



Rethinking the role of National Development Banks

Third Regional Consultation on

"Rethinking the Role of National Development Banks in Africa"

Johannesburg, South Africa, 22-23 November 2006

Draft Report¹

¹ This draft report was prepared by the staff of the Financing for Development Office for comments by participants and is not intended for quotation. Comments should be sent to Julien Serre at <serre@un.org>

Overview

1. The third Multi-stakeholder Consultation on “Rethinking the Role of National Development Banks in Africa” took place in the Industrial Development Corporation (IDC) premises and was organized by the Financing for Development Office of UN-DESA, in collaboration with the IDC, the Development Bank of South Africa (DBSA), the Association of African Development Finance Institutions (AADFI) and the Southern African Development Community - Development Finance Resource Center (SADC-DFRC). More than 100 participants attended the event, including heads of national development banks and other development finance institutions, representatives from the African Development Bank (AfDB), the International Finance Corporation (IFC) and the European Development Bank (EIB), as well as private commercial banks, academia and civil society. The meeting was held within the broader context of the Africa Development Finance Week, organized by IDC, DBSA and SADC-DFRC, which was conducive to the success of this event. The final agenda of the consultation, the list of participants and all presentations are available on the FfD website at www.un.org/esa/ffd/ndb.htm.

2. It was said by several participants that this event illustrated to some extent a departure from the Washington consensus and built upon the spirit of Monterrey. In this regard, some noted that, thanks to the current consultative process, the issue of national development banking and its role in poverty eradication and employment generation had gained in magnitude and was being fruitfully mainstreamed in the development community arena. Multilateral, regional, sub-regional and national DFIs engaged in fruitful discussions and advanced toward better cooperation and collaborative work. Overall, the need to share information and best practices between stakeholders was highlighted as a priority to enhance the role of NDBs.

3. The meeting addressed the following issues: evolution of development banking; financing development and supporting regional economic integration; role of NDBs in sustainable development; financial sustainability; support for SMEs & microfinance; mobilization of resources; enhancing NDBs delivery for development; and corporate governance and regulation. Discussion points included the following: privatization of DFIs vs. development priorities; role of DFIs in financing regional infrastructure; participation of key stakeholders in DFI capital; PPPs and tariff issues for basic services to the poor; DFIs’ fit in public policy; the need for strengthening corporate governance; and the outcome and next steps for the meeting. A document providing “*General Conclusions, Policy Recommendations and Action-oriented Proposals*” was presented at the outcome of the meeting and is available on the FFD website.

Welcoming Address

4. Ms. Wendy Luhabe, Chairman of IDC, welcomed the participants. Ms. Luhabe underscored the need for Development Finance Institutions (DFIs) in Africa. National DFIs, she said, have a significant role to play to eradicate poverty through specific and targeted policies, by addressing key market failures. This should be concomitant to the respect of stringent economic principles by these institutions. To achieve this goal, the challenge for DFIs is to comprehend how to best mobilize human and material resources, whether it be through enhanced cooperation with other DFIs including for lending, or through the sharing of experiences and best practices (corporate governance, risk management, public policy frameworks in particular). Ms. Luhabe then

acknowledged the presence at this meeting, in addition to national DFIs, of International Financial Institutions (IFIs), Regional Development Banks (RDBs), the United Nations, academia, civil society and the private sector. She hoped this would contribute to moving forward on the theme addressed by these consultations, including with a view to contributing to the achievement of the Millennium Development Goals (MDGs). She mentioned a collective responsibility within developing countries to mobilize resources for development, before concluding on an optimistic note, citing a poem often attributed to President Mandela.

Session 1: The Evolving Role of NDBs

5. The session was chaired by Mr. Lumkile Mondi, Chief Economist at the IDC. He highlighted the relevance of the meeting and noted it comes in South Africa at a time of scrutiny regarding the role and activities of DFIs, their impact on competition and in particular their cost of lending. He then introduced the three panelists, Mr. Victor Nembelessini-Silue, Chairman of AADFI and CEO of Banque Nationale d'Investissement in Ivory Coast; Mr. Alex Trepelkov, Deputy Director of the Financing for Development Office at DESA; and Mr. Admassu Tadesse, Vice President of DBSA. The session provided an introduction to some key and cross-cutting issues, in particular regarding the notion and range of market failures, and the role played by NDBs/DFIs to be addressed.

Presentations

6. **The range of National Development Institutions** was the focus of a presentation by Mr. Victor Nembelessini-Silue. DFIs on the African continent, he indicated, achieved limited results and many institutions went bankrupt in the 1980s. Yet they can fill market failures, and restructured banks should be supported, he said. He presented the results of a new census of AADFI members, done with the support of FIRST Initiative and AfDB. Three types of DFIs were identified: (1) Standard DFIs often funded with the support of donors, (2) Government institutions, like the Japanese Bank for International Cooperation and (3) Commercial banks that often provide term finance with separate agencies providing advisory services. AADFI members are equally divided in these three groups. It appeared that (1) 85% of these institutions were government-owned and (2) many were not regulated by the Central Bank, or regulated as non-banks. It also appeared that privately-owned banks did significantly better than public entities. Private DFIs also focused on profitability objectives, rather than economic, social or political goals. In the long run, private banks produced clear benefits, as illustrated by the lower demand in official funding and bailout support, as compared to public entities. The study also shown that DFIs had various auditing practices, equally divided between government, international and local auditing. The study, analyzing AfDB's lines of credit, also found that 25 institutions in Africa benefited from these but only four of them were National DFIs: this meant that an additional effort was required to better tap on these resources, in particular by improving prudential regulation and building on best practices. Mr. Nembelessini-Silue then illustrated these points and cases of cooperation with a number of examples, including from Ivory Coast, Tunisia, Ghana and Nigeria.

