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**DEVELOPMENT BANK OF SOUTHERN AFRICA ANNUAL REPORT
LAUNCH**

MINISTER OF FINANCE TREVOR A MANUEL, MP

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It is fitting that we announce the sound results and overall good performance attained by the Development Bank of Southern Africa in delivering on its mandate at a place where that mandate is being realised. Refilwe Township, and the two projects initiated by the DBSA bears testimony to a broad consensus that the success of development finance can be achieved through joint ownership, partnership and community involvement.

The DBSA is not a typical bank that takes deposits from individuals and lends to people requiring capital. Instead, it is a key development finance institution that has a crucial role to play in building capacity to undertake and finance infrastructure, and contribute to the region's

achievement of the Millennium Development Goals and its integration agenda.

Over the past decade DBSA has done much to align itself with the priorities of our Government. These include supporting the delivery of infrastructure that broadens access to services, promotes regional economic integration and ensures sustainable economic development.

Our government has made many statements and speeches about how to accelerate economic growth. Our underlying policy thrust clearly shows that we do not pursue economic growth for the sake of economic growth. We pursue faster economic growth because it provides people with work opportunities, it provides people with higher incomes to buy or build homes, acquire furniture, contribute towards their children's education, consume water and electricity and generally improve their quality of life.

Today, I wish to turn this question around by asking, 'what is the role of government (and its agencies) during times of rapid economic growth?'

There are, in my view, three main functions or roles of government during times of rapid growth. The first, most obvious one is to sustain high rates of economic growth and to create the conditions for even faster growth. We do this through the pursuit of sound macroeconomic policies, a sensible fiscal stance, appropriate

monetary policies and building high quality institutions, such as the DBSA. Faster economic growth also provides government with additional financial resources to spend on its priorities and delivering services to the poor. Economic growth and sound macroeconomic policies are critical to poverty reduction and the delivery of services to the poor, but growth alone is not enough.

The second role and probably the most important is the mandate of this government to ensure that many more people benefit from the fruits of faster growth. This means using the additional resources to build schools and clinics, electrify communities, provide clean water and adequate sanitation to people, build roads and public transport systems and invest in the capacity to make communities safer. I'll return to this role in the few minutes.

The third role of government is to identify and unblock obstacles or constraints that are likely to impede economic and social development in the future. This role often implies making long term forecasts and doing long term planning. Our electricity shortages, congested roads, limited ports capacity, overcrowded prisons are all symptoms of successive governments not making adequate provision for long term growth.

The DBSA plays an important role in both the second and third roles that I have outlined.

Our policy stance has also been underpinned by the belief that the benefits of economic growth will only be realised if there is a shared partnership and commitment between communities and government. Citizens are not passive recipients of a top-down delivery of services. Such a developmental model is never sustainable nor sensible. Our developmental model requires of us to involve local communities in the decisions that affect their lives, especially in the priorities that local councils set. What is required are innovative models of involving local communities through democratic institutions linked with development partners such as the DBSA.

In South Africa, we are faced with the challenge of having to translate the outcomes of 5% economic growth so that everyone, especially the poorest and most vulnerable benefit. All indicators point to a continuation of the expansion of our economy as spending on infrastructure gains momentum and other measures address constraints on growth. These are indeed exciting, yet challenging times. We are the first generation with the knowledge, awareness and resources to eradicate poverty. Yet, every day we learn that achieving this is far more complex than merely possessing the political will and resources to do so.

Broad improvements in human welfare will not occur unless poor people receive wider access to affordable, better quality services in health, education, water, sanitation, and electricity. Without such improvements in services, freedom from illness and freedom from illiteracy - two of the most important ways poor people can escape

poverty - will remain elusive to many. Too often, the delivery of services falls far short of what could be achieved, especially for the poor.

The location of today's launch, Refilwe in the Metsweding district, is associated with two projects, partly financed by the DBSA. The first deals with electrification and prepaid meters and the second deals with sewerage capacity and water reticulation. These projects bring tangible benefits to the poorest sections of our community, benefits that allow children to study late into the evening, benefits that reduce disease levels, benefits that free up the time of children collecting firewood. These projects are also evidence that through partnerships with local communities, we can increase access to services even in areas beyond our large urban metro poles.

