



TIB DEVELOPMENT BANK LIMITED

**TOWARDS INSTITUTIONAL AND HUMAN CAPACITY
BUILDING IN AFRICAN DFIs MEMBERS OF DFIs IN SSA
COUNTRIES BASED ON EXPERIENCES IN JAPAN AND ASIAN
COUNTRIES**

**“Present Situation of DFIs in African Countries
and Necessity of Institutional and human
Capacity Building”**

**3 June 2013
Yokohama, Japan**

**Peter M. Noni
Managing Director – TIB
Chairman AADFI**



TIB DEVELOPMENT BANK LIMITED

PRESENTATION SUMMARY:

- A) INTRODUCTION/ROLE OF DFIs
- B) CURRENT STATUS OF DFIs
- C) CHALLENGES
- D) ADDRESSING THE CHALLENGES
- E) WAY FORWARD
- F) CONCLUSIONS

TIB Development Bank Limited

A) Introduction

It is obvious, based on international experience that DFIs have an important role to play in promoting sustainable and inclusive social and economic development.

In Africa, most national DFIs were established in the 1960s and 1970s, but by the 1980s some of them closed shop and some were restructured into deposit taking institutions to survive. A few of them survived and are doing well.



TIB Development Bank Limited

A) Introduction

Studies indicated that problems of most African national DFIs are rooted in weak corporate governance, arising from political interference, underpriced risks and financially unviable business models.

In 1990s most African countries underwent Financial Sector Reforms which put emphasis on financial liberalization, however, despite the reforms, Financial Sector Assessments conducted in the 2000s proved that apparent gaps exist, especially in the provision of funding for infrastructure and SMEs

TIB Development Bank Limited

- **A) Introduction**
- Recent studies have established that the infrastructure gap in Africa is about USD 93 bn pa, while for SMEs, the gap is about USD 140 - 170 bn pa.
- Infrastructure and SMEs requires long term financing and involve higher risks that commercial banks are not best suited for; and hence the financing gap.
- There therefore is a potential Role for African National DFIs to fill the gap.



TIB Development Bank Limited

B) Current Status of African DFIs

According to AADFI Peer Review Reports, IMF and AfDB Staff reports, weak performance were generally observed :

1. Weak Governance structures: separation of ownership from control/appointments of BOD
2. Unclear Mandate: framework that defines mandate, objectives and strategy/unsustainable DFI models
3. Weak capital bases/limited access to funding
4. Weak regulatory and supervisory framework
5. Weak credit administration and monitoring process/poor risk management practices
6. Lack of environmental and social management systems.



TIB Development Bank Limited

B) Current Status of African DFIs

The reports recommend the formulation of action plans to strengthen the DFIs as follows:

1. Improve corporate governance by introducing some private elements
2. Define well the mandate of DFIs and integrate their activities to national development plans
3. Sufficiently fund the DFIs consistent with their long term objectives
4. Provide regulatory and supervisory framework for DFIs
5. Improve business processes and procedures in the credit administration and monitoring, including upgrading of Risk Management procedures



TIB Development Bank Limited

B) Current Status of African DFIs

In summary, from the PSGRS Peer Review reports, and the findings of the IMF and AfDB Staff reports, it is obvious that most African National DFIs need both **Institutional and Human capacity building** to make them effective in fulfilling their development mandate.



TIB Development Bank Limited

C) Challenges

In addition to the financing to the unfulfilled needs of infrastructure and SMEs, of recent there has been an increase in activities in resource exploitation, particularly related to energy (oil and gas) and minerals.

Financing of all these requirement these developments require special skills, knowledge and capital.



TIB Development Bank Limited

C) Challenges

A review of the capacity embedded in most African national DFIs show a big gap in both institutional and human capacity as follows:

1. Human capacity to conduct Project Appraisal and Monitoring of large projects
2. Institutional capacity to handle financial and technical issues related to implementation of large projects, both from a capital and funding perspective.
3. Appropriate Work-Out skills for existing development projects not meeting the financial, operational and technical benchmarks.



TIB Development Bank Limited

C) Challenges

Training programs conducted by AADFI assist to bridge the gap, but recent developments and needs call for different approaches if African DFIs want to be effective players in the development activities going on in their respective countries.

Recent developments include:

1. Needs for countries to effectively benefit from minerals and energy resources
2. Need to increase job opportunities to cater for urban youth population
3. Need to integrate environmental and social aspects in the preparation of large projects.



TIB Development Bank Limited

D) Addressing the Challenges

While there is potential for National DFIs in financing infrastructure and SMEs, most of them cannot **effectively** undertake this mandate.

Only the well governed, capitalized and supervised DFIs can be able to fulfill this mandate.

The Association of African Development Finance Institutions has with the support of AfDB, created a mechanism to address these challenges namely the Prudential Standards, Guidelines and Rating System (PSGRS).

The PSGRS mechanism provides an opportunity for DFIs to compare/assess their performance in the areas of: Governance Standards, Financial and Prudential Standards and Operational Standards.



TIB Development Bank Limited

D) Addressing the Challenges

DFIs have adopted AADFI PSGRS to assist in the evaluation and adoption of appropriate Governance, Financial and Operational standards.

Standards will continually be monitored for compliance and evaluated as to their appropriateness to ensure that all AADFI members strive to achieve the basic standards of operating as DFIs.

Central banks and other Supervisory authorities have been requested to use PSGRS in their regulatory duties.



TIB Development Bank Limited

E) Way Forward

In support of AADFI efforts, a more engaging approach centered around active institutional cooperation between AADFI members and Regional and International DFIs is recommended.

1. Regional DFIs should consider creating an engagement model with African Governments to increase the role of local AADFI member DFIs in evaluating, structuring and implementing development projects funded by Regional DFIs
2. Such engagements stand to create sustainable projects around Regional DFIs' funded programmes, in addition to exposure to advanced technical skills in structuring and monitoring projects.



TIB Development Bank Limited

E) Way Forward

The engagement model be structured so as to include capitalization levels, organizational and mandate benchmarks for qualifying AADFI DFIs.

All these issues require a high level of institutional and human capacity within the DFIs, without which the existing potential in the DFIs shall not be exploited.

Some of the solutions require strategic cooperation between developed DFIs, African DFIs and their shareholders, the Governments.

With all parties recognizing the potential embedded in the operations of DFIs, it is worthwhile to increase our practical collaborations to develop this potential for our mutual benefits.



TIB Development Bank Limited

E) Way Forward

The TICAD V initiative as a very important complement towards strengthening the effectiveness of African DFIs so that they can play a meaningful role towards addressing the financing gap in infrastructure, SMEs and Extractive industries.

Regional and JICA cooperation arrangements to enhance institutional and human capacity of the African National DFIs will be highly valuable.

AADFI stands ready to work with JICA to formulate a Regional Cooperation Programme in which problems of the DFIs will be identified and documented together with the measures designed to address them, including the action plan.



TIB Development Bank Limited

E) Way Forward

Indeed, seminars, workshops, training courses and attachments would be effective tools for delivering the capacity building programme



TIB Development Bank Limited

F) Conclusion

Lastly, it is worth recognizing that substantial efforts and investments in DFI's human and institutional capacity, have a trickle down effect to increased capacity in our countries for the development, execution and sustainability of national development programs, largely funded by Regional DFIs.

The existence of this capacity in DFIs also increases the capacity of local DFIs to operate sustainably, since these skills are in demand in our markets, they could be structured so as to diversify the service and delivery potential of the DFI in other economic and social developments.



TIB Development Bank Limited

THANK YOU