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# The Prudential Standards and Guidelines Rating System – Report on Implementation and Results in SADC DFI Network 2014

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## 1.0 Introduction

- ✿ The purpose of this paper is to provide an overview of the PSGRS;
- ✿ To present the results for 2014, and
- ✿ To compare with the previous year;
- ✿ Appreciate the African context of the PSGRS

## 2.0 Definition

- ❖ The DFI is a distinctive creature set up by government to overcome market failures in capital markets which impede the mobilisation and allocation of resources to investment activities promote economic growth and socio-economic development as opposed to the private sector which focus on financial return (chart 1).
- ❖ They pursue this objective by providing financial resources to support infrastructure development, small and medium sized enterprises and other projects which may be judged to be too risky, having low returns, or having inordinately long payback periods by private financiers.



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Chart 1



### DFIs

- Development focus
  - Sharing risk
- Internally generated funds, government funds, lines of credit

### Commercial Financiers

- High commercial focus
- Private sector capital
- Financial objectives
  - Known risks

DFIs are expected to perform better on development issues, while the private financiers perform much better on financial goals, thus assuring their sustainability. In the absence of a clearly defined relationship with government and policy framework, the prospects for a DFI may be somewhat bleak. DFIs may also aim to cooperate, rather than compete with private sector



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### 3.0 Reconciling the Challenges

- ✦ For the going reasons, it is important to define the standards that make for the sound governance and management of the DFI, to ensure that the DFI fulfils its purpose of bringing about socio-economic development in the country.
- ✦ This provides guidance to the Supervising Ministry, Regulatory Authorities, Board and Management of best practices, and the appropriate relationship between them.
- ✦ It is expected that from this that the DFIs will effectively pursue:
  - ✦ Financial sustainability;
  - ✦ Raising funds in the open market;
  - ✦ Raising development funds form international development institutions;
  - ✦ Delivering on their development mandates

## 4.0 PSGRS as a Tool

- ✦ The PSGRS Tool is a self-assessment tool to allow the DFIs to assess their performance in the three areas of governance, financial, and operations in relation to defined norms of best practice.
- ✦ The Tool should facilitate this by:
  - ✦ Encouraging operation of DFIs using best practice standards;
  - ✦ Identify operational gaps and capacity gaps;
  - ✦ Provide for continuous monitoring along set benchmarks;
  - ✦ Serve as rallying point for advocacy on policy issues;
  - ✦ Provide basis for development of institutional, in-country and regional capacity building programmes.



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## 5.0 PSGRS Methodology

- ✦ The PSGRS has 100 questions altogether covering the three areas of governance, finance and operations, each of which is broken down into subsets of norms and standards of compliance. The three areas are weighted to reflect importance to sound DFI governance and management of 40%, 40% and 20% respectively;
- ✦ It is a general, though not necessarily comprehensive, diagnosis of the state of practice in the DFI, and will involve various players in the company, and will, at the end, provide a relatively clear prognosis of the institutions prospects;
- ✦ Each of the questions has three possible responses reflecting the level of compliance, i.e., Full Compliance, Partial Compliance, or Non-Compliance, each of which carries a numerical score of 2, 1 and 0 respectively; Where a particular question is not relevant to the DFI, it is given a score of 1;
- ✦ The scores are computed using the PSGRS worksheet with relevant weights being attached to the various areas.



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## 6.0 PSGRS Standards

### 6.1 Governance and management standards

- ❖ **Sufficient Independence from Government** (No. of government officials on board, chairmanship of board by government officials)
- ❖ **Management Independence and Incentives** (appointments of CEOs, delineation of board and executive functions, etc.,)
- ❖ **Operating in Accord with Reasonable Commercial Principles** (Comparability of remuneration with private and public sectors and performance management of senior management, etc.,)
- ❖ **Accounting and Auditing** (Conformance with international accounting standards, regularity and timeliness of audit, etc.)
- ❖ **Management Information Systems and Procedures** (timeliness of annual budget preparation, monthly reporting, cost accounting, etc.,)
- ❖ **Corporate Citizen Governance Standards** (Performance agreement with owner and strategy to fulfill mandate)



## 6.2 Financial Standards

- ✦ **Capital Adequacy** (capital v risk-weighted assets, etc.,)
- ✦ **Profitability and Efficiency** (administration costs v value of assets, profit percentage of increase in risk-weighted assets, etc.,)
- ✦ **Asset Quality** (incidence of non-performing loans, provisions of bad debts, etc.,)
- ✦ **Asset Diversity and Safety** (Does the DFI have an Asset Liability (ALM) Committee, policy on maximum single financial exposure risk to one credit risk, percentage of total assets denominated in foreign exchange, etc.,)
- ✦ **Liquidity** (monthly cash forecasts? adequacy liquid resources on hand the projected liquid resources for 3-12 months, debt-service coverage policies, etc.,).
- ✦ **Funding** (availability and dependability of long-term resources to the DFI)

