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WHAT DO STATE-OWNED DEVELOPMENT FINANCIAL INSTITUTIONS (SODFIS) IN SOUTH AFRICA DO?

ABSTRACT: *This study explores the model of state-owned development financial institutions (SODFIs) in South Africa and how South African SODFIs contribute to national, continental, and international developmental agendas by providing necessary support towards financing domestic and international projects, thereby mitigating seven categories of market failures. It analyses relevant documents and the latest annual/integrated reports of the SODFIs, making it possible to highlight their modus operandi and the instruments employed in fulfilling their mandates. Analyses indicate that although SODFIs in South Africa mitigate market failures by adequately contributing to national, continental, and global developmental agendas, they do not fund state-owned enterprises (SOEs), leaving out an important aspect of public socioeconomic cooperation. This study thus highlights the importance of funding SOEs partly through SODFIs rather than directly from the national budget and discusses implications for theory and practice.*

KEY WORDS: *agenda 2063, development financial institutions, national development plan (NDP) 2030, sustainable development goals (SDGs) 2030, state-owned enterprises (SOEs)*

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1. INTRODUCTION

State-owned development financial institutions (SODFIs) are financial institutions that offer subsidised, long-term financing for industrial and infrastructural development. They are usually owned by states and are different from multilateral institutions such as the World Bank, the European Bank for Reconstruction and Development, the African Development Bank, and the International Monetary Fund (World Bank, 2014). These SODFIs are often mandated to promote local industrial and infrastructural development (Vandone et al., 2020). Hence, they normally play the vital role of providing capital to domestic firms at subsidised rates as well as providing low-cost export-related insurance products and financing throughout the production chain (Bird, 2020) and directly supporting infrastructural development. Thus, they are often likened to national champions (Lazzarini et al., 2015). Their importance tends to explain why the number of SODFIs around the world is increasing in contemporary times (Bernier et al., 2020). They are an equally important mechanism in solving market imperfections resulting from a lack of financing for profit-oriented projects or those generating positive externalities. In this context, Musacchio et al. (2017) note that these SODFIs assist in alleviating capital scarcity and promoting entrepreneurial goals by boosting industries, whether new or existing, in states with massive capital constraints. Thus, their lending extends to organisations that are not necessarily interested in certain projects should long-term, subsidised funding from SODFIs not be available. Aside from lending to private individuals and organisations, SODFIs in some states also lend to state-owned enterprises (SOEs). In this regard, Leutert (2020) notes that the China Development Bank and the Chinese policy bank, the Export-Import Bank, have facilitated SOE business abroad by financing SOEs with instruments including export buyers' credits and concessional loans.

Interestingly, despite the importance and tensions relating to public accountability in this organisational field, there is a paucity of empirical research on SODFIs, especially in Africa generally and in selected African states with developed SODFI/SOE sectors. In this context, a majority of what has been done in this field covers European states generally and some individual European, Asian and American states (Lazzarini et al., 2015; Clifton et al., 2014). Thus, observers and commentators are not able to relate and compare events regarding SODFIs in Europe, Asia, and America with those in Africa. In addition, SODFIs are very useful in Africa, considering that Africa is in dire need of infrastructural development, for which SODFIs are useful in financing. Furthermore, much of what has been done is more of a descriptive or theoretical nature rather than empirical studies on SODFIs' activities and how they operate in terms of discharging their developmental, financial, and, in some cases, insurance functions (Vandone et al., 2020; Eslava & Freixas, 2018). Also, Vandone et al. (2020) note that despite the increasing activities and the role of SODFIs, aside from a few exceptions (Lazzarini et al., 2015; Yeyati et al., 2007), SODFIs have not received the attention they deserve in the academic literature, and thus remain an under-analysed phenomenon. This prompts authors to study firm-level characteristics and activities of contemporary SODFIs in Europe. Irrespective of this paucity of research, SODFIs continue to increase in number and remain important developmental and financial players in many states, both developing and developed. In this regard, Musacchio and Lazzarini (2014) identified more than 286 development banks throughout the world, with most of them situated in South and East Asia (29.7%), Africa (24.5%), and Latin America and the Caribbean (17.8%). This observation regarding the percentage of SODFIs in Africa indicates that Africa offers a rich context for studying SODFIs.

This paper answers the question of the nature and role of the various SODFIs in South Africa, especially regarding mitigating market failures by contributing to national, continental, and international developmental agendas. In the continent of Africa, South Africa offers an empirically sound context for exploring this question for several reasons. The first is that South Africa has the highest number of SODFIs/SOEs in Africa (USA, 2020). Secondly, South Africa has the different varieties (Musacchio et al., 2017) of SODFIs discussed in the next section. Thirdly, South African organisations are exemplary in terms of reporting adequacy (Prinsloo & Maroun, 2020).

The findings of an analysis of relevant documents and the latest reports of the SODFIs in South Africa indicate that in line with mitigating market failures, SODFIs in South Africa are adequately contributing to national, continental, and global developmental agendas by addressing and alleviating seven categories of market failures: information asymmetry and credit rationing; information externalities and latent capabilities; coordination problems; lack of public goods; lack of technical assistance; lack of strategic trade; and lack of competition in developmental project markets. However, their activities do not extend to financing SOEs, which is an important aspect of financing developmental agendas and projects that have been explored by SODFIs in several countries, including China and Singapore.

This paper contributes to the literature in three primary ways. The first highlights the importance of SODFIs in mitigating market failures and assisting with financing developmental agendas. The second positions SODFIs in South Africa within the body of the existing literature on SODFIs, which has almost entirely focused on developed countries, and the third indicates the importance of partly financing SOEs through SODFIs as a way of curtailing fruitless and wasteful expenditure. An important contribution for practice is that this paper is a pointer to developing economies, especially African countries, contemplating establishing SODFIs. It furnishes them with information on different categories of SODFIs and the market failures they may help to mitigate.

