



INFRASTRUCTURE DEVELOPMENT BANK OF ZIMBABWE

Prudential Standards, Guidelines and Rating System

Assessment for the financial year ending 31 December 2019

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29 June 2020

The Head of Risk and Compliance
Infrastructure Development Bank of Zimbabwe
IDBZ House
99 Rotten Row, HARARE
Zimbabwe

Attention: Mr .T. Mabuto

Dear Sir

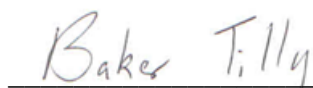
RE: PRUDENTIAL STANDARDS, GUIDELINES AND RATINGS SYSTEM FOR AFRICAN DEVELOPMENT BANKS AND FINANCIAL INSTITUTIONS ("PSGRS")

We have pleasure in providing our report on the Prudential Standards, Guidelines and Rating System ("PSGRS") for the year ended 31 December 2019 for the Infrastructure Development bank of Zimbabwe ("IDBZ") herein referred to as a development financial institution ("DFI"). Our review was conducted in accordance with the self-assessment framework as required by the Association of African Development Finance institutions.

This report and its accompanying findings is intended solely for the information and use relating to IDBZ and is not intended to be used by anyone other than DFI.

We would like to thank you, management and staff for the corporation and assistance rendered during our review.

Yours Sincerely



Baker Tilly Chartered Accountants

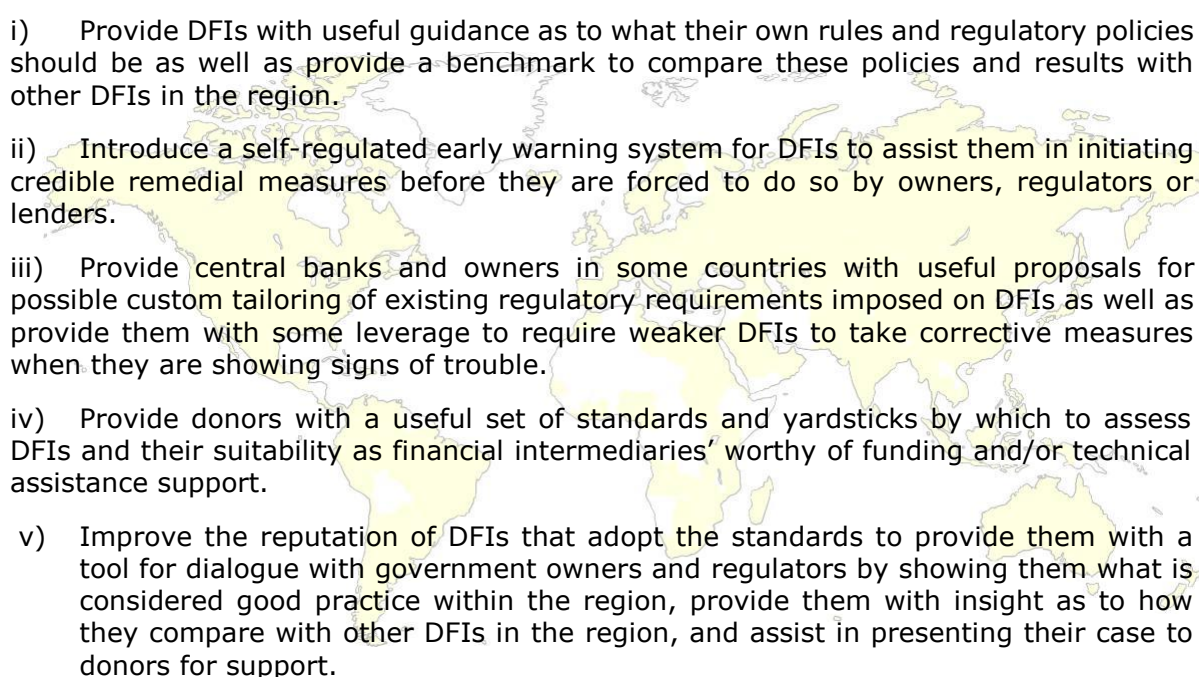
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Executive Summary

The Infrastructure Development Bank of Zimbabwe (“IDBZ”), as a member-institution of the Association of African Development Finance Institutions (“AADFI”), is required to submit annual self-assessments of their institutions with the Prudential Standards, Guidelines and Rating System (“PSGRS”). African leaders in their articulation of the New Partnership for Africa’s Development (“NEPAD”) committed themselves to adhering to international standards in the conduct of policy and management of their institutions in order for the economic and business affairs of their countries and institutions to be conducted in a transparent and predictable way.

The rating system has been designed to meet five principal objectives:

- 
- i) Provide DFIs with useful guidance as to what their own rules and regulatory policies should be as well as provide a benchmark to compare these policies and results with other DFIs in the region.
 - ii) Introduce a self-regulated early warning system for DFIs to assist them in initiating credible remedial measures before they are forced to do so by owners, regulators or lenders.
 - iii) Provide central banks and owners in some countries with useful proposals for possible custom tailoring of existing regulatory requirements imposed on DFIs as well as provide them with some leverage to require weaker DFIs to take corrective measures when they are showing signs of trouble.
 - iv) Provide donors with a useful set of standards and yardsticks by which to assess DFIs and their suitability as financial intermediaries’ worthy of funding and/or technical assistance support.
 - v) Improve the reputation of DFIs that adopt the standards to provide them with a tool for dialogue with government owners and regulators by showing them what is considered good practice within the region, provide them with insight as to how they compare with other DFIs in the region, and assist in presenting their case to donors for support.

The Rating System has 3 categories subject to assessment, as follows: governance guidelines (40% weighting of overall score), financial prudential standards (40% weighting of overall score), and operational guidelines (20% weighting of overall score). The questionnaire is comprised of 100 questions constructed in a compliance rating format where full compliance is rated 2 points, partial compliance or non-applicability is rated 1 point and non-compliance is given no points.

We understand that management is responsible for the preparation and presentation of the rating questionnaire worksheet in accordance with guidelines set out by the AADFI. Our responsibility is to form an opinion on the fairness of the information provided on the questionnaire based on our analysis.

