

Assessment of African sub-Regional Development Banks' Contribution to Infrastructure

ICA Annual Meeting

Lufeyo Banda

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Outline

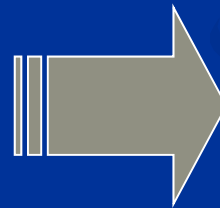
- Background to the study.
- SRDBs & experience of other RECs.
- African sub-SRDBs and key findings.
- Demand and supply analysis of requests and commitments made by African SRDBs.
- Networking & sharing of information among African SRDBs.
- Policy Recommendations

Background.

- This study by ICA is an assessment of the current and past contributions of African SRDBs to Infrastructure Development in Africa.

African SRDBs

- EADB
- EBID
- PTA Bank
- BOAD



RECs

- EAC
- ECOWAS
- COMESA
- ECOWAS

Background Cont.

- Assessment designed to provide answers to questions relating to:
 - (1) relevance of African SRDBs in bridging the infrastructure financing gap, and
 - (2) need to enhance these sub-regional banks: strengths, opportunities and challenges.
- The aim is to assess how ICA can support these banks meet their mandate of financing infrastructure development.

Characteristics and Role of SRDBs

Long Term Loan



Experience of other SRDBs

- Experience from other RECs in the world:



- Success factors of those SRDBs :
 - 1) useful role in financing national projects in countries which are relatively too small to mobilise long-term financial resources;
 - 2) defined their role very clearly vis-à-vis other DBs;
 - 3) developed a network of national DFIs with the SRDB at the hub.

Experience of other SRDBs (*cont.*)

- 4) Role of wholesaling and financing large projects leaving relatively small projects to national DFIs.
- 5) secured the right kind of support from non-regional developed country members.
- 6) a good credit rating which enables them to mobilise resources for infrastructure projects from capital markets.

African SRDBs: Key findings

- Key finding of the study on African SRDBs include financing gap:



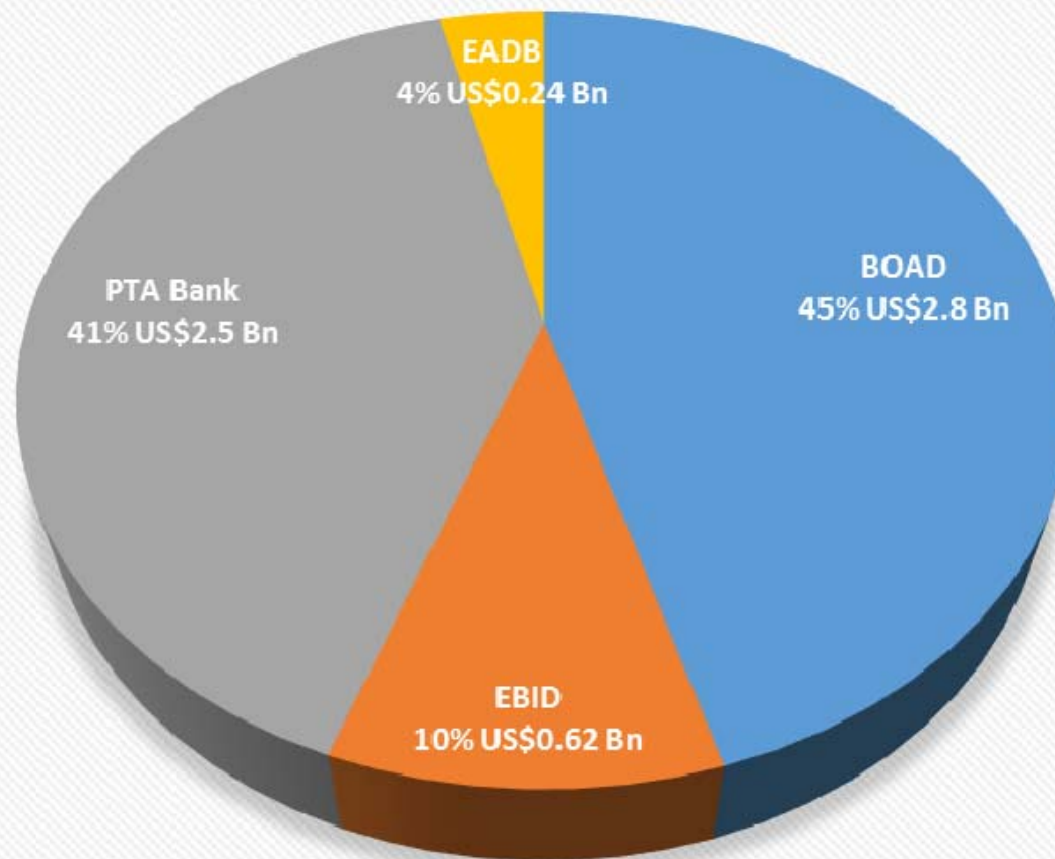
- In all the three RECs covered by the four African SRDBs analysed, the **financing gap** for infrastructure projects is huge (roughly about **US\$234 billion**)

