



southern african  
development community  
development finance  
resource center

## Session 7: Enhancing NDBs Delivery for Development

*Topic: “Developing the DFIs’ capacity to deliver (with discussion on DFI Cooperation)”*

Dr. Ros Thomas – CEO: SADC-DFRC

***Rethinking the Role of National Development Banks in Africa: IDC, Sandton***  
**22-23 November 2006**

## Failure of development finance...

### ● African DFIs in Distress?

- ❑ 1990s - development finance & role of DFIs underwent fundamental re-examination
- ❑ Governance issues prominent
  - General picture for African DFIs - reflected issues relating to governance
  - Political interference resulting in credit diversion
  - Resource allocation on basis of fiat rather than market signals
- ❑ Institutional & Capacity Weaknesses
  - Erosion of financial discipline
  - Poor selection of projects - appraisal skills wanting?
  - Inadequate risk management

## Failure of development finance...

### ● African DFIs in Distress...

#### ❑ Financial & Lending Strategies?

- Subsidies on cost of funds on-lent & non-performing assets
- Resource misallocation through directed credit,
- NO sectoral diversification = Risk concentration
- Failed to allocate credit productively
- Scarce forex lent to SOEs with poor operational and financial performance
- Over-exposure to cyclical & default risk because of excessive exposure to large enterprises/ projects financed

### ● Result?

- ❑ DFIs - aggravated weakness of local banking & financial systems
- ❑ DFI lending – viewed as leading to negative growth & income distribution in Africa
- ❑ Crowding out activities - lending to parastatals & TNC subsidiaries
- ❑ Contaminated portfolios
- ❑ Most DFIs became insolvent

## But: DFIs still critical actors in SADC...

### ● Despite problems (DFS '98 found): -

- ❑ DFIs & development finance will remain part of financial landscape in SADC because:
  - Despite reforms, Financial Systems remain underdeveloped
  - Private finance reluctant to bear risk of difficult country environments
  - In absence of capital markets, liberalization programs failed to emphasize continued importance of DFIs
  - DFIs especially important in sectors like agriculture; SMEs and housing
  - They CAN be strengthened to meet challenges
  - But this requires partnerships with stronger DFIs and MDBs/IFIs
- ❑ Network concept therefore adopted
- ❑ DFRC key to success of this strategy

### ● H/ever prevailing view amongst IFIs - need for development finance sign of temporary imperfections in market – do not suggest need for DFI

- But they have no other credible solution as alternative ...

## DFS'98 proposes a solution which is credible (...provided?)

- **DFIs in SADC can close the gap in e.g. long-term lending...**
  - ❖ Have skills base to appraise projects;
  - ❖ Structure complex risk sharing contracts;
  - ❖ Provide badly needed intermediation between investors/ promoters & banks, capital markets & institutional investors;
  - In respect of infrastructure, are able to engage Govts on policy constraints & mediate between Public and Private partners on PPI
  - ❖ Can handle/ mitigate risks associated with medium –to long-term finance
  - Can close the gap for SMEs and small infrastructure financing that large DFIs and Private banks won't touch
  - Can play a role in developing deal pipeline
  - ❖ BUT: Require access to long-term finance (in local currencies)

## DFIs in SADC...

### ● However -

- ❖ Some DFIs still dealing with adverse macroeconomic conditions:
- ❖ Have not as yet corrected inadequate structures
- ❖ Remain too dependent on financing from MDBs/RDBs and/or National Governments
- ❖ Lack insufficient institutional capacity & shortage of appropriate Human Resources
- ❖ Still struggling to achieve commercial and financial viability
- ❖ Operating at very low (unsustainable ) levels

### ● Either wholly/ majority state owned

- In Countries with low credit rating & severe fiscal constraints, public ownership hampers financing of institutions
- Access to lines of credit restricted
- ❖ Cannot rely on fiscal transfers for re-capitalization or loan funding
- ❖ Notably, ownership in some being broadened through privatization

