



DBSA

Development Bank  
of Southern Africa

## Session 2

# Role of regional initiatives in reshaping the architecture of global economic governance

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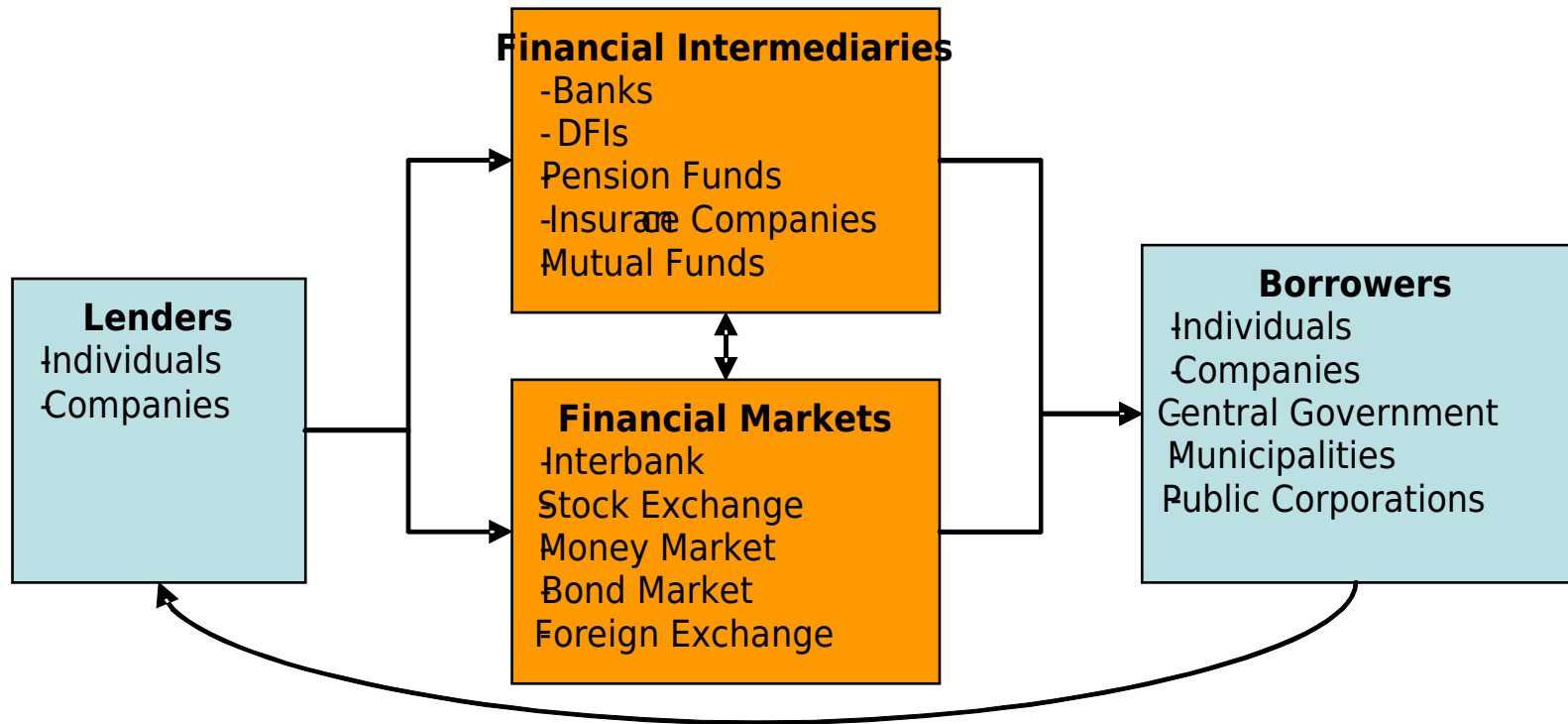
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# Presentation Outline

- The role of finance in global governance
- The problem of Original Sin
- A response: The Currency Exchange Fund