Implications of the financing gap

- Constrains on growth potential.
- Failure of most RECs to adequately fund infrastructure projects.
- For these reasons, shareholders of SRDBs need:
 - a) to ensure that the banks are well capitalised; and
 - b) their mandates are well defined, so that they can respond to the challenge of funding infrastructure and ultimately REI.

Size of African SRDBs

- At the end of 2013, the African SRDBs analysed in this study reported total assets of US \$6.2 billion.

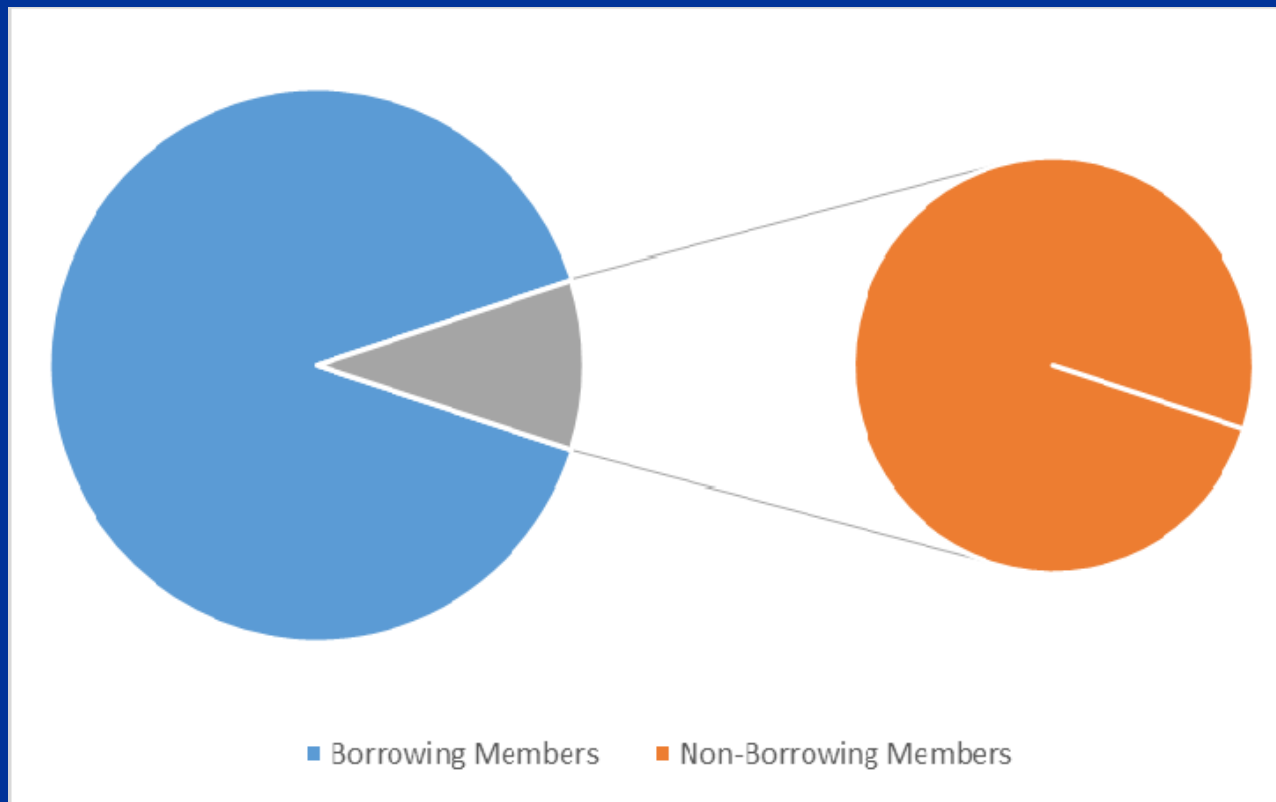


Implications of Asset Size

- Most of the African SRDBs are relatively small by asset size → implications for infrastructure financing, include:
 - 1) Relatively low levels of volume of resources that most of these SRDBs can mobilise from the market to finance infrastructure projects; and
 - 2) For the reason stated in (1) shareholders should seriously consider adequately capitalising the banks and also strengthening their balance sheets.

