



Balancing Service Delivery and Financial Sustainability for DFIs

Conference on Rethinking the Role of DFIs in Africa

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I. Bank Context on Service Delivery for DFIs

Service Delivery: What Service?

Context

- **Market failure**
 - Poor development of financial sector
 - Inadequate supply of medium and long term capital
 - Inadequate support for SMEs and rural credit

Whereas

- Positive Relationship between financial sector development and GDP growth
- Also Positive Relationship between SME development and GDP growth rates



Bank Context on Service Delivery for DFIs

Bank Objectives for supporting DFIs

- Increase supply of medium and long term capital
- Facilitate financial intermediation
- Support SMEs
- Support small scale infrastructure
- Increase supply of rural credit
- Support low Y housing



Bank Context on Service Delivery for DFIs

Instruments for Supporting DFIs

(1) Lines of Credit

- Strengthen balance sheets and lending operations
- Promote new products
- Increase environmental awareness
- Encourage export development
- Encourage import substitution
- Expand employment
- Promote technological innovation and technology transfer
- Promote use of local resources
- Provide scarce foreign exchange



Bank Context on Service Delivery for DFIs

(2) Technical Assistance

- Strengthen institutions
- Improve governance
- Create new skills
- Strengthen environmental and social impact analysis

(3) Equity Holdings

- Strengthen capital base
- Advice
- Support
- Oversight

(4) Guarantees



II. Effectiveness of Bank Supported DFIs

General

- 225 LOCs to DFIs in 43 countries and multi-regionals since 1969
- Bank Investment about US\$7.8 billion
- Includes public sector (traditional development finance institutions and public sector commercial banks); private sector commercial banks



Effectiveness of Bank Supported DFIs

Partial Results from On-going Study

Sample

11 development banks

5 public sector controlled commercial banks

- 11 countries in South, North, West, East Africa and sub-regional
- 1984-2000

12 Private Sector banks

- 7 countries + 1 sub-regional
- 2000-2005



Effectiveness of Bank Supported DFIs

Sectors

- SMEs in industry, agro-industry, agriculture
- Rural credit
- SS municipal infrastructure
- Equipment purchase
- Leasing



Effectiveness of Bank Supported DFIs

Financial Sustainability (Public Sector DFIs)

Indicator	Score (out of 3)
Business Success	1.2
Increased Competitiveness	1.6
Financial Value-added	1.8
Contribution to Government Revenues	1.3
Financial Sector Strengthening	0.9
Average	1.3



Effectiveness of Bank Supported DFIs

Service Delivery (Public Sector DFIs)

Indicator	Score
Reaching relevant sectors	High
Direct Employment	1.8
Indirect Employment	1.5
Technology Transfer	1.5
Increased Exports/IS	1.7
Transfer of Skills	1.3
Environmental Protection	1.8
Average	1.6



Effectiveness of Bank Supported DFIs

Note

Temporal Variations

- Performance of DFIs between 1995 and 2000 is much better than for 1984-1989 period

Spatial Variations

- Significant variation in performance within the region, between countries and sometimes even within countries

Public Sector Commercial (universal) Banks performed, overall, better than other DFIs



Effectiveness of Bank Supported DFIs

Financial Sustainability (Private Sector)

Indicator	Score
Business Success	2.3
Increased competitiveness	2.2
Financial Value-added	1.7
Contribution to Government Revenues	2.0
Financial Sector Strengthening	High
Average	2.05



Effectiveness of Bank Supported DFIs

Service Delivery (Private Sector)

Indicator	Score
Direct Employment	2.7
Indirect Employment	2.2
Technology Transfer	1.6
Transfer of Skills	1.8
Increased Exports/IS	2.2
Environmental Protection	1.4
Average	1.9



Effectiveness of Bank Supported DFIs

Note

Scope for Comparability with public sector DFIs quite limited

- Private sector operations reviewed are more recent (1999-2005)
- Conformity with Prudential Guidelines
- Few Start Ups



Effectiveness of Bank Supported DFIs

General Conclusions

- Traditional DFIs are weak on financial sustainability and weak-medium on service delivery
- Public sector commercial banks are medium on financial sustainability and weak-medium on service delivery
- Private sector banks are strong on financial sustainability and medium on service delivery

Does this imply that the mission of the DFIs can best be performed by private sector commercial banks?



Effectiveness of Bank Supported DFIs

Other Considerations

- Limitations of comparison pointed out earlier
- Small sample, focusing on Bank supported DFIs and private banks
- Most DFIs, public and private, have no instruments to measure development impact, are not measuring them
- Private Banks avert risks (well established firms, clients with long histories, larger enterprises, in many cases not SMEs)
- History, dynamics of economy, structure of financial sector, political objectives



Effectiveness of Bank Supported DFIs

Nevertheless

Financial sustainability and service delivery are not necessarily zero sum

Govt support essential for both in the case of traditional DFIs

Public sector commercial banks will be under increasing pressure to focus on commercial objectives

Future for DFIs (most, but not all of them) may be to transform to public sector commercial banks with

- Autonomy
- Good governance
- Ability to raise money locally and internationally (bonds, capital markets)
- But incentives and effective regulation essential to ensure development objectives
- There will remain niches, particularly for special purpose DFIs



III. Bank Strategic Options for Partnership

Deeper Engagement and Partnership to strengthen both service delivery and financial sustainability (begin with sub-regional DFIs mostly and extend, on a need basis)

- **Review Equity Investment**
 - preferred share**
 - quasi-equity (subordinated debt, etc)**
- **More use of guarantees**
 - local currency bond**
 - local financing facility**



Bank Strategic Options for Partnership

- **Co-financing in DFI-led operations**
 - syndications**
 - credit default swaps**
- **Market risk management products**
 - guarantee to enable DFIs purchase such products from other financial institutions**
- **Liquidity risk management products**
 - provide standby facility to enable DFIs to reduce liquid asset holdings**



Bank Strategic Options for Partnership

- **Expanded capacity building**
 - Corporate governance**
 - risk management**
 - Rating**
 - Environmental and SIA**
 - Procurements**
- **TA to enable DFIs develop common standards and implement them**
 - credit risk classification policies (link up with AADFI project)**
 - loan/equity concentrations**
 - operational policies (e.g interest rate and currency risks)**
 - environmental issues**
 - development impact measures, targets and indicators**



Bank Strategic Options for Partnership

- **Resource Sharing Arrangements**

Treasury management (liquidity and liability management)

**IT infrastructure sharing (e.g software for managing lending,
resource management and accounting operations)**

Research Sharing (inv. Climate, economic and sector studies)

Procurement for Equipment and Supplies

Project Cycle Activities

Not Exhaustive

On a case by case basis

Sug-regional, later NDFIs



IV. Conclusion

Still Important functions for DFIs to contribute to devpt in many parts of Africa

They need to respond to even survive

Yet they need to not only survive but also strengthen their capacity for both service delivery and financial viability

The ADB is strengthening its capacity to support them to achieve their transformations

Thank you.