# Functions of finance in economic growth

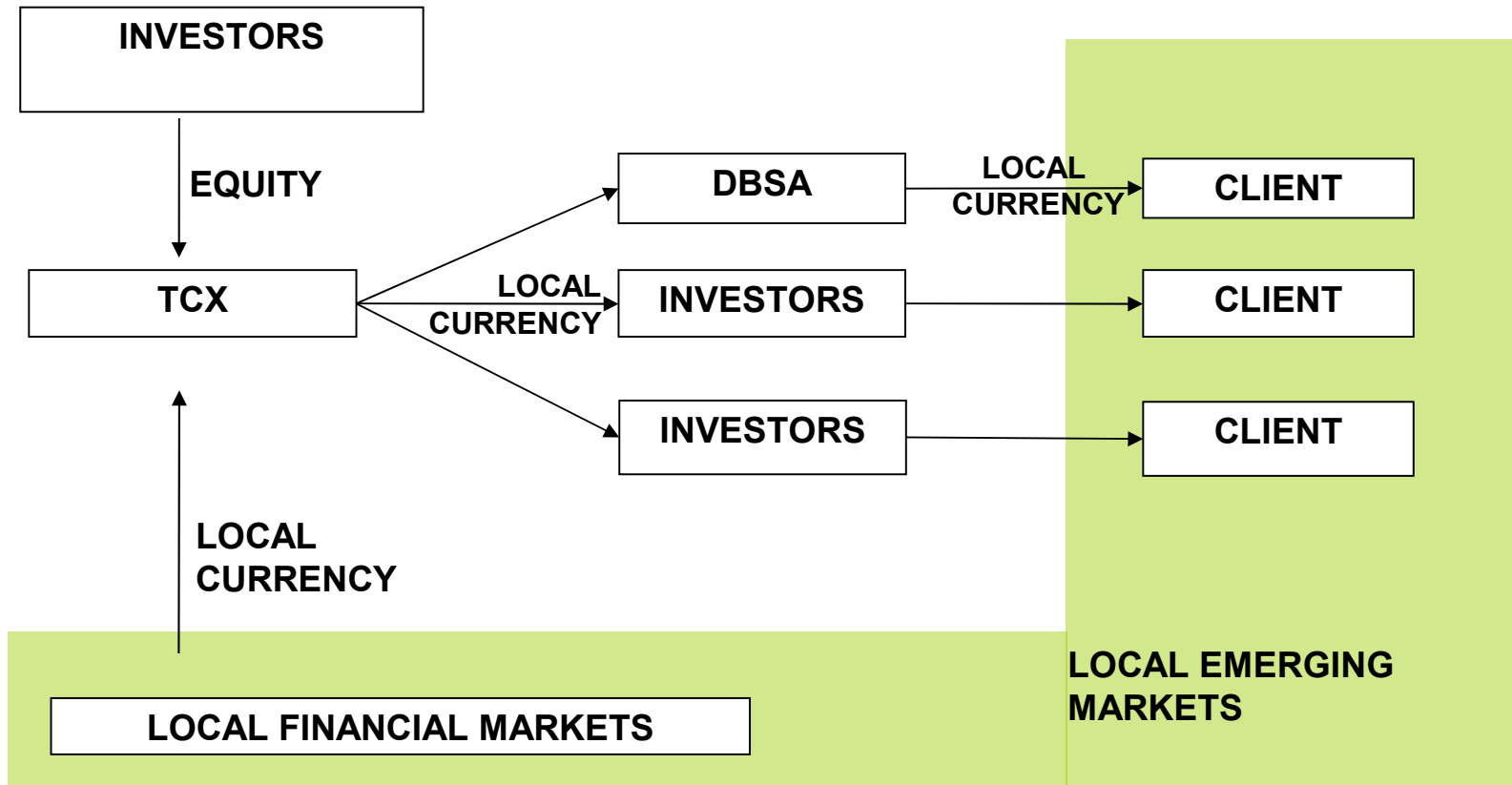


“The Banker, therefore, is not so much primarily a middleman ... He authorizes people in the name of society to innovate.” (Schumpeter, 1929)

# State of global finance

- Current State of finance in emerging countries
  - Generally more stable, liberalized but undeveloped
  - Lack of long-term local currency finance to enterprise
  - Limited access to financial services by households
  - Mismatch between supply and demand: Market failure
- A problem of Original Sin: Local productive sector in emerging markets requires long-term **local** currency funding
  - Local markets only offer short-term funding
  - International DFIs and MLAs only offer USD/EUR funding
- Productive sector thus face choice of
  - Asset/Liability Tenor mismatch
  - Asset/Liability Currency Mismatch
- World Bank and IMF could fund in local currency but don't?
- Bi-Lateral DFIs are funded in US\$ and EUR and thus have mismatch
- How then can we promote a paradigm shift in global finance to local currency?

