years. Those countries classed in Group 4 have an interest rate of 2%, a grace period of repayments of 10 years and a loan maturity period 30 inclusive of the grace period. The CDB offers both private and public lending services in the region of the Caribbean.

Its procurement policy stipulates that borrowers must procure goods and services for projects from Member Countries of the Banks' region. In addition, the bank offers a 'retroactive financing scheme' which serves as an incentive for good repayment records. On this scheme, borrowers are able to claim back repayments to expenses incurred within 12 months of the approval of the loan.

2.2.8. African Development Bank

The Resolution to establish the African Development Bank (ADB) was passed in 1963 at a Conference of African Ministers of Finance and formally came into being in 1966 (Giuseppe Schiavone, 2005, International Organisations, A Dictionary and Directory). Like its counterparts in the other regions, membership is restricted to member African states but in 1979 membership was opened to non-African state actors, with a specific focus of retaining the African character of the Bank.

The capital stock of the bank was valued at $29 billion in 2002 and its 2015 Financial Statements (www.adfb.org) is reported at UA 4.69 billion. The bank offers a range of borrowing and lending instruments commensurate with the sectoral specificities of its member clients. Like the IMF the ADB has a series of Structural Adjustment Programmes and Sectoral Adjustment Loans as part of its basket of lending and technical assistance instruments.

South Africa has a series of ADB loans for infrastructure which have been approved (www.afdb.org). These include USD 2,147,483,647 for the Eskom Power Project, (currency not indicated) 950,000,000 for the Medupi Power Project Supplementary Loan, (currency not indicated) and 600 000 000 (currency not indicated) for Eskom Transmission Improvement Project

2.2.9. The Development Bank of Southern Africa (DBSA)

The section which follows will give a broad review of the literature dealing with the DBSA. This will include a discussion on its historical beginnings, its relationship with municipalities, and the regulatory framework which governs it.

2.2.9(a) DBSA: development premise

The DBSA was established in 1983 with the specific intention to advance apartheid capitalism in the home-lands. According to Lipton (1985; p30) the need for African labour meant that only political and not economic segregation was envisaged. It was Prime Minister Malan who saw the whole Apartheid National Party economic edifice built on native labour. Apartheid architect, Hendrik Verwoed, went further to cement this idea by stressing that it was the aim to not 'stop economic growth, but to control it and make it compatible with apartheid and white security'.

Dr Ian Golding, who served as DBSA Chief Executive in 1996, noted in his submission to the Truth and Reconciliation Commission in 1997 (TRC, Business Sector Hearing) that the Bank was established to 'promote an investment of public and private capital for development purposes' and to mobilise funds to prop up the collapsing economic edifice of the apartheid structure.

2.2.9(b) DBSA: historical context

The historical purpose of the establishment of the DBSA remains intact: to promote investment for development purposes. The thesis remains to prove: do the terms and conditions of lending and borrowing diminish or perpetuate inequality at the municipal level?

There is evidence of a clear alliance between the then capitalist apartheid-era government and white capital. This is particularly evidence by O'Meara (1975;

1977; 1997) in his seminal work on the rise of Afrikaner capitalism and Afrikaner nationalism.

The rise of industrialisation and the growth of war-time industries in South Africa saw the South African economy expand during the years 1939 and 1946. Manufacturing establishments grew by more than 950 in the decade between 1935 and 1946. The historical role of the Afrikaner *Broederbond* (Brother-hood) in directing and influencing the trajectory of Afrikaner capitalism cannot be under-stated (O'Meara).

The establishment of media group *Nationale Pers* (National Media), and financial institutions such as Sanlam and Santam, founded in the first decade of the 20th century, has its roots firmly in the Afrikaner *Broederbond.* By 1948, the influence of powerful corporate, mining and agricultural business interests, rooted in the Afrikaner *Broederbond*, established its powerful impact on the political, economic and cultural landscape of South Africa (O'Meara).

The section which follows will develop the conceptualisation of the lending and borrowing framework of the DBSA loans to municipalities.

2.2.9(c) Institutional framework for DBSA lending and borrowing modalities

The exploration into the lending and borrowing modalities of the DBSA to South African municipalities takes its mandate directly from the post-apartheid development agenda of the South African state. The institutional framework and policy objectives for the deracialising of development at local government are set out in a series of institutional and legislative instruments. These include Chapter 7 Section 152 (b, c) and 153 (a) of The Constitution which describe the objectives and development agenda of municipalities and sets out the Constitutional requirements for the delivery of services to communities.

In addition, infrastructure development is set out in a range of institutional, policy and development frameworks which include the Municipal Systems Act 2000 which enables municipalities to move towards a progressive realisation of ‘social and economic upliftment of communities’; and the Municipal Finance Management Act No. 56 of 2003 which oversees the financial management of municipal finance systems including the transfer of intergovernmental grants and funding.

In 2014 the DBSA launched the Infrastructure Investment Programme for South Africa (IIPSA) (DBSA website) **to** provide grant funding in support of loans for essential infrastructure projects in South Africa and the region. The fund is worth R1.5 billion.

Evidence of the DBSA’s strategy to provide loans for infrastructure is found in the 2014 loan agreement signed with the City of Tshwane, a metropolitan municipality. The loan is worth R1, 6 billion, will be taken over a 20-year period and is for the exclusive purpose of capital expenditure projects to support infrastructure development in water, sanitation and electricity.

2.2.9(d) DBSA and the States’ Infrastructure Development Agenda

Providing infrastructure is a key driver of local government. According to Perkins (n.d.) the development of South Africa's 'economic and social infrastructure has a long and troubled history'. In his view the legacy of apartheid infrastructure are under-developed and unequal communities. A further testimony to the inequality entrenched by apartheid remains in the 'hopelessly inadequate' social and economic infrastructure which is unequally distributed and still impacts negatively on social and economic growth and development’.

This provides evidence of the States’ rationale for developing infrastructure. Municipalities at local level are mostly responsible for the development of physical infrastructure to deliver basic services. An intricate system of municipal funding mechanisms exists through intergovernmental transfers, commercial loans and development bank loans.

The DBSA describes itself as playing a pivotal role in the delivering infrastructure to South African and the rest of the continent (DBSA website). The Banks' vision, mission, and strategic objectives mirror the broad development objectives of the South African state.

Legislatively the Bank is regulated through the Development Bank of Southern Africa Act of 1997, and performs an economic development function within the context of the South African constitution. The Banks' key strategic objectives are sustained growth in in developmental impact and financial sustainability.

2.2.9(e) DBSA Strategic Development Goals

These strategic goals are an abstraction of the developmental state ideology as premised in the numerous growth plans delivered by the ruling African National Congress over the past decade and a half. Evans (1995:29), in Gumede (2011), offers that the construction of a developmental state requires specific historical endowments and characteristics. South Africa's record levels of inequality, with its racial under and overtones remain a potential source of instability and hindrance to economic development.

In addition, the task for building the developmental state remains the simultaneous projects of building a unified nation which share universal aspirations out of the scarred ashes of apartheid, while strengthening the democratic project and its institutions. The DBSA situates an abstract notion of its mandates in the developmental state ideology. In practice, as the research may very well show, its operations mirror private sector commercial practices.

2.2.9(f) DBSA: Borrowing and Lending

The Banks' lending and borrowing is premised on infrastructure development and commercial viability (DBSA website), yet its client-base, predominantly local and provincial government entities, are already mired in deep structural social and economic dysfunction. Secondly, the DBSA through its Accelerated Infrastructure Delivery Programme aims to deliver infrastructure, not through bricks and mortar projects, but through Project Management Units (PMU) for the health and education sectors.

The DBSA will be paid for these services through inter-state grant transfers. In other words, 'the top-line slicing of sectoral conditional grants' (DBSA website) transferred from National Treasurery to the government departments, and then deposited in tranches to the DBSA as a project management fee are established.

These purely commercial bank practices such as offering project management services to provinces, and 'slicing' fees from government transfers, will not build a developmental state, but further entrench a capitalist orientation to a development bank institution.

2.2.9(g) Public/private Partnerships: The New Strategy of the DBSA

In the DBSA's *Launch of New Strategy (2012)* the bank also notes Private-Public Partnership (PPP) deals have historically been driven by the state with a limited space for the DBSA. It aims to alter this by strengthening its networks in the public and private sector and working to 'unblock the PPP pipeline' and increase its lending in the PPP market to R3.5 billion. PPPs have been held as the panacea for reforming 'the high cost of government' intervention (Kessides, 2004). According to the author 'rebalancing the roles of the private and public sector has been an integral part of infrastructure reform'.

In *Launch of New Strategy* (2012) the DBSA acknowledges that it will partner with the private sector using the banks own debt and equity to invest via third party intermediaries. The DBSA Act of 1997 Section 3 (1a) says that the bank will mobilise ‘financial and other resources from the private and public sectors, national or international’. This would suggest that the Bank sees itself as a public sector entity operating within the domain and rules of engagement of the private sector.

This view is reinforced by Liebig (2008) in *Municipal Borrowing for Infrastructure Service Delivery*. This work notes the tension between public borrowers such as the DBSA and private borrowers. The author notes that (at the time of publishing) the DBSA held half of all outstanding municipal debt while both public and private borrowers targeted the same municipalities. In its investigation this study used a qualitative and quantitative study to collect data from a sample of 29 municipalities and conducted 66 interviews. The question they asked was if municipal borrowing improved infrastructure delivery.