OUR APPROACH

Based on our understanding of your requirements the following approach has been taken in providing the PSGRS certification ratings;

- a. We obtained the recommended excel ratings spreadsheet from the Head Risk Management Unit. We were also provided with the Ratings Questions and Instructions manual which we used as guidance in determining the ratings;
- b. For components of the questionnaire which were covered as part of our audit of financial statements for the year ended 31 December 2019, we rated compliance using the information gathered during the course of the audit;
- c. For the components of the questionnaire which were not covered during the audit, we inquired from the respective process owners to get an appreciation of compliance around identified areas. This was also corroborated through inspection of documentary evidence; and;
- d. We held deliberations with the Head – Risk where IDBZ’s internal ratings were compared to Baker Tilly’s ratings. Any differences in opinions are adequately disclosed in this report.
- e. Our report summarises our assessment of the performance of IDBZ based on the PSGRS questionnaire. Where non- compliance was identified, details of the matters have been provided.

SUMMARY OF RESULTS

The PSGRS questionnaire is made up of 100 questions and was constructed in a compliance rating basis where full compliance is rated 2 points, partial compliance is rated 1 point and non-compliance is rated nil. Non-applicability is given 1 point. As mentioned in our Executive Summary, there are three broad standards subject to standard and sub-standard:

Governance Standards (40%)	Maximum Possible Rating	IDBZ Rating	Baker Tilly Rating	Variance
Sufficient Independence from Government	12	12	12	-
Management Independence and Incentives	12	12	12	-
Operating in Accord with Commercial Principles	8	8	8	-
Accounting and Auditing	18	16	16	-
Management Information Systems and Procedures	12	12	12	-
Other Governance	16	15	15	-
Subtotal: Governance Standards	78	75	75	-
Financial Prudential Standards (40%)				
Capital Adequacy	6	5	5	-
Profitability and Efficiency	10	4	4	-
Asset Quality	12	10	10	-
Asset Diversity and Safety	14	14	14	-
Liquidity	12	12	12	-
Funding	6	5	5	-
Subtotal: Financial Prudential Standards	60	50	50	-
Operational Standards (20%)				
Risk Management Practices	10	10	10	-
Lending Policies	16	16	16	-
Loan Appraisal Policy and Procedures	18	15	15	-
Supervision and Collection Policies	14	14	14	-
Local Currency resource Mobilization	2	2	2	-
Measurement of development Impact	2	2	2	-
Subtotal: Operational Standards	62	59	59	-
Total Score	200	184	184	-

Assessment namely Governance Standards (40% weighting), Financial Prudential Standards (40% weighting) and Operational Standards (20% weighting). The broad standards above have sub-classes which are presented below.

SUMMARY OF RESULTS (cont'd)

The table below summarises the comparison of the weighted ratings given by IDBZ and Baker Tilly:

	Maximum Possible Weight	IDBZ Rating	Baker Tilly Rating	Variance
Governance Standards	40%	38.46%	38.46%	-
Financial Prudential Standards	40%	33.33%	33.33%	-
Operational Standards	20%	19.03%	19.03%	-
Overall rating	100%	90.82%	90.82%	-

Governance standards

- The Governance Standards may be negatively affected as IDBZ is a Government owned institution. There is a risk that IDBZ decisions may be influenced by the Government through the Ministry of Finance.

Financial Prudential Standards

The financial prudential standards ratings were negatively affected by the following:

- The DFI is exposed to concentrated exposures in the energy sector.

Operational Standards

The operational ratings were negatively affected by the following:

- The DFI does not utilize co-financing mechanisms or co-lending mechanisms.

DETAILED SCHEDULE OF RESULTS

Compliance ratings for each section were converted into quantitative ratings using the following scores:

- Full compliance = 2
- Partial compliance = 1
- Non-compliance = 0

In cases where a question was not applicable it scored as "partial" i.e. a "1." The above listed scoring criterion is in accordance with the guidelines issued by the Association of African Development Finance Institutions (AADFI).

The rating questions listed below were taken 'as is' from the Ratings Questions and Instructions Manual issued by the AADFI. We have indicated and commented on instances where we had differences in opinion with the ratings given by IDBZ's management.

[PART I]: Governance Standards

[A] Sufficient independence from government

1. Government officials should play a minor role on Boards of Directors and should not be Chairman.
2. All Board members except Government ex-officio members should meet professional and technical eligibility requirements.
3. No direct Government approvals should be required except for those normally made at a Shareholders Meeting.
4. The DFI should operate under its own Act, Companies Act and/or Banking Act.
5. The DFI should have at least 10% private or international ownership and that ownership is represented on the Board of Directors.
6. The DFI should be externally supervised or overseen by any entity other than a Government Ministry.

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

DETAILED SCHEDULE OF RESULTS (cont'd)

[B] Management independence and incentives

7. The CEO should be chosen by the Board or the Shareholders based on strong professional and technical background
8. The Board of Directors or the shareholders meeting should be the only entities that have the right to fire the CEO
9. Boards of Directors and key committees of the Board should meet quarterly or monthly
10. The Chairman and a majority of the members of the Board should not have executive responsibilities
11. The CEO and key managers should have performance based contracts
12. The Board and CEO should have the power to make important changes in strategy, product mix and closing branches

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[C] Operating in accord with reasonable commercial principles

13. Salaries of all higher level staff should be at roughly the same levels paid by private financial institutions
14. Salary increases, promotions and conditions of service should be based primarily on merit and performance
15. Individual senior line managers should have specific performance targets and salary and performance review should be tied to performance against these targets
16. The DFI should have satisfactory procurement policies which enables it to conduct procurement largely in accord with normal commercial practice

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

DETAILED SCHEDULE OF RESULTS (cont'd)

[D] Accounting and Auditing

17. Accounts should be kept in accord with international accounting standards and principles and audited accounts should not be qualified
18. Internal balance sheets, income statements and loan status reports should be prepared at least monthly
19. Loans should be classified and provisioned in accord with international standards or local central bank requirements
20. Interest should be accrued and not taken into income in accord with international standards or local central bank requirements
21. Audited accounts should disclose amount of gross loans and basis for their classification and uncollected interest income. Interest should not be capitalized except in cases of formal rescheduling
22. Accounts should be audited by international auditing firms or by one of the best private domestic auditing firms
23. Audited accounts should be available within 4 months of the end of each fiscal year and should be unqualified and published
24. There should be an internal audit department and it should report directly to the Board of Directors
25. Detailed accounting records should be kept of all off-balance sheet commitments and these commitments should be disclosed in the financial statements

Comment

Below is a motivation for our partial (1) ratings and non-compliance (0) ratings for the ratings criteria above.