### 6.3 Operational Standards (20%)

- ❖ **Risk Management Policies** (market pricing, asset and liability management , foreign exchange practices, etc.,)
- ❖ **Lending Policies** (frequency of loan repayments, duration of loans, availability of guarantees, etc.,)
- ❖ **Loan Approvals and Disbursement Policies and Procedures** (Duration of loan appraisal processes, debt service coverage, etc.,);
- ❖ **Supervision and Collection Policies** (frequency of supervision, detailed monitoring reports, collection procedures, sanctions for late payments, etc.);
- ❖ **Operations Strategy Policies** (Diversification policies, policies on deposit taking);

## 7.0 Results for 2014

- ✿ Ranking of DFIs
- ✿ Ranking of Areas of Compliance
- ✿ Compliance by category of Standards
- ✿ Summary Scores after weighting
- ✿ Performance in African context (2013)

**Table 1: Ranking of DFIs by Scores**

No	DFI Name	Abbreviation	Weighted Overall Score (%)	
			2014	2013
1.	Development Bank of Namibia	DBN	89.4	85.8
2.	Swaziland Development and Savings Bank	SWAZIBANK	87	87.3
3.	Development Bank of Southern Africa	DBSA	86.7	-
4.	Swaziland Development Finance Corporation	FINCORP	86.4	87
5.	Botswana Savings Bank	BSB	82.2	-
6.	Citizen Entrepreneurial Development Agency	CEDA	81.7	72.2
7.	TIB Development Bank	TIB	80.2	78.1
8.	Gapi-Sociedade de Investimentos	GAPI-SI	79	75.1
9.	Environmental Investment Fund of Namibia	EIF	78.7	-
10.	Banco de Poupanca e Credito	BPC	76	75.1
11.	Infrastructure Development Bank of Zimbabwe	IDBZ	75.7	64.2
12.	Agricultural Bank of Namibia	ABN	75.2	78.1
13.	Lesotho National Development Corporation	LNDC	72.2	66.3
14.	Small Enterprises Development Corporation	SEDCO	70.4	-
15.	Development Bank of Seychelles	DBS	69.8	64.2
16.	Agricultural Development Bank of Zimbabwe	AGRIBANK	68.6	80.2
17.	Local Enterprise Authority	LEA	67.5	62.4
18.	National Housing Enterprise		65.1	-
19.	Basotho Enterprises Development Corporation	BEDCO	60.1	-
20.	Industrial Development Corporation of Zimbabwe	IDCZ	56.5	70.4
21.	Industrial Development Corporation	IDC	-	87.9
22.	Botswana Development Corporation	BDC	-	81.4
23.	Development Bank of Zambia	DBZ	-	76.9
	No of DFIs Submitted		20	17

**Table 2: Ranking of Areas by Score/ Compliance Level**

	Sectors/Areas	Percentage	RANK	No. of DFIs	Percentage	RANK	No. of DFIs
		Averages - 2014	(Best First)		Averages – 2011 Averages 3	2013 Avg	
	<i>List in order of highest percentage</i>						
	<b>Strong Compliance</b>						
1.	Management Independence and Incentives	92.1	1	16	85.8	3	12
2.	Accounting and Auditing	89.7	2	16	87.9	1	13
3.	Supervision and Collection Policies	83.2	3	14	79.8	5	5
4.	Operating in Accord with Commercial Principles	82.5	4	15	86.8	2	12
5.	Management Information Systems & Procedures	80.8	5	11	80.9	4	8
	<b>Moderate Compliance</b>						
6.	Corporate Citizen Governance Standards	79.7	6	4	74.6	8	1
7.	Capital Adequacy	74.2	7	0	78.4	6	0
8.	Loan Appraisal Policy & Procedures	71.7	8	7	68.6	12	2
9.	Risk Management Practices	70	9	2	67.6	15	2
	<b>Weak Compliance</b>						
10.	Lending Policies	69.7	10	2	68	14	5
11.	Asset Quality	68.7	11	3	76	7	4
12.	Asset Diversity and Safety	68.6	13	2	73.1	9	2
13.	Liquidity	68	11	0	72.5	10	2
14.	Funding Availability	66.7	14	6	63.7	16	2
15.	Profitability and Efficiency	65.5	15	7	71.8	11	2
16.	Operations Strategy Policies	65	16	0	63.2	17	0
17.	Sufficient Independence from Government	62.5	17	3	68.1	13	4

