

The key factor uniting the participants in the NDF is their commitment to 'people-centred development', which emphasises the building of human and institutional capacity within communities to enable them to exercise greater control over the process and product of development. This approach is informed by a macro policy of Erawth Through . Redistribution and the need for a fundamental restructuring of the South African economy. We are further united by our support for the creation of a democratic constitution, a political environment which will facilitate a strong presence and role for 'civil society' and in the short term an interim Government that can speed up the process of democratising all development processes and institutions.

The four objectives we have set ourselves are:

1. Building a Development Policy Framework and Strategy. This includes sectoral policy (in education, health etc), an integrated framework that is consistent with our macro views and creating a framework for Development Finance that is responsive to the needs of the poor.
- 2- Developing guidelines for engagement and negotiations in the transition period around socio-economic development issues- This includes how we relate to the Government, the parastatals and private sector led initiatives.
3. Working on strategies to enhance our institutional capacity at national, regional and local level, both within sectors and across sectors. Building on existing organisations, creating new ones and improving our technical and management skills.
4. Building the NDF and its constituent parts, namely the sectoral networks and the regional structures into a strong formation that is representative of a democratic approach to development.

At the meeting of the NDF in East London, held 6th - 8th December, the following were among the key conclusions:

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NATIONAL DEVELOPMENT FORUM

PRESS RELEASE

At a National Development Workshop held in September 1991, 125 representatives from a wide range of organisations aligned to the Hess Democratic Movement and working in the development field, supported the proposal to transform the Workshop into a more structured Forum.

A Planning Committee of sectoral co-ordinators was given the mandate to set up the first meeting of the National Development FaruthDF), which took place from the 6th to the 8th December, 1991, in East London.

The meeting was attended by 150 people, representing the following sectors: Urban Sector Service Organisations, Rural Sector Service Organisations and Mass Organisations, Education Sector, Health Sector, Welfare Sector, income Generation Sector, the National Civic Movement, Cosatu and representatives of the emergent Regional Development Forums. The ANC'S Projects and Economics Departments also participated.

The main motivation for both the Workshop and the establishment of the NDF stems from the need of the Democratic Movement to build its own Development Policies and Strategy.

This becomes urgent in the light of moves from the Government and other institutions (DBSA and IDT in particular) to take major initiatives to address the development needs of the peer majority. These initiatives in our analysis are politically motivated to build support for Government to entrench the establishment institutions and their '-top down' product focussed development approach.

- a) The idea of a socio-economic negotiation forum which has real powers to make decisions was discussed. The participants to the NDF agreed to consult with their structures concerning their role in such a forum.
- b) Despite talking to the DBSA, no significant changes have occurred in its policies since it does not have the power to change itself and make itself democratic and accountable. We maintain our view that the DBSA is an appendage of the Government continuing to serve its interests- That the future of the DBSA and other parastatals should be placed on the agenda of national negotiation around socio-economic issues with the Government- Its future should be decided on the basis of a clear framework for development and development finance-
- c) On the IDT, we recommend that a national task force be established of representatives of the various sectors covered by the IDT and senior leadership to negotiate its future activities. This relates to future loans and grants from both foreign and domestic source, its approach to development, its policies and finally its style of management.
- d) On Development Finance - having the weaknesses of the current framework to adequately address the needs of the majority, a working group to develop new options was set up- This group will also produce a discussion paper on the workings and weaknesses of the current system, and share information on ideas for more community-based initiatives, some that are underway and others which are being investigated.
- e) On a Development Policy and Framework - that an already existing group, the Development Research Group (DRE) which is feeding its work into the "DP continue its work and report to sectors by March with policy options for discussion. There is already much work being done in this regard which needs consolidation.
- f) On Community Development Institutions - many are already being created in the form of Community Development Trusts and Section 21 Companies. More work on integrating them

THE DEVELOPMENT BANK OF SOUTHERN AFRICA - B PERSPECTIVE

Background:

government's approach to promoting "regional population of the homelands or "less developed areas". appointed from member states and the private sector. represented.

facilitated a process of apparently objective control over the "independent" homelands. rational planning, to stop stupid and corrupt projects. government before an application can be appraised.