The overall answer to this question is that municipal borrowing did in fact strengthen service delivery. However, in the context of the fact that a public borrower such as the DBSA held most of the debt of municipalities, and competed with private borrowers for the same municipal bond market, growing evidence in the literature would suggest that these motivations pull the DBSA closer to a market-driven neo-liberal approach and further from its stated mandate to support the infrastructure development in the municipal market.

2.2.9(h) DBSA: Private Sector cites unfair competition from DBSA

More evidence of the DBSA’s market driven approach is offered by Liebig (2008). The author notes that private lenders report ‘unfair’ price competition by the DBSA in the municipal market segment winning most of the tenders. Sixty-four percent of its portfolio, at the time of the study, was in the Metro municipal market (urban centres such as Johannesburg, Cape Town and Durban) which offered greater returns on borrowed capital and a more reliable institutional capacity to manage expenditure (Liebig, 2008). Greater effort should in fact go into targeting municipalities that have lesser prospect of attracting private capital.

2.2.9(i) DBSA: a refocused approach to support the development agenda

In 2012 The Development Bank of Southern Africa underwent restructuring and identified a new strategy (*DBSA Annual Report, 2012*). The DBSA is entirely state-owned as set out by the Development Bank of Southern African Act of 1997. Key among goals in its 2012 vision was to double its loan book to R91 billion by 2017, and increase its presence in the municipal market.

Despite its development speak of ‘accelerating sustainable socio-economic development to improve the quality of life of people’ its goal is to ‘increase its asset base in the medium capacity municipalities’ by funding infrastructure and increase its lending to this municipal segment by 50%, i.e. from R200 million to R400 million per annum.

Its goal in the low capacity municipal market is to lend less for development, and to act more as a catalyst for development. To this end the Bank will play a management role in the delivery of infrastructure to low capacity municipalities in the national Integrated Municipal Infrastructure Programme. It also sees a stronger role in Public-Private Partnership deals and will use its extensive networks in the public and private sector to tender for deals (DBSA website, 2012).

Bond (2013), in his paper *Frustrated global governance reform, sub-imperial geopolitical-economy and BRICS banking: A view from South Africa* questions the banks’ commitment to its public sector development finance imperatives, when in the same period the bank announced its new vision, it loaned R3.2 billion to finance the development of a hotel in the centre of Cape Town.

This loan represents 7% of its investment portfolio. There are some critics who hold the view that this investment could better serve the much needed development of roads, sanitation, water and electricity provision in poor communities.

The refocusing of the DBSA in its 2012 vision in the context of the states' infrastructure development agenda has been much encouraged, particularly by the amendment to the DBSA Act to increase the banks' capitalisation from US$480 million to US$2 billion (Qobo, undated power point presentation) particularly to support the capacitation of low functioning municipalities.

2.2.9(j) Shortage of critical analyses of DBSA

However, there has been a shortage of critical academic analysis, barring the work of Patrick Bond and Richard Kamidza, of the new vision for the DBSA and its less than sterling performance during the period. Given the state-owned status of the bank, Bond and Kamidza (2014) critique the banks' growing bias towards privatisation in its regional finance development mandates. In Lesotho, the DBSA disbursed about R740 million to Tsepong, a public–private partnership (PPP) consortium led by South African private hospital and healthcare group Netcare, to construct, upgrade and operate a new public hospital at Bots'abelo in Maseru.

Similar PPP financing of R1.4 billion was provided to Infralink Pty Ltd – a joint venture between the Zimbabwe National Road Administration and Group Five Limited of South Africa – to rehabilitate roads and implement tolling of existing national routes, covering 801.5 kilometres on an east-west axis from Plumtree through Bulawayo to Harare and then Mutare (Bond and Kamidza, 2014).

2.2.9(k) DBSA Loans and conditionalities

The issue of transparency and open-ness in the research became apparent when trying to compare and investigate the terms of conditions of borrowing by the DBSA. Details of every sovereign loan issued to country borrowers since 1947 can be found on the World Bank website (http://data.worldbank.org/data-catalog/projects-portfolio). The Caribbean Development has a list of all approved loans, including loan periods and interest rates on its website (http://www.caribank.org/projects/loan-grant-project-summaries).

In comparison, the DBSA website, nor in its repository of publications found on its website, has any evidence of its loan conditions to municipalities or regional borrowers. Nor does it have any information on its interest rates, grace periods, financial covenant policies or retro-active financing schemes. The Development Bank of Southern Africa Act (1997) is silent on the Banks' responsibility to transparency to South African public.

The DBSA Amendment Bill (2014) authorises an increase in share capital and a host of amendments which increases the Banks' ability to leverage profits. Share capital is defined as the 'maximum capital the bank may raise' (DBSA Amendment Bill Standing Committee on Finance, 2014). The share capital of the bank was moved from R5 billion to R20.2 billion (Peoples Assembly Blog, 2014).

Within the context of a legislated profit motive via the DBSA Amendment Bill (2014) which gives the Minister far-reaching powers to increase the share capital a critical question which must be asked is: what is the influence of the profit motive on the Banks' mandate to provide infrastructure financing to municipalities? This critical question must be prefaced with a perspective on the current economic circumstances of post-apartheid municipalities. The section which follows will review the literature dealing with local government municipalities.

2.2.10. Municipalities: at the coal-face of infrastructure delivery

In *The Revitalisation of Local Government in South Africa* (Nyalunga, 2006), governments and municipalities are 'defined as political units' and have substantial control over local affairs. The apartheid-era of local government system was designed to regulate the States' agenda of 'racial segregation and exclusion'.

Chapter 7 Section 151 of the Constitution of South Africa describes and regulates the powers and mandates of local government. Since 2000, 47 new municipalities have been created outside urban metropolitan areas (Steytler, 2009). The process of local government transformation took place between 1995 and 2000.

Nyalunga (2006) notes the 'building blocks' of legislation which ensured a shared power of authority and responsibility between national, provincial and local government. The Local Government Transition Act (1993), the Development Facilitation Act (1995) and the Constitution (1996) has paved the way for co-operative governance which ensures that the state takes legislative responsibility for eradicating poverty and deracialising the delivery of basic services and public goods.

Municipalities, according to Nyalunga, are mainly responsible for delivering of services and is mandated by the Constitution to 'work towards sustainable development'. Section 152 (c) of Chapter 7 of the Constitution and Section 153 (a) specifically charges local government to 'promote social and economic development'.

2.2.11. Structure of Municipalities

The structure of municipalities is legislated through the Municipal Structure Act (117 of 1998), and has been amended between the years 2000 and 2003 through the Local Government Municipal Structures Amendment Acts 1, 20 and 33. The Act and its Amendments sets out categories of municipalities, its powers and functions. There are 278 municipalities in South Africa and they are broken down into three categories. There are 8 metropolitan municipalities, 44 district municipalities, and 226 local municipalities (Institute for Race Relations Local Government Report, 2014). This is a single tier municipality and has exclusive legislative authority vested in a metropolitan council.

The second delineation is Category B Municipalities. These are areas that fall outside of the eight metropolitan municipal areas and are divided into local municipalities. This category of municipality shares municipal executive and legislative authority in its area with a category C (district) municipality within whose area it falls. Theewaterskloof, the focus of this research project, is classified as Category B.

Category C District municipalities are made up of a number of local municipalities that fall in one district. There are usually between four and six local municipalities that come together in a district council.

The category of municipality is significant and can be described as an indicator of the legacy of apartheid-era separate development policies, and a failure of the past 20 years of democratic dispensation to equalise development. In a study on indicators of poverty conducted by the Institute of Race Relations (IRR) (2014) revealed that the Alfred Nzo district municipality in the Eastern Cape has the highest poverty rate, at 79%.

2.2.12. Apartheid-era poverty in municipalities persists in the 21st century

The lowest rate among all the district municipalities is that of the Cape Winelands district municipality in the Western Cape, at 48%. The metropolitan municipality (metro) with the highest poverty rate is Buffalo City (East London), at 60%. Cape Town has the lowest, at 44%. The local municipality with the highest poverty rate is Matatiele in the Eastern Cape, at 98%. The lowest poverty rate is in the Overstrand local municipality in the Western Cape, at 11%.

It is important to note that Alfred Nzo, Buffalo City and Matatiele municipalities are located in the former Bantu-Stan province of the Eastern Cape, a structural apartheid-era reservation. The district municipalities with the lowest levels of poverty are found in the Western Cape, a historically wealthy urban city.

Ninety percent (90%) of households in the Alfred Nzo municipality have no access to flushable toilets. It is also the municipality with the lowest percentage of population (13%) aged 20 and older who do not have Grade 12. In comparison the Metro of Cape Town has the lowest percentage of poverty (44%), the Cape Winelands has the lowest percentage of unemployment (44%) and the West Coast District Municipality has the lowest youth unemployment percentage at 20%, compared to Sekhukhune district municipality in Limpopo at 61%.

These percentages are significant in that they confirm the inequality between provinces and municipalities. The Alfred Nzo district municipality does not only have the highest rate of poverty in the country, but in 2006 signed a DBSA loan agreement of R25 million over 20 years with a 5% annual interest rate.

In the work of Nyalunga and Steyler (2006) the following conclusions can be drawn: 1) local government has been overhauled through various legislative building blocks; 2) resource distribution at the local level was devised on an apartheid-era race discrimination; 3) the backlog in infrastructure development today can be traced to the apartheid-era distribution. It is within this context that municipalities are constitutionally tasked with the responsibility of 'local infrastructure and basic services (Josie, 2008).