This study proceeds thus: following the introduction, the next section discusses SODFIs in detail. Section 3 describes the history and rationale of SODFIs in South Africa, while the following section describes theories applicable to SODFIs. Section 5 presents the methodology and method before the analysis and presentation of results in section 6. Thereafter, the policy and practice implications of this study are presented in section 7, before section 8 concludes by providing avenues for further research, taking into account the relevant practice and policy implications described in section 7.

2. SODFIs

There are different kinds of financial institutions in the public arena, one of which is the SODFI. There are also the state-owned banks, SOBs. Although SOBs are owned and, in most cases, controlled by states, they are different from SODFIs. In this respect, Vandone et al. (2020) submit that SOBs differ from SODFIs along two dimensions: the first is that they normally do not have explicit public service obligations and the second is that they usually operate more like private banks (POBs) and offer an array of banking and financial services targeting retail and corporate customers. These services include deposits and accounts, credit cards, loans, stock market services, insurance, asset management, among others. SODFIs may be classified into supranational/transnational and national, meaning that they differ along the line of their ownership. Supranational SODFIs are usually owned by a combination of many states, while national SODFIs by individual states. These SODFIs further vary along the lines of their mandates and funding, as discussed in section 3 and indicated in Tables 1, 2, and 3.

Since there are different kinds of SODFIs, as noted above, it follows that the mechanisms used by each SODFI in discharging its mandates vary. However, on a general note, these mechanisms include subsidised interest rates, credit guarantees, medium-to-long-term credit, equity, technical assistance (Musacchio et al., 2017), and the variants of public-private partnerships (PPP) (Adebayo, 2018), indicating that SODFIs usually have a broad mission of promoting development. Accordingly, in fulfilling their mandates, SODFIs invest in states (or continental states if supranational) by promoting developmental projects in states, especially where socioeconomic ties exist between the owning and target states (Vandone et al., 2020). The mode of operation of SODFIs is usually contingent on their mandates and size. While some are established to fulfil certain direct policy objectives, others have the autonomy to proceed as they deem fit as per their circumstances. In terms of size, large SODFIs usually have broad and flexible mandates. This category of SODFIs can finance financial intermediaries that on-lend (second-tier lending) to end customers or directly support end customers, such as start-ups, individuals, households, small and medium enterprises, large private corporations, SOEs, and other financial institutions (first-tier lending) (Vandone et al., 2020). Hence, there are different mechanisms employed by SODFIs backed by certain motivations and/or objectives (Lazzarini et al., 2015) – confirming that SODFIs have different instruments with which they fulfil their mandates, including loans, guarantees, mezzanine finance, risk-sharing instruments, and equity (Vandone et al., 2020; Eslava & Freixas, 2018). In addition to this, some SODFIs are also involved in offering non-financial related services, including advisory and training services, as well as administrative and technical services. Although development banks target large industries, there is serious discussion regarding the model of operation of different varieties of SODFIs and the reasoning behind adopting such a model (Lazzarini et al., 2015).

2.1. SODFIs and SOEs

The key difference between SOEs and SODFIs is that the former represent enterprises owned by states, while the latter represent development financial institutions owned by states, with it being recognised that they often come under the umbrella term SOEs. Both SODFIs and SOEs are established to fulfill state mandates, such as correcting market failures (Clarke, 2015; Putniņš, 2015). SOEs that are properly organised sustainably deliver public goods and services, reducing issues of asset specificity (Bakre & Lauwo, 2016; Williamson, 1985) since investments in assets by states are usually highly specified and only useful for certain tasks or under certain circumstances, which SOEs can better utilise due to their expanded socioeconomic mandates. Additionally, profit-oriented SOEs often contribute to the national budget, easing fiscal pressure on their owning states (Huat, 2016). Moreover, states may use SOEs as vehicles for intervening in costly or difficult voluntary exchanges, which usually involve externalities such as monopolies over technical efficiency and neighbourhood effects (Friedman, 1962). The important role of SOEs in states implies that they should have access to timely funding. In some states, SODFIs provide this funding to SOEs (World Bank, 2014). While this provision is in use in several states, such as China and Singapore, it is not in use in other countries where SODFIs do not have the mandate to support SOEs that are required to generate their own funds or are funded directly from state budgets (Thomas, 2012). In addition to financing private firms, SODFIs in some states also deploy equity financing to support SOEs. As a result, SOEs have access to the necessary funding to carry out their mandates. Hence, there are numerous state-backed financing alternatives available to SOEs in several states by national SODFIs, making it possible for SOEs to have the required funding for their operations, depending on specific contexts (Fine & Bayliss, 2020). Since SODFIs are state-owned, lending to SOEs should be one of their main priorities, rather than lending to private individuals and organisations, especially where the motive of SODFIs is not to generate profit, but rather to ensure that revenues cover expenses, which is often the case, especially in African states. In addition to ensuring that SOEs, which are usually present in different state sectors, have the required funding for their activities, SODFIs will also ensure that SOEs are equipped to contribute to national, continental, and global developmental agendas pursued by different states at the local level, for example the National Development Plan (NDP) 2030 in South Africa; at the continental level, for example Agenda 2063 in Africa; and at the global level, for example the sustainable development goals (SDGs) 2030. An important factor here is that SODFIs funding SOEs may reduce fruitless and wasteful expenditures by SOEs as SODFIs are more equipped and better able to monitor and recoup loans than owning states.

