited in (Qobo & Motsamai, 2014) points out that for the apartheid regime, DFIs working in close alliance with private sector were critical adjuncts to the state-led goal of creating a racially based modern industrial economy and, in later years, to the fortification of the economy against the effects of sanctions. In a post-apartheid South Africa, the IDC was retained as a state-owned development institution, pursuing many of the same objectives , except that it had to advance transformation objectives in particular, the empowerment of a new crop of black business players (see Qobo, 2015).

While the birth of DFIs in centrally concentrated largely towards investment, sustainability, viability and profitability, policymakers and government have sought to utilize DFIs as conduits to a wider range of economic and national strategic policy objectives. However for this to be effective, Conor et al (2016) maintain that policymakers, including government need to have an elementary comprehensive understanding of the DFIs model, including what DFIs can and cannot do, strategic direction, contours of DFIs, risk appreciation levels, designated priority areas and the role DFIs can play to help government achieve certain goals. The said required understanding from the government is then instrumental to DFIs actively engaging in policy discussion and policy process. Moreover, systemic impediments and risks, operational challenges faced by DFIs on the ground, the amount of time it takes to completely effect development impact, and the time it takes to derive returns on investment, the perennial failure of DFIs to find bankable and investable projects, can be a real test of policy issues that DFIs can be tasked for addressing (see Savoy et al., 2016).

The disjuncture between DFIs and policymakers in policy process is palpable. Conor, Paddy and Alberto (2016) study DFIs and policy engagement and find that nuances, operational focus and contours of DFIs continue to be unbeknown to policymakers involved in drafting national economic policy frameworks. This is evidenced by minimal inclusion if at all of DFIs personnel, in the national planning commission committee charged with the national development plan, an economic policy plan meant to direct South African economic trajectory until 2030 (see National Planning Commission, 2011). As a result, this facilitates an unreasonable expectation wherein DFIs are expected to fulfil roles not consistent with their strategic intent and outside their confines. Instead of being heavily reliant on government for direction and strategic policy, DFIS should assume a lead role in designing private sector development policies.

Ensuring DFIs effectiveness and efficiency means that DFIs must be fully engaged in policy-formulation enabling the government and policymakers to have a basic comprehension of DFIs, including their capabilities, competencies and their value-creation throughout the society. In addition, allowing DFIs a platform in policy formation will enable them a voice in policy reforms, thus helping to formulate policies that are in line with their strategic intent, core competencies and capacity in a quest to achieving the development impact. Over time, policy landscape in South Africa has changed considerably and has placed much prominence on development and key among this is, growth, jobs, and private sector investment.

2.4 The Conceptual Framework

The objective of the study at hand is to investigate systemic obstacles that are prohibiting the DFIs from realising their stated strategic ambitions effectively and efficiently. While these DFIs have been active and sustainable, a lot still needs to be done by these DFIs in order to fundamentally change the economic structure of this country which still remains predominantly oligopolistic in nature. Despite progressive strides that have been effected by these DFIs through their funding models, a large number of black majorities still find themselves on the fringes of the economy. To overcome this, there needs to a broad-based distribution of wealth and broad-based economic participation, that will lead to broad-based economic emancipation of all South Africans.

Key challenges to effective development finance lie in lack of investable, bankable opportunities, lack of understanding of the DFI model, lack of marketable assets that borrowers can provide as collateral in the event of defaults, information asymmetry, transaction costs, adverse selection, moral hazard, insufficient participation of DFIs in policy formation (see Armendáriz & Morduch, 2010; Savoy et al., 2016; Vivekanandan, 2017). One significant impediment from the borrower's side is according to Beatriz and Jonathan (2010) the lack of saleable assets that they can present in times of default. Habte et al (2017) on the other hand suggest that in a bid to hedge against risks when dealing with poor borrowers is to rather offer group-based lending relative to individual lending. In a group-based lending, the whole group is held liable if one member defaults from the loan obligation, as such members of the group tend to encourage one another to work extra hard and keep one another in check.

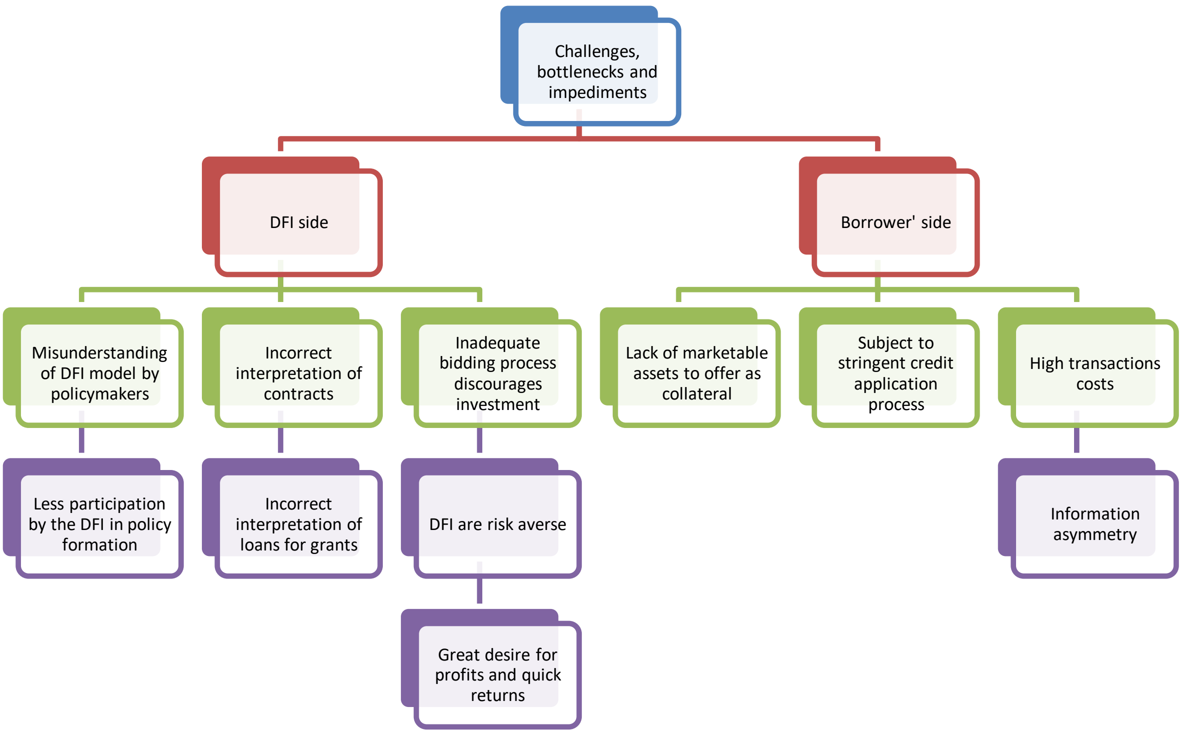
Mohan (2017) notes that misinterpretation and incorrect interpretation of contracts by clients(borrowers) remain a major problem. Moreover, failure of finance recipients to act and fulfil mandatory obligations as per contractual terms and conditions is another. This view is corroborated by Beatriz and Jonathan (2010) who find that clients especially rural area borrowers tend to perceive loans provided by government-led development banks as grants as opposed to loans.

The financial structure and financing instruments of these DFIs include but are not limited to capital, debt, equity and blended finance. Moreover, these institutions provide macroeconomic and sector policy advice, conduct business training and incubations programmes tailored for specific sectors of the economy. Both the DBSA and the IDC provide financing solutions in a manner that is environmental, social and economically sustainable. However, Armendariz de Aghion and Morduch (2010) as cited in Biekpe et al (2017) insist that providing financing especially in rural areas across all three dimensions of ESG principles in sustainable manner could prove to be challenging. Moreover, reconciliation between financing solutions of these DFIs and social aspects such as job creation and poverty alleviation has not been achieved sufficiently.

DFIs cannot solve all developmental challenges bedevilling the country, but through their targeted investments, they can definitely play pivotal role in helping to solve and tackle some of these challenges. As such, there needs to be effective cooperation between government, funding agencies, development aid organisations and the DFIs in ensuring that there is homogeneity in key economic policy frameworks. DFIs need to evolve, private sector and the business have a fundamental role to play in helping achieve development outcomes and DFIs ought to play an instrumental role in facilitating that participation from the private sector (see for example Savoy et al., 2016).

The following diagram illustrates challenges that are stymying DFIs from operating efficiently and effectively.

Figure 2. 4: **Conceptual Framework**



Source: Author

2.5 Empirical Evidence

2.5.1 DFIs and SMEs

Both DBSA and IDC use myriad of instruments towards fostering developmental agenda and objective of the state. These instruments range from provision of technical advice, loans, guarantees, equity and quasi-equity, grants, advisory services, mezzanine capital, venture capital, research and policy implementation. Over and above providing necessary capital to emerging entrepreneurs, they also aid smallholder entrepreneurs with requisite skills of managing successful conglomerates, technical advice, project monitoring, implementation, entrepreneurial development programs and supervision, making access to finance of smallholder entrepreneurs more accessible. Zeljk (2007) points out that DFIs assist SMMEs that are turned down by banks and forced to seek alternative sources of finance, often from private persons. Adelzadeh (1996) argues that the prospects for SMMEs development will remain poor, so long as there is no clear industrial policy towards the support and creation of such enterprises, through the necessary expansion of public expenditure on construction and infrastructure to be carried out by SMEs.

Gerrard and Ganesh (2017) note that the general paucity of investable opportunities, together with a desire for hurried returns makes DFIs reluctant to commit their limited capital to long-term projects particularly when dealing with emerging businesses. Limited availability of bankable investments and projects for which these DFIs can venture into, is a cause for concern. DFIs set aside funding in their annual budgets and offer a number of specialised function in support of SMMEs and emerging businesses.

Over and above effecting development impact in the country of operation, DFIs are expected to remain commercially viable, sustainable and profitable by taxpayers, government and various other stakeholders. As a result of low tolerance for risk and expectation for high return as demonstrated by these DFIs, emerging entrepreneurs therefore find it increasingly difficult to gain access to microfinance provided by these DFIs. This view is corroborated by Conor et al (2016) who suggest that DFIs need to exercise increased appetite for risk and in some cases, low returns for investment thus placing emphasis on development, while encouraging SMMEs. For far too long DFIs have been risk averse and have only invested in rather lucrative projects that guaranteed high returns on investment.

2.5.2 Social and economic impact

Recognising the importance and the link between development finance and households, Amine, Kobus and Matthew (2017) indicate that microfinance has multiplicity of conduits by which it impacts on the livelihood of people in remote areas. Aid as a result of financial resources emanating from these microfinance providers can supplement resources of the indigent and allow them to participate fully in production, consumption and in investment opportunities available. If these development banks can facilitate access to finance and provide households with sufficient financial resources at the right time, with just and equitable terms and conditions that offers them protection against risks, they can enable them to make optimum use of investment opportunities available and thereby diversify their economic activities. Development and financing for development allows and enables the poor to accumulate wealth, change the composition of their assets, increases their monthly income, empowers women and consequently enables the poor to tap into financial engagements and opportunities beyond their reach (Habte et al., 2017).

Besley (1994) as cited in Amine et al (2017) offers a contending view and posits that microfinance in villages of emerging countries is characterized by paucity of security assets, lack of title deeds enforcing land rights, inefficient underdeveloped institutions that can perform credit checks of borrowers, collateral inadequacy all attribute to enforcement difficulty during defaults and in the event of non-repayment by borrowers. Beatriz and Jonathan (2010) corroborate this view and argue that development finance is not a panacea and silver-bullet to all economic ills and therefore it cannot work for everyone and anywhere it is applied. Furthermore, this duo believes that development finance could only work effectively if borrowers had marketable assets to present as collateral in the event they are unable to honour their loan agreements. Development banks could borrow with minimized risks in mind, if they knew their loans were shielded by tangible marketable assets. Braverman and Guasch (1986) as cited in Beatriz and Jonathan (2010) find a staggering discovery in that credit defaults are astronomically high in emerging market destinations including Africa, South Asia, the Middle East and Latin America with abscondment rates on credits of between 45% and 95%. These astronomical default rates can be attributed to borrowers misconceiving credit program from state-led development banks as grants as opposed to loans that needs to be repaid.

South African DFIs comply with international standards and best practices, and often apply rigorous standards in assessing social and environmental impacts of projects that they finance. Further, the development of a “green economy” in South Africa is one of the priority areas for the IDC, with funds being allocated to renewable energy and pollution management projects (Chandrasekhar, 2015). Bruck (2009) also establishes that development banks are institutional policy instruments, whose socio-economic benefits and performances are measured according to indicators as enshrined in governmental policy documents aimed at effecting developmental goals and processes. If anything, DFIs should prioritize the projects that are transformational in nature, as opposed to selecting investment decisions that do not change structure of the country' economy.

2.6 Summary

A lot can be done in order to fill some of the apparent gaps that exist within the development finance continuum. DFIs need to be proactive in their approach when processing credit application. This will require an enabling environment from the DFIs side, to overcome misconception and information asymmetry with regards to the DFI model. Key among this is DFIs active participation in policy-process, and road shows in and around the country educating the broader society of the DFI model, including what DFI can and cannot do. Conor et al (2016) note that DFIs model is not well understood by some policymakers, as a result DFIs run a risk of being default catalysts of choice for all development undertakings, even in areas where their competencies may not suit the task at hand. Furthermore, improper use of DFIs would restrain their impact, whilst threatening their long-term commercial viability and financial sustainability.

While social change is as important as profitability in the work of these development banks, DFIs need to have higher tolerance of risk and mostly demonstrate increased willingness to accept low returns on their investments. Moreover, DFIs need to place a special focus on projects that have a transformational agenda. Mohan (2017) argues that one of the challenges faced by the DFIs, is inefficient and inadequate bidding exhibited by prospective seekers of finance during credit application stage. Beatriz and Jonathan (2010) maintain that DFIs normally incur high transactions costs when dealing and negotiating with many poor borrowers from rural areas relative to when dealing with one rich borrower on a large transaction. Equally important, transaction costs from the borrower's side, particularly poor borrowers remain a major problem in light of stringent credit application process that borrowers are subjected to during the credit application process. To this end, DFIs need to do more in finding viable investable opportunities to expand its micro-finance base throughout their respective geographical scope. Given the scarcity of bankable and viable projects as alluded by these DFIs, then greater focus and emphasis must be placed on project preparation and facilitation. Furthermore, DFIs also need to review their stringent credit application process with a view to customising deals as per case by case as opposed to having a generic credit application procedure (Martinez, 2017).

