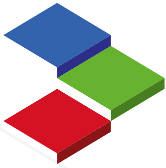

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Summary Report

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AFRICAN DEVELOPMENT BANK GROUP

May 2021

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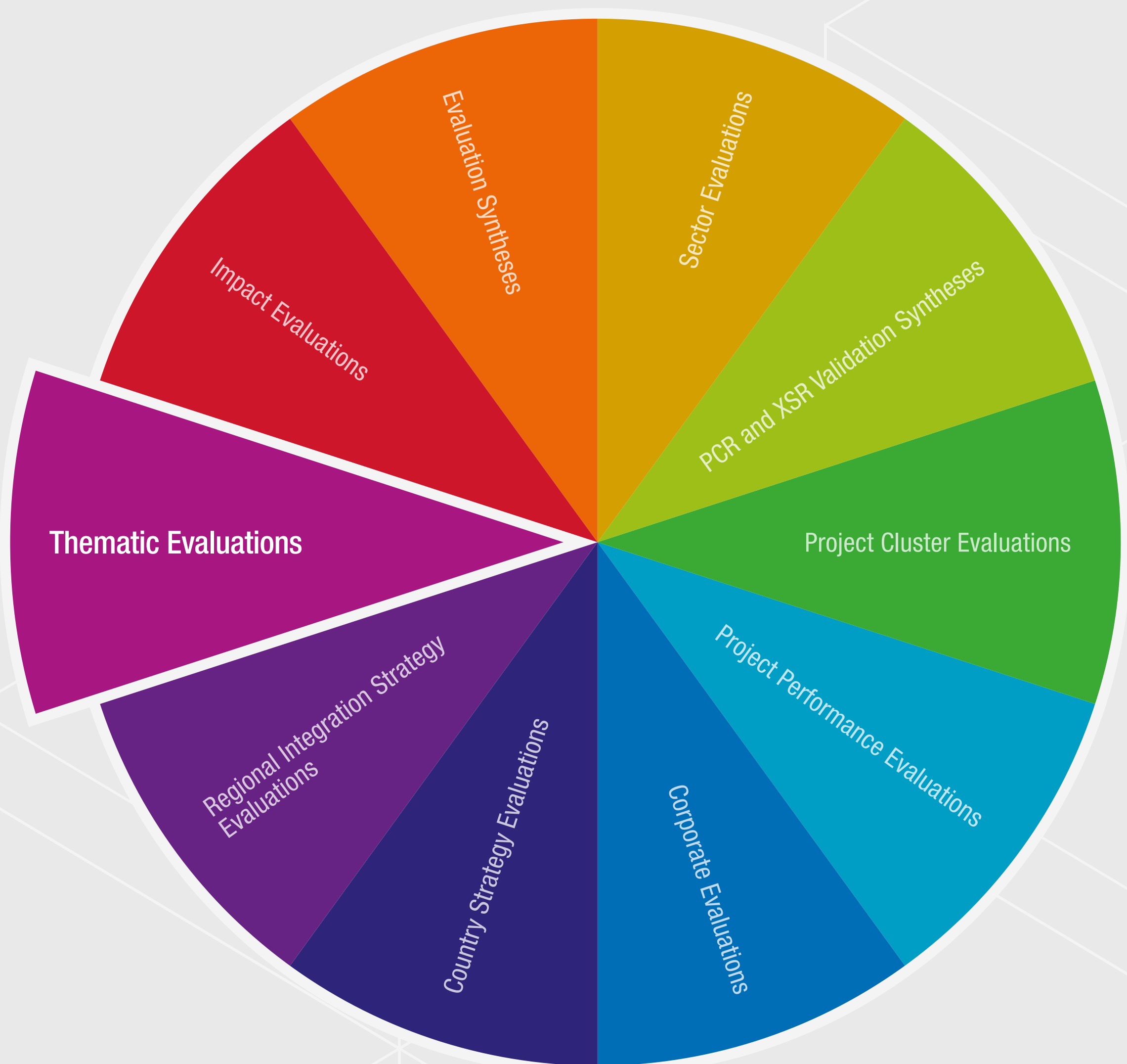

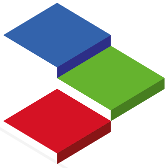

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Evaluation of Loan Syndication at the AfDB (2008–2019) – Summary Report (Redacted Version)
IDEV Thematic Evaluation, May 2021

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The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs and providing policy advice and technical assistance to support development efforts.

About Independent Development Evaluation (IDEV)

The mission of Independent Development Evaluation at the AfDB is to enhance the development effectiveness of the institution in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