2.2. SODFIs and developmental agendas

The economic consequences of World War II and the subsequent Marshall Plan of the United States were among the catalysts of worldwide SODFIs (Min-Ji, 2015). Thus, the main socioeconomic argument for SODFIs and SOEs is generally outlined around market failures (Clarke, 2015; Putniņš, 2015). The underlying argument is that public policy institutions are objectively and practically better placed to mitigate market failures, such as asymmetry of information, externalities, latent capabilities, coordination problems, and strategic trade, as well as to ensure the functioning of existing markets relative to private sector enterprises (PSEs) (Aiken & Hage, 1968). Thus, SODFIs are known for funding projects that are highly risky and are not appealing to PSEs if PSEs cannot ascertain the flow of economic value returns from such projects. In addition, the non-availability of collateral and guarantees, as well as the lack of or no record of yielding investments, often characteristic of high-tech industries, R&D investments, start-ups, or new industries, results in a lack of PSE funding for such categories of projects (Mazzucato & Penna, 2016; Mazzucato, 2013). SODFIs address these issues by providing credit guarantees, direct and indirect loans, equity tools, and mezzanine financing, so that firms have access to the necessary growth capital (Musacchio et al., 2017; Mazzucato & Penna, 2016). Further, SODFIs are useful in providing long-term "patient" capital for promoting strategic investments for the purposes of economic development, including the provision of infrastructural projects such as housing or for socially challenging issues such as climate finance and food security plans (Vandone et al., 2020). Thus, financial assistance from SODFIs tends to overcome the failure created by lack of funding from PSEs for the reasons highlighted above. Because the majority of SODFIs were established near the end of WWII, they play a countercyclical role in times of crisis by assisting in the maintenance of growth and employment in times of recession – in this case, these banks disintermediate their credit activities, as seen in the response to the recent global financial crisis (Vandone et al., 2020). In addition to ensuring the proper functioning of the financial markets in their states, SODFIs are also useful in supporting innovative activities. In this regard, Mazzucato and Penna (2016) highlight the importance of SODFIs in stimulating innovation and responding to major challenges requiring public and private responses. Furthermore, Mazzucato (2013) notes that many of the innovations in the US were supported by the state.

The fact that Africa is lagging in terms of development, especially infrastructural development (Metcalfe & Valeri, 2019), means these SODFIs are especially useful in Africa. Several African states and even the continental body (African Union) have been seeking solutions to developmental problems. Thus, African states are formulating several developmental agendas locally while also keying into several other continental and international developmental agendas. SODFIs/SOEs are an important instrument in achieving national, continental, and global developmental goals, especially in developing states, including African states (South Africa, 2012). In this regard, SODFIs employ direct lending as a means of financing developmental projects; others employ credit guarantees (without direct lending) in pursuing the same end; while others provide financial cover; some are involved in PPP; and some contribute directly by engaging in infrastructural development. Taken together, these SODFIs' contributions promote states' developmental agendas, which are critical in mitigating infrastructure deficits. The fact that most states use SODFIs to compete with PSEs to facilitate the sustainable delivery of public goods and services confirms this important contribution of SODFIs to their owning states. In addition to their important role in delivering public goods and services, SODFIs are also leveraged to assist countries achieve national, continental, and global developmental agendas. In this context, South Africa's developmental agenda – the NDP 2030: Our Future-Make it Work – was adopted in 2012, a year before the African Union's Agenda 2063: The African We Want and three years before the United Nations' SDGs 2030. The NDP 2030 prioritises job creation, the elimination of poverty, the reduction of inequality, and growth of an inclusive economy by 2030 (South Africa, 2012). The NDP 2030 notes that SODFIs and SOEs are important in attaining the developmental goals pursued by South Africa through the NDP 2030 (South Africa, 2012). Agenda 2063 identifies eight critical enablers for African transformation, as well as 16 objectives that provide the roadmap for achieving the Pan-African vision for Africa within 50 years (from 2013 to 2063). In addition to encapsulating Africa's aspirations for the future, Agenda 2063 identifies key flagship programmes which should accelerate Africa's socioeconomic growth and development, facilitating the necessary transformation of the continent (Africa Union, 2015).

Following from the above, the empirical analysis in this study rests on the comparative analysis of the five SODFIs in South Africa – the Development Bank of South Africa (DBSA), the Export Credit Insurance Corporation of South Africa (ECIC), the Industrial Development Corporation (IDC), the Independent Development Trust (IDT), and the Land and Agricultural Development Bank of South Africa (LandBank). The comparative analysis and resulting evidence of the impacts of SODFIs on national and transnational development agendas from the analyses and interpretation of results in section 6 permitted the documentation of policy and practical implications intended to assist practitioners and policymakers make better informed decisions on SODFIs and SOEs, presented in section 7.

