

Addressing Infrastructure Backlogs:

The role of DFI's in the provision of basic infrastructure

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General Overview

- ❖ **The three emergent groups that dominated African geopolitical scene of the time**
 - The Brazzaville Group comprised 12 countries - Cameroon, Congo-Brazzaville, Cote d'Ivoire, Dahomey (Benin), Gabon, Upper Volta (Burkina Faso), Madagascar, Mauritania, Niger, the Central African Republic, Senegal and Chad –founders of the African and Malagasy Union in 1960

General Overview Cont.....

- The Casablanca group emerged in 1961, comprising: Algeria, Egypt, Ghana, Guinea, Libya, Mali, and Morocco
- The Monrovia Group comprised the 12 countries from Brazzaville Group plus Ethiopia, Liberia, Nigeria, Sierra Leone, Somalia, Togo, Tunisia and Congo (now DRC)

General Overview Cont.....

❖ The "founding acts", of the OAU/ADB

- the Tubman-Nkrumah-Toure conference (1958) the year of the Investiture of OAU. The Heads of State of Liberia, Ghana and Guinea, spent four days in a "conclave" in the village of Sanikoli, in Liberia.

General Overview Cont.....

- Their final communique put forward their determination to commit all their resources to bringing all African countries to independence and to succeed in developing the continent in solidarity.
- The establishment of the African Development Bank in 1963.

Evolution of Development Banks in Africa

- ❖ **Formative stages of the ADB**
 - The 1961 Monrovia conference where two draft charters; one for the OAU, and one for an African Development Bank were passed
 - Africa development bank currently supported by 77 nations (with 53 African), was charged with a task of mobilizing resources towards the economic and social progress member countries.

Evolution of Development Banks in Africa Cont.....

❖ Other factors that Catalyzed ADB Establishment

- The end of World War II and a process of economic internationalization which provided ground for evolution of development thinking and practice towards development financing

Evolution of Development Banks in Africa Cont.....

- The success of the post-war Marshall Plan that inspired a belief in the effectiveness of foreign assistance programs in promoting economic change as tested in Japan
- The economic successes of the post-war decades reinforced the belief in development cooperation and development assistance through long-term financing.

Evolution of Development Banks in Africa Cont.....

- *The "Golden Age"* 1940s mid-1970s as referred to by economic historians - fuelled an era of international generosity and a major expansion of international cooperation that Africa had to harness through joint bargain

Evolution of Development Banks in Africa Cont.....

- The Cold War, with two superpowers competing for the allegiance of poorer nations, added a geopolitical and strategic impetus to development assistance, which gained additional prominence and justification when inclined towards broader geographical boundaries that the African block represented.

Evolution of Development Banks in Africa Cont.....

1. The debt crisis of the early and mid-1980s modified and expanded yet further the role of multilateral finance and of the multinational financial institutions in bailing out member countries soaked in the debt crisis.

Importance of Regional Development Banks

- ❖ **Examples of Successful RDBs**
 - East African Development Bank
 - Development Bank of Southern Africa
 - Industrial Development Corporation (IDC)
 - Preferential Trade Area Bank (PTA),
 - Arab Bank for Economic Development of Africa (BADEA) and

Importance of Regional Development Banks Cont....

❖ Key Role of RDBs

- Assisting Regional Members in the coordination of their development programmes achieve better utilization of their resources
- Making their economies more complementary and promoting the orderly expansion of their international trade, in particular, intra-regional trade;

Importance of Regional Development Banks Cont....

- Mobilizing, within and outside the Region, additional financial resources for the development of the Region; to finance projects and programmes contributing to the development of the Region
- Providing appropriate technical assistance (TA) to Regional Members particularly by undertaking or commissioning pre-investment surveys and by assisting in the identification and preparation of project proposals;

Importance of Regional Development Banks Cont....

