Chasing Capital:

African Sub-Regional Development Banks in Focus

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Abstract

Policymakers continue to put the spotlight on multilateral development banks as the world confronts challenges on multiple fronts---from debt sustainability and pandemic recovery to global climate change and sustainable development. The World Bank and the four major regional multilateral development banks (MDBs) in Asia, Latin America, Europe, and Africa, have so far received the most attention. Yet, the majority of MDBs are smaller, borrower-led institutions. The African region is home to the highest number of these borrower-led sub-regional development banks.

To help meet the overwhelming development needs of African countries and address long-term and urgent global challenges, like climate change, these banks need resources. The paper explores the current initiatives being pursued by African borrower-led sub-regional MDBs to source for funding and the challenges the banks face. It proposes resource mobilization strategies to scale up both development and climate finance, including new shareholders, intermediary lending, multi-donor trust funds, green bonds, accreditation at multilateral climate funds, and a joint co-investment facility. In a world where MDBs are being called to evolve their mandate and triple their lending, our policy recommendations seek to untap the potential of African development banks.

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1. Introduction

Africa currently faces significant challenges. According to the most recent regional economic outlook, its development financing gap is nearly half a trillion dollars (AfDB, 2024). Economic growth has risen – even if marginally – but Sub-Saharan Africa still lags other regions not only in terms of growth but also in human development (IMF, 2024a). Governments still face financing shortfalls, high borrowing costs, and impending debt payments. The global pandemic only exacerbated already worrying levels of poverty. Based on estimates from the United Nations Conference on Trade and Development (2021), nearly half a billion (about one-third of the population) live under the poverty line of PPP$1.90/day.

At the same time, sub-Saharan Africa, like the rest of the world, is confronted with climate change. The contribution of most countries in the region to climate change is minimal. Yet, these countries have been disproportionally affected by the adverse impact of the crisis (Sembene, Mitchell, and Brown, 2021). These include natural disasters, income losses in agriculture (which commands a large share of gross domestic product and employment), and potential humanitarian crises further fueled by food insecurity. The most fragile states are arguably the worst hit. Countries like Sudan, Somalia, and the Central African Republic are likely to suffer longer-lasting macroeconomic shocks in addition to social costs (Azour and Selassie, 2023).

Even worse, the amount of funding received by African countries, collectively, to both mitigate and adapt to the climate crisis remains below the estimated needs of the continent. The region continues to receive a smaller share of global climate finance disbursements compared to other regions in the world (AfDB, 2021). In 2021-2022, it received only 20% ($13 billion) of global adaptation finance flows (Ijjasz-Vasquez, Saghir, and Richmond, 2024). If current trends continue, the African continent will face a climate finance gap of up to $400 billion (about $266 per person in the region) annually by 2030 (ECPDM, 2023).

The bleak picture is far from the days of the "Africa rising" narrative (see Taylor, 2014). However, a set of institutions are at the forefront of efforts to tackle both underdevelopment and climate change in Africa (and the rest of the world). These multilateral development banks (MDBs) combine high levels of technical expertise, a global governance arrangement, and typically, the financial firepower to make investments that contribute to the development aspirations of lower and middle-income countries. The World Bank has, by far, received the most scholarly and policy attention, with increased calls to mobilize finance to accelerate Africa's post-crisis recovery (Sembene, 2021). Other major (or legacy) regional development banks have attracted attention due to their own push for more support. The African Development Bank (AfDB) and the Inter-American Development Bank currently dominate discussions about hybrid capital---a new financing instrument to boost the capital base of MDBs (IADB, 2014; CGD, 2024).

Yet, there are many other borrower-led MDBs that, although far removed from media attention, are making significant micro-level impacts in the developing countries in which they operate (Humphrey, 2022). These smaller MDBs would also benefit from innovative financing instruments, like hybrid capital, through collaboration with the larger banks. In Africa, the AfDB, with an authorized capital of $243 billion, often stands out, but it is complemented by five smaller, borrower-led sub-regional MDBs that are helping to meet the substantial financing needs on the continent.[1] These MDBs are the Eastern and Southern African Trade and Development Bank, East African Development Bank, West African Development Bank, ECOWAS Bank for Investment and Development, and the Central African States Development Bank.[2] They provide funding to the public and private sector, and other lending products, like trade finance, which are not typically provided by larger, more prominent banks, including the World Bank and the AfDB.[3]

"The amount of funding received by African countries, collectively, to both mitigate and adapt to the climate crisis remains below the estimated needs of the continent."

Borrower-led sub-regional development banks (SRDBs) have been a long-standing feature of a now-fast-evolving development finance ecosystem. However, their financial resources—from shareholder contributions to borrowings from international capital markets—have always been far less than those of the AfDB and the World Bank. They are not enough to meet the needs of the developing countries which these development banks serve. If the SRDBs want to contribute to infrastructure development, social welfare projects, private sector development, and climate mitigation and adaptation efforts, they need to mobilize more resources. The most significant financial roadblocks are

[1]See AfDB (2023). The term "sub-regional" is used here to indicate the initial geographical scope of the banks. In recent years, the Eastern and Southern African Trade and Development Bank expanded membership beyond its original sub-region.

[2]A sixth, which is not included in the paper, is the Development Bank of the Great Lakes States. There is little information on the bank and its operations.

[3]Although we do not consider the institution in this paper, we note that Afreximbank is also a significant player in the trade finance ecosystem. We limit our definition of SRDBs to multilateral development finance institutions (rather than multilateral finance institutions more broadly), which serving a particular sub-region(s) and are primarily in the business to providing loans and grants for public and private sector development projects and programs, rather than to enhance intra-regional trade.

their overwhelming reliance on low-income shareholders and their low bond ratings, which affect their ability to raise funds competitively on international capital markets.

How can smaller borrower-led SRDBs in Africa mobilize resources for development and climate change given these challenges? In this paper, we evaluate possible strategies and opportunities for resource mobilization, accounting for factors such as scalability, sustainability, and alignment with regional development priorities. Some of these strategies include new shareholders and investor classes, co-financing and credit-enhancement arrangements, and sustainability-linked bond issues. We also propose the creation of a joint African Co-investment Facility as a pool-based approach to loan syndications. The main goal is to provide African SRDBs and other bilateral, multilateral, and private sector partners with an assessment of both short and long-term financing options that would help place African-led SRDBs at the forefront of addressing global and regional challenges.

The rest of the paper is structured as follows. The next section provides an overview of five sub-regional development banks in Africa. The third section discusses the financing model of MDBs. The fourth section examines the challenges faced by African sub-regional development banks. The fifth section reviews available options for mobilizing both development and climate finance, assessing challenges that are potentially raised by each of them and proposing ways to mitigate those challenges. The final section concludes with a set of policy recommendations.

2. Sub-regional multilateral development banks

African countries are served by at least three multilateral development banks. This is not surprising. The continent overwhelmingly depends on foreign aid and development finance. This dependence is unlikely to wane anytime soon due to the region's "extensive development needs and relatively lower flows of private external finance" (Humphrey, 2019: 67). The AfDB is a "legacy MDB"–one of the largest and oldest MDBs in the world and the main regional MDB for Africa (Humphrey, 2022).[4] It has 81 members, 54 of which are African countries. All other members are non-African countries, including major economic powers, such like the United States, Japan, Germany, France, the United Kingdom, and China.

There are at least five other African regional development banks on the continent. In contrast to the AfDB, the African SRDBs have a much narrower geographic reach (Zappile, 2016: 188). Almost all of them have managed to maintain their 'African' character amid limited membership and influence of non-regional countries. The United States, for example, has never been a member of any of Africa's five SRDBs. Although the establishment of each bank is often linked to various sub-regional economic integration projects, each SRDB has distinct structures that need to be understood in terms of the states (and non-state actors) that created and currently own them.

The first of these banks is the EADB, headquartered in Kampala, Uganda. It was founded in 1967 as one of the key institutions of the East African Community, which was focused on regional economic integration through trade. The EADB's shareholding membership is divided into two. Class A shareholders hold 87% of vote shares and are made up of the four regional members: Kenya, Rwanda, Tanzania, and Uganda. Class B shareholders include the AfDB, a consortium of Yugoslav

[4] The other legacy MDBs are the World Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development.

institutions, and five banks and (Table 1).[5] The largest share of EADB funds tends to focus on construction and real estate development, but the EADB's activities are generally diverse and include capital,

Table 1: Class B shareholders at EADB

Class B shareholders	African/non-African	Shares
African Development Bank	African	7.98%
Yugoslavia Consortium	Non-African	0.18%
Private commercial banks		
Barclays Bank PLC, London	Non-African	0.013%
NCBA Bank Kenya Ltd	African	0.032%
Nordea Bank Sweden	Non-African	0.032%
SBIC – Africa Holdings	African	0.16%
Standard Chartered Bank, London	Non-African	0.013%

Source: EADB 2023 Audited Financial Statements

In Central Africa, the BDEAC (in French: Banque de Développement des États de l'Afrique Centrale) was established through a December 1975 agreement after which lending operations commenced in January 1977. With its headquarters in Brazzaville, Republic of Congo, the BDEAC funds development projects for member states of the Economic and Monetary Community of Central Africa (CEMAC). The bank prioritizes regional integration, energy and transport infrastructure, as well as education, health, and social development (Bazbauers and Engel, 2021:162). There are six regional member states: Cameroon, Central African Republic, Republic of Congo, Chad, Equatorial Guinea, and Gabon. These countries collectively have 51% of vote shares with each holding an equal 8.41% share. Like the EADB, BDEAC has institutional, non-sovereign members, including the Bank of Central African States (BEAC), which holds a 33.4% voting share, and the AfDB. It also has four non-regional sovereign shareholders: France, Kuwait, Libya and Morocco.

The West African region is served by two separate SRDBs, both of which are based in Lomé, Togo. The first is the West African Development Bank (BOAD), established in 1973. This is the main SRDB for francophone African countries that are simultaneously part of the West African Monetary Union (WEAMU). These countries hold over 90% shareholding. The other shareholders are a mix of MDBs, like the AfDB, other multilateral and national banks, including the European Investment Bank, Arab Bank for Economic Development in Africa (BADEA), Exim Bank of India, as well as non-regional member states like France, Belgium, and Morocco. BOAD's central goal is to provide financial assistance to WAEMU member countries to support their development efforts. It also grants

[5]In 2023, FMO (Netherlands Development Finance Company) and DEG (German Investment and development Company) sold their shares of EADB back to the development bank.

interest rate subsidies for non-commercial public sector loans to member countries.

