



Евразийский Банк Развития

# Capital in Multilateral Development Banks

## Raising Capital and Enhancing MDBs' Capital Structure for the Benefit of Member States

Almaty-2024



Eurasian Development Bank

	2023	2022	2021
<b>TOTAL ASSETS</b>	8,167,242	6,428,591	5,808,195
<b>LIABILITIES AND EQUITY</b>	8,167,242	6,428,591	5,808,195
LIABILITIES	6,175,238	4,978,242	4,326,594
EQUITY	1,992,004	1,450,349	1,481,601
Authorized share capital	1,000,000	1,000,000	1,000,000
Reserve fund	992,004	450,349	481,601
Capital reserve	0	0	0
Other reserves	0	0	0
Total equity	1,992,004	1,450,349	1,481,601
<b>TOTAL LIABILITIES AND EQUITY</b>	8,167,242	6,428,591	5,808,195



## Capital in Multilateral Development Banks

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Report 24/7

Almaty – 2024

NEW NON-REGIONAL SHAREHOLDERS

INCREASE IN PAID-IN CAPITAL

INSTITUTIONAL INVESTORS

NEW REGIONAL SHAREHOLDERS

CHANNEL SDRS TO MDBS

LARGER MDBS

PERPETUAL SUBORDINATED DEBT

# Role of MDB shareholders' capital

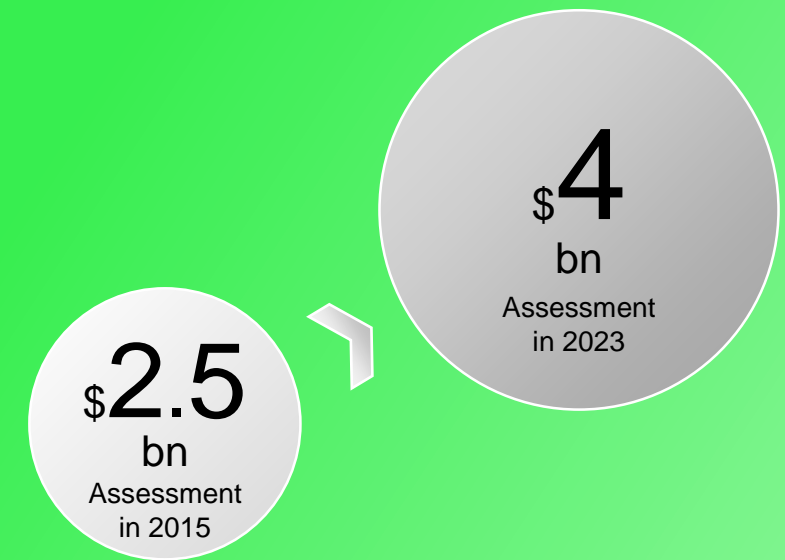
The investment financing needs of developing countries are increasing every year

MDBs are called upon to help countries develop. However, MDBs' financing is limited, and the gap with country needs is widening

MDBs, especially regional and sub-regional ones, need to increase capital levels. Capital is the 'fuel' for MDBs' lending operations

MDB shareholder countries have budgetary constraints for regular capital replenishments

There are several ways to increase the share capital of the MDBs



The annual investment gap for developing countries to achieve the SDGs by 2030 has grown substantially

x3–4 MDBs' financial leverage

# The G20 is making efforts to reform and recapitalise the MDB system



## The G20 MDB Roadmap

1

### Better MDB system

Target — to facilitate access to MDB resources

1. Optimum operational policies
2. Country platforms
3. Coordinated project preparation support
4. Private capital mobilization
5. Local currency financing
6. Increased concessional resources

2

### Bigger MDB system

Target — to increase the financial resources of the MDBs

7. Review of implementation of the Capital Adequacy Framework
8. Regular reviews of resource needs
9. Innovative financial instruments

