No.74

2016.11.28

Interests of African Development Financial Institutions and their Challenges

Akira Nakamura
Deputy General Manager and Principal Economists
Institute for International Monetary Affairs

As part of technical assistance program under Japan's Official Development Aid (ODA), Japan International Cooperation Agency (JICA) provided a training program to the senior officials of development financial institutions in Southern Africa for three weeks from October 20 to November 11 in Tokyo, and our Institute (IIMA) took part in its management following the last year's involvement. 15 senior officials from 11 member countries of the Southern African Development Community (SADC) participated in the program and deepened their understanding in the development finance by drawing on the successful cases in Japan and Asia[1].

A large part of the program was occupied by lectures which mainly included the topics on the role of development finance for the economic development phase in Japan and Asia. During the period, the participants also had a study tour to Nagoya where loan projects from the World Bank were once intensively implemented. They took a Tokaido Shinkansen to visit (i) New Nagoya Thermal Power Plant, (ii) Aichi Canal, (iii) Toyota Automobile Museum and so on (see the attached photo 1 and 2). At each destination, many participants made comments and asked questions on the infrastructure equipment and its financing ways, showing their high interest in the experience of Japanese economic development and finance.

Based on these lectures and sight tours, each participant drew a proposal to the development finance institution to which he himself belongs to solve the issues his institution has, and at the end of the program, the participants discussed their each proposal among them and together with some of the lecturers. The challenges of the financial institutions in the Southern African countries the participants pointed out can be largely divided into two categories. The first is the ones that recently surfaced up by the aggravated economic situation. Many of the countries in

[1] The Southern African Development Community （SADC） consists of 15 member countries that include Angola, Botswana, Congo (People's Republic), Lesotho, Madagascar (suspended by the domestic reason), Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.　Among these countries, 11 development finance institutions except from Madagascar, Mauritius, Seychelles and Zambia participated in the program.

the Southern Africa depend on the natural resources like energy and minerals, and the recent fall of resource prices has distinctively aggravated the economy of many of them. The development finance institutions in the SADC members have been under pressure to deal with the deteriorating profits of the borrowers and loan projects due to the stagnant economic activities.

The second category relates to the inherent challenges each financial institution has long on the table. Among the issues pointed out, those common to several of the institutions included , in the order of frequency, (1) insufficient capital base, (2) lack of experts, (3) intervention by the government, (4) lack of knowledge and skill, (5) underdeveloped capital market. On these issues, many participants made suggestions to allocate the budget to (1) improvement of database, (2) system development, (3) introduction of education programs, while appropriately having the cooperation from overseas development finance institutions and aid institutions. It would not be easy to overcome these challenges in a short term, but it is highly hoped that building on the lessons they learned at this training program, each participant would make every effort to improve the management ability of his own institution.

Photo 1

Photo 2

Taken by the IIMA on November 2, 2016