The second development bank serving the West African region is the Economic Community of West African States (ECOWAS) Bank for Investment and Development (EBID). It was originally established in 1975 as the financial arm of ECOWAS. In 2004, two specialized agencies were included: the ECOWAS Regional Development Fund (ERDF), which finances public sector projects, and the ECOWAS Regional Investment Bank (ERIB), which finances private sector projects. Its fifteen members correspond directly with ECOWAS membership, eight of which are members of the WAEMU/ BOAD: Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Like the AfDB, the largest shareholder is Nigeria, which holds twice as many vote shares as the second and third largest shareholders, Ghana and Cote d'Ivoire. Together, these three countries hold around 60% of EBID's total shares (Bazbauers and Engel, 2021: 161).

The Eastern and Southern African Trade and Development Bank (TDB) - formerly PTA Bank – is the largest SRDB in Africa (Humphrey, 2019:166) and the second largest African development bank (behind only the AfDB). Headquartered in Bujumbura, Burundi, TDB was created in November 1985 following the 1981 preferential trade agreement treaty that established what would then become the Common Market for Eastern and Southern Africa (COMESA). As COMESA's financial arm, TDB focuses on trade finance and integration, in addition to development efforts. It has 25 African member states, two non-regional member states (China and Belarus), and several institutional members in a separate investor class (Bazbauers and Engel, 2021:164).[6] Table 2 provides the list of Class B institutional members.

Table 2: Class B shareholders at TDB

Class B shareholders	African/non-African	Shares
African Development Bank	African	17.87%
African Economic Research Consortium	African	0.57%
African Reinsurance Corporation	African	2.66%
Arab Bank for Economic Development in Africa	Multilateral	3.36%
Banco Nacional de Investimento (Mozambique)	African	2.82%
Investment Fund for Developing Countries (Denmark)	Non-African	10.26%
OPEC Fund for International Development	Multilateral	8.72%
Pension, social security, and insurance funds		
Agciro Development Fund (Rwanda)	African	1.78%
Caisse Nationale de la Securite Sociale (Djibouti)	African	3.49%
National Pensions Fund (Mauritius)	African	6.42%
National Social Security Fund (Tanzania)	African	2.44%

[6]The regional member states are Botswana, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Ghana, Kenya, Madagascar, Malawi. Mauritius, Mozambique, Rwanda, Senegal, Seychelles, Somalia, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe.

National Social Security Fund (Uganda)	African	10.44%
PTA Reinsurance Company	African	2.53%
Rwanda Social Security Board (Rwanda)	African	11.06%
Seychelles Pension Fund (SPF)	African	3.27%
SICOM Group (Mauritius)	African	0.44%

Table 3 provides a summary of the six banks and the voting power of African member states. Except for the BDEAC, the voting power of borrower (African) countries is higher in all SRDBs compared to the AfDB. Even for the BDEAC, regional members do have a greater voting share when the membership of the Bank of Central African States (BEAC), which holds a 33.4% voting share at the BDEAC, is considered. The BEAC is the central bank common to the six CMEAC states - Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea, and Chad – all of whom are the BDEAC's primary regional members.

Table 3: Development banks in Africa

	Founding year	Borrowing (African) member states only	Borrower voting power
African Development Bank	1964	54	60%
Development Bank of Central African States	1975	6	51%
ECOWAS Bank for Investment and Development	1979	15	100%
East Africa Development Bank	1967	4	87%
Trade and Development Bank[7]	1985	25	90%
West African Development Bank	1976	8	93.7%

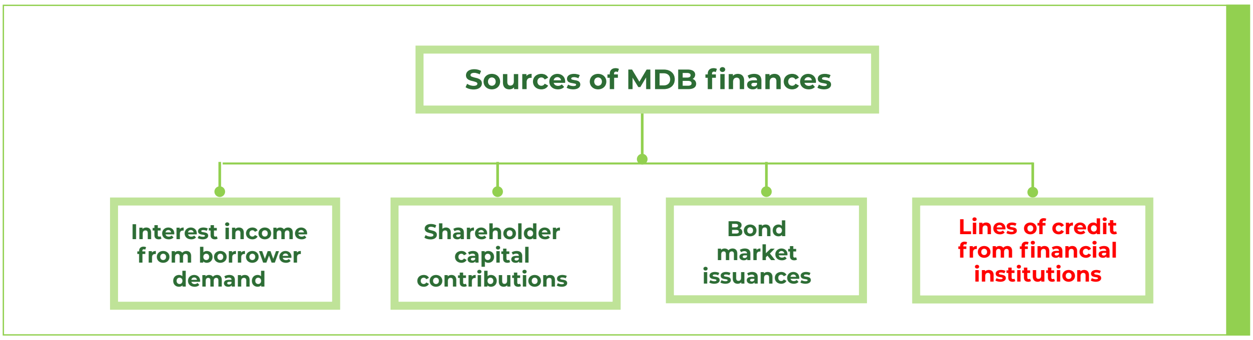
For all banks, achieving development goals in borrower countries is an explicit priority. Achieving this goal, however, requires substantial financial resources, which the banks do not have. While most multilateral development banks have similar financing models, there are disparities in terms of capital stock and ability to raise external financing, including from international capital markets. This has an impact on both operational capacity and developmental effectiveness.

[7]Based on Class A shares.

3. The financing model of multilateral development banks

The operating resources of multilateral development banks largely come from three sources: interest income and repayment charges paid by borrowers, shareholder contributions, and bonds issued in international capital markets (Babb, 2009; Humphrey, 2015; Park and Strand, 2016; Molinari and Patrucchi, 2020). Smaller MDBs, like the African banks, are also able to lend to countries as well as the private sector using lines of credit from commercial and non-commercial financial institutions, including the development finance institutions of major donor countries (Figure 1).

Figure 1: MDB financial model



3.1 Borrower demand

Development banks need to lend to governments (and the private sector). Not only is this part of their operational mandate, but these banks also generate some of their financial resources from loan reflows in the form of interest and repayment charges. The ability to lend is a function of both supply (the available resources the bank has) and borrower demand. Governments and private sector borrowers must request loans from banks. In an increasingly crowded credit space, where even lower-income countries have multiple borrowing options, MDBs compete among themselves as well as bilateral and private creditors to attract borrowers.

We can see this competition clearly with the major MDBs and less so with the smaller SRDBs. The rise of new creditors and their willingness to not attach conditions to their loans has affected the demand for loans from the World Bank, for example. In their study of the impact of the China-led Asian Infrastructure Investment Bank (AIIB) on the World Bank, Qian, Vreeland, and Zhao (2023) find a temporary decrease in the number of World Bank infrastructure projects that developing-country AIIB founders have received.

There is also some evidence that the World Bank and other major regional development banks have actively been retailoring operations to retain borrower demand following the increase in lending from Chinese creditors. Using data on the terms of World Bank and Chinese development finance in more than 100 countries, Zeitz (2021) finds that the World Bank is following China's emphasis on infrastructure. Specifically, the evidence suggests that the World Bank allocates a greater share of its development projects in infrastructure-intensive sectors when recipient countries receive more Chinese development finance.

Due to their size, the smaller sub-regional development banks in Africa cannot directly compete with China's AIIB–or even the World Bank. However, they do enjoy several advantages that have so far allowed them to attract borrowers. Compared to the major MDBs, sub-regional banks, like TDB and EADB, provide borrowers with a very low level of "bureaucratic hassle" (Humphrey, 2019: 181). This means shorter project preparation periods, reliance on a country's own legal and regulatory systems, and generally greater operational flexibility (Humphrey, 2019: 182-184).

The entry of new members to the sub-regional banks suggests that there is demand for the lending products that they offer, which suggests greater opportunities to earn interest income from new borrowers. In 2008, Rwanda, having joined the East African Community (EAC), became a member of the EADB. In 2022, Botswana, Ghana, and Senegal joined TDB – a move that saw the TDB shift beyond its Eastern and Southern African geographic scope. The sub-regional banks also see demand for their loans coming from the private sector. [8]

3.2 Shareholders and capital contributions

Shareholders are another source of financial resources and arguably the most important for smaller SRDBs. Like most traditional banks, MDBs are owned by their shareholders. These shareholders are typically sovereign states and not private individuals. They represent a mix of recipient (low and middle-income) countries and non-borrowing donor countries, like the United States, Japan, France, Germany, and the United Kingdom. Their capital subscriptions align with the vote shares that they hold as members of the MDB.

A small number of banks, like EADB and TDB, moved beyond sovereign states and opened their membership to non-sovereign shareholders. This public-private ownership structure sees TDB's

[8]For example, in 2023, 57.11% of EBID's loan income (in relation to the bank's source of income) came from private sector operations while 42.89% came from the public sector (EBID, 2023: 47).

At the 2024 AfDB annual meetings, for example, the Kenyan government announced it will provide an additional $20 million increase in its contribution to the ADF to increase its shareholding

shareholders (and their capital stock subscriptions) divided into different shareholder classes. Class A shares at TDB, for example, are owned by regional and non-regional member countries and the AfDB, while Class B shares are owned by institutional investors (Bazbauers and Engel, 2021: 164).

As the political and financial owners of the banks, shareholders – whether states or institutional investors – contribute capital resources. This can be allocated during the general capital increases (GCIs) of a bank when shareholders agree to inject financial resources to support or expand bank lending. Development banks typically undergo a series of GCIs. Sovereign shareholders do not need to pay their capital subscriptions immediately but must do so before a specified deadline.

The GCIs of African SRBDs have been modest by AfDB and World Bank standards. Between 1986 and 2016, the EADB had six GCIs, with shareholders committing to a $90 million capital increase in 2007. By 2015, only $59 million had been paid in as capital (Moody's 2015: 18). In 2020, TDB had its own "historic" capital increase of $1.5 billion, which effectively doubled the authorized capital stock of the bank by 100%---from $3 billion to $6 billion. By contrast, the AfDB's seventh GCI in October 2019 saw its sovereign shareholders increase the authorized capital of the AfDB by over 120% – from $93 billion to $208 billion (AfDB, 2019).

For MDBs with concessional lending (soft loan) windows, like the World Bank's International Development Association (IDA) and the AfDB's African Development Fund (ADF), direct donations by shareholders are also given during periodic replenishment cycles. MDB shareholders may also make selective capital increases. These are typically used to realign or boost shareholding positions. At the 2024 AfDB annual meetings, for example, the Kenyan government announced it will provide an additional $20 million increase in its contribution to the ADF to increase its shareholding (AfDB, 2024).