- Promoting private and public investment in development projects by, aiding financial institutions in the Region and supporting the establishment of consortia;
- Cooperating and assisting in the regional efforts designed to promote regional and locally controlled financial institutions and a regional market for credit and savings;
- Stimulating and encouraging the development of capital markets within the Region; and to undertake or promote such other activities as may advance its purpose

The Ugandan Experience

❖ Establishment of UDB

- Established under a Decree of 1972, with 100% government ownership.
- The main objective of UDB was to promote and finance development in various sectors of the economy with particular emphasis on agriculture, industry, tourism, housing and commerce.

The Ugandan Experience Cont...

- The economic war period (1971 – 1979/80), time for commencement of UDB's operation coincided with the expulsion of non-Ugandan-Asians and the subsequent realisation of their business enterprises to inexperienced indigenous Ugandans

The Ugandan Experience Cont...

- The political upheaval and economic ruin across Africa in the 1970s and 80s which left UDB almost completely rundown through mismanagement & non-performing assets
- Political interference in the UDB operations which complicated its restructuring

The Ugandan Experience Cont...

- Some of the key interventions by UDB during the reconstruction & rehabilitation period (1980s & the 90s)
- Beneficiary companies including British American Tobacco, Kakira Sugar Works, Century Bottling Company, Hima Cement, Stone Quarries, Timber Millers among other beneficiaries.

The Ugandan Experience Cont...

- The parliamentary resolution to extend the operations of NPART-hitherto put in place to recover monies lent through Uganda Commercial Bank to include recovery of certain loans and investments made by the Uganda Development Bank whose recovery was overdue amounting to a total of USD 35 million.

The Ugandan Experience Cont...

- The restructuring of the bank following a weakened financial position and pressure from multilateral agencies, starting with incorporation as a limited liability company in 2001 for purposes of divestiture

Comparing Uganda with the African Experience

- ❖ *The Development Bank of Southern Africa*
 - *Established in 1983 to promote economic development by fostering the growth of productive enterprises and efficient capital markets in Southern Africa.*

Comparing Uganda with the African Experience Cont...

- The DBSA's "*private sector investments unit*," plays a unique role in facilitating private sector provision of infrastructure in support of sustainable economic development in the region.
- One Unit was established in 1996 in response to a worldwide trend towards increased private sector involvement in infrastructure, and the need for an appropriate source of financial support for public-private partnerships in southern Africa.

Comparing Uganda with the African Experience Cont...

- The Bank has made considerable progress in developing appropriate tools for mainstreaming of the environment in its operations. Environmental concerns are routinely integrated in country dialogue processes and project design, and there is widespread recognition among Bank and Regional Member Country staff that sustainable development and poverty reduction cannot be divorced from the global environment

Comparing Uganda with the African Experience Cont...

- The Bank has also recognized the importance of cooperation with sub-regional and international partners in this area in order to improve efforts aimed at enhancing environmental management on the continent as a key ingredient in promoting sustainable development.

Comparing Uganda with the African Experience Cont...

- DBSA provides finance for infrastructure investments to both public and private sector clients, through instruments such as equity, loans and grants
- The DBSA provides consultancy services that facilitate the implementation of infrastructure. This may for example include preparing and delivering discussion papers on critical tourism issues, as well as consulting to various Governments on regional infrastructure initiatives.

Comparing Uganda with the African Experience Cont...

- The DBSA prides itself on being a knowledge-based institution, and provides information and knowledge to both internal and external clients. The DBSA recently launched a special issue on tourism of a journal entitled 'Development Southern Africa'.

Comparing Uganda with the African Experience Cont...

- UDB in comparison never adequately responded to the worldwide trends that put the private sector at the front of the new economic paradigm.
- The critical importance of the need to promote public-private sector partnership was grossly lacking in the Ugandan endeavor

Changing Roles & Approaches for NDBs

- The economic reforms of the past 15 years across Africa characterized by reforms of country's financial sectors and rhyiming them with the new development paradigm that puts the private sector at the center of development. These are:

Changing Roles & Approaches for NDBs Cont....