7. Mr. Alex Trepelkov then described the **Multi-stakeholder consultations** on Rethinking the Role of NDBs in Development Financing. The goal of these discussions is to enhance the role of NDBs in promoting economic and social development. As a first step, FfDO organized in December 2005 in New York an Expert Group Meeting on "Rethinking the Role of National

Development Banks”. In follow-up, a series of “multi-stakeholder consultations” was launched by the Financing for Development Office in cooperation with NDBs, International Financial Institutions (IFIs), Regional Development Banks (RDBs), UN regional commissions and other interested parties. In New York, participants also agreed on a draft model agenda to serve as a framework for follow-up regional meetings, and discussed a tentative calendar of regional consultations in various parts of the world, with a final conference to be held at Harvard University’s Kennedy School of Government. The overall project is expected to produce a publication on the role of NDBs as a renewed tool of development finance. Mr. Trepelkov then described the Background Document prepared by the FFD Office to provide a possible framework for analyses and offer a number of examples and specific cases. He summarized the outcome of the two previous consultations, on the “Challenges of National Development Banks in Latin America” (Lima, Peru, 12-13 June 2006) and on “The Role of National and Regional Development Banks in Africa” (Paris, France, 27-28 June 2006).

8. Mr. Admassu Tadesse discussed the **Challenges of Addressing Market Failures in Regional Integration** with the case of financial infrastructure in the Southern African Development Community (SADC). He viewed regional integration as aimed to address market failures, in particular infrastructure, but also institutional failures and phenomena of “path dependency”². Regional development projects often encounter difficulty in reaching financial close, due to various obstacles such as: a lack of strong sponsors, the need for upfront investment in feasibility studies, the need for consensus building and mobilization of partners, weak institutional capacity, and insufficient regional financial capacity to fund large projects. He underscored the key importance of financial sector development for regional integration and the role of DFIs in that regard. He illustrated this point by describing SADC’s Regional Indicative Strategic Development Plan (RISDPs), which focuses in particular on private sector resources and the integration of financial systems through specific Finance and Investment Protocols (FIPs). RISDPs emphasize that financial institutions should provide a fuller spectrum of services to both households and firms, but also that harmonization of policies and regulatory frameworks at regional level is needed. It also highlights the necessity to mobilize intra-regional savings and coordinate central banking activities. Mr. Tadesse expected FIPs to call for obligations for closer monetary and financial co-operation, and to encourage harmonization, stronger rights to investors, better protection of intellectual property, implementation of double-tax treaties and regional competition policies. Noting the emergence of strong regionally-based banks such as ABSA, First-Rand, Nedcor and Standard Bank, he concluded his presentation by describing the role of DBSA in regional integration, in particular through credit lines, mobilization of local currency and investment in private equity funds.

Discussion

9. Ms. Rosalind Thomas from SADC-DFRC highlighted the finding by the AADFI census that more than half of DFIs were deposit-taking entities, more than the average in Southern Africa, and asked the reasons for that. She highlighted the need for international credit rating, on which panelists agreed by insisting on the importance of establishing a track record for DFIs. In this perspective, the importance of procedures, control and accountability and the need to standardize good governance practices were cited by Mr. Silue as essential features for the success of DFIs.

² According to path dependence theory, historical events have an impact on the ultimate outcome of a country’s development. This theory is used to highlight the influence of history on social and economic development, in particular former colonies or countries that were affected by harsh political conditions, such as apartheid.

10. A representative from the National Treasury of South Africa raised a number of important questions to be addressed throughout the two-day meeting. First, how can one reconcile NDBs' focus on development with financial sustainability? The need for support by multilateral organizations and donors was highlighted by several panelists in that regard. Second, how can competing policy objectives be reconciled? Should the prioritization of policies be conducted by the government? Third, who should be part of the Boards in DFIs? Shouldn't there always be some government representatives to foster coherence at policy level with the government priorities? Fourth, are cases of successful development strategies in China or India indicating that the option of liberalization of the financial sectors (and other Washington Consensus practices) might not be the sole strategy available, and that other efficient financial regimes could be fostered? Regarding this question, it was answered by Mr. Scott that situations are dependent on a specific context and an appropriate type of intervention. Mr. Trepelkov noted that, to some extent, the Monterrey Consensus marked a departure from the Washington Consensus.

11. Representatives from Sudan and Ghana drew attention to the importance of overcoming market failures to bring services to the poor people and develop infrastructures, and the subsequent need to enhance NDBs/DFIs' role in that regard. Mr. Nembessini-Silue noted that in this regard, a challenge consisted in correctly identifying market failures and then prioritizing and targeting them. This strategy of prioritization drew interest from some participants such as the Andhra Pradesh Development Bank.

12. The role of NDBs/DFIs in poverty eradication was also discussed. In particular, it was asked to what extent DBSA was focusing its strategy on poverty eradication in South Africa, how this strategy evolved and what instruments it used. It was answered that the bank was taking into account various developmental impacts of its projects and encouraged pro-growth policies and financial sector development projects. Other specific questions were raised, first about instruments. In particular, the growing role of equity investments was discussed. DBSA indicated that, as far as it was concerned, equity was still an emerging strategy and did show good prospects to carry out the bank's development objectives. Other questions dealt with the role of the AfDB in regional integration and with regard to national DFIs. As underlined by a representative from Nigeria, it seemed, according to the AADFI census, that only a minor part of AfDB credit was directed toward NDBs.

Session 2: Financing Development & Regional Economic Integration

13. The session was chaired by Mr. Dave Lewis, Chairman of the Competition Tribunal of South Africa. Mr. Lewis introduced three panelists: Ms. Hassane Safiatou from Ecowas Bank for Investment and Development, Togo; Dr. Dan Ndelela from Zimconsult; and Piet Viljoen, in charge of Africa partnerships at DBSA.