## Action to Improve performance of DFIs?

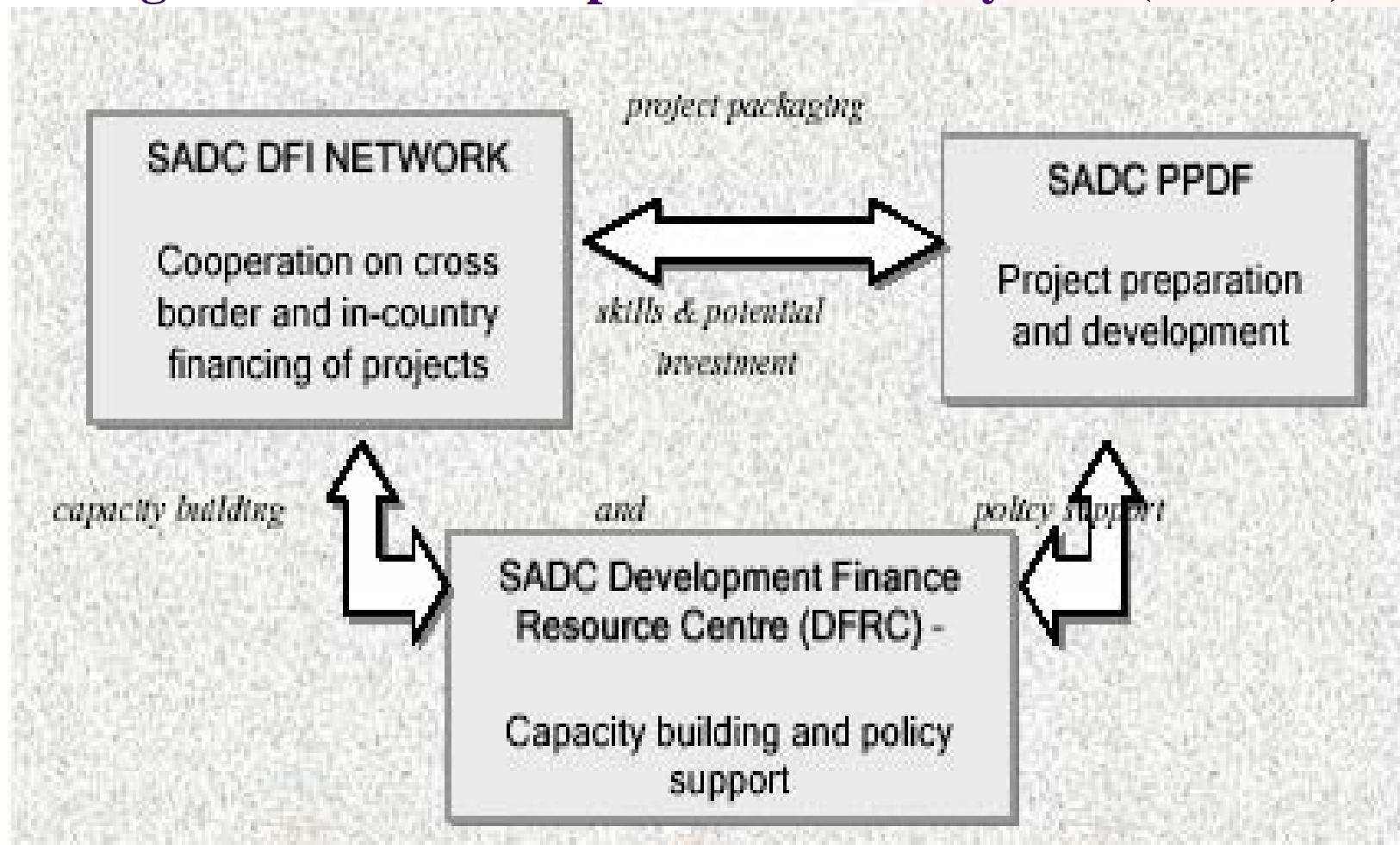
### ● At policy level...

- ❑ SADC Governments changing ownership structures & strengthening laws & regulations
- ❑ Changing Board representation to capture variety of skills & experiences
- ❑ Inviting equity participation from private sector to dilute Government influence
- ❑ DFRC mandated to support this process

## DFRC's Mandate in respect of DFIs

- DFS '98 – Member States agreed on need for DFRC – established to serve all DFIs capacity building needs
- Tasked to facilitate the following:
  - ❑ Assist DFIs to deal with non-performing assets;
  - ❑ Support DFIs efforts to increase financial autonomy & independence;
  - ❑ Encourage cross-border strategic alliances & operational partnerships for the efficient & optimal use of development finance;
  - Help corporatize and privatize financially sound DFIs; &
  - ❑ Encourage cross-shareholdings in each other
  - ❑ Capacity Development
  - ❑ Catalyse DFIs activities to facilitate greater cross-border collaboration
- Responsibilities captured in SADC-FIP (Annex 9)