3.3 Borrowings from international capital markets

Not all capital is paid in by shareholders. At TDB, payable capital is only one fifth of the subscribed capital to Class 'A' shares for sovereign shareholders. Even the capital paid into the AfDB by its 81 member states is similarly a small 6% share of its total capital stock. The unpaid (or callable) portion of capital often acts as an MDB's credit card on international capital markets. It gives protection to bondholders and guarantee holders in the unlikely event that the MDBs are unable to meet their financial obligations. Consequently, callable capital is only subject to a "call" or payment by shareholders when required by the MDBs to meet their obligations on borrowed funds or chargeable guarantees.[9]

MDBs leverage their capital base to borrow more than their equity. This means that for every dollar in shareholder equity that an MDB has, it can borrow multiple times that dollar amount in capital markets and on-lend these leveraged resources at favorable rates to developing countries (Peitz, 2023: 3). The banks may borrow or raise funds by issuing debt or bonds on capital markets. While the World Bank was the first MDB to issue bonds (World Bank, 2018: 40-41), it has now been joined by several other development banks.

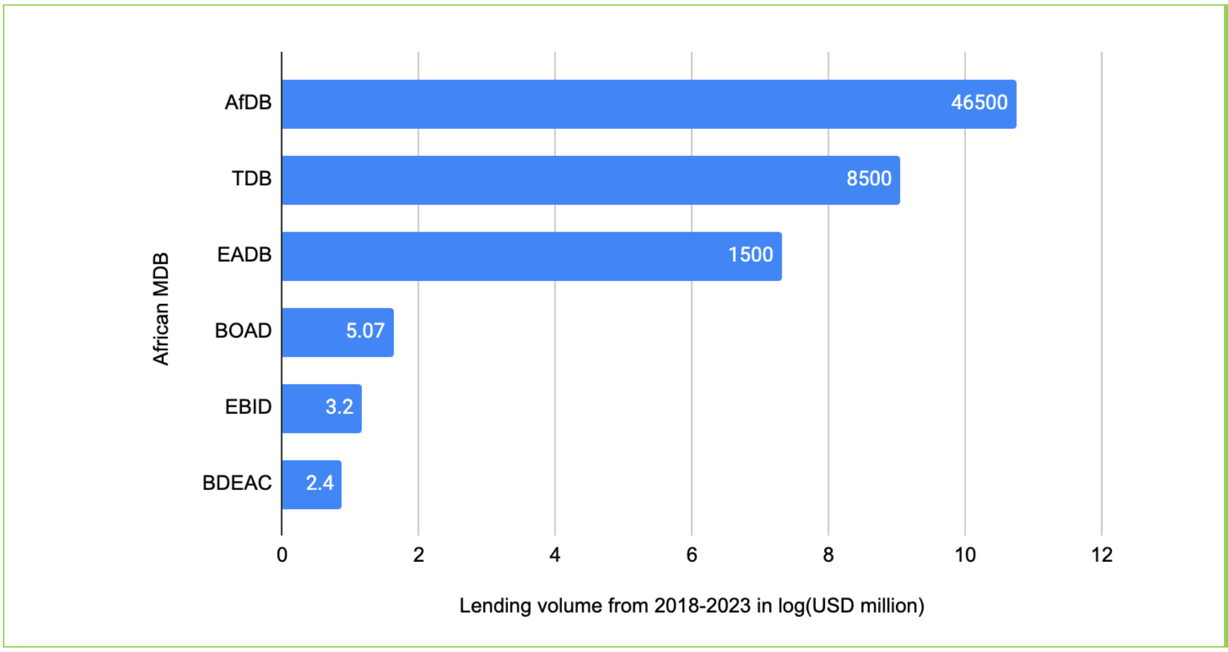
The utility of callable capital to tap into international capital markets is, however, nonuniform across MDBs. A key factor affecting an MDB's borrowing ability is its bond rating. A positive or high rating gives development banks the ability to mobilize low-cost, long-term financing. This, in turn, allows them to on-lend to recipients on favorable terms. Unsurprisingly, one of the key reasons for the "stellar access of the World Bank and major regional MDBs to international capital markets" is their AAA bond rating (the highest possible) (Humphrey, 2019: 171). The triple-A status is oftentimes a direct reflection of an MDB's support by the largest and wealthiest countries in the world, which themselves enjoy equally high credit ratings. The backing of high-income industrialized economies–which are usually non-borrowing shareholders–through callable capital gives investors and bond buyers confidence that they can lend with safety. Where MDBs are not backed by these highly rated shareholders, they can run into resource mobilization problems because of lower bond ratings. This is the case for African SRDBs: not all banks have achieved investment-grade ratings from the major international rating agencies. In the next section, we elaborate on this challenge.

[9]There has never been a call on the callable capital of MDBs (Babb 2009; Park and Strand 2015).

4. Challenges faced by borrower-led development banks

There are many benefits to being led by borrowing countries. BOAD, BDEAC, EADB, EBID, and TDB are arguably part of a small number of instruments through which African countries can take ownership of their own development needs and priorities. Their small size moreover facilitates faster and more flexible responses to evolving circumstances and recipient priorities (Humphrey, 2023: 8). At the same time, however, there are economic costs to borrower-led governance. As Figure 2 shows, African SRDBs have smaller volumes of lending resources compared to the AfDB.

Figure 2: Lending volumes of multilateral development banks in Africa



**Actual values in (USD million) in bars, source: Annual Reports and Financial Statements.*

What challenges do African sub-regional development banks face in resource mobilization? Their smaller size is a key factor, but there is a key structural challenge that comes with borrower-led governance. Specifically, being funded by low-income African countries that have been deemed to be less credit-worthy by international rating agencies means that the banks lack the ratings needed to competitively borrow from international capital markets. This leads to higher funding costs, which are passed down to borrowers in the form of loans on less favorable terms than those offered by the major MDBs, like the World Bank and the AfDB. Loans from African SRDBs tend to be more expensive and have shorter maturity periods.

The capital market financing problem is difficult to overcome because of the role of credit rating agencies and how they evaluate both the financial strength of MDBs and African countries. While many factors affect MDB bond ratings, including capital adequacy and loan portfolio risk, the support of shareholders is arguably the most important factor (Humphrey, 2017; 2019). Compared to legacy MDBs, the countries supporting African MDBs by providing paid-in and callable capital are far less creditworthy---both objectively and subjectively.

Research suggests that international credit rating agencies have a bias that negatively and disproportionately affects African countries. Without sufficient data, these agencies are left to make subjective estimates about a country's capacity to pay, the robustness of its economic and financial management systems, and the effectiveness of its institutional and regulatory frameworks (Gilpin et al., 2024). Consequently, the countries that are members of, and provide financial support to, African SRDBs do not elicit much confidence among capital market actors about the banks' capacity to meet their financial obligations.

At the same time, even if sovereign credit ratings were not biased, African SRDBs face problems with non-payments from some shareholders, which further dilute their capital base. Consider EBID's most recent B2 rating: As noted by Fitch (2023a), "the low average rating of key shareholders of 'CCC+' as of end-2023 weights on our assessment of shareholders' capacity to support, which further negatively impacted the arrears on paid-in capital payments by EBID member states." By contrast, the credit rating agency attributed the AfDB's triple-A rating to "the extraordinary support" that the AfDB receives from its triple-A rated non-regional shareholders (Fitch, 2023b).

Unsurprisingly, none of the sub-regional development banks have the triple-A rated status that the World Bank and AfDB enjoy (see Table 3). It was only in 2015 that the EADB obtained an investment grade rating. Even then, it was a lower rating of Baa3. TDB achieved its first investment grade ratings Fitch in 2008 and Moody's in 2017 (TDB, 2017: 11). At the extreme, some banks, like BDEAC, have no rating at all (Table 5).

> **The capital market financing problem is difficult to overcome because of the role of credit rating agencies and how they evaluate both the financial strength of MDBs and African countries.**

Table 4: Credit ratings of African sub-regional development banks

Bank	Fitch	Moody's	S&P
African sub-regional banks			
TDB	BB+	Baa3	-
EBID	B	B2	-
BOAD	BBB	-	Baa1
EADB	-	-	Baa3
BDEAC	No rating	No rating	No rating
Other banks that lend to Africa			
World Bank	AAA	AAA	AAA
AfDB	AAA	AAA	AAA

Source: Annual reports

The lower ratings do not completely shut off the banks from capital markets. Lower-rated institutions tend to focus on local, rather than international, bond issuance. But the volumes raised are much smaller compared to those of the highly rated AfDB. The EADB made its first issue in 1996 on the Nairobi stock exchange and has managed to successfully issue other bonds in the sub-region. The proceeds were only up to just $90 million. On June 5, 2022, EBID raised $190 million (XOF120 billion/€180 million) on the WAEMU market, the largest by a non-sovereign----but far less than its own financing needs (EBID, 2022: 19). That same year, the AfDB returned to the USD markets and raised ten times as much (AfDB, 2022: 6).

5. Resource mobilization strategies

African sub-regional development banks need money. For their work to both effectively complement the development efforts of the larger MDBs and make their own development impact, they need to mobilize resources to finance development projects in regional member states. Given the importance of green growth, they also need more climate finance to support mitigation and adaptation efforts across African countries. Multiple options are available and can be pursued in tandem. We begin by presenting seven strategies to mobilize development finance.

5.1 Development Finance

Development finance broadly refers to concessional and non-concessional financial resources that are used to support development programs and projects in low and middle-income countries. The focus of these initiatives has traditionally been on improving the quality of life of people through poverty alleviation. As part of the development finance architecture, African SRDBs can mobilize resources within and outside their region.

Charity begins at home

African countries need more development finance, but their ownership of SRDBs puts them in a unique position: they are simultaneously donors and recipient countries. While they must look outside the continent for financial assistance because there are limited financial resources within, African shareholders must be willing to invest in their institutions. This, at the very least, provides SRDBS with much-needed capital from existing shareholders. It also sends a message to outside actors about African governments' confidence in their institutions as channels through which to fund development efforts.

The strategy of supporting and prioritizing repayments and capital increases of borrower-led SRDBs has been beneficial for shareholders of the 20-member Development Bank of Latin America and the Caribbean (CAF). The CAF's most recent capital increase in 2022 involved a $7 billion paid-in commitment (CAF, 2022). This was nearly as much as the $7.5 billion paid-in capital increase for the World Bank's 189-member International Bank for Reconstruction and

Development (IBRD) in 2018 (Humphrey, 2023: 29). African countries may not be able to put up such large paid-in capital. However, they can still support SRDBs in significant ways.

