AFRICAN DEVELOPMENT BANK GROUP

NEPAD, REGIONAL INTEGRATION AND TRADE DEPARTMENT
INFRASTRUCTURE CONSORTIUM FOR AFRICA

The Study Report on the Assessment of African sub-Regional Development Banks' Contribution to Infrastructure Development

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LIST OF ACRONYMS

AfDB	African Development Bank
AICD	Africa Infrastructure Country Diagnostic
AsDB	Asian Development Bank
ASRDBs	African sub-regional development banks
AU	African Union
BADEA	Arab Bank for Economic Development in Africa
BCEAO	Central Bank of West African States
BDEAC	Development Bank for the Central African States
BOAD	West African Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Corporacion Andina de Fomento/ Andean Development Corporation
CDB	Caribbean Development Bank
CEEAC	Economic Community of Central African States
CEMAC	Economic and Monetary Community of Central Africa
CEPGL	Community of the Great Lakes States
COMESA	Common Market of Eastern and Southern African States
DEG	German Development Corporation
DFIs	Development Finance Institutions
EAC	East African Community
EADB	East African Development Bank
EBID	ECOWAS Bank for Investment and Development
EBRD	European Bank for Reconstruction and Development
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EU	European Union
GIF	Global Infrastructure Fund
IADB	International Bank for Reconstruction and Development
IBRD	Inter-American Development Bank
ICA	Infrastructure Consortium for Africa
IDA	International Development Association
IFC	International Finance Corporation
LAC	Latin America and Caribbean
MDB	Multilateral Development Bank
NEPAD	The New Partnership for Africa's Development
PIDA	Programme for Infrastructure Development in Africa
PIDG	Private Infrastructure Development Group
PTA Bank	Common Market for Eastern and Southern Africa
RDBs	regional development banks
RECs	Regional Economic Communities
RIAs	regional integration arrangements
SADC	Southern African Development Community
SMEs	Small and medium enterprises
SRDBs	sub-regional development banks
SSA	Sub-Saharan Africa
UN	United Nations
WAEMU	West Africa Economic and Monetary Union
WAMU	West African Monetary Union

EXECUTIVE SUMMARY

1 Context and objectives of the study

1.1 This study by the Infrastructure Consortium for Africa is an assessment of the current and past contributions of African Sub-regional Development Banks (SRDBs) to infrastructure development in Africa. The study reviews four out of the six African SRDBs that have been established by African Regional Economic Communities.

1.2 The four sub-regional development banks covered by the study are:

- Eastern and Southern African Trade Development Bank (commonly referred to as the PTA Bank)

- East African Development Bank (EADB)

- West African Development Bank (BOAD – Banque Ouest Africaine de Développement)

- Ecowas Bank for Investment and Development (EBID).

Their operations cover three separate regional economic communities (RECs) although some have overlapping boundaries. These RECs are the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) respectively. The study also looks at other SRDBs from Asia, Latin America and the Caribbean regions for comparison purposes.

1.3 The study assesses the rationale for establishing these institutions, their mandate, capital structure, portfolio analysis, their efficiency disbursing loans, the quality of their assets, and their funding models. The study also carried out a demand and supply analysis in relation to requests received by the SRDBs for financing infrastructure projects and their commitments in terms of favourable responses. The study further examines the strengths, opportunities and challenges facing the SRDBs in meeting their infrastructure financing mandates and assesses their level of interest in networking among themselves, as evidenced by their willingness to share information, best practice and lessons learned. It also looks at the expected outcome of the proposed networking.

1.4 The study was designed to provide answers to questions relating to: (i) the relevance of African SRDBs in bridging the infrastructure financing gap and, (ii) the enhancement of these sub-regional banks, taking into account their strengths, challenges and the opportunities facing them, so that they can meet their development mandate of financing infrastructure projects. Other evaluation questions related to the African SRDBs financial performance (including sustainability), their mandate, capital structure and resource mobilisation strategies. A sectoral analysis of the Banks' interventions is also presented.

2 Main findings of the review

Historically, African SRDBs have been established and are used by regional member countries to promote economic development especially through supporting regional economic integration activities, in particular financing the construction of roads and highways, energy plants, dams and telecommunication infrastructure, and to foster the development of embryonic industries, such as small and medium enterprises (SMEs), in support of industrialisation.

SRDBs usually constitute the main source of long-term credit, loan guarantees, and other essential financial services in the infrastructure, industry, finance and agriculture sectors. Across the world, these institutions are prevalent in regions where private financial institutions and capital markets have limited capability in bridging the financing gap of long-term resources required for development.

2.1 Financing gap for infrastructure projects

Access to development finance is one of the most important issues that RECs around the world, including those in Africa, face today. The effectiveness of financial markets is one of the biggest differentiating factors between developed and developing countries. As has been noted in development economics literature, "the financing gap for infrastructure and industrial projects is not so pronounced in developed countries compared to developing countries". This study finds that in all three sub-regional groupings reviewed, the financing gap for infrastructure projects is huge. For instance, it is estimated that the sub-Saharan Africa, Latin America and the Caribbean, and Asia sub-regions will require a total of US$700 billion to bridge the infrastructure financing gap[1].

2.1.1 Implications of the financing gap

The excessively large financing gaps faced by the sub-regions constrain growth potential and add to the failure of most RECs to adequately contribute to the regional integration agenda and specifically, to the funding of infrastructure projects. The study finds that most RECs have, for the most part, relied on multilateral and bilateral institutions to fund regional projects. This limits their full potential and leads to a lack of political ownership and diminished growth.

For the reasons outlined in the preceding section, shareholders and in particular member countries of sub-regional groupings need to ensure that African SRDBs are developed, well capitalised, and have well-defined mandates, so that they can contribute positively to the regional integration agenda of the regional economic community.

2.2 Size of African SRDBs

At the end of 2013, the African SRDBs in the study reported total assets of US $6.2 billion dollars. The largest share of the assets was held by BOAD (US$2.8 billion), followed by PTA Bank (US$2.5 billion), EBID (US$0.62 billion) and finally EADB (US$0.24 billion). This trend in asset values partly reflects the failure of African SRDBs to mobilise enough resources to bridge the financing gap of US$48 billion.

[1] The total of US$700 billion is distributed as follows: Africa - US$48 billion, Latin America and the Caribbean - US$180 billion, and Asia - US$470 billion.

2.2.1 Implications of asset size

The fact that most of the African SRDBs are relatively small by asset size has a number of implications for African RECs and for infrastructure financing in particular. These include:

(1) The volume of resources that most of these SRDBs can mobilise from the market to finance infrastructure projects and support the regional economic integration agenda of the RECs could be relatively small. This is premised on the understanding that for most SRDBs raising funds on the market is based on the 1:3 leveraging ratio. Thus, given the asset values of most African SRDBs, it would be difficult for them to raise sufficient resources to cover their wider mandates.

(2) To make sure that these institutions are able to raise enough resources based on an adequate balance sheet, there is an urgent need for shareholders to consider the possibility of expanding the size of these institutions.

2.3 Ownership and funding

African SRDBs are institutions owned, administered, and controlled by regional member countries (States), which provide the strategic direction of the SRDBs and appoint their senior management and board members. The extent of government ownership in African SRDBs is very similar in all the four sampled SRDBs, with (almost all the four) SRDBs being majority owned by borrowing member countries. The other striking feature about the SRDBs is that even though these banks reserve a certain percentage of shares for non-borrowing members, very few of these shares have been subscribed to.

2.3.1 Implications of ownership and funding structure

The fact that borrowing members hold the majority of the shares and that non-borrowing members have failed to subscribe to the remaining shares does not appear to disadvantage the SRDBs. This is a lesson that can be drawn from the European Investment Bank (EIB) and the Corporacion Andian de Fomento/Andean Development Corporation (CAF) which are some of the most successful SRDBs and whose membership is essentially composed of sub-regional member countries. These two examples show that majority ownership can be more of an advantage than a disadvantage to these institutions provided there is political will for regional member countries to support these institutions.

This should not be misconstrued to mean that non-borrowing member are not important. Non-borrowing member can be critical to the survival of these institutions and can enhance their credit rating (provided non-borrowing members are able to supply capable board members and contribute to callable capital, enabling the SRDBs to leverage their resources). If both capacity and financial support is made available to these institutions by borrowing members as well as non-borrowing members, this could go a long way in assisting the SRDBs to mobilise the additional resources which they urgently need for infrastructure projects and regional economic integration.

2.4 Capitalisation of DFIs

The capital structures of SRDBs in Africa are similar, though options for funding their business operations differ. The capital structures of all four sampled African SRDBs are made up of authorised, subscribed, callable and paid-in capital. However, the size of the capital varies significantly among the four SRDBs – from US$1.1 billion for EADB to US$3.0 billion for PTA Bank. The difference can also be seen in their ratios of paid-in to subscribed capital, and the ratio of long-term resources to total external resources mobilised by each SRDB. For example, in the case of the ratio of paid-in capital to total subscribed capital, only two African SRDBs (PTA Bank and EBID) had their ratios above 20%. Furthermore, in terms of resource mobilisation, the study finds that three out of the four sampled SRDBs were able to mobilise more long-term to total external resources. The study also found that, taking into account their broad mandates, all four of the sampled SRDBs were not adequately capitalised.

2.4.1 Implications of the business model

African SRDBs are relatively small in comparison to their peers. This position is further compounded by low rates of paid-in capital. These two problems have contributed to the low levels of resources mobilised by the institutions to fund infrastructure projects as well as to support the regional integration agenda of their communities. This explains in part why the institutions have contributed so little in terms of bridging the financing gap faced by the RECs, as illustrated in the ICA 2013 Annual report.

The shareholders of all the African SRDBs should adequately capitalise the institutions if they expect them to fully play their development role. The shareholders should, as a matter of urgency, increase the capital as well as the paid-in capital to demonstrate their commitment and support to the development of these institutions.

2.5 Financial performance and sustainability

Financial sustainability refers to the capability of the SRDBs to generate sufficient income from their operations to enable them to continue operating at a stable and increasing rate. African SRDBs are expected to be profitable and financially self-sustainable, and not dependent on government subsidies or transfers to (partially) fund their operations. The study found that, with the exception of EBID, all the sampled SRDBs were financial sustainable. The study also found that of the three SRDBs which are sustainable, their return to equate and return to asset ratios were positive.

2.5.1 Implications of sustainability

A key implication of financial sustainability is that shareholders are satisfied with the institution's performance, which in turn will help to strengthen their balance sheet through returned profits and earnings as these Banks do not pay dividend to shareholders.

2.6 Mandates of African SRDBs

The study found that all the sampled African SRDBs have been established with a wide range of policy or developmental mandates. While all the four African SRDBs have been established with a broad mandate, there are no easy answers as to whether a bank should be narrowly focused (and therefore small) or multi-sectoral (and large). Although most 'successful' development banks are multi-sectoral (Diamond, 1996), each form has both advantages and disadvantages. For instance, multi-sectoral banks run the danger of being ineffective and unfocused, and are more prone to mission shrink or drift. They may present more problems of corporate governance, be less transparent and be more susceptible to political interference. Because of the broad mandate of African SRDBs, the study found that most of these banks may have drifted away from supporting regional projects (which are more difficult to implement) to supporting more national projects.

2.6.1 Implications of mandates

The first implication is that all African SRDBs are expected to satisfy broad mandates with the limited resources available to them. This could partly explain why these institutions have failed to fulfil their developmental mandates as their available resources may limit what they can objectively achieve. Mandate drifting could also be a result of the SRDBs' management and their respective boards' failure to interpret the mandates of their institutions correctly.

2.7 Corporate governance arrangements

The issue of governance is very sensitive in all of the sampled SRDBs, where borrowers hold a majority of the voting power. The regional ownership of these SRDBs is fundamental to their sense of identity and 'character'. To this end, the move towards more openness and accountability (or any other initiatives of this nature) in these SRDBs must respect their regional character. Furthermore, and despite the fact that all the sampled African SRDBs have strong boards, there is still room for improvement. These boards, which are appointed mainly by member countries, are critical to the good performance and survival of the institutions.

2.7.1 Implications of corporate governance

The consequence of weak governance is inefficient and/or ineffective SRDBs, but also a weakened financial system. Poor governance may contribute to mandate drifting as well as stagnation of SRDBs. It is clear that Boards need to be strengthened in order to ensure that the institutions they manage are more transparent and accountable. New procedures need to be put in place for these institutions to give the Board of Directors greater oversight in the banks' management strategies. This trend should be reinforced, and the result should be to enhance the ability of shareholders to shape the policy and programming of the African SRDBs. This might also ensure that, as a result of the increased involvement of shareholders, these institutions would finance more infrastructure projects to support regional integration.

2.8 Coordination of African SRDBs

While SRDBs may not be homogenous, they may face similar problems in their quest to meet their developmental mandates, especially in financing infrastructure projects. It is vital for these institutions to work together to address common challenges including credit enhancement and acquisition of better credit ratings, resource mobilisation of funding with long tenor and capacity building.

2.8.1 Implications of coordination

A lack of coordination among African SRDBs could lead to:

- Duplication of services as well as harmful competition for scarce resources;
- Poor performance;
- Failure to enhance the capacity of these institutions; and ultimately
- Failure to bridge the financing gap for infrastructure projects.

It is important for African SRDBs to consider creating a network which would act as a mechanism to jointly deal with the various issues affecting them.

3 Overall assessment and conclusion

3.1 Despite having a niche position in financing infrastructure projects, African SRDBs' contribution to infrastructure financing has been rather weak (with the exception of BOAD and EBID which have allocated approximately 79% and 67% of their funding respectively to infrastructure projects). In addition, the study found that the commutative total value of investments in infrastructure projects for all four sampled African SRDBs has been relatively small compared to their peers.

3.2 Apart from BOAD and EBID, the African sub-regional banks have contributed little to both regional integration and regional infrastructure projects. In addition all four African SRDBs have struggled to mobilise adequate long term external resources. For instance, at the end of 2014, the four African SRDBs managed to mobilise only US$4.6 billion compared to US$19.6 billion raised by CAF in the same year.

3.3 Capacity is another serious issue which has impacted negatively on the funding of infrastructure projects. For instance, due to lack of capacity, these banks have been unable to package some of the projects.

3.3 The study found that the size of the African SRDBs by asset size and capitalisation is relatively small compared to their peers.

3.4 There also appear to be a lack of clarity about the mandates, objectives, roles and functions of SRDBs vis-à-vis those of national and regional development banks in their respective areas of operation.

3.5 From the study of African SRDBs, it can be concluded that these institutions are an appropriate means of funding infrastructure projects as well as supporting the process of regional integration. The major challenge however remains the modest size, strength, capacity and mandate clarity of these institutions, all of which limits their impact.

4 Lessons learned

4.1 The lessons learned from the study are:

- The size of African SRDBs, in terms of assets and capitalisation, matters given the fact that Africa's development finance needs are considerable;

- The capacity of SRDBs is important if they are to contribute effectively to financing infrastructure projects. And expertise in infrastructure project development is imperative for the proper preparation of these projects up to bankability stage;

- Strong institutional governance is crucial to both the survival of these institutions as well as to their effectiveness;

- Coordination is also critical - sharing knowledge and information, building capacity and avoiding undue competition for resources as well as funding of projects.

5 Recommendations

5.1 The general recommendations of the study are as:

- The mandate of the African SRDBs should be clearly articulated and defined if they are to contribute to financing infrastructure projects. Their focus should be on supporting the regional integration of their respective communities and regional projects which include infrastructure projects. In addition, the SRDBs should place emphasis on providing value-added advisory, consultancy and technical assistance, supported by strong research capabilities;

- African SRDBs' capital should be adequate and there should be an agreement on their minimum capitalisation to enable them to leverage more resources from the MDBs and the private sector;

- The SRDBs should seek to enlarge their balance sheet and strive to establish stronger partnerships with their shareholders;

- The SRDBs should seek to play a bigger role in supporting regional integration by adopting the plans, policies, and strategies of their respective RECs. They should strive to become the main hub for development finance in their respective sub-regions by adopting and fully subscribing to the development policies, strategies and visions of their respective sub-regional communities.

- The boards of the SRDBs should continue to be strengthened through the development of new institutional procedures, which will give each Board of Directors greater oversight of their bank's lending strategies. This trend should be reinforced in future, enhancing the ability of shareholders to shape the policy and programming of the SRDBs.

- Capacities need to be further strengthened and improved by implementing the following measures:
  a) Identifying skills gap and developing appropriate professional training programmes;
  b) Setting up or strengthening research and development departments; and
  c) Establishing a network of African SRDBs that will enable the sharing of knowledge and information on common issues affecting the institutions.
  d)
- African SRDBs should also work towards strengthening their treasury departments and exploring innovative ways of resource mobilisation to fund infrastructure projects, such as using community levies, or using idle international reserves as callable capital.

Chapter 1

Background and motivation for the study

1.1 Background

The Sub-regional Development Banks (SRDBs) consist of several sub-regional financial institutions that have functions similar to the World Bank Group and Regional Development Banks' activities, but with particular focus on a specific sub-region. Shareholders usually consist of the sub-regional member countries, as well as major donor countries.

These institutions, which are owned by a group of countries (typically borrowing members and not donors), were established for development purposes and are classified as multilateral development banks. Examples of such development financial institutions are Development Bank of Latin America (CAF); Caribbean Development Bank (CDB); Central American Bank for Economic Integration (CABEI); East African Development Bank (EADB); Eastern and Southern African Trade and Development (PTA Bank); ECOWAS Development Bank (EBID); and West African Development Bank (BOAD).