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Acronyms and Abbreviations

AFD	Agence Française de Développement
AfDB	African Development Bank Group
AsDB	Asian Development Bank
CRC	Credit Risk Committee
CSP	Country Strategy Paper/Country Strategy and Program
CT	Country Team
DBDM	Development and Business Delivery Model
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EIB	European Investment Bank
ESW	Economic and Sector Work
EUR	Euro
FFL	Fully Flexible Loan
FIRM	Resource Mobilization and Partnerships Department (AfDB)
FIST	Syndication, Co-financing, and Client Solutions Department (AfDB)
FSL	Fixed-Spread Loan
IDB	Inter-American Development Bank
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
IO	Investment Officer
IsDB	Islamic Development Bank
LIC	Low Income Country
MDB	Multilateral Development Bank
MIC	Middle Income Country
MLA	Mandated Lead Arranger
OpsCom	Operations Committee
OPSM	Private Sector Operations Department (AfDB)
PAR	Project Appraisal Report
PCG	Partial Credit Guarantee
PCN	Project Concept Note
PCS	Preferred Creditor Status
PDM	Private Direct Mobilization
PEN	Project Evaluation Note
PENP	Energy Partnerships Department
PERN	Department of Renewable Energy and Energy Efficiency
PESR	Energy Financial Solutions, Policy and Regulation Department
PEVP	Power, Energy, Climate and Green Growth Vice-Presidency
PIM	Private Indirect Mobilization
PINS	Non-Sovereign Operations & Private Sector Support Department
PRG	Partial Risk Guarantee
PSD	Private Sector Development
REC	Regional Economic Community
RMC	Regional Member Country
SYNEX	Syndication Expert
SOE	State-Owned Enterprise
TA	Technical Assistance
TPM	Total Private Co-Financing/Mobilization
TYS	Ten-Year Strategy
USD	United States Dollar
WB	World Bank
XSR	Expanded Supervision Report

Executive Summary

Background

As part of the evaluation of partnerships at the African Development Bank Group (the Bank, or the AfDB), Independent Development Evaluation (IDEV) sought to assess the performance of the Bank in mobilizing resources from the private sector through loan syndication. This report presents the findings, lessons and recommendations of that assessment over the period 2008–2019. It is a distinct component of the evaluation of the AfDB's partnerships that presents additional evidence on how the Bank is mobilizing resources and partners to further its development agenda for Africa. The evaluation findings give an overview of the performance over the past decade, while highlighting the recent improvements and persisting challenges.

The Bank started considering loan syndication as a specific product in the 2000s. In November 2008, it approved the Operational Guidelines for Syndication of Non-Sovereign Guaranteed Loans (ADB/BD/IF/2008/279), which were revised in 2017.[1] From 2008 to 2016, syndication was a support unit embedded in the Bank's Private Sector Department. In a second period, from 2017 to 2019, the most important institutional evolution was the creation of the Department of Co-financing, Syndication and Client Solutions (FIST), which had a division responsible for syndication and co-financing (FIST.1).

Since the launch of the Bank's syndication program, it has closed five syndicated transactions as Mandated Lead Arranger (MLA) or Coordinating Bank. These transactions are: (i) Transnet (South Africa, 2011); (ii) Lake Turkana (Kenya, 2014); (iii) Eskom (South Africa, 2016); (iv) Redstone (South Africa, 2019); and (v) Cocoa Board (Ghana, 2019)[2]. The total value of these transactions stands at US$3.7 billion in three sectors, namely, energy, transport and agriculture. There was a concentration of invested resources in the infrastructure sector (energy and transport), with energy accounting for 64 percent of total resources. In terms of regional distribution, the loans have mainly benefited the Southern African region, specifically South Africa, with a total of 62 percent in both the energy and transport sectors.

Evaluation Framework and Methodology

This evaluation provides the AfDB Board of Directors and Management with evidence-based findings on the performance of loan syndication at the Bank. It covers the different syndication operations conducted from 2008 to 2019. Three strategic areas of concern were articulated around: (i) the adequacy of the Bank's approach to loan syndication; (ii) its performance over the period; and (iii) its organizational structure. The main findings of this report are presented under the three criteria of relevance, effectiveness, and efficiency. To rate the performance, the evaluation used a four-point rating scale of Highly Unsatisfactory (1-HU), Unsatisfactory (2-U), Satisfactory (3-S) and Highly Satisfactory (4-HS).

The evaluation followed a mixed-method approach. This included mainly qualitative analysis, such as literature and project reviews, stakeholder interviews, and a benchmarking with comparator organizations, namely, the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the Asian Development Bank (AsDB). The quantitative evidence was derived

from the portfolio analysis and external data on syndicated loans.

The evaluation faced challenges that were addressed to ensure the quality of the analysis. These challenges were: (i) the limited documentation during the 2008-2017 period due to a lack of systematic monitoring; (ii) the limited data obtained from benchmarked organizations due to confidentiality concerns in dealing with the private sector; and (iii) the limited number and low maturity of the closed syndication deals.

Relevance: Was the Bank's approach to loan syndication adequate?

The relevance of the Bank's approach to syndication has been rated as Satisfactory. The evaluation concluded that the Bank's approach to syndicating loans was relevant and coherent with the approaches of similar benchmarked organizations. The Bank has indicated through the High 5s its intent to increase the share of syndication in its resource mobilization efforts and the function was aligned with the Bank's priorities and policies.

The loan syndication approach was aligned with the Bank's key policies and strategies, including the High 5s, the 2013-2022 Ten-Year Strategy (TYS) setting the long-term agenda for substantial involvement in Private Sector Development (PSD), the 2013 Private Sector Development Policy, and the 2013–2017 Private Sector Development Strategy. The Syndication Guidelines were also approved in accordance with the Bank's General Authority of 2000, in addition to the Revised Private Sector Operations Policies, the Policies for Lines of Credit, Agency Lines, and Guarantees to Private Sector Financial Institutions and the Non-Sovereign Guaranteed Loans guidelines.