The literature review sought to learn more about the subject matter from other researchers who studied the subject matter before the study at hand. Over and above reading and learning from other academic researchers, the study also intended to identify gaps with a view to finding solutions in filling up those gaps. The above literature review shows a growing body of evidence on systemic hindrances stymying these DFIs from achieving optimal development impact. To this end, a myriad of challenges have been identified as a result. All these challenges could be resolved if policymakers had better understanding of the DFI model. Since many borrowers are too indigent to have much in the form of collateral, innovative ways of financing must then be developed to suit the demands of the poor. DFIs would also operate and function effectively if they had cheaper ways of obtaining client information without having to incur high transaction cost. Another solution is the active involvement of DFIs in economic policy-drafting process. DFIs also need to consider group-based lending when dealing clients from poorer communities as opposed to individual lending in rural areas and in villages.

2.7 Conclusion

South Africa' economic growth and development if any, has not translated well into unemployment reduction and poverty alleviation. As of late 2017, the country hit the record-high of 27.7% unemployment rate, almost 9 million people wake up every day without jobs, and inequality is worsening, with Statistics South Africa having shown that on average a white household earns five times higher than a black household (see for example Burger et al., 2016). DFIs can only do so much, to attract private sector finance in key priority sectors, it is also incumbent upon the government to promote and enforce institutional arrangements for implementing projects, including business-friendly practices, legal and regulatory environment are also critically important in order to advance both infrastructure and industrial development (AfDB, 2018).

Mzukisi (2015) argues that there is a lack of coordination between government' adopted economic policy frameworks and if anything, they compete for prominence. Given the implementation of right policies in infrastructure and industrial development DFIs will be better positioned to actualise the government' developmental objectives, creating much desired inclusive growth, sustained and heightened GDP. Lack of access to development loans still remain a critical constraint to Small and Medium Enterprises wishing to graduate from small ventures to commercial businesses and all the way to large-scale entrepreneurs.

Capacitating the country' infrastructure particularly railroads and transport infrastructure is essential to development of manufacturing services and production. This will allow for cross-border trade agreements and encourage regional as well as continental trade benefiting both local and international producers. This will create trade opportunities for new businesses and enable them to produce quality products that are competitively priced, and thereby gain access to export markets and bolster import substitution.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter describes the research design employed in the collection and analysis of the data. The chapter comprises seven sub-sections. The first sub-section 3.2 Research Approach and Strategy outlines the research method utilised in data collection. While the second sub-section 3.3 Sampling focuses on the method of sampling used, unit of analysis and the sample size and the population surveyed, research design, research process and choice of participants.

The third sub-section 3.4 Data collection, frequency and choice of data, elaborates the type of research followed in gathering data, the rationale and the motivation of the frequency, including choice of data. Moreover, the fourth sub-section, 3.5 Analytical framework methods describes approaches and strategies employed in aggregating data. The fifth sub-section, 3.6 Research Reliability and validity details how accuracy and completeness are dealt with. While the penultimate sub-section 3.7 Limitations illustrates confines encountered during data collection process. Lastly, a conclusion is given, essentially summarising the chapter.

3.2 Research Design

This study adopted a mixed-method research design in addressing the research questions. The research design details the approach to data collection, analysis and reporting writing (Creswell, 1994, p. 146) The rationale for this method, is primarily because quantitative data are analysed quantitatively and qualitative data are analysed qualitatively (Saunders, Lewis, & Thornhill, 2009). In mixed methods, the researcher collects and analyses persuasively and rigorously both qualitative and quantitative data (based on research questions) and integrates the two forms of data concurrently by combining them, sequentially by having one build on the other or embedding one within the other (Creswell & Plano Clark, 2011). Data for the study was collected by using concurrent method and was therefore gathered both quantitatively and qualitatively. Mixed methods can be used sequentially, when one method is used to prepare for the use of another, or concurrently (Mertens, 2018). Furthermore, qualitative data are useful when a researcher needs to supplement, validate, explain, illuminate or reinterpret quantitative data collected from the same setting (Miles & Huberman, 1994),

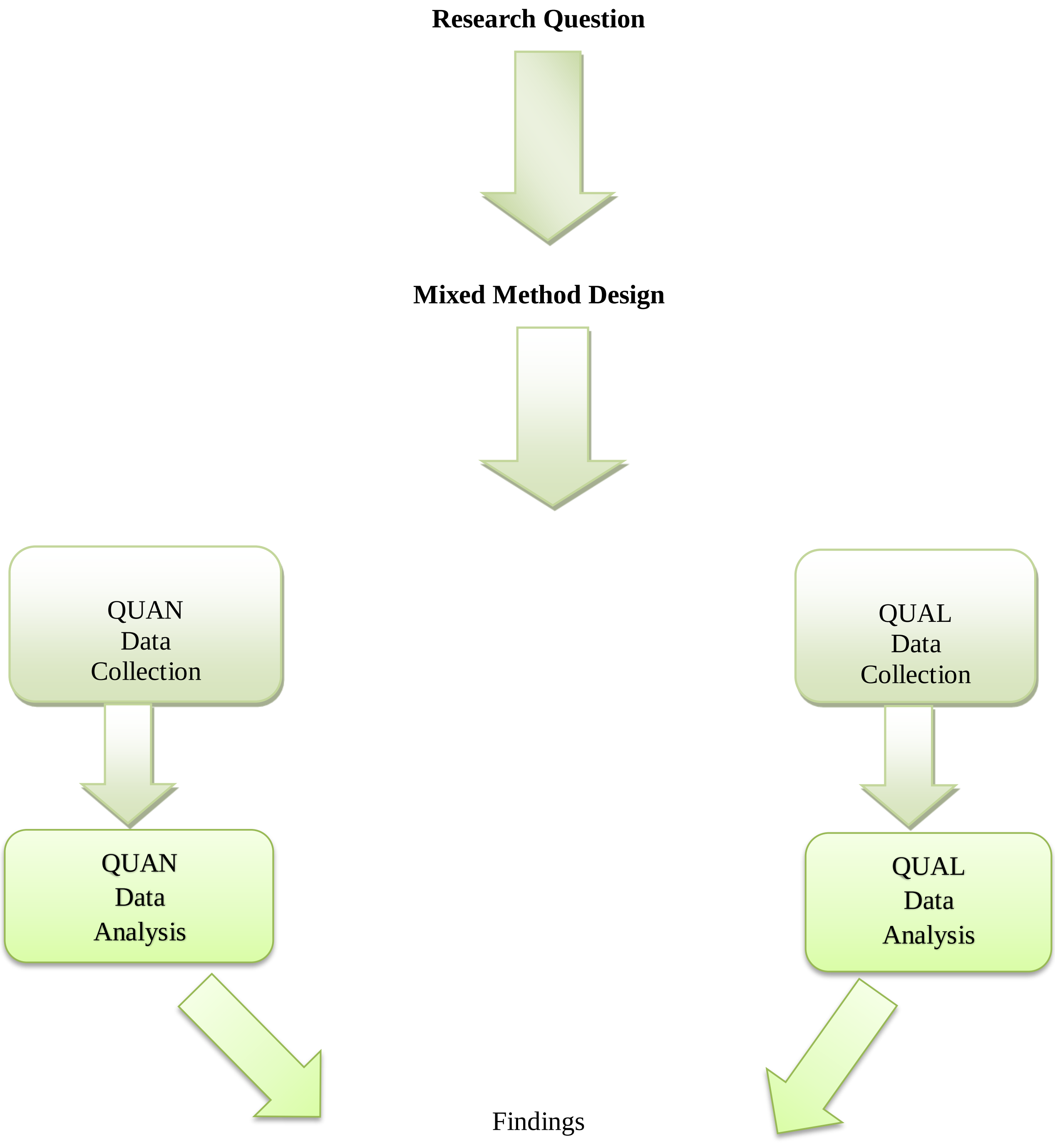
There are four basic approaches to mixed methods research designs, these are the convergent parallel design, the explanatory sequential design, the exploratory sequential design and the embedded design (Creswell & Plano Clark, 2011). The parallel mixed methods designs comprises the concurrent mixing of qualitative and quantitative methods carried out as separate studies within the same research project, with the qualitative data set assuming the predominant role in the study (Biber & Nagy, 2010, p. 68). The embedded design takes place when the researcher collects and analyses simultaneously both quantitative and qualitative data within a traditional quantitative or qualitative design. Furthermore, the explanatory sequential design uses two distinct interactive phases, while exploratory sequential design utilises sequential timing (Creswell & Plano Clark, 2011).

3.2.1 The Convergent Mixed Method Design

The research study needed both types of data and used two methods (qualitative and quantitative) to form a thorough comprehension of the phenomenon under study. The research study adopted the convergent parallel design in its bid to achieve the research objectives. This design allowed the researcher to collect and analyse both strands of data and look for corroboration, convergence, concurrence, divergence, disconnect and the relationship between two sets of data (Creswell & Plano Clark, 2011), Moreover, in parallel convergent design, both methods of data collection are carried out concurrently and independently in the same research project, with a qualitative method assuming a more predominant role. Both strands of data proved equally important and were both used to address the research objectives. Two objectives of the study in particular could not be answered adequately using the quantitative data. It is for these reasons that the qualitative component was primary and was used to generate theory or specific theoretical constructs. The quantitative aspect was therefore used to test out ideas generated from the qualitative component of the study (Biber & Nagy, 2010).

The diagram below depicts the convergent design adopted in this research study

Figure 3. 1: Convergent Mixed Method Design



Source: Sharlene Nagy and Hesse Biber (2010)

The first qualitative phase was used as an opportunity to gain understanding into systemic hindrances that hamper these DFIs from meaningfully achieving their stated mandated objectives, in addition, the relationship between the government economic diplomacy including participation of the DFIs in policy-crafting was explored. Thus in the second phase, the researcher used the quantitative instrument and used it to assess overall lending behaviour of these DFIs. The advantage of using convergent mixed method design is that it enables a researcher to use both methods concurrently to test out and explore the phenomena being studied (Creswell, 1994). This design was particularly appropriate since it allowed the researcher to merge two sets of findings in an interactive way for the analysis and the interpretation of research findings.

3.3 Sampling

The study followed a non-probability sampling because the researcher has no way of predicting and guaranteeing that each of the element of the population will be presented in the sample (Leedy & Ormrod, 2013). A resolve was undertaken to carefully choose participants whom assisted to respond to identified research questions, taking availability, affordability, and convenience of the potential respondents into account. To this end, non-probability in the form of snowball sampling approach was undertaken to make both the initial contact and further engagements with other interviewees.

Furthermore, the research technique followed purposive sampling. This approach is appropriate because participants who have experienced the central phenomenon or key concepts being explored in the study (Creswell & Plano Clark, 2011). For the purpose of this study, data collection was assembled, accumulated and clustered around two DFIs namely, DBSA and the IDC. The study was centred specifically on executive managers, senior managers, and heads of divisions as respondents to help decipher systemic hindrances that stymie these DFIs from achieving the desired economic growth as entrenched in various government economic policy frameworks. These participants were chosen given their strategic positions that they hold. At senior level, participants are more privy to the information ordinary employees would not ordinarily have access to. Data from reliable respondents that are more knowledgeable about the topic was sufficient and indeed came in handy to help decipher the phenomenon at hand and also helped with formulation of information contained in subsequent chapters of this study.

In respect to the sample size, a total of seven senior managers were interviewed in the employ of the financing institutions under study. The selection of seven interviews was motivated by the suggestion of Guest at al (2006) who contend that 6 to 12 interviews from informed respondents are sufficient to establish needed information and that a saturation is reached after

12 interviews. In addition, a total of 58 participants working for these DFIs were circulated with online questionnaire.

3.4 Data Collection, Frequency and Choice of data

A survey is a self-administered questionnaire, where the subjects fill in the questionnaire themselves, recoding answers following a form of multiple-choice response. Collecting data through a self-administered-questionnaires is very effective (Farquhar, 2012, p. 70). A survey allows for a collection of a large amount of data from a sizeable population in a highly economical way (Saunders, Lewis, & Thornhill, 2000). To this end, an online platform in the form of Survey Monkey was utilised accordingly and enabled respondents to complete the questionnaire from the comfort of their personal computers. In addition, participants were allowed a duration of almost 3 weeks to fill in the questionnaire.

In addition to the questionnaire, semi-structured interviews were administered with participants and experts in the employ of the DFIs under study. The focus of the interviews were to probe respondents for further clarity and to gain insight into factors hampering these development finance institutions from realising their full potential. In a structured interview, the researcher asks the specific standard of questions and nothing more. Thus, in a semi-structured interview, the research may follow the standard questions with one on one or more individually customised questions to get clarification or probe a respondent' reasoning (Leedy & Ormrod, 2013, p. 190). Semi-structured appeared to be the viable form of data collection, since they are flexible and also allow the researcher to make follow up questions. The interviews were designed to gain an understanding of the DFIs contribution to economic growth, their relationship with economic policy frameworks as well as impediments hindering the successful execution of their respective policy mandates. In addition, solutions were sought from the participants to improve the current situation. As the researcher collected and gathered data from face to face interactions with the participants found issues that created a need further probing. As such, further interviews were conducted to enhance comprehension of qualitative data. The researcher used a voice-recorder, to record interviews and permission was sought from the participants and recordings were later uploaded to the personal computer of the researcher.