Some African countries have already stepped up. In May 2024, Kenya's President, William Ruto, announced that the country would spend US$100 million over the next three years to increase its shareholding at three regional financial institutions, including TDB (AfDB, 2024).[10] According to TDB, both Kenya and Rwanda already subscribed to a total of US$125 million in new Class A shares in 2020 (TDB, 2020a).

A giving community

There are also innovative ways for more African countries to collectively, rather than individually, inject more capital into SRDBs---but these also need political will. In 2013, the Chairman of the Board of Governors at ECOWAS directed the Chairman of the Council of Ministers to allocate 30% of the proceeds of the ECOWAS Community Levy to EBID for project financing. The Community Levy is a 0.5% tax currently imposed on goods from non-ECOWAS member countries, but which will be eliminated on imports from members of the African Continental Free Trade Area (AfCFTA) (Lunenborg and Roberts, 2021). There have been payment delays, which places constraints on the ability of EBID to carry out projects within the sub-region (Uche, 2006: 242). By 2022, only one payment of US$3 million (in 2014) has been made (EBID, 2022: 47).

The ECOWAS Community Levy can be a successful model for regional financing, but the mechanism has to be fully functional. This means member states have to fully comply with both the collection of taxes at the national level and the transfer of financial resources to the community level. Mobilizing resources at the regional or regional economic community (REC) level would increase bank capital and signal strong shareholder support to outside actors, including credit rating agencies. Importantly, shareholder support remains a key factor in determining MDB bond ratings. Even if member states might not be highly rated, an increase in the capital stock at the banks should send positive signals about the bank's financial strength, which cannot be ignored.

A balancing act

There is scope for African SRDBs to mobilize internal resources by optimizing their balance sheets. This is a strategy that dates to both the 2015 Addis Ababa Action Agenda by the United Nations and a G-20-endorsed Antalya action plan for MDBs in that same year (UN, 2015: 33; G-20, 2015). While the policy recommendations were focused on the larger legacy banks, like the World Bank and AfDB, African SRDBs could pursue some of the action plans. First, they could enter into exposure exchange agreements with other MDBs to reduce loan portfolio concentration risk and boost lending capacity. In October 2024, the ADB entered into a sovereign exposure exchange agreement with the AfDB, with the agreement involving the exchange of "concentrated loan exposures with exposure to countries where their credit exposure is less or nonexistent" (ADB, 2024). In practice, the exchange is synthetic because loans are not transferred from one MDB's balance sheet to another. But as a balance sheet

[10] The other two institutions were the AfDB and Afreximbank (the largest trade finance bank in Africa).

optimization strategy, such agreements are key risk management tools that help the MDBs to free up capital, increase the lending headroom for borrowing countries involved in the exchange, and, more generally, enhance the lending capacity of the MDBs (AfDB, 2024d, ADB, 2024).

Second, African SRDBs could also engage in risk-sharing with private investors for private sector operations to provide capital relief (Munir and Gallagher, 2020: 223). Pursuing this approach, the banks could use a range of tools, including "syndications, structured finance, mezzanine financing, credit guarantee programs, hedging structures" and "equity exposure" (G-20, 2015: 3; see also Galizia et al., 2021: 10). The AfDB is familiar with these mechanisms, and its membership stakes in SRDBs, like TDB and EADB, make the larger African bank well-positioned to help facilitate risk transfer transactions for the smaller banks. It could, for example, collaborate with the SRDBs to replicate its Room2Run transaction at the sub-regional level. Room2Run involved the synthetic securitization of US$ 1 billion of the AfDB's existing non-sovereign loans in 2018 by private investors, which expect to receive interest payments from the AfDB. (Galizia, 2021:18). According to the AfDB, it was able to transfer the mezzanine credit risk (related to a portfolio of approximately fifty unsecured high-risk loans) to the investors, freeing up much needed risk capital.

Going global, thinking local

Resources from African countries are unlikely to be sufficient, so African SRDBs may need to look towards non-African donor countries. Some banks have already opened to non-borrowing, non-African shareholders, but only a few have taken up shares in the banks. These non-regional shareholders have brought in significant benefits. BOAD's capital ratios, for example, have been bolstered by the increase in callable capital subscribed from 'AAA'-'AA' rated shareholders, like France, Germany, and Belgium (Fitch, 2024).

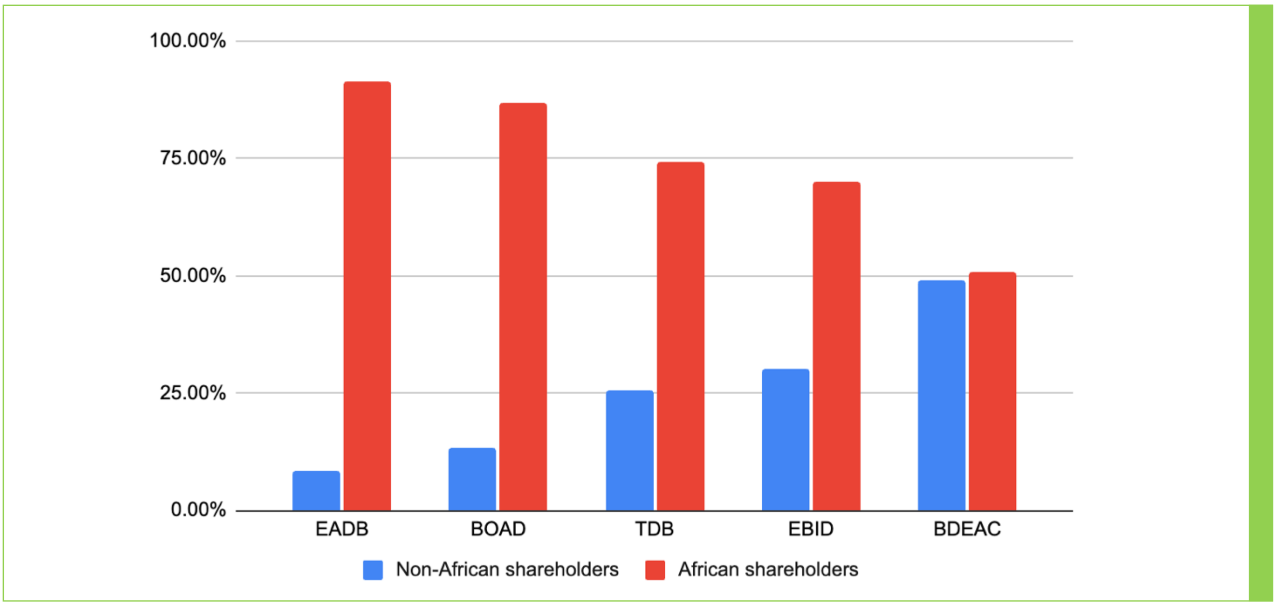
The sub-regional banks may consider two options for expansion involving non-regional countries. The first involves existing shareholders increasing their equity investment. The second involves new shareholders taking up shares. Success in pursuing the first option will depend largely on donor decision-making about the added value of channeling funds to recipient countries through African MDBs, rather than the World Bank, the AfDB, or through bilateral loans and grants. Some non-borrowing sovereign shareholders, through their development finance institutions (DFIs), have moved in the SRDB direction in recent years. In 2019, for example, Denmark's Investment Fund for Developing Countries (IFU) became the first European fund to invest in TDB's Class B shares and in 2020, doubled its equity investment in TDB to $US40 million (IFU, 2020). Others, however, have divested. In 2023, the EADB had to buy back shares from FMO-Netherlands Development Finance Company and DEG-German Investment and development Company, which had both decided to exit as part of their own institutional strategy.

The second option for non-regional expansion involves opening bank membership to new non-African shareholders. This comes with significant financial advantages, including the diversification of funding sources, an increase in the capital base, and (potential) improvements to credit ratings due to more A-rated or higher rated shareholders. There are also more intangible benefits, like knowledge sharing and the credibility-enhancing effects of non-regional shareholders on the perceptions of the banks in international markets.

Figure 3 shows that the shares at all five banks are still majority-owned by African states.[11] Based on data we collected on individual shareholding at each African SRDB, we also found that African countries have continued to maintain similar shares over time. In fact, there has been minimal within-country variation in shareholding amounts and there is no reason to suggest that African countries would diminish their share capital in the immediate or long-term. This also suggests that there is room for non-African shareholders to contribute financial resources in a way that still maintains African ownership of the banks while ensuring it is properly resourced.

Consider, for example, EBID. About 70% of the authorized capital for the ECOWAS Bank is reserved for the fifteen member states of ECOWAS. The remaining 30% ($450 million in 2022) is open to subscription by non-regional members. However, according to the bank's most recent data, only regional members have subscribed to the capital. Some African leaders have called for non-regional members and institutional investors to take up capital. Ten years ago, the then-President of Liberia, Ellen Johnson Sirleaf, argued that non-regional members "will enable EBID to contribute to the economic and social development of member states through low-interest loans" (Sirleaf, 2004). Sirleaf also suggested that the credibility of non-regional partners might also facilitate EBID's access to the markets of non-regional member states. In September 2024, the President and Chairman of the Board of Directors of EBID, George Agyekum Donkor, confirmed that EBID's Board of Governors approved the entry of non-regional members into the bank's capital and is now trying to attract these countries to take up shares (African Business, 2024).

Figure 3: Shareholder composition



[11]A large share of BDEAC is owned by the Central Bank of Central African States. We do not include that shareholding amount when calculating the share of African sovereign states.

This is a strategy that worked well, financially, for the AfDB. The institution opened its membership to non-regional members in two stages. The first was in 1974, through the creation of the African Development Fund. The second was in 1982, when non-African countries became full members of the bank with voting rights. There were immediate financial benefits. Non-regional countries were to contribute $2.1 billion, of which $525 million would be paid-up capital. The remaining $1.575 billion in callable capital enabled the AfDB to raise funds from international capital markets (Fordwor, 1981, 149). The key investment rating agencies acknowledged the importance of non-African participation in the AfDB by rating their debt. In 1984, Fitch and Moody's gave a Triple A rating to AfDB's senior debt. The AfDB's resources increased from $2.9 billion in 1982 to over $6.3 billion in 1983 (AfDB, 2022). Loan approvals increased from a cumulative total of just $451 million in the nine years prior to 1976 to $3.5 billion in the year 1991 alone (English and Mule, 1996, 25). The AfDB currently has over $200 billion in authorized capital while enjoying triple-A ratings from major international credit rating agencies.