2.2.13. Infrastructure financing to municipalities

In the financial year 2012-2013 municipalities spent R19.4 billion or 84.6 per cent, of their infrastructure grants. Of the R104.6 billion allocated to municipal infrastructure grants over the MTEF 2014 period, 44.4 per cent is allocated to metropolitan municipalities and 32.1 per cent to the 70 most rural local municipalities and the district municipalities that provide services in these rural areas.

The State thus allocates large budgets to the development of infrastructure through transfers and grants to provincial and local government. In the context which has been described above the role of the DBSA becomes significant and necessitates a critical national conversation to engage with the States' mandate on encouraging external local government loans for infrastructure development.

In a 2008 Treasury review (2008) the review notes 'municipalities have not yet used the opportunity to borrow more creatively from capital markets'. The review further notes that local government is not using the design of its structure to 'stabilise municipal finances in a macroeconomic environment that is more enabling for private investment'.

In the 2011 Treasury Review it is noted that 'borrowing to finance their (municipalities) infrastructure needs is not an option, unless provided on special terms by development finance institutions'. Between 2005 and 2010 the growth of private and public sector borrowing grew from R18.7 billion in 2005 to R38.1 billion in 2010. This represents an average annual growth of 15 per cent.

The review also notes that the significance of public sector borrowing as lenders in the private sector had become more 'risk averse' during the global economic recession. The public sector lending during this period was 'almost entirely' from the DBSA and exceeded private sector lending in the municipal borrowing market for the first time.

This is significant as it points to a strategic shift in the borrowing practices of municipalities in favour of the DBSA. DBSA municipal funding programmes such as the Accelerated Schools Programme which supports the building of schools, the Programmatic Carbon Credit Facility which aims to reduce carbon emissions through state housing design and the Infrastructure Delivery Division which assists the State to implement its infrastructure programmes (DBSA website) have all been established to facilitate infrastructure project implementation and financing.

Despite the honouring of the mandates to progress infrastructure development through the DBSA's legislated grants and loan schemes to municipalities, the question which must be addressed is whether municipalities with low revenue bases (such as the Alfred Nzo municipality), low levels of skilled and educated labour (such as the Alfred Nzo municipality) and still large infrastructure backlogs (as evidenced again in the Alfred Nzo municipality) can honour loan repayments of R25million.

This concludes Chapter 2. The Chapter which follows will present the findings of DBSA and commercial bank loan agreements with the Theewaterskloof municipality.

CHAPTER 3: PRESENTATION OF DATA AND FINDINGS

3.1 INTRODUCTION

The Theewaterskloof Local Municipality is situated in the Overberg District in the Western Cape Province. It is one of four municipalities in the district, making up a third of its geographical area. The towns in the Local Municipality include: Botrivier, Caledon, Genadendaal, Greyton, Riviersonderend, Tesselaarsdal and Villiersdorp. It is the largest Local Municipality in the Overberg District, and demarcates 13 municipal wards. It is a rural municipality (Theewaterskloof, IDP, 2016) with predominantly farming and agricultural activities.

This chapter provides a presentation of the research findings and research analyses. It will present a profile of the Theewaterkloof municipality with specific focus on local economic development, opportunities for employment, population profile, and household income. The second section of this chapter will review the loan agreements between the municipality, the DBSA, and commercial banks ABSA and STD Bank.

3.2. INFRASTRUCTURE PROFILE

Theewaterskloof has historical backlogs in infrastructure and bulk service provision. Infrastructure backlog is estimated at R473 969 409 (Theewaters IDP, 2016). Existing infrastructure and bulk services are not responding to the growing demands due to population growth, and the changing needs of the communities in the municipality.

3.2.1. Housing

The biggest challenge to Theewatersklood, in terms of infrastructure is addressing the housing backlog and to ensure that the necessary bulk infrastructure is in place in order to meet the future demands.

3.2.2. Water

Eighteen percent (18%) of the water supply infrastructure in Theewaterskloof, and 26% of sanitation infrastructure is in very poor condition. The municipality estimates that significant resources are requires to address refurbishment or replacement. The estimated cost values of the municipalities water and sewer Master Plans is between R205 million and R113 million respectively.

There is also the challenge of allocating finance resources to essential rehabilitation and maintenance of the existing infrastructure in addition to expanding services to poor communities within the Municipality. Due to the lack of adequate funds, such maintenance is however in competition with the need to extend services to the poor communities. The lack of maintenance of existing assets could result in the total collapse of such service with enormous economic consequences (Theewaterskloof IDP 2016).

3.2.3. Energy

Eskom is the main energy provider in the municipality. The municipality does however provide electricity supply for 4 of the 8 towns in its jurisdiction. These are Caledon, Greyton, Villiersdorp and Riviersonderend. A total number of 5260 households are supplied. There are no other energy sources available or supplied.

3.2.4. Roads

Theewaterskloof acts as a road agency for the Overberg District Municipality. The quality of roads is fair to good. There is a limited public transport system, with mini bus taxis being the main provider. Neither public transport systems or non-motorised infrastructure is of a good quality and requires upgrading.

3.2.5. Telecommunications

There is no provision for telecommunications infrastructure development cited in the Theewaterskloof Integrated Development Plans 2016-2017. Telecommunications is not a local government function.

3.2.6. Local Economic Development

Economic growth in Theewaterskloof has been relatively small, and slow in comparison to the population growth. As a result, per capita income has consequently declined which has impacted on household income. A knock-on result of this is a considerable decline in municipal revenue collection. The overall consequences are smaller resources available in the local economy (Theewaterklood IDP, 2016).

3.3. OPPORTUNITY FOR INCREASED EMPLOYMENT

The number of unemployed people has grown. In Theewaterskloof. Despite the agricultural sector the largest site of work opportunities, the sector is likely to continue to shed jobs with estimates of a possible further 3 000 jobs lost. The IDP forecast that this is a direct result of global competition, climate change and the rising costs of inputs into production.

While alternative growth sectors in construction, tourism and agro-processing do exist, its potential to employee large numbers are not positive and are likely to replace only about a third of the jobs lost in agriculture. Unemployment in Theewaterskloof is therefore likely to keep growing, reaching 44% of the working age population by 2030. The current dependency ratio is also likely to increase peaking at 4.32 in 2030.

3.4. OVERALL SOCIO-ECONOMIC INEQUALITY

Theewaterskloof has high levels of inequality with a large social and economic divide between white farmers who have historical ownership of agricultural lands, and the unskilled migrant agricultural workers. In addition, the patterns of economic migrancy from other provinces have also impacted on the demand for infrastructure and bulk services. This, in turn, have placed a burden on the municipal revenue collections for services.

3.5 NARROW REVENUE COLLECTION RATES

Theewaterskloof has a narrow rates base. As the municipality is not the main electricity provider, it cannot secure this as a source of income. The influx of indigent communities in search of work, the high dependency of seasonal work in the agricultural sector, high unemployment and the overall poor economic climate have all contributed to the already narrow tax base.

3.6 POPULATION

The overall population of Theewaterskloof is 121 739, with an annual estimated increase of 1.5%. The most notable areas on this table is the age profile and the dependency ratios. Twenty-five percent (25%) of the population is under 14 years old, while 69% is between 15-64. A smaller percentage is over 65 years. The largest segment of the population (69%) is of economically viable age.

Yet, Theewaterskloof has a high dependency ratio. This means that the difference between those of working age (15-64 age bracket) and those of non-working age (0-14 and 65+) is very high (http://geographyfieldwork.com/PopulationDependency.htm). While there are advantages to this situation such as providing a large workforce and providing a market for goods, the disadvantages are that a larger population will put strain on services, education, food supplies and employment.