CURRENT OPERATIONAL ISSUES

and black local authorities;
through the JFAC process;
some support for NGOs

The Development Bank of Southern Africa was established in 1983 by the SA and TBVC governments to serve the South African economic

development". The intended beneficiaries were essentially the DBSA's has a two tier control structure. The Council of Governors is composed of ministers from the member governments in which a majority is from the SA cabinet; the Board of Directors is In the homelands, many of the normal activities of a government and an economy were described as "development" activities". They were supported by non-accountable external agencies (like DBSA) or by direct grants from central government rather than through normal government processes in which the beneficiaries were DBSA's specific role was initially to provide a "single channel" for investment funds for homeland governments while SA government provided funds for current expenditure. The two separate channels - it was

for instance, possible to refuse to lend more money for capital projects on the grounds that the recurrent funds to repay these loans were not available. The recurrent funds were however also controlled and allocated by an external process. In the course of this, DBSA became an important channel of control, particularly The focus of DBSA now includes black urban areas and is being gradually expanded to include some NGOs. Its lending is still overwhelmingly to homeland or black urban authorities.

lent hundreds of millions of rands for projects which have served to entrench apartheid although it has also helped,

It has

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Although lending is formally open to non-government agencies, the applications procedure usually requires the consent of the local

The DBSA currently has a number of focuses. These include:-

- continued financial support for the homeland governments
- facilitation in policy negotiations and processes
- assistance to SA government in managing homeland budgets

There are a: number of longer term strategic objectives which include:

- continuing as a major source of support for "development needs" of poor communities; -
- channelling and management of foreign aid flows;
- promotion of regional development in a new context within South Africa: —

- regional development finance in Southern Africa.

FOCUS

As indicated above, there has been a change in focus on the part of DBSA to address the needs of black communities in urban areas of white South Africa as well as to open the doors to NGOs. The latter do not yet represent a significant component of lending and it is not clear that DBSA is an appropriate channel for such financing.

CASH AVAILABILITY

Current SA government grants of approximately R500 million a year are expected to stabilise at that level. This effectively limits the amount of cash that can be mobilised since additional funds have to be borrowed at commercial rates. These can only be lent at subsidised rates if further grants are forthcoming. Borrowing is also constrained by the need for guarantees. The effective guarantee is the callable share capital of the SA Government.

The cash situation is currently very tight with previous commitments accounting for the majority of disbursements and very little scope for new commitments.

EFFICIENCY

There is no measure of the efficiency of use of resources in DBSA'S annual report. Comparison with other agencies suggests that it is not particularly good. The cost per rand of loan approved or disbursed is relatively high and the internal bureaucratic processes are recognised to be inefficient. Efficiency measures are being studied and there are the beginnings of attempts to introduce greater cost consciousness. Some services are currently provided free - for instance, the secretariat function for the JFAC processes is provided to SA government at considerable cost.

The essential problem is however that staffing is high in relation to the resources available for distribution. DBSA currently has approximately 700 staff who accounted for over 75% of the R87 million operating costs in 1990/1991.

POLICY

One of the areas in which DBSA has been particularly active is - that of policy formulation and promotion. This is in part a reflection of its relatively lavish staffing which enable it to devote considerable resources to discussing policy issues with borrower institutions.

This "policy leverage" - the use of lending power to influence policy of borrowers - is used widely by international development aid agencies, notably the World Bank.

Some of the policy interventions of DBSA have undoubtedly been positive - as for instance, in the land and agriculture debate.

In the urban debate, the relatively positive initial role (putting the reality of urban development in white South Africa on the political map) has not been matched by an effort to support the breakdown of the apartheid city which would involve active opposition 'to current plans e.g. in the PWV. In entrepreneurial development, the focus has been almost entirely on homeland development corporations which have specific local political functions with a virulent "anti-coop" stance.

There are areas where earlier strident demands for privatisation of functions, promoting entrepreneurship and generally reducing the role of the state have been. calmed only recently as the political realities become apparent. The ideological background for policy pronouncements is becoming unclear, probably in response to the changing external environment.