**Table 3: Compliance by category of Standards**

Sectors/Areas	Percentage	RANK	No. of DFIs		RANK	No. of DFIs
	Averages - 2014	(Best First)		Percentage Averages - 2013	2013	
<b>Subtotal: Governance Standards</b>	82	1	12	81	1	8
<b>Subtotal: Financial Prudential Standards</b>	73	2	3	73	2	5
<b>Subtotal: Operational Standards</b>	68	3	2	70	3	3
<b>Average Total</b>	74			75		

**Table 4: Summary Scores after weighting**

Sectors/Areas	Summary score sheet after weighting	
	2014	2013
<b>Governance Standards (40% weighting)</b>	38	37
<b>Financial Prudential Standards (40% weighting)</b>	24	26
<b>Operational Standards (20% weighting)</b>	13	13
<b>Overall Weighted Rating</b>	75	76

## Table 5: SADC DFI Results in African Context 2013

Seven SADC DFIs were among the top 20 performing DFIs in Africa based on AADFI Assessment and Peer Review in 2013

<b>African Export and Import Bank</b>	<b>94%</b>	AA
East African Development Bank	93%	
Credit Agricole du Maroc	93%	
Odu'a Investment Company, Ltd.	92%	
Banque Nationale pour le Développement Economique	91%	
Eximguaranty Co (GH) Limited	91%	A+
Banque Rwandaise de Développement	89%	
<b>Swazibank</b>	<b>89%</b>	
<b>Industrial Development Corporation</b>	<b>88%</b>	
National Investment Bank	87%	
<b>Swaziland Development Finance Corporation</b>	<b>87%</b>	
<b>Development Bank of Namibia</b>	<b>86%</b>	
<b>Citizen Entrepreneurial Development Agency</b>	<b>84%</b>	
PTA Bank	84%	
Nigerian Export-Import Bank	83%	
ECOWAS Bank (EBID)	82%	A
<b>Botswana Development Corporation<sup>[3]</sup></b>	<b>81%</b>	
<b>Agricultural Development Bank<sup>[4]</sup></b>	<b>80%</b>	
Banque de l'Habitat de Cote d'Ivoire	80%	
Banque de Développement des Etats de l'Afrique Centrale	80%	



## 8.0 Observations from Results

- ❖ Some of the problem areas highlighted from the scores include:
  - ❖ Shareholding of DFIs dominated by government;
  - ❖ Capitalisation remains a big challenge (raising resources from government and capital markets)
  - ❖ Pricing models not necessarily responsive to risk;
  - ❖ High incidence of non-performing loans;
  - ❖ Systems and procedures not always sufficient;
  - ❖ Mandate creep departs from essence of DFI as defined in PSGRS;
  - ❖ Corporate Governances - Structure and appointment processes of Boards;
  - ❖ Impact assessment of DFIs not widely practised.

## 9.0 Experiences of the Process

### 🌀 Challenges of Implementation include:

- ❑ Acceptability and support of the PSGRS within respective institutions;
- ❑ Coordination (championing) of information collection needs attention;
- ❑ Non-applicability of some sections of the PSGRS to particular institutions affecting their overall results;
- ❑ Costs of verification by external auditors very high;

## 10.0 Possible Remedial Approaches

- ✦ Effective pricing of DFI financial products;
- ✦ Improved management information systems for timely and accurate financial reporting;
- ✦ Manage undue ‘political’ interferences through improved corporate governance;
- ✦ Legislative reform on board appointments and government participation on boards;
- ✦ Strengthen governance system through shareholder compacts;
- ✦ Review implementation of PSGRS to take account of the different types of institutions being assessed

## 11.0 Value of PSGRS

While the PSGRS has contributed to the DFIs and the DFRC identifying strengths and weaknesses, and opportunities for capacity building at the institutional and regional levels, it is important to recognise the other added value of the use of the PSGRS tool:

- ✦ providing donors/ financiers with a useful set of standards and yardsticks by which to assess DFIs and their suitability as financial intermediaries worthy of funding and/or technical assistance support.
- ✦ improving the reputation of DFIs, and providing them with a tool for dialogue with government, owners and regulators; providing regulators the means of developing and modifying existing regulatory requirements;
- ✦ providing DFIs with useful guidance on rules and benchmark to compare with other DFIs in the region.
- ✦ introducing a self-regulated early warning system for DFIs to assist them in initiating credible remedial measures, where necessary.

**THANK YOU**