Ethical clearance to undertake the study was sought and was granted from the university ethics' committee given that the study included human participants. Both interview and questionnaires were scrutinised by the committee before the commencement of the research and permission to conduct the research ensued. Moreover, a letter with the university' letter-head was sent to the respective DFIs requesting to undertake the study with their personnel and permission was granted. For accuracy, both the questionnaire and interviews questions were sent to the respective DFIs for audit before the commencement of the study. Furthermore, interviewees were provided with a set of questions beforehand to eliminate bias and to better equip interviewees for the interview. For objectivity, a consent form allowing for recording of the interview was given to the interviewees. The forms were signed by the interviewees before the start of the interviews. The consent form explained the purpose of the study, assured participants anonymity, and also highlighted all relevant ethical issues. The research made use of both primary and secondary data as sources of data. In respect of interviews, semi-structured interview approach was followed to allow for flexibility and for additional insights from the respondents. Interviews took between 45 and 60 minutes and explored the intricacies of policy making and overall challenges encountered by these institutions in the course of their work (for a full copy of final interview questions please refer to Appendix B). All interviewees were met at their respective working environments. For consistency and to eliminate bias, the researcher used and followed same line of questions. The purpose and the focus of the interviews were to gather in-depth understanding and contextual factors surrounding the difficulty encountered by these DFIs in effecting meaningfully development impact from the personnel in the employ these financing institutions.

In addition, an online self-administered questionnaire were dispersed to the email addresses of the participants of the DFIs concerned. The questionnaire was made up of both close-ended and open-ended questions allowing for diverse and plethora of views and responses as many as possible.

In respect to the quantitative aspect, the study aimed to assess these DFIs over a seven year period from 2012 to 2018. In terms of secondary data, the study used annual reports and annual financial statements from year 2012 to year 2018 from both DBSA and IDC, government reports, books, journal articles, policy documents, and previous published literature and research reports. In addition to this, desktop research by browsing through the websites of DBSA and IDC to obtain statistics, growing trends and changes effected by these two DFIs. The information was examined in on year on year basis for a period covering a seven year from 2012 to 2018.

Qualitative data was transcribed into a computer using the software and the software allowed for easy transcribing of MP3 audio files into a Microsoft Word document. After all interviews were conducted, they were all stored in the researcher' computer and transferred into the software which then allowed for transcription. The choice of criteria subsequently helped identify impediments that are hindering these DFIs from meaningfully effecting developmental impact and also aided to gain insight into the level of DFIs participation in the policy formation process.

As for the research process followed, the study used questionnaire, containing close ended and open-ended questions. For close-ended questions, the questionnaire employed 5 point likert scale. This was a properly worded questionnaire, with no unnecessary jargon thus enabling participants to populate the questionnaire with much comfort. All instructions were appropriately indicated on the top of every section to avoid confusion and misinterpretation. All questions were distributed directly to respondents and participants were given three weeks to fill in the questionnaire and follow-up emails were sent every 7 days to remind the selected participants about the questionnaire. Unique serial numbers were allocated to each questionnaire, to avoid duplication and also helped identify which questionnaires had not been filled by respondents, thus allowing a researcher to do a follow-up with participants concerned. In terms of interviews, these were semi-structured interviews where in a researcher had a list of pre-determined set of questions and also allowed for flexibility during the interview for additional insights.

3.5 Analytical Framework

This section discusses the two approaches to analysing the qualitative and quantitative data. The first sub-section describes the processes for analysing the qualitative data while the second sub-section is explains the quantitative analysis framework.

3.5.1 Qualitative Data Analysis

Qualitative data analysis which is the process of arranging, organising, classifying and interpreting linguistic material to arrive at generalizable statements was conducted with the primary objective of describing a phenomenon being studied in greater detail (Flick, 2014). The analysis of qualitative data was done following three data analysis techniques i.e. data reduction, data display and conclusion drawing and verification as suggested by Miles and Huberman (1994).

Data reduction – with regards to data condensation the researcher sought to limit tremendous amount of data gathered from the qualitative research in his quest to place special focus on themes identified in the data for the analysis of his research (Guest, MacQueen, & Namey, 2012). To achieve this, content analysis was adopted to designating identified themes and arranging them into concepts emanated from the participant's perspectives. The research aims to explore the lending behaviour of these DFIs, data display was done using verbatim responses to each research questions addressed and were transcribed and translated by the researcher because they are designed to assemble organised information in the manner that enables a researcher to draw justified conclusion pertaining the phenomenon under study. Subsequently, the researcher drew and reached his conclusion based on the findings derived from the earlier phase.

The analysis was grouped according to recurrent themes and coding of the data then ensued. Coding of the data included looking at content of responses elicited by the respondents and were arranged as per the frequency and recurrence. After all interviews were coded, this then enabled the researcher to have formulate themes in relation to the objectives in relation of the study. The analysis sought to respond adequately to the research questions and also addressed the research objectives accordingly. To this end, recurrent themes were grouped and formed the basis for qualitative data analysis.

3.5.2 Quantitative Data Analysis

This section discusses how the quantitative aspect of the research study was analysed. To explore fundamental relationship and association between variables of interest and examine extent to which the lending behaviour contribute to impact of economic growth, graphs and tables were employed. The lending patterns were analysed accordingly through the graphs demonstrating historical trends over time. The joint lending of these DFIs was also analysed against the country' total GDP value. This was done to determine the contribution of these financing institutions in relation to the country' economic growth through their lending practices. This demonstrated trends, patterns and changes that both the DBSA and IDC have effected domestically. These are demonstrated through graphs and use of tables in the next chapter. Through this method the researcher demonstrated the interplay between theory the mission statements and the developmental role of these DFIs against the actual work conducted on the ground.

3.6 Research Reliability and Validity

Validity in mixed method research is employing mechanisms that address potential issues in data collection, data analysis and discussion of resulting that might compromise the merging or connecting quantitative and qualitative strands (Creswell & Plano Clark, 2011). It is the researcher primary responsibility to ensure that sources and data is presented and handled accordingly. In addition to this, it is vitally important to indicate that the researcher cited and verified the sources initially before using them. In respect of secondary data, the trustworthiness of the information and data presented in this research are ensured through proper citation of sources and the legitimacy of the sources relied heavily on the original documents and annual reports used. Reliability is the extent upon which data collection processes and analysis yield consistent outcomes (Saunders et al., 2009, p. 156). To ensure reliability, a questionnaire was designed precisely to capture answers to relevant research questions of the study. The questionnaire used not so complicated parlance and thereby enabled the respondents to easily fathom and comprehend language used in the questionnaire, enabling them to fill the required questionnaire with much ease. In respect of interviews, interviewees were provided with consent forms ahead of the interview that allowed for the conversation to be recorded and also gave permission to take part in the study.

Further, Rosaline (2014) argues that ethical considerations include but not limited to paying cognisant attention to the manner in which the research is conducted with potential respondents, the known risks of participating in the study both for individuals and pre-existing groups, the impact of sampling design and the impact of the way we present our research through presentations and dissemination of results. Carrie and Kevin (2014) maintain that research reliability and validity is the extent to which the accuracy of the results, measure in a study is consistent, reliable, precise, complete, accurate, dependable or stable.

For reliability, pre-testing is an important element to ensure accuracy, before the actual research is conducted and carried out (Smith, Thorpe, & Jackson, 2015). A pilot study for a questionnaire was conducted accordingly this was done to pre-test the validity of the questionnaire before it could be disseminated to final respondents. This was done, taking into consideration that no adjustments could be amended to the questionnaire once it was issued to the respondents. The said questionnaire was therefore conducted with a group of small of participants available at the time.

3.7 Limitations

The parlance and jargon used in the questionnaires may not have been easily understood by some respondents thus rendering distorted answers with no effect to the research questions at all. One of the limitations the study encountered was gaining access to some information, where access to such information is hindered. The said lack of data made it inherently difficult to identify patterns and trends necessary for the purpose of this research. Access to actual names of recipients of Black Industrialist Programme by the IDC is restricted owing to the sensitivity of the information. Moreover, while it may very well be relatively easy finding trends, patterns and the number of households that benefited from development finance of DBSA and IDC domestically it might also be difficult to gather and discover except data for the total project value and type of infrastructure undertaken in the region.

Johannes and Rob (2008) demonstrate that accurate empirical research requires accurate and comprehensive data but in practice this requirement is seldom satisfied. Obtaining accurate data of the exact number of households impacted by the development finance across the country was unlikely. For example, data on a number of households benefited from development finance in rural areas is not as comprehensive to that collected from urban areas. Tracking of data to financing development impact is not always easy and accurate, since some data may be missing, delayed, difficult to compare at national and at regional level.

Another significant difficulty faced by the researcher was the unavailability of some respondents, while in some cases participants availed themselves for a limited period of time contrary to the originally agreed duration. Furthermore, some interviewees were not better equipped to respond to strategic direction and economic diplomacy guiding the mandate of DFIs. On the hand, some interviews could only give answers at the generic level as opposed to operational challenges.

3.8 Conclusion

The chapter explored extensively on the research methodology carried out in this study. The importance, rationale and the essence of the research type and the methodology were all discussed. The research process, including research design, population sample, sampling size, and choice of data also explored accordingly. Important research modalities, such as questionnaire administration and choice of selected participants are also discussed. Furthermore, critical ethical considerations such as research validity and reliability, including confines experienced in collecting data are explained accordingly. The next chapter discusses research findings and results of the study.

CHAPTER FOUR
DISCUSSION AND RESULTS

4.1 Introduction

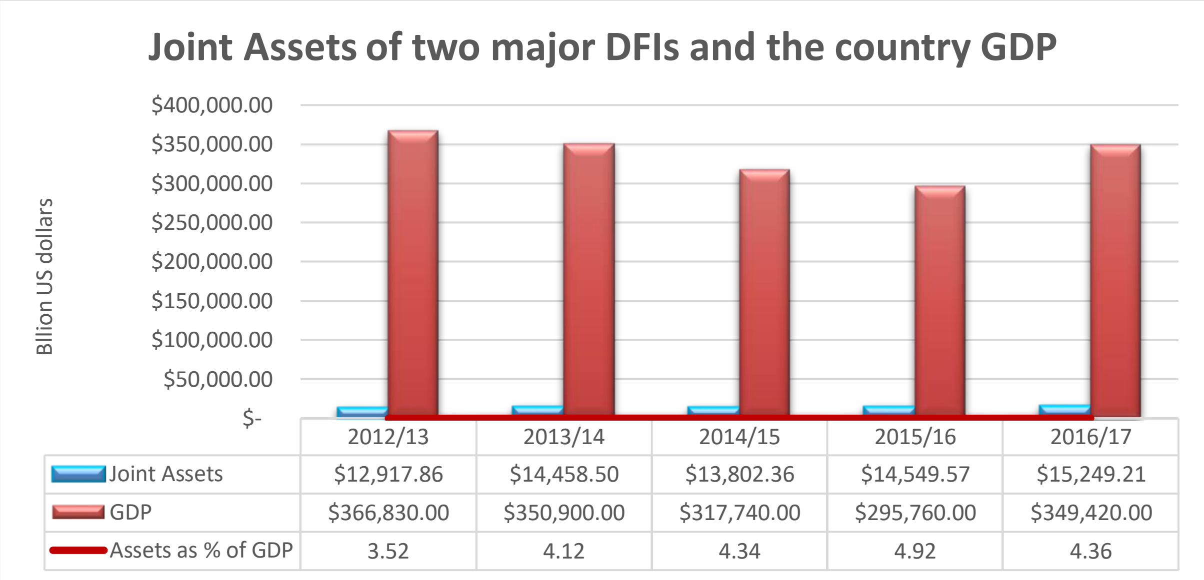
This chapter presents the findings of both the qualitative and quantitative data analysis described in chapter 3. The results and findings are presented in two main sub-sections. It begins with the discussion on the quantitative results and ends with the qualitative discussion. The first section presents the quantitative section presents the lending behaviour of these DFIs in relation to the economic growth of the country. The relationship between government economic frameworks and DFIs, including the participation of DFIs in policy formulation is presented in section two. While the third section presents the overall perception from the respondents surrounding factors that are stymying DFIs from realising meaningful efficiency.

4.2 DFI lending patterns and economic growth

The lending patterns and balance sheet composition of the two major DFIs are discussed in this section. Illustrated in table 4.1 are the total assets held by the two major DFIs respectively over a 5 year period between financial year ending 2012/13 and financial year ending 2016/17. In addition the total GDP of the country amounted to R4.9 trillion in 2017. On average the collective assets of two major DFIs represented 4% as percentage of country' GDP over a 5 period. This signifies that there is very minimal relationship between the assets value and the country GDP. The joint assets as percentage of country' GDP showed a slight upward trend over 4 year period between 2013/13 and 2015/16 periods. However, in 2016/17 total assets represented only 4.36% as a percentage of the country' total GDP in 2017.

The increase in the assets of these DFIs represent a sound financial management of respective institutions and guarantees a long-term financial sustainability. The upward trend in joint assets can be observed over period, except in 2014/15 financial year. The DFIs, particularly IDC attributed this decline to tough global economic conditions experienced in that period as a underlying cause for the decrease in their assets.

Figure 4. 1: DFIs Assets ($ billion) over 5 period and GDP



Source: Trading Economics (2018), DBSA Integrated Annual Report (2017), IDC Integrated Report (2017)

Table 4.1 below depicts the weight of the assets in the annual financial statements and in the statement of financial position of these two DFIs held by the major DFIs.

