Speaking Notes

Launch of the 2004/05 Annual Report of the Development Bank of Southern Africa

16 August 2005

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Minister of Finance

Members of the Board, guests and friends,

I am sure that you share with me, and with the staff of the Bank, a sense of pride as we look back on the achievements of the past year, and confidence that the year ahead will again see a broadening and deepening of the financial contribution of the Development Bank of Southern Africa to meeting the growth, empowerment and development challenges of the sub-continent.

The Bank also contributes to the quality and rigour of our knowledge about the challenges ahead. It provides a valued database on development trends and experience. It participates with other organizations in understanding the dynamics of growth and social change and exploring policy options. It increasingly offers a voice – or a series of voices – articulating an analytical and sometimes critical perspective on the implementation of social and economic programmes. I don't always agree with every interpretation or item of advice, but I greatly welcome the debate and the engagement with the very real, complex, practical and institutional challenges we face.

Development finance cannot just be about the money.

And so the DBSA's articulation of its "triple role" is entirely correct. Development finance is about investment. It is also about advice. And it is about partnering.

Allow me to share a few thoughts on each of these.

On investment –

It is not just about the money.

In the context of thinking about how we can step up our economic growth and development trend, how we can get from 3½ or 4 per cent growth to 5 or 6 per cent a year, within a responsible fiscal and macroeconomic framework, we have identified investment as a critical target. Fast growing economies have to invest more than 15 or 16 per cent of GDP, and so we want to see both public and private sector investment accelerate strongly over the decade ahead. There has been some progress over the last few years – since 2002 gross fixed capital formation has increased by about 8 per cent a year in real terms, contributing both to infrastructure renewal and improved productivity in several sectors of industry. Continued investment growth is a critical pre-condition for broader and deeper economic and employment growth.

But it is not just about the numbers. Investment needs to be well-targeted, which means it must rest on intelligent and well-considered infrastructure plans and business proposals. And so when we talk about improved investment performance, we are also talking about improvements in the quality of planning – better freight management, better traffic modeling, forward-looking energy and water resource planning, improved understanding of the pace and direction of technology change in communications, materials processing, biotechnology, micro-electronics, business information systems. It is particularly important, in an economy in which savings are low and industry is predominantly capital-intensive, that we should base our investment decisions on sound plans and good analysis. The Development Bank has a special role to play in this regard. Its location within the public sector makes it peculiarly well-suited, amongst lending and investing institutions, to respond to long-term public interest investment considerations. But as an independent entity, with a broad regional mandate and no special relationship with a particular province or municipality or industry, it is also well-placed to promote dispassionate, disinterested, analysis of options and assessment of risks and opportunities.

A particular challenge, for the decade ahead, is to find ways of contributing to the financing requirements of municipalities and governments whose balance sheets are weak and who cannot access finance on commercial terms. This is about designing and arranging the mix of grants and concessional lending that may be appropriate for smaller municipalities or non-commercial development projects, and it is about managing and sharing risk in appropriate ways. The DBSA is well-placed to take a leading role in this area of financial reform.

On advice –

That is certainly not just about the money.

Much of the Development Bank's advice, at present, is bound up with projects and internal research and knowledge management. It is not free, it is paid for less directly perhaps, but it is not charged at commercial consulting rates. And so, once again, it has some advantages over the competition – either commercial, or of the bureaucratic variety. The DBSA's advisory role rests essentially on its own reputation, unencumbered by commercial or political considerations.

Yes of course, that's a little naïve. Advisors all have reputations to think about, and the DBSA is not inspired by divine insights behind a veil of ignorance of its own institutional interests.

But its not entirely naïve. This is one of our truly cross-cutting centers of intellectual expertise, and the DBSA is able to draw together expertise, and learn from its own experience, in ways that are not available to university-based research teams or departmental policy advisors. The DBSA's work in municipalities and the different circumstances of our nine provinces, in addition to the radically divergent contexts of thirteen SADC countries, is an extraordinarily rich minefield of experience, knowledge, expertise and sometimes painfully learnt lessons. We all stand to gain from the effective and well-considered mobilization of this resource, and I believe this is an area of the DBSA's role that will continue to grow from strength to strength in the years to come.

A special challenge, again, relates to the planning and project management capacity of both provincial departments and municipalities that currently lack sufficient professional expertise. Successful project lending is in part about appropriate support for project management and associated capacity building at the local level. The DBSA already plays a significant role in providing such support, and is well-placed to become a leading centre of project management and infrastructure planning expertise.

On partnership –

Yes, it's partly about the money.