No.	Comment
17	IDBZ was issued with qualified opinion due to non-compliance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates".

DETAILED SCHEDULE OF RESULTS (cont'd)

[E] Management Information Systems and Procedures

26. Detailed annual budgets should be approved by the Board of Directors before the beginning of each fiscal year and should be reviewed and, if necessary, revised at least semi-annually
27. Financial performance should be reported against budget at the management level on a monthly basis
28. There should be a cost accounting system that regularly reports profit and loss of all significant programs and products
29. Cost accounting should be used to measure losses on commercially nonviable socio-economic oriented programs undertaken at Government request
30. Government should set up a managed fund or budget for, and reimburse DFIs for losses on commercially nonviable socio-economic oriented programs undertaken at Government request
31. Loan status reports should be available monthly which provide detailed analysis of performing and nonperforming loans and aging data

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[F] Corporate Citizen Governance Standards

32. A DFI should have written performance agreement with owner
33. A DFI should have a clear written strategy as to how it intends to implement its mandate and performance agreement
34. There should be written job descriptions and lists of responsibilities for Board members and the corporate secretary
35. There should be clear policies with respect to ethics, corruption, and "knowing your customer"
36. There should be satisfactory policies for dealing with conflicts of interest and insider lending which are complied with
37. DFIs should adhere to internationally recognized guidelines (e.g., nationally required guidelines) relating to environmental impact
38. DFIs should have satisfactory written policies on anti-money laundering and comply with those policies
39. DFIs should have corporate social responsibility policies and comply with those policies

Comment

Below is a motivation for our partial (1) ratings for the ratings criteria above.

DETAILED SCHEDULE OF RESULTS (cont'd)

No.	Comment
39	IDBZ did not fully comply with its policy on Corporate Social Responsibility due to budget constraints

[Part ii]: Financial Prudential Standards

[A] Capital Adequacy

40. DFIs should have or exceed capital adequacy levels of at least 15% of risk weighted assets as defined by Basel.
41. DFIs should have long term debt to equity ratios of less than 4 to 1.
42. DFIs should ensure their capital (net worth) is adequately measured by having unqualified audited statements available less than 6 months after the fiscal year-end.

Comment

Below is a motivation for our partial (1) ratings and non-compliance (0) ratings for the ratings criteria above.

No.	Comment
42	IDBZ Financial statements had a qualified opinion.

[B] Profitability and Efficiency

43. Administrative expense should not exceed 4% of average assets.
44. Minimum profit after tax should exceed 1% of average assets.
45. Retained net profit should be at least equal to 15% of the increase in risk weighted assets during each year to maintain capital adequacy
46. DFIs should attempt to diversify into new products or businesses beyond long-term financing such that they represent at least 15% of gross revenue
47. Interest margin (defined to include dividend income) should exceed 4% of average assets.

Comment

Below is a motivation for our partial (1) ratings and non-compliance (0) ratings for the ratings criteria above.

No.	Comment
43	Administrative expenses are 11.54% of Average assets.
44	The DFI made a loss during the period under review.
45	The DFI made a loss during the period under review, they did not retain any profits.

DETAILED SCHEDULE OF RESULTS (cont'd)

[C] Asset Quality

- 48. Loans should be classified and uncollectible loans written off in accord with international standards or central bank requirements
- 49. Non-performing loans should not exceed 25% of the gross loan portfolio
- 50. Bad debt provisions should be calculated in accord with international standards or central bank requirements
- 51. Bad debt provisions should normally be not less than 40% of non-performing loans
- 52. Equity investments should be valued in accord with international norms, i.e., at the lower of cost or fair market value or IFRS
- 53. Minimum average dividend return on net equity investments should exceed 3% per annum

Comment

Below is a motivation for our partial (1) ratings and non-compliance (0) ratings for the ratings criteria above.

No.	Comment
53	No Dividend was paid in the prior year.

DETAILED SCHEDULE OF RESULTS (cont'd)

[D] Asset Diversity and Safety

54. DFIs should have an Asset Liability (ALM) committee that meets at least monthly and have a policy of minimizing risk on management of liquid assets
55. DFIs should not have maximum single financial exposures that exceed 25% of net worth
56. Not more than 40% of total assets should be denominated in foreign exchange
57. Net foreign exchange asset positions should not exceed 20% of net worth and should comply with central bank requirements
58. Sectoral net loan and equity investment positions (sub-sectoral in the case of specialized DFIs) should not exceed 30% of total investment in loans and equity
59. Value of all equity investments should not exceed 50% of net worth
60. No equity ownership positions in any entity that is not a financial institution subsidiary should exceed a 35% ownership share

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[E] Liquidity

61. Projected liquid resources over the next 3 and 12 months should exceed cash outflow projections by at least 10%
62. DFIs should be in compliance with all central bank liquidity requirements to which they are subject
63. DFIs should have a projected debt service ratio over the next 12 months of at least 1.3 times
64. DFI should have adequate liquid resources to meet all projected cash requirements over the next 90 days
65. There should be a definite plan for dealing with any significant excesses of liabilities over assets in at least 6 liquidity time buckets
66. DFIs should have a cumulative projected net liquid asset position over the next 12 months and the next 2 years

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

DETAILED SCHEDULE OF RESULTS (cont'd)

[F] Funding

- 67. DFIs should have uncommitted long-term resources that exceed budgeted commitments over the next 12 months by at least 50%
- 68. DFIs should have a dependable source of both long term foreign and long-term domestic funding resources
- 69. Local borrowed resources (including deposits) should exceed 25% of total liabilities and at least 40% should have maturities of more than 6 months

Comment

Below is a motivation for our partial (1) rating and non-compliance (0) ratings for the ratings criteria above

No.	Comment
68	The Bank has long term domestic funding only

DETAILED SCHEDULE OF RESULTS (cont'd)