Syndicated loans have been identified as an appropriate instrument to boost resource mobilization from the private sector and increase the Bank's leverage in various sectors, mainly infrastructure. The Bank's syndication program was considered a useful and adequate instrument that fits both the needs of the Bank's clients, regional member countries and potential investors.

The Bank has shown an increasing interest in mainstreaming syndication operations into its Non-Sovereign Operations (NSOs) and has developed adequate tools to achieve this objective. However, the syndication function lacked a clear strategy which hampered its relevance. This clarity was made critical by the new economic environment in Africa and the challenging and highly competitive market segment of development finance institutions (DFIs) as well as commercial banks in which the Bank is operating.

At the operational level, the 2008 Loan Syndication Guidelines were found to be relevant, consistent with Bank processes, and following best practices from comparator organizations at the time. However, they lacked clarity of roles and responsibilities, leading to coordination issues in their implementation. Interviews indicated that the Revised Guidelines of 2017, integrating the creation of FIST, provided more clarity on the loan syndication processes, while integrating them into the new Bank architecture, thus ensuring consistency with current Bank practices and the creation of a specific syndication division.

Despite notable improvements, some gray areas regarding the division of roles, processes and the respective roles of investment officers (IOs) and syndication experts[3] (SYNEXs) at the origination stage persist. Processes have not yet been fully integrated within the existing workflows and the Bank systems to foster coordination, efficient implementation, and accountability.

Effectiveness: To what extent was the Bank successful in syndicating loans?

The effectiveness of the syndication function of the Bank has been rated as Unsatisfactory.

The implementation of syndication and the achievement of results thereof did not meet expectations, mainly due to the low level of mobilization and the limited number of deals that the Bank led and brought to financial closure over a decade. It should be noted, however, that with the creation of a division for syndication and co-financing, the Bank has recorded some positive evolution over the past three years. Guidelines as well as staffing have been improved to ensure that MLA deals are pursued more adequately. Yet, challenges persist and remain to be addressed.

Overall, the evaluation found that the Bank's syndication function produced limited results over the ten-year period under review. Before 2017, with the implementation of the High 5s and the Development and Business Delivery Model, the function was hampered by years of under-prioritization as a top source of mobilizing private financing. While during a first period from 2008-2016, some key and landmark syndication deals were closed, the overall performance was found to be rather opportunistic, unstable and not systematic. Following the creation of FIST, from 2018, the performance of the Bank's syndication has improved with what could be seen as a spike in potential deals in the Bank's pipeline. The positive evolution could be explained by the renewed interest at the senior management level to increase the share of co-financing and syndication in the Bank's lending. However, the noted evolution still represents only a fraction of the real potential of the Bank.

From 2008 to 2019, the Bank syndicated US$3.7 billion, representing an average Private Direct Mobilization (PDM) of US$336 million per year. This performance was considered significantly lower than expected, given the amounts mobilized through traditional co-financing for the private and public sectors. The mobilized sum of US$3.7 billion is only 2 percent of the total US$179.26 billion mobilized by the Bank from both public and private sectors during 2008-2019.

It should be noted, however, that while the Bank may have closed fewer deals than other institutions, the average amounts of the deals closed was relatively high, at over US$500 million. Out of the five loans, two have been contracted for projects financed by privately-owned entities, while three involved state-owned enterprises (SOEs) with the autonomy to borrow directly from the market. The total amount raised from commercial and institutional lenders for all types of syndications amounted to US$2.75 billion (US$1.78 billion from commercial lenders only), while the total contribution of the AfDB was US$0.95 billion, resulting in a leverage of 1:2.89 over an eleven-year period. The average contribution from the Bank was US$189 million compared with US$550 million for other investors.

Since most of the projects are still ongoing, the evaluation could not assess the development results achieved in a comprehensive way. However, it was concluded that the various projects approved have a significant potential impact in the countries of operation. For example, the loan to Eskom in South Africa has been instrumental in financing the company's five-year capacity expansion program (2015-2020) to alleviate the energy crisis in South Africa. The investment contributed to the increase in generation capacity of 4,800 MW at the Medupi power plant. It is also expected to help in the creation of 10,000 direct and indirect jobs in South Africa. Lake Turkana Wind Power (LTWP) is an independent power producer supported by the Bank in Kenya. Now in operation, LTWP is producing 100 percent of its expected energy generation capacity of 310 MW, as all 365 turbines have been erected and the substation completed. Also, in Ghana, once completed, the COCOBOD project will likely impact over 800,000 farmers working in the cocoa sector and improve the livelihoods of around 4 million people.

Efficiency: How well was the Bank organized to deliver its syndicated loans?

The efficiency of the syndication function was rated as Unsatisfactory, mainly due to the multiple implementation challenges, among which weaknesses in internal coordination and the inadequacy of the incentives in place, notably the Key Performance Indicators (KPIs) and the staffing. Although syndication remains a viable and relevant private sector resource mobilization instrument, the Bank is yet to achieve optimal efficiency. Mobilizing more private capital resources, including through loan syndication, would require sufficient attention to the processes in place and adequate resourcing.

Although loan syndication by Multilateral Development Banks (MDBs) is often used on large long-term projects, the evaluation found that the Bank's timelines were protracted and posed a risk to its competitiveness. Initially, the internal processes were burdened by inefficiencies that hampered collaboration. But later, with the creation of FIST and the implementation of new guidelines, this specific issue was resolved to some extent, as the syndication team became involved in the preparation stage. Nevertheless, challenges remain in the ecosystem of the Bank.