Far too many partnerships are strong on rhetoric and rather weak on the actual commitments and responsibilities. This becomes apparent given the overlapping and sometimes competing activities of the development finance institutions (DFIs). As a result, nifty private sector players are able to play one DFI off against another, possibly undermining the development goals and profiting from the distortions between these DFIs.

That is precisely why it is so important that the DBSA should put partnerships up at the front of its goals and objectives. With a balance sheet of R25 billion, there is not a pressing liquidity problem – this is not about finding the cash. Yes, the DBSA could draw the design and throw the foundations and build the walls and put up the rafters itself. But the building is so much stronger when there is a meeting of minds and a sharing of expertise and resources before the project design is completed. And so it is right that one of our strategic priorities should be to increase the share of project funding that is matched by investments, co-financing and partnership arrangements with others. The DBSA's development partners include its clients – municipalities or government agencies, for example, who share in the funding responsibilities where this is appropriate. But partnerships also include co-financing with the private sector and with international organizations. These are arrangements that take time to negotiate, and can involve complex risk-sharing and difficult decisions about alignment of responsibilities and mobilization of complementary resources or expertise. Well-structured partnerships are not straightforward – what works in one structure may need considerable modification in another.

One of the enormous challenges of our time is to strengthen and deepen the partnership agreements through which infrastructure investment and service delivery can be accelerated over the decade ahead.

The Financial Sector Charter provides a framework of numbers – very substantial financial commitments – but the hard work is putting the deals together that will make it possible to mobilize these resources effectively.

There are immense investments required to make an integrated urban landscape a reality, for example. There are public infrastructure requirements, but there is also a large opportunity for private investment in housing improvements, commercial and office space, industrial and recreational facilities. This is what the Financial Sector Charter refers to as "transformational infrastructure" – investment that changes the quality of ordinary people's lives. For municipalities, the regulatory environment has to be reformed in important respects, and there are still planning gaps. You can't expect private investors to make transformational investments if they don't yet know where the high street is. But the reconstruction of our cities is a joint responsibility, and the role of private finance is recognized in our new Municipal Finance Management Act. In South Africa – and elsewhere in Africa – it is imperative that the structure of both public and private investment in the infrastructure of our cities should deepen considerably over the years ahead.

We also have to consider the rural landscape. It is a mistake to think that development policies are either focused on promoting urban growth or on agriculture and the rural poor. Productivity of the rural landscape is in fact closely bound up with the efficiency and the economic needs – food, resources, recreation – of the city. The challenge of redressing a distorted and fragmented landscape is even more stark in the rural heartland.

There are also huge challenges in transport, energy and communications infrastructure. Having spent about R38 billion on freight rail infrastructure, rolling stock and ports over the past decade, Transnet expects to invest more than R40 billion over the next five years. Eskom has begun its recommissioning of mothballed coal-fired power plants, and will continue its expansion and strengthening of transmission networks. Drawing in part on experience gained in financing and managing the international partnership through which the Lesotho Highlands Water Project was completed, several important investments in water resource infrastructure over the next few years will be undertaken as ring-fenced self-financing projects. The first of these, involving a new dam on the Berg River, will bring a much-needed supplement to the Western Cape water supply system. Design work is near completion for major water projects in the Mpumalanga and Limpopo provinces.

For the next three years, we anticipate a widening of public sector borrowing from under 1 per cent of GDP in 2002 to about 4 per cent, as a result of acceleration of infrastructure rollout by the SOEs.

The acceleration in infrastructure investment cannot entirely be financed through debt. This is of course why the profitability and balance sheets of public enterprises are so important, but it is also why we have put considerable effort into developing a robust programme of public private partnerships, which bring private equity and non-recourse debt finance into selected areas of public infrastructure financing. Treasury projections indicate an increase in capital spending through public-private partnerships from about R2 billion last year to about R5,3 billion in 2007/08.

We need to achieve at least this expansion in public-private partnerships, together with steady growth in more conventional project financing, if we achieve the expansion in capital formation required for more rapid growth and development over the decade ahead. Through its contribution to investment finance, to analysis and advice, and to the structuring of investment partnerships, the DBSA is at the centre of our strategy for meeting this development challenge. The “D” in DBSA stands for development and as the shareholder we expect nothing less than a robust commitment to development.

So we owe a special word of thanks to the Board of the Development Bank of Southern Africa, to its chair Mr Jay Naidoo, to the Chief Executive Mr Mandla Gantsho, and to all the staff of the Bank, for the extraordinary work that goes into the Bank’s investment projects, into research and knowledge management and into the joint initiatives through which private finance and international cooperation are successfully brought into public infrastructure investment and service delivery.