The origin of SRDBs dates back to the establishment of the International Bank for Reconstruction and Development (IBRD), commonly known as World Bank, in 1944. The Bank was set up at the end of World War II with the aim of helping reconstruct the war-torn countries of Europe and Asia. This institution established the foundations for a multilateral approach to global monetary management and development finance.

With the recovery of Europe and Japan during the 1950s, the World Bank's focus turned to providing financial assistance to the developing world, supported by the creation in 1956 of the International Finance Corporation (IFC), and in 1960 of the International Development Association (IDA), respectively the private sector and soft-loan arms of the World Bank. This was complemented by the foundation of the Inter-American Development Bank (IADB) in 1959, the African Development Bank (AfDB) in 1964 and the Asian Development Bank (ADB) in 1966, each with the mandate to assist the development of countries in their respective regions. The European Bank for Reconstruction and Development (EBRD) was set up in 1991, following the collapse of the Soviet Union, to assist with the economic transition of countries in the former Soviet sphere.

The rationale for creating sub-regional development banks can be justified on several grounds.

- They can be better prepared than continent-wide or international development banks when taking into account the circumstances of borrowing countries and the need to offer a range of appropriate, relevant and suitable financial instruments.

- Country members that are eligible for loans are also the main shareholders, giving them voting rights and allowing them greater influence than would be the case with multilateral institutions.

- SRDBs are typically owned by a sub-set of developing countries which, even though not of investment grade, create, by resource pooling, an institution that has sufficient size, development reputation and financial market standing to intermediate funds from the international financial community. To this end, SRDBs can be a powerful instrument to support regional infrastructure projects and economic development.

Despite their importance, very little is known about SRDBs. Most recent research has focused on Multilateral Development Banks which include mainly the World Bank Group and Regional Development Banks (see Bruck, 1998). To the best of our knowledge there has been no specific assessment of African SRDBs and their work financing infrastructure development. There is little awareness of their mandate, funding arrangements, financial performance, coordination arrangements, policy, legal & regulatory environment, risk management systems or corporate governance arrangements. This assessment is important because earlier studies, which include Mistry (1995), Boskey (1961), and World Bank (1976), suggest that weaknesses in these areas are the key determinants of the historically poor performance of development banks.

Further research (ICA Annual Report, 2013) shows that while considerable financial resources for African infrastructure projects is required, more than 97% of these financial resources come from bilateral and multilateral development institutions and the balance from African sub-regional development banks. In addition, while much has been written about the World Bank and the regional development banks, there has been very little attention paid to sub-regional development financial institutions. Studying these institutions will not only contribute to better understanding, but also ensure that the role they play in supporting economic development, and in particular financing infrastructure projects, is enhanced.

1.2 Overall objective of the study

The overall objective of this study is to ascertain the current and past contributions of African SRDBs to regional infrastructure development programmes.

The specific objectives are to:

a) Examine the experience of similar institutions in Asia and Latin America with the view of drawing lessons for African SRDBs;
b) Assess the strengths, opportunities and challenges facing African SRDBs in meeting their mandate of increasing infrastructure financing;
c) Analyse demand and supply in relation to requests received by African SRDBs for financing infrastructure projects and their commitments, and identify the reasons for any gaps;
d) Assess the level of interest of African SRDBs in networking, sharing information, best practice and lessons learned and consider the expected outcome of such networking; and.
e) Make recommendations that address the identified challenges and how to seize the identified opportunities.

1.3 Structure of the study

This study is divided into six chapters;

Chapter 1 provides a general description of the aims and proposed method of the study.

Chapter 2 gives the background to Africa's Sub-regional Development Banks and provides a brief experience of SRDBs from Asian and Latin American perspectives.

Chapter 3 is a review of the African SRDBs selected for the study. This covers their experience within the context of development finance in Africa including issues of classification of the institution, size and quality of assets, funding, financial products, type of infrastructure supported, governance and coordination.

Chapter 4 carries out the analysis of demand and supply in relation to requests for funding infrastructure projects and commitments made by the African SRDBs.

Chapter 5 looks at coordination as related to the SRDBs and their current level of interest in networking among themselves.

Chapter 6 discusses the policy options and presents recommendations for the future.

Chapter 2

Background of Sub-regional Development Banks

2.1 Introduction

This chapter reviews the literature on sub-regional development banks (SRDBs) and their role in development financing and in particular financing infrastructure projects.

SRDBs are situated at the intersection of international and regional development banks (World Bank Group, Asian Development Bank, Inter-American Development Bank and African Development Bank) and national development banks. While there are several entities that straddle both systems, the SRDBs occupy a unique place because of their specific characteristics and because they interact with most of the actors in both systems.

SRDBs are international financial intermediaries which belong to the category of multilateral development banks (MDBs). But while MDBs have long played an important role in development finance, SRDBs) have had a more limited function, until the emergence of a few dynamic institutions in recent years. This section reviews the origins of SRDBs, considers key issues and trends in their purpose, governance and financing, and explores challenges and opportunities that they face.

2.2 Origins of Sub-regional Development Banks

The combination of elements that make up development banks was forged when the World Bank was established with a clear focus on reconstruction and development. Modern development banking thus came into being at the global level. The World Bank started on-lending through national finance companies in 1949, beginning with the Netherlands and Finland. With the formation of its private sector affiliate - the International Finance Corporation (IFC) - in the mid-1950s, the practice spread to almost every developing country.

This resulted in the creation of new, special-purpose, development finance institutions (DFIs) designed to fill gaps in the lending capabilities of local banks in environments with undeveloped capital markets. In the mid-1960s the World Bank shifted the focus of this activity from IFC to itself. The Bank and IFC often acted jointly to establish national development banks. The IFC invested part of their initial equity capital while the IBRD provided long-term loans. The World Bank thus acted as a wholesaler of development funds that were retailed through national development banks.

Between 1955 and 1990 five major Regional Development Banks (RDBs) were created at a 'mezzanine' level between the global and sub-regional banks. These RDBs were established successively for Latin America and the Caribbean (IADB - Inter American Development Bank), then Africa (AfDB - African Development Bank), followed by Asia (ADB - Asian Development Bank), the Islamic world (IDB - Islamic Development Bank), and most recently for Eastern and Central Europe (EBRD - European Bank for Reconstruction & Development).

The European Investment Bank (EIB) is frequently classified as one of the RDBs. But, even though it is now larger than the World Bank in terms of assets, it is of a different type. The EIB is essentially a sub-regional bank focusing primarily on investments involving internal transfers of structural funds within the European Union. Unlike the RDBs it was not set up mainly to intermediate funds between developed and developing countries, although it was set up to finance investments in Europe's poorer regions, even within its richer countries. However, the EIB does transfer resources between developed and developing countries to a limited extent. It acts as a conduit for concessional (European Development Fund) and non-concessional EU lending to the African, Caribbean and Pacific (ACP) countries that are signatories of the Lomé Convention and to other developing countries with which the EU has associate relationships. As more Central and Eastern European countries join the European Union, the nature of the EIB's role will expand and change as an intermediary of resource flows between the richer (Northern and Western) and poorer (Eastern and Southern) parts of Europe.

The RDBs were patterned on the same lines as the World Bank. They appeared because the political and economic relationships between developed and developing countries in each region resulted in demands for different, more user-friendly, shareholding structures, along with a wider range of development financing services than the World Bank provided at the time. Political pressures to establish the RDBs became compelling, because regional rather than global shareholding structures appeared to allow borrowing member countries to have greater influence and control over policy-making and decision-making in 'their' regional institutions than they ever could in a global multilateral development bank dominated by developed countries.

In addition to the regional development banks, an array of sub-regional development banks (SRDBs) also emerged between1960 and 1980 to support first-generation regional integration arrangements (RIAs) between developing countries in different parts of the world - perhaps nowhere in greater number but with less success than in Africa.

These include (but are limited to): the European Investment Bank (EIB); the Caribbean Development Bank (CDB); the Andean Development Fund (AnDF or CAF); the Central American Bank for Economic Integration (CABEI); the East African Development Bank (EADB); the West African Development Bank (BOAD); the ECOWAS Bank for Investment and Development (EBID), the Central African Development Bank; the PTA/COMESA Trade & Development Bank; the Mahgreb Investment Bank in North Africa, and the Development Bank for the Southern Pacific Islands in Asia. There are also several Arab-funded SRDBs operating in the Middle East and North Africa, such as BADEA and the Arab Fund for Social & Economic Development.

The elaborate global structure of development banks that has appeared over the last half-century is depicted in Box 1 below.

Box 1: Development banks at various tiers - global to sub-regional

Global:	The World Bank Group (WBG)
Regional:	IADB, AfDB, ADB, IDB, EBRD (MEDB)
Sub-regional:	BOAD, CAF, CABEI, CDB, EADB, EBID, PTA Bank, MIB, SPDB, BADEA, Middle East banks
National:	National Development Banks

2.3 Experience of other SRDBs

In considering the assessment of African SRDBs' contribution to infrastructure development, the terms of reference for this study call for an evaluation of the experience of SRDBs elsewhere. Several sub-regions in Asia, Europe and Latin America have established their own SRDBs to facilitate the process of economic integration. This measure was rooted in the belief that dedicated SRDBs were essential to co-ordinate and finance regional infrastructure projects as well as cross-border trade and trade-related investment. This chapter thus turns to examining the experience of sub-regional banks in Latin America and Asia in so far as financing infrastructure projects is concerned.

2.4 Latin American and Caribbean experience

In Latin America, infrastructure investment needs are estimated at around 5.2% of regional GDP per annum over the period 2010-2020, or roughly US$ 170 billion. Of this expenditure, 2.7% of GDP is needed for new capacity investments, and 2.5% for operation and maintenance. The telecommunications sector will represent about 2.2% of regional GDP, electricity 1.7%, transport about 1.1%, and water and sanitation about 0.2% (Perrotti & Sanchez, 2011, p.50).

2.4.1 Experience of SRDBs in Latin America and Caribbean (LAC)

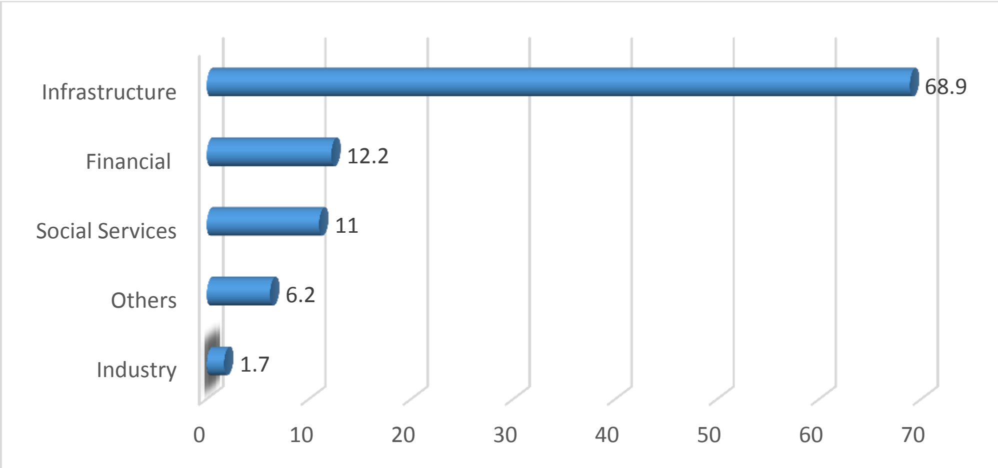
Based on the investment needs of the LAC region, sub-regional development banks have recently grown in relevance in Latin America, where three institutions - the Development Bank of Latin America (CAF), the Caribbean Development Bank (CDB), and the Central American Bank for Economic Integration (CABEI) - have been in operation for many years. They have become an important source of development finance, focussing on areas to which regional banks such as the Inter-American Development Bank (IADB) and the World Bank have progressively given less emphasis, such as infrastructure. Moreover, because their portfolios are less mature than those of the IADB or the World Bank, they provide a much larger level of positive net transfers to member countries. The following section briefly discusses the experience of two of these SRDBs.

The CAF was founded in 1969 within the framework of the Andean Community of Nations as a source of, and tool for, financing the integration and development of the sub-region. Currently membership comprises 19 countries – 17 from Latin America and the Caribbean, plus Spain and Portugal – as well as 14 private banks in the region.

In terms of its investments, from 1990 to 1998 the CAF consistently held a larger positive net flow of resources to its members – Bolivia, Colombia, Ecuador, Peru and Venezuela – than the IADB, which had a small positive net flow during these years, and the World Bank, which had a large aggregate negative net flow during the same period.

The experience of the Latin American Development Bank shows that in line with the increase in capital subscription, CAF's lending to shareholder countries has witnessed a similar expansion. For instance, in its first 10 years of existence, CAF approved operations whose total value was US$600 million, with an annual average of US$60 million. This trend has continued to the extent that in the last five years (2009-2013) the CAF has witnessed great improvement in its investments with total approvals at the end of 2013 reaching a total of US$18.2 billion (US$11.8 billion, 2009). These approvals have included infrastructure, social development, environmental protection, capital markets development, support to industrial activities, mining and tourism, and institution-building – both in the public and private sectors.

Figure 1: CAF Approvals by sector (US$ billion)



Source: CAF 2013 Annual Report

Furthermore, whilst in the early 1990s about 40% of CAF's loan portfolio was made up of trade finance operations, and the rest were programme and project loans, this has changed tremendously in the past few years. By the end of 2013, close to 70% of the portfolio was committed to infrastructure projects followed by the financial sector (12%) and then social services (11%). The remaining 7% was committed to other sectors.

The success in financing more infrastructure projects has mainly been attributed to:

(a) the average speed at which loans are approved - at 3 to 4 months, the performance is comparable to the European Investment Bank;

(b) great support from its shareholders;

(c) a credit rating of Aa3, which has partly been attributed to its broadening membership and the improving credit quality of its members, enabling the bank to mobilise adequate resources from the market which at the end of 2013 amounted to US$19.6 billion (US$17.2 billion, 2012);

(d) good governance;

(e) clearly defined and delineated roles with regard to national development banks and the regional MDBs operating in its regional economic community; and

(f) knowledge of the region.

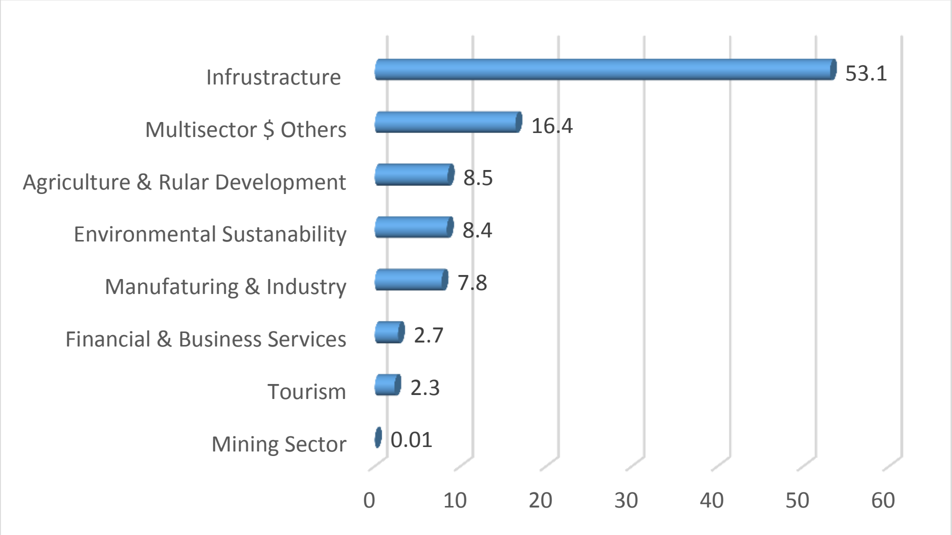
Similar to CAF, the Caribbean Development Bank (CDB) has also contributed significantly to infrastructure projects, and its contribution to the Caribbean Community (CARICOM) far outweighed IADB and World Bank support. The CDB was established in October 1969, in Kingston, Jamaica. Its purpose was to contribute to the harmonious economic growth and development of member countries in the Caribbean. In addition, CDB has promoted economic cooperation and integration among its member countries, with special regard to the needs of its less developed members.

In line with the mandate establishing the Bank, CDB has provided more financial assistance to the Caribbean's weakest economies than other MDBs operating in the region. Starting with loan approvals of less than US$15 million in 1970, CDB's cumulative financing amounted to over US$3.3 billion by 2008 and US$4.4 billion by 2013. Annual lending more than doubled between those two periods, from US$86 million between 1970 and 2008 to US$199 million between 2009 and 2014. Of total approvals, 95% were for national projects and 5% for regional projects.

In terms of portfolio distribution, as shown in the figure below, about 53% of CDB's lending has gone into infrastructure, mainly transport. Projects have shown good rates of return, particularly with the dependence of the Caribbean on tourism. Similar success has been achieved with the financing of electric power and water supply projects. Most importantly, the CDB made a vital contribution to ensuring that public utilities in the Caribbean operated on commercial principles, insisting as a condition of its loans that they realise annual operating surpluses.

Agriculture absorbed a further 8.5% of CDB's lending while over 16% has been dispersed over a range of other projects and sectors. The balance (22%) has gone into supporting environmental projects, industry and manufacturing, tourism, mining and also providing lines of credit to smaller national DFIs for on-lending to SMEs.