- There is need for economic planners across Africa to model the roles and approaches of development banks on the new world order if they re to remain relevant to the peoples of their respective countries.
- African Development Banks need to recognize that vibrant, efficient and well-regulated capital markets are a prerequisite for sustainable social and economic development.

Changing Roles & Approaches for NDBs Cont....

- The limited depth of the financial sector across Africa characterized by dominance of commercial banks that focus on the provision of debt of short term maturities; and extremely low savings relative to other low income countries, implying that domestic investments rely extensively on foreign savings, thereby constraining growth potential.

Changing Roles & Approaches for NDBs Cont....

- The need for ADBs to have to take the lead in issuing corporate bonds and listing them in the stock markets of respective countries in attempting to deepen the capital markets like the EADB has done in the case of member countries

Changing Roles & Approaches for NDBs Cont....

- ❖ **Key Interventions by NDBs to Promote the Private Sector**
 - **Equity Investments:** NDBs undertaking equity investments in private companies in Africa, including those which are not listed on the stock exchange, in order to improve their gearing and their financial prospects

Changing Roles & Approaches for NDBs Cont....

- **Listing Assistance:** On a selective basis the NDBs can provide financial support to client companies showing interest in listing in the stock markets. Expanding further the financial sector infrastructure
- **Corporate Advisory Services:** It is important to earmark certain selected clients for advice on restructuring of their capital needs, with encouragement to meet their additional financing needs through appropriate securities instruments rather than short-term debt

Changing Roles & Approaches for NDBs Cont....

- **Capital Markets Infrastructure**

Improvement: one of the key roles of any development bank would be the strengthening of the financial sector infrastructure. One such challenge across Africa, is the limited automation in the financial sector. Together with a poorly developed capital market, it becomes bureaucratic in settling and delivery of systems across the different capital markets. For the greater integration of Africa's economies, development banks especially the regional development banks need to undertake the initiative towards complete automation of systems.

Changing Roles & Approaches for NDBs Cont....

1. **Supporting Efficiency-Improving Projects in the Financial Sector.** As part of support to financial sector, development banks need to take center stage in supporting and directly financing the acquisition of modern technology by commercial banks across Africa. A number of commercial banks across Africa for instance are yet to acquire automatic teller machines, or instituting centralized computerized systems to ease client transactions.

Role of Governments in Fostering the New Mandate

- The importance of the progress at all a levels with regard to democracy, growth and restoring the macro-economic balances in Africa over the past fifteen years.
- The challenges still posed by poverty in sub-Saharan Africa where persons live on under one "greenback" a day, and the fact that AIDS is threatening the social fabric of the continent.

Role of Governments in Fostering the New Mandate

- The need for a multi-faceted approach on the part of the African governments to speed up the process of
 - re-organising NDBs,
 - depoliticize their management and engage businesslike managers
 - governments across Africa continuing to further guarantee their borrowing from multi-lateral sources so as to strengthen their lending base in view of the nature of Africa's aspiring private sector players who require venture capital from such institutions.
 - Continuing the struggle for macro economic stability so as to create an enabling and sustainable business environment for the operation NDBs

Conclusion

- The reasons for starting NDBs have not changed but rather the approach to solving the intended problems.
- The need for African governments to learn to be highly adaptive and remodel the activities of NDBs to the changing paradigm in development, so that they serve the changing face of the economic development agenda that puts a lot of emphasis on the role of the private sector, Economic integration and business efficiency and communication.

Conclusion Cont....

- The pursuit of development not sacrificing the sustainable exploitation of Africa's resources while financing development.
- Therefore, sustainability as a critical component in economic and social transformation should become an integral part of the new approach in re-inventing the role of National Development Banks across the greater Africa.
- The intended encouraging further economic cooperation across the African block through information sharing, infrastructure development and reducing business costs; especially in form of reduced bureaucracy in making critical business decisions.

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THANK YOU