Table 5: non-African members

Country	BDAEC	BOAD	EADB	EBID	TDB
Argentina	O	O	O	O	O
Austria	O	O	O	O	O
Belarus	O	O	O	O	X
Belgium	O	X	O	O	O
Brazil	O	O	O	O	O
Canada	O	O	O	O	O
China	O	X	O	O	X
Denmark	O	O	O	O	O
Finland	O	O	O	O	O
France	X	X	O	O	O
Germany	O	X	X	O	O
India	O	X	O	O	O
Italy	O	O	O	O	O
Ireland	O	O	O	O	O
Japan	O	O	O	O	O
Korea	O	O	O	O	O
Kuwait	X	O	O	O	O
Luxembourg	O	O	O	O	O
Netherlands	O	O	X	O	O
Norway	O	O	O	O	O
Portugal	O	O	O	O	O
Saudi Arabia	O	O	O	O	O
Spain	O	O	O	O	O
Sweden	O	O	O	O	O
Switzerland	O	O	O	O	O

Turkey	O	O	O	O	O
United Kingdom	O	O	O	O	O
United States	O	O	O	O	O
United Arab Emirates	O	O	O	O	O

Hard choices: Control or funding?

The question of which countries control an MDB and how they would like the MDB to operate underlies the trade-off between maintaining current membership with limited funding but African ownership and extending membership to non-regional, non-borrower countries and having more funding but less control. Because African borrowing countries might want the SRDB to pursue different policies or strategies than non-borrowing member states, opening a borrower-led SRDB to many non-regional countries is unlikely to be a politically uncontroversial move.

When encouraging EBID leadership to seek out non-regional member states, President Sirleaf noted that the current trajectory of the AfDB, with its top shareholder being an African country (Nigeria) and regional member holding the majority of vote shares of the bank group, should nullify concerns that ECOWAS members would lose control of EBID (Sirleaf, 2004). Still, the AfDB is not fully African-controlled, like EBID. There were objections from several member states concerned over the possibility of losing control of the AfDB to outside actors when negotiations were taking place over the entry of non-regional states (Fordwor, 1981; Mingst, 2015). Existing literature on the political economy of multilateral development banks has also long suggested that institutions, like the AfDB, are subject to the outsized political influence of more economically powerful non-African countries (Vreeland and Dreher, 2014: Chapter 5).

To maintain the "African" character of SRDBs and mitigate the potential of external influence on the banks' affairs, African SRDBs may look for alternative paths to non-regional participation. They can, for example, join the call by the AfDB for donor countries to channel IMF Special Drawing Rights (SDRs) through them. The SDR is not a currency. Instead, it is an interest-bearing reserve currency asset, whose value is based on a basket of five hard currencies: the US dollar, the Chinese renminbi, the Japanese yen, the British pound sterling, and the euro. Its value is set daily by the International Monetary Fund (IMF). To acquire, hold, and use SDRs like the AfDB, African SRDBs would need to become prescribed holders under the IMF's Article of Agreement – an additional bureaucratic hurdle that other smaller MDBs, like the CAF, have nevertheless managed to clear.[12]

Relying on donors channeling SDRs, African SRDBs may create a separate shareholder class with reduced voting power by issuing hybrid capital. This is a financial instrument with both debt and equity characteristics. Still targeting hybrid capital, the SRDBs can also move towards issuing interest-bearing non-voting capital shares that are open

[12]Currently, there are twenty prescribed holders of SDRs, including the CAF – Latin America's borrower-led development bank.

to non-regional countries. As capital-boosting instruments, hybrid capital has the advantage of being leveraged. For every $1 raised through hybrid capital, the AfDB estimates at least $2 of additional lending activity.

There are, however, concerns about the cost-effectiveness of hybrid capital, the credit ratings assigned to it, and the impact on MDB loan pricing, which need to be considered. For hybrid capital to be worthwhile for African SRDBs, offerings should signal an increase, rather than a decrease, in shareholder support, which is a key metric used by credit rating agencies to determine MDB bond ratings (G-20, 2022: 34). The move towards hybrid capital has so far been spearheaded by the AfDB and the Inter-American Development Bank (IDB). However, the AfDB has still not been able to implement the hybrid capital scheme, despite receiving the IMF's endorsement (AfDB, 2024). The SRDBs may wait to see how both the AfDB and IDB can use such capital to successfully model their own strategy of creating new shareholder classes for non-regional countries.[13]

Even then, there are demand-side concerns that have to be addressed. Like the AfDB during the 1970s, African SRDBs would have to court donor countries to take up capital. So far, only a select few non-regional members of the AfDB are shareholders at other African SRDBs, including France and China (Table 5). Other donors have partnered with the banks on a project-by-project basis, but the longer-term commitment that comes with hybrid capital or traditional shareholder classes would need more engagement.

Going private: a public-private model?

Potential donors can also be non-state actors. This move to institutional shareholders has been a major part of TDB's growth strategy---with great success. As part of its reform in 2013, TDB launched "Class B" shares to diversify its funding base. It was followed by a significant increase in institutional shareholding, from 5.8% in 2010 to 24.5% in December 2019. Attracted to high returns, new institutional shareholders joined the bank in 2022, including Agaciro Development Fund, Rwanda's sovereign wealth fund, the National Social Security Fund of Tanzania, and a subsidiary of the State Insurance Company of Mauritius (SICOM), SICOM Global Fund Limited. In 2023, TDB's net profit grew by 11% from the previous year, with the bank delivering a return on equity (ROE) of 11% to shareholders (TDB, 2023). Its average ROE between 2012-2013 was 12.65%.[14]

While investors provide much-needed funding, African SRDBs face a major trade-off by inviting non-sovereign shareholders. First, they risk the possibility of preferred creditor status (PCS), which is typically enjoyed by official multilateral creditors (Jones, 2024). While not legally binding, PCS is a widely accepted convention that gives MDBs priority in debt repayment when a borrower finds itself in distress. Unlike other types of sovereign loans, MDB loans are serviced when a borrower defaults. Two factors are key to PCS: the public nature of the institution (owned by states) and the concessionality of financing. By having non-state actors join, these banks risk blurring the lines between

[13]The AfDB launched and priced its first US dollar-denominated hybrid capital notes in January 2024 (AfDB, 2024).

[14]Based on annual report data.

While investors provide much-needed funding, African SRDBs face a major trade-off by inviting non-sovereign shareholders.

multilateral organizations and public-private partnerships, calling into question their status as "true multilaterals" (African Legal Support Facility 2019: 28).

The ripple effects of this lack of clarity on the nature of SRDBs are already evident in the current debt restructuring negotiations involving African countries, like Zambia, which owe a debt to TDB. By December 2021, exposure to Zambia accounted for 7% of TDB's total loan portfolio. TDB is now involved in the negotiations for the restructuring of Zambia's debt under the Common Framework, but requests to be treated as preferred creditors have not been straightforward. Instead, they have been redirected to Zambia's Official Creditor Committee (Zambian Ministry of Finance, 2022: 5).

A second trade-off involves the opportunity cost of paying dividends to non-sovereign shareholders. MDBs typically reinvest net income for on-lending, especially through concessional lending windows, or dedicate their net income to reserves. With non-sovereign shareholders, some of this income has to be paid back as dividends. TDB, for example, allows 25% of net income to be distributed as share dividends. As Humphrey suggests, paying a dividend to shareholders requires a return on equity, which has implications not only for loan pricing but also for the ability of the banks to invest in their human capital (2023: 26).

Courting institutional investors

Private investors can still play a role in resource mobilisation, which does not involve formal membership. The SRDBs can mobilize development finance through in-house asset management companies and co-investment platforms. Both approaches would follow the model that the World Bank's private sector lending arm, the International Finance Corporation (IFC), established in 2009. The IFC Asset Management Company (AMC) is a subsidiary of the IFC and a private equity fund manager. It manages capital from third-party investors, including sovereign wealth funds, insurance funds, and pension funds, that seek profitable investment opportunities in companies that meet IFC's operational and policy standards (World Bank, 2011: 78).

African SRDBs can adopt this private equity model. Like the IFC, the AMCs within each bank can create different funds, which may be sector specific. The AMC can be marketed as a way for institutional investors to access the banks' platform and equity pipeline in member states. The AMCs would expose these investors to markets that they cannot otherwise easily enter through other channels. A co-investment platform would have the same effect. The IFC's Managed Co-Lending Portfolio Program (MCPP) can be scaled up by the SRDBs but with a focus on African markets. MCPP works through a "blind pool" approach: investors commit funds to take exposure for a set of future loans (IFC, 2022). They cannot refuse any IFC project that meets the pre-defined eligibility criteria. These investors passively invest in the IFC's senior loan portfolio, receiving priority access to the IFC's pipeline and a diversified portfolio of loans on the same terms as the IFC.

There are challenges with creating a similar platform to the SRDBs, but these challenges do not make such a platform impossible. A blind pool approach at smaller banks without the global scope of operations, like the IFC, may be unattractive to investors. There is also the potential need for a government guarantee. MCPP investors benefit from risk mitigation through the IFC's investment-grade profile and a credit-enhancement facility that has a first-loss tranche guarantee – up to 10% of each investor's portfolio (Juvonen et al., 2019: 28). This guarantee is partly financed by donor governments. The arrangement suggests that investments backed up by the IFC are still seen as risky and investors need confidence that they can lend with safety. There is likely to be an even greater perception of risk towards African SRDBs, which do not enjoy the same investment-grade profile of the IFC. As Humphrey (2018: 23-24) notes, this could mean that the smaller banks have to commit more resources upfront to fund the first tranche – which would be uneconomical for each bank, but more feasible through a joint effort. Finally, there is a concern that greater involvement of private investors in such lending operations might risk the PCS status of the multilateral banks.

Partners in development

As another strategy, the SRDBs can leverage their relationship with legacy MDBs, like the World Bank and the AfDB, as well as the export banks, bilateral aid agencies, and development finance institutions of non-member states. These include the FMO, IFU, and DEG, but also the European Investment Bank (EIB), Germany's Kreditanstalt für Wiederaufbau (KfW), the Commonwealth Development Corporation (CDC), France's Agence Française de Développement (AFD), and Italy's Cassa Depositi e Prestiti (CDP).