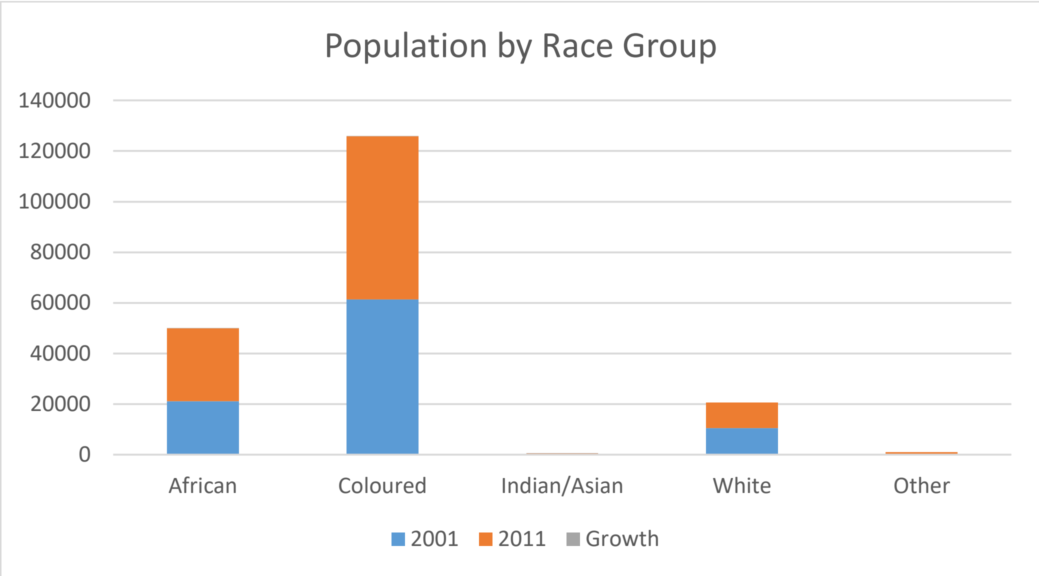


Figure 8: Population overview of Theewaterskloof municipality

Source: Theewaterskloof, IDP 2016-2017

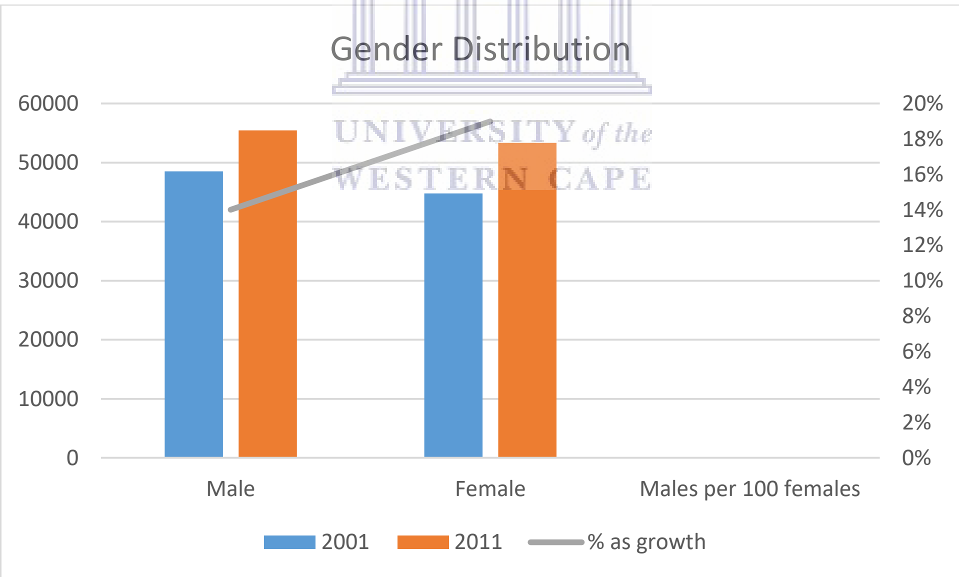


Figure 9: Gender Distribution of Theewaterskloof municipality

Source: Theewaterskloof, IDP 2016-2017

The coloured racial group was the largest in the municipality in both 2001 (61 370) and 2011 (68 478). This shows a growth of 11.58%. The white racial group share of the total population increased from 21 204 in 2001 to 28 757 in 2011. The Indian/Asian racial group is relatively small comparatively but does show a steady growth. These patterns of population growth continue the racial demographics of the rural countryside as a legacy of Apartheid.

The gender distribution in the municipality, according to the 2001 and 2011 Census estimates, shows that males are the majority, although females show bigger growth in 2011.

3.7 HOUSE-HOLD INCOME

In 2011, 13.7% of households in the Local Municipality earned less than R400 per month. The area also has the lowest GDP rate in the region of R25 182 compared to Cape Agulhas which is R40 191.

The economic growth forecast slowed down to 3.8%, despite it recording the highest economic growth in the region, it remained the slowest growing economy in that area.

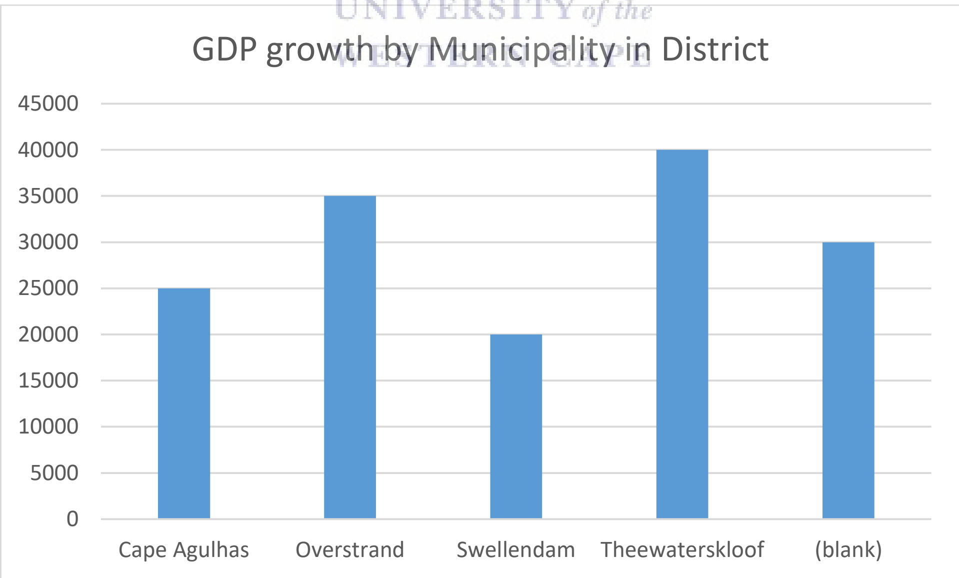


Figure 9: Theewaterskloof GDP Growth 2005 - 2016

Source: Theewaterskloof, IDP 2016-2017

In summary, Theewaterskloof present an overall picture of a municipality with high levels of inequality and historical infrastructure backlogs in bulk services. The Integrated Development Plan does not highlight Telecommunications as a planning priority as this is not a municipal function, in terms of the Municipal Structures Act of 1998. The municipality has a narrow tax base and so income from revenue cannot assist in the self-funding of infrastructure projects. Currently the large infrastructure areas of water, sanitation and electricity remain unfunded.

3.8 DATA FINDINGS AND ANALYSES

The section which follows will present findings of the analyses of development finance loan agreements for infrastructure development between Theewaterskloof Municipality and the DBSA, and the commercial Amalgamated Banks of South Africa, (ABSA) between the years 2006 - 2012.

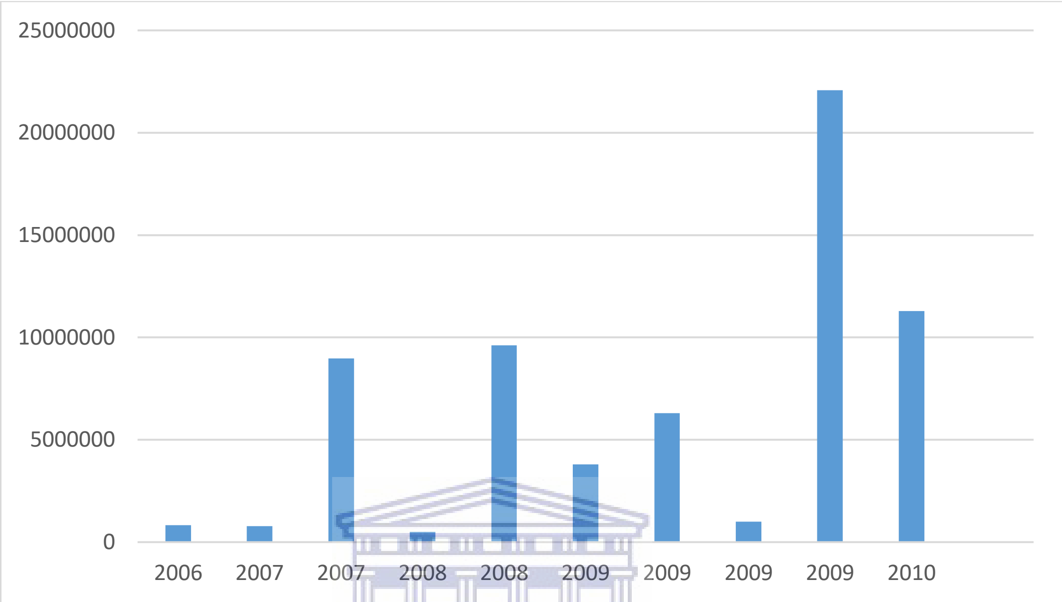
For the purposes of data analyses 9 ABSA loan agreements were reviewed, 10 DBSA agreements, and 3 Standard Bank agreements. As indicated in the section dealing with Limitations of the Study, these agreements were available on the Theewaterskloof public electronic repository.

Each agreement was reviewed, with specific focus on loan borrowings, period of repayment, interest rate instruments and derivatives, specific loan conditions as it relates to grace periods, special conditions, and financial covenants. Findings as each as it relates to these focus areas are presented in the section which follows.

The second section of this chapter will discuss these specific elements noted above in the context of the socio-economic conditions of the municipality as it relates to the economy of Theewaterskloof and its current economic sector development overview, household income and poverty, rates of employment and un-employment, revenue collection and existing municipal debt levels.

3.8. LOAN BORROWINGS

Figure 10: Development Bank of Southern Africa



Source: Authors' graph

During the 2013-2014 financial year, the Bank disbursed R9.2 billion in support of strategic infrastructure projects. Approvals to the metropolitan municipal market totalled R12.3 billion. Development finance support, during the same period, totalled R12.3 billion, while support to poor and under-resourced municipalities totalled R937 million. During the 2015-2016 financial year DBSA disbursements totalled R8.1 billion, R7.3 billion to secondary municipalities and R1.3 billion to poor and under-resourced municipalities.

The DBSA is recognised as a critical component of the national infrastructure system. The State has mandated the Bank to 1) invest in water, energy, transport and telecoms infrastructure; 2) provide planning and implementation support to municipalities with an emphasis on secondary cities and under-resourced municipalities.