Presentations

14. Ms. Hassane Safiatou, discussing **Financial Sector Integration in West Africa**, presented the activities of Ecowas Bank for Investment and Development. Ecowas aims at becoming the main regional institution for investment financing. Ms. Safiatou described the group, its operational activities with the public and private sector, and its program for the period 2007-2011. The priority sectors of Ecowas are infrastructure and intra-region trade. It was highlighted

that the bank aims to prioritize regional projects, in order to contribute to the economic and social development of its member countries.

15. Dr. Dan Ndlela from Zimconsult described **Spatial Development Initiatives (SDIs)** for accelerated regional development, with an emphasis on the role of NDBs in development corridors. He first looked at interactions of NDBs/DFIs and MDBs in financing SDIs. In particular, he mentioned the changes in notions of public goods and services, and the role of the State in providing these goods and services. The Maputo Development Corridor (MDC) was described in detail as a sub-regional case of successful SDIs. In conclusion, it was said that a major challenge facing SDI financing lied in structuring integrated long-term programs and projects involving PPPs. Furthermore, financing of SDIs required courting private sector and promoting PPPs, as well as establishing links between development of SDIs and regional economic integration. Mr. Ndlela added that a fundamental prerequisite for the achievement of sustainable development through regional economic integration via the route of SDIs was macro-economic convergence. Experience shows that financing infra-structural networks requires innovative approaches and appropriate policies to encourage private participation (PPPs). Sound macro-economic environment at the national and regional level, can spur the basic conditions for infrastructure (physical, institutional, socio-political, human) to become the attraction and drivers of investment, the panelist added.

16. Mr. Piet Viljoen discussed **Regional Integration Through Infrastructure Development**. He presented DBSA and discussed the trends in infrastructure financing through PPPs, as well as the challenges of increasing investment in infrastructure. He also offered examples of successful investments in PPPs. He first noticed the continuous drop in ODA financing in infrastructure in Africa over the last two decades. The challenges to more spending on infrastructure, based on DBSA's experience, include first weak public sector sponsors or governments, who often lack the skills required to drive PPPs, and whose officials may try to resist private sector participation. Second, beneficiaries often have difficulties to afford the tariffs imposed on the use of utilities. This regularly requires financial support by governments or donors in the early years of a PPP. Third, there can also be low institutional, managerial capacity and skills levels, insufficient legal and regulatory systems to support complex PPP ventures, as well as government and political interference. Mr. Viljoen described the solution offered by DBSA: technical assistance, long term finance in local or hard currency, equity and support of local capital markets development. DBSA also focuses on catalyzing private sector investment, by creating appropriate funding packages, providing junior or subordinated debt, guarantees and equity contributions to reduce overall project risk to private sector participants. Equity contributions also potentially increase the Bank's financial returns. Capacity building is also a strategy for large banks able to provide greater non-investment support to sponsors and governments. The importance of knowledge sharing was also described, in particular through reports and workshops. Mr. Viljoen finally described two PPP-based Infrastructure Projects: the East African Submarine Cable System (EASSy) and the Maputo Development Corridor.

Discussion

17. The Chair noted that the permanence of large economic and social imbalances in certain countries implied the need to act quickly in complement to the market, away from traditional industrial policy. Discussions focused first on the role of DFIs in financing PPPs with MDBs. As indicated by Ms. Thomas, it seemed that recent experience of PPPs in Africa showed the

importance of DFIs, when working in cooperation with MDBs, in particular for projects in transports. Some noted that both national and regional DFIs such as ECOWAS Bank needed to engage more in PPPs. It was noted that specific problems remained in areas such as water, sanitation and energy concessions, where partnerships were harder to design, and political and social issues on tariff issues needed special attention. To some participants, those problems precisely justified PPPs, as the private sector was unwilling to go alone on initiatives it felt were unaffordable. They agreed that, at the end, the aim was probably to attract the private sector into development projects and on a sustainable basis.

18. Participants discussed the need for bigger involvement of NDBs in inter-regional trade and investment, in addition to infrastructure projects, and insisted on the priority of infrastructure financing. In this view, the Chair noted the worrying trend of declining resources to fund infrastructure and the need to reverse it to achieve more growth in Sub-Saharan Africa. The representative from Ecowas Bank noted that the focus on infrastructure was a response to the need to create the adequate conditions for development in Africa, as illustrated for instance by projects in transports between Toho and Ghana.

19. Coming back on regional trade, Mr. Viljoen noted that if African countries made most of their trade overseas, half of their imports for food also came from overseas. Such imbalances needed to be addressed and in this regard, NEPAD was to play in the coming years a crucial role. NEPAD was now working on a long term framework, which transcended regional barriers. NDBs can provide much needed support in this view – such as DBSA, which had created its own NEPAD unit, working on fostering inter-regional trade, with private sector led initiatives such as the Eastern African oil pipeline project. Some participants called for greater cooperation between NEPAD and DFIs to complement often scarce resources.

Session 3: Sustainable Development

20. The session was chaired by Dr. Owusu Tweneboah of the M.D. National Investment Bank of Ghana. He introduced Ms. Moufida Jaballah Srarfi, Director of International Cooperation in Tunisia, Vincent Mhlanga, CEO of Fincorp and Dr. Simon Roberts, Head Economist at the Competition Commission in South Africa.

