

DFI Risk Management Seminar

From November 14th, a multi-disciplinary team from the Bank hosted a one-week seminar on risk management for Development Finance Institutions. The seminar was co-facilitated by the DBSA, the IDC and the SADC Development Finance Resource Center (DFRC) under the auspices of the JAI and with sponsorship from the Japanese trust fund.

Impact – The seminar was modeled on a similar event organized by Bank staff in 2003. Although the initial expectation was to accommodate 25-30 participants as in 2003, given strong demand and opportunities for pooling of resources among the organizing institutions, 66 participants¹ from 23 organizations finally attended the seminar². The feedback received from the participants in the post-op evaluation questionnaire was extremely encouraging and suggested that lessons learned from 2003 had resulted in a very high satisfaction rate in 2004. Although the principal objective of the seminar was capacity building for the participating DFIs, the intensive interactions with the participants provided an excellent opportunity to evaluate the risk management practices of the participating institutions. Three key conclusions emerged from the seminar this year.

First, most of the small DFIs are managing their core business risks (credit risk) reasonably well. They have adapted their practices to their operating conditions and they make the best of their local knowledge and local presence. For example, institutions such as the Development Bank of Mauritius have developed sophisticated institutional arrangements for ensuring adequate post-approval follow-up and for escalating rehabilitation efforts as soon as projects begin to experience difficulties. Such measures have helped these institutions control the level of non-performing loans.

Second, despite their relative success in managing core credit risks, the seminar brought out some common patterns with respect to the gaps in the risk management practices of the smaller DFIs. Very few of the smaller DFIs have an integrated risk management framework or an independent risk management function. Very few of the smaller DFIs are systematically rating the risks in their portfolios and none of them have an explicit capital adequacy policy. With respect to market risk, few of the smaller DFIs have developed explicit standards for the amount of risk that they are prepared to assume. Most of these gaps, however, can be addressed relatively easily if tackled in the appropriate manner.

The final broad conclusion from the seminar was that measurable change in the risk management practices of the smaller DFIs can be achieved in a reasonable timeframe if we exploit the experience and resources of the larger DFIs. The strong participation at the seminar is concrete evidence of the strong interest that the smaller DFIs are taking in improving their risk management practices but they lack both the intellectual and financial resources to move forward on their own. Larger DFIs such as the Bank, the DBSA and the IDC have the resources and experience to play an important role in the

¹ All participants except ADB staff and three support personal.

² Although the bulk of the participants represented DFIs from the SADC region, the Bank was able to accommodate requests from the EADB, PTA bank, and ECOWAS.

change management process for these institutions. A number of specific proposals for follow-up actions were discussed during the seminar. A more detail synthesis of the conclusions is contained in the program summary presented during the seminar wrap-up session. For reference I am attaching a copy herewith.

Partnerships – This year’s seminar was organized in association with a number of the Bank’s development partners and commercial associates. The DBSA and the IDC provided significant staff and financial resources to organize and facilitate the program. The seminar provided an excellent opportunity to further develop the close working relationship that the Bank already enjoys with these partners. Furthermore, the program was the inaugural training event for the SADC-DRFC and will provide a springboard for future capacity building activities with this new institution. The program also provided an opportunity to work in tandem with the JAI and the ADI and to identify areas for future collaboration, particularly with respect to DFIs. The director of the JAI indicated that a similar program could logically become a regular part of the JAI core curriculum in the future. A representative of the Japanese trust fund from JBIC opened the seminar and stayed as an observer for part of the program. He was able to confirm JBIC’s interest in capacity building in Africa and the seminar validated JBIC’s view that sound risk management is a prerequisite for DFI sustainability.

In addition to these development partners, the program included participation by Deloitte (the Bank’s external audit firm) and Standard & Poors. The Deloitte team had two key roles: first as observer and expert on best practice among commercial banks³; and second as presenters during the discussions on impairment and provisioning. Standard & Poors sent a representative to present on the merits and modalities of getting an international credit rating⁴. With the exception of the DBSA, IDC and EADB, none of the other DFIs are currently rated.

Program Format – Like the 2003 seminar, this year’s event involved a mix of presentations, roundtable discussions, and case studies. By involving several partner institutions in the event, this year’s program benefited from a more diverse base of presenters and points of view. This enabled Bank staff to focus on facilitating rich and provoking roundtable discussions among the participants, from which a number of very useful ideas emerged. At popular request, this year’s program was expanded to include a series of modules on credit risk that ran in parallel with the asset and liability management program. On the one hand, we were very satisfied with the dual-stream approach because it enabled us to cover a broader range of risk issues, and by dividing the participants into two groups, we were able to keep the classes at a manageable size for the casework. On the other hand, the post evaluation questionnaire showed that many participants were disappointed that they had to choose between the two streams⁵.

³ The Deloitte observers conducted a survey of participants on current risk management practices. The results of the survey will be distributed to the participants and will serve as an objective benchmark for assessing the impact of capacity building exercises.

⁴ Konrad Reuss, managing director of sovereign ratings for S&P. The other rating agencies were also invited to participate.

⁵ This was reflected in responses to the question on the pacing and sequencing of seminar issues.