By presenting themselves as intermediaries between these institutions and African countries, the focus of the banks would be on co-financing and seeking less expensive sources of finance via lines of credit. African SRDBs can ramp up negotiations for long-term lines of credit. These funds are borrowed from development partners (and commercial institutions) to finance specific projects. Currently, all five banks utilize lines of credit from multilateral, bilateral, and commercial partners (see Table 6). In early 2023, EBID signed an agreement with the AfDB for a dual currency line of credit, including a $50 million and €50 million loan to support local agricultural businesses in West Africa. China's co-financing fund at the AfDB, the Africa Growing Together Fund, will provide an additional $30 million in co-financing (AfDB, 2023b).

Table 6: Lines of credit (USD)[15]

MDB	Line of Credit in 2023 (USD)	Additional Information
EBID	$50 million + €50 million	Co-financed by AfDB and the Africa Growing Together Fund.[16]
EADB	$40 million	Fifth line of credit approved by AfDB for SME support and infrastructure.[17]
BOAD	€70 million	A financing agreement signed with AfDB for 10-year maturity.[18]
TDB	$150 million	Credit line from AFD to finance green infrastructure projects.[19]
BDEAC	XAF 100 billion (2021)	Credit line from bond issuance to finance COVID-19 support and sustainable development initiatives[20]
BDEAC	XAF 90 million (2020)	Credit line from BEAC to finance COVID-19 response across CEMAC countries
BEDEAC	€30 million (2020)	Credit line from IDB (Islamic Development Bank)[21]

LOCs from major MDBs and DFIs are preferable since they provide an opportunity to develop a relationship with these institutions. During the pandemic, African SRDBs were successful in negotiating several credit lines as a resource mobilization strategy. In 2020, for example, EBID signed a €50 million line of credit agreement with AFD to not only support the implementation of EBID's strategic plan, but to also finance sustainable economic transitions and greater regional economic and financial integration (EBID, 2020).[22]

TDB also signed multiple LOC deals that year with both the World Bank and DFIs, including Italy's CDP and Austria's OeEB (See Table 7). The World Bank deal is particularly notable. Through its concessional lending window, it extended a first-of-its-kind project financing facility to TDB. Through its credit enhancement and political risk insurance window, it also provided TDB with a first-of-its-kind 10-year loan covered with a EUR 359 million guarantee. The concurrent financing by both the International Development Association (IDA) and Multilateral Investment Guarantee Agency (MIGA), respectively, marked the first time that both institutions jointly supported a regional development bank (Osemo, 2020; see also TDB, 2020).[23] Having guarantees from MIGA protects

[15]We use data from the most recent reports available.

[16]See Citi Newsroom and Ecofin Agency

[17]See African Development Bank Group and East African Development Bank.

[18]See Ecofin Agency.

[19]See AFD.

[20]See Rapport_annuel_d'activité 2022

[21]See Rapport_annuel_2020_fr

[22]In 2022, EBID successfully secured a $100 million commercial credit line from India Exim Bank to support private sector transformation. This marked the first time India Exim Bank extended a facility to EBID for financing private sector projects (EBID, 2022).

[23]; For project details, see https://projects.worldbank.org/en/projects-operations/project-detail/P171967

TDB lenders and supports TDB's access to commercial bank financing at longer tenors and lower interest rates than would otherwise have been available. With development partners extending their first-of-their-kind LOCs to African SRDBs, there is an expanded scope to mobilize development finance using this avenue.

Table 7: TDB deals in 2020

Institution	Amount	Details	Sector
IDA	$415 million	19-year Scale-Up Facility credit line (USD 400 million), 38-year USD 15 million credit.	Infrastructure (credit line), technical assistance (credit)
MIGA	€334.4 million	Credit enhancement on a 10-year loan from private commercial banks	Private sector (financial institutions)
CDP	€50 million	10-year loan facility for on lending to the private sector	Private sector, including agro-industry, health, education, and transport
OeEB	$25 million	10-year loan facility	Renewable energy/ Resource efficiency

We note, however, that LOCs do not come without strings attached. While official funding is often less expensive than market-based funding, it is not always reliable. Funding is also usually tied, and this gives the sub-regional banks less autonomy over the purpose of the loan and the allocation decisions. While OeEB's line of credit to TDB is linked to climate-related projects, CDP's line of credit is tied to specific sectors and is also linked to the expansion of export opportunities for Italian companies operating in sub-Saharan Africa.[24]

The World Bank's first-of-its-kind assistance to TDB also came with its own challenges. On the one hand, the IDA infrastructure facility was earmarked for private sector project developers even though most infrastructure projects in TDB member countries are financed by the public sector due to risk perceptions among private investors (Humphrey, 2023: 27). On the other hand, the World Bank requires far lengthier and more stringent project appraisal procedures, which are beyond TDB's normal requirements that avoid "bureaucratic hassle" (Humphrey, 2019).

Notwithstanding these added complications, LOCs need not always be sector or project-specific. They can also avoid the kind of bureaucratic hassle that most of the borrower-led banks prefer to avoid. They can, for example, be earmarked for some or all countries, with African SRDBs given leeway regarding the projects or programs to fund within countries. This is a financing innovation that has worked in BOAD and can be replicated across the other four SRDBs. BADEA provided a $50 million loan for each member state of BOAD. These funds are disbursed directly to BOAD without

[24]See https://www.cdp.it/sitointernet/page/en/new_cdptdb_partnership_to_promote_impact_finance_in_africa?contentId=CSA29799

passing through the public treasury. According to BOAD officials, it is a "major innovation that will enable the BOAD to mobilize resources more effectively."[25]

Beyond LOCs, the SRDBs can also consider scaling up co-financing arrangements with their development partners. Co-financing makes loans more attractive to African borrowers. The external partner typically provides supplementary funds to increase the size of the funding envelope to the borrower. Currently, African SRDBs largely co-finance with development partners on a project-by-project basis. In addition to these arrangements, the banks can approach their partners to set up co-financing funds. Co-financing funds differ from project-based co-financing arrangements because the external partner contributes substantial resources up front, which allows the bank to draw from the resource pool without negotiating a new co-financing arrangement once it has identified a viable project. Humphrey and Chen suggest that co-financing funds act as "an extra chequebook" that allows a development bank to avoid the hassle of finding potential co-financing or syndication partners for each deal (2021: 12).

China has created multiple co-financing funds, contributing $2 billion to the AfDB over 10 years, $4 billion to the World Bank Group (International Finance Corporation), and another $2 billion at the IADB. The country is also the only major non-regional member of the TDB (with a 7.1% shareholding), a position that presents an opening for TDB to approach the Peoples Bank of China with a proposal for a similar long-term co-financing fund. This type of fund, however, has a key disadvantage: the lack of leverage in international capital markets compared to share capital contributions.

Reforms from within

The successful mobilization of internal and external resources, like LOCs and new non-African sovereign and non-sovereign shareholders, will require African SRDBs to advance institutional reforms, including strengthening governance structures, risk management initiatives, and the robustness of screening mechanisms for project selection to maintain relatively lower risk profiles. This would act as a bulwark against criticisms that SRDBs are generally lax in making lending decisions. While SRDBs may attract borrowers due to less "bureaucratic hassle," as Humphrey's (2013) argues, having a reputation of limited oversight or ineffective risk management mechanisms will neither attract new (external) shareholders nor send positive signals to credit rating agencies.

Internal reforms are nothing new for African SRDBs, suggesting an already-present recognition of their centrality to institutional credibility. When the Central African Republic's former prime minister, Anicet Georges Dologuele, became president of BDEAC in 2001, he laid out a reform plan. This sought to recover outstanding repayments, adopt a more stringent posture for late payers and defaulters, and limit the politicization of bank lending, in part through a reduction of political appointees on BDEAC's executive board (Bulliard, 2004). Similarly, TDB's restructuring plan began in 2000---when it was still known as PTA Bank. However, the reform agenda

[25]Interview.

was accelerated in 2011, under a new president, Admassu Tadesse, and with the presence of a new department dedicated to risk management and independent directors on the executive board (Wallace, 2014). It was not until 2014 that TDB introduced general provisions, setting aside some funds to cover potential future losses.

Such internal reforms should be pursued across all SRDBs as a matter of priority for resource mobilization efforts. Successful implementation of internal reforms provides SRDBs an opportunity to defend their own institutional identity and strength, which is linked to, but also separate from their member states.

Entering the (bond) market

To issue bonds on international capital markets on a competitive basis, African SRDBs need to get better ratings from the major international ratings agencies, like Fitch, Moody's, and S&P. As Section 4 highlighted, the banks are hampered by the limited to non-existent support they receive from highly rated shareholders.

There might be ways to overcome this problem---at least on an issue-by-issue basis. TDB's relative success in issuing Eurobonds with a credit rating level of Baa3 (Moody's) suggests that insurance and risk management matters. The bank has issued at least five Eurobonds on capital markets since 2010 (TDB, 2021). Humphrey suggests that TDB's innovative use of insurance on loan exposures as well as on its own callable capital helps support its rating (2023:24). Other banks can follow. They can use both collateral and insurance policies to reduce the risks stemming from "very weak borrower credit quality of large exposures" (Moody's, 2021). They could also benefit from risk participation programs with other institutions. According to Moody's (2022), TDB had over $700 million in both funded and non-funded risk participation agreements with highly rated institutions in 2021.

Staying local

Most of the funding from international bond markets as well as donors and creditors, whether through LOCs or co-financing funds, are denominated in major hard currencies like the euro and the US dollar. While African governments tend to borrow in such currencies, there is also scope for lending more to these governments (and the private sector) in their local currencies. There has been a renewed push for MDBs to move in this direction. This is because of the foreign exchange and debt sustainability risks that governments incur when borrowing in hard currency while their revenues are in their local currency (Montgomery and Sembene, 2024).[26] Focusing more on local currency loans may allow SRDBs to take advantage of local bond markets, where they have found success in raising capital.