Presentations

21. The **Tunisian Experience in financing agricultural development** was described by Ms. Moufida Jaballah Srarfi. She first summarized the financing of the Tunisian economy. She then presented the weigh of agriculture in the economy, and the government strategy for this sector, insisting on the multidimensional nature of interventions. Noting that private investment in agriculture was done mainly through equity and less so through bank credits and subventions, she insisted on the need to develop credit and presented Tunisian initiatives in that regard. She described the main bank in Tunisia focusing on this mission, the Banque Nationale Agricole (BNA). But adding that many farmers could not bring the necessary guaranties, she presented a recent creation, the Banque tunisienne de solidarité (BTS), which has been offerince since 1997 agriculture financing, without requiring guaranties. Another mechanism to bring credit to farmers without guaranty is microcredit, promoted by the government since 1999. Ms. Jaballah Srarfi finally described government-funded agricultural development funds, and various insurance mechanisms.

22. Dr. Vincent Mhlanga, reminded the participants of the **Role of NDBs**. NDBs are generally defined as financial institutions primarily concerned with provision of long-term capital finance to projects generating positive externalities, as indicated in the DESA-FFD Background Document. He then described the role of NDBs according to the Background Document. Mr. Mhlanga noted that NDBs concentrating on microfinance have been found to be unique among many development interventions in that they deliver social benefits on an ongoing, permanent basis, and on a large scale. In conclusion, he encouraged governments to support the development of NDBs so that they can fulfill their mandate of making long-term funds available, which could result in empowering the poor at grassroots level.

23. Dr. Simon Roberts focused on **NDBs in Sustainable Development** and their role in addressing market failures. He argued first that NDBs have a crucial functional role in sustainable development through the provision of development finance. Second, he insisted on their information role, in shaping investment patterns and facilitating coordination for development projects. Third, he insisted that NDBs can be lead developmental actors. This is exemplified by several late-industrializing States. Cases like IDC or Banco Nacional de Desenvolvimento Econômico e Social (BNDES) in Brazil attest to the strategic importance of NDBs in pursuing government goals, but also show the capability of certain NDBs to transition toward renewed development strategies. In conclusion, he asserted that NDBs can be the backbone of economic development. They can go beyond ‘correcting’ market failures, by playing a leadership role in sustainable development. They are useful to share information and knowledge, based on their ongoing engagement with the industry. They also benefit from an insider status with regard to government policy. However, they still face key challenges of professionalism and autonomy, including regarding monitoring of performance, and ensuring internal efficiencies. According to Mr. Roberts, the way forward in Africa includes the need to recognize common interests of African NDBs in developing capacity, sharing information and learning, fostering links and partnerships in projects and enhancing complementarities rather than competing players in African development. Ultimately, he believed, growth across the African continent will be mutually reinforcing. Integration, he said, will be an outcome of improved linkages and higher growth, not merely of the removal of barriers.

Discussion

24. Lessons and best practices for NDBs in Africa were discussed. The role of leading NDBs in that regard was highlighted, with some participants calling for enhanced sharing of information and lessons from large institutions like DBSA or IDC on corporate governance, administration and financial guidelines. The role of regional DFI associations was also underlined. Some called for detailed analysis of the mandates of these successful DFIs and of how their activities were coordinated to avert overlaps. Others questioned whether banks like DBSA or IDC could be used as examples: first, they thrived in a country with relatively strong financial resources, allowing the government to keep them in the public sphere instead of privatizing them –which differentiates them from many countries today in Africa; second, they used to focus initially on projects often very capital intensive, and have adopted new strategies in the last decade, which it might be too early to comment on today. Thus, alternative examples of successful DFIs in Africa were suggested to share best practices, such as the Botswana Development Bank.

25. The role of the private sector, in particular for agriculture, was discussed. Some participants questioned whether how private sector involvement was reconciled with profit opportunities, and

whether this involvement was important enough in agriculture. It was answered that, at least in the Tunisian case, there was no dichotomy between public and private interests in agricultural development, as common constraints needed to be addressed. It was also said that the private sector was becoming a crucial partner of DFIs in a context where basic infrastructure was a priority, due to the major investments involved. The need to enhance NDBs' catalytic role in getting markets to work for development was highlighted in that regard.

26. The importance of Board independence was also frequently mentioned. It was described as a priority for DFI redesign and successful reforms in Africa. The cases of DBSA and IDC, where the overwhelming majority of Board members are independent from the government, were underlined. Some suggested that Boards of DFIs should be accountable to some extent of the impact of their institutions on job creation, a key element for development. Some participants also noted the link with the need for professional, qualified, staff that stays independently of government changes.

Session 4: Financing Sustainability

27. Session 4 was chaired by Mr. Antonio Carraro, Director of Associação de Bancos de Desenvolvimento (ABDE) in Brazil. He introduced Mr. Jose Garson, from BRED Bank; Mr. Lawal Kankia Ibrahim from FNIM, FIMC and Institute of Directors; Mr. Shehu Yahaya from the African Development Bank.

Presentations

28. Jose Garson presented a **Case Study on Guarantee Systems** in Africa. He focused on how to design efficient guarantee systems (GS), which he divided into two distinct objects: traditional guarantee funds, and Mutual Guarantee Associations (MGA). MGAs are a 'self-managed club' whose members pay a fee to participate and control decision-making processes: this translates in a self-blocking mechanism to avert risky and costly guarantee policies, while ensuring more transparency at the same time. He then listed some key parameters to set up a proper GS, and insisted on the need for GSs to build credibility. Mr. Garson also listed important elements of management for GSs, and finally looked at ways to set up or rehabilitate GSs. He listed in particular existing regional GSs such as the African Solidarity Fund (ASF), sub-regional GSs such as GARI and FAGACE, and successful national GSs like FODEX. Setting up new MGAs in Africa requires cooperation between various actors, as illustrated by current efforts from certain governments (Turkey, Spain), donors (like in the Philippines), members themselves (France, Germany) and banks (in West Africa and Cameroon for instance).