Ownership and Funding Arrangements of African SRDBs

- African SRDBs are institutions owned, administered, and controlled by the regional member countries.

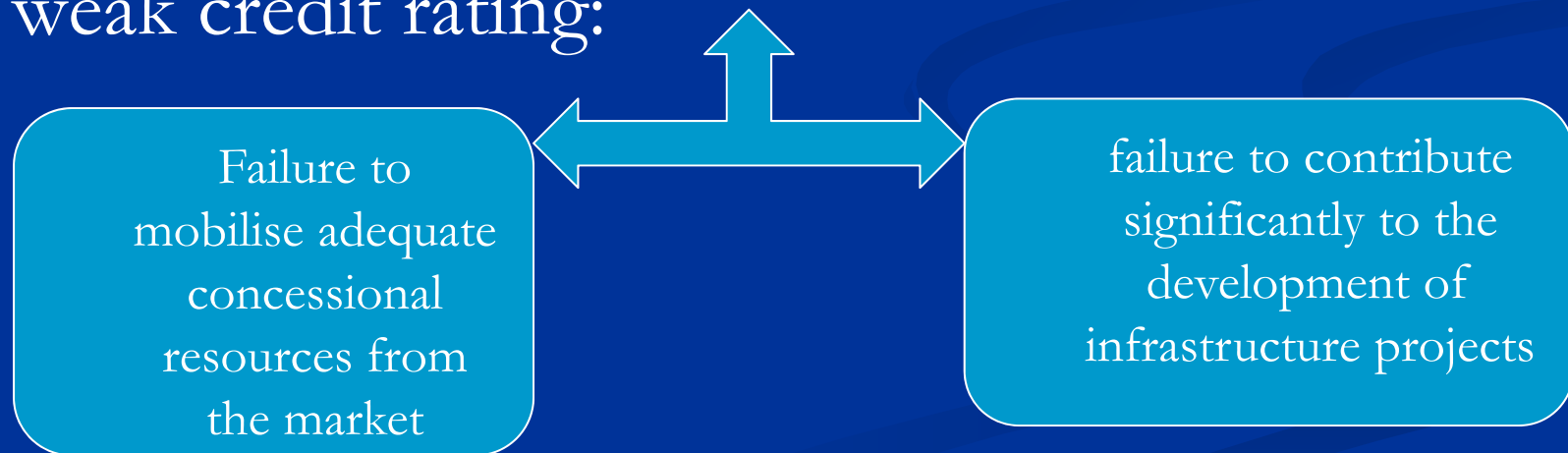


Implications of Ownership and Funding Structure

- Holding the majority of the shares by borrowing members is not a disadvantage. See LAC SRDBs (wholly owned by LAC members).
- Despite the experience of LAC SRDBs, holding of shares by non-borrowing member can be critical.
- if non-borrowing members contribute to callable capital of the bank → channel most of resources for infrastructure development through these banks.

Size & Implications of the Capital Model

- African SRDBs are relatively small in asset size compared to their peers.
- weak paid-in capital from shareholders plus low weak credit rating:



Financial Performance and Sustainability



- Findings: three SRDBs were financially sustainable and their return to equity and asset ratios were positive

Implications of Sustainability



Shareholders satisfied with the performance of these Banks which are financially sustainable



May contribute to the strengthening of the balance sheets of the Banks through the returned earnings.

Level of interest of African SRDBs in networking

- While SRDBs may not be homogenous → face similar problems
- vital for SRDBs to work together to address common challenges as well as share knowledge, best practices and experiences.