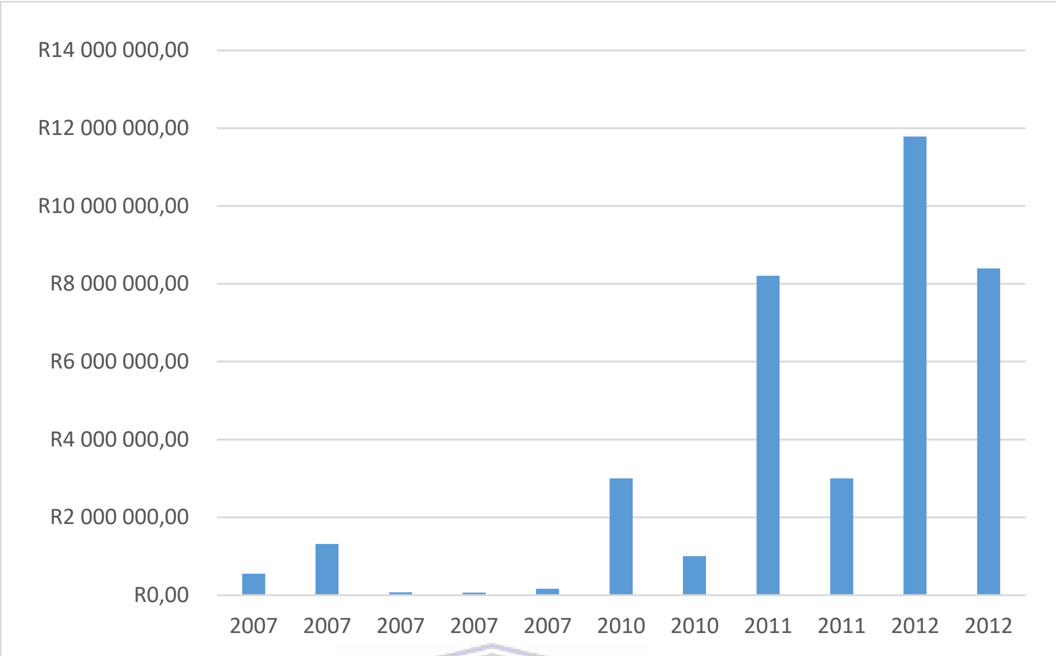


Figure 11: ABSA and Standard Bank borrowings

Source: Authors' graph

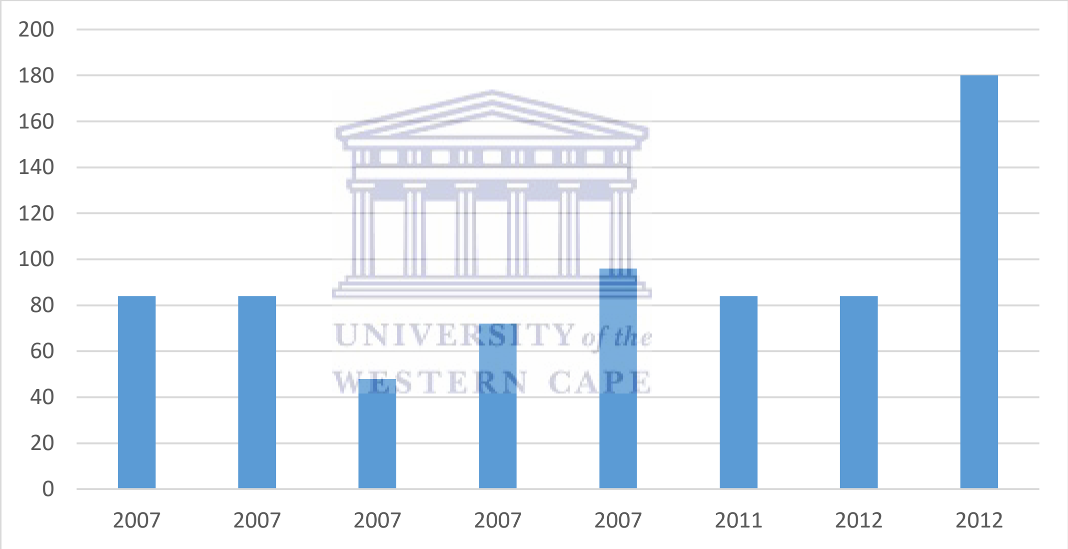
Theewaterskloof borrowings from the DBSA between the period 2006 and 2010 were taken for the purposes of infrastructure projects in the sector of water, electricity and road, assets and buildings. The largest loan amount during the period was taken during 2009, when R33 177 960 was borrowed over a 20-year period. For the period 2006 – 2010 the municipality borrowed R 65 141 452,00 for infrastructure development from the DBSA.

The borrowings chart reflected in Figure 2 above reflects the period 2007 – 2012 as available on the Theewaterskloof website. The loans were borrowed from commercial banks, ABSA and Standard Bank between the periods 2007 and 2012. The loans were borrowed for the purposes of capital infrastructure projects. The largest loan amount is R11, 785, 121 loaned by ABSA Bank in 2012 and the smallest amount is R 554 384,59 during the period 2007, also from ABSA. For period 2007-2012 the capital amount of R 16 894 597,66 was borrowed from ABSA Bank. For the period 2010-2011 R12 209 060 was borrowed from STD Bank. For the period 2007-2012 the municipality borrowed R29 103 657 from commercial entities.

3.10. LOAN TERMS

A term loan is a loan from a bank for a specific amount that has specified repayment schedule and a fixed or floating interest rate (http://www.investopedia.com/terms/t/termloan.asp).

Figure 12: ABSA loan terms (in months)

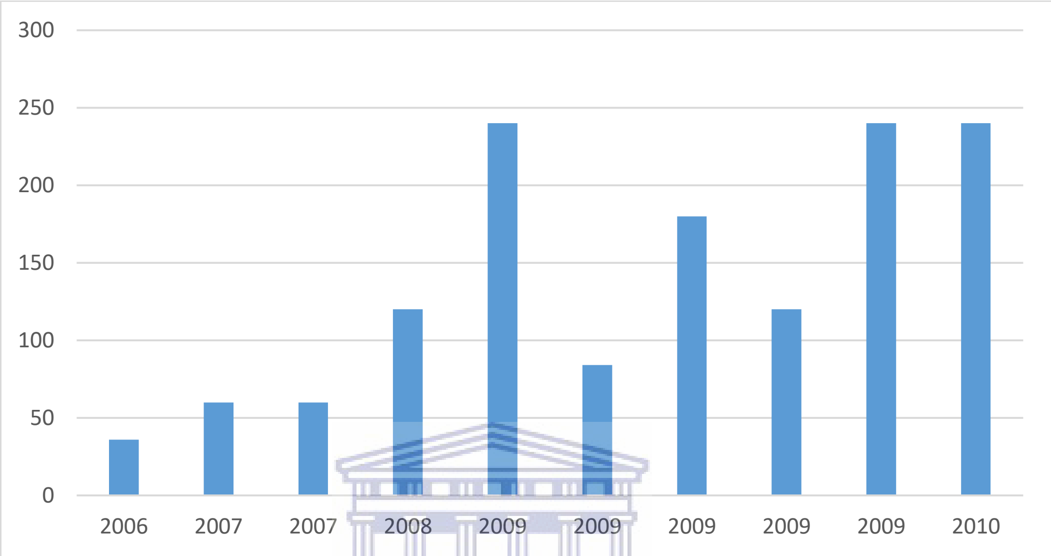


Source: Authors' graph

Figure 13 above shows the term of loan borrowings from ABSA bank. The period 2007 shows individual loan agreements signed during the 2007 period. There are 5 loans taken during 2007 for the purposes of infrastructure development. For this period therefor the accumulated number of years for each loan taken during 2007 is 32 years, or 384 months.

Figure 14 below shows the term of loan borrowings from the DBSA. The period 2009 shows the largest loans taken in any one year within the period. There were 5 loans signed for the purposes of infrastructure development. For this period therefor the accumulated number of years for each loan taken during 2009 is 52 years, or 624 months.

Figure 13: DBSA loan term (in months)



Source: Authors' graph

The following points can be made in relation to loan terms: 1) the number of years overall for a loan period is a maximum of 20 years; 2) As in 2009, the sum of R33 177 960 was borrowed from the DBSA by Theewaterskloof. This amount represents development finance for infrastructure sectors. These include waste water, electricity, roads, water, movable assets and buildings. Bulk infrastructure project loans for water, electricity and roads are taken over a 20-year period, while loans for moveable assets are taken over a 7 to 10-year period.

3.11 INTEREST RATES AND DERIVATIVES

In DBSA loan agreements (10 agreements) for the years 2006 (clause 3.1.1) and 2007 (clause 3.1.1) a fixed interest rate was calculated against 3-year, 5-year and 20-year government bonds, inclusive of 123, 140 and 186 basis point respectively. Basis point refers to changes in interest rates.

In the DBSA loan agreements for the years 2008 and 2009 another derivative was employed namely, the Amortized Swap Rates (ASR). In clause 3.1.1 of the loan agreement, it was agreed that the capital amount of R6 295 000 would bear interest at a nominal fixed rate over a 15-year Amortized Swap Rate plus 1.77%. The swap rate is an instrument used exclusively for the exchange of interest cash payment exchanges.

Within the DBSA agreements a default interest instrument was calculated in the 2010 agreement (Clause 5.3.1). The default interest instrument is usually applied to mitigate the risk exposure of the bank. In the 2010 agreement, default interest is paid on demand by the borrower, and used to offset risk exposure. In this agreement the DBSA will determine the default interest rate.

In ABSA loan agreements with Theewaterskloof for the periods 2007, 2011 and 2012 (9 agreements), the fixed rate instrument was employed for all the loans. No percentages were noted in the agreements. However, the interest rates would be determined by the bank. Any default would be calculated at the prime interest rate plus 3%.