Figure 2: CDB Approvals by sector in (%)



Source: CDB 2014 Annual Report

As can be seen from the portfolio distribution, CDB has positively contributed to infrastructure development and this has mainly been attributed to a number of factors such as:

(a) a clearly defined and delineated role in relation to national development banks and the MDBs operating in its region;

(b) the success of its financial management when its member economies experienced economic challenges – the bank swiftly cancelled loans when projects were delayed due to borrowing members inability to meet their share of the project cost;

(c) avoiding a build-up of protracted arrears by rigorously applying its non-accrual provisioning policies on loans on which debt servicing was delayed

(d) a reduction in the level of non-performing loans from a peak of 15% of CBD's total loan portfolio in 1988 to less than 3% by 2013

(e) the mobilisation, since CBD's inception, of total usable resources of nearly US$1.5 billion (30 times what it started out with) to assist its member countries, and the composition of these external resources has mainly been long-term. At the end of 2013 these stood at US$675 million, while and mobilisation of these resources has been made easier by a stable credit rating of Aa1 from Moody's Rating Agency.

2.5 Asian experience

In Asia, infrastructure investment needs are projected to be around US$ 750 billion pa for the decade leading up to 2020, representing about 6.5% of annual regional GDP. About 49% of the funding is needed in the energy sector, 35% for transport infrastructure, 13% for ITC, and 3% for the water and sanitation sectors (Bhattacharyay, 2010, p.11).

2.5.1 Experience of SRDBs in Asia

Infrastructure is recognised as essential to rapid economic growth and poverty reduction in Asia and the Pacific region. Inadequacy of basic infrastructure presents one of the biggest challenges to the region's sustained economic growth. At the same time, Asia faces a development paradox: while the region is home to very high levels of savings, the infrastructure financing gap is also estimated to be huge. This problem is further compounded by a lack of sub-regional development banks to mobilise such savings for infrastructure projects.

The existence of several SRDBs in Latin America is in sharp contrast to Asia, where there are no sub-regional development banks, and where a large sub-regional financing gap exists. There is a strong case for establishing one or more SRDBs in Asia. The option of establishing an Asian Investment Bank, partly drawing on the EIB experience, seems an attractive option. One cost-effective option suggested would be to start with a pan-Asian Investment Bank with a limited initial membership. As it gains expertise and overcomes initial problems, such as links and boundaries with the World Bank and Asian Development Bank, it could expand both its membership and the scope of its activities. This is the model followed *de facto* by the CAF, which started as an Andean bank, but is increasingly becoming a Latin American bank.

2.6 Summary

This chapter has briefly reviewed the activity, performance and experience of sub-regional development banks in Latin America and Asia in order to learn lessons which might be useful for African SRDBs in supporting infrastructure development.

SRDBs are important development finance institutions that are in a unique position to support the regional economic integration and development agendas of the RECs and contribute to growth and poverty reduction. Perhaps the most valuable lesson learnt from the Latin American and Asian experiences is that SRDBs play a useful role not only when they are financing regional infrastructure projects, but also when they are financing national projects in countries which are relatively too small or too poor to mobilise resources from capital markets. In fact, the financing of regional infrastructure projects tends to be a relatively insignificant feature in the operations of successful SRDBs.

Secondly, the SRDBs which succeeded defined their role very clearly with regard to other development banks operating at higher (regional and global) and lower (national) hierarchical levels. These institutions also have knowledge about their sub-region and are able to approve projects within quite a short timeframe.

Another ingredient for success lies in building up a network of national DFIs with the SRDB at the hub. Successful SRDBs played a wholesaling role, as well as a role in financing large projects (the term being relative rather than absolute), leaving relatively small projects to national DFIs. Moreover, successful SRDBs concentrated mainly on financing productive economic infrastructure projects with high rates of return and on supporting the development of financial systems in their sub-regions.

Another valuable lesson to be learnt for successful SRDBs operating in developing regions concerns the importance of securing the right kind of support from non-regional developed country members. Developing productive relationship between non-regional and sub-regional shareholders within the policy and decision-making process of SRDBs has been a crucial ingredient to success.

In addition, successful SRDBs have a good credit rating which enables them to mobilise resources for infrastructure projects from capital markets.

Chapter 3

African Sub-regional Development Banks (African SRDBs)

3.1 Introduction

Integration efforts in Africa and the need to fund infrastructure and industrial projects have led to the design of some development banks and other financial institutions. These include the West African Development Bank (BOAD) and ECOWAS Bank for Investment and Development which were set up by the Economic Community of West African States (ECOWAS). In addition there is the East African Development Bank; the trade financing facilities set up by the Common Market for Eastern and Southern Africa (PTA Bank); and the Development Bank for the Central African States (BDEAC). It should be noted that this study has not covered BDEAC due to time constraints.

3.2 History of SRDBs in Africa

The origin of all sampled African SRDBs lays in treaties that established integration arrangements between the nations concerned. In addition, from the late 1960s onwards sub-regional cooperation and integration organisations were created. These were aimed at accelerating political integration, structural transformation and economic growth in the sub-regions to redress development disparities. Regional integration was advocated to overcome small-size markets at country level, to promote intra-African trade, to accelerate industrialisation and to increase employment. The aim was to facilitate the removal of structural and institutional weaknesses in member states and to better attain sustained development at both country-level and collectively as a regional bloc.

To this end several groupings were set up to promote sub-regional cooperation and integration and to accelerate socio-economic development. These include:

- The Economic Community of Central African States (CEEAC), 1983;

- The Economic and Monetary Community of Central Africa (CEMAC), 1999;

- The Economic Community of the Great Lakes States (CEPGL);

- The Preferential Trade Area for the Eastern and Southern African States (PTA), which was later transformed into the Common Market of Eastern and Southern African States (COMESA), 1981;

- The Economic Community of West African States (ECOWAS), (1975);

- The West African Economic and Monetary Union (UEMOA), 1994;

- The Union of Maghreb countries (UMA), 1989;

- The East African Community (EAC), 1967; and

- The Southern African Development Community (SADC), 1980.

Realising the huge financial resource gap for economic development, African leaders moved to set up financial institutions through which development funds could be channelled for investment in productive sectors (public and private), infrastructure, and projects with a regional, as well as national scope. Such overarching objectives initiated the creation of regional level financial institutions and development banks. At the apex level, the ECA (UN Economic Commission for Africa), a Pan-African organization, was instrumental for the creation of the African Development Bank (AfDB) in 1964, as a regional development bank to serve the African continent as a whole.

This was followed with the establishment of a few sub-regional DFIs in which AfDB provided equity financing during their formative years. EAC set up the East African Development Bank in 1969, then UEMOA facilitated the creation of the West African Development Bank (BOAD) in 1973. In 1976, ECOWAS established the ECOWAS Fund which later became the ECOWAS Bank for Investment and Development (EBID). In 1977, CEPGL set up the Development Bank of the Great Lakes States (BDEGL) and in 1985 COMESA set up the PTA Bank, primarily for trade finance but its mandate was later expanded to provide term credit to SMEs.

All these sub-regional development banks were created to respond to a strongly felt sense that: (i) definite sub-regional development financing needs existed that had to be met; and (ii) such needs could only be met by a special purpose sub-regional institution created to mobilise resources. In none of these instances were steps taken to examine exactly what these 'sub-regional' development financing needs were, and in what way they were distinct from either national needs or from regional development finance of the kind that the AfDB was created to provide.

In retrospect, these SRDBs were seen to be necessary adjuncts to other sources of long-term finance at a time when development finance institutions were in fashion, private financing options were limited, and 'development finance' from sources like the World Bank, AfDB and bilateral donors was the only type of funding available for infrastructure and other large projects in developing countries.

By and large, the African SRDBs had relatively broad mandates. They could provide finance for reconstruction and development (generally defined) and were intended to foster economic integration in their respective sub-regions. They did so by: (i) helping to co-ordinate national development plans; (ii) providing member governments with technical assistance; and (iii) ensuring the equitable distribution of regional welfare gains across member countries, especially gains derived from intra-regional investment co-operation and trade promotion.

Specifically, member governments saw these SRDBs as instruments to implement publicly-guided industrial policies across member states. The emphasis was on the role that SRDBs could play in the industrialisation of the sub-region they served. Their charters required them to focus on meeting the needs of smaller, less developed economies, and to focus on projects and programmes involving participation by two or more members. In only one instance, the PTA Bank, was the financing of intra-regional trade a specific function of a SRDB.

3.3 African SRDBs and financing of infrastructure

For Sub-Saharan Africa (SSA), the estimated funding needs for infrastructure development are estimated at USD 93 billion per annum during 2010-2020, representing 15% of regional GDP (10% for new investment and 5% for operation and maintenance).

The spending needs of the poorest countries in SSA reach as high as 25% of their GDP, and even more is required in fragile states. Roughly 40% of the expenditure is needed in the power sector, 20% in water and sanitation, 20% in transport and the remaining 20% in other areas, such as irrigation and telecommunications (Estache & Garsous, 2012).

Currently, only US$ 45 billion is being invested, leaving a funding gap of US$ 48 billion a year. The implications of this gap are severe: two-thirds of African countries face power crises; only 31 metres per 100 square kilometres of roads are paved; and only 60% of the population has access to improved water sources.[2] The situation is worse in the power sector with disruptions in power supply which cost the African economy between 1% and 2% of GDP annually. Significant investment and management reforms are required to address the situation. Table 1 summarises the current spending for infrastructure in Sub- Saharan Africa.

Table 1. Spending to address Sub-Saharan Africa's infrastructure needs (US$ billion annual)

Infrastructure sector	Operation and maintenance	Capital expenditure					
	Public sector	Public sector	ODA	Non-OECD financiers	Private sector	Total	Total spending
ICT	2.0	1.3	0.0	0.0	0.0	7.0	9.0
Power	7.0	2.4	0.7	0.7	1.1	4.6	11.6
Transport	7.8	4.5	1.8	1.8	1.1	8.4	16.2
WSS	3.1	1.1	1.2	1.2	0.2	4.6	7.66
Irrigation	0.6	0.3	-	-	-	0.3	0.9
Total	20.4	9.4	3.6	3.6	9.4	24.9	45.3

Sources: African Infrastructure Country Diagnostic Study, World Bank, 2009. Briceno-Garmendia, Smits and Foster 2008.

The shared concern for the infrastructure deficit in Africa as illustrated in the Table above has led to a proliferation of global and regional initiatives. The various initiatives that have been put in place in an attempt to bridge the financing gap include the following:

- The New Partnership for Africa's Development (NEPAD),[3] established in 2001 under the African Union (AU), supported the Programme for Infrastructure Development in Africa (PIDA)[4] in 2011 as one of its flagship initiatives to identify and assess key cross-border infrastructure investments over the period 2012-2040.
- The Private Infrastructure Development Group (PIDG) was started in 2002 with European and Australian partnership and the World Bank.[5] Its various "facilities"

[2] Africa Infrastructure Country Diagnostic; 2009

[3] See the New Partnership for Africa's Development (NEPAD), see http://www.nepad.org/about.

[4] See the Programme for Infrastructure Development in Africa (PIDA) of the African Development Bank (AfDB) at http://www.afdb.org.

[5] For details of the Private Infrastructure Development Group (PIDA), see http://www.pidg.org/what-we-do.

such as InfraCo Africa[6] and the Emerging Africa Infrastructure Fund[7] are designed to develop commercially viable projects and provide long-term finance to private sector infrastructure projects.

- The G8 Summit at Gleneagles in 2005 established the Infrastructure Consortium for Africa (ICA) to promote public and private investment in infrastructure. Its founding members include the G8 member countries, the World Bank, the AfDB, the European Commission, the European Investment Bank, and the Development Bank of South Africa. Its secretariat is hosted by the AfDB and it publishes an annual report on the state of infrastructure finance in Africa as well as key studies relating to infrastructure.[8]

- The World Bank, in partnership with the African Development Bank (AfDB), developed the Africa Infrastructure Country Diagnostic (AICD) that provided a detailed report on infrastructure investment needs by sub-region in 2011.[9]

- In 2013, the AfDB launched the Africa50 Infrastructure Fund as an instrument to mobilise resources and support the development of key projects. It is structured as "a development-oriented yet commercially-operated entity."[10]

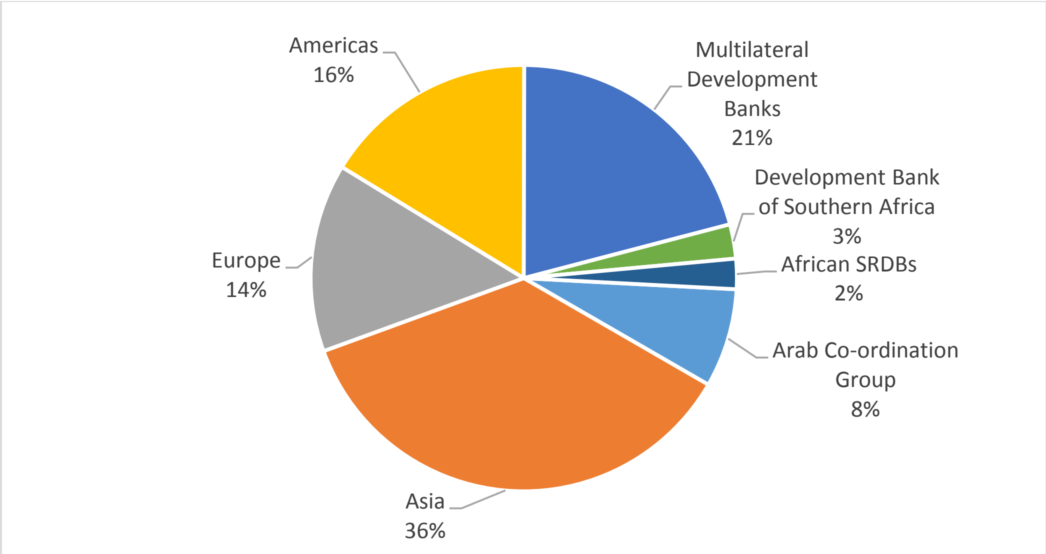
- In 2013, the United States launched its Power Africa initiative to mobilise investment and reform & enhance access to electricity. With government and private sector partners, this initiative is described as "a new model of development and diplomacy, aimed at advancing catalytic transactions, supporting policy reforms and improved governance and mobilizing financing to bring projects to fruition," (Power Africa, 2014: 31)[11]

- Most recently, in 2014 the World Bank launched the Global Infrastructure Fund (GIF) as a "platform" for identifying, preparing, and financing large complex infrastructure projects. This facility is also expected to finance African infrastructure projects.

In addition there are initiatives put in place by regional economic communities to support both the national and regional development of the communities. These involve the establishment of sub-regional development banks. Despite having been established by nearly all sub-regional economic communities, with the exception of the Southern African Development Community, sub-regional development banks do not seem to contribute significantly to reducing the financing gap in the development of infrastructure projects. This picture is clearly illustrated in Figure 3.

Figure 3: Sources of finance for Africa's infrastructure development, 2013

[6] For details of InfraCo, see http://www.infracoafrica.com/.
[7] For details of Emerging Africa Fund, see http://www.emergingafricafund.com/.
[8] See ICA Annual Reports: ICA (2013) and ICA (2014a).
[9] For more details on Africa Infrastructure Country Diagnostic (AICD), see World Bank (2011).
[10] For details of the Africa50 Infrastructure Fund, see http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa50-infrastructure-fund/.
[11] For details of Power Africa, USAID, see http://www.usaid.gov/powerafrica.



Source: ICA 2013 Annual Report

The Figure above shows that out of the total of indicative commitments of US$ 52.9 billion in 2013, more than 95% originated from bilateral and multilateral development institutions, 3% from the Southern African Development Bank (which is a national development bank), and only 2% was accredited to the three African Sub-regional Development Banks[12]. Based on this brief background, the following section discusses four African sub-regional development banks namely, the East African Development Bank, West African Development Bank, ECOWAS Bank for Investment and Development and PTA Bank. This set of SRDBs gives a good representation of the sample as it broadly covers the western African region, Eastern African region and Southern African region. The time constraints for this study precluded us from covering Banque de Développement des Etats de l'Afrique Centrale (BDEAC) translated as the Development Bank for the Central African States, and the sub-regional development banks north of sub-Saharan Africa.

3.4 East African Development Bank (EADB)

3.4.1 Background

The East African Development Bank (EADB) was established in 1967 under the treaty of the then East African Cooperation (EAC). This was one of the first SRDBs to be established in independent Africa, with support from the World Bank and later the AfDB. Following the breakup of the community in 1977, the Bank was re-established under its own charter in 1980.

The Bank's survival during the breakup period of the community was partly due to the inclusion of non-regional members as minority shareholders in its capital structure. They included official financial institutions such as the AfDB (multilateral), FMO of Holland and DEG of Germany (bilateral) as well as private (international) commercial banks. The

[12] The African sub-regional development banks in this sample include BOAD, EADB, and EBID

non-regional shareholders had Board representation of high calibre that they used to represent their interest. In addition, an international Advisory Panel that included people of high calibre from the international financial community complemented the Board. Currently the non-regional members hold over 13% of board membership and the remainder is held by member states of the REC.

3.4.2 Mandate of EADB

When the Bank was established its mandate and objectives were to foster industrial development, to promote industrial complementarity, and redress industrial imbalances among the then partner states (Kenya, Uganda and Tanzania). This changed under the new Charter, when the Bank's role and mandate were broadened and its operational scope expanded to include a broad range of financial services. The remit of the Bank includes promoting sustainable socio-economic development in the East Africa Community as well as the regional integration of its shareholder member states (Uganda, Kenya, Tanzania and Rwanda). Although infrastructure support is not explicitly mentioned, this is one of the key areas supported by the Bank through regional integration initiatives, and the Bank plays its key role by financing projects that cut across the borders of member states. Such infrastructure sector projects are mainly in energy, transport and telecommunications.