- Despite lack of networking among the sampled SRDBs, the level of interest to do so is high and this was validated by the consensus on the need to:

Share information



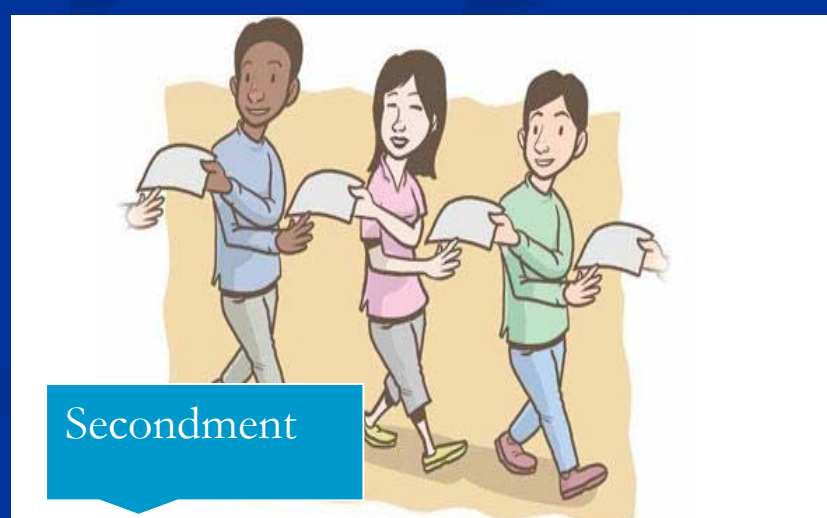
Technical Support



Capacity building



Secondment



Implications of networking

- A lack of networking among African SRDBs could lead to:
 - a) Duplication of services as well as harmful competition for scarce resources is avoided;
 - b) Failure to enhance the capacity of these institutions; and ultimately
 - c) Failure to bridging the financing gap for infrastructure projects.

Demand and Supply on financing infrastructure by the African SRDBs

Table 19: Demand and Supply Analysis of financing infrastructure 2014

	Number of Applications Received	Total Amount of Applications (US\$ Mn)	Total Applications Approved	Total Applications Approved (US\$ Mn)	Financing Gap
EADB	2	30.0	2	30.0	Nil
PTA Bank	34	933.0	7	209.6	783.4
BOAD	-	-	-	-	-
EBID	13	530.2	6	95.6	434.6

Demand and Supply (Cont.)

- supply of resources by the SRDBs to support infrastructure projects is relatively low.
- demand for such resources was high and could not be met.
- This failure to meet demand was attributed among others to :
 - 1) Lack of a pipeline of bankable projects;
 - 2) Lack of resources with the bulk of funding coming from donors and governments;
 - 3) Lack of skills, etc

Implication of Demand and Supply on financing infrastructure

- Failure to supply enough resources by the African SRDBs has ultimately contributed to:
 - 1) failure by African RECs in bridging infrastructure investment gap;
 - 2) Failure to develop both regional and national infrastructure projects in sufficient numbers;
 - 3) Increase in the infrastructure investment gap;
 - 4) Low levels of economic growth and high levels of poverty; and
 - 5) Failure to economically integrate.

Conclusion

- Although African SRDBs have facilitated infrastructure development in their respective RECs, these institutions lag behind in terms of :
 - 1) meeting their developmental mandate of financing infrastructure development; and
 - 2) contributing to bridging the infrastructure financing gap.
- Premised on these findings, the assessment recommends that:

For African sub-SRDBs

- African sub-RDBs should
 - 1) Continue to strengthen their Corporate Governance and credit rating;
 - 2) Encourage other strategic institutions and donors to take equity in these Banks;
 - 3) Review their original mandates in the light of changing economic landscape and ensure that they remain a hub for NDBs;
 - 4) Work closely with MS, MDBs and Donors to adequately capitalise the banks;
 - 5) Establish a coordinating mechanism for African SRDBs; and
 - 6) With the assistance from ICA develop capacity building programmes.

Recommendations. *Cont.*

- For ICA, it should play a catalytic role and ensure that:
 - 1) the gaps on the mandates of the African SRDBs are identified and aligned;
 - 2) donors and other strategic partners support African SRDBs by subscribing to the capital of the banks;
 - 3) coordinating mechanism for African SRDBs is developed and operationalized; and
 - 4) Capacity building programmes for African SRDBs are developed and skills of officials enhanced.

Thank You