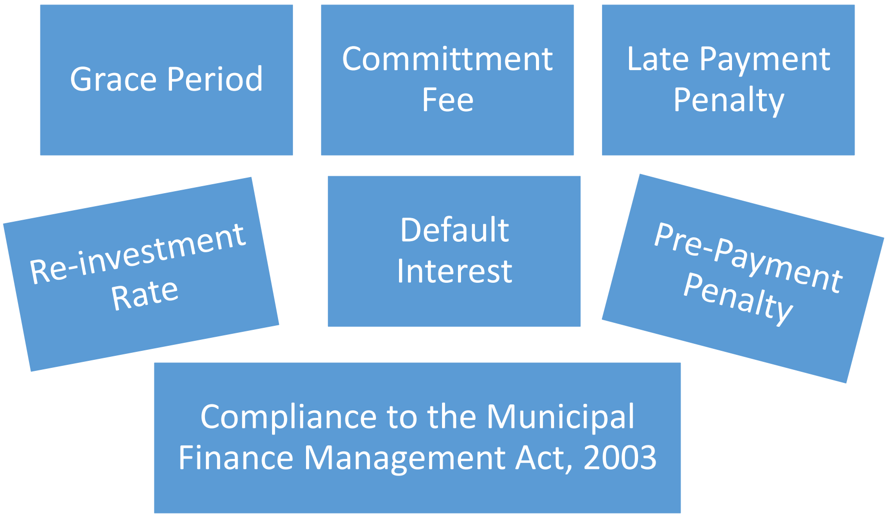
In the Standard Bank agreements (3 agreements) for the period 2010-2011, the fixed rate instrument was used at the average interest rate of 11.87%.

3.12 LOAN CONDITIONS

In the loan agreements reviewed for the research project, the following conditions were put in place as can be seen from Figure 15 below

Loan Conditions and requirements are elements which specify the loan amount, term, interest rate, and other enforceable conditions agreed to by the borrower and the lender. In development finance banking, conditions are often attached to policy advancement strategies (Koeberle, 2012).

Figure 14:



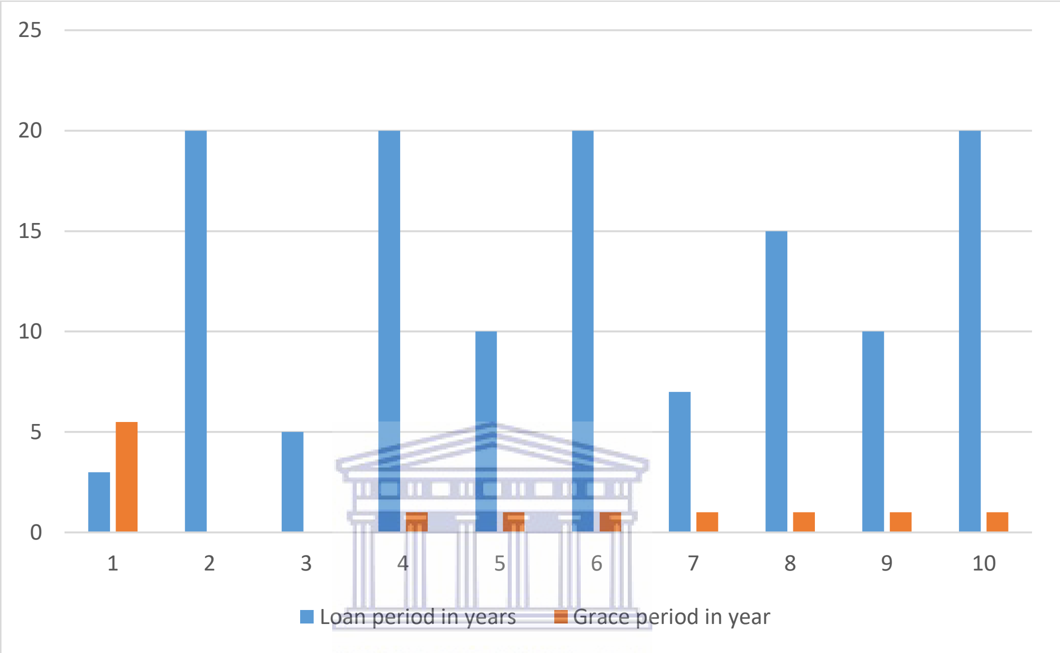
Source: Authors' graphic

Conditions in commercial loan agreements are often put in place to mitigate against the risk for the lender. Default interest and penalty interest clauses ensure that late or non-payments on the part of the borrower, protect the risks associated with lending and the income yielded during the repayment period. The section below will present the findings on the conditions of grace period, financial covenants, penalty interests, and MFMA compliance.

3.13. GRACE PERIODS AND FINANCIAL COVENANTS

A grace period is the provision that allows payment to be received for a certain period of time after the actual due date. The DBSA loan agreements (graph5) for the period 2006-2012 cover a total of 130 years. The grace periods for a loan of R818 337 over 3 years, is 5.5 years. A loan over 20 years with a capital value of R11 286 900 has a grace period of 1 year. Over the period of loans 2006-2012, the collective grace period is 12 years. There are 2 loan periods, 20 years and 5 years respectively, where no grace periods are allowed. It must be noted the 20-year loan agreement, is valued at R33 177 960, spread over different loan agreements for electricity, water, road, movable assets and buildings. The total repayment period is spread over 45 years.

Figure 15: DBSA loan grace period

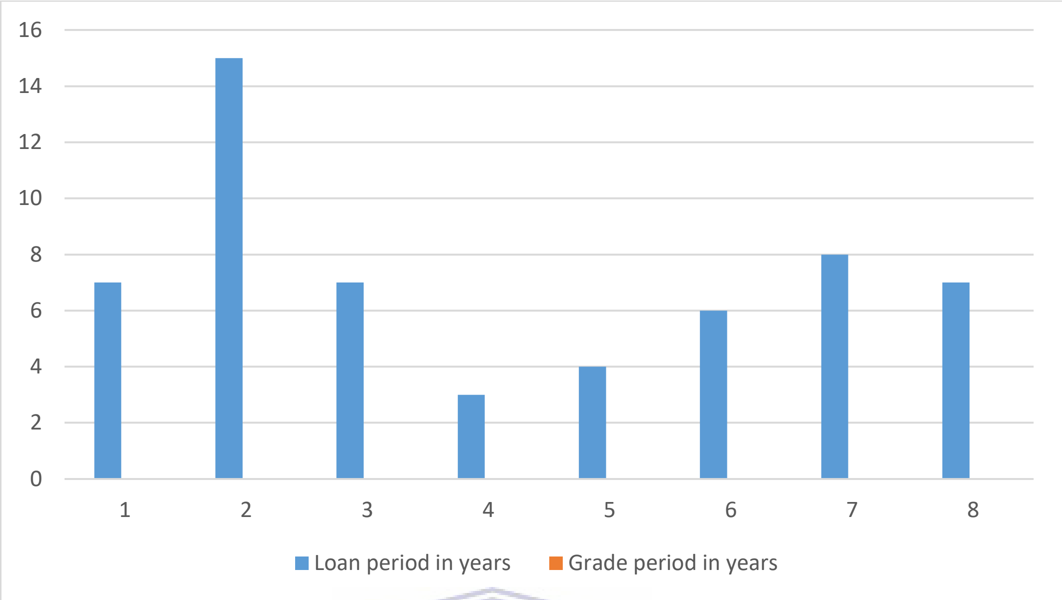


Source: Authors' graphic

Of the ten loans reviewed during the period 2006-2012, 8 have a commitment fee of 5% per annum. Eight of the loans have a late penalty clause of 2% per annum. One loan has a default interest formula, which is payable on demand.

As can be seen from Figure 16 there are no grace periods noted in the ABSA loan agreements. Each of the loans reviewed have a default interest clause, formulated as 'default interest at the Prime Interest Rate Plus an added percentage'. The added percentage varies from 2% to 3%. The loan of R11 785 121 (Loan Agreement 2012) has a commitment fee option (Clause 4.4) for the lender, a default interest clause (Clause 5.3), and a swap interest option (Clause 7.4). All the contracts reviewed have Municipal Finance Management Act compliance clauses contained in each of them.

Figure 16: ABSA grace period



Source: Authors' graphic

3.14. COMPLIANCE AND FINANCIAL COVERNANTS

All the loans reviewed for this research, both DBSA and the commercial banks, contained clauses guiding on compliance to the MFMA 2003. Municipal borrowing is framed by the requirements of the MFMA, 2003 and the Municipal Regulations on Debt Disclosure ("the Disclosure Regulations") published under in Government Gazette 29966 of 15 June 2007. While all municipalities must borrow with these frameworks, the limitation of the study could not uncover a borrowing policy for Theewaterskloof.

An example of this is contained in the DBSA agreement 2009, Clause 11.3. The Clause guides that 'the borrower shall furnish the DBSA with proof of compliance with Section 46(3) of the MFMA'.

A 2009 ABSA agreement, Clause 11, requires that the municipality furnish the Bank with signed Municipal Council Resolutions empowering senior municipal officials to authorise the loan. In addition, the municipality must submit proof of compliance with the MFMA 2003.

The 2011 ABSA bank agreement require as in Clause 8.1.2 that the municipality submit copies of its audited statements to the bank within 30 days of signing of the agreement. Clause 15 of this agreement also entitles the Bank to review the Annual Financial Statements, the Annual Budget, the Integrated Development Plan and its repayment schedule on an annual basis. The chapter which follows will discuss the findings presented here.

CHAPTER 4: ANALYSIS OF RESEARCH FINDINGS

4.1. INTRODUCTION

This chapter will discuss the findings of the research. This will include the following: 1) discussion on theoretical reflections of the findings; 2) a conceptual reflection on the findings; 3) a discussion on the findings in relation to patterns emerging from the loan agreements; and 4) a general discussion reflecting on the overall research question and make recommendation.