The Bank offers a mix of financial products and services to viable projects in member states. Its products include short, medium and long-term loans, asset leasing, equity investment, loan guarantees, and technical assistance among others.

3.4.3 Organisational framework

Similar to other existing sub-regional development banks, EADB has a Governing Council made up of ministers from the partner states, a Board of Directors consisting of not more than ten nor fewer than five members holding office for a term of three years and eligible for reappointment or re-election, and a Director General. The Director General is appointed by the Governing Council for a term of five years, and may be re-elected. Besides the board and management it took roughly five years for the Bank to establish the complete staff structure.

With political support, the EADB employed an exceptionally competent management team supported by expatriate advisors, provided by the World Bank. Considerable emphasis was placed on continuous internal staff training and professional development. EADB was managed prudently and conservatively from the outset, being profitable in every year from its inception up to 1977, when its operations were disrupted by political events beyond its control. Despite the broadening of the Bank's mandate, the staff complement has not changed much from the original figure. The total number of staff members presently stands at 78 with the majority being professional staff.

3.4.4 Financial structure

At the time of writing the report EAC was in the final process of establishing a Development Fund. The purpose of the Fund, which is a soft-loan facility, is to address infrastructure development issues, development imbalances, investment promotion and other development issues in the EAC partner states for the advancement, deepening and acceleration of integration.

From the three founding members of the East African Community – Kenya, Uganda and Tanzania – EADB membership has grown over the years. The wider membership has enabled the Bank to expand its reach and deliver on some of its mandate. Currently, the EADB has 13 members, including four partner states, three multilateral finance institutions and six commercial banks. The four countries, which constitute Class A members, are: Kenya, Uganda, Tanzania and Rwanda, the latter having joined in 2008, after becoming a member of the EAC. Other shareholders constituting Class B stock of shares include the African Development Bank, FMO (Netherlands), DEG (Germany), Consortium of Yugoslav Institutions, SBIC-Africa Holdings (London), Commercial Bank of Africa (Nairobi), Norbanken AB (Stockholm), Standard Chartered Bank (London), and Barclays Bank International (London).

Despite the increase in membership, charter provisions stipulate that the partner states shall at no time jointly own less than 51% of subscribed capital. Other institutions and countries may join provided they are approved by a majority of EADB's Board of Directors and by the East African Authority which consists of the Presidents of the four Partner States. Currently the governments of Kenya, Uganda and Tanzania, each own a 27.2% stake while Rwanda has a 4.34% stake. To boost the capital of the Bank, AfDB has recently increased its stake to 11% by pumping in US$24 million for both paid-in (US$10 million) and callable (US$14 million) capital.

Based on the 2013 financials as shown in Table 2 below, EADB's authorised capital stood at US$1.08 billion of which US$932 million had been subscribed by the member shareholders. Only 18.6% of the subscribed capital had been paid-in as of December, 2014 and the other 81.4% is callable only to repay borrowings or to honour guarantees. Callable capital is therefore an indirect guarantee given by EADB's shareholders to its creditors.

Table 2: EADB's capital situation as of 31 December 2013

Share capital	**Amount (US$ Million)**
Authorised capital	1,080.00
Subscribed capital	932.36
Paid up capital	173.09
Callable capital	759.27

Source: EADB 2013 Annual Report

EADB is majority owned by its four regional member states whose credit ratings are as follows: Kenya ('B+'/'B'/Stable), Tanzania (not rated), Uganda ('B'/'B'/Positive) and Rwanda ('B'/'B'/Stable). The remaining stock of shares is owned by European and supranational development institutions, including the African Development Bank,with AAA credit ratings. Non-regional shareholders, with the exception of AfDB, have not subscribed to callable capital (i.e., capital that has not been paid in and can be called if the bank cannot honour its debt obligations); therefore, the bank receives support mainly from its four regional member countries and AfDB. The capital structure also shows that with its broad mandate the Bank is not adequately capitalised and its paid-in share of capital falls short of the minimum 20% requirements of sub-regional development banks.

3.4.5 Sources of funding for EADB

The Bank's main sources of funds are from its development partners through lines of credit. The Bank also mobilises local resources by issuing bonds. In cases where clients' requirements go beyond EADB's capacity, the Bank can offer syndication and co-financing arrangements. The Bank also manages special funds, technical grants and capital grants from bilateral donors. In view of its expanded mandate on regional integration, the Bank is expected to manage the East African Development Fund. The purpose of the Fund is to address, among others, infrastructural development issues in the EAC partner states so as to contribute to the deepening and acceleration of integration.

In terms of tenor, Table 3 below shows that the Bank, at 78% short to medium-term funding to total external funding in 2013, had mostly short-term sources of external funding at its disposal. This situation poses a funding risk, as the Bank is not likely to match the tenor of its long-term investment with its short-term resources. For this reason the current business model of the Bank is not sustainable.

Table 3: Total funding for EADB (US$ million)

	2013	**Break Down (%)**	**2012**	**Break Down (%)**
LT	11.5	22	5.8	11
MT	29.2	56	31.9	59
ST	11.4	22	16.3	30
Sub-total	52.1	100	54.0	100
Equity	166.1		144.4	
Total Funding	218.2		198.4	

Source: EADB 2013 Annual Reports

The Table above also shows that resources increased by almost 10% year on year, partly attributable to the retention of profit and increased share subscription from shareholders, which grew by 15% to US$166.1 million. The increase in capital stock was partly attributed to the injection of US$90 million share capital, 40% of which had been made by 2013 by shareholders. In addition the bank also mobilised funding of US$149 million from member states, and US$57 million from several multilateral development banks. The model shows that the bank is not active on the capital market as there were no resources mobilised from the capital market during the period ending 2014.

3.4.6 Financial performance

The summary of the Bank's Statement of Comprehensive Income for the year ended December 31st 2013 and the Statement of Financial Position as at 31the December 2013 are shown in Table 4. With respect to the Statement of Financial Position, EADB grew its assets by 16% from 2012 to 2013. This asset growth was mainly due to an increase in deposits due from commercial banks and loans and lease receivables which grew by 11% and 24% respectively.

Table 4: Statement of financial position of EADB

	2013 (US$ Million)	% change	2012 (US$ Million)
Statement of financial position			
Total assets	**238**	16%	**205**
Equity	166	15%	144
Total liabilities	72	18%	61
Total equity and liabilities	**238**	16%	**205**
Statement of Comprehensive Income			
Net interest income	9	-8%	10
Fees, commission and other income	6	18%	5
Net operating income	15	0%	15
Impairments	(1)	-218%	1
Operating income	14	-9%	16
Operating expenses	(7)	-14%	(9)
Profit for the year	**7**	-4%	**7**
Key ratios			
Return on assets	3%		4%
Return on equity	4%		5%
Operating expenses as % of NII	80%		85%
Impairments as % of NII	9%		-7%
Operating expenses and impairments as % of NII	88%		78%

Source: EADB 2013 Annual Report

The Bank's total liabilities grew by 18%, slightly higher than the 16% increase in assets. This growth in liabilities was mainly attributable to an increase in special funds, grants and capital fund.

The Bank's total equity grew by 15% in 2013, which was a close match to the 16% growth in total assets. This growth was mainly attributable to the increased share subscription from shareholders and the corresponding increase in share premium.

With respect to the Statement of Comprehensive Income, net interest income reduced by 8% arising from a reduction in interest income earned on deposits in 2013 as compared to 2012. Operating expenditure reduced by 14% in 2013 mainly on account of reduced costs of staff duty travel, directors expenses, legal fees and staff training costs. Impairment on loans decreased by 218% in 2013 – this underscores the reduction in legal costs. As a result of these changes, the Bank's profit for the year reduced slightly by 7%.

Operating expenditure as a percentage of net interest income was 80%. This demonstrates that the Bank was able to cover its operating costs from net interest income.

Impairment of loans as a percentage of net interest income was 9%, which also shows that the Bank was able to cover its loan impairments from net interest income.

When summed up, operating costs and impairments as a percentage of net interest income was 89%, which demonstrates that the Bank is sustainable based on its business and funding model.

3.4.7 Portfolio analysis of EADB

3.4.7.1 Portfolio distribution by economic sector

Since its inception with an initial investment of US$0.67 million, EADB’s portfolio has grown and changed from only supporting industrial and agricultural sectors to include education; health; financial intermediation; telecommunications services & information technology (IT); agro, marine & food processing and oil & gas. Its cash outlay, product spread and footprint have all grown.

As indicated in Table 5 below, in the past five years EADB support to infrastructure had always dominated, with the exception of 2010 when infrastructure support ranked second to industry. The Table also shows that at the end of December 2014, EADB’s cumulative investment in the five years ending 2014 totalled 33% to infrastructure followed by services (which included the financial sector and hotels) at 30% and then industry at 26%.

Besides offering loans, the bank also continued to take equity in firms, with a clear exit strategy. At the end of 2014 EADB had committed less than 1% of its resources to equity investments. This small investment reflects the small balance sheet of the bank as well as the Bank's exit strategy.

It is also worth noting that despite the positive developments of the EADB’s portfolio management functions, sustainability still remains a big challenge due to inadequate long-term resources. This lack of resources to support projects reveals a financing gap which has the potential to introduce liquidity risk as most of the Bank's resources are short to medium term while the loans are mostly long term.

Table 5: Cumulative commitments of EADB from 2010 to 2014, according to sector of intervention (US$ Million)

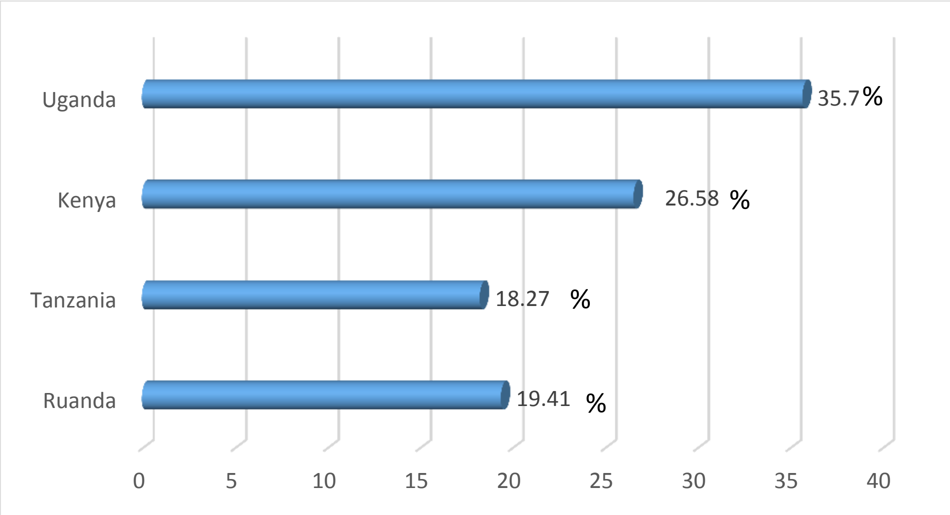
Form of intervention	Economic Sector	Cumulative 2010		Cumulative 2011		Cumulative 2012		Cumulative 2013		Cumulative 2014		Cumulative Total	Share
		No	**Amount US$**	**No**	**Amount US$**	**No**	**Amount US$**	**No**	**Amount US$**	**No**	**Amount US$**	**Amount US$**	**(%)**
Loans	Infrastructure		32.82		24.80		24.05		36.33		42.61	160.6	32.95
	Rural development		-		-		-		-		-	-	-
	Industry		36.18		20.28		22.15		24.11		24.65	127.37	26.13
	Services		29.83		22.74		22.17		31.27		40.47	146.48	30.01
	Social		8.54		7.62		16.07		12.94		3.62	48.79	10.01
Sub-total 1			107.37		75.44		84.44		104.65		111.35	483.24	99.10
Equity participation	Services		0.80		0.89		0.83		0.90		0.81	4.23	0.90
Sub-total 2			0.80		0.89		0.83		0.90		0.81	4.23	0.90
Guaranties	Infrastructure		-		-		-		-		-	-	-
	Industry		-		-		-		-		-	-	-
	Services		-		-		-		-		-	-	-
Sub-total 3			-		-		-		-		-	-	-
Total			108.17		76.33		85.27		105.55		112.16	487.47	100.00

Source: EADB Annual Reports 2010-2014

3.4.7.2 Geographical distribution of investment

By country the breakdown of net cumulative commitments, as presented in Figure 4 below, shows a concentration of the Bank's assistance as at the end of 2014 on Uganda (35.7%), followed by Kenya (26.6%), Rwanda (19.4%), and then Tanzania (18.3%).

Figure 4: EADB exposure to member states (US$ million)



***Source*: EADB 2014 annual report**

The Figure above also shows that even though the Bank is a sub-regional institution with the mandate to support regional projects, as at the end of 2014 the Bank had not, in fact, funded any such projects. This partly could be attributed to lack of long-term funding for such types of projects.

3.4.8 Challenges and opportunities

The East African Development Bank though a relatively old institution has faced a number of opportunities and challenges during its 48 years of existence. For the period under review, the findings point to the following challenges and opportunities:

3.4.8.1 Challenges

- Broad mandate: Like other SRDBs, the EADB has a broad development finance mandate within its member states, spreading across all sectors. Operationally it narrowed that mandate down to financing industry and infrastructure. Its charter initially aimed at promoting regional economic integration. But, after the break-up of the EAC, that clause was modified to 'promoting the development of the region' in which it operated. This modification has further broadened the mandate of the Bank and this could easily lead to mandate drift.

- Despite EADB being financially sustainable, its sustainability is still a challenge primarily because of its constant concern about getting adequate resources from donors and Member States to fulfil its mandate, which includes funding infrastructure.

- The low capital base of the bank with paid-in capital of less than 20% limits the institution in its ability to mobilise more external resources to fund infrastructure projects.

- There may not be strong and sustained political will on the part of governments to finance integrated infrastructure projects. Despite the broad mandate of the institution and over 48 years of existence, financial support to the Bank from member states for such regional development activity has been rather meek.

- Like COMESA and ECOWAS, the EAC market for long-term funding by commercial banks is limited. Commercial banks are keener on short-term funding for leasing than on project finance of infrastructure, which gives EADB a particular niche, with the constraint being the relatively small size of EADB.

- The bank also has limited capacity and skills to support project preparation, in particular those relating to infrastructure projects.

3.4.8.2 Opportunities

Despite a number of challenges faced by the bank, it has a number of strengths which give it an advantage to tap into a number of opportunities. Some of these include:

- Funding of infrastructure projects at both national and regional level. This opportunity is based on the revitalisation of regional cooperation among the member states through the establishment of the new East African Community (EAC) which has given EADB's development financing function a special role in promoting regional integration;

- Regional government focus on infrastructural development creates opportunities for the bank to participate in the development of infrastructure projects and to promote regional trade and integration;

- The establishment of the regional fund to support among other things infrastructure projects gives the bank the opportunity to both finance projects and meet its mandate of supporting regional integration; and

- EADB is the only regional bank with a track record in funding projects with long tenor, which gives the bank a niche position in EAC to fund infrastructure projects.

3.4.10 Lessons from EADB's experience

The first broad lesson to be learnt from EADB's experience is that it is not necessary for a regional integration arrangement to exist in order for a sub-regional DFI to survive; even though it may be necessary for such an arrangement to exist to justify setting up a SRDB in the first place. The second broad lesson is that once a publicly-funded inter-governmental institution is established it is virtually impossible to terminate it, providing it has a strong enough management and sufficient external support, even if the main reason for its role disappears. Other lessons are:

- The revitalisation of regional cooperation among member states through the establishment of the new East African Community (EAC) has given EADB's development financing function a special role in promoting regional integration and in financing infrastructure projects; and

- A lack of long-term concessional resources to fund infrastructure projects also gives the institution a niche position in the EAC.

3.5 West African Development Bank (BOAD)

3.5.1 Background

The West African Development Bank (BOAD) is a development finance institution whose history suggests that it has been more successful, perhaps the most successful of the African SRDBs established so far. It is a Sub-regional Development Bank of the member states of the West African Monetary Union (WAMU), established by Treaty in November 1973 by six member states (Benin, Burkina, Côte d'Ivoire, Niger, Senegal, Togo) which were joined by Mali in June 1984 and Guinea Bissau in May 1997. BOAD became operational in 1976[13].

3.5.2 Mandate of BOAD

Based in Lomé, Togo, BOAD is an international public institution whose purpose is to promote a balanced development of its member states and to foster economic integration within West Africa. It finances projects which include priority rural development, infrastructure, telecommunications, energy, industries, agro-industries, transport, tourism and other service projects.

In order to achieve its mandate and objectives BOAD engages with both the public and private sectors, utilising both commercial and concessional finance. The commercial window is available for both public and private entities. The concessional window offers lending at below market rates for sovereign states. As a rule, the bank finances no more than 50% of a given project, as its role is to catalyse other funding sources, e.g. from other supra-nationals, in order to get large infrastructure projects financed in the region.

3.5.3 Organisational framework

Under the direction and control of the Council of Ministers of the West African Monetary Union, the BOAD is administered by a President and a Managing Board. In addition to the Bank's President/Chairman, the Managing Board comprises one representative (and an alternate) from each country of the Monetary Union, the Governor of the BCEAO, and representatives (up to a maximum of eight) from countries and international financial organisations outside the Monetary Union subscribing to the Bank's capital. The President is appointed by the Union's Council of Ministers for a renewable term of six years. They are assisted by a Vice President, appointed by the Managing Board for a renewable term of five years.

