

KfW's Approach to Development Finance in Sub-Saharan Africa

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KfW Guidelines for Financial Sector Interventions



Objective

- Sustainable development of efficient, inter-linked financial systems and viable institutions (***Systemic Approach***)

Development Principles

- ***Sustainability***: Intended improvements in the financial sector remain in effect after completion of intervention
- ***Subsidiarity***: intervention only, where markets/private-sector institutions fail to provide appropriate funding facilities
- ***Integration*** of intervention into overall development strategy of a country
- ***Complementarity*** with other development partners

KfW Interventions



Consequence for Intervention Design (Institutional Level)

- Promotion of sustainable institutions adhering to professional (banking) practices
- No mere channeling of funds

Product Clusters

- *Institution Building*
 - Active intervention in building up sustainable institutions
 - Focus: Micro-/SME Finance
- *Refinancing Facilities*
 - Refinancing of specific product portfolios

Institution Building (Microfinance) I



Upgrading

- Transformation of NGOs into Microfinance Banks
- Examples: UMU Uganda, Socremo Mozambique, NAMIB Namibia

Downscaling

- Cooperation with existing commercial banks
- Example: Rwanda

Greenfielding

- Foundation of new specialized Microfinance Banks
- Example: MIFSSA-Initiative; Foundation of new Banks in 5 Countries (Ghana, DRC, Sierra Leone, Senegal, Rwanda)

Linking

- Linking of NBFIs to formal financial sector
- Example: Caisses Rurales, Mali

Institution Building (Microfinance) II



Broad Range of Instruments

- Direct Equity Participation;
- Participation in Investment Funds
- Credit Refinancing
- Technical Assistance

Guiding Principles/Objectives

- Establishing sustainable Institutions that contribute to structural deepening of financial sector
- Private Sector Governance
- Product Diversification: mobilization of local resources via introduction of savings products, flexible credit products, other financial services
- Transitory Assistance: implication of local and/or private partners at later stage
- Mobilization of private capital via fund structures

Refinancing Facilities (I)

Guarantee Facilities

- Mobilization of local (currency) funds for refinancing of financial intermediaries
- Example: Ethiopia

APEX-Structures

- Long-term wholesale refinancing of financial institutions
- Matching with local funds
- Examples: DFCU Uganda

Provision of Credit Lines for Specific Financial Products

- Objective: Broadening the provision of financial products
- Transitory Assistance until product well established and refinanced from other (local) sources
- Examples: Leasing (Uganda), Housing Finance (South Africa), Municipal Infrastructure Finance (South Africa)

Refinancing Facilities (II)

Partner Institutions

- Commercial Banks, Microfinance Institutions, Development Banks
- Institutions have to adhere to professional (banking) practices

Guiding Principles/Objectives

- Institutions will be able to offer refinancing services even after expiry of KfW refinancing line

Concluding Remarks



Market Failures still exist

- Crowding out of private credit demand by public deficit spending
- Informational assymetries

Role of Donors

- Promote/Cooperate with efficient, professional and sustainable financial institutions
- Continuous extension of the financial frontier (innovative banking technologies, improved framework conditions for economic actors)

Not

- Enticing financial sector institutions to finance projects that lie (at least at present) beyond the financial frontier
- Extending mandate of (public) Development Banks beyond the compensation of market failures