29. The **Nigerian Experience** was described by Mr. Lawal Kankia Ibrahim. He suggested ensuring collaboration with foreign technical partners to develop local technology, with regards to the fabrication of local plants and machinery, so that costs for establishing projects are substantially reduced. DFIs ought to be active players in capital markets and not just in buying and holding shares. Mr. Lawal Kankia Ibrahim concluded that, in the context of deregulation policies, many Nigerian DFIs need to undergo a far-reaching restructuring program. The elements of such a program should include transfer of responsibility for prudential rules and supervision to the Central Bank of Nigeria, the rationalization of the number of DFIs (already being done) to avoid duplication of functions, the liquidation of terminally distressed institutions and the recapitalization and restructuring to resolve the problem of bad loans. To ensure survival,

he said, management must reduce overhead costs, upgrade project appraisal and supervision skills and diversify funding sources to include deposit taking and capital market operations. He closed his presentation by saying that Nigeria, like any other developing country, needs vibrant and responsive DFIs for its economic growth and development and thus, development partners ought to support DFIs in performing their roles effectively.

30. Mr. Shehu Yahaya discussed the issue of **Balancing Service Delivery and Sustainability** for DFIs. First, he described the AfDB approach to national DFIs, both in terms of objectives and instruments. AfDB objectives for supporting DFIs includes: 1) increasing supply of medium and long term capital 2) facilitating financial intermediation 3) supporting SMEs 4) supporting small scale infrastructure 5) increasing supply of rural credit and 6) supporting low revenue housing. Instruments described include lines of credit, technical assistance, equity holdings and guarantees. Mr. Yahaya then focused on the effectiveness of NDBs/DFIs: an ongoing study in Africa by AfDB tends to conclude that 1) traditional DFIs are weak on financial sustainability and weak-medium on service delivery 2) public sector commercial banks are medium on financial sustainability and weak-medium on service delivery and 3) private sector banks are strong on financial sustainability and medium on service delivery. Finally, he described AfDB's strategic options for partnership with DFIs. They included a review of equity investment, increased use of guarantees, cofinancing of DFI-led operations, development of market risk management products and liquidity risk management products. He insisted DFIs needed to not only survive but also strengthen their capacity for both service delivery and financial viability. AfDB is strengthening its capacity to support them to achieve their transformations.

Discussion

31. Regarding the issue of guarantees, some participants asked for explanations on the importance of credibility for guarantee systems. It was answered that they need to be credible for banks to accept using them, which might require to separate them from ministries and to establish them as separate entities. Some participants noted that guarantees are a good illustration of the broad issues of financing for development that go beyond the notion of NDBs: it might be that the analysis would gain in focusing on development finance functions (which would include commercial bank activities) rather than development finance institutions. Others noted that guarantee funds can work for development without necessarily being profitable.

32. The role of certain MDBs such as AfDB was discussed, as they tend to use the hard window for loans to Sub-saharan DFIs for public-private partnerships, in particular for Spatial Development Initiatives. Despite efforts with guarantees, many projects similar to the Maputo Development Corridor can only benefit from a hard window. Nevertheless, it was reminded that AfDB's hard window accounts for only a quarter of its operations, and that most of its lending in Africa was going to recipients as grants.

33. Internationally agreed development objectives, such as the MDGs, were put forward as important elements in the decision-making process of DFIs. The role of MDBs was highlighted in this regard, as they can foster these objectives in their interaction with DFIs. According to some MDB participants, DFIs nevertheless remain essentially oriented toward a financial mission, so they can only tackle MDGs in specific, finance-related areas.

34. Privatization continued to generate discussion. It was repeated that NDBs/DFIs can be both financially sustainable and effective in promoting development. For some participants, between full privatization and public ownership, there was an opportunity today to foster private stakeholders in the capital of DFIs, which should be researched in future consultations. Some noted that full privatization was incompatible with development objectives of DFIs and would create a ‘different animal’ oriented on profit-making. Others cited examples in Nigeria and elsewhere of successful privatizations, with possibilities to keep development objectives as a priority and to attract more qualified staff. Overall, it was concluded that a priority was to enhance NDBs’ institutional autonomy, internal governance and professionalism to ensure their financial sustainability in comparison to commercial banks.

Session 5: Generating dynamism in the economy through SMEs

35. This session was chaired by Mr. William Mlaki, Managing Director, Tanzania Investment Bank. He introduced Mr. Lumkile Mondi, Chief Economist at the IDC, Ms. Marie Kirsten, coordinator of the Institute and Finance Publication at DBSA, and Mr. Paul Malherbe, from Business Partners International.

Presentations

36. Mr. Lumkile Mondi analyzed **Sectoral Strategies in South Africa**. Noting that Africa’s growth remains robust compared to OECD countries, he described this trend as led by oil-producing countries. Oil importers are also performing better than expected, thanks to rising commodity prices and increased production, as well as good harvests. Mr. Mondi then defined various value chains before looking at the South African case into more details, regarding exports and sectoral performance, and their drivers for growth. He suggested that it would be beneficial for development to influence governments in promoting diversification and deepening of the economy, by encouraging beneficiation and downstream value addition. He finally offered a number of detailed forecasts. In particular, he noted the crucial role of the manufacturing sector, and insisted on job creation and the role of DFIs. More than 1 million new jobs are forecast to be created over the period 2006 - 2010 in the formal sectors of South Africa, and he expects that nearly half of those will come from the financial and business services sectors, with close to 480,000 additional jobs.