3. HISTORY AND RATIONALE OF SODFIS IN SOUTH AFRICA

There is no commonality in the origins and target sectors of SODFIs in South Africa. Patterns indicate that SODFIs in South Africa were created as policy instruments when the need arose to solve certain issues for which the SODFIs were thought to be solutions. The need to promote economic growth and industrial development led to the establishment of the IDC in 1940 (IDC, 2021a). Similarly, the need for the then South African government to drive financial and non-financial investments in the socioeconomic infrastructure sectors led to the establishment of the DBSA in 1983 (DBSA, 2021a). The rationale behind the establishment of the LandBank in 1912 is closely related to that of DBSA and IDC in that the LandBank was established for the purposes of promoting and financing development in the agricultural sector of the country (LandBank, 2021a). However, the rationale behind the establishment of the ECIC and the IDT differs from that of the three SODFIs discussed above. In this regard, the IDT was established in 1990 for the purposes of supporting education, housing, health services, and business development projects in previously disadvantaged and mainly rural areas (IDT, 2021a), whereas the ECIC was established in 2002 for the purposes of providing political and commercial risk insurance to South African exporters of capital goods and related services (ECIC, 2021a). Aside from the IDT, whose rationale for establishment has changed considerably, it may be argued that the other four SODFIs have maintained their modus operandi, such that no significant alteration has been made to their mandates. The IDT was established with a R2 billion government grant for the purpose of focusing on implementing socioeconomic development initiatives aimed at uplifting poor communities in 1990. In 1997, a cabinet resolution was passed for the IDT to no longer be a civil society-based institution funded by grants and it thus began operating as a government support agency. In 1999, the IDT was listed as a schedule 2 public entity in terms of the Public Finance Management Act (PFMA) of 1999, focusing on social infrastructure (IDT, 2019). Schedule 2 SOEs are expected to raise money to finance their operational activities and programmes of expansion (Thomas, 2012), while schedule 3 SOEs are not expected to be profit-making. The PFMA was enacted for the purpose of regulating financial management in the national and provincial governments in order to ensure that all revenue, expenditure, assets, and liabilities are efficiently and effectively managed (Bekker, 2009; South Africa, 1999).

Table 1 indicates that all SODFIs in South Africa are schedule 2 enterprises, except for ECIC, which is a schedule 3 enterprise. The profit-orientation of schedule 2 enterprises appears to differentiate schedule 2 SODFIs and SOEs from other entities contained in the PFMA (Thomas, 2012). A distinguishing factor between schedule 2 major public enterprises (MPE) and schedule 3B national government business enterprises (NGBE) is that of reporting. Due to their size, the level of state investment, and the importance of schedule 2 entities to the state, they are expected to submit a three-year Statement of Corporate Plan (SoCP) to the accounting officer in addition to submitting an annual budget. This accounting officer is the head of department (HOD) in the case of a government department or the chief executive officer (CEO) in the case of a constitutional institution (South Africa, 1999). Thus, the accounting officer is distinct from the political head, who is the executive authority (South Africa, 2000). In this regard, the accounting officer implements the policy choices and outcomes formulated by the executive authority by taking responsibility for delivering the policy choices and outcomes (South Africa, 2000). The SoCP provides projections of expected revenue, expenditure, and activity plans for the next three years. In addition to the SoCP, SOEs under the Department of Public Enterprises and schedule 3B NGBEs are expected to prepare a five-year Statement of Strategic Intent (SoSI), which is used by the government in communicating policies to the relevant shareholders of the various SODFIs (Balbuena, 2014). This SoCP, together with the SoSI, forms part of the accountability and monitoring documents used by the government and the shareholding departments to track the affairs of the SODFIs and SOEs (Ossafrica.com, 2008). In addition, all schedule 3B NGBEs are expected to prepare and submit an annual performance plan (APP), an annual plan that translates the SoSI into yearly achievable objectives.

The shift in the establishment rationale of the IDT does not significantly alter its target sectors. The focus of the IDT has not shifted from health services, education, housing, and business development in rural South African communities. The ECIC covers political, commercial, and contractors' risks in addition to providing export credit, investment insurance, small and medium insurance, as well as bond insurance. The ECIC has exposure in ten countries: Ghana (21.75%), Zambia (19.91%), Zimbabwe (12.78%), Mozambique (11.17%), Tanzania (9.14%), Iran (8.82%), Liberia (5.71%), Angola (3.23%), Lesotho (2.04%), and Sierra Leone (1.96%) (ECIC, 2021a). The DBSA targets economic and social infrastructure development in South Africa as well as in emerging economies and sub-Saharan Africa. The IDC target projects are geared towards the achievement of the NDP 2030. Furthermore, it targets industrial capacity in terms of fulfilling policy objectives, as well as the mining, agriculture, manufacturing, tourism, and telecommunications investments in South Africa and the rest of Africa. The LandBank targets the agriculture sector only in South Africa. A unique feature of the SODFIs in South Africa is their focus on different sectors and operations, ensuring that all the different kinds of SODFIs are represented in South Africa.

Table 1: History and rationale of state-owned development financial institutions in South Africa.

	DBSA	ECIC	IDC	IDT	LandBank
Yr. Est.	**1983**	**2001**	**1940**	**1990**	**1912**
Enabling Acts	Development Bank of Southern Africa Act, 1997 [No. 13 of 1997] and the PFMA, 1999	Export Credit and Foreign Investments Insurance Act (1957, as amended) and the PFMA, 1999	Industrial Development Corporation Act 22 of 1940 and the PFMA, 1999	Trust Property Control Act [No. 57 of 1988] and the PFMA, 1999	Land and Agricultural Development Bank Act, 2002 and the PFMA, 1999
Est. By	Govt. of South Africa	Govt. of South Africa	Govt. of South Africa	Govt. of South Africa	Govt. of South Africa
Current Mission	To advance the development impact on the African continent by expanding access to development finance and effectively integrating and implementing sustainable development solutions	To provide export credit and investment insurance solutions in support of South African capital goods and services by applying best practice risk management principles	To grow sustainable industries, support entrepreneurs, and improve lives	To manage and deliver integrated social infrastructure programmes on behalf of government on time, cost effectively, and through a people-centred approach.	Work with all stakeholders to build an adaptive and competitive agricultural sector that drives environmental, social, and economic growth and development, and contributes to food security
Rationale for Est.	Drive financial and non-financial investments in the social and economic infrastructure sectors	Provide political and commercial risk insurance to South African exporters of capital goods and related services	Promote economic growth and industrial development	Support education, housing, health services, and business development projects in previously disadvantaged and mainly rural areas.	Promote and finance development in the agricultural sector of the economy of the country
Ownership	National Treasury	Department of Trade and Industry	Department of Economic Development	Department of Public Works	National Treasury
Schedule	Schedule 2	Schedule 3	Schedule 2	Schedule 2	Schedule 2
Target Sectors	Economic infrastructure and social infrastructure (emerging economies and sub-Saharan Africa)	Political, commercial, contractors' risk cover. Export credit insurance; investment insurance; small & medium insurance and bond insurance (South Africa and Africa)	NDP; industrial capacity of policy objectives; mining; agriculture; manufacturing; tourism; telecommunications (investment in South Africa and the rest of Africa)	Education; housing; health services; business development; rural communities (focus only on South Africa)	Agriculture (South African commercial and emerging farmers)