Table 4. 1: Total Assets (R million) held by the DBSA and IDC over 5 year period

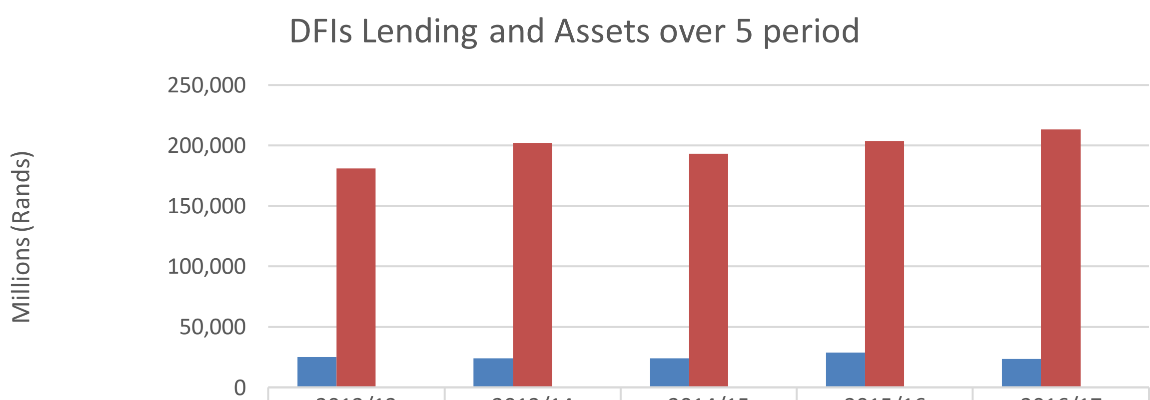
(R million)	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
DBSA	53,965	63,826	70,944	82,346	83,653
IDC	126,885	138,593	122,289	121,348	129,836
Total	180,850	202,419	193,233	203,694	213,489
DBSA as % of Joint Assets	29.84	31.53	36.71	40.43	39.18
IDC as % of Joint Assets	70.16	68.47	63.29	59.57	60.82

Source: IDC Integrated Report (201), DBSA Integrated Annual Report (2017)

Illustrated in table 4.1 is the collective assets held by two major over a 5 period. As can be observed the IDC holds more assets in relation to DBSA. This could be attributed to the fact that IDC has been in existence for far too long as opposed to DBSA. Notwithstanding sound and capable management of corporation by the executive. Interestingly, the weight of DBSA assets against its counterpart has increased over the years except in 2016/17 financial year. If this constant evolution in assets by DBSA is anything, then the DBSA stands a good chance of equalling IDC assets in the next coming years. The weight of the IDC asset when taken together represented 61%, while DBSA represented 39% in the financial year ending 2016/17.

A fickle trend can be observed in Figure 4.2 over time. The graph illustrates the lending patterns as a percentage of DFIs joint assets between the year ending 2012/13 and 2016/17 period. The wavering trend of these two variables is evident and can be observed over a 5 year period in the figure below. The joint assets value of the two major DFIs displayed an upward trend over the years in exception to the year ending 2014/15. Interestingly however, the joint assets value showed an improvement in the financial year end 2015/16. Furthermore, the joint assets value increased from R203, 694 billion in 2015/16 to R213, 489 billion.

Figure 4. 2: Lending and Assets of two major DFIs (R million)



	2012/13	2013/14	2014/15	2015/16	2016/17
Lending	25,181	23,935	23,926	28,500	23,400
Assets	180,850	202,419	193,233	203,694	213,489
Lending as % of Assets	13.92	11.82	12.38	13.99	10.96

Source: DBSA Integrated Annual Report (2017), IDC Integrated Report (2017)

Equally, the lending trend by two major DFIs did not produce a consistent upward trend over 5 year period as can be observed in figure 4.2. It is worth mentioning that by the virtue of being the largest DFIs in the country, by default the expectation would always be tremendous in terms of consistency in lending patterns by these two DFIs, regrettably however this has not been a case. Interestingly, the lending as a percentage of assets fluctuated from year to year. The inconsistent trend of the lending as percentage of assets does not augur and bode well for contribution of these two major DFIs to the economic growth of the country. In 2012/13 it amounted 13.92%, in 2013/14 it sat on 11.82%, then went up again to 12.38% in the financial year ending 2014/15, moreover the 2015/16 displayed an improvement to 13.99%, however a similar trend could not be maintained in 2016/17 since joint lending as a percentage of joint assets declined to 10.96%.

Interestingly however, in terms of the total disbursements of the two major DFIs, in 2017 financial year the DBSA disbursed 53% as a percentage of total lending by two major DFIs while the IDC' total lending weighed 47% as a percentage of the total lending by two major DFIs in 2017. It would appear that while the IDC holds more assets than DBSA, on the contrary however DBSA has disbursed more funding in relation to IDC over 4 year period between 2013/14 and 2016/17 period.

Table 4. 2: Lending patterns of major DFIs over a 5 year period (R million)

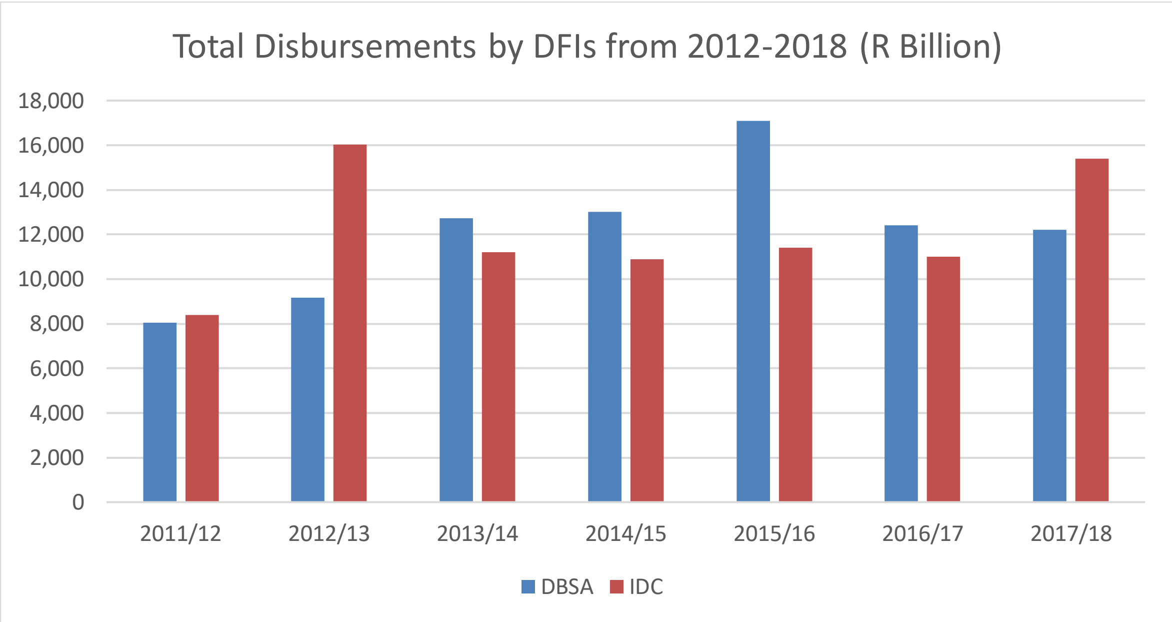
(R million)	2012/13	2013/14	2014/15	2015/16	2016/17
DBSA	9,158	12,735	13,026	17,100	12,400
IDC	16,023	11,200	10,900	11,400	11,000
Total	25,181	23,935	23,926	28,500	23,400
DBSA lending as % of joint lending	36.37	53.21	54.44	60.00	52.99
IDC lending as % of joint lending	63.63	46.79	45.56	40.00	47.01

Source: DBSA Integrated Annual Report (2017), IDC Integrated Report (2018)

The joint lending of the two major DFIs as a percentage of the country total GDP value was notably low at 0.48% in 2017 relative to other DFIs in the world. The joint lending of both the BDSA and the IDC as two largest DFIs in the country is nowhere close to the contribution that many other DFIs make in relation to the country' GDP. Yet despite their effectiveness in running and managing the finances of their respective entities relative to other state owned enterprises in the country and also despite their importance and respective sizes it is still increasingly difficult to identify the impact wrought by these DFIs in relation to country' economic development and subsequently to economic growth from their loans disbursements as a percentage of the country' total GDP. Being the two largest DFIs in the country, the expectation in relation to development impact towards the country' economy is also tremendous.

As depicted in figure 4.3 the lending pattern over a seven year period by both DFIs has wavered and did not produce a consistent upward trend. This could be attributed to the conundrum faced by DFIs of effectively addressing the market failure and thereby extend developmental loans whilst remaining financially sustainable in the long run. DFIs rely heavily on their profits for survival and therefore are duty bound to retain profits and lend as cheaply as possible given that they are self-funding institutions and do not necessarily receive developmental capital from the government, and this is particularly true for the IDC which has been self-funding since 1954 than it is for the DBSA that has received government allocations in recent years.

Figure 4. 3: Disbursements by DFIs over a 7 year period from 2012-2018



Source: IDC Annual Integrated Report 2017/18 & DBSA Annual Integrated Report 2017/18

Therefore the inconsistent lending trends by DFIs are somehow justified given their conflicting objectives of meeting their stated-developmental mandate while remaining commercially viable. While unlike commercial banks, DFIs are not profit-oriented, however their profits maximisation are the key instrument in ensuring their long term sustainability. However, not only would losses by DFIs deter confidence in executives and management of DFIs, but losses will most certainly have a negative bearing on the taxpayers since these DFIs would have to be bailed out by the government through government guarantees. On the positive end the same cannot be attributed to both DBSA and IDC given their sterling financial performance almost since their respective establishments.

4.3 DFIs and the government economic diplomacy

The section discusses the relationship between government economic policy frameworks and DFIs. In particular, the focus of the section is on the impact of these policy frameworks to the DFIs and also looks at the participation of the DFIs in policy formulation process. Both the contribution and the participation are cited in the subsequent sections as elicited by the respondents.

4.3.1 DFIs participation in policy-formulation

There was a general consensus among respondents regarding the minimal and indirect participation of the DFIs during the policy-formulation process. However, both the DBSA and IDC indicated that they worked closely with the National Planning Commission (NPC) by a way of making submissions during the drafting process.

Albeit limited participation in drafting and formulating economic policies by the DFIs. The DFIs indicated that these policies are crafted in consultations with them. Furthermore, the respondents stated that DFIs make submissions to relevant parliament portfolios, ministries, government departments and to policy makers during the crafting process. The contribution is made substantially from the submissions, as well as from consultative process. A lot of consultative process takes place behind the scenes. The DFIs stated that they are seen by government as implementing agencies as opposed to as policy formulating agencies. The motive of the government is to avoid the player-referee element and a predicament where the DFIs would proactively draft the policy and implement it at the same time.

4.3.1.1 IDC and Policy Formulation

There was unanimous agreement from the interviewees that the participation in relation to policy formulation takes place through consultative process with various stakeholders including policy makers and government departments responsible for promulgating these policies. In terms of the input to the policy crafting, the IDC indicated that it plays a big role in some of them, in particular the one respondent noted that bank worked closely with the DTI in coming up with plans embodied in Industrial Policy Action Plan (IPAP). The IPAP is a industry development focused and speaks directly to the mandate of the corporation.

"In terms of our input into these policies, we play a big role in some of them, for example IPAP that's very industry development oriented we worked closely with the DTI. Also with New Growth Path we were involved in setting up the policy with EDD, because that policy is so close to the mandate of IDC. As for Black Industrialist Programme, we were very involved in guiding policy development, the design of the incentives along with DTI and implementing the programme" a responded added.

Furthermore, the IDC pointed out that they also worked with Department of Economic Development in drafting the New Growth Plan. Moreover, the bank indicated it was involved in guiding the design of Black Industrialist Programme, because the BIP is also close to the mandate of the bank. To this end, the IDC indicated that it worked closely with the DTI in guiding the drafting of this policy. With regards to the IDC participation in crafting the National Development Plan, the bank indicated that it made submission to the NPC. One respondent said the following:

"We were invited as the IDC to make submissions, in the form of the presentation as they were preparing the document, so we made contributions from that angle" a responded added.

In addition, one respondent pointed out that while they make contributions to formulation of these policies the ultimate decisions in terms of adopting those policies rests with policy-makers. This is done to enforce neutrality of these policy frameworks and to avoid possible conflict of interest since DFIs are implementing agencies. In essence, not everything that the IDC proposes will be finalised, the final say is undertaken by the policy-makers.

The IDC further indicated that it meets every year with the DTI in an effort to contribute to iterations of IPAP to align the bank financing activities accordingly with latest developments and make necessary iterations to the policy. Moreover, the bank contributes to research of DFIs to the national treasury and other relevant stakeholders through their research unit as and when required.

4.3.1.2 DBSA and Policy formulation

There was general consensus from the respondents about the participation of the bank albeit indirect and minimal. The bank further indicated that it acknowledges the fact that the appointments to NPC and PICC are politically influenced and that the selection of policy makers lies with the government authorities. The DBSA also indicated that there is extensive consultations with key players of the economy during the policy crafting process including with the DFIs. The DBSA indicated that it cut back significantly on its research capacity as part of the restructuring six years ago. Furthermore, the bank also indicated that it now has research partnerships with think-tanks like CSIR and local universities, who conduct the research on behalf of the bank. The rationale behind this decision making was that there are other state organs that can do the research on behalf of the bank.

The bank indicated that it provides funding for the planning. For instance the DBSA has a unit that provides funding to municipalities to do multi-year planning with the goal of getting right kind of projects that the bank can then help finance. Furthermore, the bank indicated that it also provides similar type of funding for planning to national departments and other state owned entities that are involved in infrastructure planning and coordination. The bank also indicated that it makes submissions as and when required during the drafting process of policies related to the bank' line of work. More importantly, as the DFI the bank indicated that it would rather prioritize working closely with clients and less on the policy side. In essence, the bank sees a need to focus closely on its core mandate being a financing institution. To this end, one interviewee stated the following:

"We also want to try and focus on what we are good at, which is being a financing institution. With scarce funds that we have, part of our thinking was let's keeping doing things that we are particularly good at, which is working closely with our clients and less on the policy side" a responded said.

One interviewee noted that while the participation of the bank is minimal, however the respondent expressed that there is a strong need for the relationship to be strengthened between the bank and the PICC. Essentially, the respondent noted that there needs to be some level of ongoing representation and the relationship between the bank and the PICC. At the moment, the bank further expressed that there is no active and ongoing representation on the PICC, and that is where the relationship needs to be strengthened. When asked about the representation of DFIs in NPC, PICC and other various key policy document guiding the bank. One respondent said the following:

"I have to be honest I have not really analysed the composition of those various groupings. But I would say whether there is direct representation of DFIs in there or not, I would hope that there is sufficient consultation with the key stakeholders within the economy including the DFIs. I cannot see that you would sit there and just decide on all those things and not talk to key stakeholders within the country. I would hope there is sufficient consultation" A responded added.

The qualitative research shows that there is limited participation if at all in policy formulation process by the bank. Equally important, is the fact that the bank further indicated that it would rather focus on its core mandate than to be actively involved in the policy crafting process. In essence the bank would rather insulate itself from policy debates and focus primarily on infrastructure development and financing.