RATIONALISATION AND INSTITUTIONAL SURVIVAL

The establishment of the de Loor Commission to investigate the rationalisation of the development finance sector has clearly posed a potential threat to DBSA since the Commission was set up on the understanding that rationalisation is needed.

There has in response been a considerable degree of uncertainty which is reflected in the efforts being put into strategic management exercises. Among the key' areas of concern are ithe definition of the organisation's mission and its control structures as well as improving the_quality of its internal management.

It is notable in this context that none of the "election funds" currently being generated by government (IDT's allocation, strategic oil reserve or VAT food subsidy) have been channelled through DBSA. This has added to internal insecurity. However, DBSA is deliberately promoting a high international profile. The associated potential to raise funds externally must be a factor in favour of its Survival from the point of view of the current government.

In terms of staff composition, the current target is to achieve 30% black staffing at all levels within two years. At lower levels, DBSA has performed reasonably well to date - this is certainly the case in comparison with other government agencies.

WHAT SHOULD A DEVELOPMENT BANK DO ?

STRATEGIC INVESTMENT OR SOCIAL FUND ?

A Development Bank normally fulfils one of two roles:

i) Regional (between states in a region) loaning funds raised externally to projects within individual member

_ countries, often to promote regional goals to which all members subscribe.

ii) National, using national resources, (perhaps "topped up" from external sources) to achieve national goals.

Two kinds of strategic goals can be identified:

- Broad national economic goals which the local private sector might be unwilling to finance due to their long term nature, high levels of risk or large sums required; and

- Social goals such as the redistribution of wealth and income, affirmative action' etc. which a purely profit centred financial sector will not address in support through loan financing.

There is a further category of Social Funds which are institutions which distribute grant funds in support of social objectives. These may sometimes make loans but their basic objective is the distribution of funds which have been allocated rather than the maintenance of a sustainable business.

DBSA is structured as a regional development bank; it is in fact a national development bank; the need it actually fills is more _that of a social fund - providing services to meet social needs in marginalised communities using grant finance.

At a national level, it is arguable that loan funding is inappropriate for social purposes due to the build-up of repayment obligations. It might be preferable to allocate annual budgetary funds in accordance with the possibilities created by the broader economy. These could be channelled directly by a Ministry of Finance.

An option would be to establish a social fund to which communities could apply for financial assistance or to maintain

and reorganise the IDT and DBSA for this purpose. Such a fund is intended as much to empower communities (help them to organise themselves) as to carry out the work for which the money is requested. If interest is charged, this is to encourage recipients to plan and manage the repayment process - which means that they have to plan and manage the process for which they seek funds. '

THE "DEVELOPMENT AID" PROCESS AND DEVELOPMENT BANKING

It is important to distinguish between the normal funding mechanisms of government and "development" funding.

One function for a Development Bank can be to act as a channel for external "aid" funding. The importance of this function will obviously depend on the size of potential aid flows. In the case of South Africa, which is a relatively rich developing country, there would not normally be a major flow of grant aid. Financial flows would usually be on a loan basis on fairly "hard" commercial terms. During the transition, there is likely to be a continuation of the grant and soft loan funds which were originally intended for "aid to victims of apartheid" but are now going to be used to assist the transition process.

"Foreign aid" processes are usually expensive and inefficient. They are adopted (rather than simple fund transfers) to enable donors (normally rich western countries or agencies controlled by them) to maintain control over the use of their funds. This is because they want "policy leverage" (to have the policies they want implemented by the recipient government) because they do not trust the recipients and because they want maximum benefits for their home countries (orders for goods, work for consultants, employment for their professionals etc.).

Inefficiencies occur because fund allocation processes have to be repeated in both donor and recipient countries (which increases administration costs); because the processes of aid giving are not standardised between aid agencies (this further increases administration costs); because free procurement of goods and services is often not allowed (which invariably increases their cost) and because funds are often not available for critical activities, particularly those involving administrative and other recurrent expenditures.

The aid process also interferes with the normal accountability of government because decisions are taken by outside parties rather than by governments under the control of democratically elected representatives.