[13] See the BOAD 2013 Annual Report, and BOAD website-last visited on 12.05.15

In terms of staff complement, BOAD began its operation in 1976, with fewer than 15 staff. Today that number has increased to 278 of which 43% constitute support staff, 46% professional staff and 11 % managers.

3.5.4 Financial structure

Similar to other SRDB structures, BOAD has two financing windows: a non-commercial window, known as Development and Cohesion fund (FDC) and a commercial window. The first window finances from concessional resources (softened interest rate and tenor conditions). Its focus is to fund public development projects for the benefit of the populations of the member countries. The second window finances, from market resources, commercial investment projects promoted by member countries and public and private businesses. To this end the Bank uses its equity to leverage private sector resources to fund the projects at near market rates.

In terms of capital structure, BOAD has both regional (i.e. WAEMU member countries and the BCEAO) and non-regional members. Its main shareholder is the BCEAO[14], holding 45% of the capital, while member states together hold another 49%. Non-regional shareholders hold under 7% of the capital but they are given a more than capital proportionate representation on the Board (one third)[15]. This provides checks-and-balances and broadens the technical knowledge and experiences on the basis of which the Board makes decisions. At the end of 2013 BOAD's capital structure was as follows:

Table 6: BOAD's capital situation as of 31 December 2013

Share Capital	**Amount, in US$ million***
Authorised capital	2,310.00
Subscribed capital	2,018.50
Called up capital	507.64
Paid up capital	297.71
Callable capital	1 510.86

Source: BOAD 2014 Annual Report * Exchange rate: 1$ = FCFA 500

As shown in the Table above, the callable capital as at 31st December 2013 stood at over US$1.5 billion, while the called up capital was recorded at over US$500 million, of which nearly US$300 million had actually been paid as at the end of December 2013, representing 36.7% of the called up capital or 12% of the authorised capital. The ratio of the paid-in as illustrated in the case of BOAD is still relatively small and this has potential not to attract external resources for the Bank.

3.5.5 Finance resources

Based on its capital strength, BOAD has so far mobilised the funds required to support its activities largely from capital subscribed by its regional and non-regional shareholders,

[14] BCEAO is the regional Central Bank of WAEMU community

[15] Category B shareholders include French Republic, German Development Corporation (DEG) acting on behalf of the Federal Republic of Germany, European Investment Bank (EIB) acting on behalf of the European Union (EU), African Development Bank (AfDB), Kingdom of Belgium, Export-Import Bank of India acting on behalf of the Republic of India, the People's Bank of China acting on behalf of the People's Republic of China, and Morocco

appropriations from member countries, its reserves, mobilisation of regional savings and mobilisation of resources from outside the Union. As shown in Table 7, the resources mobilised by the Bank are predominantly long term and this model is sustainable as most of its investment is also likely to be long-term.

Table 7: Funding for BOAD

	2013 US$ million	Breakdown (%)	2012 US$ million	Breakdown (%)
Long-term	1,385.8	98.9	1,184.5	96.7
Short-term	14.5	1.1	40.1	3.3
Sub-total	1,400.3	100.0	1,224.6	100.0
Equity	859.68		834.30	
Total Funding	2,259.9		2,058.9	

Source: Annual Report BOAD 2013

In spite of the efforts and achievements made in mobilising external resources, the resource mobilisation strategy still fell short of its target for the implementation of the strategic plan and agreed projects. The shortfall was partly due to a scarcity of concessional resources, the embryonic capital market in the region and the institution's lack of a credit rating.

3.5.6 Financial performance

At the end of 2013, BOAD's balance sheet showed total assets of nearly US$ 2.84 billion with total loans outstanding of US 2.1 billion, equity investments of US$ 96 million, and with provisions of about US$ 11 million up from US$2.7 million in 2012. Its liabilities included US$ 1.4 billion in long-term borrowings, special fund liabilities of US$ 134.4 million and statutory reserves of US$0.36 million. Although there has been an increase in the level of provision by over 21% from 2012, provision levels still remain moderate. Consequently the Bank does not face the same problems as those faced by other African SRDBs.

Past efforts to bolster the Bank's balance sheet resulted in the conversion of the its Energy Development Fund (EDF) into equity, boosting many of the bank's asset coverage and leverage ratios. However, the Bank suffers from weak borrower quality, due largely to its mandate to promote economic development in the West Africa Economic and Monetary Union (WAEMU) countries. Its regional focus means assets are necessarily concentrated, operating conditions are difficult, and its activities expose it to significant credit risk in a region that has had numerous periods of economic and political turmoil. The Bank's NPL levels are moderate, averaging 4.3% over the last five years, and although NPL's coverage by guarantees and provisions has increased, it nevertheless remained below 100% in 2013 at 91%.

An analysis of the statement of financial position as shown in Table 8 reveals that BOAD grew its assets by 13% from 2012 to 2013. This was mainly due to an increase in customer loans of 24%.

The Bank's total liabilities grew by 17%; not too far from the 13% increase in assets. This growth in liabilities is mainly attributable to an increase in secured debt.

The Bank’s total equity grew by only 3% in 2013, which was a mismatch when compared to the 13% growth in total assets. This was mainly attributable to the increase in retained earnings for the year.

With respect to the Statement of Comprehensive Income, net interest income grew by 35%, arising from the growth in customer loans. Operating expenditure increased by 12% in 2013. As a result, the Bank’s profit for the year increased by 13%.

Operating expenses as a percentage of net interest income was 67%, a slight decrease from 81%. This demonstrates that the Bank was still able to cover its operating costs from net interest income and that the Bank is sustainable.

Table 8: Statement of financial position for BOAD

	2013 (US$’Mn)	**% change**	**2012 (US$'Mn)**
Statement of financial position			
Total assets	**2,837**	13%	**2,521**
Equity	860	3%	834
Total liabilities	1,978	17%	1,687
Total equity and liabilities	**2,837**	13%	**2,520**
Statement of Comprehensive Income			
Net interest income	55	35%	40
Fees and commission income	3	-49%	6
Net trading income	58	24%	47
Other income	10	53%	6
Operating Income	68	27%	53
Cost of risk	(14)	21%	(12)
Other operating income	2	-78%	7
Operating expenses	(37)	12%	(33)
Expenses related to development activities	(3)	0%	(3)
Appropriations from member states	6	0%	6
Profit for the year	**22**	13%	**19**
Key ratios			
Return on assets	1%		1%
Return on equity	3%		2%
Operating expenses as % of NII	67%		81%

Source: BOAD 2013 Annual Report

3.5.7 Portfolio analysis

In the five-year period ending 2014, BOAD’s total net commitments to the WAEMU region stood at approximately $3.8 billion and, including the new Energy Development Fund, exceeded $4.3 billion - a sum equivalent to more than 5% of the WAEMU region’s GDP in 2014. Of total approvals to date, the infrastructure sector accounts for the largest share (69%) of the Bank’s portfolio commitments with US$2.6 billion. This is followed by other activities which accounted for US$390.57 million (10.3%), rural development - US$370.45 (9.8%) and financial institutions and SME promotion and equity investment - US$265.02 (7.0%) and US$125.95 (3.3%) respectively. The concentration of resources in infrastructure shows the Bank's level of commitment in fulfilling its regional mandate of contributing to the balanced development of its member states and fostering sub-regional economic integration by financing priority infrastructure development projects.

Table 9 below also shows that the three priority sectors supported by BOAD are: (i) improving and extending sub-regional infrastructure linkages in transport, telecommunications and energy; (ii) financing projects aimed at helping the sub-region to achieve food self-sufficiency; and (iii) working with BCEAO to strengthen the sub-region's banking systems and financial markets.

BOAD's involvement in developing the financial systems of member countries has widened and deepened considerably since its inception. It has financed and provided technical assistance to local commercial banks, purchased equity in them and played a direct, strategic policy-making role on their boards as well as on the boards of national DFIs. It has also acted as a trustee and fiduciary agent for some of the national central banks in the sub-region. BOAD acquired substantial stakes in private sector banks in Benin and Mali to which it also extended refinancing facilities.

Complementing its lending operations BOAD, like other African SRDBs, has managed a number of special funds which have been financed by endowments from member states and non-regional governments and institutions, and by contributions from the BOAD budget after profits, user levies and charges. These include:

- Energy Fund
- Interest Subsidy Fund
- Fund for Financing Feasibility Studies
- Backing Guarantee Fund
- Redemption Guarantee Fund
- Fund for Participation and Assistance
- Exchange Risk Cover Fund
- Private Sector Investment Guarantee Fund for West Africa

The BOAD's technical assistance grant funds have been supported by contributions from the Belgian and Swiss governments while co-financing arrangements for projects have been entered into with the AfDB as well as the EXIM Bank of Japan.

Further, as of the end of 2013, approximately 63% of BOAD's outstanding development portfolio was apportioned to national projects, 37% to sub-regional projects, and equity investments accounted for 3%[16].

[16] A9 Breakdown per sector and category of total net commitment as at 31/12/2013 (FCFA' Mn)

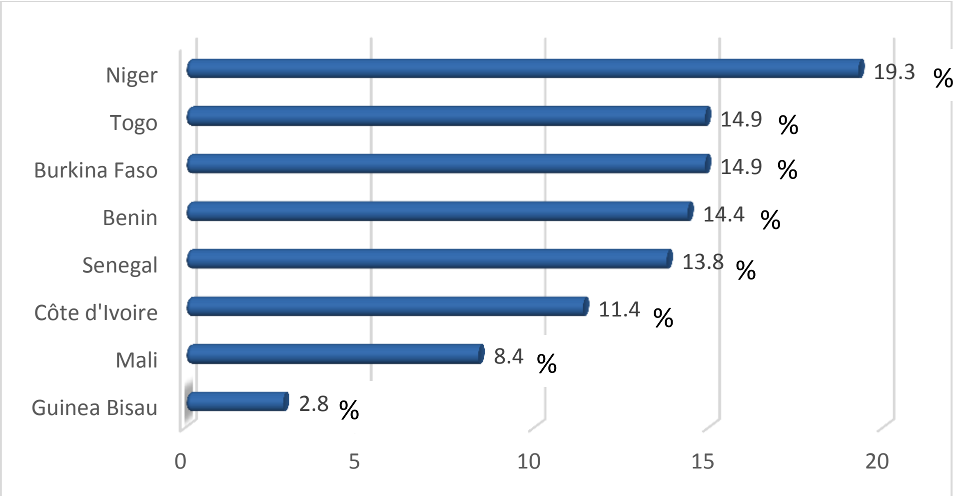
Table 9: Cumulative commitments of BOAD from 2010 to 2014, according to sector of intervention (US$ million)

Form of intervention	Economic sector	Commitments 2010		Commitments 2011		Commitments 2012		Commitments 2013		Commitments 2014		Cumulative Total	Share
		No	Amount US$	No	Amount US$	No	Amount US$	No	Amount US$	No	Amount US$	Amount US$	(%)
Loans	Infrastructure	15	278.03	18	338.52	26	651.29	28	904.95	18	466.7	2,639.49	69.6
	Rural development	6	107.11	6	92.09	19	108.22	3	53.73	1	9.3	370.45	9.8
	Industry	-	-	-	-	-	-	-	-	-	-	-	-
	Fl. & SME promotion boards	8	39.91	8	23.64	7	106.62	12	78.55	3	16.3	265.02	7.0
	Other productive activities	10	101.96	11	129.86	2	18.61	6	44.94	5	95.2	390.57	10.3
Sub-total 1		39	527.01	43	584.11	54	884.74	49	1,082.17	27	587.5	3,665.53	96.7
Equity participation	Equity investment	4	18.69	6	15.15	3	36.11	7	27.10	4	28.9	125.95	3.3
Sub-total 2		4	18.69		15.15		36.11		27.10	4	28.9	125.95	3.3
Guarantees		-	-	-	-	-	-	-	-	-	-	-	
Sub-total 3		-	-	-	-	-	-	-	-	-	-	-	
Total		47	545.70	49	599.26	57	920.85	56	1,109.27	31	616.4	3,791.48	100.0

Source: BOAD Annex 12: Breakdown of BOAD's net cumulative Commitments by Area 2013

In terms of geographical distribution, Figure 7 shows that investment has been relatively evenly balanced amongst member states of the community with Cote d'Ivoire accounting for 11.4% of BOAD's total commitments; Senegal 13.8%; Benin 14.4%; Burkina Faso 14.9%; Niger 19.3%; Mali 8.4%; Togo 14.9%; and Guinea Bissau 2.8%.

Figure 5: Breakdown of BOAD's net commitments by country 2013



Source: BOAD Annex 11: cumulative commitment by country 2013

37% of the projects funded by BOAD were regional projects and the rest national. BOAD engages with both the public and private sector, utilising both commercial and concessional financing windows. The commercial window is available for both public and private entities. The concessional window offers lending at below market rates for sovereigns. As a rule, the bank finances no more than 50% of a given project, as its role is to catalyse other funding sources, e.g. from other financial institutions, in order to get large infrastructure projects financed in the region.

3.5.8 Challenges and opportunities for BOAD

3.5.8.1 Challenges

In spite of the good performance of the Bank in the past 40 years, it still faces challenges. As outlined in the BOAD Strategic Plan 2015-2019, these include:

- Dependence of the Bank on the paid-up capital of its shareholding members that are themselves in need of development money. So instead of the member states looking at the Bank for new initiatives and products (funds and facilities) the bank has been looking up to its cash-strapped members for re-generation;
- Limited prospects of the bank to mobilise adequate external resource makes it difficult for the institution to meet its mandate of financing infrastructure projects at both regional and national levels;
- National development plans not well harmonised with BOAD's plans of action;
- Lack of capacity in areas such as structured financing, innovative financing, and designing of infrastructure projects;

- Absence of a credit rating of the Bank; and

- Relatively small balance sheet which limits the Bank's ability to support more infrastructure projects and lowers the risk tolerance.

3.5.8.2 Opportunities

Despite these challenges, the Bank has opportunities that could influence how it fulfils its mandate through the development financing role. These opportunities include:

- The existence of significant investment programmes for rural development and infrastructure, such as the regional economic programme (PER II), PCD and national development programmes, which brings together all stakeholders to tackle the issue of underdevelopment in the sub-region;

- Growing interest in public-private partnerships in the Union as this is an opportunity for the Bank to develop new services; and

- Interest shown by major development partners in regional integration which they see as one of the key areas of development cooperation with West Africa, and resilience and food security as well as the environment. The Bank could serve as a channel for funding in these areas.

3.5.9 Lessons from BOAD's experience

Despite the valued experience of BOAD over its 40 years of operation, the basic questions still remain: to what extent has a SRDB like BOAD contributed to the development of the region and to infrastructure projects? Did it contribute to infrastructure development both at the national as well as regional level?

It managed to lend only an average of about US$ 157 million for about 19 projects each year throughout its operating life which, by the standards of similar banks in Latin America and the Caribbean, is a relatively small amount of investment for a sub-regional bank. Yet, considering that the financing alternatives (especially for the private provision of infrastructure) which exist today did not exist then, BOAD probably has played a useful sub-regional role.

To begin with, BOAD has established its position as a provider of wholesale funds to national DFIs and commercial banks which they retailed on its behalf, but at their risk. BOAD has also taken up equity stakes in national DFIs and commercial banks and this has led to it playing a role in their internal policy-formulation, decision-making processes, contributing to the development of both commercial banks and capital market.

To this end the Bank has helped to create a sub regionally inter-linked network of financial institutions, with itself at the hub, in a financial, institutional and technological sense. The role of BOAD with regard to national DFIs and commercial banks is clearly delineated in terms of areas of activity and size of projects financed. For example, BOAD only finances projects above US$2 million; projects below this go through National DFIs and commercial banks. Based on this, BOAD mainly concentrates its lending operations on larger projects whether sub-regional or national.

At the other end of the scale, BOAD co-opted and co-financed projects with the AfDB, relying on its project identification, appraisal and supervision capacities. Moreover, as a credible regional institution BOAD, in an era when international development financing was still in vogue, became the vehicle of choice for bilateral and multilateral lenders wishing to channel their funds to that region for a variety of development purposes more efficiently than they could have done. The Bank therefore fulfilled a useful resource mobilisation and financial role for its sub-region for development funding from official sources in a manner that would be difficult to replicate in present circumstances. The number of infrastructure projects and the amounts involved also show that the Bank is contributing to financing projects in the sub-region.

3.6 Eastern and Southern African Trade and Development Bank (PTA Bank)

3.6.1 Background

The Eastern and Southern African Trade and Development Bank is a MDB established by charter on 6 November 1985 as part of the Preferential Trade Area (PTA) for Eastern and Southern African States (this region was later renamed the Common Market for Eastern and Southern Africa or COMESA). Article 9 of the Treaty creating the PTA, which came into force on 30 September 1982, established the PTA Bank as the financing arm for economic integration in the region. It is the largest sub-regional organisation in Africa covering virtually all the countries in Eastern and Southern Africa.

3.6.2 PTA Bank's mandate

PTA Bank's main mandate is to foster economic integration through trade and private sector growth[17]. In pursuit of this, the Bank has two main types of lending activities:

(1) trade finance loans that are generally short term, with maturities of less than a year to a maximum of 36 months; and

(2) project and infrastructure finance loans that are medium to long term, with maturities ranging from 3 to 10 years and a maximum of 15 years.