In the past thirteen years, our government has done well to increase access to basic services, especially in the areas of schooling, health care, water and electricity. We need to do more in a number of areas such as housing, sanitation and public transport. We also see that some parts of our country are not making as much progress as other parts. Access to basic infrastructure is highly inequitable with the highest backlogs being in sanitation.

According to the DBSA's infrastructure barometer, the Eastern Cape has 36.2% of its population with no access to basic sanitation, compared to Gauteng with 5.8%. These figures do not show much

improvement from 1996. This remains a major challenge for all development role players.

We also know that 3 152 schools in our country do not have a water source on or near the school, 8 470 schools have just pit latrines and 1 532 schools have absolutely no sanitation facilities. We can list similar examples from almost every aspect of service delivery. This is something we should not hide from, it is something that requires action. This is the honest face of development.

We must also be mindful that access to services does not only depend on physical infrastructure. It also depends on human interactions. An extract from the 2004 World Development Report shows just how important these human interactions are: In random visits to 200 primary schools in India, investigators found no teaching activity in half of them at the time of visit. Up to 45 percent of teachers in Ethiopia were absent at least one day in the week before a visit - 10 percent of them for three days or more. A survey of primary health care facilities in Bangladesh found the absenteeism rate among doctors to be 74 percent. We do not have comparable figures for our own country, but I'm sure all of you know that picture exist in many areas.

There are also many local and international examples of successful improvements in service delivery. Community-managed schools in El Salvador, where parents visited schools regularly, lowered teacher absenteeism and raised student test scores. In Uganda, a story

published by a local newspaper that only 13 percent of the money due to primary schools was actually reaching the schools, galvanized the populace. The share now is 80 percent and the entire budget of the school is posted on the schoolroom door. Water projects in India and Bangladesh experienced a higher rate of success when local communities became involved in the schemes specifications, contributing to decisions about cost sharing, maintenance and replacement of equipment.

The lesson from many of these successes is that the people affected by the change are involved in the decision-making process. Our legal framework makes provision for community involvement in schooling through school governing boards, policing through community police forums and local development plans through IDPs.

In three years we will host the 2010 Soccer World Cup, the most prestigious gathering of this universal sport.

Preparations for this as well as other infrastructure projects will provide unprecedented spend on infrastructure. We must ensure that such a rare opportunity like hosting the World Cup results in a real legacy.

The DBSA is involved in various projects ranging from stadium upgrades to inner-city development with a view to contributing to this legacy.

Our massive infrastructure spend has also brought into sharp focus the severe skills shortage found at all levels of our society, whether it is project managers at a municipality or engineers needed to build a stadium. Again, we need to be more creative in finding solutions. Through Government's ASGISA and JIPSA programmes, plans are in place to address these issues, but we cannot do it alone.

Government requires committed and innovative partners who are willing to work closely with it to address these issues urgently. The progress made through our Siyenza Manje partnership must be lauded. We must be encouraged by this to be more innovative.

I understand that some of the Siyenza Manje deployees are helping poorly-resourced municipalities to put in place working financial management systems; processes and structures that are achieving positive results. Some of these engineers are doing a lot more than engineering because of capacity and skills shortages in the under-resourced municipalities. I would like to challenge the DBSA to accelerate this initiative and profile the good work that this initiative is doing in order to share the lessons.

As the DBSA has positioned itself as a knowledge bank – I want to challenge it in this regard. I would like you to share the lessons that are emerging from the work of these Siyenza Manje deployees. The experience of these engineers, financial managers and project managers in remote rural municipalities must be used to promote best practice in other parts of the country.

Councilors, Mayors and other local politicians play important roles in guiding their municipalities and communities to achieve their development targets as stated in their IDPs. Political office bearers not only play an important oversight role of municipalities, they also provide overall strategic direction. This happens principally through the budget process and the development of IDPs. We have also seen a disturbing trend of a blurring line between what local councilors do and what officials do. Clear demarcation of responsibilities and recognition of the need for good technical competence is a prerequisite for improved service delivery. The Municipal Finance Management Act and other complementary legislation set out these roles and responsibilities clearly.

In conclusion, I would like to congratulate the management and staff of the Development Bank for the sterling work that has gone into achieving their milestones in the past year. I call on them to continue to put their shoulder to the wheel to support the reconstruction of our country and our region. Through innovation, you continue to teach others, through setting high standards, you continue to define best practice.

Thank you.