## Workings of SADC Development Finance System (DFS'98)

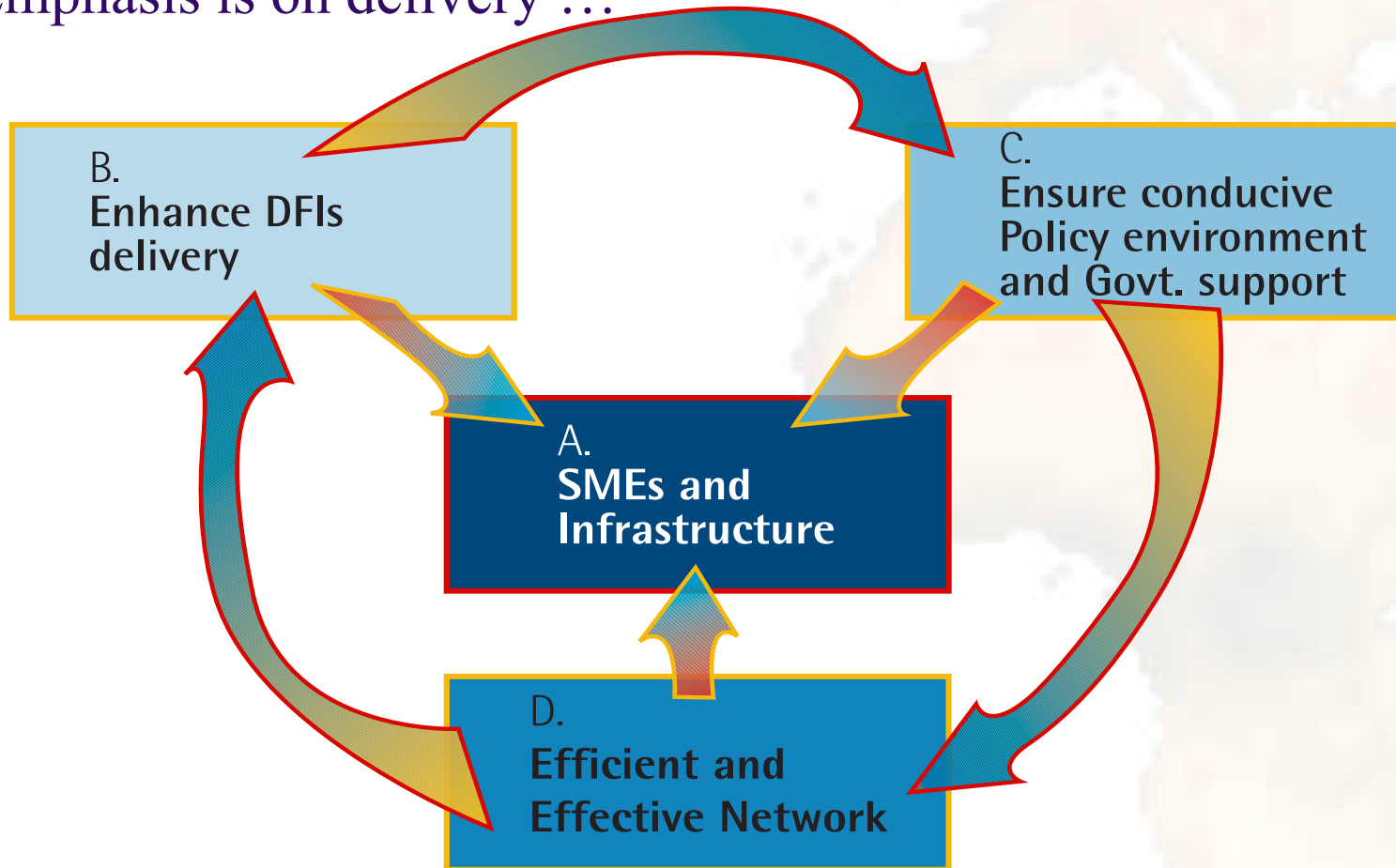


## Action taken to Improve Performance of DFIs?

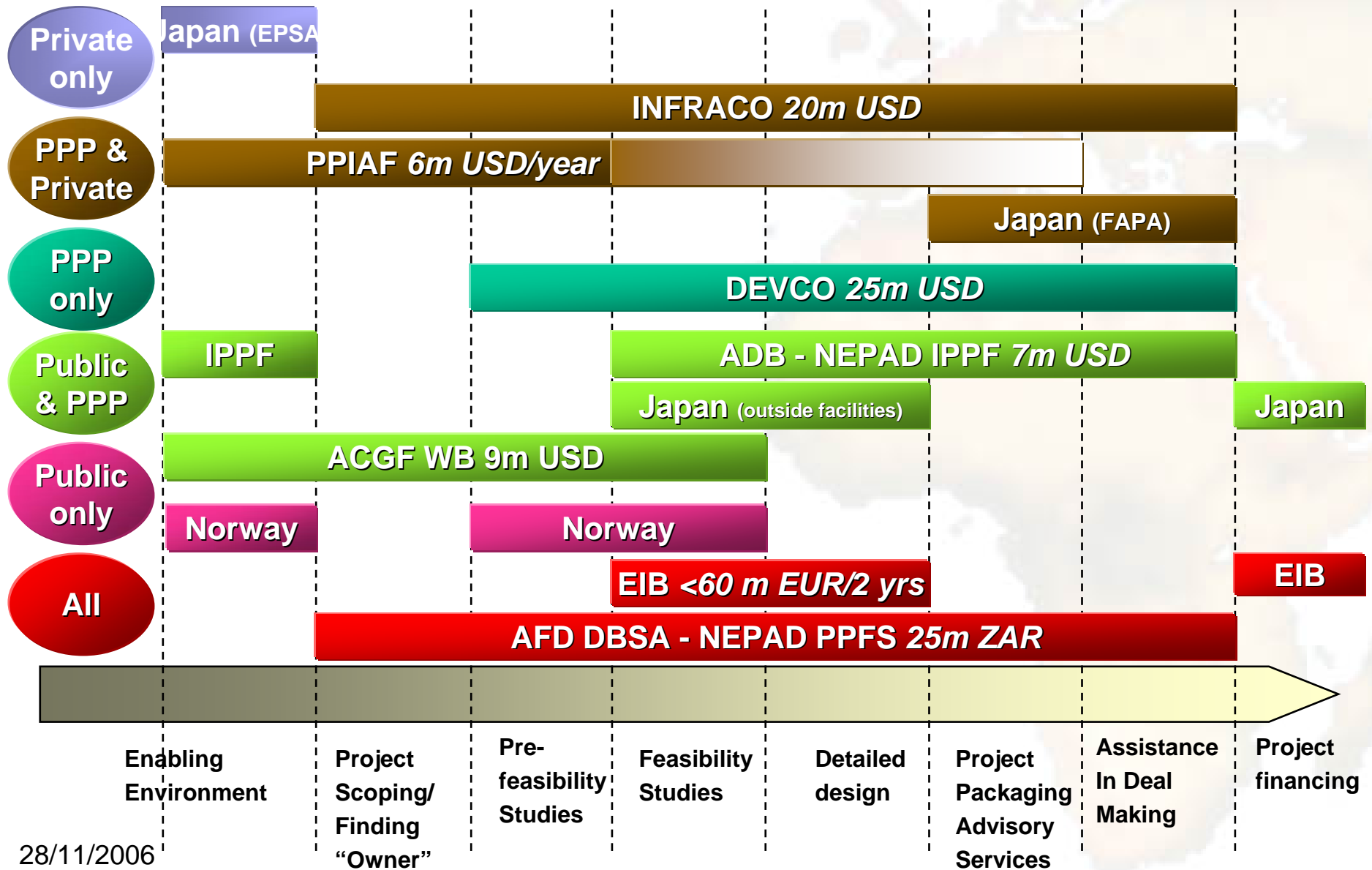
### ● Critical institutional weaknesses highlighted...

- FIRST (2003) – Needs Analysis and Skills Audit
  - 10 out of 18 DFIs audited
  - Decision to raise performance to best practice levels
  - Risk Management identified as an essential concern
  - Corporate Governance Strengthening required
  - Across the board strengthening of staff skills – but immediate focus on project finance; appraisal skills; project management
- Capacity Building Workshops/ Seminars -
  - Chairpersons – May 2005
  - Other Directors (Audit/ Asset-Liability/ Credit) at country level
  - Training of Trainers – DFIs Corporate Secretariats (IFC/GFCG)
- Specialized Training
  - Investment Appraisal & Risk Analysis (Infrastructure & SMEs)
  - Training of Trainers
  - Risk Management training
- Secondments

Emphasis is on delivery ...



# Infrastructure Project Preparation Facilities (“Tunnel of Funds”)



## Once DFIs strengthened... what then?

### ● Support needed from stronger DFIs/ RDBs and IFIs

- ❑ Assist in development of new –innovative financial instruments (incl. risk mitigation)
- ❑ Access to financing
  - Information needed on what is available -(loans/equity/ guarantees/ partial risk guarantees, etc.)
- ❑ Use as intermediaries ► funding facilities ► especially for SMEs

### ● Result?

- ❑ Increased deal pipeline
- ❑ Joint financing of projects
- DFIs crowding in Private Sector
- ❑ Deepening of capital markets
- ❑ Growth & Development
- DFIs evolving over time into universal or investment banks