4.3.2 The Importance of Policy Frameworks to DFIs

This section discusses the contribution in terms of the implementation made by the DFIs towards national economic policy frameworks as well as the importance of the policy documents to the work of DFIs. The impact of these policy frameworks in relation to the work of these DFIs is also discussed, the section presents the IDC first and subsequently DBSA.

4.3.2.1 The Industrial Development Corporation

The IDC indicated however that these policies play a key role in terms of the sectors that the bank is prioritising. The impact of the frameworks is said to be positive in that it gives the bank a sense of direction and areas of emphasis to adequately respond and contribute to challenges facing the country. On the contrary, the bank stated that the constant adoption and policy change has a negative bearing on the work of the bank. In the light of the shortage of government agencies with sectoral focus on priorities such as youth development, women emancipation and rural development, the focus of the bank on its main priorities is often distorted. Participants also noted that because there is not adequate coordination between government departments and funding agencies, as a result meeting and achieving some of these goals become increasingly difficult. Asked to comment about the impact of these policy documents towards the work of the DFIs, one respondent elicited the following remarks:

"Policy documents play a big role in terms of sectors that we are prioritising as the DFI. Policy frameworks give us the areas of emphasis. They give us a sense of direction in terms of where

the country is headed. And to be relevant as the IDC we need to take cue from them and respond to what is required of us." A respondent said.

4.3.2.2 The Development Bank of Southern Africa

When asked about the contribution to the policy frameworks the bank pointed out that it looks at policies on multiple fronts, being at the international level, national and at the sector level as well at the municipal level. An interviewee expressed that the bank is guided by a myriad of policies and that every sector that the bank is involved in, has sectoral policy and then said the following:

"We are guided by a lot of policies, for instance we say we look at it the three levels, at the national level is the NDP, and then every sector has sectoral policy, the IRP in energy, the Integrated Urban development framework for municipalities, there's policy document for ICT and broadband rollout, healthcare sector, education, so on and so forth." A respondent said.

Internationally, development bank has undertaken a commitment to pursue Agenda 2063 and prioritise some of the SDGs goals that are aligned to the institution line of work and priority areas such energy, water and sanitation *etc*. From the national level standpoint, the bank takes its cue from the PICC and aim to drive some the goals and targets of that committee.

"Policy documents are very significant as reference points. Because the idea is, we not just fostering the development, but it is development within the specifics. The ones that are assuming an increasing importance are the NDP, SDGs, and the Agenda 2063, so there is an overlap in some of the policies" A respondent indicated.

The bank further expressed that every sector that the bank is involved in has a sectoral policy framework, from health, education, information and communication technology, energy and thus demystifying the direction and planning of the bank with the subsequent objective being to be as efficient and as effective as possible in almost every sector. Given the bank involvement in social and economic infrastructure the bank is guided by numerous policy programmes and policy frameworks. The bank also indicated, because of its impeccable track record in infrastructure projects, it was appointed as the implementing agency to drive and ensure successful implementation of Accelerated Schools Infrastructure Delivery Initiative (ASIDI) by the Department of Basic Education. To this end, the bank was then entrusted by the department to provide advisory role in a broader attempt to ensure successful roll-out of this strategy.

"ASIDI provided funds to the DBSA, we did the rollout of the programme, that money comes from Department of Basic Education, and we had to find contractors to build the schools, we have done similar thing to the Department of Health with doctors consulting rooms, all we charge is the agency fee and dispense the money to contractors, it could be 6% of the total budget" A respondent expressed.

4.4 Factors hindering the effectiveness of DFIs.

This section details hindrances impeding the meaningful operation by the DFIs in realizing their stated developmental mandates. These are factors identified by respondents as main reasons behind the minimal impact on the economic growth and development by the DFIs. The major challenges are described below in categories.

4.4.1 Insufficient Government Support

South African DFIs, unlike many other state-owned development banks from around the world, lack access to developmental capital from the government. Both DFIs indicated that they do not receive annual budget allocations and capital injection from the government. However, much as both the DBSA and the IDC are government controlled and report largely to government, there is no financial support derived from the national fiscus toward the said DFIs. South African government is generally known to be financially supportive in terms of annual budgets allocations to its state-owned entities by a way of yearly budget allocations, government subsidies, including bailouts and government guarantees in times of financial distress. Moreover, even if these development finance institutions are mandated to advance economic development through their lending activities, they are left to fend for themselves for sustenance. As such, this has a bearing on their lending capacity and inadvertently has impact on their financial models, financial products and also on economic impact wrought by the DFIs under study.

"As IDC we do not receive any capital injection from the government, at least other DFIs do receive government support, we have to strike a balance between financial sustainability and

our lending. We are a self-funding institution and have been doing so since 1954" A respondent said.

As it turns out, DFIs are bound to be as prudent as possible in order to account for their operational expenses, maintenance of assets, and to remain as sustainable as possible in the long run. Both the DBSA and IDC indicated that they are self-funding and self-sustaining and thereby raise capital by issuing bonds and by borrowing from capital markets as well as from asset management firms. The DBSA indicated that they raise capital through capital markets, asset management companies i.e. Future Growth and through issuance of listed bonds. While on the other hand, the IDC indicated that it remains a self-funding institution and has in fact not received capital injection from government since 1954 almost a decade and half since its establishment**.**

One respondent expressed that other countries and national governments take a different view, the Brazilian government supports its state-owned development bank in the form of Brazilian National Bank for Economic and Social Development (DNBES), founded in 1952 to improve, and renew Brazil' industrial development, transportation infrastructure and to provide financial capital and support to a whole host of industries including, energy, chemicals, oil and cement. Similarly, German government provides a lot capital to their development bank known as KFW, while Chinese government provides developmental capital to their DFIs such as China Development Bank, Agricultural Bank of China. While on the other hand, the European Union provides capital to European Investment Bank (EIB), the French government supports Agence Francaise De Developpment (AFD), the Netherlands does the same with their FMO**.** To this end, a respondent said the following:

"Another challenge we are facing as development finance entities is that DFIs need access to development capital, but in reality certainly us most of our capital comes from the capital markets, which means we go and borrow money from the same capital markets that the entities we lend to can borrow from and then we lend to them. However other countries take a different view and support their DFIs"

This qualitative research shows that the economic impact wrought by both the DBSA and the IDC would have been undoubtedly better if these development banks received substantial capital injections from the government as it is the case with the rest of other state-owned organisations. In addition to the oversight role that the government is offering toward these DFIs, it should also consider intervening in the credit markets and thereby extend financial support to these DFIs in an effort to allow for as much diversification as possible. Given the welter of developmental responsibilities that DFIs have to carry out, it is evident and prudent for them to have stronger capital base and a resolute balance sheet for these DFIs to execute industrial and infrastructure development, including other developmental objectives of the state as efficiently and as effectively as possible.

4.4.2 Unstable Macro-economic Environment

Although there has been considerable improvements in other industries, respondents indicated that the business climate in South Africa in recent years has not made it any easy for both international investors, the private sector, local DFIs and the business in committing funding to projects in the country as a result of policy uncertainty including government inefficient economic diplomacy and low business confidence. The decision whether or not to invest in a country is influenced by myriad of reasons. Respondents attributed the slow rate of investment in the country to opaque protection of property rights, political instability and lack of the political will. The mining industry was hit the hardest following the proposed adoption of the Mining Charter by the former minister of Mineral Resources but has since been put on hold by the incumbent minster. Furthermore, the proposed amendment of the agricultural land bill has also lowered confidence of both local and international investors. In the light of low investor confidence and policy uncertainty, both the DBSA and the IDC find it increasingly difficult to co-finance projects, placing a huge financial burden on their financing activities.

"When the confidence levels are high, the private sector does not have a problem in sharing high risk with the DFIs, they can even bring 70% of the funding required and as a DFI we can bring 30%. But if the confidence levels in the economy are low, they would like for a DFI to assume more of the risk, and in the recent years that has been the case, we have struggled to increase participation from our partners and leverage our funding" A respondent emphasised.

4.4.3 Lack of understanding of DFI model by clients

Respondents pointed out that by the virtue of being state-led development banks, they are often approached by clients seeking grants for their businesses or often approached for concessional funding. While on the other hand, they are often approached for cheap funding, of which these

DFIs are not about. One respondent pointed out that, because DFIs are government led, majority of clients often have flawed understanding of how DFIs operate.

"Because we are a government organisation, people tend to think that we should be giving money away for free, we cannot. We need to be sustainable, we do not get capital injection from the government. We need to make profit and cover our bad debts, to cover our operating expenses and grow our balance sheet, so that in even in 20 years' time we would still have funds to disburse" A respondent pointed out.

The IDC further indicated that another significant challenge is the poor quality of business proposals compiled by prospective applicants of the credit. Some prospective clients waste a considerable time applying for wrong financial products that are not even suited for their businesses. The IDC is more entrenched in financing projects in excess of one million rand. To cater for small transactions and for small entrepreneurs, including existing and emerging entrepreneurs, it indicated that it refers such transactions to its subsidiary company known as Small Enterprise Finance Agency (SEFA) which was strategically established as a small business development finance institution.

In the advent of lack of skills and requisite expertise to package their business plans in a way that will lead to a funding success, the IDC has the business unit in place positioned to provide support and advisory services to emerging entrepreneurs. Notwithstanding the innate ability to run successful business ventures however many emerging SMMEs struggle and lack necessary financial competence needed by prospective and potential funders in relation to packaging sound and commercially viable business proposals. One respondent echoed this sentiment and said the following:

"Quite often the problem is that business plans are not properly developed, they do not have correct management skills, and they have not identified the target market properly and we can tell that this business is not going to succeed." said a respondent.

The IDC further indicated that it offers business support by providing consultants who then help to strengthen the quality of prospective clients' business plans. This is not a business support offered by many funding agencies and development finance institutions but the IDC indicated that it saw a need to close on that gap and therefore establish a business support unit in a broader effort to ensure and drive the transformation agenda. To cater for skill deficiencies such as financial management skill or marketing skills the DFI indicated that it refers such entrepreneurs to business support practitioners. The business support therefore primarily aids such entrepreneurs to prepare their business proposals and plans to comply with the financial products of their respective businesses with the goal of ensuring the funding success. The corporation further indicated that it does not outsource the function but rather make use of internal personnel and resources to fulfil and satisfy that need.

4.4.4 The failure of other SOEs

The failure of other major state owned entities to perform well financially and their perennial reliance on government for bail outs, as a result socio economic indicators often do not improve, thus placing much burden and expectation on the DFIs to respond and ultimately to solve those challenges. Furthermore, respondents pointed out that South African government has too many economic strategic plans, economic policy frameworks, thus resulting in contradicting outcomes, pulling in dissimilar directions effectively impeding real development from taking place. As a consequence, the DFIs indicated that they often find themselves being diverted from their main development objectives such industrialisation and infrastructure development, as a result of many other responsibilities that are added to these DFIs by the government. As such the focus of the DFIs is often inadvertently taken away from their main objectives. In the end, they end up closing gaps in industries that they are not best resourced to do, owing to a lack of resources and capacity in those industries thus making it difficult to achieve and effect meaningful impact.

For instance the IDC is often tasked by the government to play important roles in industries in rural communities, township economy and youth development which are often enormously difficult industries to be as competitive since it is well resourced and capacitated for larger industrial projects. In essence, the efficiency of the IDC is therefore prohibited by its presence in almost every sector of the economy as opposed to being exclusively focused on its selected sectors of the economy.

"One of the big challenges we facing is that, because of the failures of other SOEs, socio-economic conditions in the country do not improve. Because of the huge chunk of the challenges, there is more and more expectations being put on IDC. Our core mandate is

industrial development, that's what we were established for, but then you get all of these other objectives being added to the industrial development and that takes the focus away from our mandate". A respondent pointed out.

4.4.5 Lack of long-term planning

Lack of long-term quality planning particularly from the government across all spheres including at national, provincial, municipal level and even on cross-boundary level is one significant impediment around infrastructure development. Simply put, a lot of municipalities do not have a well-thought out plans around the infrastructure of the various sectors they are involved in i.e. electricity distribution, road and water and sanitation infrastructure. To this end, a respondent said the following:

"One of the challenges with infrastructure is that you need a long term planning in place. A long term vision of the infrastructure that you are trying to build and have that tied to broader goals around socio economic development. If you do not have that then it is difficult for the right infrastructure to be built" a respondent said.

The DBSA on the other hand indicated that problems in infrastructure finance lies with outdated policy documents. To this end, further indicated that Integrated Resource Plan (IRP) policy has been not been updated accordingly by the relevant government authority. Based on this, many mistakes can be committed since some of the energy demand forecasts have not materialised thus a need for the policy to be updated accordingly. As it stands, the current IRP was adopted in 2010 and has not been updated since, thus rendering the DFI susceptible to inefficient spending.

In the advent of massive infrastructure gaps both within and outside of the country, there is no doubt that the DBSA can play a significant role in fulfilling those gaps, however there needs to be careful evaluation of kinds of infrastructure projects the bank can and cannot undertake. In determining the kind of projects to lend or not to lend to, the DBSA indicated that it uses a rigorous criteria to ensure sustainability of projects at three fronts that is the project that must be economically, socially and environmentally sustainable. In terms of economic sustainability, the said project must have local development impact in the region where the infrastructure development is being effected. Moreover, the project ought to stimulate economic growth in the region thereof. Cost Benefit Analysis (CBA) must also be undertaken to quantify costs and benefits associated to the community to determine whether the investment opportunity is worthwhile or not. Estimated development impact must also be conducted accordingly.

In respect of social sustainability front, this includes rigorous stakeholder identification process with the subsequent objective to elect and form a representative structure emanating from the community. Furthermore, impact of the project on the community must be duly assessed, this includes readiness to undertake and to receive the proposed project, community mobilization and most importantly impact on the beneficiaries. Post the completion and successful execution of the project, service delivery must be delivered on time, as efficiently as possible and it should be services that the end user must afford. By environmentally sustainable, this includes undertaking environmental impact matrix and technical solutions on risk mitigation measures to the environment must be advanced and offered accordingly. In essence construction of the infrastructure projects must be carried out in manner that does not pose threat to the environment in a negative way.