Source: Author's own elaboration.

4. THEORETICAL UNDERPINNING OF THE ROLE OF SODFIs

Three theories or views are applicable to the characteristics displayed by SODFIs: industrial policy, social, and political (Musacchio et al., 2017). These theories account for the purpose for which SODFIs are established and the role SODFIs are meant to play (Musacchio & Lazzarini 2014). Each of these theories illustrates a distinct perspective on the role of the state in addressing market failures using SODFIs. Furthermore, individual theories sustain the disparity in expectations concerning the financial instruments that are suitable for achieving the specific mandates of SODFIs and, subsequently, how SODFI performance is to be measured. For the purposes of this study, the industrial policy view is more applicable.

4.1. Industrial Policy theory of SODFIs

Under the industrial policy theory of the role of SODFIs, the idea is that SODFIs were created as a means of responding to capital market failures by providing necessary financing for business activities and industrialisation (Armendáriz de Aghion, 1999; Gerschenkron, 1962). This theory rests on the belief that industrialisation coupled with general entrepreneurial activity result in economic growth and improve citizens' welfare. Here, entrepreneurial activities are believed to be constrained by a lack of access to finance for the infrastructure necessary to support industrialisation (Musacchio et al., 2017; Gerschenkron, 1962). Investors are not usually willing to undertake many of the projects necessary for innovative industrialisation due to the presence of information asymmetries and the high risks usually involved in such projects. There might be willing investors, but these investors may be constrained by the level of high interest rates demanded by lenders, if available, on funding such projects. In this regard, SODFIs provide interest rates that are lower than market rates to subsidise the cost of the projects. In this industrial policy view, intervention by the government is argued to be positive considering that developing capabilities through the private financial system is very risky or too difficult to realise as a result of the initial capital requirements for projects requiring research and development. Thus, SODFIs indirectly contribute to industrialisation by promoting infrastructural development through funding capital-intensive infrastructure projects, including constructing roads and waterways (Jaiswall, 2016). Further, SODFIs' investment leads to improved innovation, which may not be promoted by PSEs. In addition, SODFIs promote the development of projects requiring the connection of different sectors and/or actors (Vandone et al., 2020; Eslava & Freixas, 2018), such as those seen in highly technical infrastructure projects and those that require the development of local capabilities. Furthermore, SODFIs and other SOBs have assisted in creating "national champions" – large companies carrying national flags abroad – through their role in supporting strategic trade by providing massive subsidies and market protection (Lazzarini et al., 2015).

5. METHODOLOGY AND METHOD

This study utilised the comparative analysis methodology. This permitted the comparison of the five various kinds of SODFIs in South Africa to indicate that they were established to fulfil different mandates and, in some instances, use different instruments in fulfilling their mandates. The comparative study approach is an interdisciplinary research approach (Harrison & Callan, 2013) that focuses on comparing elements that are both similar, on one hand, and different, on the other (Adebayo & Ackers, 2021). In order to fulfil the objective of the study, the content analysis method was used. Hence, in addition to the initial literature review that pointed to some relevant documents, this study gathered data using content analysis. This content analysis, modelled around a similar study by Musacchio et al. (2017), involved scrutinising SODFIs' documents, including their latest annual/integrated reports, documents available on their websites, as well as available oversight documents, as a way of understanding the context of the study and gathering the required information. Thus, the reports of these SODFIs and other relevant documents obtained from the websites of the SODFIs and oversight departments were examined for relevant information. The information thus obtained includes the objectives the SODFIs are pursuing in the 21st century. As in the study by Musacchio et al. (2017), in order to document a broad idea of what the SODFIs do, this study segments their programmes and activities into two parts – the first details their engagement with the private sector and the public sector, and the second details the extent of their focus on domestic and international projects.

6. ANALYSIS AND INTERPRETATION OF RESULTS

The analyses presented in this section consider the activities of the SODFIs in line with their objectives and mandates, their role in mitigating identified market failures, and the tools with which they mitigate market failures.

6.1. Contemporary objectives of SODFIs in South Africa.

As indicated in section 5, the programmes and activities of the SODFIs are segmented into two parts. The first details how they engage with the private sector relative to the public sector, and the other illustrates the extent to which they concentrate on domestic versus international projects. As a way of fulfilling their mandates of supporting the public and private sectors domestically and internationally, these SODFIs use a set of instruments depicted in Table 2, which include different types of credit guarantees, grants, equity investments, loans, and technical assistance. As we will observe below, an important element that Table 2 illustrates is the combination of instruments used by South African SODFIs nationally and internationally, and how this simply differentiates the sophistication of the SODFIs in terms of national and international operations while also contextualising the discussion around Table 3. Different patterns emerge in examining Table 2 consistent with the objectives of the SODFIs, sustaining the earlier indication that SODFIs differ with regard to mandates and size. Notably, the IDT only focuses on domestic development by utilising direct grants received from the government to cover certain domestic infrastructural, social, and industrial development in rural South African communities (IDT, 2019). Thus, it does not use any of the instruments used by SODFIs depicted in Table 2 since it does not focus on domestic and international private sectors or international public sectors.