While the external perception of the loan syndication function appears positive, there was a lack of consensus internally on how syndication should be run. This has been a hindrance to FIST.1 in implementing its syndication mandate. Syndication is an institution-wide business, requiring a productive ecosystem consisting of people, products and processes that function correctly to deliver value-added transactions. It could be, moreover, a source of income for the Bank and therefore requires significant investments and preparation to ensure its effectiveness and profitability. While products and processes were found to be adequate and consistent with best practices in theory, they were not supported by effective implementation and collaboration between IOs and SYNEXs.

With regard to the syndication KPIs, the Bank's focus on Board approvals and its lending target has adversely affected its ability to deliver syndicated loans. IOs were found to mainly focus on achieving their KPIs, which until recently was obtaining Board approval for their projects. This situation has led to inadequate incentives, whereby IOs sought few syndication mandates and, after Board approval, were not always invested into ensuring the success of the syndicated tranche. Despite noted improvements, issues that continue to affect syndication's efficiency include: (i) the quality of the project and its pricing, which could reduce its attractiveness for commercial co-financiers; (ii) the lack of appetite of IOs for syndicated loans and co-financed deals where the AfDB would play the lead role; and (iii) IOs' focus on the delivery of the AfDB tranche of a deal, which in turn is a disincentive to pushing harder to secure the MLA role.

Interviews reveal that there are limited incentives for IOs and SYNEXs to collaborate systematically. IOs have limited interest to include co-financing or syndication in the financial structure of their projects and therefore to rely on SYNEXs to support the transaction from the origination to the financial close. The recent introduction of KPIs that push for more co-financing and syndication will contribute to making IOs and SYNEXs jointly responsible for increasing the share of co-financing and syndication in the overall lending.

Lessons

Lesson 1: Deals are likely to be more successful and closed relatively faster when processes are efficient.

One of the main advantages of syndication for the borrower, is the speed at which the loan can be obtained compared to other avenues. Establishing

efficient processes that ensure timely delivery are essential for business growth, borrowers' confidence and the Bank's track record. To be successful, the AfDB's syndication model, while different from commercial banks, should adopt a private sector business mindset. This means improving the processes to be as efficient, agile and quick as possible and as permitted by Bank rules, to respond to both the Borrower's needs on time but also satisfying commercial co-financiers needs.

Lesson 2: Reducing the average size of syndicated deals could increase the Bank's activity.

The average value of the five syndicated deals closed by the Bank is over US$500 million. This level places the Bank in the top segment of DFIs capable of mobilizing vast resources for significant projects in Africa. While pursuing only large-scale loans could be a comparative advantage, it also affects the Bank's effectiveness, as these transactions take longer to complete and may be dependent on public guarantees, economic prospects, or other political factors.

The current pipeline shows an increase in the number of potential deals, with the total average value to be syndicated declining to US$300 million per year. This highlights an opportunity for the Bank to also syndicate smaller deals (albeit with a minimum ticket size), thus increasing the Bank's experience and outreach. Processing deals with high amounts may be attractive as they require the same investment of time as smaller tickets, but increasing the number of closed syndicated deals by working on smaller loans could also be positive to establish the Bank's experience, outreach, and success track record.

Lesson 3: Coordination and cooperation between IOs and SYNEXs are essential factors for success.

When IOs and SYNEXs collaborate actively on deals, this reduces frustrations and leads to better results. To this end, it would be good for all internal parties to develop the same understanding and vision about a deal's potential to be closed and to work together to remove all hurdles that might prevent success. A collaboration culture should, therefore, complement the culture of compliance to ensure the efficient co-management of the deal. Precious time could be wasted if IOs and SYNEXs do not develop this collaborative spirit from the onset with the single purpose of achieving the Bank's lending and syndication mandates.

Lesson 4: Building a strong network of lenders is another key to success.

Strong networks are one of the critical factors for success in syndication. Placing deals on the syndication market is conditional on having attractive deals and pricing. More importantly, an excellent and reliable network of private banking institutions that lend credibility to the Bank's projects and are ready to sign onto the Bank's transactions is necessary. Building such networks requires time, experienced staff, and high exposure to the market actors. Furthermore, it is beneficial to establish a database of potential banks that have experience in specific sectors of interest (energy, transport, IT, etc.) to ensure that the syndication opportunities pursued by the Bank as the MLA offer value addition to the respective sponsors.

Lesson 5: Adequate delegation of authority empowers IOs and SYNEXs to close deals.

When deals are negotiated and presented to the AfDB Board, they have often not been finalized, especially the syndicated part. This creates a risk of failure or delays in later negotiations if the conditions approved by the Board cannot be significantly revised. Successful deals by other organizations (IFC) are negotiated in principle with all partners and participants before the Board approves the deal. The approval empowers Management to negotiate, within a margin, the final terms of the deal. This

authority implies that the Board is informed of the final terms without the need for a second approval. This approach has proven to be both time- and cost-effective.

Lesson 6: Concentration could boost syndicated loan performance and the Bank's additionality.