Financing for development

African countries need development finance, and these resource mobilization strategies could help African SRDBs provide funding to their member states. In recent years, more states have added climate finance to the mix---which is specifically geared toward addressing mitigation and adaptation challenges. In 2022, the Africa Group of Negotiators

[26]See also Anyiam-Osigwe et al. (2024)

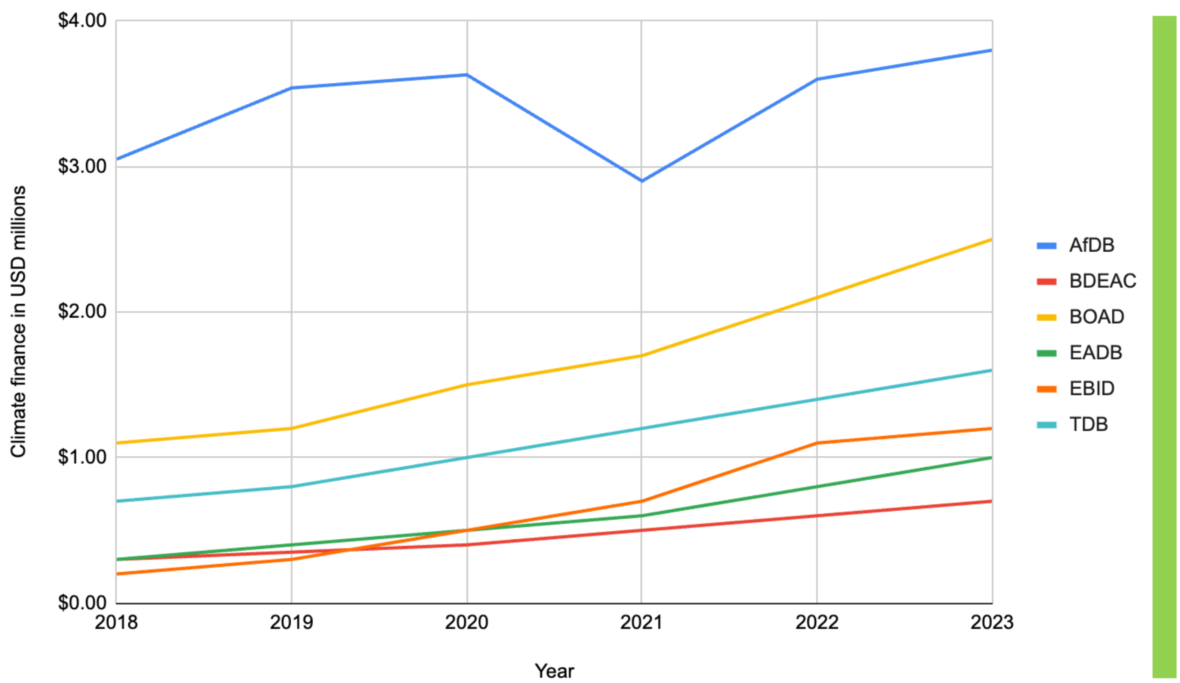
called for $1.3 trillion a year in climate finance to be made available from 2025 (Bhattacharya, 2022). At the World Bank meetings in April 2024, Kenyan President, William Ruto, similarly called for record donor contributions (up to $120 billion) to help low-income countries finance their development and combat climate change (Miriri, 2024).

Meeting the pressing needs of countries will require African SRBDs to boost their ambition in mobilizing climate finance. This is not an impossible ambition. The existence of climate finance from external sources is a readily available opportunity for African SRDBs to expand the capital they have and broaden the pipeline of climate-linked projects in their portfolio, including those targeting energy efficiency and renewable energy generation and methane abatement (see Gaba e al., 2024). We now consider resource mobilization strategies for climate finance.

5.2 Is climate finance different?

Currently, African SRDBs lag the AfDB in terms of climate finance commitments (Figure 4). The AfDB has typically scaled up climate finance from both internal and external sources --- and these additional options are also available to African SRDBs. In fact, the same resource mobilization strategies for development finance can be tailored to climate finance. LOCs can be earmarked for climate-related projects (identified by the banks) and hybrid capital allows for the issuance of green, social, and sustainability-linked bonds. The proceeds can be used to finance projects targeting the continent's most critical development challenges, including climate change.

Figure 4: Climate finance across African development banks



Source: Annual reports

Going green on the market

Major MDBs have found success in issuing green bonds or sustainability-linked bonds (SLBs) on international capital markets. With SLBs, the banks set sustainability targets within a determined period (ICMA, 2023:11). Depending on the number of targets the issuer meets, coupon payments, for example, may decrease. With green bonds, proceeds are tied to specific "green" projects.

The major MDBs have found success in issuing these bonds. By June 2020, the International Finance Corporation had issued 172 bonds as part of its Green Bond Program, totaling $10.4 billion.[27] Borrower-led MDBs have also successfully issued bonds. The CAF was the first borrower-led MDB to issue green and social bonds, with the proceeds earmarked for projects meeting green and social criteria. Within Africa, BOAD issued a €750 million sustainability development bond in 2021. The issue attracted over 200 international investors with demand amounting to €4.4 billion (BOAD, 2021).

Given the growing interest in green bonds, African SRDBs can use this opportunity to further strengthen their investment capacity. Green or sustainability-linked bonds can be issued in collaboration with bilateral creditors, their DFIs, and legacy MDBs. Two examples stand out as blueprints that SRDBs could follow. The first involves BOAD and Italy's CDP. The Italian Climate Fund is managed by the CDP and finances public and private climate-linked projects in developing countries. In August 2024, BOAD issued the first euro-denominated green hybrid bond with CDP acting on behalf of the Italian Climate Fund. The subscription by the Climate Fund to the hybrid bond totaled €100 million. It will finance climate change mitigation projects in the WAEMU region (BOAD, 2024). The hybrid green bond will not only strengthen BOAD's capital base, but it would also help the sub-regional bank to mobilize climate finance in the West African region.

The second example is an innovative credit-enhancement mechanism that involved the World Bank and the Development Bank of Rwanda (BRD). In 2023, BRD issued Rwanda's first sustainability-linked bond, marking the first time a national development bank issued an SLB globally. Its credit-enhancement mechanism was unique---and highly effective. As Alatabani, Verma, and Navarro (2023) highlight, BRD opted to use $10 million in IDA funds to collateralize the bond, rather than as a line of credit. The IDA funds were kept in an escrow account set up at the National Bank of Rwanda. This effectively reduced the risk for investors and lowered the cost of borrowing for BRD. African SRDBs can follow a similar strategy to limit risk and attract more impact investors.

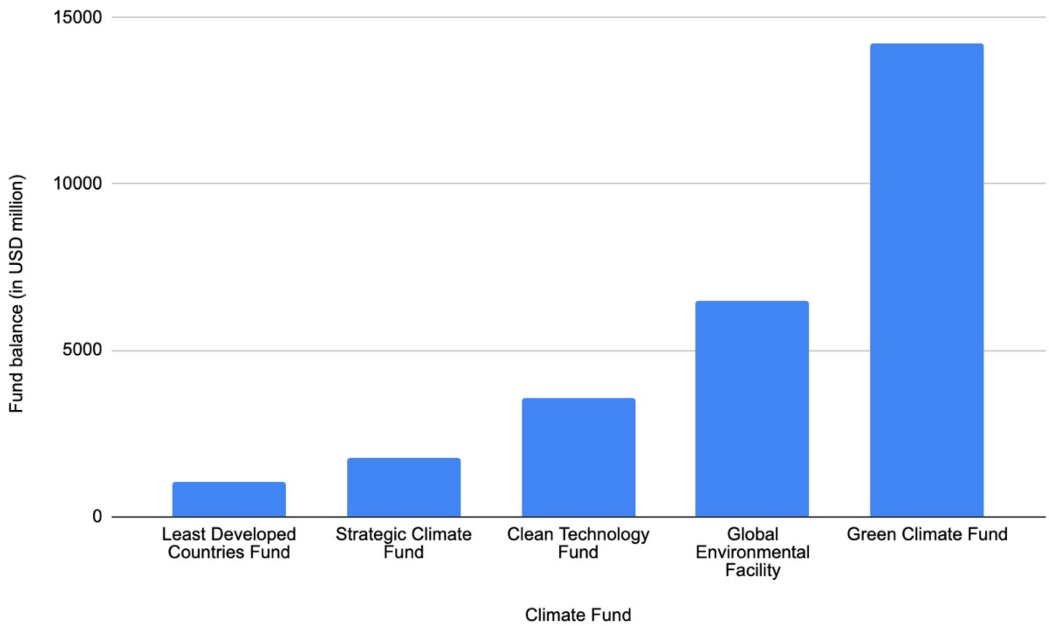
Getting accredited to multilateral climate funds

There are multilateral climate funds or financial intermediary funds (FIFs), like the Green Climate Fund (GCF) and the Global Environment Facility (GEF), which are specifically dedicated to financing climate projects. African SRDBs may seek either direct or indirect access to these multilateral climate funds (Figure 5).

[27]https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/green-finance#:~:text=Green%20Bonds,-IFC%20was%20one&text=As%20of%20June%2030%2C2020,bonds%20between%202015%20and%202020.

Direct access will require accreditation. According to the GCF, accredited entities develop funding proposals that are considered by the GCF. These entities are also responsible for overseeing, managing, and monitoring their GCF-approved projects and programs. Most MDBs can get institutional accreditation at the GCF and other multilateral climate funds. BOAD's strategy of seeking direct access to these funds as an accredited entity has been successful. In 2015, it obtained accreditation as a project implementing agency to the GEF. In 2017, its nomination for GCF accreditation was formally supported by two of its member states, Niger and Burkina Faso. The finance ministries of these two countries provided a letter of support to the GCF on behalf of BOAD (GCF, 2015, 2016).

Figure 5: Multilateral climate funds



Source: World Bank, Financial Intermediary Funds[28]

Since its accreditation, BOAD has funded several projects using GCF funding, including solar rural electrification projects in Mali and Senegal. BOAD now has almost all the accreditations of the green and climate funds (see BOAD, 2021b: 27).[29] As Figure 4 shows, among the five African SRDBs, BOAD consistently had the highest level of climate finance over the five years between 2018 and 2023. Other African SRDBs can follow BOAD's lead.[30]

New "Green" class shareholders

African SRDBs may also take advantage of the growing interest of impact investors

[28]Fund balance figured based on data from October 2024

[29]Interview.

[30]As of December 2020, BDEAC was engaged in the accreditation process for the GCF (Business in Cameroon, 2020).

in funding climate projects.[31] They may do so by creating new equity instruments that allow investors to support climate mitigation and adaptation projects. Along these lines, BOAD, BDEAC, EADB, and EBID can follow TDB's approach through the creation of Class C Green+ shares, which provides financing support for low-carbon projects.