4.4.6 Lack of investable projects

Another significant impediment identified from one interviewee in relation to lack of rampant development impact expected from DFIs, is the lack of sound and appropriate projects to finance in the country, more especially at the municipal level. Put differently, there is a lack of well-developed and bankable projects for funders to finance. To overcome this hurdle, the DBSA expressed that they established a division known as the Project Preparation unit primarily to transition projects from feasibility stage and develop them accordingly until the bankability stage, wherein projects are ready for bankability.

"It is not always a question of saying you do not have sufficient funds out there, but whether you have projects that are fundable. So now how do you get the projects to be fundable? Which is one of the reasons why as the DBSA we find that it is important to get into planning space, so that we can help develop those projects from project preparation and therefore fund them" A respondent said.

To mitigate against the lack of bankability of projects, the bank highlighted that it has a unit specifically positioned to help municipalities to adequately prepare projects in bid to unlock other socio economic development that may take place such job creation. The bank further indicated that if bottlenecks around infrastructure planning are addressed properly, then it will easy to unlock infrastructure developments that can then be funded, than can then increase impact and unlock various elements that can help the economy to flourish. To this end, further indicated that there are roles both DFIs and government can equally play. Since DFIs are more close to the government than commercial banks are. In addition, a respondent expressed a need for DFIs to co-finance projects with the private sector and thereby catalyse the infrastructure development space.

4.4.7 DFI reporting models inconsistent with government reporting

During the interviews, two interviewees in particular emphasized the reporting model of DFIs in relation to the development impact as one significant challenge. Given the fact that these DFIs are wholly government owned, more often they are expected by government officials, including politicians and ministers to produce instant development impact outcomes almost every year. The level of reporting expected by the government always makes it rather difficult for DFIs to report accordingly in relation to development impact. This is particularly true given that the most government officials, especially ministers do not necessarily have the requisite comprehension of the financing and investing models used by DFIs. These DFIs are entrenched in long-term financing of projects, where the impact outcomes can only be derived after years of investing.

"I think for me the real issue is how you report. I do not necessarily think that you lack the impact from what is being done but sometimes how you report can be where the gap is. As DFIs we are moving emphasis from around disbursements to moving towards reporting in as far as the impact is concerned, I believe we can do a better job in terms of impact of our projects rather than talk about how much money we spent" One respondent emphasized.

DFIs investments and financing activities go through cycles and various stages over time, with the optimism that there will be creation of jobs, as well the necessary economic development taking place. Exits are made once investments are mature enough and further allows DFIs to catalyse investment elsewhere. However, because government ministries are expected to report on the economic development to parliament and to the electorate, the same line of reporting is always expected from the DFIs, which is not necessarily the case in the light of the DFIs funding model which is often long-term in nature and can at most only produce tangible developmental impact outcomes in the long run. Respondents also highlighted the fact, that politicians expect DFIs to report quick outcomes in their integrated reports.

"Another challenge facing us, is the way we report, we work with politicians and often they want quick outcomes. It is very difficult to measure outcomes and impact. If as a DFI you invest today, you have to measure outcomes in five years down line or even more, but politicians do not seem to understand that, they want quick reporting I guess it's easy for them to understand" A respondent indicated.

There was a broad sense of agreement among the respondents that in their annual reports DFIs should not only focus on amounts spent on projects, but should also look at how their disbursements fit within the broader developmental objectives as enshrined in policy documents. Thus, it is evidently clear that DFIs should not narrowly focus on projects undertaken but rather on development indicators derived from those undertakings.

4.4.8 Inadequate transformation

Moreover, dominant position of the large companies is making it almost difficult for new entrants to penetrate the market and become competitive. These large firms have colossal amount of track records, cost advantages, solid capital, and history which new players often do not possess, and thus unable to undertake large scale projects. On the contrary, the BBBEE legislation has been enacted by the government to discourage that form of behaviour from large firms and promote the entry of small players particularly people from previously excluded groups and afford them a stake in large scale projects.

"The government policy is not enabling for DFIs to implement some of their mandates. There is big conglomerates in key sectors of the economy such as mining and agro-processing and yet as a DFI you have to fund and diversify a number of players. As such small players in those spaces do not survive, simply because they do not have competitive advantage like big players. It's a matter of policy which the Competition Commission should deal with in order to be as inclusive as possible. Unfortunately currently the policy favours big players" A respondent pointed out

The respondent further highlighted that barriers to entry is a significant challenge for small players. Regrettably however, some of the empowerment policies of the government have not yielded the envisaged outcomes since inception in the light of the economic structure which is still dominated and controlled predominantly by the minority group. Therefore, the qualitative research shows that it is imperative for the government to begin lowering some of the barriers to allow for meaningful participation of small players in the economy as effectively as possible.

4.4.9 Legal regimes and Regulatory Inefficiencies

Long lead times required in complying with regulatory frameworks by government in order to undertake and be accorded exclusive rights and ownership of project is another impediment. The fundamental lack of proper enabling environment for infrastructure projects to be developed another. The overriding problem, particularly in the energy sector is the bureaucracy encountered in accessing exclusive rights to the ownership of power plants for a certain period of time. As a result, undertaking an infrastructure project without necessary rights inadvertently poses high risk to funders, financiers, project sponsors and to development finance institutions.

"Sometimes the fundamental lack is that as an investor, you identify a piece of land, you go to the government and say please give me a letter that will give me exclusive rights to the property, the government will not give that letter to you. A lot of money is being spent into developing these things but they will not be done" a respondent pointed out.

4.4.10 Project Feasibility and Preparation

Project preparation, feasibility and due diligence were also identified as some of key hindrances in relation to the work of these DFIs. Long lead times and long time lag in conducting project feasibility and the necessary due diligence required for projects to take-off. In most cases, these activities drive the costs high and are generally time-consuming. In many cases, those impediments generally discourage investors from developing the research output required for projects, and ultimately missing out on a commercially viable projects with potential impactful social and economic outcomes. The cost of doing business appears to be yet another significant impediment. To this end, one respondent said the following:

"Our hindrances are largely around regulations and project preparation. So when you prepare an infrastructure project such as airport, power plant or rail-way line, there is lot of work that goes into preparing these projects before banks can come in and put in debt. There is a lot of regulations that you need to adhere to. As a developer there is a lot of regulations you through

and you need to tick all these boxes, as a result a project from start to end can take several years and these things are costly" a respondent added.

4.5 Economic Integration with Africa

This section gives an account of these major DFIs stretch into the continent. Furthermore, this section is presented in two sections. The first section looks at the rationale to invest into the continent, while the second section focuses on challenges encountered by DFIs during the course of their work into the continent.

4.5.1 Expansion into Sub-Saharan Africa

There was unanimous agreement from all respondents regarding the need for South African DFIs investments in the continent. In addition, respondents were asked to motivate the need for cross-border investments, when there are enormous unmet social and economic needs bedevilling the country. In validating the need for these cross-border investment, one respondent added:

"We do not deploy scarce resources outside of the country, we do not provide concessional capital outside the country. Our feeling is, the better infrastructure development between South Africa and the continent, the more we can export which means there is more job-creation in South Africa"

Respondents indicated that there is a strong need for good quality infrastructure integrating South Africa with the region. In the presence of such, there will be an easy transportation of both imports and exports, thus creating jobs both in the country and in the continent. Furthermore, the DFIs indicated that these deals are mutually beneficial to South Africa and stakeholder countries. Both these development banks indicated that in addition, to cross-border transactions in the region, they support a lot of South African companies that are building roads, air-ports and power plants in those African countries. This creates more economic opportunities in the country and facilitates job creation. When asked if they make it compulsory for South African companies to be contracted in cross-border deals. The respondent said the following

"Well, we don't make it compulsory, because we are not there only to promote South Africa, we are there to improve the lives of those African countries first and foremost, but we try where possible to bring in South African companies" a respondent said.

The banks have also indicated that their lending initiatives in other African countries serve as a learning opportunity for South African corporations doing business in the continent. In doing so, they get to acquire new competencies and also sharpens their competitive edge since they have to compete against other local companies in those countries. In addition, working in various part of the world enable South African companies to be competitive. Furthermore, there has been a great deal of human resource development and knowledge transfer between South Africans firms undertaking work outside the country and local businesses therein. Thus it became evidently clear, that DFIs lending activities that stretch across the borders of the country, certainly benefit broader developmental objectives in other African countries such economic growth, infrastructure development and job creation. In a quest to corroborate this rationale another respondent added:

"When we support projects in the region, we ensure that the project will either import goods or services from South Africa, thus we create demand for local industries, that is South African investors, so there are benefits coming back into the country" a respondent said.

Interestingly, all respondents vouched for these cross border transactions, essentially citing that South Africa cannot grow in isolation and that stronger region the better for Africa in relation to trade and competitiveness with other regions like Asia, Europe, Latin America and United States of America. The general feeling from the respondents is that South Africa cannot be successful on its own, but equally there is strong need for stronger neighbouring countries.

The DBSA pointed out, that they also assist other African countries with capacity building in infrastructure projects. Part of this capacity building support is to assist countries in the region to better implement infrastructure projects and thereby ensure long-term sustainability. The bank has been an active player and has played a pivotal role in the SADC region and recently in the Sub Saharan Africa providing planning, financing, implementation and building capacity support across the continent in relation to the infrastructure development.

In determining whether to invest or not, in relation to cross-boundary projects both banks noted that they place focus on the bankability and on the commercial viability prospect, including job creation. They also take into consideration the strategic importance of the proposed project in line with developmental agenda of the said country. By nature infrastructure project designs are ordinarily long irrespective of the location whether they take place, and require a significant amount of planning. In addition, because most countries in Sub Saharan Africa have weak legislation frameworks and lack institutional capacity, project designs and planning often take longer than originally envisaged.

Ordinarily, these development finance institutions are often met with rather stiff competition from other multilateral development banks, regional development banks, and international funding agencies, international DFIs and various other counterparts in development programmes. On the positive side, the DFIs pointed out that working in various parts of the continent is beneficial for them as they constantly have to learn new ways of doing business.

4.5.2 Challenges faced in Africa

This section gives an account of factors identified by the respondents as the underlying causes for perceived low impact of investments in the continent. Respondents cited and attributed a handful of reasons behind slow investment rate in the continent. When asked about challenges that they encounter in the region, both institutions have indicated that their work in the region and in the continent is often inundated and riddled with extreme systemic challenges. These impeding challenges are stated below:

4.5.3 Legal Regimes and Regulatory inefficiencies

There was a broad consensus among respondents that turnaround times in being accorded exclusive rights and approval processes by the local authorities takes way too long. As such, it becomes increasingly difficult for the DFIs to undertake work in those countries when they have not been granted relevant legal permission such as the right to land and water licences.
Moreover, respondents cited that the sovereignty of states and legal regimes with regards to issuance of water licenses, debates over land rights and a lack of absorptive capacities of local firms often delay the commencement of projects thus prolonging the duration of projects and driving the cost of doing business high.

The off-take risk was identified by respondents as one of the significant risks faced by the DFIs. In addition, one respondent expressed the long tenor of the repayment schedule as the potential risk. The respondent said the following:

"The risk is building something that you are paying money for now, that's only going to be repaid over 20 to 30 years period. As a DFI, how sure are you that there is going to be someone

*who has the ability to keep paying you back every single year over 20 to 20 years?"*A respondent said.

The operations and maintenace risk was expressed as another sigficant risk. In other words, if the asset is not maintained and operatated correctly, it stands increased chances of degrading and falling apart over a short period of time and as such it is difficult for the off-taker to pay for the asset and in doing so, DFIs lose money. In addition, the polical risk was also expressed as another, in that the government of countries in which DFIs build projecsts into may refuse to pay the commintted amounts of money as originally contracted. Exhange rate and currency risk were expressed as another kinds of risks in relation to cross-border transactions.

"*Unfortunately, at the moment South Africa is the only country that is able to borrow and repay in its own hard currency. As for all other countries we have to lend in either US dollars or Euros and there is a lot can happen during the investment period, because when currency depreciates those countries get stuck in repaying our debt*" a respondent added.

Respondents stated that the sovereignty of most African states and regulatory requirements appear to be the most hindering factor on the side of the investors and often results in delay and thereby drives the cost of doing business in those countries significantly high. This prohibits DFIs ability from engendering the necessary catalytic role in key sectors of the economy where there is a significant amount of potential for growth. Interviewees indicated that while the DFIs have made considerable strides and progress into the continent, however the overriding perception from respondents was that challenges in those countries are immense. As such, delays feed into bulk of projects halting owing to uncertainty that could potentially arise during the course of the project, thus making it extremely difficult for potential financiers to inject the capital required to kick-start the project. To this end, a lot of potential projects remain unfinanced in the advent of that perceived uncertainty. Furthermore, many projects end up at the concept stage as a result of risk aversion behaviour from the financier' side to transition those projects to implementation stage.

4.5.4 Lack of Competent Contractors

One of the key finding identified by respondents is the identification of relevant engineering, procurement and construction (EPC) contractors. There appears to be a considerable lack of requisite expertise and skills by contractors from the continent to undertake most of the projects, as such it becomes inherently difficult for DFIs to commit financial resources in such instances. Some of the contractors lack credibility, history, while others have tainted reputation. On the contrary, there has been an increasing commitment in recent years from policy-makers and government officials to offer protection to private investors particularly international investors and desire around policy frameworks in an effort to encourage private investment in their countries. Corruption and connection of contractors with government is another challenge, faced by the DFIs in the continent, and one respondent made the following remarks:

"*One of the biggest challenges, and we have even lost money in some instances, is that you have local promoters on the other side that are politically connected to the authorities. We fund projects in good faith but sometimes they turn out to be cooks"* added a respondent.

To overcome these perceived risks, the DFIs pointed out that they work closely with other multilateral agencies, international development finance institutions in a broader effort to co-finance and co-lend in cross-border transactions. To mitigate against systemic inherent risks, the banks stated that they work closely with the Export Credit Insurance Corporation which aligns well with the insurance needed by investors in respect of cross-border investing activities.

4.6 Sustainable solutions for efficiency and effectiveness of DFIs

Respondents were asked to propose sustainable and innovative solutions that could be implemented by the DFIs to improve the effectiveness and ultimately ameliorate the economic situation in the country. The strategies were proffered by the participants to overcome inherent impediments faced by the DFIs in exerting their stated policy mandates.