[Part iii]: Operational Standards

[A] Risk Management Policies

70. DFIs should charge a market rate of interest on essentially all lending and should charge higher interest rates on higher risk loans
71. DFIs should always avoid interest rate risk by matching variable rate lending with variable interest rate borrowing and fixed rate lending with fixed rate borrowing
72. The majority of new lending and at least 25% of the total loan portfolio should be lent on a variable interest rate basis
73. Foreign exchange risk should be minimized by limiting net foreign exchange assets to less than 5% of total assets and avoiding net foreign exchange liabilities
74. Foreign exchange-denominated lending should either be exchange risk insured or in foreign exchange with exchange risk passed on only to borrowers who are exporters or de facto exporters who can hedge that risk

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[B] Lending Policies

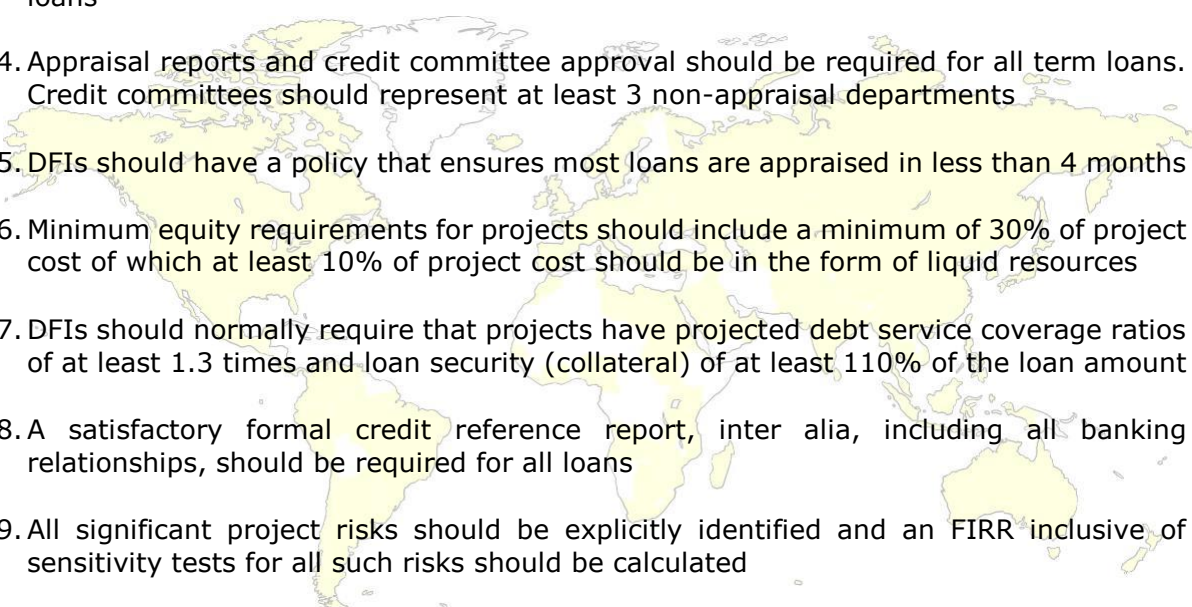
75. Most new loans should be custom tailored to seasonal cash flow of borrowers or repayable on a quarterly or monthly basis
76. At least 50% of lending during the last year should be for expansion projects or green field projects sponsored by repeat borrowers
77. DFIs should be reducing overall average maturity of lending by making at least 20% of new lending during the last year for terms of not more than two years
78. DFIs should utilize co financing with commercial banks on a regular basis and do some co-loan administration
79. DFIs should utilize credit risk guarantee alternatives where available to reduce their own risk or catalyse term lending by others
80. DFIs should reschedule Greenfield project loans routinely at end of grace period if there are small cost or time overruns
81. Records and projections of at least two years should be maintained for uncommitted approvals, undisbursed commitments, uncommitted long term funding sources and project pipeline
82. DFIs should have specific policies and procedures for reducing potential undermining of portfolio quality caused by trying to meet lending volume targets

DETAILED SCHEDULE OF RESULTS (cont'd)

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[C] Loan Appraisal and Disbursement Policies and Procedures

- 
83. Appraisal officers should be organized on a sectorial basis, be responsible for supervising projects they appraise, and receive feedback on the performance of their loans
 84. Appraisal reports and credit committee approval should be required for all term loans. Credit committees should represent at least 3 non-appraisal departments
 85. DFIs should have a policy that ensures most loans are appraised in less than 4 months
 86. Minimum equity requirements for projects should include a minimum of 30% of project cost of which at least 10% of project cost should be in the form of liquid resources
 87. DFIs should normally require that projects have projected debt service coverage ratios of at least 1.3 times and loan security (collateral) of at least 110% of the loan amount
 88. A satisfactory formal credit reference report, inter alia, including all banking relationships, should be required for all loans
 89. All significant project risks should be explicitly identified and an FIRR inclusive of sensitivity tests for all such risks should be calculated
 90. An ERR, jobs created, and resource leveraging (amount of debt supplied by other lenders) should be calculated for all projects
 91. DFIs should ensure that all disbursements are handled by work units and staff who do not appraise or supervise loans

Comment

Below is a motivation for our partial (1) ratings and non-compliance (0) ratings for the ratings criteria above.

No.	Comment
90	IDBZ has not met all the indicators to ensure full compliance.

DETAILED SCHEDULE OF RESULTS (cont'd)

[D] Supervision and Collection Policies

92. Detailed supervision reports should be prepared at least quarterly for all projects under implementation or in their first year of operation
93. New amounts coming due and collections should be recorded at least monthly and individual responsibility for collection should be assigned for all loans
94. Written procedures should be adhered to for action to be taken when a loan first falls 30 days and 90 days overdue
95. Supervision reports should be prepared semi-annually and projects visited at least annually for all borrowers who are in default for over 60 days
96. DFI should adhere to written loan rescheduling procedures in accord with international practice or central bank requirements
97. There should be an adequately staffed workout unit for problem loans and written policies and procedures for resolving and reporting on these loans
98. Specific written criteria should be established for determining when legal action should be taken against defaulters which are followed in at least 75% of the cases

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[E] Local currency resource mobilisation

99. DFIs should collect long term local currency resources with a tenor of more than one year equal to at least 10% of the net value of its loan portfolio

Comment

There was no variation between IDBZ's ratings and those on the PSGRS Assessment, therefore the DFI was in Full Compliance.

