

The fit of NDBs/DFIs with public policy

The Africa Development Finance Week

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PUBLIC POLICY

- A choice made by govt to undertake some course of action
- Developing, translating and implementing of public policy into a successful practice is an art and a craft
 - Insight
 - Creativity
 - Imagination
- To accurately identify societal problems
- The clear articulation of these problems and proposed strategies to solve them
- Effective implementation strategies at a policy level

CENTRAL ROLE OF GOVERNMENT

- Aimed at addressing:
 - Private sector oversight in areas of public policy – Mkt failure, path dependencies, etc. and
 - Policies governing the private sector playing field
- This requires a mix of state and market interactions that foregrounds a development agenda
 - Investment
 - Finance
 - Human capital development
 - Technology acquisition
 - Promotion of policy and institutional reforms
- NDBs/DFIs can act as an effective bridge

ROLE OF PUBLIC MANAGERS

“On occasion, public managers have an obligation to instigate public deliberation rather than simply make policy decisions, in directing public attention towards these ideas, public managers broaden the range of possibilities for public action and deepen society’s self understanding”
Robert Reich

“Policy analysts as well as office holders have a responsibility of improving the quality of discourse by probing assumptions, raising issues, and thereby helping the public consider different formulations of problems and a wider set of possible solutions.” G Majone

ROLE OF NDBs/DFIs

- Market failure correction widely accepted as justification for intervention – (state/market/DFIs)
- NDBs/DFIs generally used to address market failure in credit risky socio-economic strategic sectors
 - Aggressively filling gaps in the supply of financial services
 - Crowding in the private sector

ROLE OF POLICY BASED DFIs/NDBs

“Policy based DFIs have their *raison d’etre* in the recognition that risk and profitability criteria often mean that, private institutions are not willing to provide finance in certain government priority areas and on the conditions which are necessary for development. As a consequence, policy based DFIs were created to provide government with a mechanism through which funds could be directed to these priority areas, in an effort to support economic growth and development. In so doing, the problem of supplying long term funds for capital investment in priority fields is addressed”

Mateyisi 2001

ROLE OF A DEV FIN SYSTEM

- A mechanism of identifying societal problems
- Processes that assist in clearly articulating govt policy objectives
- Aid in meeting challenges faced by different sectors of the economy
- Mobilising private and public resources
- Close the gap between first and second economies

INTERNATIONAL EXPERINCE

- Appropriate & efficiently managed DFIs can contribute to economic growth and development
 - Indonesian DFI landscape – a structured financial sector which effectively contributes to development
- Developing countries
 - Policy based DFIs have given rise to severe market distortions – Zambia's Agriculture Sector
 - Failed to promote growth and development
- Many international experiences from which lessons can be drawn

LESSONS LEARNED

- Promoting pvt sector activities
- Avoiding competition for the same investment opportunities
- DFI functions could include
 - Generation and provision of information
 - Filling financial gaps where pvt sector is unwilling to participate
 - Leveraging pvt sector involvement
 - Undertaking certain govt functions
 - Augmenting capacity in communities
 - Linking SME projects to macro projects
- Assisting in Policy articulation
 - Continuous monitoring of the development process
 - Identifying market constraints to pvt sector participation

ENSURING THE FIT WITH PUBLIC POLICY

- Clearly articulated policy objectives
- Prioritisation of the policy objectives
- Co-operation and co-ordination between govt ministries themselves and the finance ministry
- Identification of market gaps in addressing these policy objectives
- Outlining the role of DFIs
 - Periodic reviews and alignment of DFI mandates
- Aligning DFI strategies to policy objectives
- Determining pre-agreed KPIs

THE SOUTH AFRICAN EXPERIENCE

- Public policy not well articulated
- Evolving policy vs. static mandates
- DFI ownership structures vs. policy objectives
- A mismatch between policy objectives and DFI activities
- Incentive structures promote competition with pvt sector
- Financial sustainability risks promote a profit focus
- Focus on financial vs. development performance measures
- Limited DFI collaboration and coordination
- Access to DFIs by target communities remains difficult
- A general urban bias

EVOLVING DFI LANDSCAPE

- ASGI-SA
 - Unspent cash – from approx R10bn to R4bn
 - Prioritisation of government projects
- DFI Review
 - Continuing self assessment
- SA DFI network
 - Improving collaboration and coordination

HARNESSING THE PRIVATE SECTOR

“The starting point in thinking about the public role in financing development is that private markets exist within institutional frameworks that are created and maintained by governments and the international organisations they establish. Those markets are generally guided by policies that the official bodies determine.... Thus both directly and indirectly, governments and international institutions help to shape the financing for development, even in a world of largely private economic activity.” B

Herman, F Pietracci, K Sharma

FINANCIAL SECTOR CHARTER

CLEARLY ARTICULATED POLICY - BEE

+

VISIONARY PVT SECTOR LEADERSHIP



PVT SECTOR RESOURCES FOR
DEVELOPMENT

FINANCIAL SECTOR CHARTER

- Voluntarily developed by the financial sector
- Establishes principles upon which BEE will be implemented in financial sector
- Partnership with govt on BEE
- Establishes measurable targets
 - Human capital development
 - Procurement policies
 - Enterprise development
 - Shareholder activism
 - Access to financial services
 - Empowerment financing
 - Financial sector ownership
 - Control in the financial sector
 - Corporate Social Investment

A REMARKABLE ACHIEVEMENT

- A first of its kind world wide
- Beyond compliance
- How the financial sector makes business sense of a more sustainable, inclusive and equitable future
- Collective partnership and stakeholder capitalism
- Co-operation and collective effort to overcome information asymmetry and economies of scale

CORPORATE GOVERNANCE

- **TRANSPARENCY** – adherence to established accounting norms, and annual audits
- **EQUITY** – equitable treatment of shareholders
- **ACCOUNTABILITY** – enforceable fiduciary duties, conflict resolution processes

NDB/DFI OWNERSHIP STRUCTURES

- Diffused ownership structures
- Used for political motives
- Complex agency relationship
- Competing policy objectives
- Protecting the public good

TREASURY MANAGEMENT

- DFI treasury issues include
 - Funding
 - Debt management
 - Cash management
 - Foreign exchange
 - Liquidity risk
 - Interest rate risk management

TREASURY GOVERNANCE

- Development of treasury policies and strategies
- Independent treasury risk reporting to the Board
- Treasury management to align with business and financial objectives
- Appropriate identification of treasury risks
- Annual internal audit of the treasury function

ENTERPRISE-WIDE RISK MANAGEMENT

- Development of a Risk Management Framework/Strategy;
- Completion of operational risk assessments;
- Awareness sessions regarding Risk Management;
- Development of risk reporting dashboards for key identified risks;
- Preparation of fraud prevention plans; and
- Development of a Compliance register

CONCLUSION

- Clearly articulate and prioritise govt policy objectives
- Align DFI strategies to policy objectives
- Harness pvt sector participation
- De-politicise DFI operations
- Appropriate risk management and corporate governance

THANK YOU

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