"I think it is incredibly important that we play as constructive role as possible in assisting the South Africa' public sector in delivering on the implementation of its policies. Assisting as much as possible in getting the environment for investment, the enabling environment conducive" a responded emphasized.

One interviewees cited that one of the reasons for low levels of investment activities in South Africa is the enabling environment. Further cited that there are many good policies but very weak implementation. It would appear that there is strong need to get the supporting environment for business to be improved. With regards to improving internal competencies, DFIs indicated that as financiers they need to do due diligence as fast as possible, expedite business approvals as fast as possible and acknowledged that DFIs have room for improving their internal mechanisms. Moreover, in the advent of limited financial resources available, respondents cited that DFIs need to get leverage on external finance as they possibly can and thereby entice the private sector to bring more funding to projects, thus enabling DFIs to expand into a broad range of key sectors of economy. Furthermore, respondents indicated as DFIs should focus more on their approvals and disbursements being as geared towards high impact propositions such agro-processing and mining and beneficiation that will have strong multiplier effects, that will lead to significant job creation, that in turn will lead to consumption and in turn will lead to further investments.

At the high level, respondents cited that South Africa has a lot of DFIs and that in order to improve the efficiency of DFIs, it is important for the government to look into either merging or consolidating some of the national DFIs. It will be crucially important for the country to have a big DFI like other emerging economies. In addition, there is strong need to have one big DFI that will have different divisions focusing on different sectors and that there will be great synergies between DFIs and that by having them closely together will lead to higher impact than having them function in different silos. Furthermore respondents cited that a consolidation will cut out a lot of waste in the system.

"*Currently you sitting with five different boards, five different CEOs, five executive structures, five human resource departments, five financial management departments, there is just a lot of waste in the system as it is*." a respondent added.

In addition, to the suggested convergence and consolidation of some national DFIs, there was a suggestion for the conversion of provincial DFIs into implementing agencies as opposed to being financing agencies citing their low balance sheet as the main reason.

Furthermore, DFIs should focus on bigger projects that will have major impact on developing industries. Notwithstanding the importance SMMEs in economy, there was broad agreement that DFIs need to focus more on game changing industries as opposed to providing financing there and there. DFIs also stressed a need for DFIs to be more involved in post investment and that monitoring should be done more regularly and that recourse should be exercised.

"*We also have a post-investment division, unfortunately many government departments both within and outside of the country do not have the capacity to maintain the infrastructure, as a result our post-financing unit acts as an implementing agency to maintain and avoid degradation of assets, because in most cases the off-taker would refuse to pay for a degrading assets, that's not been maintained and you do not want that*" a respondent emphasized.

DFIs expressed that there is a need to coordinate scare resources better particularly primary resources. Respondents further stressed that the economy that is only resource-based has a little impact on the economy and that the country should not just focus on exporting primary resources and very little beneficiation takes place if all raw materials are exported. Respondents furthermore expressed that the country should focus on building the capacity of processing raw materials into intermediate and final goods. To this end, DFIs need to play a key role to stimulate that capacity by supporting mining companies that will ensure beneficiation.

Furthermore, respondents cited that DFIs need to future proof themselves and be anticipatory of emerging technological developments in order to remain relevant in future. These technological changes include and are not limited to the fourth industrial revolution. Furthermore, there should be constant updating and monitoring of economic policy frameworks. In doing so, a lot of mistakes would be greatly avoided and there will be a lot more efficiency in the work of DFIs. Respondents cited that currently DFIs are susceptible to many mistakes since various policy documents have not been updated accordingly.

Moreover, government should consider aiding these two major DFIs with capital injections, currently DFIs are left to fend for themselves and as such they are more inclined to retain their profits to ensure long term sustainability. Respondents expressed that most governments around the world such China and Brazil are providing that form of financial support to their respective state owned development banks.

In addition, respondents cited other innovative and sustainable recommendations that can be applied by DFIs to improve the efficiency, some of which are presented below in no particular order:

- Form strategic partnership with other development agencies and private sector to crowd-finance key strategic sectors of the economy
- Formation of Public Private Partnerships to improve efficiency in infrastructure development
- DFIs should align their mandates to the South African government and to the economy diplomacy
- Create a robust eco-system of SMME funding
- Improvement of the enabling environment to attract private sector investment
- Smooth-lining of the regulatory requirements in key sectors of the economy to attract private and international investment
- Greater emphasis should be placed on climate change and also on ESG factors as opposed to solely focusing on growth

4.7 Summary

This section summaries the above discussion and also highlights the integration of quantitative and qualitative discussion. As a starting point, the quantitative research revealed that these DFIs have joint assets in excess of R200 billion, signifying long term sustainability and existence. However, the research further revealed that the joint lending is significantly lower, it amounted to R28, 500 and R23, 400 billion in 2015/16 and 2016/17 respectively. However, while the value of DFIs assets represents sound financial management, it is worth mentioning that it is their lending practices that have direct impact on both economic development and growth. Additionally, the inconsistent lending patterns by these DFIs over time has a direct indictment on the DFIs' seriousness to the country' economic growth.

However, the DFIs have cited a myriad of reasons for their minimal contribution to the country' economic growth including but not limited to inefficient regulatory in their areas of operation, insufficient monetary support from government, poor project planning, outdated policy documents and lack of long term planning particularly in infrastructure development amongst others. Moreover, while DFIs are meant to catalyse industries for further investments, participants indicated that in the absence of private investors by default DFIs find themselves having to perform numerous functions from project feasibility, preparation, de-risking, funding, and to maintenance of assets, placing added burden on DFIs.

Paradoxically, it became evident that DFIs lend as cheaply as possible from their balance sheets to remain financially viable in the long term. While DFIs lending is meant to bring about development in financial markets in which they invest, it is also worth noting that the DFI lending is underpinned by good and sustainable returns. Simply put, DFIs lend for profits and nothing else, as such participants attributed their resolve to retaining profits to commercial sustainability that will enable them to cover their operating expenses in the long term. Also, lack of development capital from the government was cited as a contributing factor to their minimised lending.

4.8 Conclusion

The chapter presented data in the form of graphs and charts. The lending patterns of both DFIs were displayed accordingly over a seven year period. In addition, reasons for their lending behaviour were also discussed. Moreover, the participation of DFIs in government economic diplomacy formulation was also highlighted. Challenges that hinder successful operation of these DFIs were looked at. The next chapter, concludes the study and recommendations in response to identified systemic challenges as highlighted in the literature and also by participants in the research study are proffered accordingly.

CHAPTER 5
CONCLUSION

5.1 Introduction

The following chapter provides a detailed summary and conclusion of the research study. In addition, recommendations that DFIs can adopt and implement to enhance the efficiency and effectiveness are advanced and suggestions are proffered for further studies. Furthermore, policy recommendations are advanced for consideration by DFIs practitioners and those in executive positions of these DFIs.

5.2 Conclusion

It is undeniable that these two development banks play a significant and a sacrosanct role in catalysing both industrialisation and infrastructure development in the country and beyond and thereby stimulate economic and social development. Quantitative analysis showed that the total assets and total lending of these DFIs in relation to the overall economic growth of the country is very minimal. Interestingly, the joint lending as a percentage of the country GDP is incredibly low at less than 1% and is nowhere close to what other development banks from other emerging markets are contributing to their respective countries GDP. To put this into context, in 2012, the German, KfW total loan disbursement as a percentage of the country’ GDP amounted to 15.5%. Similarly in China, the China Development Bank total lending represented 11.3% of the country’ GDP. BNDES, a Brazilian Development Bank is a classical example of an effective DFI in an emerging economy with 12.4% of the total lending as a percentage of the country’ GDP (Lazzarini et al., 2014).

One of the objectives of this study was to identify the role played by DFIs during the policy formation process. Drawing from experienced development finance practitioners, the qualitative research found that, there is limited direct participation from the DFIs during the policy formulation stage. Both these DFIs would rather focus on their core mandates which is to provide financing as opposed to being actively involved in policy drafting. The only participation from the DFIs in respect to policy-crafting is through consultations and submissions as and when requested to do so by policy-makers during policy formulation process. However it remains to be seen whether policy makers understand the intricacies, funding and investment models of DFIs.

Notably, despite constant adoption of these polices almost every five years and during state of nation addresses, the direction and the objective of these policy frameworks is all the same and often speak the same thing. If anything, most government policy frameworks contest for relevance and for significance. Many of these policy economic frameworks are uncoordinated and often distort the direction of these DFIs. If anything, the targets enshrined in these policy documents are sheer chimera, while some of them impossible to achieve.

Secondly, the findings of qualitative research revealed that both these DFIs operate in rather increasingly challenging macro-environment both within and outside of the country. These include among others policy uncertainty, investment climate that is not conducive, political instability, and poor project preparation, lack of long term quality planning, regulatory inefficiencies, and lack of developmental capital from the government. Although some of these factors may be unrelated when analysed individually, however the overarching effect of these identified factors has a direct impact behind observed minimal impact by these DFIs. In addition, policy uncertainty has incredibly eroded potential investor' confidence, thus making it difficult for DFIs to find co-financiers and leverage their limited funding.

There appears to be over-reliance on these two DFIs by the government in transforming and galvanizing the country into a sustainable development paradigm. However, both The DBSA and the IDC can only do much in the advent of enormous socio-economic ills facing the country and the region. The primary role of these DFIs are to be enabling agencies and to catalyse sectors which have substantial potential in engendering economic development and in driving economic growth. However, DFIs often find themselves having to catalyse, implement, finance and be actively involved throughout the industry value chain, resulting in unintended consequences and thereby causing an overlap in their respective policy mandates. The focus of DFIs is often skewed and often shifted by many social programs that the government often adopts such as women empowerment, rural development, revitalisation of township economies and youth development. To this extent, DFIs are often required by the government to drive agendas to which they are not best suited to carry out.

However, both these institutions have no independent body that can objectively and independently measure the accuracy of developmental outcomes and impact contained in the respective annual financial reports of these institutions. This then makes it increasingly difficult to measure the link between direct jobs and initiatives wrought by these financing institutions.

At the moment the only development impact in relation to job creation and funding to emerging black entrepreneurs can only be found in the annual reports of these institutions and nowhere else. As such it became increasingly difficult to measure and independently assess the development impact engendered by these DFIs in the light of the fact that there is no standardised independent monitoring and evaluation system to assess the efficiency and the effectiveness of development finance initiatives of these two DFIs. Furthermore, the inability to measure the effectiveness of these DFIs in relation to economic growth and development is prohibited by the opaque standardised measuring tool and framework as well as the absence of the independent monitoring agency and the absence of the overall monitoring systems.

These two DFIs have definitely played a prominent role in addressing market failure in their respective jurisdictions, more particularly in agriculture finance, SMMEs finance, infrastructure finance and manufacturing finance. This is particularly true for the IDC that has funded the creation of large steel and energy entities in the country. However, in the wake of enormous developmental challenges in the respective jurisdictions of these DFIs. There are therefore compelling reasons for policy makers and executives of both the DBSA and the IDC to continue strengthening and improving the effectiveness and efficiency of these financing institutions. It is one thing for DFIs to have vision and mission statements that promise to deliver the highest possible standards of services including promoting economic growth, development and value in their designated jurisdictions but the evidence suggests otherwise.

5.3 RECOMMENDATIONS

The primary purpose of the study is to identify systemic challenges encountered by these DFIs and in response to identified challenges propose sustainable and innovative solutions that policy makers, government and development finance practitioners can consider in an effort to solidifying these DFIs to better address the current and future needs of the country and the region respectively. In the light of increasingly high demand for development impact, there are compelling motivations for policy makers to further modernise and enhance the capacity of these DFIs to adequately respond to developmental needs in their respective jurisdictions and subsequently help them ameliorate their policy mandates.

In the wake of huge demands for catalysing of industries with limited developmental capital and resources to satisfy that need, there needs to be greater collaboration between private sector, funding agencies, development agencies and the government to crowd-finance and co-invest in industries with great potential for growth such as renewable energy. Public Private Partnerships are a viable solutions to improve efficiency more especially in infrastructure development space. In addition, the role of private sector will be significant in catalysing additional capital flows.

Given the realities and the challenges that the country is facing, the DFIs, particularly IDC should focus more on labour intensive industries that will stimulate job creation, equally this should not be done at the detriment of capital intensive investments that are critically for development, competiveness and value chain creation. Essentially, there should be a stronger focus on industries with employment generating opportunities.

There is growing evidence of literature proving that DFIs can become even more efficient and effective if they received developmental capital from the government. The findings of the study have shown that many governments around the world both in developed and emerging markets offer substantial monetary support to their development banks. Many SOEs in South Africa receive annual budget allocations from the government while inefficient ones often frequent parliamentary committees in pursuit for bail-outs and government guarantees. In an effort to achieve optimal development outcomes, government should begin to consider extending financial support to well-functioning DFIs that have evidently proved through their track-record that they are capable of remaining financially sustainable in the long run while effectively fostering the economic development.

At the national level South Africa has eight DFIs involved in various sectors of the economy, resulting in many boards, CEOs, executive structures, human resource departments and high salary bill. There are strong reasons for National Treasury, Economic Development, Department of Trade and Industry and policy makers to look into a possible consolidation and thus converge of some DFIs. There is a compelling motivation to create one big DFI that will come up with integrated plan to respond and adequately address the market failure. At the moment, there is substantial wastage of money and scarce resources particularly because DFIs are in some instances already working together through co-financing of projects. There is duplication of services amongst DFIs in the wake of converging mandates of the DFIs. However, this process is most likely to be rigmarole both from governance, legal and institutional standpoint.

Moreover, DFIs ought to expedite the turnaround time of processing credit applications from prospective clients. In addition, DFIs should pay special attention on gaming changing opportunities that would yield optimal developmental impact. To enhance efficiency, DFIs need to reconsider their different business models and get enough transactions through as quick as possible. A much better process is needed to deal with emerging entrepreneurs. DFIs should have a developmental view and focus on creating industry value chain as opposed to providing bits and pieces of funding and capital. At operational level, DFIs should demonstrate the desire to retain highly skilled personnel with requisite understanding of developments in emerging markets. Moreover, DFIs should keep up with evolution more particularly with technological developments and should keep abreast with latest developments in the financial sector. In addition, DFIs should align their priorities with contemporary global machinations. To this end, DFIs need to reposition themselves to be modernised financing institutions that are adequately responsive to the ever changing technologies.