# The Currency Exchange Fund



# The Currency Exchange Fund

- Unique global partnership of DFIs and Commercial Banks with vision of creating a paradigm shift to **local currency finance** in emerging markets
- Based on the concept of global risk diversification: 75% reduction from individual currency exposure
- TCX acts as a AAA rated swap counterparty to investors, and pools & actively manages currency risk on behalf of investors
- TCX thus removes FX mismatch, reduces credit risk and reduces market risk thereby decreasing overall transaction risk & cost of capital for business
- Project figures
  - Total equity of US\$ 380 million, increase to US\$ 700 million
  - Initial portfolio capacity of US\$ 2 billion
  - Annual deal flow target of US\$ 500 million
  - Single Currency Exposure Limit of US\$ 100 million
- Partners include
  - ABN Amro, African Development Bank, AFD/Proparco, BIO, Cofides, DBSA, DEG/KfW, FMO, EBRD, IADB, IFU, Norfund, Oikocredit
- FMO is sponsor and initiator of TCX and has unique experience in local currency funding

# Conclusion

- Finance is integrally connected with the overall development of the economy and to the business culture of the society.
- Potential impact on global economic governance & growth
  - Developed financial systems key to improved global governance
  - Significant impact on global economic stability
    - Reduced risk of currency crises
    - Cost of capital for business reduced
    - Long-term aid flows for infrastructure denominated in local currency
- Will the MLAs come to the party?