Studies show that syndicated loans perform better when: (i) they are led by banks with a good track record in syndication and lending portfolios concentrated in specific sectors; and (ii) banks choose syndicate partners that have similar lending specialization.[4] Also, additionality in syndication is strongest: (i) when DFIs such as the Bank respond to markets with limited resources for syndication operations for the private sector, or unusually low global liquidity; (ii) when the DFI's presence in emerging markets and sectors helps alleviate nascent industry risks; and (iii) when there is evidence of strong catalytic effects of the loans.[5] For the AfDB, this could translate into ensuring that syndicated loans focus more on: (i) countries with limited syndication opportunities to set precedents that could boost market confidence; (ii) sectors with a strategic interest where it has a comparative advantage; (iii) improving lending terms, especially in areas such as enhanced terms and the cost of debt, and exploring more opportunities for local currency financing; and (iv) developing in-house expertise to become a leader and mobilize participating banks based on interest but also lending specialization profile.

Recommendations

Recommendation 1: Develop a five-year strategic framework to establish syndication as a cost-covering and revenue-generating business function, with a sharper focus on business development.

A successful syndication function will require moving from an opportunistic origination approach to a more strategic one. In this regard, the Bank is advised to ensure the syndication function is revamped into a more systematic co-financing and syndication business development-oriented function with the objective to significantly increase the share of syndication in the Bank's delivery.

Recommendation 2: Strengthen the syndication processes and delegation of authority in line with the One Bank Approach.

It is advised that Management consider putting in place a more coherent and efficient process that enhances coordination and improves the use of the syndication function by all relevant departments in the Bank. Such reform should be coherent with the Bank's overall direction laid out in the One Bank approach. It also appears important that the Board supports the development of the syndication function by granting the appropriate authority to sign-off on revised lending terms under syndications to enable deals to be quickly closed.

Recommendation 3: Provide additional incentives to promote syndication.

A strong incentive system is needed to ensure that Investment Officers and Syndication and Co-financing Officers work collaboratively to develop the syndication business in the Bank. Making the Bank a leader in the domain would require adopting a set of ambitious targets with the right KPIs that focus on active resource mobilization.

Recommendation 4: Build a team of industry specialists to support the syndication and business development capacity.

Adequate staffing capacity is key to the success of syndication. The Bank should strive to build its capabilities to support its growing pipeline of syndication operations as well develop in-house tools to support its ambition to be a leader in the loan syndication market.

Recommendation 5: Improve innovation, reporting, and learning of co-financing and syndication.

The Bank is advised to fully capitalize on existing initiatives, such as the Africa Investment Forum, and to pursue innovations that could attract financiers and lenders to invest in the Bank's operations. Finally, improving reporting, monitoring and knowledge management of syndication would help in better steering the Bank's action towards achieving its objectives. ■

Management Response

Management welcomes IDEV's evaluation of loan syndications at the African Development Bank. Management agrees with all of IDEV's findings and is pleased that the Syndication, Co-Financing and Client Solutions Department (FIST) is already undertaking some of the recommendations. Management notes the need for corporate-level structural changes to working practices and a commitment to mainstreaming syndications in the Bank's project development cycle. To achieve this, the operations departments and the Syndication and Co-Financing Division (FIST1) are already cooperating more regularly to generate syndication opportunities when developing the project pipeline. This note presents Management's response to key issues raised by IDEV's evaluation and ongoing and foreseen actions in response to IDEV's recommendations.

Introduction

Management welcomes IDEV's evaluation. The importance the Bank has placed on continuing to develop the work of loan syndications in the market is in line with the efforts of multilateral development banks (MDBs) to move from mobilising billions to trillions in order to meet the sustainable development goals and other development targets. Loan syndications notably target private or commercial financial resources, and the Bank's syndication program is seen as a useful and adequate instrument that fits the needs of the Bank's clients and potential investors.

The evaluation covers two main periods (2008–2016 and 2017–2019) and comes soon after the transition in the Bank's syndication function. In 2008–2016, syndication was embedded in the Bank's private sector department as a support function. During 2017–2019, the Bank created a new department-the Syndication, Co-Financing and Client Solutions Department (FIST)-and a division responsible for syndication and co-financing (FIST1). Although it is early days as FIST was only three years old when IDEV drafted its report, it should be noted that since the creation of a division for syndication and co-financing, the Bank has recorded some positive evolution. Several of IDEV's considerations and recommendations will make FIST's functions more robust.

It is in this context that Management welcomes the lessons identified by IDEV as a basis for making the Bank's syndication business more efficient and effective:

- *Efficient Processes:* Management agrees that a more efficient syndication process would make it possible to close more deals. For this reason, staff will review the deal process when revising the Syndication guidelines[6] and the delegation of authority matrix.
- *Reduced deal size:* Management also agrees with the need to consider and encourage different sizes of deals. The Bank is currently facing constraints in headroom brought about by a number of factors and exacerbated by the support provided during the coronavirus pandemic. This will force the Bank to mobilise more external resources to complement its own scarce resources. It will be necessary to find opportunities to syndicate, no matter the size of the transaction.
- *Improved coordination:* Another point well taken is the need to improve coordination and collaboration between syndication officers and

investment officers. Management agrees that incentives, better aligned key performance indicators (KPIs), and clearer guidelines outlining the division of labour are likely to improve working relationships and fuel the drive to achieve shared goals. Management also recognises the need for closer collaboration between FIST1, operations, and regional teams when developing the project pipeline. Upstream engagement of FIST in the preparation of the annual Indicative Operational Program (IOP) is of paramount importance, if the Bank is to build a robust pipeline of syndications projects. This will help staff identify syndication opportunities at the project scoping stage.