The share class, launched during COP27, is an innovative financing instrument that aims to attract African and global private and institutional investors interested in pursuing development on the continent that aligns with the Sustainable Development Goals, the African Union's Agenda 2063, and the Paris Agreement on Climate Change (TDB, 2022). Importantly, every dollar financed by these Class C Green + shares is projected to mobilize $3 of green funding from TDB (USAID, 2023: 16). At the end of 2023, the AfDB, Eagle Insurance Company Limited, Sacos Group Limited, Sacos Life Assurance Limited Company as well as TDB's Provident Fund (a retirement scheme for the bank's employees) had subscribed to Class C shares. The shares do not come with voting rights, so African ownership of the bank (concentrated among states) remains unchanged. As a tradeoff, Class 'C' shareholders are given priority over member states and other institutional investors in the event of liquidation (Merchant, 2024).

Apart from impact investors, there could also be potential opportunities to attract financing through "Green" class shares by approaching global philanthropies and public-private partnerships, like the Gates Foundation, Hewlett Foundation, Bezos Earth Fund, Yield Giving, and Bloomberg Philanthropies, which have all taken a climate turn in recent years.

Better together: multi-donor trust funds

To mobilize climate finance, member states and external donors can create multi-donor trust funds within the banks, which would be earmarked for climate-related projects. Most climate-linked trust funds at MDBs receive contributions directly from donor governments. Others receive funding from FIFs, like the GEF, which are themselves replenished periodically by donor governments (Michaelowa et al, 2020).

As Table 8 shows, the AfDB has been successful in creating multi-donor trust funds dedicated to climate change in Africa. It has also been successful in converting bilateral trust funds to muti-donor trust funds, as was the case with the Africa Climate Change Fund. This has allowed the AfDB to mobilize substantially more financing for climate investments. African SRDBs can follow the AfDB's lead.

But to successfully replicate the AfDB model, development partners interested in supporting African countries' efforts to address climate change may need to consider the SRDBs as viable channels through which more climate finance can reach countries. They could explore options for the SRDB to administer their contributions – using its own operational guidelines – to finance activities under the trust funds. These may be tied or untied grant resources, depending on the preferences of the donor – although untied contributions would provide African SRDBs with more autonomy over lending decisions.

[31]There might also be interest from global philanthropies like the Gates Foundation, Open Society Foundations, and the Rockefeller Foundation, which African SRDBs could pursue. In 2022, these philanthropic organizations set up the MDB Challenge Fund to enhance financing to low and middle-income countries. See https://www.rockefellerfoundation.org/news/global-philanthropies-create-new-multilateral-development-banks-challenge-fund-to-increase-investment-in-developing-countries/

Table 8: Multi-donor trust funds at the African Development Bank

	Year	Contributors
Africa Water Facility	2006	AfDB, Algeria, Australia, Austria, Bill and Melinda Gates Foundation, Burkina Faso, Canada, Chad, Denmark, Egypt, European Union, France, Nigeria, Norway, Senegal, Spain, Sweden, Nordic Development Fund, United Kingdom, and the United States Agency for International Development
Congo Basin Forest Fund	2008	Canada, Norway, United Kingdom and the United States
ClimDev-Africa Special Fund	2009	Intra-Africa, Caribbean, and Pacific (Intra-ACP) program, Nordic Development Fund, and the Swedish International Development Agency
Sustainable Energy Fund for Africa	2011	Denmark (lead donor), United States, United Kingdom, Italy, Norway, Spain, Sweden, Germany, Nordia Development Fund, and the Global Energy Alliance from the People and the Planet
Africa Climate Change Fund	2014	Germany, Belgium, Italy, Canada, and the Global Center on Adaptation

6. Policy Recommendations

As the world confronts both near-term and long-term global challenges – from sustainable development to climate change – it is essential to mobilize and maximize all potential sources of finance to support institutions at the frontline. Shareholders at the World Bank have called for an MDB Evolution and the G-20, under the Indian Presidency, similarly called for a fundamental rethinking of the role and functions of MDBs (Ahmed and Lee, 2023).

At the center of the evolution agenda is a shift towards more climate finance and the mainstreaming of climate into development projects. While the World Bank and major regional MDBs continue to dominate development discourse, borrower-led MDBs are often overlooked. Yet, these smaller banks, given their localized knowledge and access to local beneficiaries, are important to successful development efforts. Their capacity to mobilize resources for development climate adaptation and mitigation should warrant greater policy attention.

Here are a few steps African SRDBs should take in the near term to help optimize their resource mobilization efforts and better address the challenges and opportunities in the development and climate finance landscape.

Mobilization of internal resources

African countries should individually and collectively invest in their institutions. Countries should follow the lead of Kenya and commit resources to the SRDBs where they hold membership. ECOWAS members should give urgent attention to EBID's request for the allocation of 30% of the Community Levy (as tariffs imposed on non-AfCFTA members), as was directed by the Chairman of the Board of Governors to the Chairman of the Council of Ministers through the ECOWAS Commission in 2013.

As a collective effort to fund SRDBs, African governments should also commit a share of their additional annual tax revenue to SRDBs. With a progressive model in which more successful countries contribute more over time, this initiative would have the merit of linking increased contributions (and shareholding) to capacity to pay.

On a more bureaucratic level, African SRDBs should pursue a balance sheet optimization strategy, focusing on exposure exchange agreements with larger MDBs and risk-sharing arrangements with private investors, following the lead of the AfDB's Room2Run transaction.

Internal and institutional reform

African SRDBs should pursue reforms along two lines. First, internal reforms to strengthen institutional credibility and financial Integrity are needed to send positive signals to outside actors and maintain the financial health of the banks. Such reforms include risk management policies and more robust project selection criteria.

The second set of reforms agenda involves membership expansion. Inviting non-African or non-state shareholders has trade-offs, but the financial benefits would be overwhelmingly positive. African SRDBs should approach donor governments and institutional investors with proposals for non-voting shares, reduced-voting shares, or "green" class shares (for climate finance). Priority should be given to non-regional countries with an A or higher rating to improve the SRDBs' bond ratings.

Trust funds and co-financing funds

African SRDBs should also approach donor governments with proposals for multi-donor climate trust funds and co-financing funds that will be used alongside the SRDBs' own resources. This would finance sovereign and non-sovereign guaranteed development projects. Both trust funds and co-financing funds should be prioritized over short-term co-financing arrangements made on a project-by-project basis. Such funds should operate within the existing strategic framework, policies, and procedures of the development banks, thereby leveraging on the banks' strengths as sub-regional institutions.

Larger lines of credit

For greater impact, there is also scope for increasing the magnitude of LOCs

> **"ECOWAS members should give urgent attention to EBID's request for the allocation of 30% of the Community Levy (as tariffs imposed on non-AfCFTA members)"**

granted to these SRDBs. Most LOCs are relatively small - our review suggests that they have typically been below $1 billion in recent years. A more expansive level of engagement between African SRDBs national DFIs and commercial banks is needed to scale up credit lines. This will require SRDBs to identify a larger number of viable development and climate-linked projects in their pipeline to justify requests for a larger pool of funding.

African Co-investment Facility

Replicating the IFC's MCPP would be difficult on an individual basis given each bank's limited size and scope of operations. However, a joint facility that provides institutional investors with access to the pipeline of projects and the portfolio of all five African SRDBs would be more attractive to investors (see Humphrey, 2018: 25, 29). It would also mean pooling financial resources to fund guarantees to mitigate investor risks. All five African SRDBs, or those with membership overlap, like BOAD and EBID, and TDB and EADB, should collectively develop plans for an African Co-investment Facility. This Facility should model the MCPP as a pool-based approach to loan syndication for private and, possibly, public-sector lending.

Greening the banks

Like TDB, other African SRDBs can create a new class of "green" shares to exclusively support to low carbon projects in their member states. The capital generated can be leveraged to finance eligible public and private sector projects linked to sustainable development goals. Currently, only the AfDB, through capital sourced from the Climate Investment Funds (one of the world's largest multilateral funds), has invested in Class C Green+ shares at TDB.

The Development Bank of Rwanda has also set a scalable precedent in 2023 with the issuance of the first SLB by a national development bank. African SRDBs should follow in using lines of credit to collateralize sustainability-linked bonds. This creates a partial credit enhancement mechanism to reduce credit risk and attract more investors.

Power of accreditation

Following the lead of BOAD, the four other banks should all seek accreditation at the major multilateral climate funds. Accreditation not only provides access to funding for climate projects in the banks' pipelines, but it also demonstrates the financial management capacity of the banks to other development partners. At multilateral climate funds, accreditation is a process that is specifically designed to assess whether entities are capable of strong financial management and safeguarding funded projects and programs. Getting accredited is a much-needed stamp of approval.

Engaging with the Big 3

SRDBs need a strategy for enhancing their ratings and this should include proactive engagement with the Big 3: S&P Global Ratings, Moody's, and Fitch Group. This move will be in line with a nearly decades-old action plan put forward by the G-20. Notably, no African SRDB was a participant at the 2024 MDBs & Credit Rating Agencies Roundtable---a forum that allows MDBs to meet with the Big 3 to discuss the mechanics of their rating criteria (IDB, 2024). Yet, these are the kinds of platforms that African SRDBs need to understand how to better position themselves to successfully navigate the credit ratings processes with a view towards improving their ratings.

As a strategy for Big 3 engagement, African SRDBs should request a seat at the table at these forums and collectively establish their own platforms to collaborate with the major rating agencies, including knowledge-sharing arrangements. In 2024, AfriCatalyst, in partnership with UNDP, launched a joint credit ratings initiative, the Africa Credit Ratings Resource Platform, to help African governments better understand the credit ratings process to improve their chances of receiving a higher-rated status, and thus getting more competitive access to capital market financing.[32] The same initiative can be pursued by African SRDBs, which face a similarly unique set of challenges with the credit ratings process as their regional member states. The goal should be to leverage existing resources, like the Africa Credit Ratings Resource Platform, pool resources, and invite relevant stakeholders, like representatives from the Big 3, to formulate best practices for enhancing their credit ratings.

[32]See AfriCatalyst. "About the AfriCatalyst UNDP Credit ratings Initiative." https://africatalyst.com/credit-ratings/

7. Conclusion

Taking these steps would put African SRDBs in a better position to secure the financing that is necessary to contribute effectively to Africa's development. Should the banks pursue any of these recommendations, they must position themselves as credible partners with in-depth local knowledge of their sub-region. This, in many ways, is the comparative advantage that allows them to identify bankable projects and remain developmentally relevant.

Ideally, every potential avenue should be pursued. But this requires not only the concerted actions of organizational leaders and staff but also impacts investors, bilateral donors, other multilateral institutions, and African governments. All hands must be on deck.

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AFRICATALYST
Global Development Advisory
Dakar, Senegal
T | +221 338205 676 E | contact@africatalyst.com www.africatalyst.com