Table 2: Programme and services comparison of the SODFIs

	DBSA	ECIC	IDC	IDT	LandBank	Key	
Domestic (Private)						**Yes**	**No**
Loans to large companies	■	■	■		■	■	
Loans to SMEs	■	■	■		■	■	
Loans to individuals	■	■	■		■	■	
Credit guarantees	■	■	■		■	■	
Leasing and securitisation	■	■	■			■	
Equity for large companies	■	■	■		■	■	
Equity for SMEs	■	■	■		■	■	
Venture capital			■			■	
Grants			■		■	■	
Technical assistance/consulting	■	■	■		■	■	
Domestic (Public)						■	
Infrastructure	■	■	■	■	■	■	
Social development	■	■	■	■	■	■	
Industrial development	■	■	■	■	■	■	
International (Private)						■	
Loans	■	■	■			■	
Grants	■					■	
International (Public)						■	
Infrastructure	■	■	■			■	
Social development	■	■	■			■	
Industrial development	■	■	■			■	
Loans	■	■	■			■	
Grants	■					■	

Source: Author's own compilation with insight from Musacchio et al. (2017).

6.2. The role of South African SODFIs in addressing market failures.

It was noted in section 1 that one of the reasons behind the establishment of public enterprises generally (including SOEs, SODFIs, and sovereign wealth funds, SWFs) is to address market failures. Along these lines, Stiglitz (2002) asserts that a lack of adequate government intervention often leads to market self-regulation. This self-regulation can be likened to individualism under the capitalist system (Keynes, 1926). Furthermore, it has been argued that there are several common factors that drive market failures (Putniņš, 2015; Stiglitz, 2002, 1985). These factors, as Putniņš (2015) and Stiglitz (1985) assert, include: inadequate supply of public goods; failure of competition; failure of information; unemployment, inflation, and disequilibrium; negative externalities; and incomplete markets. Musacchio et al. (2017) further note that market failures for which SODFIs are useful include information externalities, asymmetry, credit rationing, problems of coordination, technical assistance, and social as well as environmental impact. It is these latter sets of market failures that SODFIs are particularly useful in mitigating.

The market-oriented failures, in addition to the tools with which SODFIs mitigate them, are discussed below. Although the programmes and activities of most of the SODFIs discussed earlier cover the market failures, due to limitations of space only one example of each is provided along with the discussion of each market failure. Table 3, extracted from Table 2, however, presents a complete picture of the instruments employed by each of the SODFIs in mitigating market failures.

The first market failure identified by Musacchio et al. (2017) for which SODFIs are useful in addressing – information asymmetry and credit rationing – manifests itself in terms of lack of investment funding for investors. This stems from the inability to fully assess expected returns and/or difficulty in ascertaining the characteristics of products/services, the industry, and/or firms for which funding is sourced. This is often seen in emerging industrial arenas as well as in high-tech spaces. Thus, there is usually a lack of funding in such instances considering that most markets are already saturated and private funding is highly competitive. A solution here is that SODFIs often intervene by extending loans to organisations to access the required capital for their operations. An example here is a project funded by the DBSA. This project, involving the Port Namibe and the rehabilitation of Port Sacomar in southern Angola, was to enable Angola to diversify its economy and reduce its dependency on oil. The DBSA contributed a total of USD100 million towards financing the project. The total project cost is USD600 million and is funded under a Japanese backed export credit agreement structure, backed by Japanese banks, the Japan Bank for International Corporation and Sumitomo Mitsui Banking Corporation (DBSA, 2021c). The DBSA's 15% contribution to the project as upfront risk capital unlocked 85% of funding towards the construction of the ports (DBSA, 2021c). This project also highlights the importance of collaboration in project financing, as noted earlier in relation to PPP being one of the instruments employed by SODFIs and in the discussion on industrial policy theory in section 4.1.

Information externalities and latent capabilities represent the second market failure for which SODFIs are useful. Information externalities entail public investment returns resulting from information and knowledge production and dispersion. Funding, in terms of research and information platforms, is required in order to generate and publish new information (Mazzucato, 2013). PSEs are not usually interested in funding such information generation for new knowledge, shifting the focus to states. In this instance, SODFIs assist with grants for funding geared towards increasing efficiency in the development of products. The results of such research are made publicly available, enabling firms to indirectly benefit from funding. Furthermore, SODFIs provide funding to cover the costs incurred by firms to improve their own efficiency towards generating a competitive advantage. These funds primarily benefit only private firms (Musacchio et al., 2017; Mazzucato, 2013). In this regard, Mazzucato (2013) notes how the US government funded most of the innovative R&D investment projects enjoyed by PSEs. An example in the African context is the Green Tourism Incentive Programme (GTIP) that the IDC has been financing on behalf of the Department of Tourism since 2017. The GTIP, which is in its 6th application window, assists small and privately-owned micro-tourism enterprises to adopt responsible tourism practices through implementing solutions for the sustainable management and use of electricity and water resources by providing grants for energy and water efficiency audits. Since its inception, the programme has assisted 167 tourism enterprises with these audits and approved grant funding for 85 establishments across all provinces to enable them to significantly cut energy- and water-related costs (IDC, 2021b). Although this project directly benefits PSEs, it also has implications for citizens in terms of corporate environmental sustainability.

