AADFI@50

Reflecting on the past,
the present, and perspectives
into the future.

ASSOCIATION OF AFRICAN DEVELOPMENT FINANCE INSTITUTIONS

EXECUTIVE SUMMARY

The Study Objectives and Chapter Contents

The Association of African Development Finance Institutions (AADFI), apex membership organization for Development Finance Institutions (DFIs) in Africa, celebrates its golden jubilee in 2025. As part of the activities to mark this milestone, AADFI commissioned this study with the theme "AADFI @ 50: Reflecting on the Past, the Present, and Perspectives into the Future". The study reviews and compiles some key policy issues and research findings concerning the DFIs (or development banks) over the past 50 years and perspectives for the future to keep them relevant, as well as the role of AADFI since its establishment. In this regard, the study does not intendto break new research ground but aims to:

i. Review the definitions of the DFIs, trace the history of their establishments in Africa, especially in the post-independence era, and scan their current landscape on the continent.

ii. Identify the rationale or justification for DFIs'establishment in the newly independent African countries.

iii. Examine the causes of the challenges faced by the DFIs in the 1980s, a few decades into their establishment.

iv. Summarize the debates that surrounded their existence and the development of a framework for their reform and restructuring.

v. Assess the current state of the DFIs and how the reforms have contributed to enhancing their sustainability and development impact.

vi. Highlight the role that the Association of African Development Finance Institutionsplayed in increasing the effectiveness and impact of the member DFIs.

vii. Consider the future of DFIs in Africa,given the emerging challenges and opportunities in development financing.

viii. Present the focus of AADFI's work in supporting African DFIs going into the future.

The objectives also defined the study's contents in its seven chapters.

The Key Takeaways from the Chapters

The policy and academic literature have no standard definition of Public Development Banks (PDBs) or DFIs. In a recent survey of National Development Banks (NDBs) conducted by the World Bank(2018), an NDB is defined as a government-controlled financial institution mandated to reach socioeconomic goals in a region, sector, or market segment. Other definitions have focused on the type of financing provided by the public development banks. NDBs are identified as instruments of government intervention in the financial system, with the main aim of addressing market failures by providing medium and long-term (MLT) finance and non-financial assistance (advisory services) to beneficiaries of development projects.However,more generic definitions focus on the type and purpose of financing, irrespective of the ownership structure. The Reference Book on Public Development Banks published by Finance in Common (FiCS, 2024) identified five criteria to be met for an institution to qualify as a public development bank: (i) A stand-alone entity with a separate legal status, dedicated staff and financial statements, and a long-term mission; (ii) Fund-reflow-seeking financial instruments as the main products and services; (iii) Funding sources should go beyond periodic budgetary transfers; (iv) Proactive public policy-oriented mandate; and (v) Government steering of corporate strategies. The generic definitions enable the inclusion of not only national development banks (or national DFIs) but also bilateral development agencies (e.g.,*AgenceFrançaise de Développement*), multilateral and regional development banks. They also enable the inclusion of new wholesale banks like the Development Bank of Nigeria (DBN) and the Development Bank Ghana (DBG). Applying the above criteria, FiCS identified 527 public development banks (PDBs)or development finance institutions (DFIs) worldwide, which include 47 multilateral development banks (MDBs) and more than 480 national and subnational institutions with diverse ownership, mandate, geographic focus, and asset size. Except for a few institutions established in the first decade of the 20th century, development finance institutions emerged in Africa in the wake of the Second World War and were sponsored by four different actors, namely British and French colonial governments, overseas commercial banks, governments in early post-Independence Africa, and the World Bank Group.