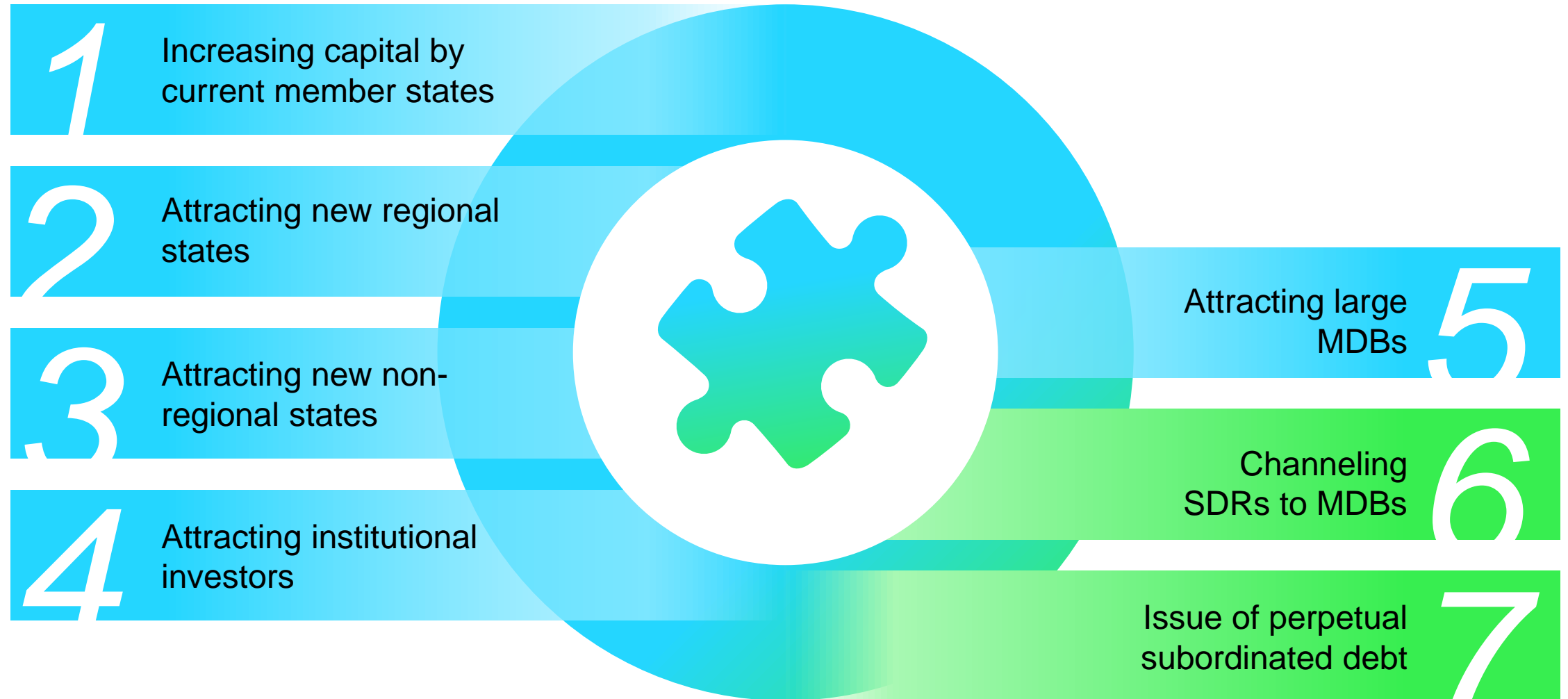
3

### More effective MDB system

Target — maximise the effects of projects on development goals

10. Impact measurement
11. Regional and female representation
12. MDB cooperation and coordination

# Seven options to increase share capital for regional and sub-regional MDBs



# 1

## Increasing share capital by current member states

### Opportunities

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#### Shareholders

Maintaining control over the bank's activities

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Supporting a long-term strategy

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#### MDBs

Strengthening the financial position

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Expansion of investment portfolio

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Quick impact on improving ratings

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The advantage for the MDBs is that there is no requirement to repay or pay dividends

### Challenges and risks

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#### Shareholders

Budgetary constraints

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Dilution of interests of small shareholders

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Increased influence of large shareholders in case of disproportionate capital contribution

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#### MDBs

Lengthy approval process with all shareholders

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Shareholder countries usually have limited budgets to replenish the capital of their MDBs

# The Arab Bank for Economic Development in Africa has extensive support from its member countries

## Facts

18 countries of the League of Arab States are shareholders of the bank

24-fold increase in paid-in capital since its founding in 1974 (to \$5.6bn in 2023 from \$231m)

Fully equity financed and has not borrowed since inception

The mission is to strengthen cooperation between the Arab and African regions

## Impact on credit ratings

High ratings (AA/Aa2) from the first year of assignment (2022)