'Infrastructure is not just essential for faster economic growth and higher employment. It also promotes inclusive growth, providing citizens with the means to improve their own lives and boost their incomes. Infrastructure is essential to development'. (National Development Plan, 2030)

The State, through the NDP 2030 as its vision, and a raft of legislation, empowers all spheres of government, to support the infrastructure pathways to development. The NDP provides guiding principles on infrastructure in rural areas, in particular, infrastructure which supports the 'provision of basic universal services'. This principle is a clear acknowledgement of the spatial and economic inequalities which exist in the rural countryside.

The States' growth agenda, and legislative and policy prescripts, through the Municipal Finance Management Act 2003, the Infrastructure Growth Plan, the Municipal Structures Act 1998, the DBSA Act 1997 and the myriad of interlinked policy and socio-economic planning tools are poised to ready the country, and its diverse needs and communities, for the vision of NDP 2030: a society in which the dreams and aspirations of all can be realised.

However, this vision, is intricately connected to the global environment, in which the ruling system of capital, and inequality, form the dominant structures of human society. A permutation of which can be found in the theoretical underpinnings of the relationship between DBSA, commercial Banks, and Theewaterskloof. The section which follows will discuss this.

4.2. THEORETICAL REFLECTIONS

4.2.1. The World System Theory

A crucial element of World Systems Theory is the unit of analyses. Nation states in the theoretical articulation are characterized into core, semi-periphery, periphery, core and periphery, metropole and satellite. The relationship between the core and periphery are interdependent (Martinez Vela, 2001) and while culturally different, the relationship is structural with one focused on labour-intensive activities and the other on capital intensive activities. The DBSA is an illustrative functionary of the global capitalist system in the manner its relationships with municipalities are structured. The success of capitalism is reliant on the structure of the area in which it operates.

An example of the 'structure of the area' is financial instruments in place in the DBSA loan agreements. The commercial bank instruments, as one would expect as they are private sector proxies of the capitalist structure, offers a single instrument (fixed interest) and an additional risk mitigating instrument in the form of a default penalty interest.

4.2.2. Loan agreements

The DBSA loan agreement is much more punitive to the municipality in the way its risk mitigating instruments are structured. An example is the 2007, 20-year loan agreement. In this agreement a nominal fixed interest clause plus an amortised swap rate with an additional levy of 1.84% is cited. In addition to this, interest is compounded on a six monthly basis, and while there is no commitment fee, a punitive clause of deviation from the scheduled payments will incur a 0.5%

commitment fee. An additional punitive clause includes a penalty interest clause calculated at the Prime Lending rate plus 2%.

The punitive structure of the loan DBSA loan agreements is in contrast to the development mandates and vision of the 2012 restructuring process of the Bank. The DBSA programmes and work specific to municipalities is about supporting infrastructure growth, and helping local government to achieve its mandates in relation to infrastructure development. However, the punitive clauses contained in its contracts with municipalities is based exclusively on accumalatory practices. As Wallerstein notes: 'capitalism is 'endless accumulation' and means the accumulation of capital to acquire ever more capital'.

4.3. CONCEPTUAL REFLECTIONS

4.3.1. Borrowing

Long term borrowing is one major instrument for financing infrastructure development. Responsible borrowing by municipalities is strongly supported in government policy and legislation as an efficient and equitable mechanism to finance municipal capital investment needs (Municipal Borrowing Bulletin, 2016).

Between the period 2006 and 2012, a 6-year period, Theewaterskloof borrowed an amount of R5 385 4552 from the DBSA. Between 2007 – 2011, ABSA loaned an amount of R25 932 080. STD Bank loaned the municipality an amount of R12 209 060 over a 2-year period (2010 -2011). Given the highly unequal socio-economic conditions of Theewaterskloof and the narrow tax base I would offer that the concentration borrowings could mire the municipality in a cycle of debt repayment, or worse, debt default, placing further economic strain on the narrow tax base.

4.3.2. Generational debt

The loan servicing requirements, particularly from the DBSA, as noted in the previous section, will place a burden on the municipality and its residents in the context of the narrow tax base of the municipality. The period of loan repayments for DBSA translates to 1 380 months or 115 years. I would offer that the loan period for DBSA loan repayments places an unyielding burden on the residents given the narrow tax base which lowers the income revenue for the municipality. Without adequate revenue collection through taxes and services, the municipality may never substantially repay these loans. The high rate of unemployment will also affect the ability of the municipality to recoup its infrastructure investment.

The burden of debt should not create a burden of debt for future generations (Black, Calitz and Steenekamp 2011). Theewaterskloof has a population of 121 739 (IDP, 2016). Yet with an unemployment rate of 14.9%, a youth population of 25%, a school drop-out rate of 31% a social welfare dependency ratio of 44%, a child dependency rate of 25%, and 11.8% of households who have no income, the chances of this municipality meeting its debt obligations within the next generation, are very small.

Theewaterskloof has the lowest GDP per capita in the Overberg District, 25 692 in comparison to 40 191 of Cape Augulus. Despite potential in sectors such as agri-processing, tourism and construction, it is estimated (Theewaterskloof IDP, 20160) that only a third of the 3000 jobs lost in the agricultural will be re-absorbed in the economy. Unemployment is likely to reach 44% by 2030. Theewaterskloof has high levels of inequality and a large infrastructure backlog. The chances of internal revenue collection to help fund these sectors remain threatened as the municipality has a narrow revenue and tax collection base.

4.3.3. Loan terms

The largest loan amount during the period was taken during 2009, when R33 177 960 was borrowed over a 20-year period. For the period 2006 – 2010 the municipality borrowed R 65 141 452,00 for infrastructure development from the DBSA. For the period 2007-2012 the municipality borrowed R29 103 657 from commercial entities. For the period 2007 the collective loan repayment period for ABSA Bank is 32 years, or 384 months. For the period 2009 the accumulated number of years for each DBSA loan is 52 years, or 624 months. I would offer that the generational debt burden for future and current members of the Theewaterskloof municipality may well see the municipality mired in a continuous cycle of debt, unless the socio-economic patterns of redistribution is addressed.

4.3.4. Interest Rates

The commercial borrowings of Theewaterskloof are fixed interest rates calculated by the ABSA and Standard banks with an additional 3% added to the prime lending rate. It would be incumbent of the Banks to ascertain risk in this calculation, as is the practice in most commercial entities.

The DBSA loan agreements to Theewaterskloof is a combination of fixed, nominal fixed, swap rates, default interest rates and basis point calculations. I would offer that the combination of interest rate instruments is punitive given the socio-economic profile of Theewaterskloof. The infrastructure and resource landscape as outlined, profiles a municipality which has aging infrastructure, high levels of inequality, an influx of indigent people and a narrow rates collection base.

The net amounts payable through interest rate instruments used in combination in single loan agreements may affect the ability of the municipality to pay off the capital amount in the allotted time frame. Furthermore, the use of default interest rates instruments in DBSA loan agreements to municipalities is an anathema to the development agenda of the State. While the narrative protecting the Bank against risk is the underlying rationale for the use of default interest clauses, it speaks to the State not displaying confidence in its own socio-economic grow pathways.

4.3.5. Loan conditions

A grace period is the provision that allows payment to be received for a certain period of time after the actual due date. The DBSA loan period across all loans reviewed is for 45 years. The total grace period across all loans are for 12 years. The commercial loan with ABSA Bank has no grace period. Despite the 12-year grace period across all DBSA loans the multi-interest rate instruments at play in DNSA loan agreements may well nullify the grace period clause, particularly if late payment penalty clauses (present in DBSA loan agreements) are actioned. In addition, none of the grace period clauses present in the DBA loan agreements spell out the notice period for grace periods on the part of lender.

4.4. RECOMMENDATIONS

4.4.1. DBSA loan agreements and transparency

It was challenging sourcing loan agreements from the DBSA website. While the research was limited in funds and time, and a broader study encompassing face to face interviews with DBSA and municipal officials could not be conducted, the DBSA website was unhelpful. The Bank does not have an electronic loan repository unlike its African Development Bank, World Bank, International Monetary Fund and Asian Development Bank counterparts.

The DBSA also does not have a clear communication tool which spells out its loan conditions for municipalities. The recommendation of this study is that the DBSA, as a State institution, becomes more transparent in its loans to municipalities by making its loan agreements more accessible to the public. This would help in building alternative narratives for South African development finance at the academic and social policy level. It would also dispel the perception of the Bank as a conduit for elite wealth creation by those occupying high level political office.

4.4.2. Multi-interest rate instruments in a single loan agreement

Given the lack of technical capacity in particularly rural municipalities such as Theewaterskloof gave the perception that these loan agreements were needlessly complicated in its use of multiple interest rates instruments. The legal language present in the loan agreements were almost punitive in its articulation, and detracted from the overall development and co-operative governance agenda of the State.

It is the recommendation of this study that development finance agreements by a State institution such as the DBSA are seen as public documents. As such they should be written in a manner which communicates the development agenda of the State, spelling out the rights and responsibilities of the municipality as the lender, while being accessible to residents and communities who wish to engage with them.

4.4.3. Inter-government transfers versus DBSA loans

Theewaterskloof is a rural municipality and has high levels of socio-economic inequality. As a rural municipality the entity is eligible for a raft inter-government grants and financial support in its infrastructure development programme. In addition, the Department of Co-operative Governance and The National Treasurery have legislative municipal capacity building programmes to support rural municipalities in their fiscal and planning management. This research hold the view that the DBSA loans mire rural municipalities in generational debt burdens. It is the recommendation of this study that a municipal moratorium on external loans is actioned for a 10-year period to ensure that municipalities are first capacitated within a decade to manage large fiscal infrastructure programmes.