For three decades, roughly from the 1950s to the 1970s, the National Development Finance Institutions (NDFIs) in post-independence African countries were considered a panacea. During that period, almost half of the NDFIs were established. However, by the 1980s, most of the development banks in African countries had serious challenges: most of them disbursed funds that were not repaid, generated losses that were a drain on public resources, and missed their target group and their purpose. The key challenges or factors fall into three categories, namely:

i. the operating environment:the state of financial market development and macroeconomic developments, the adverse external shock of the 1980s, and the subsequent adoption of structural adjustment policies;

ii. the institutional structure: unclear and often flexible mandates and scope of activities that did not always match available skills in management, finance, and operations, and poor or inappropriate regulation and supervision; and

iii. the institutional conduct (governance, financial management, and operations). Typically, there was no clear separation between government ownership and government management of the DFIs. Consequently, they became highly exposed to pressures from the government and politically connected individuals, which resulted in the compromise of good corporate governance and sound financial and operational management.

Even before the challenges faced by the NDFIs reached unsustainable levels, the African Development Bank (AfDB) and some Sub-Regional Development Banks (SRDBs) also faced challenges that almost collapsed the banks. The challenges faced by these MDBs were also explained by adverse operating environments, institutional structure, regulation and supervision, and poor institutional conduct. The MDBs and most NDFIs are now strong and doing well, thanks to subsequent reforms and restructuring.

In the 1990s and early 2000s, a series of forums and research looked at the problem of DFIs and debated whether to ignore them, close them, or reform them. The key drivers of the discussions were the MDBs, the AfDB, AADFI and researchers at various universities. In particular, the AfDB played a pivotal role in championing efforts to strengthen the sustainability of the national DFIs. At the request of AADFI, the AfDB conducted a diagnostic study on the problems of the NDFIs and how to strengthen them. The outcome of the study and engagements with stakeholders was the need to reform and restructure the DFIs. Within this context, the AfDB committed to continuing to support the strengthening of African DFIs through its operations and other activities, including the application of appropriate legal, regulatory, and prudential standards by the DFIs; rationalization of state ownership and control in the banking system; encouraging the revitalization and management reforms of public-owned development finance institutions; developing appropriate financial instruments and infrastructure to channel financing into private sector development; strengthening cooperation activities among the DFIs, including continued support to AADFI; providing appropriate funding to improve the sustainability of the DFI; and sensitizing other donors and national authorities to play appropriate roles in supporting the DFIs. Significantly, the AfDB, in collaboration with AADFI and funding support from the World Bank through the First Initiative, developed the AADFI Prudential Standards, Guidelines, and Rating System (PSGRS) as benchmarks for assessing good corporate governance in African DFIs.According to three different assessments conducted by AADFI, after close to two decades (2008 to date) of reforms, restructuring, and implementation of the PSGRS, the performance of the DFIs has improved, and they have become more sustainable.

Evidently, over the past 50 years, AADFI hasconsistently supportedthe member DFIs through its advocacy, capacity building, research,and information management, contributing to policy management and fostering cooperation among DFIs for sustainable development and integration in Africa.

DFIs in Africa have made progress to be more sustainable and to enhance their role for improved developmental impact due to better governance and other internal reforms. New frameworks for their regulations and donor conditionalities have also served as restraints to excessive government interference. However, there is stillroom for improvement. The DFIs can continue to perform several roles in contributing to Africa's socioeconomic development by financing infrastructure investments, bridging the housing finance gap, fostering financial inclusion and SME financing, promoting structural transformation and innovation, and through countercyclical lending. DFIs also have the opportunity to play a key role in driving the transformation of Africa towards a sustainable, low-carbon, and climate-resilient growth trajectory.

Despite the opportunities, African NDFIs still facechallenges, including the high cost of raising capital, low capital base, weak macro fundamentals, limited project pipeline (or lack of bankable projects), lack of technical capacity, domestic government support, and political interferences.As in the past, governments, in partnership with the DFIs, AADFI, MDBs, and other development partners, have a role to play in ensuring that the DFIs continue to play effective roles in financing sustainable development and a greener future in Africa. Continued collaboration among these stakeholders is important for the sustained progress of the African DFIs.