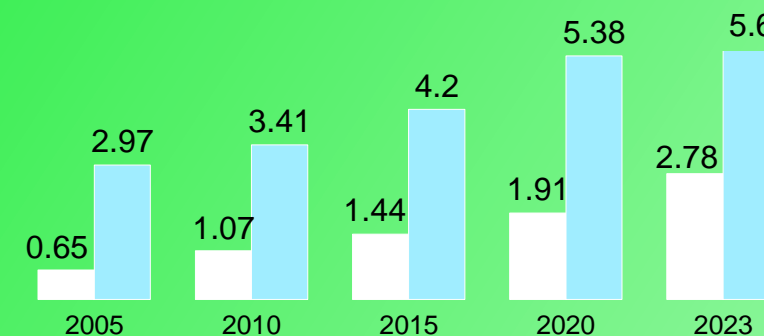
May 2024 Moody's upgraded the rating, noting growth in capital, assets, and extraordinary shareholder support



\$ bn

Net loans

Member countries' equity



**S&P**  
**AA**

(September 2023)

**Moody's**  
**Aa1**

(May 2024)  
+ 1 notch since 2022

# 2

## Attracting new regional states to share capital

### Opportunities

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#### Shareholders and MDBs

Strengthening links with the region. Close links with regulatory authorities

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#### MDBs

Expansion of the investment portfolio to new countries

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Enhancing international status through a stronger role in the region

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Strengthening the financial position

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Shareholder countries and MDBs gain an opportunity to strengthen their economic influence in the region

### Challenges and risks

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#### Shareholders

Decrease in lending to existing members

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Dilution of shareholder structure (may be a positive factor)

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#### MDBs

Limited impact on portfolio diversification

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Weak incentive for rating agencies to upgrade ratings

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Financial advantages for MDBs are limited due to the similar and/or low income levels of countries in the region

# The Development Bank of Latin America and the Caribbean is actively expanding its shareholder base to countries in the region



## Facts

To 21 from 6 increase in the number of shareholder countries, including 19 regional countries, Spain (2002), and Portugal (2009)

5-fold increase in shareholder equity over 20 years (from \$2.8bn in 2004 to \$14.7bn in 2023)

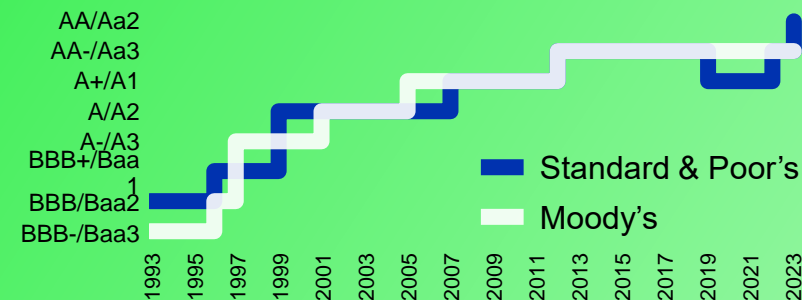
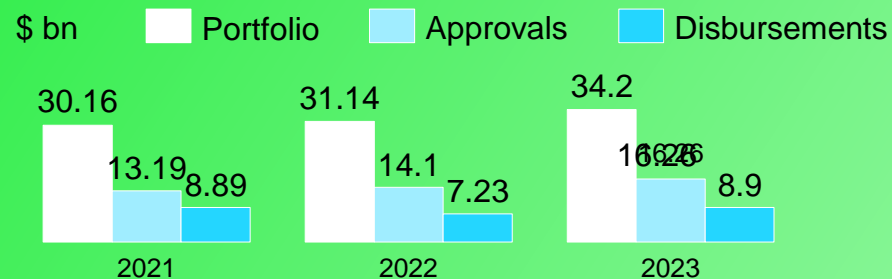
\$7bn is the largest additional capitalization in the bank's history (approved by shareholders in 2022)

New shareholders from 2023: Chile (\$1.5bn, 6.6%), Dominican Republic (\$310m), Honduras (\$460m). Mexico and Costa Rica - in process

## Impact on credit ratings

The first among borrower-led MDBs to obtain a credit rating and issue bonds in 1993

S&P upgraded the rating twice in the last 2 years (from A+ to AA)



**S&P**

**AA**

(September 2023)  
+ 6 notches since 1993

**Moody's**

**Aa3**

(August 2023)  
+ 5 notches since 1993

# 3

## Attracting new non-regional states to share capital

### Opportunities

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#### MDBs

Strong impact on credit rating upgrade

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Favorable regulatory treatment and tax exemptions for bond issues

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New sources of funding

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More favorable funding terms

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Non-regional shareholder countries tend to open access to their capital markets and help upgrade ratings



Cases: AIIB, BOAD, CABEI, CAF, EADB, TDB

### Challenges and risks

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#### Shareholders

Emergence of external influence on the region

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#### MDBs

Stricter policies in the areas of ESG, procurement, etc.