37. **Microfinance in South Africa** was the focus of a presentation by Ms. Marie Kirsten. She showed that success stories in SME and microfinance show there need be no trade-off between development impact and profitability. She first described the financial segments in South African society, with nearly 46% of the population classified as destitute, with low or very low incomes. She noted that only 63% of people were financially served, and the majority had no formal bank access. 37% of South Africans are totally excluded from banking services, more than in Brazil and Mexico. She then described the various initiatives by the government through microcredit, such as Mzansi bank accounts, serving more than 1.5 million people. She also described recent regulation measures (National Credit Bill, Dedicated Banks Bill and Cooperative Banks Bill) and new Apex institutions (South African Microfinance Apex Fund, SAMAF, and Micro Agricultural Finance Schemes SA, MAFISA). Ms. Kirsten also detailed the microcredit initiative of the Small Enterprise Foundation, serving over 35,000 active clients, which attained full break-even in 2004.

38. Mr. Paul Malherbe analyzed the issue of **Promoting and Supporting SME Development**, with the case of Kenya & Madagascar. He described BPI, then the case for SME promotion in South Africa. He described various factors that impede SME growth, before focusing on the Malagasy and Kenyan models, two joint initiatives with IFC. These projects focused on access to finance, access to information, access to skills and training (building human capacity) and building an environment conducive to business. He then insisted on the value of the lessons learnt by BPI, in particular in setting up structures and raising funds, understanding the environment (regulatory and investment requirements), and in fostering an entrepreneurial mindset regarding private equity.

Discussion

39. SMEs and the role of DFIs were discussed, focusing first on a recent study by FinMark Trust on small business in South Africa. It showed the complexity of SME segmentation. Multiple interventions are needed, and require segmenting the market in a new way to allow government and the financial sector to target their small business strategies more effectively. A large level of sophistication in the classification of SMEs is particularly important and was detailed in this new study. The importance of the business environment was again recalled, in particular the importance of doing business easily: ongoing projects in Madagascar and Kenya, involving governments and the IFC and the EIB, were cited.

40. The difficulties faced by the rural poor were highlighted again, in particular with the case of Tanzania where problems of rural development and associated difficulties in the respect of property rights was a significant challenge. It was said that microfinance institutions can target and support services to help small farmers and foster linkages with the markets.

41. The case of BPI was discussed as an example of successful initiatives involving international institutions like the IFC. In particular, some participants described the usefulness of equity participation to facilitate SME development in Sub-Saharan Africa. It was answered that BPI often took equity stakes and looked for equitable transactions for its business partners.

Session 6: Resource Mobilization

42. Session 6 was chaired by Mr. Karl-Heinz Fleischhacker, Vice-President for Africa at KfW. He introduced Mr. Louis Ngassa-Batonga Principal Investment Officer at the IFC, Mr. Peter Mageza, Group COO at ABSA in South Africa, and Ms. Lena Eriksson-Ashuvud, Deputy Head, Regional Representation for Southern Africa & Indian Ocean, EIB.

Presentations

43. Mr. Louis Ngassa-Batonga discussed **Capital Markets and Resource Mobilization**, with a focus on multilateral institutions. Noting the growing interest of major international financial institutions in financing private sector development (the IFC, OPIC, EBRD, EIB in particular), he highlighted the changes in the allocation of IFI resources over the recent years : the share of Sub-Saharan Africa declined from 12.1% of total allocations in 2000 to 9.7% in 2005, at US\$23.6 billion. More resources are also being channeled into financial markets: 45.1% of allocations in 2005 as compared to 29.5% in 2000. He then described the IFC's strategic priorities: 1) strengthen the focus on frontier markets, in particular Africa, with an emphasis on technical assistance, the investment climate and SMEs; 2) build long-term partnerships with

emerging global players (South-South approach); 3) help expand the sustainability agenda; 4) address constraints to private sector growth in infrastructure, health and education; and 5) continue to emphasize local financial market development. He then looked at IFC's role in resource mobilization and capital markets, with B loans, local currency loans, securitization and guarantees, which he described in detail. Mr. Ngassa-Batonga indicated that IFC's strategy for financial market development was to continue to develop existing products (B loans, local currency, structured finance), work on direct development of capital markets (for instance the Nigerian bond market), and maintain strong collaboration with other financial institutions, including DFIs.

44. Mr. Peter Mageza presented the **Role of NDBs to Crowd in the Private Sector**. He first described ABSA, one of South Africa's largest financial services groups. He then focused on the new partnership between ABSA and IDC. The objective of ABSA in that regard is to manage and share risks, through remarketing and buy-back agreements. ABSA and IDC established a Finance Scheme, targeted at the South African transport sector, to promote black economic empowerment (BEE), through the provision of asset finance and working capital. The Finance Scheme allows ABSA to provide funding to the target market with a Transport Contract, and IDC provides a 50% *pari passu* guarantee on losses incurred by ABSA.

45. **EIB's Support to Development Banks in Africa** was the focus of a presentation by Ms. Lena Eriksson-Ashuvud. EIB activities in Africa started in 1963 under the Yaoundé convention, in particular with operations focusing on funding SMEs through financial intermediaries, including NDBs and RDBs. In the 1970s, NDBs were seen as an effective response to financial market imperfections. EIB support aimed at two market imperfections: access to finance of SMEs and provision of long term financial instruments. However, weak performance in the 1980s entailed a retreat by EIB from lending to NDBs. NDBs accounted for less than €30M of EIB lending to financial institutions in Sub-Saharan Africa over 2000-2006, compared to more than €300M over 1976-1990 and €80M over 1991-1999. EIB's strategy now focuses on RDBs and commercial banks. Yet market imperfections are still present, which NDBs might help to overcome. Thus, EIB is still open to considering support to the establishment of NDBs in a number of African countries. This ought to be case specific interventions. Setting priorities and clear and realistic definition of tasks is also important. Technical assistance is useful but is no panacea. Also important are governance and an institutional framework – in particular a commitment to proper institutions and governance is essential. In conclusion, Ms. Eriksson-Ashuvud said that the European Investment Bank will continue to support partners in development that are best equipped to be effective in this work.