# Contact Details

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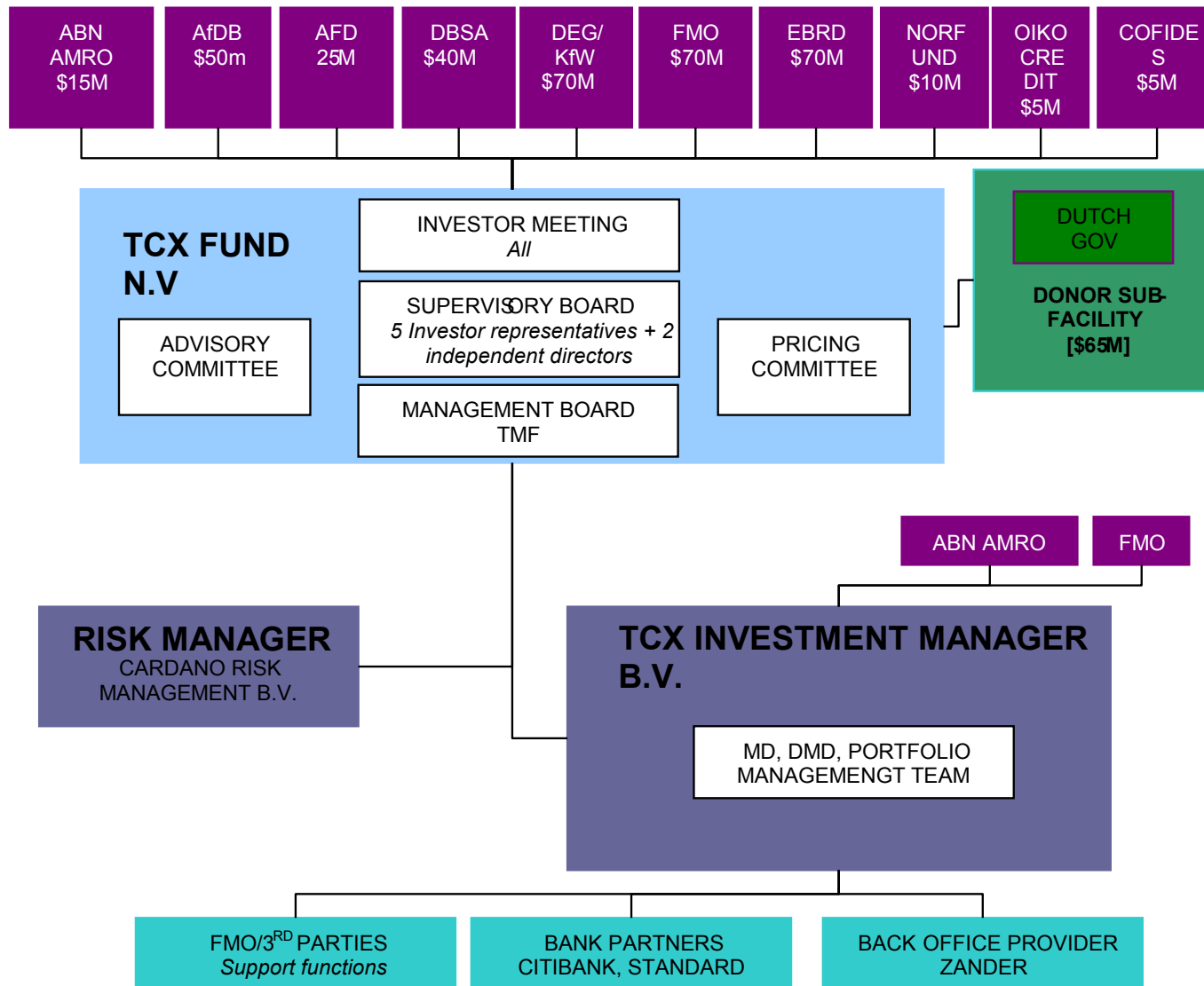
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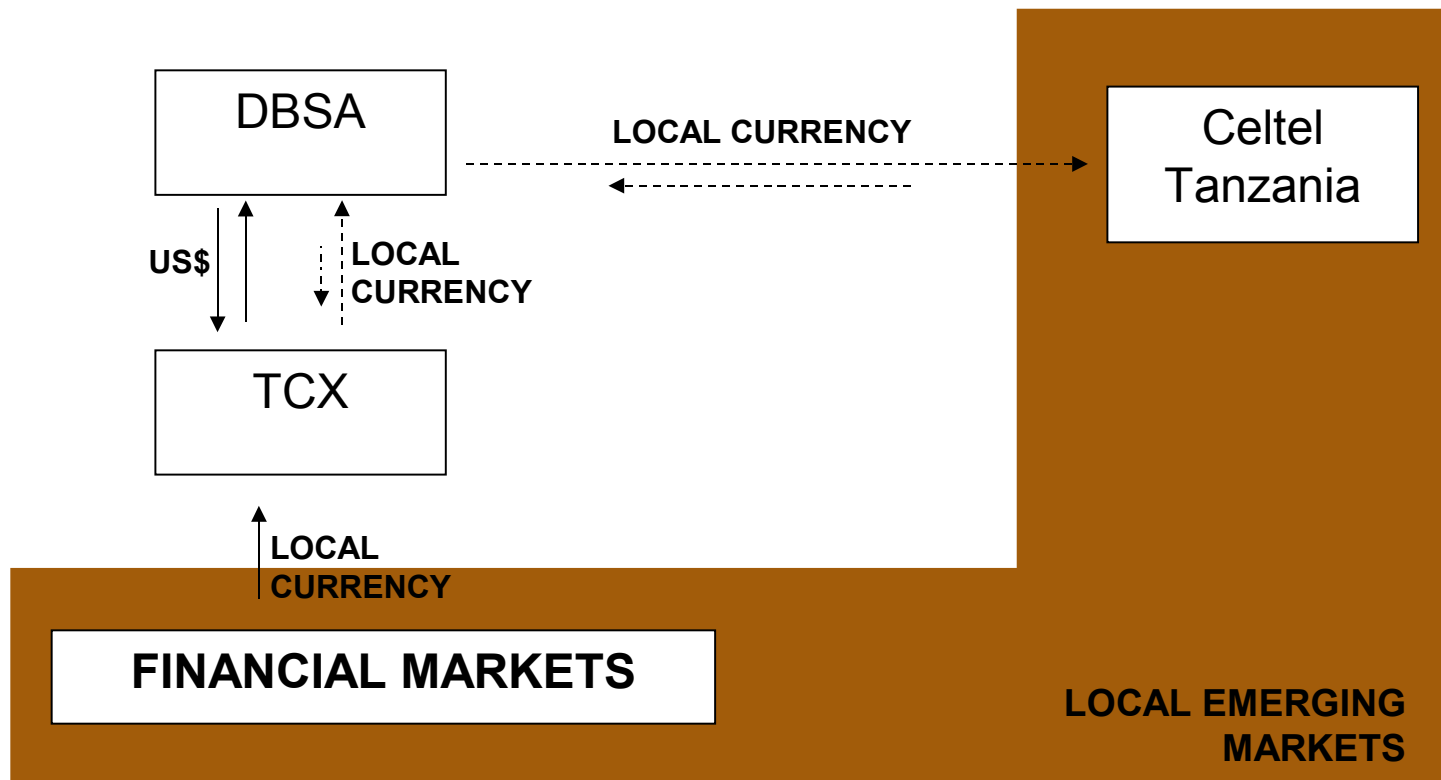
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# The Currency Exchange Fund