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Less flexibility in decision-making

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Non-regional countries tend to enter MDB capital for their own interests

# The Central American Bank for Economic Integration improved its ranking at the expense of non-regional countries



## Facts

7 of the 15 member countries are non-regional countries: Mexico, Taiwan, Argentina, Colombia, Spain, Cuba, Korea

37% - share of non-regional member countries in paid-in capital

Over \$6bn has been raised in the capital markets in Taiwan (\$3.17bn since 1997) and Mexico (\$2.9bn since 2007)

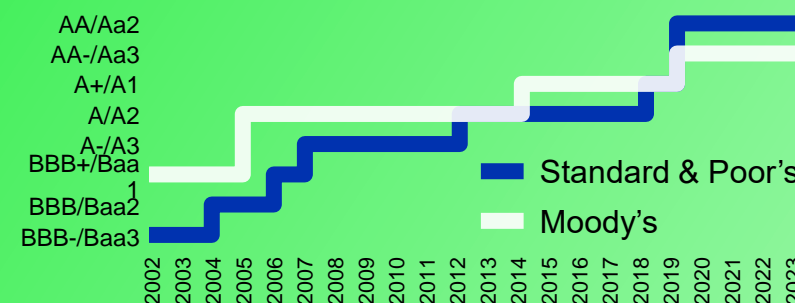
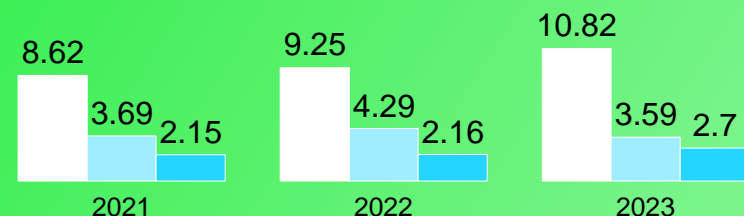
## Impact on credit ratings

Between 2004 and 2006, credit agencies upgraded the rating in the context of Spain's equity entry

S&P upgraded the rating twice (from A+ to AA) in the context of the Republic of Korea's equity entry

Fitch rating (A+) was withdrawn in 2019, as it incorrectly, in CABEL's view, accounted for the inclusion of new non-regional members with high ratings

\$ bn Portfolio Approvals Disbursements



**S&P**

**AA**

(September 2023)  
+ 7 notches since 2002

**Moody's**

**Aa3**

(August 2023)  
+ 3 notches since 2002

# 4

## Attracting institutional (non-sovereign) investors to share capital

### Opportunities

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#### Shareholders

Reduced burden on the budgets of the shareholder countries. Broad potential for raising capital

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#### MDBs

Make contributions to paid-in capital

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Simpler procedure for entry (usually another class of shares)

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Improving the quality of accountability

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Institutional investors contribute paid-in capital rather than callable capital

### Challenges and risks

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#### Shareholders

Management dilution for existing shareholders

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Risk of shifting the agenda towards a business model and profit maximisation

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#### MDBs

Risk of credit ratings downgrade

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Institutional investors are interested in high profitability of MDBs' business and receipt of dividends

# The Eastern and Southern African Trade and Development Bank raised capital from institutional investors (banks, funds)

## Facts

**Innovative** equity capital structure: 24 regional countries and 2 non-regional participants (PRC, Belarus)

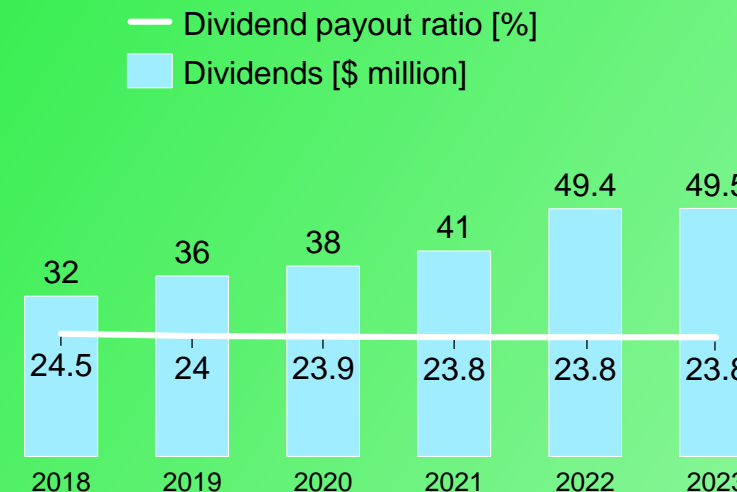
**21** institutional investors: MDBs, pension funds, insurance companies, sovereign wealth funds, development institutions