Discussion

46. The chair insisted that sound rules and good governance were essential for DFIs to succeed and receive funds from MDBs. The role of ODA, MDBs and capital markets were three issues also high on the agenda of DFI reforms and redesign.

47. The collaboration of MDBs and their role in resource mobilization was discussed. As noted by AfDB's representative, there are still many weaknesses in quite a few NDBs. However, he noted, some MDBs actually contributed to such flaws, for instance through inappropriate provision of lending in foreign currency. Today, the financial sector in Africa is changing and there is room for collaboration between institutions like the EIB and AfDB for this region. They

can coordinate to provide technical assistance and capacity building so that DFIs become accountable. There is significant room for partnership in that regard. The role of international institutions like the IFC to support training and capacity building in African DFIs was further questioned. Enhanced partnership in this regard could go through the World Bank rather than the IFC, the IFC representative noted. The EIB insisted it could support financially more technical assistance under conditions of good governance in selected DFIs.

48. The issue of budgetary funding of NDBs by donors was discussed. Some perceived budgetary funding as hazardous in terms of possible government interference in NDB resources allocation, variable budgetary provisions and credibility issues in advocacy

49. The role of commercial banks generated several questions, in particular regarding how to encourage them to join large development projects with DFIs and MDBs. Again, the importance of governance was underlined, but also the fact that DFIs needed to see what their short-term advantage was, because most commercial banks were not interested in projects having only long term positive prospects of return. In this regard, the need for riskier projects was described as a possible way forward. Cases of DBSA/IDC collaboration were seen as possible approaches; partnerships with commercial banks in Kenya were described. But while a participant insisted on the need for NDBs in countries like Kenya, the EIB noted that to develop financial markets, commercial banks were often more adapted than NDBs. NDBs, it was said, need to clarify their role with respect to commercial banks and to act in complementarity. The role of the private sector generated further discussion. Among the points raised, it was said by several participants that DFIs should enter into alliances with the private sector to share and manage financial risks and ensure working capital, as illustrated by the BEE.

Session 7: Enhancing NDBs Delivery for Development

50. This session was chaired by Mr. Désiré Rumanyika from the Banque Rwandaise de Développement. He introduced Dr. Rosalind Thomas, CEO of SADC-DFRC, Mr. Geoffrey Qhena, CEO of IDC, and Clive Kellow, CEO of CommerzBank AG.

Presentations

51. Dr. Rosalind Thomas discussed how to develop **DFIs' Capacity to Deliver**, with a focus on DFI cooperation. Ms. Thomas presented the South African Development Community (SADC) Development Finance System and then focused on the failure of development finance to yield results, analyzing in particular institutional and capacity weaknesses in DFIs. She explained why DFIs continue to be critical actors in SADC and highlighted their role to close the gap of availability in long term financing. DFIs have the skills base to appraise projects; they can structure complex risk sharing contracts; they also provide intermediation between investors or promoters and banks, capital markets and institutional investors; with respect to infrastructure, DFIs are able to engage governments on policy constraints and to mediate between public and private partners; they also handle and mitigate risks associated with medium to long-term finance and can close the gap for SMEs that large DFIs and private banks won't touch; finally they can play a role in developing deal pipelines. After describing a number of limits in DFIs in SADC, she suggested improvements at the policy level: governments need to change ownership structures and to strengthen laws and regulations; they also should change Board representation to capture the variety of skills and experiences; DFIs should also invite equity participation from

the private sector to dilute Government influence. Ms. Thomas then described the Development Finance Resource Center (DFRC) and its role to build capacity among DFIs, insisting on the role of networks in that regard. She highlighted the critical need to solve institutional weaknesses of DFIs and to enhance skills.

52. **A Case Study of the IDC** was presented by Mr. Geoffrey Qhena. He described the IDC strategy and how it successfully adapted to a changing environment since the 1990s. The role of DFIs in a market economy, he said, ought to be to address market failures, as well as to provide additionality and encourage investments. IDC's raison d'être and success, in particular, depend on its ability to identify, and successfully address, new gaps in the market, before its current field of operations is ultimately taken over by private financial institutions. He explained how the IDC proceeded to assess new areas for development, according to guideline questions: is it within the Corporation's mandate? Is there a market gap? Is there a viable market? Are IDC's competitive advantages applicable? And, most important, is it aligned with IDC's corporate objectives and strategy? In his concluding remarks, he highlighted that DFI roles are critical for supporting accelerated, balanced and sustainable economic development. Furthermore, he insisted on the fact that national priorities, the competitive environment and client needs change over time and DFIs thus need to continuously adapt. If DFIs want to avoid being "victims of their success", Mr. Qhena added, they need to stay in the forefront and regularly review strategies and re-position themselves.

53. Mr. Clive Kellow focused his presentation on **Innovation and Financing for Entrepreneurship Development**, through the example of his bank's investment in ProCredit Bank, seven Microfinance Banks in Albania, Bulgaria, Bosnia-Herzegovina, Romania, Serbia and Montenegro, Kosovo, and Georgia. They all have a similar shareholder structure, of public private partnership, aimed at the commercialization of development aid in the financial sector. They share the same basic business-policy orientation. They have all received start-up support in the form of international experts and training to promote institution-building, but no subsidies. They use the same credit approach. ProCredit Group views itself as a global leader in lending to households and enterprises that previously had very little chance to become clients of mainstream banks. The target group for the banks' range of financial services consists of micro and small enterprises and private households. Shareholders measure the success and significance of the banks not only in terms of business volume and profit but also by the number of customers reached. Banks are profit-oriented, but do not aim for short-term profit maximization. As universal banks, they are able to perform every kind of banking operation. They strive to mobilize sufficient volumes of deposits from the public to make retail deposits an important source of funding. Furthermore, despite low level of arrears, ProCredit Banks apply a conservative provisioning policy. Mr. Kellow then described the environment of microfinance in South Africa, its challenges and attractiveness.