While DFIs are expected to regularly report to government ministries upon which they receive oversight from. It is vitally important for DFIs to be subjected to independent external body to monitor progress made in targeted sectors, development outcomes and timely provide such information to public including but not limited to shareholders, stakeholders and private investors. An independent body, apart from government departments from which these DFIs report to should be established. The reason for the establishment of such a body, would be to independently give an account with regards to the development outcomes engineered by these DFIs. Furthermore, an effective monitoring system of the work of DFIs should be regularly highlighted, in a boarder effort to timeously identify areas that need urgent attention as well as areas for improvement. This body shall indeed play an instrumental role, in the light of the fact that DFIs are burdened with reporting requirements by the government.

5.4 Suggestions for further studies

This research study represents a first step of solutions as proffered above that DFIs and policy makers can undertake in an effort to enhance and improve the development impact of these DFIs. Further research of these DFIs is warranted, for example it would be important to look into the effectiveness and efficiency of these DFIs in the Sub Saharan Africa, including their possible imperialism in the region, terms of engagement with authorities, project companies, commercial sustainability and competition encountered in the region. Furthermore, it would also be important to look at the possible convergence and consolidation of certain national DFIs. It would also be worth considering what financial and business models these DFIs can undertake to successfully effect timeous economic growth. A consideration of business models from DFIs in other emerging markets that have evidently and successfully galvanized their respective countries into sustainable paradigms. Finally, it would also be very important to have a look at sectors not currently financed and catered for by these DFIs which have great potential for growth in terms of level of job creation as well as economic growth stimulation.

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APPENDICES

APPENDIX A

Kgotso Kenneth Mopeli
1378 Dube Street
Pimville, Zone 1
Johannesburg
Gauteng
1809
Cell: 072 172 7275

Date: 30/07/2018

Objective: To determine interventions and sustainable solutions that DFIs could implement to grow the economy of the country as enshrined in national government economic policy documents i.e. NDP 2030, Black Industrialist, Industrial Policy Action Plan etc. Furthermore, to interrogate main challenges and bottlenecks which hinder DFIs from realising their stated strategic mandates.

RE: Request for Research Approval

My name is Kgotso Mopeli, a student at University of Cape Town, Graduate School of Business. I am currently reading for a Master of Commerce degree in Development Finance under Faculty of Commerce.

As part of the program, I have been required to carry out a research study. My topic is **Repositioning the efficiency of DFIs in a classical emerging market: The Case of South Africa.** Thus, I have a questionnaire that, with your permission, I would appreciate if you took your time to complete the questionnaire. It should take at most only 30 minutes of your time.

The research is purely for academic purpose, as such all information will be handled with great confidentiality and aggregated in a manner according to study objectives. To make this a success, you have been identified as a potential participant in the survey and I kindly request you to participate in the survey by giving your honest opinion on the subject at hand.

There are no known risks or dangers to you associated with this study. The researchers will not attempt to identify you with the responses to your questionnaire, or to name you as a participant in the study, nor will they facilitate anyone else's doing so. Your participation in this study is voluntarily and you can choose to withdraw from the survey at any time.

Please note that your input is invaluable and there are no right or wrong answers

Thank you in advance for your kind assistance. And please do not hesitate to contact me at 0721727275 or kennethkgotso@ymail.com if you have any questions or concerns.

Kind regards
Kgotso Mopeli

SECTION A

Please answer all questions and tick the appropriate answer.

1) Name of the DFI ………………………………………………………………………

2) What is your area of work within a DFI ?
   - ☐ human Resource
   - ☐ policy formulation
   - ☐ regulation
   - ☐ finance
   - ☐ strategic planning

   Other please specify……………………………………………………………..

3) The following industry has the potential to grow the economy faster
   - ☐ mining
   - ☐ manufacturing
   - ☐ agriculture
   - ☐ infrastructure development
   - ☐ renewable energy

   Other please specify……………………………………………………………………

4) What other industries not currently financed by these DFIs do you think have the potential to grow the economy ? Name two

5) Is the criteria used by the DFIs in determining credit eligibility hampering people from previously disadvantaged groups to credit access ?
   - ☐ agree
   - ☐ disagree
   - ☐ neutral
   - ☐ strongly agree
   - ☐ strongly disagree

6) Is transitioning from apartheid based policy frameworks, to inclusive post-apartheid policies impede effective running of the DFIs ?
   - ☐ agree
   - ☐ disagree
   - ☐ neutral
   - ☐ strongly agree
   - ☐ strongly disagree

7) Government‘ frequent adoption of economic policies is interfering with the functioning of these DFIs
   - ☐ agree
   - ☐ strongly agree

☐ neutral
☐ disagree
☐ strongly disagree

8) DFIs find it hard to realise their objectives i.e job creation, economic growth and development due to the following
☐ political instability
☐ government conflicting economic policies
☐ debt collection
☐ too many applicants not meeting the funding criteria

Other please specify………………………………………………………………………

9) Government inclusive policies i.e Black industrialist programme, New Growth Path, Industrial Policy Plan etc, can bring desired growth if implemented effectively?
☐ agree
☐ strongly agree
☐ neutral
☐ disagree
☐ strongly disagree

SECTION B

For each of the following for statements, place a tick in the box that closely corresponds to how you feel in relation to the reasons behind slow economic growth in South Africa.

1. Agree
2. Strongly agree
3. Neutral
4. Disapprove
5. Strongly disapprove

Reasons for slow for growth	**Scales (✓ responses)**				
Bureaucracy in processing credit applications	1	2	3	4	5
Government economic policy frameworks	1	2	3	4	5
Over-reliance by government on the DFIs to grow the economy	1	2	3	4	5
Most small-holder business operating in space not financed by these DFIs	1	2	3	4	5
Collateral required prior to receiving funding	1	2	3	4	5
Inability of the recipients to repay the bank	1	2	3	4	5
Red-tape	1	2	3	4	5
Most smaller holder firms have limited knowledge of services provided by DFIs	1	2	3	4	5
Frequent adoption of economic frameworks by government	1	2	3	4	5

10) In your own opinion what do you think are the reasons for slow growth despite DFIs progressive investments in targeted sectors of the economy?

11) How well are credit applicants selected? Please consider

Clarity and adequacy of the selection criteria, efficiency of the selection process in relation to transformation agenda, effectiveness with regards to the intended target, collateral, the duration and the turnaround time of the selection process.

12) What are the interventions and sustainable solutions that DFIs could implement to improve effectiveness and thus help grow South African economy?

In other words, what could DFIs do differently to effect broader socio-economic impact in the country over and above current policy documents that guide the strategic direction of DFIs.

13) What would you say is hindering these DFIs from realising their objectives of bringing about inclusive growth and subsequently growing the economy, in the advent of high unemployment rate, inequality, and small number of black participants in the economy ?

14) What is the level of DFIs participation in economic policy-formulation. In your answer please consider if at all, the involvement of DFIs in drafting the following economic policies. NDP2030, Industrial Policy Plan, IPAP 2, New Growth Path, Black-industrial Programme, Black Economic Empowerment, Municipal Infrastructure Investment Framework and other relevant economic policy frameworks in the employ of DFIs.

15) Please comment on the role and significance of these policy documents in relation to the effective functioning and the mandate of the DFIs

16) In your opinion, what would you say are the main challenges that are hindering DFIs from achieving their stated mandates? In your answer please consider, the bidding process by credit seekers, the quality of credit application process, funding available, funding decisions used by DFIs and any other challenges,

17) From a DFI perspective, what are the most prevalent challenges that DFIs encounter during dealing-making process, deal- structuring and negotiation stage? *In your answer please consider, the collateral, risk aversion, transactions cost, adverse selection, interpretation of the DFI model by the credit seekers, borrowers' compliance to contract terms and conditions, borrowers' allegiance to repayment schedules and their debt portfolio, etc.*

18) From clients perspective, what are the main challenges faced by applicants when applying for the funding from DFIs? *Please consider capacity, credit, character, collateral, understanding of the DFI model, credit application criteria that credit-seekers are subjected to by DFIs, transaction cost, information asymmetry etc.*

19) How well are clients, particularly emerging entrepreneurs supported by the DFIs*? Please consider, access to operational information, loan portfolio repayment, training,* *advisory services, monitoring and evaluation, market advice, accessibility of DFI officials etc.*

20) What is the extent of government' involvement with the workings and operations of the DFIs. If at all, what is the significance of government involvement in providing strategic direction and how is that direction received and acted upon by the DFIs?

21) In your opinion, what are suggestions and solutions that can be applied to enhance and improve the efficiency of these DFIs

Thank you for your time and participation

APPENDIX B

Questionnaire Survey

University of Cape Town

Questionnaire for DFIs (Interview guide)

Dear participant

My name is Kgotso Mopeli, a student at University of Cape Town, Graduate School of Business. I am currently reading for a Master of Commerce degree in Development Finance under Faculty of Commerce.

In partial fulfilment of the requirements of the degree, I have been required to carry out a research study. My topic is **Repositioning the efficiency of DFIs in a classical emerging market: The Case of South Africa.** Thus, I have a set of questions that with your permission, I would appreciate if you took your time to participate in the discussion. The interview should take at most only 45 minutes of your time.

The research is purely for academic purpose, as such all information will be handled with great confidentiality and aggregated in a manner according to study objectives. To make this a success, you have been identified as a potential participant in the survey and I kindly request you to participate in the survey by giving your honest opinion on the subject at hand.

There are no known risks or dangers to you associated with this study. The researchers will not attempt to identify you with the responses to your questionnaire, or to name you as a participant in the study, nor will they facilitate anyone else's doing so. Your participation in this study is voluntarily and you can choose to withdraw from the survey at any time.

Thank you in advance for your kind assistance. And please do not hesitate to contact me at 0721727275 or kennethkgotso@ymail.com if you have any questions or concerns.

Kind regards

Subject Name: ……………….,,,,,,,,,,,…

Subject signature: ………………………

Date: ,,…..

Questionnaire Survey

University of Cape Town

Consent Form

Name: Kgotso Mopeli
Designation: Masters student in the Development Finance Centre, Graduate School of Business, University of Cape Town
Title of the project: Repositioning the efficiency of DFIs in a classical emerging market: The Case of South Africa

Objective: To determine interventions and sustainable solutions that these DFIs could implement to grow the economy of the country as enshrined in national government economic policy documents i.e. NDP 2030, Black Industrialist, Industrial Policy Action Plan etc. Furthermore, to interrogate main challenges and bottlenecks that stymies DFIs from realising their stated strategic mandates

Subject Consent:

1) I confirm that I have read and understood the information sheet for the above study and have had the opportunity to ask questions

2) I understand that my participation is voluntary and that I am free to withdraw from the study at any time without giving reasons

3) I agree to take part in the study

4) I consent to the interview being recorded

Name of the participant: …………………………….
Signature: …………………………………………….
Date: ………………………………………………….

Name of the Researher: ……………………………...
Signature: ……………………………………………..
Date: …………………………………………………...

1) Name of the DFI ………………………………………………………………………

2) What is your area of work within a DFI ?
   ☐ human Resource
   ☐ policy formulation
   ☐ regulation
   ☐ finance
   ☐ strategic planning

   Other please specify……………………………………………………………………..

3) In your own opinion what do you think are the reasons for slow growth despite DFIs progressive investments in targeted sectors of the economy?

4) How well are credit applicants selected? Please consider

Clarity and adequacy of the selection criteria, efficiency of the selection process in relation to transformation agenda, effectiveness with regards to the intended target, collateral, the duration and the turnaround time of the selection process.

5) What are the interventions and sustainable solutions that DFIs could implement to improve effectiveness and thus help grow South African economy?

   In other words, what could DFIs do differently to effect broader socio-economic impact in the country over and above current policy documents that guide the strategic direction of DFIs.

6) What would you say is hindering these DFIs from realising their objectives of bringing about inclusive growth and subsequently growing the economy, in the advent of high unemployment rate, inequality, and small number of black participants in the economy?

7) What is the level of DFIs participation in economic policy-formulation. In your answer please consider if at all, the involvement of DFIs in drafting the following economic policies. NDP2030, Industrial Policy Plan, IPAP 2, New Growth Path, Black-industrial Programme, Black Economic Empowerment, Municipal Infrastructure Investment Framework and other relevant economic policy frameworks in the employ of DFIs?

8) Please comment on the role and significance of these policy documents in relation to the effective functioning and the mandate of the DFIs

9) In your opinion, what would you say are the main challenges that are hindering DFIs from achieving their stated mandates? In your answer please consider, the bidding process by credit seekers, the quality of credit application process, funding available, funding decisions used by DFIs and any other challenges?

10) From a DFI perspective, what are the most prevalent challenges that DFIs encounter during dealing-making process, deal- structuring and negotiation stage? *In your answer please consider, the collateral, risk aversion, transactions cost, adverse selection, interpretation of the DFI model by the credit seekers, borrowers' compliance to* *contract terms and conditions, borrowers' allegiance to repayment schedules and their debt portfolio, etc?*

11) From clients perspective, what are the main challenges faced by applicants when applying for the funding from DFIs? *Please consider capacity, credit, character, collateral, understanding of the DFI model, credit application criteria that credit-seekers are subjected to by DFIs, transaction cost, information asymmetry etc?*

12) How well are clients, particularly emerging entrepreneurs supported by the DFIs*? Please consider, access to operational information, loan portfolio repayment, training, advisory services, monitoring and evaluation, market advice, accessibility of DFI officials etc?*

13) What is the extent of government' involvement with the workings and operations of the DFIs. If at all, what is the significance of government involvement in providing strategic direction and how is that direction received and acted upon by the DFIs?

14) In your opinion, what are suggestions and solutions that can be applied to enhance and improve the efficiency of these DFIs? *In other words, what can be done differently to enhance the efficiency of DFIs?*

Thank you for your time and participation