4.4.4. Transformation of the rural country-side

The most note-worthy challenge in the Theewaterskloof IDP 2016 was the lament by the municipality of the drain on resources and services by migrant agricultural workers in search of seasonal work. It is the view of this stud that this stance may perpetuate a weakness of transformation in small under-resourced municipalities. Rural areas, much like urban centres, have population movements as a result of economic ebbs and flow. Services and resources are not the exclusive domain of generations of the same families owning the same rural farms. The IDP as a document of vision should articulate the transformation to a sharing and caring society.

It is the recommendation of this study that the Theewaterskloof municipality share a vision of expanded services to include migrant populations who can potentially revive the agri-processing business through small scale farming activities, contribute to the tourism industry through labour and related tourism activities. A bigger population would mitigate the need for common goods such as schools and hospitals.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5. 1 Summary Chapter 1:

This chapter introduced the study by providing a background to the study and a context of the DBSA, the States' infrastructure development agenda and the legislative framework within which municipal lending and infrastructure development takes place.

The interconnectedness between DBSA and municipal infrastructure financing presents itself as part of the States' development agenda. From the historical perspective of deracialising the development mandate of local government and cementing a co-operative government system, the support of the DBSA is a crucial cog in the wheel of development in municipalities. This chapter sought to present the agenda of the DBSA in relation to the infrastructure delivery at the municipal level.

The first chapter presented the significance of the research and its potential scholarly contribution to a broader societal discussion on DBSA lending and its impact on poor municipalities. This chapter also identified the aims of the study, the problem statement and introduced the research methodology. The chapter which follows presents the conceptual framework and literature review of the study.

5.2 Summary Chapter 2

Chapter 2 was presented through two sections. The first section presented a theoretical and conceptual framework for the research study. It discussed the WST and its units of analyses, i.e. core, periphery and semi-periphery. From the theoretical perspective, the intricate workings of the relationship between the DBSA and its municipal client points to world system in which concentric circles of power are interrelated to perpetuate itself. At the core is a system (capitalism) based on producing a profit for an elite.

The first section of Chapter 2 also presented a discussion on the concepts of development finance. This included borrowing policy, credit-risk, credit-rating, credit- worthiness, financial derivatives, interest rates and municipal bonds, and loan conditions and policy. Through the conceptual framework presented, the chapter sought to illustrate the complexities of development finance loan agreements.

The review of literature contained in the second section of this chapter focused on the development banking landscape and its historical foundation, from a national and global perspective. It looked at the historical underpinnings of development banking from pre-20th century to the contemporary. It also looked at debates and discussions on the refocusing of the development banking premise and alternatives to development banking within the neo-liberal context. The final section of this chapter focused on two issues: 1) the DBSA and its loans to municipalities and 2) municipalities, its structure and financing for its infrastructure.

5.3 Chapter 3 Summary

Chapter 3 presented data and findings of DBSA loans to the Theewaterskloof municipality. This section firstly gave an overview of the infrastructure profile of the municipality. It also focused on the socio-economic profile. In this it was revealed that Theewaterskloof has high levels of inequality with a large social and economic divide. White farmers have historical ownership of the land and black migrants provide the unskilled farm labour. The patterns of migrancy, and low income tax collection have also impacted on the demand for infrastructure and bulk services.

In terms of loans, the chapter presented findings of 10 loan agreements between the DBSA and Theewaterskloof municipality, 9 loan agreements between

Theewaterskloof and ABSA bank, and 3 loan agreements with Standard Bank. Each agreement was reviewed with specific focus on borrowings, repayments periods, interest rate instruments, and loan conditions. The loans represent the period 2006 – 2010. DBSA was the largest borrower at R65 141 452 in contrast to the R29 103 657 borrowed from commercial entities.

5.4 Chapter 4 Summary

This chapter reflected on an analysis of the research findings and reflections on theory and concepts.

Within the theoretical context of the WST, the DBSA loans are an illustrative functionary of the global capitalist system in the manner in which its relationships with municipalities are structured. An example of the 'structure of the area' are the financial instruments present in DBSA loan agreements. The commercial banks with whom the municipalities have loan agreements can be viewed as private sector proxies of the capitalist structure.

In the context of loan agreements, it can be concluded that the DBSA loan agreement is more punitive to Theewaterskloof in the way that its risk instruments are structured. The 2007, 20-year loan agreements is a case in point in which a nominal fixed interest clause plus an amortised swap interest rate and an additional 1.84% levy is incorporated into the loan.

In addition the DBSA loan period for 2006-2010 translates to 1 380 months of loan repayments. In my view the punitive structure of the loan is in contrast to the development mandates and vision of the 2012 DBSA restructuring process to support infrastructure development.

The concept of generational debt burden should be noted, in relation to the point made of punitive loan clauses and loan repayment period as noted above. The

DBSA loans will place an unyielding burden of debt on current and future generations of Theewaterskloof residents given the narrow tax base. Without greater revenue and tax collection the municipality may never repay these loans or recoup its infrastructure investment.

In concluding this section, the context of the DBSA's status as government owned, its lending practices to municipalities are questionable in light of its comparably higher interest rates and punitive repayment clauses. The research evidence and findings does offer some critical evidence to the research question: Does the DBSA lending modalities perpetuate or diminish inequality?

Given the socio-economic profiles of Theewaterskloof and the low tax base, and revenue collection rates of the municipality, ***it would seem that DBSA loans are punitive with onerous terms and conditions thus perpetuating a cycle of inequality.*** Given the burden of debt on the tax base the DBSA loans will perpetuate a cycle of poverty and inequality.

The lending and borrowing structure of the DBSA must be critically questioned in the context of its developmental agenda. This can only be done if the Bank is more transparent in its relationships with municipalities and thereby contribute to a more equitable vision for South Africa: one in which this country belongs to all who live and work here. The section which follows will offer recommendations linked to the specific problems raised in this research.

5.5 Recommendations

Small municipalities, such as Theewaterskloof, identified in this study, find accessing funding, from external development finance institutions challenging. Due to their narrow tax bases they are unable to generate enough revenue to increase their credit-worthy and credit-risk profile. Where they are successful, loan conditions are punitive and places debt burdens on current municipal economies, and on future generations. This which follows suggests recommendations to mitigate the challenges of accessing external finance from finance institutions such as the DBSA, and commercial lenders.

5.5 (a) DBSA loan agreements and transparency

The DBSA is not a transparent institution as it relates to making public its lending practices to municipalities, as was discovered in the gathering of data. The Bank should become more transparent by making its processes more accessible to the public beyond generic media statements.

It would help to place a complete repository of its loan agreements to municipalities on its website, much like its development bank counterparts in Asia, Africa, the World Bank and the IMF. This will help to contribute to policy thinking on alternatives to development finance to municipalities at the academic and social policy level. It may also dispel the perception of the Bank as a conduit for wealth creation for the politically connected elite.

5.5 (b) Multi-interest rates instruments

Rural municipalities often lack technical capacities to manage its development planning processes. They also lack the technical staff capable of negotiating large development finance contracts. The DBSA loan agreements were needlessly complicated in its use of multiple interest rates instruments to avert risk to the Bank. In, addition the use of complex legal language in the contracts were punitive in its articulation.

I would recommend that such agreements by a State owned bank are put into the public domain as public documents. They should be written in a manner which communicates the development agenda of the State, spelling out the rights and responsibilities of municipal lenders, while being accessible to society at large to engage with.

5.5 (c) Inter-government transfers versus DBSA loans

Theewaterskloof is one of many municipalities nationally, eligible for inter-government transfers to support infrastructure development. These transfers are delivered through provincial government conduits for programmes supporting infrastructure and IDP targets. They are also directly transferred from national government departments. Given the problem identified with managing large external loan agreements, and the generational debt burden, it is recommended that a 10-year moratorium is placed on external municipal loans from DBSA and commercial entities.

During this 10-year period, the existing municipal support programmes to strengthen the skills base of municipal managers and finance managers can be increased; a succession plan for new layers of municipal leadership can be strengthened; and an increase in the tax and revenue base can be broadened. This will help municipalities to increase their credit-worthiness should they broaden their revenue base and ensure that municipal mandates in relation to planning and implementation for large infrastructure projects can be achieved. The burden of external debt servicing will therefore not place an added challenge to municipalities already challenged by socio-economic backlogs.

5.5 (d) Transformation of the rural country-side

There is a lack of transformation in the rural country-side. This notion is illustrated in the Theewaterskloof IDP (2016) where migrant populations in search of seasonal agricultural work are blamed for the drain on services and resources. Services and resources are not the exclusive domain of generations of the same families owning the same rural land. The IDP document as a vision of the future must articulate the transformation to a sharing, and caring society.

It is recommended that the Theewaterskloof municipality structure its IDP process to reflect on a transforming and diverse population in the future by acknowledging the potential contribution of seasonal and migrant populations, as well as the local non-land-owning populations. The IDP vision of a Theewaterskloof future can include plans on how to hold migrant populations in the area through expanded industrial plans which require their labour. Industries which can be revived are the agri-processing industry, tourism and small-scale farming.

A bigger population would mitigate the need for more schools, hospitals, and small local economic hubs. This in turn would expand the revenue and tax base; provide an economic stream to support the services and resources needed by a greater, diverse population that imbibes the founding spirit of The Bill of Rights: South Africa belongs to all who live in it.

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