[F] Measurement of development impact

100. DFIs should not only monitor disbursements for, and implementation of its operations (activities) but also the development impact of its operations, at least, at output levels.

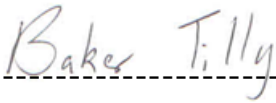
Comment

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Statement of Responsibility

This Report has been prepared for the Infrastructure Development Bank of Zimbabwe ("IDBZ") as a member -institution of the Association of African Development Finance Institutions ("AADFI"), as required to submit this annual self-assessment using the Prudential Guidelines and Rating System ("PSGRS"). We therefore accept responsibility for this use alone. We accept no duty, responsibility or liability to any other parties, since this report has been prepared and not intended, for any other purpose. It is not to be used for any other purpose or to be distributed to any other parties without our prior written consent.

Yours Sincerely



Phibion Gwatidzo

For and on behalf of Baker Tilly

Chartered Accountants [Zimbabwe]

Appendix

Figure 1.1

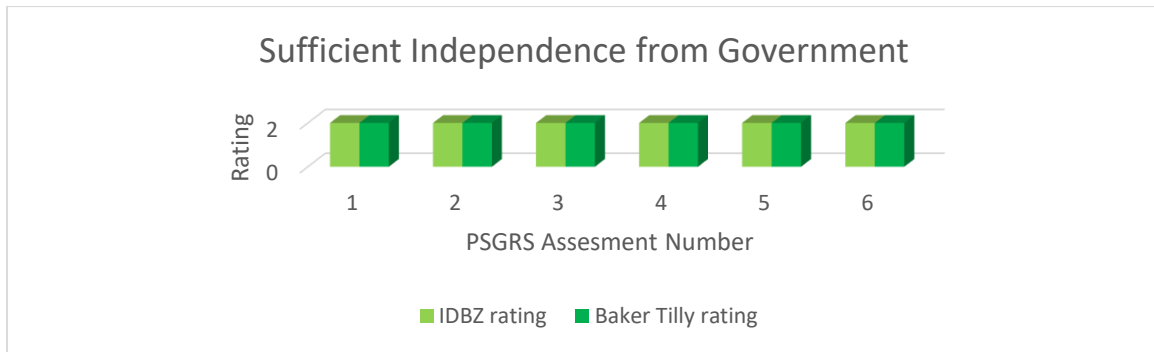


Figure 1.2

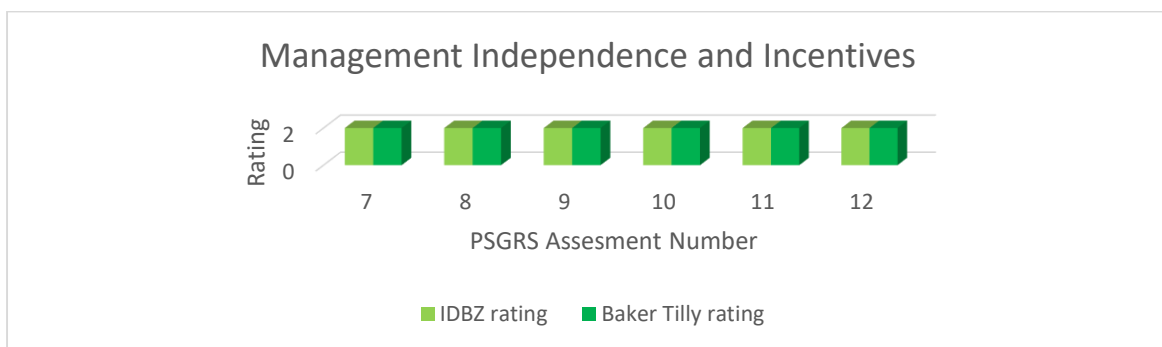


Figure 1.3

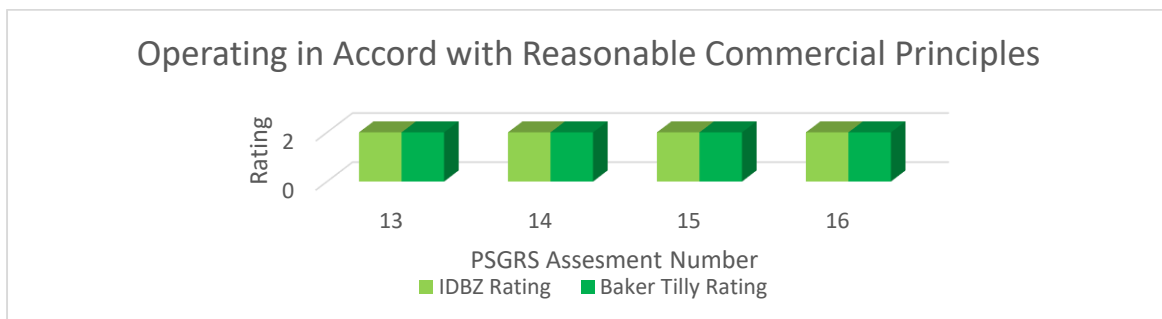


Figure 1.4

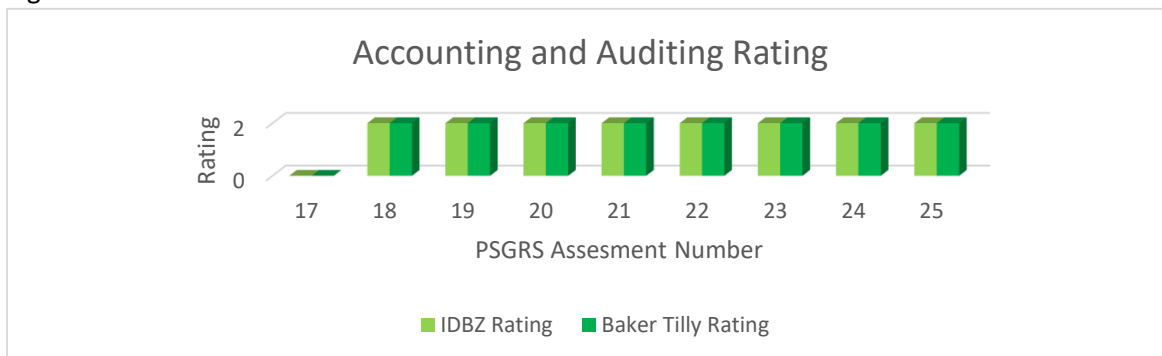


Figure 1.5

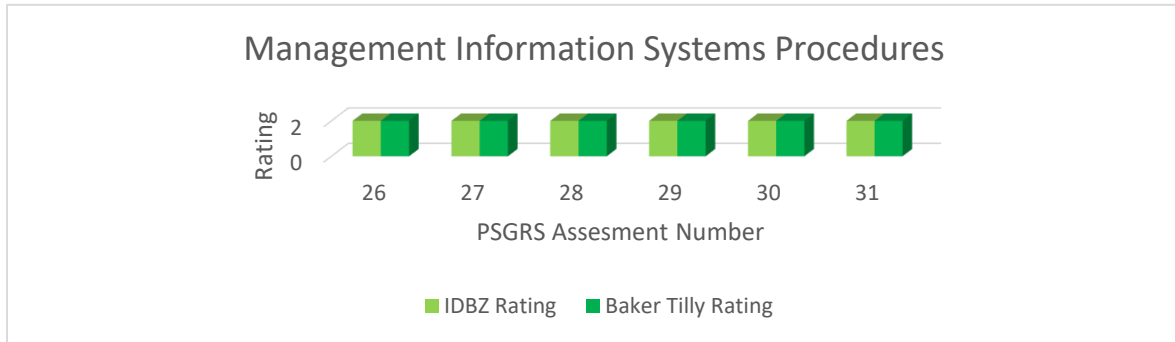


Figure 1.6

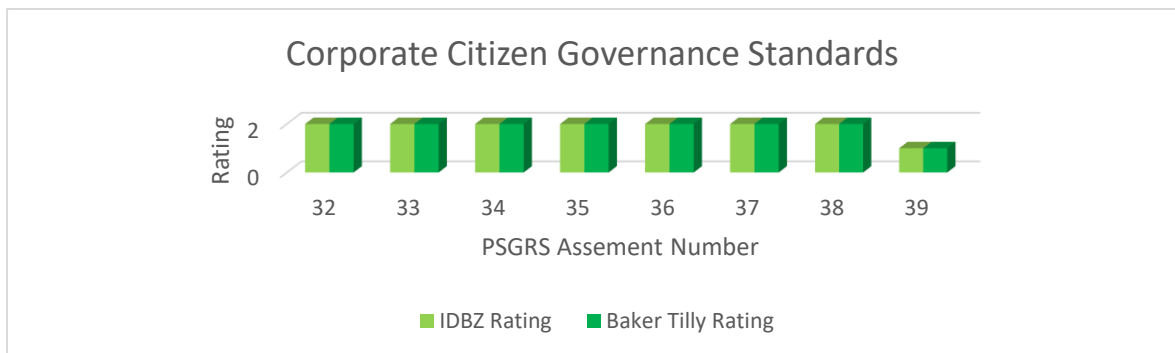


Figure 1.7

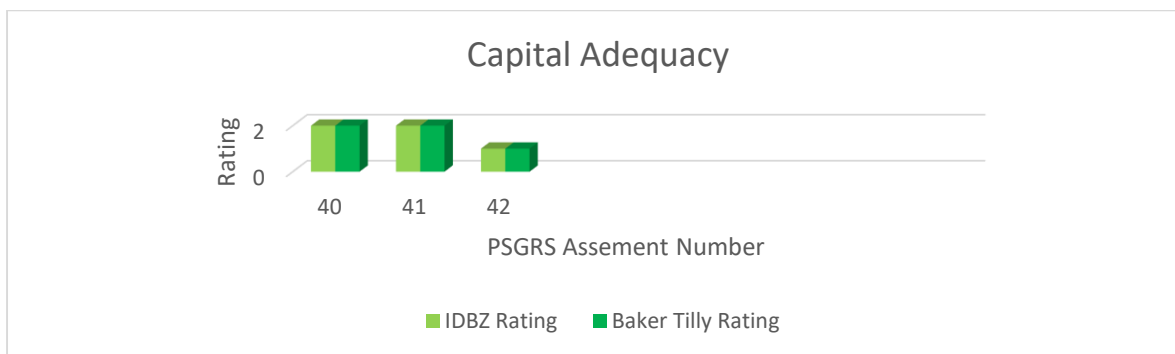


Figure 1.8

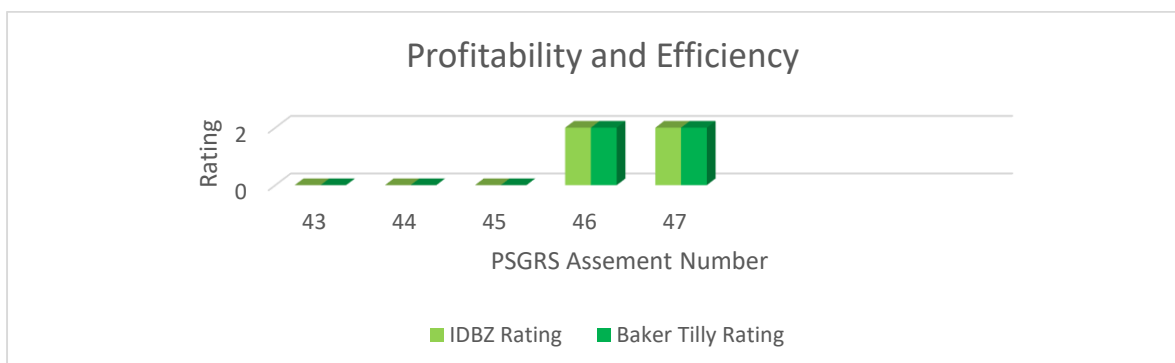