The third market failure entails coordination problems. These coordination problems set in when private investment is needed to develop local industry. An example here is that developing a country's mining industry may be constrained by lack of physical supporting infrastructure, including roads and ports (Musacchio et al., 2017). In this regard, even though SODFIs may intervene by providing the necessary funds, there is also the need for proper coordination for such funds to yield positive results. An instance of this is a water collection, treatment, and supply project financed by the ECIC. The ECIC supplied steel and provided professional engineering services to Global Innovative Consulting Limited, Ghana, for the delivery of a storm drainage project in Ghana to the tune of USD5.6 million (ECIC, 2021c).

Another market failure addressed by SODFIs is the lack of public goods. In this regard, projects financed by SODFIs often generate social-environmental impacts that may be considered a public good. PSEs are often not interested in pursuing projects for which there will be no flow of economic gains or for which the extent of economic gains may not be ascertained. SODFIs usually step in since they are owned by states, whose core mandate is to ensure the availability of public goods and services. This is usually present in projects related to establishing different forms of energy sources. Since developing renewable energy sources is highly costly compared with using non-renewable energy sources, there is usually little incentive for the exploration of alternative energy sources by PSEs (Musacchio et al., 2017), prompting SODFIs to offer subsidised financing in terms of loans, venture capital, and/or grants to address such issues. Social-environmental activities of SODFIs include programmes aimed at supporting education, housing, health services, employment, transportation, and many more. An SODFI mitigating this market failure is the IDT in South Africa. The IDT has in the last few years been involved in landmark developmental projects, including constructing courts in the Limpopo, Mpumalanga, and Gauteng areas and schools in the Eastern Cape, the Northern and Western Cape, Free State, Gauteng, and KwaZulu-Natal areas. It has also developed correctional facilities in the Free State and Mpumalanga areas, a library in the Gauteng area, an airport in the Northwest area, and health and life facilities in the KwaZulu Natal, Limpopo, and Mpumalanga areas (IDT, 2021b).

The fifth market failure that SODFIs address is a lack of technical assistance. Technical assistance is useful in overcoming a deficiency of local capabilities useful in developing highly specific technical projects (Williamson, 1991). SODFIs that are more focused on entrepreneurship and capacity development are particularly useful in mitigating this market failure. In this regard, in addition to providing funding, the DBSA and the ECIC have been increasingly involved in the provision of consultancy services to investors and buyers. Aside from this, technical assistance increases firms' returns. Technical assistance also improves firms' efficiency and productivity (Musacchio et al., 2017). An example is the Mulembo Lelya Hydro Power Plant project in Zambia. The project involves exploiting the hydropower potential of the Mulembo and Lelya Rivers on the border of the Central and Eastern Provinces of Zambia to meet some of the anticipated energy demand within Zambia, the DRC, and the Southern Africa Power Pool (SAPP). This project required project preparation funding for the completion of the feasibility study. The DBSA secured a USD2 million project preparation grant for the project. The DBSA further assisted MLHEPL with the procurement and appointment of the technical, legal, and financial advisors on the project and is a key standing member of the Project Steering Committee (PSC) for the project (DBSA 2021d).

Table 3: Market failures and state-owned development financial institution mitigating tools.

	DBSA	ECIC	IDC	IDT	LandBank
Reducing information asymmetry/credit rationing	Direct lending; credit support; equity; grants; loans; technical assistance	Lending; credit guarantees; securitisation; loans	Lending; grants; credit guarantees; venture capital; equity; technical assistance; loans; seed capital	Uses grants for operations	Loans; credit facilities; grants; technical assistance;
Dealing with information externalities/latent capabilities	Credit support; grants	Investment assistance; acquisition and training and development assistance	Seed capital; venture capital; grants	N/A	Loans; credit facilities; grants; technical assistance;
Promoting coordination	Grants; technical assistance	Development support; investment support; acquisition and training	Lending; grants; technical assistance; loans	N/A	N/A
Pursuing social-environmental impact	Direct lending; credit support; equity; grants; loans; technical assistance	Development support; acquisition and training support	Grants; technical assistance; loans; credit support	Uses grants for operations	Loans; credit facilities; grants; technical assistance;
Assisting with technical expertise/knowledge	Grants; technical assistance	Technical assistance	Grants; technical assistance; loans; credit support	N/A	Grants; technical assistance
Strategic trade	Grants; lending	Loans for exporters; international lending; indirect lending	Loans; credit support; technical assistance	N/A	N/A
Promoting competition	Direct lending; credit support; equity; grants; loans; technical assistance	Lending; credit guarantees; securitisation; loans; development support	Lending; grants; credit guarantees; venture capital; equity; technical assistance; loans; seed capital; grants	N/A	Loans; credit facilities; grants; technical assistance;

Source: Author's own compilation with insight from Musacchio et al. (2017).

The final market failure identified by Musacchio et al. (2017) and addressed by SODFIs is in the area of strategic trade. SODFIs are particularly useful in mitigating issues created by distorted international markets resulting from selective support facilitated by foreign governments. In this regard, SODFIs often provide lending arrangements to assist domestic firms to internationalise their operations by engaging in exports. An important advantage of such a practice is that organisations can overcome payment deficits, thereby generating trade surpluses for their local economy (Bass & Chakrabarty, 2014). Furthermore, in this instance, SODFIs often provide financial assistance to foreign nations for sponsoring national firms in international operations, for example, an SODFI may provide such assistance for investing in waterways. However, such assistance is usually contingent on the foreign nation engaging firms from the SODFI's country to carry out such a project. Thus, domestic firms are indirectly promoted. An example of this is the ECIC. The ECIC has been increasingly involved in providing support to domestic firms in the form of loans to enable them to internationalise their operations through exports. In addition to the example provided under coordination problems above, the ECIC has financed the purchase and transportation of mining machinery and equipment to be used in mining projects in Botswana to the tune of USD4.9 million for a South African exporter, Bell Equipment SA (ECIC, 2021c). Thus, the ECIC has been particularly active in mitigating this sort of market failure.