**3 share classes:** Class A - for sovereign investors; Class B - for institutional investors (paid-in capital only); Class C - climate finance (paid-in capital only)

**Low rated** shareholder countries: Ethiopia (9.45%, Moody's – Caa3), Kenya (9%, B2), Egypt (8.6%, Caa1)

## Impact on credit ratings

**Over 20 years** no dynamics in ratings: up 1 notch since 2010. Moody's – 'Baa3', Fitch – 'BB+' at the end of 2023

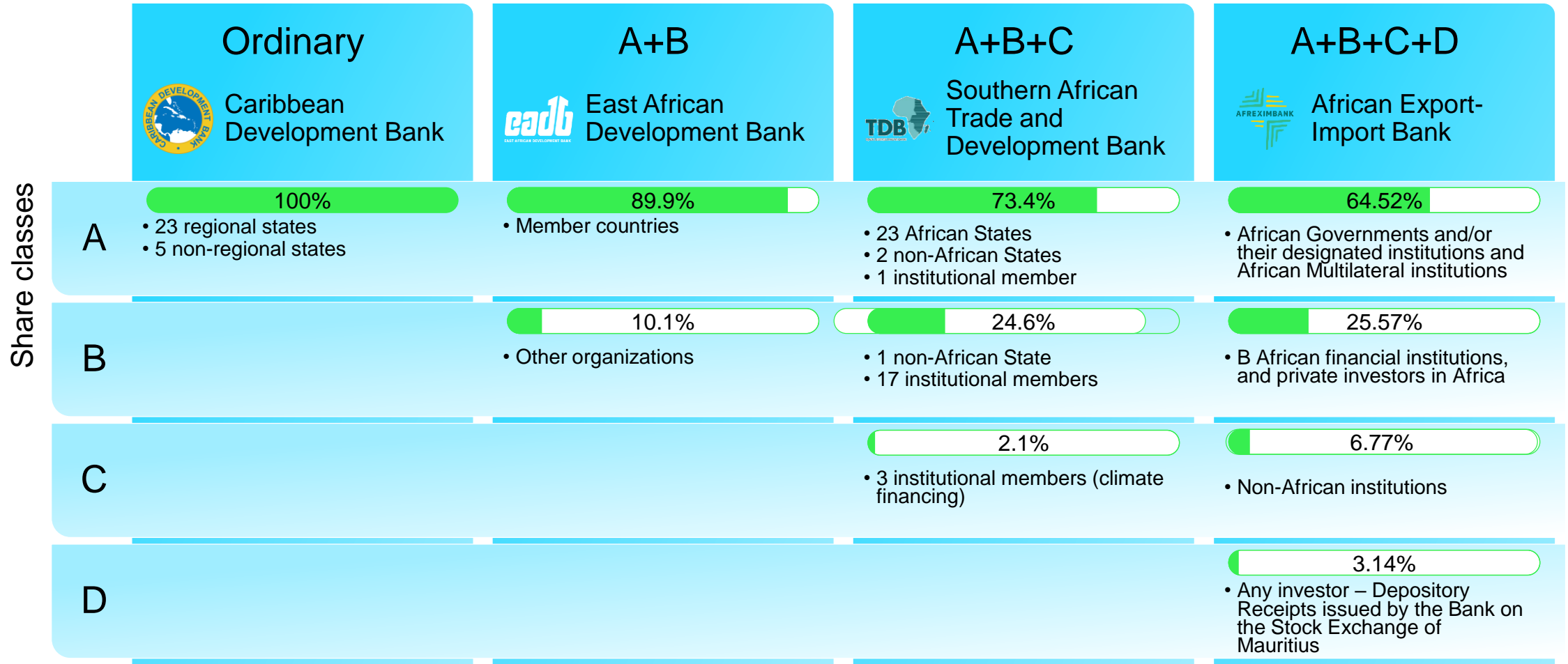


**Moody's  
Baa3**

(October 2023)  
+ 1 notch  
since 2010

# Capital structures of MDBs differ depending on the types of investors, their rights and obligations

Examples of MDBs with different shareholder compositions, as of end 2023



# 5

## Attracting large MDBs to share capital

### Opportunities

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#### MDBs

Access to cheaper funding

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Credit ratings support

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Positive impact on policies and standards

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#### Shareholders

Extensive financial cooperation

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Strategic support from larger MDBs – credit lines, technical assistance, improved policies, standards, etc.