- *Build investors network:* The evaluation also points to the need to broaden and strengthen the syndication team's investor network. Management is already working to widen its target investor group beyond commercial and investment banks and development finance institutions (DFIs) to include institutional investors. In this regard, FIST has initiated discussions with the insurance market as well as other institutional investors and is considering innovative ways to engage this important investor constituency (see also Box 1).

Management will also find ways to collaborate with the Africa Investment Forum (AIF), to find ways to leverage its platform for syndicated transactions.

Management will make the approval process for syndicated transactions more efficient by revising the process flow and amending the delegation of authority to allow certain revisions to financing terms to be delegated to Management after Board approval. These changes would maintain the integrity of the current approval process whilst giving staff some flexibility to respond to market requirements.

In line with market practice and the quest to increase speed to market and close syndicated loan facilities in a timely manner, the Bank plans to collaborate with the Loan Market Association to implement an initiative to standardise loan syndication documents.

The Bank's strategic goal of becoming a leading arranger of syndicated loans will require establishing a syndicated loan unit that administers loans and monitors syndicated facilities arranged by the Bank. Management is considering a hybrid facility agent operation whereby Bank officers would interface with a facility agency service provider that would function both as a specialised agent and a platform for trust services[7].

Finally, beyond broadening its investor base, the Bank will seek to partner with co-lenders on more mandates that allow the Bank to build its expertise across sectors and jurisdictions. To add the most value, the Bank will target markets with low liquidity where DFIs' presence would signal comfort to investors.

Box 1: Innovative instruments for investors

Management is contemplating a number of instruments for institutional investors:

- A funded risk participation program to attract institutional investors using agreed investment criteria and standardised documentation.
- A syndication platform (a managed lending program) that will allow investors to commit funds alongside the Bank for upfront investment in a predefined diversified private sector loan portfolio.
- Leveraged guarantee structures that will allow institutional investors and commercial banks to lend to projects, corporates, and/or state-owned enterprises at favourable rates and maturities.
- Debt securities that will be issued in capital markets and backed by loans to state-owned enterprises or governments.

These plans, together with IDEV's recommendations, will strengthen the Bank's syndication function. To fulfil the Bank's syndication mandate, however, two more actions are needed. First, the Bank's entire ecosystem must be incentivised to work together: the investment officers who process deals, the legal advisors the environmental and social safeguards specialists. Second, when sharing the role of mandated lead arranger (MLA) with other lenders, the Bank must actively work to divide labour and transfer skills in line with the strength of each institution.

Relevance: How Adequate was the Bank's Approach to Loan Syndication?

Management notes with satisfaction that IDEV's evaluation finds the Bank's syndication approach to have been both satisfactory and aligned with the Bank's key policies and strategies (the Ten-Year Strategy (2013-2022) and the High 5s) and the Bank's strategies, policies, and guidelines for non-sovereign operations (NSOs).

The Bank developed guidelines to syndicate loans in line with its processes for NSOs and the best practices of sister institutions. IDEV's evaluation found these guidelines to lack clarity on the roles and responsibilities of the players within the syndication process. This lack of clarity has hampered implementation. Management has already begun revising the guidelines, and lessons from recent transactions and IDEV's recommendations will improve the guidelines further.

This said, unclear guidelines have not been the only hindrance. Despite the Bank's strategic intent and the global context, the Bank did not have a strategic framework for mobilising funds through loans.

Management recognises the importance of syndication as a means of mobilising resources and will cascade this function throughout the Bank by developing a syndication and co-financing strategic framework to provide strategic direction on mobilising resources for the Bank's development projects. The framework will complement and strengthen the revised syndication guidelines and the recently created KPIs. The framework will be accompanied by an internal roadshow or rollout to ensure that operations and regional departments are fully aware of the framework. Guidance notes and briefs will also be prepared to this effect.

Effectiveness: To What Extent was the Bank Sucessful in Syndicating Loans?

This aspect of IDEV's evaluation assesses the Bank's ability to arrange, mobilise, and close transactions. Management notes that the evaluation report rates this aspect as unsatisfactory, as the Bank has only successfully closed five transactions over the period 2008-2019, even though the volume was substantial (USD 3 billion). Management agrees that this number of transactions is a fraction of the Bank's potential, however it should be noted that one third of this volume was generated after the creation of the FIST department. Notably, FIST was able to successfully close the Ghana Cocobod transaction in early 2020. Furthermore, the number of transactions has increased as the Bank has started to regularly bid for MLA mandates. At present, the Bank is the MLA for 8 projects. For information, only two of these projects are active: the pandemic or other structural challenges have slowed the rest.

As part of developing a strategic framework and revising its guidelines, Management will make the syndication function an integral part of screening transactions originated by the Bank. Thus, for each private sector operation proposed to the Bank, FIST will advise whether the Bank can mobilise funds through syndication and/or co-financing.

Efficiency: How Well was the Bank Organised to Syndicate Loans?