Discussion

54. Some participants raised the issue of DFIs' performance and return on assets and equity with regard to the rest of the economy and to commercial banks. Building on the case of IDC, some asked whether there was some agreement with DFI shareholders to operate at low rates of return. It was answered that rates or return could indeed be lower, but that a balance in the total portfolio was an essential aspect of successful DFIs.

55. It was suggested repeatedly to foster linkages and collaboration. There was agreement on the need to enhance DFIs' capacity to deliver for development by making better use of their resource and of stakeholder networks, as described in one of the presentation. Some also called for the acceleration of DFI delivery of development, by increasing joint financing of projects and by crowding in the private sector, as discussed in a previous session.

56. The role of DFIs in microfinance was also discussed. KfW described its support for microfinance initiatives, and the need for new partnerships and innovation. The KfW participant noted that MFIs were good vehicles to reach a part of the population with no access to finance. He called for better regulation to help them grow, in particular in South Africa.

57. The need for skilled staff in DFIs was seen by some participants as a crucial feature of DFIs' enhanced delivery for development. In particular, investment projects (such as a recent AFD/DBSA facility) required auditing and legal preparation that amount to nearly 10% of the investment, a cost that could have been averted if adequate skills had been found inside the DFI.

Session 8: Corporate Governance & Regulatory /Supervisory Framework

58. This session was chaired by Mr. David Nuyoma from the Namibia Development Bank. He introduced Mr. Kabelo Seitshiro, Chief Director at the National Treasury of South Africa and Professor YRK Reddy, Chairman of Yaga Consulting Pvt. Ltd. India.

Presentations

59. The **Fit of NDBs/DFIs with Public Policy** was analyzed by Mr. Kabelo Seitshiro. He noted that NDBs/DFIs are generally used to address market failure in risky sectors. In this regard, they fill gaps in the supply of financial services and strive to crowd in the private sector. He insisted on the fact that international experience shows that appropriate and efficiently managed DFIs can contribute to economic growth and development, but that certain policy-based DFIs have given rise to severe market distortions. Clearly identified policy objectives are essential. They should be prioritized, and established in cooperation between all involved ministries. Also, in outlining the role of DFIs in public policy, he called for a periodic review and alignment of their mandates. The second main point in his presentation dealt with the need to harness the private sector, in view of mobilizing private resources for development. He also insisted on the crucial need for corporate governance, under three priorities: transparency, equity and accountability. Mr. Seitshiro finally noted the importance of de-politicizing DFI operations and for appropriate risk management and corporate governance.

60. **Good Governance and Prudential Regulation and Supervision** was the focus of the last presentation of the conference by Professor YRK Reddy. Discussing the general approach to governance, he described two broad views of the last two decades. One focused on public policy and the strengthening of institutional structures. The other focused on service delivery, efficiency, transparency, e-governance, in the broader context of "New Public Management". He then presented some of the many challenges associated to governance, presented in a paper joined to his presentation. In particular, financing or budgetary mechanisms, the design and redesign of structures, as well as the regulatory architecture need to be jointly addressed. Mr. Reddy then described corporate governance in details and its impact on DFIs. Insisting on the

fact that “finance flows where corporate governance grows”, he provided a number of illustrations before analyzing the particular case of State-owned enterprises (SOEs). Heavy superintending structure, moral hazard, regulatory forbearance and free riding contributed to the dispersion of responsibilities in DFIs. In this regard, he insisted on the need for reform of the interfaces between ministries, of superintending and auditing structures, financing agencies, and the need to improve the appointment of directors, board structures, processes and practices, managerial tasks in control, risk and compliance. He called for building a roadmap on reform to implement corporate governance, both at the policy level and at the firm level.

Discussion

61. The issue of politization of DFIs was mentioned by several participants in this last session. African economies were described as driven by firms and the policy environment, but also often by vested interests, in particular in State-owned enterprises. That is why there was a need to reduce the ‘governance premium’ in Africa compared to Asia or Latin America.

62. Some participants noted that corporate governance was not a theory but dealt with clear elements such as Board independence, audit committees, etc., based on previously mentioned principles that include transparency and accountability. The win-win situation created by corporate governance was highlighted, because it allowed, once in place, to protect the main stakeholders, the Chairman of the Board himself and the CEO.

63. Questions were raised regarding the South African case and its approach to decision-making. It was answered that, although the prioritization of development projects was not always clear, there was a focus on macro-economic stability but less so on abiding by rules of the so-called Washington consensus. South Africa focused instead on binding constraints, with a result-oriented strategy. Overall, this allowed for a good balance between macroeconomic stability and development objectives

Wrap-up session

64. **General Conclusions, Policy Recommendations and Action Proposals** were provided by the rapporteurs of the Consultation, Mr. Alex Trepelkov, Deputy Director of the Financing for Development Office, and Julien Serre, Associate Expert at the Financing for Development Office. They summarized the main conclusions and suggestions of each session. Overall, the meeting highlighted that NDBs/DFIs have a critical role to play in economic and social development in Africa. National priorities, market environment and client needs tend to evolve over time. NDBs/DFIs need to continually adapt and adjust if they are to respond to changing needs and developmental imperatives. They highlighted action-oriented proposals, such as to organize systematic sharing of information and cooperation among interested NDBs/DFIs through regional associations. This information sharing could deal with regional, sub-regional and national development project pipelines, best practices, governance and management, and financial guidelines.