Taken together, the core market failure for which SODFIs are useful in correcting is the issue of lack of competition in developmental project markets. Developmental projects usually require significant amounts of capital, and, in most cases, only institutional investors are able to bid and win developmental contracts, usually inflating project costs. Funding by SODFIs enables individual and small-to-medium institutional investors to pull resources together and compete (to an extent) for developmental projects. Another important factor here is that all things being equal, developmental projects consisting of a state consortium, especially those projects carried out in countries that face low levels of corruption, are usually made to specification, in contrast to those under private finance initiatives and PPP (Adebayo, 2018). SODFIs and SOEs are particularly useful in financing and/or carrying out these developmental projects. The above discussions indicate that SODFIs provide some sort of competition to PSEs in facilitating the projects highlighted.

7. IMPLICATIONS FOR POLICY AND PRACTICE

As can be deduced from the above, the whole idea behind the establishment and operations of SODFIs is to promote development in various capacities in line with the mandates of each of the SODFIs considered. One important factor in terms of the operations of the SODFIs is that they are continuously tweaked in line with the developmental agendas of their owning states, especially considering that several developmental agendas were formulated after the establishment of SODFIs. For example, the NDP 2030 was formulated after the establishment of the SODFIs in South Africa, and these SODFIs appear to have linked their programmes and activities to the NDP 2030. In this regard, the IDC categorically stated that it has aligned its priorities with the national policy direction contained in the National Development Plan (NDP), Industrial Policy Action Plan (IPAP), as well as the industry Master Plans (IDC, 2021a). Despite the efforts towards streamlining the programmes and activities of these SODFIs in line with the developmental agendas of the country, it appears the operations/mandates of the SODFIs have left out an important aspect of state practice – financial assistance to SOEs. While this is operational in some countries, SOEs in South Africa are funded directly from the national budget, apart from those SOEs that have the autonomy to generate additional funding through their operations, for example South African Airways Limited, which has also been bailed out with funds from budgetary allocations on several occasions. While it may be argued that SOEs in the country usually have the required funding to carry out their activities, and it could be argued that cash-strapped SOEs engage in fruitless and wasteful expenditure, several stakeholders in the country's SOEs are of the opinion that funding is one of the major problems facing the country's SOEs (as recently seen in LandBank, 2021b). In this regard, some of the SODFIs could provide the required funding to expand the activities of SOEs, especially considering that these SOEs could be increasingly used to further meet South Africa's developmental agendas. There are various means by which SOEs could be financed by SODFIs. Table 2 and Table 3 contain some of the instruments which could be used by SODFIs to aid or complement the work of SOEs. In addition to this, SODFIs could partner with some of the SOEs (that have the required expertise and capacity) to deliver on their mandates. For example, as illustrated in Table 2, the DBSA, the IDC, and the ECIC are often involved in the provision of external loans and grants for domestic and international development and even to domestic and international investors. These SODFIs could partner with relevant SOEs in this, at least at the basic level of technical assistance. While this is currently not in use, utilising it may improve the programmes and activities of these SODFIs and SOEs. One notable way is that this organisational method mitigates the issue of asset specificity as organisations can channel their resources and capabilities to various uses.

An important factor in such coordination is that any financial assistance by SODFIs is based on a purely commercial/arm's length basis, which SODFIs are better able to coordinate than the SOEs' owning states. This is important in reducing fruitless and wasteful expenditure and in ensuring that public service obligations of SODFIs and SOEs are properly documented, which are part of the good corporate governance practices formulated by the OECD (2015) and the World Bank (2014).

8. CONCLUSION AND FURTHER RESEARCH

Even though SODFIs in South Africa are adequately contributing to the developmental agendas for which they have been established, there are other important ways in which they could be usefully employed. In a dynamic world in which there is a need for massive infrastructure development globally, especially in African countries, SODFIs in South Africa could be further utilised in supporting or partnering with other government establishments such as SOEs in further contributing to the developmental agenda of their owning state as contained in the NDP 2030, and also contributing to achieving the global developmental goals set out in the SDGs 2030 and the continental developmental goals set out in Agenda 2063. As argued earlier, such an organisation model may further ensure that SOEs in South Africa, most of which are usually involved in fruitless and wasteful expenditure, have another means of funding other than direct financing from the national budget, for which more stringent accountability is possible and may be required.

While this study has endeavoured to cover several aspects of SODFIs, its limitations mean there are areas for further research convergence on SODFIs in South Africa and in Africa generally. Future research could explore the performance and allocative efficiency of SODFIs in South Africa. While this is beyond the scope of this study, allocative efficiency is highly important in assessing the activities and programmes of SODFIs. Future research could also compare SODFIs in South Africa to similar SODFIs in other African states. Such a study would inform observers about various practices that can better contribute to knowledge-sharing for improving SODFI programmes and activities in the 21st century. Also, future research could further explore the benefits of funding SOEs through SODFIs rather than directly through the national budget. In this regard, this study has noted that this is more likely to result in improved accountability and reduced fruitless and wasteful expenditure. Future studies could also explore other theoretical implications of SODFIs highlighted in section 4. While this study primarily focused on the theoretical underpinning of industrial policy, future research could explore the implications of social and political theories of SODFIs, where it may be possible to discuss issues with SODFIs and SOEs in terms of their associated sociopolitical problems.

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