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KEY
FINDINGS

Sub-Regional Development Banks in Sub-Saharan Africa: Exploring New Forms of Capitalization and Leveraging

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African Sub-Regional Development Banks (SRDBs) face limited capacity to provide finance on a scale required for a country's overall growth trajectory and transformation. Based on an institutional-historical approach, the paper puts forward the view that SRDBs are a unique arrangement that can go a long way in accelerating growth and structural transformation if their functional role is maximized. The paper examines the constraints they face to scale up finance and what can be done to unlock their capacity to leverage national and international capital, providing sector and issues financing, promoting co-financing and opening up new investment frontiers that can allow for innovative solutions, the emergence of new sectors, industries, and long-needed coordinated response to the critical challenge of climate change.

Objectives & Research Questions

The objectives are to understand the main limitations that SRDBs face to scale up finance for development, focusing on their capital base and funding constraints, and what can be done to unlock their lending and investment capacity. Key questions include :

1. How can the banks expand their capital base (and other forms of funding) and what is holding them back – governance issues, fiscal issues, lack of financial instruments (like guarantees and hedges), other?
2. Can these banks have significant access to funding sources that are long term, especially if a main goal is to provide resources for infrastructure?
3. Can these funding sources be low cost and stable (low-interest rate volatility), and accompanied with, or supported, by partial hedging mechanisms?

Methodology

In methodological terms, the paper adopts an Institutional-Historical Approach (discussed in the paper), and combines desk research (mapping banks' equity composition by ownership, funding sources, and strategic focus), public official data and semi-structured interviews with banks' senior managers, board members and other bank experts. The interviews are aimed at uncovering what in their views the obstacles – political, governance, technical, legal, regulatory – are for significant ownership expansion, possible ways of overcoming them; and what alternative mechanisms can contribute to enhanced leveraging capacity. The paper takes the case of four sub-regional development banks – EADB, BOAD, BDEAC and TDB, whose mandates cover different geographical areas of Africa.

Results

Main findings include:

- SRDBs moving towards diversifying their funding base, tapping regional and international capital markets, but credit rating still is a constraint for raising funds at reasonable cost.
- SRDBs making the right moves to expand ownership, targeting shareholders with higher credit ratings than themselves, but there is a way to go. In some instances, banks' charters limit their degrees of freedom for change. There is room, though, to expand capital significantly without losing control.
- Countries with good ratings outside Africa may contribute more capital, but not all such countries are interested in doing so, even those with strong historical links with the banks.
- Ability to mobilise resources from global funds impaired by administrative hurdles/managerial costs.

Recommendations

1. SRDBs need patient capital, which still should come from official sources. MDBs are the preferred sources of long-term capital and risk mitigating instruments such as guarantees, but they need first to be able to scale up finance so that they can pass on substantial amounts of resources to SRDBs.
2. All banks are either seeking or already have accreditation with international green funds. However, even in cases accreditation already exists, access to such funds is cumbersome requiring a complex process of funding criteria and approval which end-borrowers find hard to meet. The access to those funds requires urgent revision.
3. MDBs working as a system with NDBs should be further encouraged, and SRDBs must be part of it. They are particularly well-positioned to understand the social and political contexts, bring valuable local knowledge and experience, ensuring that development efforts are tailored to the specific needs and circumstances in the region they serve.
4. A wide-ranging reform of the international financial architecture is necessary, leading to debt resolution outcomes that free up fiscal space so that governments around Africa can invest in the SDGs and climate action, and shore up capital of their SRDBs.