IDEV's evaluation rates the efficiency of the Bank's syndication function as unsatisfactory. Although the Bank has manifested an ambition to better reach its development objectives by mobilising more private capital through syndication and co-financing, this ambition has not necessarily been supported by sufficient resources, adequate incentives, or processes that are fit for purpose.

Management notes that a protracted syndication process poses a risk to the Bank: it could make the Bank less competitive than other DFIs and commercial banks. In addition, the syndication process requires an ecosystem that comprises more than syndication officers. Further support is required in terms of legal, and safeguards.

Good KPIs, as adopted recently, can incentivise mobilisation efforts, a key lesson from sister MDBs, as noted in IDEV's report. The Bank recently introduced KPIs for resources mobilised from public and private sources, for syndicated loans closed by the Bank, and for an A/B loan[8] target specific to FIST1. Except for the A/B loan target, the KPIs are largely joint and are therefore expected to foster collaboration between investment officers and the syndication team. Because the KPIs were introduced recently, for now they should be monitored and not changed. In future, they may be modified to increase incentives.

KPIs aside, Management notes that FIST also needs to do more to engage and build the knowledge and understanding of operations and regional teams on the importance of mobilising financing from various investors ad partners on behalf of the Bank's clients; and how they intend to do it.

Conclusion

The Bank has demonstrated that it can close large, complex, long-tenure syndicated deals, including the likes of the Lake Turkana Wind Power project, the Eskom A/B loan, and more recently the Redstone Solar power project. With only five syndications over 2008–2019, however, the Bank's performance has been modest and can be improved significantly. For this and other reasons, Management agrees with IDEV that the implementation of its syndication function has been relevant, but efficiencies and effectiveness can be strengthened.

Management would like to see the Bank position itself as Africa's leading MLA. It would also like the Bank to leverage its MDB status, its AAA credit rating, and its various competitive advantages to service more of Africa's syndication market. With the creation of FIST1 and current reforms, the Bank is moving in the right direction. Going forward, Management will work to resolve the operational hitches that prevented the delivery of more syndicated deals.

With the globalisation of the world economy and the growth of many emerging economies in Africa, the market for syndicated loans is likely to keep growing. The Bank has an opportunity to increase its share of that market, by opening itself to more innovation and by strengthening its capacity and processes. With the syndication pipeline increasing and the Bank securing more MLA mandates, progress is underway. ■

Management Action Record	
Recommendation	**Management Response**
Recommendation 1: Develop a five-year strategic framework to establish syndication as a cost-covering and revenue-generating business function, with a sharper focus on business development	
A successful syndication function will require moving from an opportunistic origination approach to a more strategic one. In this regard, the Bank is advised to ensure the syndication function is revamped into a more systematic co-financing and syndication business development-oriented function with the objective to significantly increase the share of syndication in the Bank's delivery.	**Agreed** – Management agrees in general with IDEV's recommendation to transform its syndication business, moving origination from an opportunistic approach to a more strategic one. To provide overall guidance, Management will develop a strategic framework and consider how to make the syndication function a business development-oriented unit. Management acknowledges the need to tailor support to sector and regions. **Actions:** - FIST will develop a strategic framework that will focus on: mobilisation of more private capital through syndication and co-financing; establishment of an agency function/unit; changing its business model to focus more on origination, both for stand-alone loans and for loans connected to operations, and; changing the business development model with the establishment of client relationship targets and market research. This work will be done in conjunction with FIFC, PIVP, PESR2, and AHFR1 and the strategy department (SNSP). **(FIST Q3 2022)** - FIST will assign current syndication officers to sectors and regions. This exercise is currently on-going. **(FIST Q2 2021)**
Recommendation 2: Strengthen the syndication processes and delegation of authority in line with the One Bank Approach.	
It is advised that Management consider putting in place a more coherent and efficient process that enhances coordination and improves the use of the syndication function by all relevant departments in the Bank. Such reform should be coherent with the Bank's overall direction laid out in the One Bank approach. It also appears important that the Board supports the development of the syndication function by granting the appropriate authority to sign-off on revised lending terms under syndications to enable deals to be quickly closed.	**Agreed** – Management accepts IDEVs' recommendation to streamline syndications in the project approval process. Thus, all NSOs proposed to the Bank will be filtered for the Bank's ability to mobilise resources on behalf of the NSO. Approval processes will consider requirements, expectations, and standard market practice for handling syndication projects. Management will revise the syndication guidelines and operational procedures to clarify the roles and responsibilities of syndication staff and investment officers and ensure their alignment with the internal approval process and the One Bank approach. **Actions:** - FIST will work with SNDI and PGCL to ensure that critical steps in the syndications process are captured in the DAM and will engage the Board in coordination with PINS to update the One Bank approach to include the steps needed for syndication. **(FIVP Q2 2022)** - FIST will finalise the revised Syndications guidelines. **(FIST Q3 2022)**