### Challenges and risks

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#### Shareholders and MDBs

Potentially strong impact on domestic policy and loan portfolio

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#### MDBs

Weakening shareholder incentives to expand support and capitalization

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The ability of large MDBs to have a significant impact once they become part of the capital of an MDB



Cases: BOAD (AfDB, EIB, BADEA), EADB (AfDB), TDB (AfDB, OPEC Fund, BADEA)

# The East African Development Bank gets support from larger MDBs through various channels (equity, loans)

## Facts

2 share classes:

Class A - 4 regional participating countries

Class B - 9 institutional investors: African Development Bank, national development institutions, commercial banks

**Low credit rating** of shareholder countries: Kenya (B3), Rwanda (B2), Tanzania (B2), Uganda (B2)

**\$16.7m** - capital investment by the African Development Bank since 2013 to strengthen the balance sheet and improve the rating (as of 2023)

**'Package'** solutions from larger MDBs:

\$40m - African Development Bank line of credit in 2015 and TA

\$20m - BADEA credit line in 2021.

## Impact on credit ratings

Up 1 notch since 2013 after AfDB (AAA) equity investment



8%

The East African Development Bank's share in EADB capital (95% in class B shares)

Moody's Ba1 > Moody's Baa3

(June 2013)

(2015–2023)  
+ 1 notch since 2013

# 6

## Hybrid capital based on Special Drawing Rights

### Features

MDBs were authorised to issue hybrid capital based on SDRs

Interim capitalisation solution. Subordinated debt with maturity (junior to debt but senior to paid-in capital)

Can be recognised as equity on the balance sheet of the MDBs. Comply with rating agency criteria and accounting standards

Hybrid capital increases RAC, allowing MDBs to expand lending activity more than 3-4-fold

Market value. The instrument will pay interest at the SDR interest rate plus a spread

The instrument will be available to the prescribed holders. The 10 MDBs include: AfDB, CDB, ADB, ADB, IBRD, CAF, EBRD, EIB, IDB, IsDB, NIB

1

New SDR function: the IMF Executive Board authorized on May 10 the use of SDRs by IMF members for the acquisition of hybrid capital instruments issued by prescribed holders

2

The G20 IFAWG agenda for increasing MDB resources discussed the IFAWG as an innovative financial instrument

3

No country has yet decided to use SDRs to purchase hybrid capital

# 7

## Issue of perpetual subordinated debt

### Opportunities

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#### MDBs

Increasing the capital base when other sources have been exhausted

Potentially unlimited source of capital not linked to countries' budgetary resources

Forging new links with citizens and organizations of member states

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#### Shareholders

Can help reallocate capital structure (this can be a disadvantage)

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Private investors may be interested in the credibility of MDBs and the uniqueness of their project activities (development projects, ESGs)

### Challenges and risks

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#### MDBs

Market return, which is higher than the cost of attracting share investors

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Need to obtain regulatory approval for issue on the exchange

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Inclusion in Tier 2 capital (may be a form of Tier 1 capital under certain conditions)

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MDBs may face significant regulatory hurdles due to the specific nature of the instrument


# Instruments for attracting private investors to the capital of MDBs

	African Development Bank	African Export-Import Bank
	The AfDB issued perpetual subordinated bonds in 2024	Afreximbank issued depository receipts in 2017
Types of investors	Hedge / Specialised funds (54.8%), Asset Managers (27.8%), Central Banks and Official Institutions (6.7%), Pension Funds / Insurance (6.6%), Banks / Private Banks (4.1%)	Any investor – depository receipts issued by the Bank on the Stock Exchange of Mauritius in 2017 backed by its Class D shares
Volume of new capital	\$750 mln until August 2034, with a 10.5-year first call date	The receipts account for 3.14% of the bank's equity at the end of 2023, equivalent to about \$190 mln
Yield	Coupon, 5.75%	10.1% was the dividend yield in 2023. The price of the receipts was \$2.85, and the payout per DR was \$0.287




Eurasian Development Bank



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