

## Key findings



# Weathering the storm: African public development banks' response to Covid-19 shock and their recovery role

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**In the wake of the unprecedented global impacts of Covid-19, this study looks at the understudied role of public development banks (PDBs) in Africa, in responding to the economic impacts of the crisis, and their broader role in supporting economic recovery and building resilience. It brings together new survey data and detailed financial analysis, alongside in-depth case study to highlight their valuable role and understand their challenges.**

**We find that African PDBs were adaptable, resourceful, and largely counter-cyclical in their response to Covid-19. The study finds that PDBs adopted either a restricted, responsive, or proactive strategic response depending on institutional circumstance and their financial health, as well as the support of central banks and regulatory bodies. The findings confirm the critical role that they can play, not only in building economic resilience to shocks but as active agents of national economic policy and institutions, who can support a low carbon and climate resilient economic recovery. However, these banks will need to be strengthened, supported and recapitalized to enable them to realize this potential.**



## Objectives and research questions

The study examines three research questions:

1. Did African PDBs play a countercyclical role in confronting the Covid-19 crisis? What kind of responses do we see, and what scale did this take?
2. How were African PDBs financially impacted by the effects of Covid-19 on the domestic economy? How did this impact their ability to react?
3. How have PDBs been utilized or supported by shareholding governments and partners in their response, and as an instrument of broader economic recovery strategies?



## Methods

The research draws on a mixed-method approach, using three types of evidence: 1) a qualitative survey of 25 PDBs from the AADFI membership, to look at broad, horizontal trends in their responses and impacts; 2) a quantitative analysis of financial data and metrics for selected 17 banks to understand their financial structure, and impacts from the crisis; and finally 3) semi-structured interviews with 10 PDBs to inform a series of case studies of individual bank responses and challenges.



## Results

The study finds that African PDBs have proved their worth in the Covid-19 crisis. African PDBs were adaptable and flexible in their operations and financial responses to the shock of the pandemic, changing their ways of working to better serve their clients. The vast majority of surveyed PDBs mounted a countercyclical response, primarily through debt relief, but also using new instruments and innovations to support targeted sectors. However, lack of access to finance, and high capital costs, remain constraints on the ability of African PDBs to scale up their impact.

While the crisis did impact the profitability and finances of many PDBs, most have been resilient, and the Covid-19 crisis has also helped accelerate some existing reform efforts. The role of central banks and regulators have also played an important role in supporting and enabling PDBs in their crisis response, and in these reform efforts.



## Recommendations

### Recommendations

- 1) Increase the capitalization and access to affordable capital of African PDBs. PDBs, governments and international development partners should actively explore how well-run PDBs can expand their capital base, through new financial resources (such as utilizing new reallocated IMF Special Drawing Rights), expansion of equity base to new shareholders, increasing PDB leverage ratios, issuing sovereign guarantees, or other innovative risk management approaches that optimize use of capital
- 2) Increase international support to build the capacity of African PDBs, stepping up the provision of technical assistance, training and co-financing to support the ambitions of PDBs seeking to expand or diversify their portfolios, as well as enhancing the external role and platform of AADFI in knowledge-sharing.
- 3) Build strong PDB governance frameworks and adopt best practices in risk management. African PDBs should seek to use the AADFI prudential standards and guidelines (PSGRS) and improve areas assessed as non or partially compliant. This will further strengthen the banks financial and governance which will in turn build external credibility to attract capital and international partnerships.
- 4) Ensure a supportive regulatory and policy environment. The study underscores the importance of tailored PDB regulation, central bank support and integration with government policy. Governments and regulators should ensure that national regulation can support the development and public goods role of PDBs, and that their mandate aligns with national strategic objectives.

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