Development finance and socio-economic transformation: The role of the state

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Résumé

Historically, development finance institutions (DFIs) have been an important instrument of governments to promote economic growth by providing funding and a wide range of advisory and capacity building programs to households, small and medium enterprises, and even large corporations, whose financial needs are not sufficiently served by private commercial banks or local capital markets. DFIs are a form of government intervention in the financial system, aimed at addressing capital market failures or constraints in the provision of finance. Following the global financial crisis of 2007/08 that led to one of the most significant contractions in output growth, there was a renewed interest in the role of DFIs as an alternative and important source of funding for industry. DFIs fulfil multiple roles in the development process, though their most important function has been drivers of industrial development. However, despite industrial policy gaining increased legitimacy over the years, this shift has not successfully extended to many developing countries, because they are thought to lack the 'state capacity' to carry out industrial policies successfully.

Through raising capital domestically and internationally, Brazil's national development bank (Banco Nacional de Desenvolvimento Econômico e Social) has contributed significantly to the country's industrialisation since its establishment. In South Africa, the growth of the financial services sector has not translated to better funding for industrialists. Funding practices show that credit extension is directed at investments in non-productive sectors of the economy, such as personal finance for consumption purposes. With a model that is heavily reliant on private financial markets, South Africa's development finance system has not significantly broadened opportunities for industrial growth.

This paper reflects on the status quo of traditional commercial lenders in South Africa and Africa in general, while considering the importance of development finance. It proposes ways in which the financial system can better address capital market constraints in the provision of finance to underserved sectors of the economy, learning particularly from the experience of Brazil.

Mots-Clés: Development finance, industrial policy, industrialisation, Africa

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