In 2013 the bank's mandate on infrastructure support was further expanded with an additional role of managing the COMESA Infrastructure Fund. With this instrument the institution will now have two windows namely the Bank and the Fund, and it is expected that through the soft window (the Fund) more regional infrastructure projects will be supported.

In carrying out its mandate, the Bank focuses primarily on private sector projects that generate foreign exchange, although it can also lend to the public sector. PTA Bank cooperates with other financial institutions active in the region and supports national development agencies by co-financing projects and by using these agencies as channels for specific projects.

[17] This mandate is broad and could lead to mandate drift

3.6.3 Organisational framework of the Bank

Since its inception, the structure of the top management of the Bank has undergone fundamental changes, as evidenced by the strengthening of key corporate functions including risk management, resource mobilisation, asset distribution functions in the areas of risk management, treasury, finance and syndications. These have seen the Bank promote and hire a number of key senior personnel including Chief Risk Officer, Chief Finance Officer, Treasurer, Head of Credit Risk and Head of Syndications.

In line with the Bank's regionalisation strategy to enhance efficiency and increase responsibility and accountability, it has opened regional offices that will ultimately develop into profit centres and regional directors have been appointed into these roles. The Bank has also strengthened its human capital base through skills development programmes, succession planning and a new performance management tool.

At the time of this study, the statutory policy organs of the PTA Bank included a Board of Governors and Board of Directors. The Board of Governors appoints the President of the Bank and Non-Executive Directors (NEDs) of the Board of Directors. Each member of the PTA Bank appoints one Governor and one alternate Governor, with the alternate only voting in the absence of the principal. As of December 2014, the Bank expanded its Board members to consist of ten Non-Executive Directors and the President as executive member; of whom five and their alternates represent member state constituencies, with one representative for non-African member countries, two representing institutional investors and two independent Non-Executive Directors.

The members of the Board of Directors are appointed for terms of three years. The current Board consists of ten members from commercial and development banking, business and academia. Both AfDB and China are also represented on the Board and attendance has been satisfactory. In line with good corporate governance practices, since 2013, the Bank has set up two additional sub-committees, the Investment and Credit Committee's (INVESCO) and the Remuneration and Nominations Committee (REMCO) in the addition to the Audit and Risk Committee (ARCO). The INVESCO provides oversight to matters relating to the Bank's investment and credit mandate, the REMCO reviews, recommends and improves the Bank's policy framework and other inputs on human resource management, while the ARCO assists the Board in discharging its duties relating to the identification and management of the key risks facing the Bank.

The Bank's management is headed by the President and CEO, who has responsibility for managing the Bank's affairs on a day-to-day basis. The President is assisted by a Management Team. There are seven departments: Finance; Human Resources and Administration; Legal Services; Project and Infrastructure Finance; Trade Finance; Portfolio Management and Compliance Risk Management. The Presidency is also a department on its own.[18] With respect to staffing, as at the end of 2014 the Bank had a staff complement of 117 out of which 82 were professionals.

3.6.4 Financial Structure of PTA

PTA Bank's financial structure is similar to that of EADB. It was mainly made up of a lending window until March 2014 when the infrastructure fund (soft loan facility

[18] http://www.ptabank.org/index.php/bank-profile/management-team website visited on 08.05.15

window) was transferred to PTA Bank. This is an equity fund managed by a Fund Manager, where PTA Bank has a stake, together with Harith Fund Managers. The transfer is in line with the PTA Bank Charter that provides for the establishment and administration of special purpose funds in the region, given its role as a specialised and autonomous regional financial institution. This is in addition to its core mandate to provide financial assistance to member states, promoting their economic and social development in the region and internationally.

The regional member's shareholding is 81.3% whereas the non-regional shareholding stands at 6.6% and the Institutional Shareholding at 12.1%. In terms of its capital structure Table 13 shows that the Bank's authorised capital currently stands at USD 3.0 billion of which USD 1.4 billion is callable, meaning the shareholders would be asked to bail the Bank out to this extent in the event of financial distress. The authorised capital alluded to in Table 10 below consists of Class A and Class B capital at USD 2 billion and USD 1 billion respectively.

Table 10: PTA Bank's capital situation as of 31 December 2014

Share capital	**Amount, in US$ million**
Authorized capital	3,000.00
Subscribed capital	1,456.43
Callable capital	1,116.25
Paid up capital	307.96
Amount in arrears	6.77

Source: PTA Bank 2014 audited accounts report

Class B shares were first issued in 2013 following an approval by the Board of Governors in December 2012 to increase the Bank's authorised capital from USD 2.0 billion to USD 3.0 billion. This was achieved through the creation of over 220,000 new Class B shares of a par value of US$ 4,533.42 each. Class B shares do not have a callable portion and are paid at once. The ratio of paid-in capital to subscribed capital, which at the end of 2014 was roughly 21%, is comparable to other development banks.

At the end of 2014, PTA Bank's subscribed capital was almost half of the total authorised capital. Paid-in capital amounted to $308 million (21%) of subscribed capital which is comparable to other sub-regional development banks.

3.6.5 Sources of funding for PTA Bank

Based on this capital structure, the Bank leverages on its callable capital, paid-in capital and reserves to borrow additional funds from multilateral development banks and capital markets to fund its activities. At the end of December 2014 the Bank had mobilised a total of US$3.4 billion from multilateral development banks and capital markets[19]. The total composition of the funding between 2013 and 2014 is shown in Table 11.

[19] The main lending institutions include Export-Import Bank of India, the AfDB, Development Bank of South Africa, PEFCO, FMO, and KBC Bank. For short-term facilities, the main lending institutions include Commerzbank, Mauritius Commercial Bank, Rand Merchant Bank, Standard Bank of South Africa, and BNP Paribas

The structure of funding also shows that the Bank, at 69.3% short-term funding to total external funding in 2014, had predominately short-term sources to external funding. This is in line with its business model of providing both short-term and long-term facilities through its Trade Finance and Project and Infrastructure Finance' windows. The short term funding supports trade finance loans that mature within one year.

Table 11: Total funding for PTA Bank (US$ Million)

	2014	**Breakdown (%)**	**2013**	**Breakdown (%)**	**2012**
Long-term	849.4	30.7	823.6	54.1	681.3
Short-term	1,919.3	69.3	972.9	45.9	648.2
Sub-total	**2,768.7**	100.0	1,796.5	100.0	1,329.5
Equity	621.9		476.9		344.3
Total funding	3,390.6		2,273		1,673.8

Source: PTA Bank 2014 Annual Report

However, PTA Bank has a strong liquidity position which mitigates the risk which could arise from the bank having more external short-term resources. This is a particularly noteworthy factor that underpins its credit rating. The self-imposed liquidity framework requires it to hold liquid assets in sufficient amounts to meet 1.25X its possible cash outflow requirements over a 12-month period, without recourse to external financing from the capital markets. This excludes trade finance loans since they are funded from specific short-term borrowings whose maturity profiles are synchronised.

3.6.6 Financial Performance

The PTA Bank's shareholder equity has more than doubled in the past five years, a sign of good political will and the confidence of members. The restructuring which the Bank went through seems also to have contributed to the capital increase as well as the positive impact on its income generating capacity arising from improvements in the quality of operations. The Bank is now a stronger institution with an increased capital base.

With respect to the statement of financial position, PTA grew its assets by 38% from 2012 to 2013. This growth was mainly an increase in Trade Finance loans and Project Finance Loans, which grew by 70% and 23% respectively.

Table 12: Statement of financial position for PTA Bank

	2013 US$ Million)	% change	2012 (US$ Million)
Statement of Financial Position			
Total assets	**2,536**	38%	**1,844**
Equity	477	39%	344
Total liabilities	2,059	37%	1,499
Total equity and liabilities	**2,536**	38%	**1,843**
Statement of Comprehensive Income			
Net interest income	50	1%	50
Fees and commission income	44	31%	33
Net trading income	94	13%	83
Other income	7	22%	6
Operating income	101	14%	89
Operating expenses	(16)	28%	(12)
Impairment on other financial assets	(0)	-77%	(1)
Impairment on project and trade finance loans	(22)	-15%	(26)
Fair value gains on equity investments at fair value	2	244%	1
Net foreign exchange gains/losses	1	-1327%	(0)
Profit for the year	**67**	31%	**51**
Key ratios			
Return on assets	3%		3%
Return on equity	14%		15%
Operating expenses as % of NII	31%		25%
Impairments as % of NII	44%		52%
Operating expenses and Impairments as % of NII	76%		77%

Source: PTA Bank 2013 Annual Report

The Bank's total liabilities grew by 37%, in line with the 38% increase in assets. The growth in liabilities is mainly attributable to an increase in short term borrowings and long term borrowings by 43% and 27% respectively. There was a higher increase in trade finance loans than in project finance loans. This was consistent with the higher increase in short-term borrowings compared to long-term borrowings, demonstrating efficient matching of assets and liabilities.

The Bank's total equity grew by 39% in 2013, more than matching the 38% growth in total assets. This growth was mainly attributable to the increase in new capital subscriptions, including share premiums and retained earnings for the year.

With respect to the Statement of Comprehensive Income, net trading income grew by 13%, arising from the growth in both project finance and trade finance loan portfolios. Operating expenditure increased by 28% in 2013, mainly on account of new staff being recruited, and impairment on loans decreased by 15% in 2013. The Bank's profit for the year increased by 31%.

Operating expenditure as a percentage of net interest income was 31%, a slight increase from 25%. Impairment of loans as a percentage of net interest income was 44%, an improvement from 52% in 2012.

When summed up, operating costs and impairments as a percentage of net interest income was 76%, which demonstrates that the Bank is sustainable based on its business and funding model.

3.6.7 Portfolio analysis of PTA Bank

The Bank's project financing activities got off to a slow start with approvals of only US$ 7 million in 1990-91. They averaged less than US$ 10 million annually between 1992 and 1994. Disbursements against these approvals were US$ 0.7 million in 1991, US$ 1.9 million in 1992, and US$ 3 million between 1993 and 1994. In total, PTA Bank financed eight projects in as many years between 1985 and 1992 for a total of US$ 18 million. This situation has greatly improved. In the five years ending 2014, and as shown in Table 13 below, the Bank's total commitments in both project finance and trade finance loans grew threefold from US$856 million in 2010 to US$ 2.52 billion in 2014, with a cumulative amount of USD $7.9 billion by 2014.

Table 13: Cumulative commitments of PTA Bank from 2010 to 2014, according to sector of intervention (US$ Million)

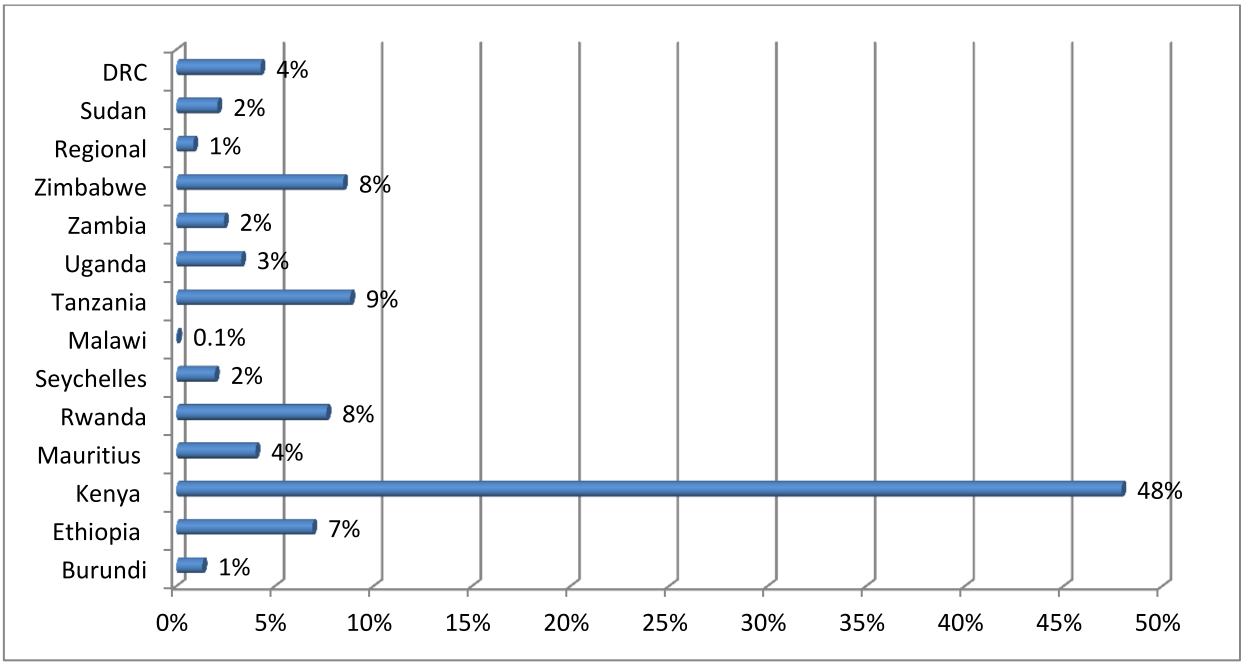
Form of intervention	Economic Sector	Commitments 2010		Commitments 2011		Commitments 2012		Commitments 2013		Commitments 2014		Cumulative Total	Share
		No	Amount US$	No	Amount US$	No	Amount US$	No	Amount US$	No	Amount US$	Amount US$	(%)
Loans	Infrastructure		105.04		178.81		222.72		270.58		246.28	1,023.45	13
	Rural development		60.79		47.40		56.17		75.20		93.11	332.67	4
	Industry		93.87		80.45		76.15		65.89		87.76	404.12	5
	Services		64.43		111.78		137.08		166.48		164.57	644.34	8
	Social		-		9.45		9.93		28.78		33.13	81.28	1
Sub-total 1			324.14		427.89		502.06		606.93		624.85	2,485.86	31
Trade Loans	Services		532.0		691.0		847		1,443.0		1,901.0	5,414.0	69
Sub-total 2			856.14		1,119.89		1,349.06		2,050.93		2,526.85	7,899.86	100.0
Guaranties	Infrastructure		-		-		-		-		-	-	
	Industry		-		-		-		-		-	-	
	Services		-		-		-		-		-	-	
Sub-total 3			-		-		-		-		-	-	
Total			856.14		1,119.8 9		1,349.06		2,050.93		2,526.85	7,899.86	100.0

Source: PTA Bank Annual Reports for 2010-2014

The sectoral distribution of the Bank's loan portfolio at the end of 2014, as shown in the table above, was as follows: Infrastructure - US$1,023m (13%); Industry - US$404.12m (5%); Services - US$644.34m (8%); Social services - US$81.28m (1%); and Trade Finance - US$ 5,414.0m (69%). This distribution of investment illustrates the importance that the Bank attaches to trade finance, to which roughly 69% of resources were channelled in the five year period ending 2014, as opposed to infrastructure which accounted for 31% of the total investment of the Bank.

In terms of geographical distribution, 13 countries benefited from infrastructure finance assistance, as presented in Figure 8.

Figure 6: PTA Bank project and infrastructure cumulative approvals by country (2010 - 2014)



Source: PTA Bank 2014 Annual Report

Given the development financing needs of its member states, these amounts are insignificant. They invalidate estimates made by the PTA Secretariat in 1985 which suggested a pipeline of priority projects in need of urgent financing in East and Southern Africa, across all sectors, amounting to US$ 12 billion. The figure also shows that regional project investment is minimal compared to that offered to member states.

This scenario is mainly attributed to the following constraints: (1) access to long-term funding for equity and debt, both of which have been growing sharply in recent years; (2) the cost of funding and access to finance; (3) the Bank's credit rating, which is not strong enough to attract low cost funding and long tenured funding from capital markets, and (4) while the Bank has issued two Eurobonds of 300 million each, the resources are suitable mainly for trade finance and SME finance, not infrastructure projects, which the Bank mostly funds with resources obtained through equity and long term credit lines from International Financial Institutions and bilateral institutions such as KfW. Also, even though the RECs may have indicative lists of projects, these may not be bankable, due to a lack of project developers, and a lack of funding for important feasibility work.

3.6.8 PTA Bank challenges and opportunities

3.6.8.1 Challenges

From the viewpoint of institutional development and its value as an addition to the array of sub-regional institutions in COMESA, the PTA Bank's experience shows that the institution has faced a number of challenges. These include:

- Funding from member countries is not adequate considering the region's huge infrastructure demand;

- The low credibility behind PTA Bank's 'callable' capital, underwritten by countries with limited creditworthiness, has contributed to low resource mobilisation efforts especially on long-term funding;

- The relatively small size of the Bank limits its ability to finance huge infrastructure projects as well as meeting its broader mandate of promoting regional integration.

The PTA Bank's case also demonstrates the disparity between *a priori* demand estimates by sub-regional secretariats and the ground level realities which African SRDBs confront. The disparity creates a credibility problem for the Bank in establishing their role and viability when such estimates of demand prove to be not met due to funding capacity challenges faced by the Bank. The experience of the Bank in funding infrastructure projects does not automatically suggest that demand estimates in COMESA region were overstated. It may suggest that the SRDB may not have been the right vehicle for meeting such demand even if it had been more accurately estimated. If deemed to be the right vehicle, member states should put in enough capital so the Bank is financially viable and can meet its developmental mandate effectively. Indeed, the PTA Bank has played a greater role in meeting demand for trade finance than for project finance.