Figure 1.9

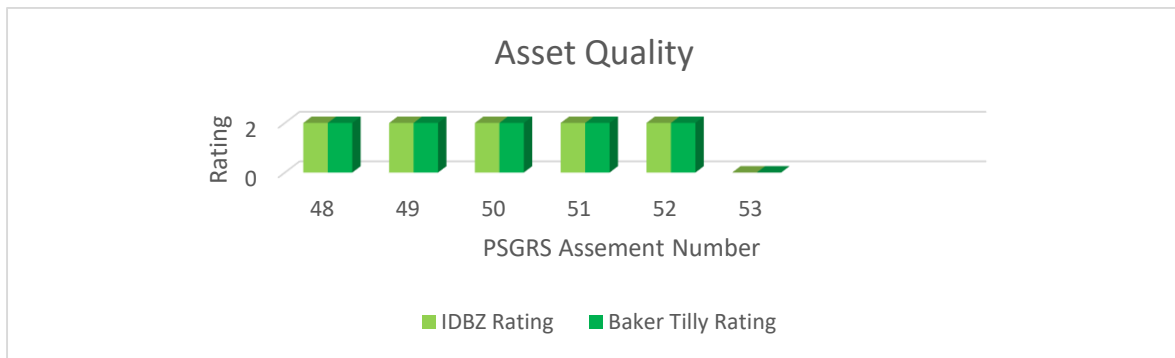


Figure 1.10

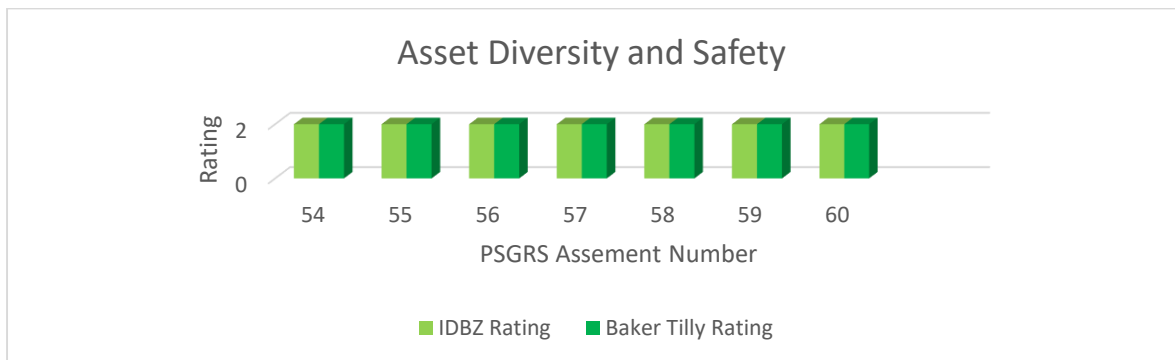


Figure 1.11

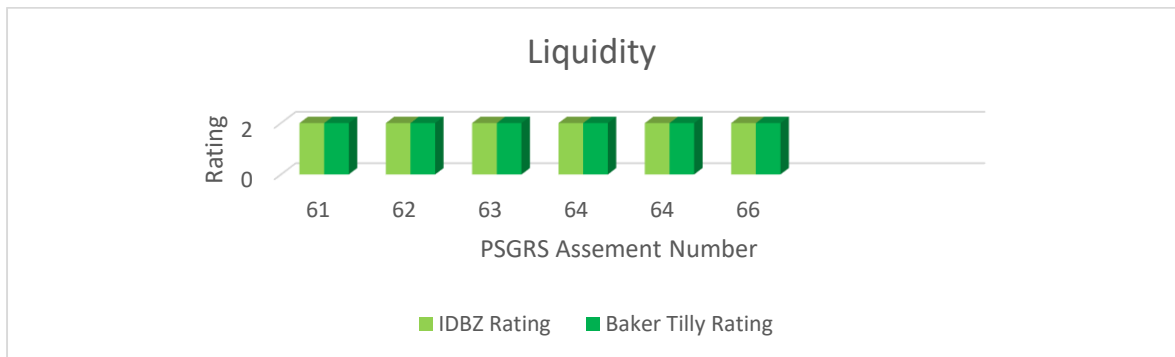


Figure 1.12

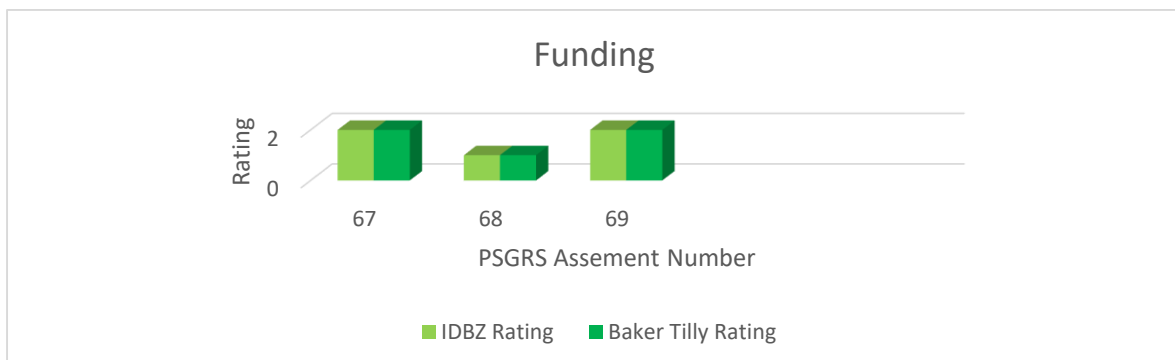


Figure 1.13

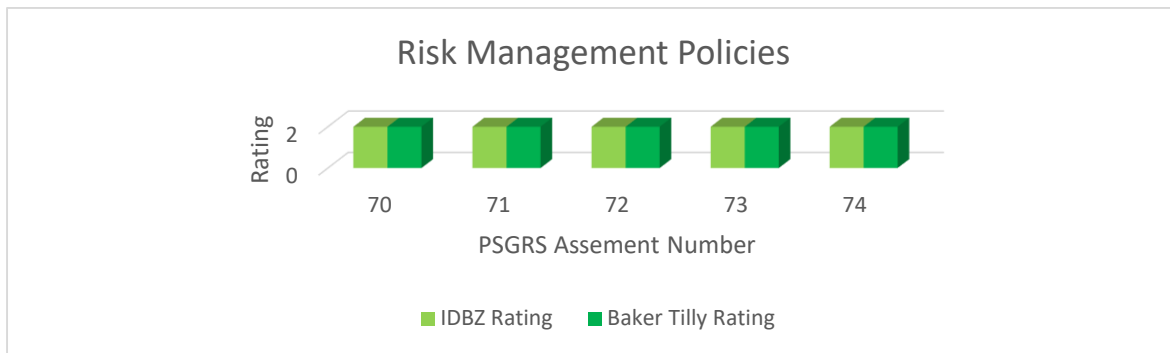


Figure 1.14

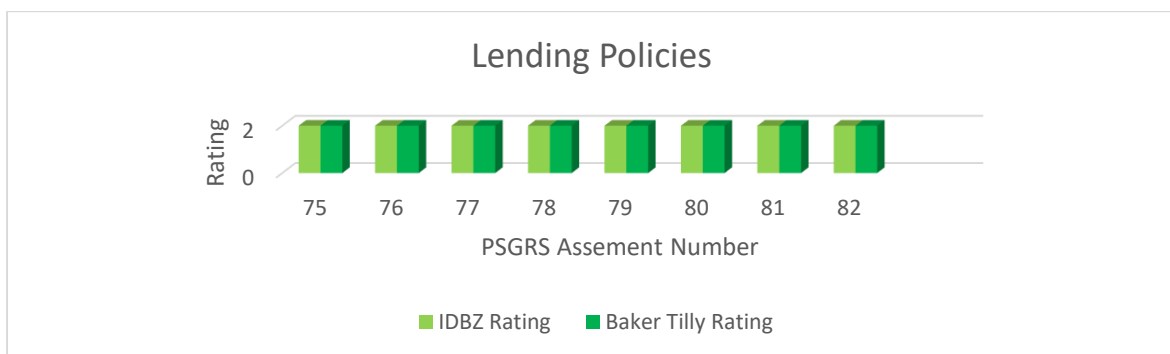


Figure 1.15

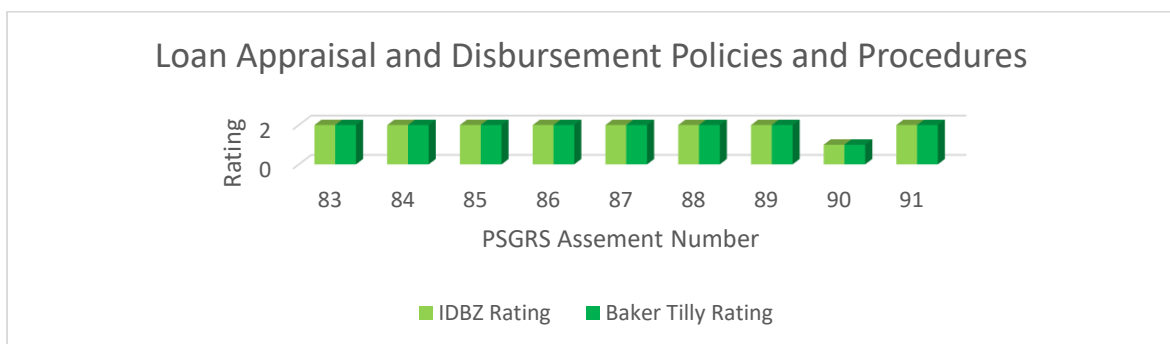


Figure 1.17

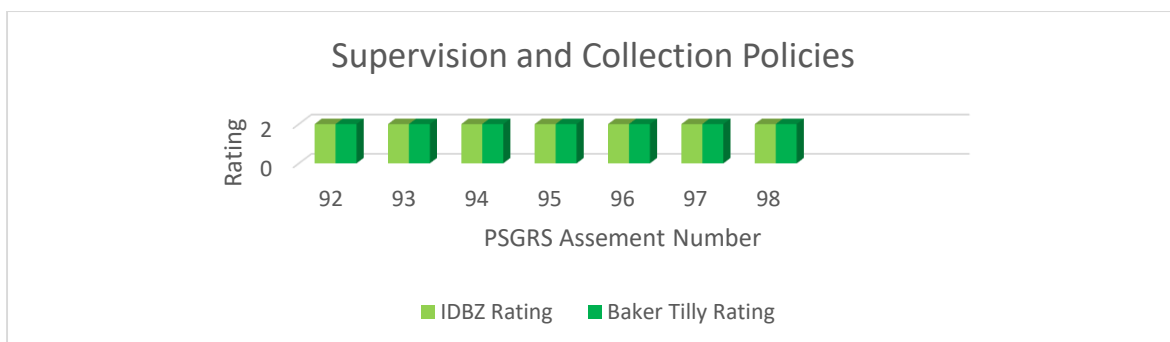


Figure 1.18

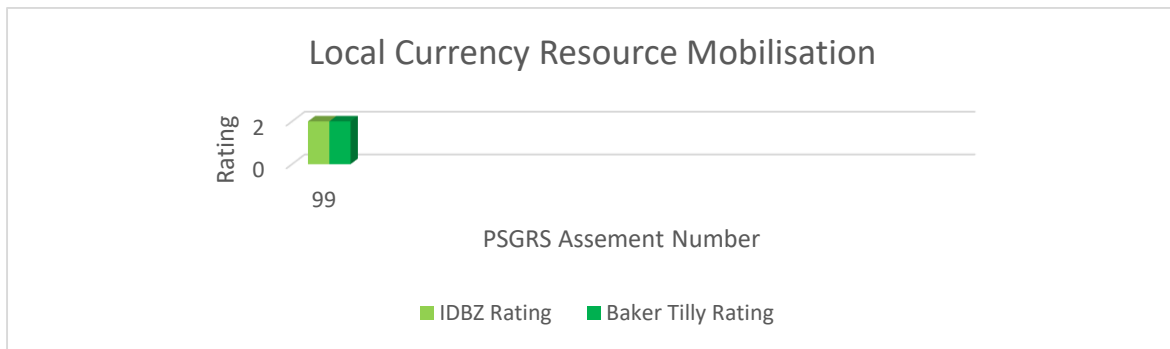


Figure 1.19