# Transaction Example



# DBSA's Vision in the Region

- Given that the region often lacks:
  - Access to long-term finance at affordable rates
  - Efficiently functioning public and private institutions
  - An ability to structure and a capacity to manage public/private sector projects
  - Financiers ready to take sufficient risk
  - Adequate infrastructure and economic development
- Given that DBSA's mandate in the region includes:
  - Provision of long-term finance in a range of currencies
  - Ability to finance public and private projects/institutions
  - Sourcing of non-investment funds (e.g. for TA, Capacity Building, Knowledge Management, Project Preparation, etc.)
  - An appetite to take risk
  - A focus on economic development and infrastructure
- DBSA's ultimate aim should be:
  - To be the Regional Partner of Choice. We will achieve this through the provision of appropriate and well structured financing combined with Knowledge Management products i.e. SMART money

# Emerging Trends in southern Africa

- Increased focus on Regional Integration by our shareholder and SADC countries
- Increased role for regional and African players, increasing coordination between DFIs (DBSA, AfDB, PTA, EADB) and SA commercial banks
- Regional trend towards promoting indigenisation
- Decrease in privatization, move towards PPPs and Management Contracts in infrastructure provision
- Realization of unallocated liquidity hence strong focus on capital markets development
- Increased desire of local currency finance by corporates
- Power shortage and the role of SAPP
- Realization across the region of the importance of efficient & profitable national DFIs to address term funding gap
- Increased economic growth and activity, driven by high oil and commodity prices
- Increased interest and cooperation with BRIC

# DBSA's Regional Strategic Objectives

- Promote greater regional integration and help realize the aims of NEPAD
  - Ultimate Aim:
    - To respond to the political imperative to realize some regional projects
- Finance sustainable public and private sector projects
  - Ultimate Aim:
    - To promote economic development in the region through financing key sectors
- Strengthen the capacity of investee entities and Regional Economic Communities (REC's) with an appropriate combination of finance and Knowledge Products (TA, Capacity Building, Project Preparation assistance, etc.)
  - Ultimate aim:
    - To provide smarter solutions to public and private sector clients using investment and non-investment products
    - To adequately capacitate actual implementers ( policy, regulatory bodies, sponsors, etc)

# DBSA's Regional Strategic Objectives

- Promote broad-based participation of BEE and indigenous group in economic activities
  - Ultimate Aim:
    - Increased number, quality and range of well structured indigenization transactions
    - DBSA recognized as “go-to” institution on empowerment issues (financing and policy)
- Financial Markets Development that will support long term financing ( foreign exchange and local currency), introduce new financial instruments and strengthen local financial institutions
  - Ultimate aim:
    - To help maximize the mobilization of local currency and support productive enterprises DBSA cannot reach directly
- Contribute to financial sustainability of DBSA
  - Ultimate Aim:
    - Make profit for the bank
    - To show the market (private sector) that good returns are achievable in our difficult markets





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