Given these problems, there are good reasons for not using an "aid" process to spend a country's own national resources (which is what the DBSA does at present). There is however a good case for attempting to gain some central control of the flow of

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%called upon to do so. am

aid funds to try and ensure that they support national objectives and structures. An institution such as a Development Bank or Social Fund could be an excellent vehicle for this purpose since it prevents direct interference by external donors at an operational level. For donors, it may also facilitate the administration of funds.

SCOPE FOR CHANGE

There is considerable scope for transforming the organisations involved in "development assistance". The IDT has only a limited amount of grant finance available. Once it has been spent, the organisation will have to close its doors unless new funds are made available - on new terms. '

DBSA is similarly vulnerable. Its large 'asset base is made up almost entirely of loans to homelands and black local authorities together with "callable" share capital from government.

Repayments depend on continued central government funding of these authorities but there is no explicit guarantee for this.

The only other guarantee for lenders is the South African government's commitment to pay in its share capital should it be t

Since most of the homeland and black urban authorities will disappear under a new constitution, DBSA will only survive if a new government underwrites the outstanding debts and agrees to maintain its current share capital arrangements. '

This may be appropriate if it is decided that an institution like the DBSA is useful but it will require the commitment of government funds at a time when there are many other demands on these. A decision will thus have to be made at the time of constitutional negotiations as to whether DBSA should continue to exist. -

An aspect which should be considered in this context is that of Southern African regional development. It is likely that South Africa will join SADCC and that SADCC will be transformed into an agency for the promotion of regional economic development.

In this context, there will be a clear need for a regional development finance institution. Some elements within DBSA see this as their long term future role. It is suggested that on political grounds, it would be unwise to look at this solution. The main regional concern is the threat of South African economic domination. Since many of the mainstream economic sectors will undoubtedly be dominated by South Africa, it will be politically necessary to seek areas in which the other states can have a major role. The location of a regional development bank is, it is argued, an obvious option.

ENGAGEMENT

Engaging with the DBSA on an ad-hoc basis is undoubtedly a potentially negative exercise given the institution's ability to consume person hours unproductively. However, considering the institution's weaknesses, it is also clear that there is scope to determine the terms of such engagement. Thus the issue is whether there are benefits to be gained-

There are a number of these. DBSA is one of the few state institutions which is allowed to take an overview of the needs of the whole country. There is thus a major resource for undertaking policy research and formulation, particularly in view of the high proportion of professional staff. The potential for opening further the contradictions between the rational economists and the politicians within state structures should be noted.

It would arguably be easier to achieve some control of DBSA and its activities than of a Pretoria Department - and it might provide a useful training ground for this. The difficulties of engaging effectively with DBSA and turning into an agency which could serve the broader South African community should not be underestimated. A change in control effective only at Board or Council level is unlikely to bring results unless accompanied by intervention in the top executive management.

One possible route would be to promote the establishment of a development negotiation forum as in the housing and macro-economic areas.

It should be noted that DBSA has been active in promoting its image internally and especially abroad; the visits abroad with KT are a good example of this; much of this work is consciously intended to build the image of the institution and part of this is reflected in its desire to recruit_acceptable members of the black community.

SOME ISSUES FOR DISCUSSION

1. How do we go about engaging the DBSA on issues of:
 - a. Policy debates and policy formulation
 - b. On their plans to begin to work more with non-homeland urban areas and NGO'S and Community Organisations.
 - c. around getting funding for development projects that we are involved in.
 - d. around the possibility of joint projects with the DBSA.
2. What kind of engagement strategy should We develop around democratic movement people who work in the DBSA, some who feel accountable to the movement and yet others who do not?
3. What exactly does it mean in todays context when we say we want to democratise the bank, transform it, or make it more accountable. How do we develop a concrete and tangible strategy around these ideas, for example does it mean we ask for top positions in the bank, changes to their control structures, closing it down. We need to provide some very concrete answers to this question.
- . 4. Noting that there are hundreds of meetings between the democratic movement and the DBSA taking place all the time, what do we do about ensuring a co-ordinated response. Should we set up a monitoring mechanism, provide guidelines and leave it to different organisations to follow these etc.
5. Produce a resolution for the plenary to consider.