

A Scan of SADC Development Finance Institutions' Environment

SADC DFI-Network Meeting

Durban, KwaZulu-Natal, South Africa

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Terms of Reference for the Study

- The purpose of this study is to:
 - 1) Document the current state of development finance in the SADC region and in particular those relating to policy, regulatory and legal environments of national DFIs;
 - 2) Identify and analyse the impediments and opportunities relating to cross-border activities by DFIs and recommending measures at national and regional level to address them;
 - 3) Assess the DFI Network mandate under FIP taking into account other structures such as SADC RDF, PPDF and PPPs;
 - 4) Propose policy options, framework and action plan to enhance the development of DFIs and their creditworthiness

Methodology

- The following instruments were used to collect and analyse the information:
- 1. Structured questionnaires were distributed to all DFIs;
- 2. Face to face interviews were conducted with all Network DFIs in SADC, including other DFIs in the countries.
- 3. Face to face interviews with officials from Central Bank and Ministries of Finance in SADC
- 4. Tables were developed to show patterns on establishment, ownership, size, regulation, NPLs, finances, etc.

Structure of Report

- The Scan Report has two major parts:
 - 1) First is the main report which covers 11 issues as outlined in the following slide; and
 - 2) Second, is the country specific report which forms the background information to the Scan.
- The summary action plan is derived from these reports.

Scan Report. *Cont.*

- The Report provides:
 1. Background to study;
 2. Development finance context from both international and Sub-Saharan context;
 3. SADC DFI Landscape on the following issues:
 - ✓ Mandate;
 - ✓ Capital structure;
 - ✓ Business model;
 - ✓ Financial performance;
 - ✓ Governance;
 - ✓ Coordination;
 - ✓ Regulation and supervision of the DFIs; and
 - ✓ Policy issues.

Validation

- The DFRC convened a workshop to validate the findings and conclusions of the report, and consider possible policy recommendations on 18th -19th November in South Africa.
- All but four DFIs attended the workshop, at which the main and country reports were discussed and verified, as well as issues arising therefrom

Scan Findings

- The Scan finds that:
 1. There is limited access to long-term funding in all Member States;
 2. Most DFIs are majority or fully state owned, under their own Acts, reflecting the dominant role of government in DFI affairs;
 3. Most DFIs have broad mandates and that there is mandate creep;
 4. Most DFI invest in many economic sectors, putting a strain on their capacities;
 5. There is evidence that governance and management practices and systems in many instances is not consistent with best practice;
 6. Funding model for many of the DFIs on resource mobilisation were found to be unsustainable;

Scan Findings. *Cont.*

7. Many of the DFIs are not financially sustainable, based on net income and non-performing loans;
8. Different reporting/ oversight relationships to government Ministries such as trade, industry, agriculture, communications/ transport, local government, lands, and not necessary finance/ treasury;
7. Majority of DFIs are not regulated by the Central bank or other regulatory , and few that are regulated have performed better under PSGRS);
8. DFI-Network Mandate under FIP was found to have performed well in building cooperation amongst DFIs, sharing information and experiences and building capacity. However, cross-border investment and regional projects are few;

Policy Options

- Based on the findings of the Scan, 9 areas of possible action for the DFI-Network been identified:
 1. Strengthening their Corporate Governance;
 2. Becoming more effective in achieving their mandates;
 3. Improving their resource mobilisation and capitalisation;
 4. Effectively being coordinated under one umbrella;
 5. All DFIs being regulated and supervised by independent regulatory bodies;
 6. Improving their financial performance, operational and management efficiency;
 7. Member DFIs being capacitated on development finance issues;
 8. Actively using PPP to crowd in private investment; and
 9. Contributing more effectively to and regional development agenda.

Conclusion

- In conclusion, the report has tried to undertake a comprehensive coverage of the operations and experiences of DFIs;
- It has involved the DFIs and the policy makers to have a better understanding of the challenges and opportunities for development finance;
- On the basis of the findings, the report has recommended a set of actions to improve the effectiveness of DFIs as sustainable institutions in the mobilisation and delivery of finance for viable projects in national and regional development.
- The DFRC acknowledges the support of the GIZ in funding of the study and the Validation workshop.

Thank You

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