3.6.8.2 Opportunities

Despite these challenges the Bank, though relatively small, has evolved over the past 30 years and it has significant opportunities, especially in the area of fostering economic integration through financing both national and regional infrastructure projects. Other opportunities include:

- Strong economic growth and interest in the region, and demand for development finance and services;

- The emergence of Tripartite FTA and the re-positioning of the bank to take advantage of the size of the market which requires massive infrastructure development;

- The lack of strong SRDBs in the region to support sub-regional economic and investment cooperation;

- The growing fiscal and financial capacity of member states, which allows them (as majority shareholders) to contribute more to the capital of the Bank. This will strengthen the Bank's capital and enable it to mobilise more resources:

- The creation of the COMESA infrastructure fund, now domiciled at PTA Bank, creates additional opportunities for the Bank to meet its mandate of regional integration through financing of infrastructure projects.

- Development of innovative financial instruments such as mezzanine debt, which makes transactions more bankable.

3.7 ECOWAS Bank for Investment and Development (EBID)

3.7.1 Background

EBID is a sub-regional development bank created by Article 21 of the Revised Treaty of ECOWAS as amended by the Supplementary Act no. A/SA.9/01/07 of 19 January 2007[20]. The Bank first started its operations in 1975 as a Fund for Cooperation and Development known as ECOWAS Fund. Resulting from the impact of globalisation on West Africa, the Heads of State and Government of ECOWAS countries decided to revisit the mandate of the ECOWAS Fund and in 1999 the Fund was transformed into the ECOWAS Bank for Investment and Development (EBID), with greater focus on improving the infrastructure, energy, transport and telecommunication sectors.

The Bank is established under a Protocol which came into force in July 2003 and it commenced operations on 1 January 2004. In 2006 the Bank was further restructured into one entity with two windows, to fund the private and public sectors respectively.

3.7.2 EBID's mandate

In accordance with Article 2 of its Protocol, the Bank's mandate is first to contribute to the realisation of the objectives of the Community by supporting regional integration projects or any other development project under the private or public sector, and second to contribute to the development of the sub-region by financing the special programmes of the Community.

Based on its mandate, EBID is considered as the key potential financier for major regional or multi-country programmes and projects within its geographical operating area. Unlike the East African Development Bank and PTA Bank, EBID's mandate is more focused and narrow.

3.7.3 Organisational framework

The highest decision-making body at EBID is its Board of Governors, composed of the finance ministers of the ECOWAS member states. A Board of Directors, composed of eight representatives from the fifteen member states, is responsible for the general operations of the Bank. The President is responsible for the day to day management of the bank. Two Vice Presidents - one responsible for finance and corporate services and the other for operations - report to the President. The Bank has a staff of 145, 36.5% of

[20] Its membership include Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

whom are general and support staff while the remaining 63.5% is made up of the professional staff, directors, statutory appointees, and outsourced staff.

3.7.4 Financial structure of EBID

The Bank was first constituted as the ECOWAS Fund for Co-operation, Compensation and Development (ECOWAS Fund). This was a soft-loan facility which became operational in 1979.

In order to enhance the financial resources of the soft-loan facility (the Fund), the Member States decided in 1999 to transform it into a regional holding company called ECOWAS Bank for Investment and Development (EBID) with two specialised subsidiaries, ECOWAS Regional Development Fund (ERDF) which is a soft-loan facility and ECOWAS Regional Investment Bank (ERIB) which is a lending window (the Bank). The EBID Group became operational in 2003 and it now conforms to the financial structure of most SRDBs.

Table 14 below summarises the ban capitalization as of 31 December 2013. The authorised capital of EBID was 1,000 million Units of Account, equivalent to US $1,515 million. ECOWAS member states have subscribed to 70% of the authorised capital while 30% has been offered for subscription to non-regional members. However, as of the end of 2013, only regional shareholders had subscribed to EBID's capital offering. Furthermore, as of 31 December 2014, only US $246 million, or 23% of the subscribed capital amount, had actually been paid in by member states. At the time of writing this report, the remaining unpaid capital was either pending or in arrears, a sign of the financial challenges faced by members of the bank.

Table 14: EBID's capital situation as of 31 December 2013

Share Capital	**Amount (US$ millions)**
Authorised capital	1,515.00
Subscribed capital	1,060.50
Called up capital	392.70
Paid up capital	245.88
Capital arrears	349.05
Callable capital	465.55

Source: EBID 2013 Annual Report

The Bank's largest share stock of 61.71% is shared between three countries, Nigeria (31.24%), Ghana (15.71%), and Cote d'Ivoire (14.76%).

3.7.5 Resources

The resources for funding the activities of the Bank are mainly from equity of shareholders, reserves of capital, borrowings, and special funds[21]. As shown in Table 15 below, at the end of 2013 the main source of funding was long term, from external sources. In addition, the Bank also received funding from its shareholders in the form of

[21] Special funds are resources mobilised from the Community in the form of the Community levy.

equity. The increase in equity represents a part of the capital related to the second tranche and arrears on the first called-up capital.

Table 15: Total funding for EBID (US$ million)

	2013 US$ million	Breakdown (%)	2012 US$ million	Breakdown (%)
Long-term	309.5	100	259.3	100
Reserves	39.3		23.3	
Sub-total	348.8		282.6	
Equity	245.9		215.3	
Total Funding	594.7		497.9	

Source: EBID 2013 Annual

As shown in the Table above, the Bank has predominantly long-term sources of external funding. This business model is sustainable since most of the Bank's lending is likely to end up being long-term due to the nature of infrastructure projects supported. The caveat to this funding model, however, is that it is relatively limiting for a sub-regional development bank whose mandate is to fund infrastructure projects at both member state and regional level.

Faced with this challenge, the Bank continues to explore sources of funding that can support its loan portfolio, which is the only way to guarantee long-term sustainability. Several meetings have been held between the management of the Bank and the Heads of State and Government around mobilising the arrears on the first and second tranches of the called-up capital. Through this initiative about US$25 million was mobilised, and this has contributed to an increase from US$215m in 2012 to US$245.9m in 2013.

Significant progress was also made towards mobilising part of the Community Levy for the financing of infrastructure in the region. The effective implementation of the decision of the policy makers of the Community regarding the mobilisation of part of the Community Levy is a viable and credible alternative. Furthermore, payment of the second tranche of capital by member states would enhance the Bank's resources and serve as an effective tool for attracting non-regional members into the Bank.

3.7.6 Portfolio Analysis of EBID

Analysis of the breakdown of commitments according to sector of activity shows that over the five years to December 2014, infrastructure was the sector that accounted for the largest share of commitments (64.5%), which confirms the strategic positioning of the Bank. Next in importance were the services and industrial sectors which absorbed 15.0% and 12.6% respectively of total commitments. And while the social sector is critical to infrastructure development, it attracted only 4.9% of total investment commitments.

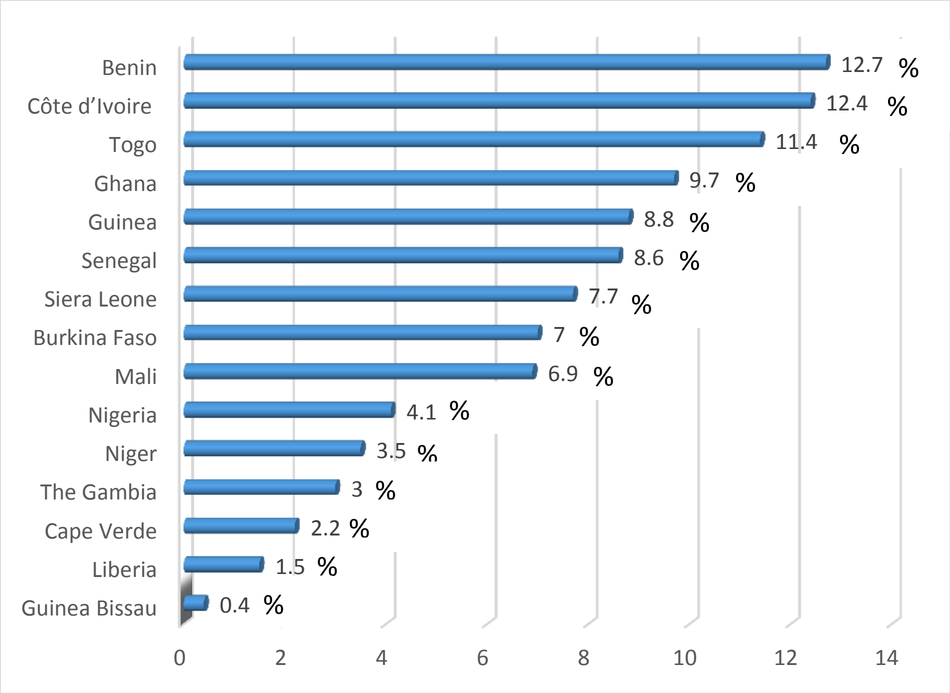
Table 16: Cumulative commitments of EBID from 2010 to 2014, according to sector of intervention (US$ Million)

Form of intervention	Economic sector	Commitments 2010		Commitments 2011		Commitments 2012		Commitments 2013		Commitments 2014		Cumulative Total	Share
		No	Amount US$m	No	Amount US$m	No	Amount US$m	No	Amount US$m	No	Amount US$m	Amount US$m	(%)
Loans	Infrastructure	56	513.07	59	640.78	65	673.38	63	718.13	76	846.01	3,391.37	62.3
	Rural development	7	25.21	6	23.56	7	32.63	7	32.55	9	46.34	160.29	2.9
	Industry	9	88.30	8	80.40	12	95.78	14	141.46	16	171.24	577.18	10.6
	Services	12	73.77	14	90.11	16	110.51	16	133.52	17	144.60	552.51	10.1
	Social	4	47.28	4	48.87	5	56.21	5	56.19	5	56.45	265.00	4.9
Sub-total 1		88	747.63	91	883.72	105	968.79	105	1,081.87	123	1,264.65	4,946.66	90.8
Equity participation	Services	7	34.30	10	37.41	13	40.45	13	41.15	15	46.61	199.92	3.7
Sub-total 2		7	34.30	10	37.41	13	40.45	13	41.15	15	46.61	199.92	3.7
Guaranties	Infrastructure	5	43.80	3	32.95	3	22.12	2	14.99	1	7.78	121.64	2.2
	Industry	1	20.43	3	31.20	3	25.81	2	20.20	2	12.15	109.79	2.0
	Services	2	66.61	1	0.64	-	-	-	-	0	0	67.25	1.2
Sub-total 3		8	130.89	7	64.32	6	47.87	4	35.19	3	19.93	298.20	5.5
Total		103	912.82	108	985.45	124	1,057.29	122	1,158.21	141	1,331.20	5,444.97	100.0

Source: EBID Various Annual Reports for 2010-2014

Although all Member States benefit from the Bank's assistance, the breakdown of the net total commitments presented in the figure below shows that the bulk of the Bank's assistance went to Benin, Côte d'Ivoire, Togo, Ghana and Senegal. However, the biggest year-on-year increases in commitment were seen in Guinea (+64.0%), the Gambia (+32.9%), Togo (+ 24.3%) and Niger (+21.7%).

Figure 7: Distribution of EBID's commitments by country



Source: EBID Activity 2015 Report

3.7.7 Financial Performance

The Bank's performance from 2012 to 2014 was satisfactory, and EBID grew its assets by 12% from 2012 to 2013. This growth was mainly as a result of the 23% increase in loans to member states.

The Bank's total liabilities grew by 18% which was higher than the 12% growth in assets, creating a mismatch. This growth in liabilities is mainly attributable to an increase in borrowings, in particular a number of lines of credit that were concluded and drawn against.

The Bank's total equity which grew by 6% in 2013 did not match the 12% increase in assets. This growth in equity was mainly attributable to the increase in capital subscriptions.

Table 17: Statement of financial position for EBID

	2013 US$ Mn	% change	2012 US$ Mn
Statement of financial position			
Total assets	616.7	12%	549.8
Equity	269.8	6%	255.2
Total liabilities	346.9	18%	294.5
Total equity and liabilities	616.7	12%	549.8
Statement of comprehensive income			
Net interest income	10.2	11%	9.2
Fees and commission income	6.1	16%	5.2
Net trading income	16.3	13%	14.4
Other income / costs	-2.0	66%	-1.2
Operating income	14.1	8%	13.2
Operating expenses	-12.3	0%	-12.3
Provision for doubtful debts	-16.4	1569%	-1.0
Profit for the year	-14.5	12805%	-0.1
Key ratios			
Return on assets	-2%		0%
Return on Eeuity	-5%		0%
Operating expenses as % of |NII	120%		134%
Provision for doubtful debts as % of NII	161%		11%
Operating expenses and Impairments as % of NII	282%		145%

Source: EBID 2013 Annual Report

With respect to the statement of comprehensive income, net interest income grew by 11%, arising from the growth in the loan portfolio.

Operating expenditure as a percentage of net interest income was 120%, a reduction from the previous year when it was sitting at 134%. This demonstrates that, in both years, the Bank was not able to cover its operating costs from net interest income.

Provisions for doubtful debts as a percentage of net interest income was 161%, a marked increase from 11% the previous year. This also shows that the Bank was not able to cover its impairment costs from net interest income.

When summed up, operating costs and impairments as a percentage of net interest income was 282%, which demonstrates that the Bank has a challenge of sustainability.

3.7.8 Challenges and opportunities for EBID

3.7.8.1 Challenges

Some of the key challenges facing EBID include:

- The failure of some member states to pay their portion of the called-up capital, which would enable EBID to mobilise resources from external partners;

- The lack of concessionary resources needed to finance public sector projects;

- The low capitalisation of the Bank, which hampers leveraging external resources;

- A lack of strategic partners from the private sector, development partners and multilateral development banks is another big drawback, especially on governance and resource mobilisation from the capital market;

- The lack of credit rating, which is an issue for an institution whose business is partly to mobilise concessional funds from the market.

3.7.8.2 Opportunities

Despite the challenges faced by the Bank, it has political support from its member states and a number of opportunities which stem from:

- The long-term financing needs of Member States to enable them to respond to the crises (food, economic and financial) which have occurred in recent times;

- The many infrastructure projects that require funding;

- The strong demand for medium and long terms investment and financing by the private and public sectors following the preference shown by the Community in using infrastructure development as the vehicle for achieving regional integration; and

- The ECOWAS region, which encompasses the 15 ECOWAS member states with a population of 292 million. With the ECOWAS market expanding, there is enormous potential for development project financing.

3.8 Contribution of African Sub-Regional Development Banks to infrastructure development

Table 18 below shows that the four sampled African SRDBs contributed about US$6.7 billion of investment in infrastructure development between 2010 and 2014. EBID has contributed the most with around US$3.4 billion cumulative investment channelled to infrastructure projects. This is followed by BOAD who invested US$2.6 billion in infrastructure in the same period while the remaining two SRDBs, PTA Bank and EADB, contributed roughly US$517 million and US$161 million respectively. As to the percentage of total investment dedicated to infrastructure, BOAD contributed nearly 70%, followed by EBID with just over 62%, EADB with 33% and PTA Bank with 7.7%.

The relatively low level of investment in infrastructure projects by the four sampled African SRDBs can be attributed to a number of factors. As indicated in Table 18 below, some of these include (i) the size of the banks - which are relatively small for sub-regional development banks, (ii) low capitalisation of the Banks, and (iii) low levels of external resources mobilised by the Banks.

Table 18: Contribution of African Sub-Regional Development Banks to infrastructure development (US$ Million)

SRDB	Size of African SRDB	Capital of the African SRDB		External resources mobilised by the African SRDB	Total investment (2010-14)	Total investment apportioned to infrastructure (2010-14)
		Subscribed capital	Paid-in capital			
EADB	238.0	932.4	173.0	52.1	487.5	160.6
PTA Bank	2,536.0	1,456.4	307.9	2,768.7	6,752.6	516.9
BOAD	2,837.0	2,018.5	297.7	1,400.3	3,791.5	2,639.5
EBID	616.7	1,060.5	245.9	348.8	5,444.9	3,391.4

Chapter 4

Demand and supply of financing for infrastructure by the African SRDBs

4.1 Introduction

Why is infrastructure investment lagging in Africa, even though the potential supply of long-term finance is plentiful? While there is a consensus about the existence of an infrastructure bottleneck, there is less clarity about the underlying reasons for the lack of infrastructure finance by the SRDBs. This section analyses the gaps and main challenges for infrastructure financing from a demand and supply perspective, analysing the current position in sampled African SRDBs based on the figures provided in Table 19 below.

Table 19: Demand and supply analysis of infrastructure financing 2014

	Number of applications received	Total value of applications (US$ Mn)	Total applications approved	Total value of 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

The numbers mask a great deal of information. For instance PTA Bank had the largest number of applications on infrastructure projects, amounting to US$933 million, out of which only close to US$210 million was approved, leaving a financing gap of US$723 million. Similarly, EBID received applications worth over US$530 million in 2014 but only US$95.6 million was approved. And while EADB numbers appear to show that there was no financing gap, the Bank has a project pipeline totalling US$361 million; projects of only 8% of this value were approved in 2014. This analysis shows that, on average, all three African SRDBs for which data was available had an infrastructure financing gap of over 80%.

Table 23 also shows that out of the 49 applications received by the African SRDBs for infrastructure projects, only 15 (30%) were approved.

4.2 Supply and demand analysis

This section discusses briefly the financing gap of each African SRDB and possible causes.

4.2.1 East African Development Bank

The East African Development Bank has a project pipeline totalling US$361 million comprising 49 projects which are at various stages of appraisal[22]. However, despite this pipeline, only two proposals for infrastructure projects, costing a total of US$30 million, were submitted to the board for approval in 2014; they were both approved. While it may

[22]See AfDB article on (http://www.afdb.org/en/news-and-events/article/afdb-approves-us-40-million-10-year-line-of-credit-to-east-african-development-bank-to-fund-regional-projects-13642/).

appear that the Bank did not experience a financing gap, one might argue that the Bank did, effectively, have one as it was unable to fund the pipeline of projects amounting to US$331 million. The main reasons attributed to this funding gap and the low number of project applications is weak sponsorship and non-compliance with Bank policy (for example entities incorporated outside the East Africa region applying for funding).

The other reasons for this financing gap are (i) a lack of long-term financial resources: the Bank has a very small pool of external resource, amounting to US$52 million, and out of this, 78% was short-term; and (ii) the lack of a pipeline of bankable projects, which could be attributed to a lack of capacity for project preparation in the Bank.

4.2.2 PTA Bank

Unlike EADB, PTA Bank at the end of 2014 received 34 applications for infrastructure projects, totalling USD $933 million. Out of this, the Bank only approved 7 projects, with a total value of US210 million - an infrastructure financing gap of US$723 million. According to Bank officials, the main reasons for this financing gap were (i) risk profile of projects which was beyond the Bank's appetite, (ii) clients managing to source funds from other banks on better terms, (iii) projects poorly prepared, and (iv) lack of long-term resources for infrastructure projects.

A close look at the reasons advanced by the Bank suggests that it lacks development finance resources which can be used to fund infrastructure projects. At the end of 2014, the Bank had 69.3% of short-term funding to total external funding and had predominantly short term sources of external funding. Availability of funding for infrastructure financing remains low. The fact that the sponsors of the projects are able to source funding at better terms elsewhere could also be attributed to competition as well as the resource mobilisation model (where the Bank maybe sources expensive money from the market). The lack of properly prepared projects could also be attributed to both a lack of capacity for project preparation as well as the lack of a pipeline of bankable projects.

The study also found that it takes the Bank between 3 and 6 months to process applications and disburse funds. This is slightly high compared to Latin American SRDBs, where the process takes 3 months.

4.2.3 EBID Bank

In the case of EBID, the bank received thirteen infrastructure projects applications, amounting to a total of US$530 million in 2014. The Bank's Board of Directors approved the financing of six of these projects, for a total value of just under US$96 million and this contributed to the financing gap of US$434 million. According to the Bank, this gap was mainly due to (i) a lack of concessional financial resources; (ii) insufficient human resources to translate the strategy into results and mobilise needed resources; and (iii) the poor quality of the projects presented to the Bank by the sponsors.

These problems were further compounded by the lengthy period it takes to assess, approve and then disburse the funds. It takes an average of six months for the approval of the request and six additional months for the satisfaction of conditions preceding the first disbursement. This is a long time for a SRDB with local knowledge.

4.3 Summary

The supply of properly structured projects seems to be a major hurdle in channelling available finance into infrastructure. Overcoming this requires substantial expertise. Without a predictable pipeline of investable projects, the fixed costs of building up this expertise are often too high for potential investors.

Governments, which act as the concessionaire for many types of infrastructure projects, have a critical role in setting up investable projects. RECs which have established and proven mechanisms for infrastructure projects, for instance by introducing binding legal frameworks for public-private partnerships or by setting up specialised government agencies, tend to be more successful in closing infrastructure projects. The promotion of private sector infrastructure finance hinges above all on a sensible transfer of risks and returns. If done properly, the involvement of the private sector can lift efficiency – it should not be seen merely as a source of financing. As returns from projects are generated only over a long period of time, the focus needs to turn more to the operational aspects of infrastructure, rather than merely its construction.

But challenges remain on the financing side. Currently, infrastructure finance is dominated by governments and by multilateral and bilateral institutions. Boosting infrastructure finance will require the broadening of the potential group of investors and the tapping of the vast financial resources of capital markets, innovative income through community levy, pension funds, insurance funds, and international reserves. This, in turn, necessitates a broader mix of financial instruments.

Both infrastructure funds and bonds have great potential. The better and more widespread securitisation of bank loans seems desirable to diversify risk. It may also assist the development of transparent capital market instruments. For emerging markets, financial market development, trusted legal frameworks and the development of a long-term investor base are pertinent. SRDBs and the infrastructure funds have a key role in promoting infrastructure financing in markets that are still embryonic.

An additional issue is the capacity of SRDBs and member country officials in preparing projects that are bankable. As the study has found, in almost all the African SRDBs reviewed, capacity to prepare bankable projects has been identified as one of the factors contributing to the financing gap of infrastructure projects in Africa.

All of the issues described above deserve the sustained attention of policymakers.

Chapter 5

Coordination of African SRDBs

5.1 Introduction

One of the main challenges for SRDBs has been the issue of coordination. Although embryonic efforts have been made by some of the banks to coordinate their efforts in dealing with the challenges they face, the study was unable to identify any sign of systematic collaboration among them.

5.2 Coordination

While it is arguable that SRDBs have comparative advantages in what they do, it is vital for them to work together to address common challenges, such as credit enhancement and the acquisition of better credit ratings, resource mobilisation, capacity building, sharing of information as well as staff development. The problem, however, is that the SRDBs themselves are involved in the provision of such goods at sub-regional and national levels. It makes sense therefore for the African SRDBs to cooperate.

As stated in the Meltzer report of 2000, better coordination between the banks would reduce the dangers and possibilities of duplication of services as well as harmful competition for scarce resources (Meltzer Commission, 2000: 10). G20 leaders in Pittsburgh in 2009 recognised that it is vital for the SRDBs and MDBs like the World Bank to work together if common global challenges are to be addressed (G20 Leaders, 2009: 24). The increased involvement of the SRDBs in the work and operation of the MDBs and national development banks will also help complement their efforts to provide development finance as well as technical assistance.

Furthermore, from a practical point of view, increased coordination could actually lead to an alignment in terms of how the SRDBs operate. Modalities could be crafted for exchangew of staff to be more efficient and productive, and mechanisms could be forged to establish consolidated annual meetings whereby the Boards and management of all the African SRDBs meet to discuss issues of common interest. What is of greater importance, however, is that such periodic and systematic collaborative initiatives will strengthen a sense of shared responsibility for global challenges, the effects of which are felt differently at the sub-regional level. With such cooperation, an improved exchange on technical issues, problem solving and best practice could be fostered.

The preceding points are all validated by the findings of this study, which shows that it is in the interest of all African SRDBs to:

- Share knowledge between and among African SRDBs in respect of credit enhancement techniques as well as techniques for acquiring better credit ratings;

- Share experience and practice in respect of development banking and funding of regional projects, more especially those relating to infrastructure projects;

- Develop appropriate training courses and programmes in order to further develop and enhance the skills and vision of the Board of Directors, Management and Staff; and

- Facilitate secondments of management and staff so as to provide for practical transfer of knowledge and skills between and among African SRDBs.

5.3 Summary

In order to ensure that the collaboration between and among the African SRDBs occurs on a regular basis, the formation of a focal point within the Infrastructure Consortium for Africa could be useful. The establishment of a legal body that will deal with the African SRDBs is also important as it will help to enhance collaboration not only among SRDBs, but also between SRDBs, other MDBs and national development banks. Such an institution could facilitate cooperation and encourage the sharing of experience, information and views among the banks' officials as these are factors which are crucial for further policy coordination. In addition, regular meetings of SRDB officials could serve as platforms to discuss common problems and to accelerate the finding of solutions.

Chapter 6

Conclusion and policy recommendations

6.1 Conclusion

The preceding chapters analyse how African SRDBs have contributed to infrastructure development through funding projects. Three African sub-regional economic communities were included in the analysis, covering the four main sub-regional development banks on the following key areas: mandate, size of the banks, capital base, total investment, investment apportioned to infrastructure projects, challenges & opportunities, market access, and coordination issues.

The results show that, although African SRDBs have facilitated infrastructure development in their respective sub-regions, the level of their funding shows that they are not meeting their mandate of contributing sufficiently to bridging the financing gap of infrastructure projects. There is room for improvement in terms of capitalisation, resource mobilisation, capacity of the institutions and coordination between them.

By improving in these areas, African SRDBs could better contribute to infrastructure development as well as to the regional integration agenda of their respective sub-regions. For the four sub-regional development banks, the main challenges that need to be tackled are their mandate, resource mobilisation, capitalisation, credit rating, and political support, where pronouncements are followed by action. Equally important is coordination among SRDBs on common issues affecting them. Further, African SRDBs could contribute more to infrastructure development if their capacity on project preparation were enhanced.

6.2 Policy recommendations

The following recommendations focus on measures to increase the capabilities of African SRDBs as part of an overall strategy to improve their effectiveness in financing infrastructure projects and supporting the regional integration agenda.

6.2.1 Strengthen and diversify multilateral and bilateral institutional support

Addressing the financing problem of Africa’s infrastructure requires sub-regional development banks that are more developed, efficient, linked and integrated. To this end support from both multilateral and bilateral institutions should not be concentrated only on funding infrastructure projects directly through the respective governments, but should also focus on the African SRDBs when funding projects in this area. This kind of support will not only use facilities available within these Banks but will also strengthen their technical capabilities as well as their financial position.

6.2.2 Clarify mandate and role of the SRDBs

To ensure that the SRDBs complement other existing development finance institutions effectively, by providing financial services to projects not serviced by commercial banking institutions, the mandate of the SRDBs should be clearly outlined and defined, according to the following basic principles:

- Primarily, SRDBs should support regional infrastructure-related projects. National projects such as those relating to trade financing including infrastructure projects that can easily be funded by national DFIs should not be a priority of SRDBs; and

- SRDBs, as specialised institutions, should enhance their range of facilities through product and service innovation such as guarantee bonds, co-financing of projects and project preparation in order to sustain growth in specialised areas. Emphasis should also be placed on providing value-added advisory, consultancy and technical assistance, supported by strong research capabilities.

These could be achieved if all African SRDBs had a clear mandate focussing on infrastructure development. For this reason shareholder members of the African SRDBs need to review their mandates so as to ensure they contribute to infrastructure development without drifting into other areas.

6.2.3 Expand capital base and structure and increase resource mobilisation

The lending capacity of all four sampled African SRDBs is limited, and this has been especially the case for large, expensive infrastructure projects. A way forward might be to attract a small part of the huge foreign reserves that a large number of countries currently hold, for investment in these banks, thereby enhancing their capital structure and enabling them to fully meet their mandate of supporting infrastructure development.

On capital structure, some of the SRDBs already have multilateral and bilateral institutions as shareholders, which means that the institutional arrangements are already in place to expand the capital base of these Banks. To this end there is need to agree on the minimum capitalisation of the SRDBs so as to enable these institutions to leverage more resources from the MDBs and private sector.

Since majority shareholders often have low credit ratings, effort should be made to ensure that shareholders increase the paid-in capital so as to strengthen the financial position of the Banks. An analysis of successful SRDBs internationally would reveal that all high-rated banks (such as CAF) tend to keep a very high level of capital.

In addition, African SRDBs should explore opportunities to mobilise additional resources from innovative sources such as pension funds, contractual savings and community levies. This could be achieved through the development and harmonisation, by member countries, of national policies that will enable these Banks to improve their capital base as well as mobilise resources.

6.2.4 Strengthen balance sheets and credit ratings of African SRDBs

African SRDBs' access to the capital market and strategic multilateral development banks needs to be enhanced to provide an efficient means of financing the capital-intensive and long-gestation aspects of infrastructure projects. Government financial support in terms of an increase in capital may be needed to enable the SRDBs to strengthen their balance sheets as well as acquire a better credit rating. This will make it possible for the banks to obtain favourable funding rates, which ultimately would make regional integration and infrastructure projects more viable.

In addition, non-regional members should be encouraged to subscribe to both the paid-in and callable capital of the Banks so as to give comfort to creditors. It is critical for SRDBs to maintain a high level of capital adequacy, since the operations of these banks are inherently risky. Adequate capital will also enable the SRDBs to get a better credit rating as well as mobilise external resources at relatively better rates.

6.2.5 Create a coordination mechanism for African SRDBs

While efforts have been made by some of the banks to coordinate their actions in dealing with the challenges they face in terms of financing infrastructure, for the most part they have tended towards isolationism. The findings of the study clearly indicate that it would be beneficial for the African SRDBs to create a network, which would allow them to coordinate activities of common interest and share best practice. These activities could include a forum on which to share their knowledge and experiences, capacity building, and the secondment of staff.

In addition, African SRDBs need to coordinate their activities with the larger MDBs in order to avoid duplication. For instance, there is evidence that the larger MDBs (AfDB, AFD, Proparco, IFC, FMO, etc.) are increasingly providing direct financial assistance to medium and large borrowers which would otherwise be served by EADB, PTA and similar mid-size SRDBs. The result is that African SRDBs may end up competing with "wholesale" providers of funding, which could lead to an erosion of their interest spreads.

A network of African SRDBs would help to avoid this while forging productive linkages which would enable them to contribute to funding infrastructure projects. The Infrastructure Consortium of Africa could act as a coordinating unit for this important activity and ensure that the network is operationalised.

6.2.6 Improve capacity of African SRDBs

In order to achieve their mandates of supporting infrastructure development and meet challenges successfully, the African SRDBs' operational capabilities and capacities need to be further strengthened and improved. The Banks need to identify human resource requirements and develop an appropriate training programme for their personnel. Professional training should be conducted in a systematic way in order to enhance staff skills and competencies, especially in the area of development finance, resource mobilisation (treasury skills), governance, project appraisal and risk management as well as project preparation. These could be key activities for an African SRDB network.

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Annex 1

AFRICAN DEVELOPMENT BANK GROUP

NEPAD, REGIONAL INTEGRATION AND TRADE DEPARTMENT
INFRASTRUCTURE CONSORTIUM FOR AFRICA

The Infrastructure Consortium for Africa

Questionnaire

Infrastructure Consortium for Africa
Questionnaire for the Assessment of African Sub-regional Development Banks (African SRDB)

All requested information is to be provided as of the end of the last five fiscal years, or otherwise as specified in the question.

I	**General Information**		
1	Name of your institution		
2	Address		
3	Country located in		
4	Website		
5	When was your institution established?		
II	**Classification of your institution**		
	Question	**Answer**	**Comments/ Explanations**
6	Indicate your institution's ownership structure at the end of 2014	Indicate shares in % in the appropriate box below	
6.1	Proportion of total held by Member States of the REC (%)		

6.2	Proportion of total held by Multilateral Financial Institutions and Foreign Governments (%) (specify)		
6.3	Proportion of total held by Domestic private sector (%)		
6.4	Proportions of total held by Foreign private sector (%)		
6.5	Proportions of total held by Other (specify) (%)		
III	**Capital Structure of your Bank**		
7	What is the capital of the bank?	Indicate below in US$	
7.1	Total Capitalisation		
7.2	Total subscribed capital		
7.3	Total paid in capital		
7.4	Total callable capital		
IV	**Funding**		
8	What were the major sources of resources for your Bank as at the end of December 2014?	Indicate the total amounts below in US$	
8.1	Members States		
8.2	Donors		
8.3	Multilateral Development Banks		
8.4	Capital Markets		
V	**Portfolio** (in millions of USD)		
9	What is the total book value of		

	the loans of the Bank in US$?		
10	Out of the total loan book value, how much is allocated to:		
10.1	Borrowing Member States in US$?		
10.2	Regional projects in US$?		
10.3	Infrastructure projects in US$?		
11	Out of the total loan book, what % distribution of investment was apportioned to infrastructure projects in 2014?		
11.1	Water		
11.2	Transport		
11.3	Energy		
11.4	ICT		
11.5	Metrology		
12	How many applications on infrastructure projects were received for funding by your Bank in	Indicate below the number of application received	Indicate below the total amount in US$ for the application received
12.1	2014		
13	How many applications on infrastructure were funded by your institution in	Indicate below the total number of the application funded	Indicate below the total amount in US$ for the application funded
13.1	2014		
14	What would you attribute the non-funding of some of the applications.		

15	How long does it take to fund a project from the time an application is received to the time the loan is granted and disbursed?		
VI	**Corporate Governance**		
16	How many members compose your institution's board?		
17	How many board members are independent (not affiliated with government agencies)?		
18	How many board members are non-executive, i.e. not involved in the daily management of the institution?		
19	Are Board members resident?		
20	Does the legal framework governing your institution include the following qualifications for the CEO or President of your institution?	Indicate yes or no below	
20.1	Minimum level of education or technical qualifications		
20.2	Minimum level of financial or banking experience		
20.3	No bankruptcy record		
20.4	Lack of conflict of interests		
IX	**Challenges**		
21	In your view, what are the most important challenges faced by your institution in financing infrastructure projects?	Indicate Yes or No in the appropriate box below	
21.1	Financial resources		

21.2	Human resources		
21.3	Governance		
21.4	Macroeconomic stability		
X	**Opportunities**	List the opportunities in the box below	
22	In your view, list at least four opportunities for your bank		
XI	**Strengths**	List the strengths in the box below	
23	In your view what are the strengths of your institution		
XII	**Co-operation among African SRDBs**		
24	Is your institution interested in collaborating with other African SRDBs on:		
24.1	Development of appropriate training courses and programmes in order to further develop and enhance the skills of the management and staff of the Network		
24.2	Facilitate the secondment of management and staff to provide for the practical transfer of knowledge and skills between and among African SRDBs	Yes [ ] No [ ]	
24.3	Share experiences and practices in respect of development banking and funding of projects	Yes [ ] No [ ]	
24.4	Share knowledge between and among African SRDBs in respect of credit enhancement techniques, including the acquisition of international Credit Ratings	Yes [ ] No [ ]	