Management Action Record	
Recommendation	**Management Response**
Recommendation 3: Provide additional incentives to promote syndication.	
A strong incentive system is needed to ensure that Investment Officers and Syndication and Co-financing Officers work collaboratively to develop the syndication business in the Bank. Making the Bank a leader in the domain would require adopting a set of ambitious targets with the right KPIs that focus on active resource mobilization.	**Agreed** – Management strongly agrees with this recommendation. The Bank's current targets refer to resources mobilised from public and private sources, to syndicated loans closed by the Bank, and to an A/B loan target specific to FIST1. Except for the A/B loan target, which only features in FIVP's scorecard, these targets are largely joint (they apply both to the syndication team and to operations). Because the targets were introduced recently, for now they should be monitored and not changed. In future, additional targets may be added to incentivise the growth of the syndications book and recognise the efforts of staff working to close transactions. **Actions:** ▌ Management revise the current KPIs to address the volume of syndication transactions and elements related to financial close. The KPIs will be based on project pipelines, the outcomes expected from business development activities, the optimization of capital, and headroom. Management will also design a KPI to increase the ratio of syndicated NSOs in the NSO portfolio. The parties will agree on an appropriate ratio for the pipeline. **[FIST with PIVP, PESR2, AHFR1, RDVP Q1, 2022]**

Management Action Record	
Recommendation	**Management Response**
Recommendation 4: Build a team of Industry specialists to support the syndication and business development strategies.	
Adequate staffing capacity is key to the success of syndication. The Bank should strive to build its capabilities to support its growing pipeline of syndication operations as well develop in-house tools to support its ambition to be a leader in syndication.	**Agreed** – Management accepts this recommendation and is seeking to adequately staff the syndication team while continuing to build the capacity of staff across the ecosystem (including syndication staff) and raise awareness of loan syndication products and processes. **Actions:** ▌FIST will undertake a syndication function benchmarking exercise with peer MDBs to determine how best to structure loan originations, organise sales and administration, target an appropriate volume and number of deals, and reach targets once they have been set. **(FIST Q3 2021)** ▌FIST will streamline its syndicated loan distribution and investor engagement systems and processes. **(FIST Q3 2021)** ▌FIST will finalise the procurement of a strategic IT tool to support its daily work. This tool will provide data on the loan market, specialised project finance news, and transaction management software. **(FIST Q3 2021)** ▌FIST staff will continue to pursue syndications and modelling trainings and follow certification courses to increase their capacity. FIST will also work with CHHR to train investment officers, portfolio officers, and loan accounting staff (billing and disbursements) in loan syndications. **(FIST ongoing)** ▌FIST is in the process of recruiting (1) additional staff to support the growing pipeline. **(FIST, CHHR Q3 2021)**

Management Action Record	
Recommendation	**Management Response**
Recommendation 5: Improve innovation, reporting, and learning of co-financing and syndication	
The Bank is advised to fully capitalize on existing initiatives, such as the Africa Investment Forum, and to pursue innovations that could attract financiers and lenders to invest in the Bank's operations. Finally, improving reporting, monitoring and knowledge management of syndication would help in better steering the Bank's action towards achieving its objectives	**Agreed** – Management agrees with the recommendation to bring more innovation to products. One of the ongoing activities that Management will continue to work on is preparing a user-friendly dashboard to more easily track the volume of resources mobilised through syndications for which the Bank is the MLA and through the passive and active co-financing of sovereign operations and NSOs. As for reporting, FIST is already working to improve reporting and usage. **Actions:** - FIST will further collaborate with PINS, CHIS, PGCL, and sector departments PIVP, PESR2, and AHFR1 to archive syndicated loan documentation centrally and make it easily accessible. **(FIST Q3 2021)** - FIST will host information sessions on the work of FIST1, furthering awareness and collaboration between the syndication team and operations departments. **(FIST Q2 2021)**

Introduction

This report presents the findings, lessons and recommendations of the assessment of the Bank's performance in mobilizing resources from the private sector through loan syndication over the 2008 to 2019 period. It is a distinct component of the evaluation of the AfDB's partnerships that presents additional evidence on how the Bank is mobilizing private sector partners to further its development agenda for Africa.

Mobilizing additional financing from various debt investors to finance private sector projects is one of the critical building blocks of the African Development Bank's (the Bank or the AfDB) strategy in spurring sustainable economic development and social progress in its Regional Member Countries (RMCs). Since 2008, the Bank has developed a loan syndication program and deployed significant efforts to ensure that loan syndication plays a leading role in financing its Non-Sovereign Operations (NSOs).

Loan syndication allows a group of lenders to fund various portions of a loan for a single borrower. (See key concepts in Annex 1). Often, this occurs when a borrower requires an amount that is too large for a single lender to provide, or when the loan is outside the scope of a lender's risk exposure levels. Through its loan syndication program, the Bank intended to efficiently leverage its balance sheet for a more significant development impact and to increase the scale of its lending activities. The program was also expected to provide the Bank with: (i) an additional risk mitigation tool to diversify its investor base; (ii) more competitive and market-based pricing for its clients; and (iii) the ability to leverage additional private financial resources.

This evaluation holds strategic importance for the Bank, especially in the context of the Bank's Ten-Year Strategy (TYS, 2013-2022) and the High 5s, which promote resource mobilization as an enabler for the Bank's ability to achieve its development objectives. To this end, the evaluation assessed the results of the Bank's mobilization efforts to meet its clients' needs and development objectives. It focused on the relevance, effectiveness and efficiency of existing policies and guidelines, as well as past outputs and outcomes of existing transactions. The review identified the strengths and weaknesses of the loan syndication function, as well as areas for improvement for future operations.

The report is structured in the following main sections. Chapter 2 outlines the background of loan syndication in general, and in the Bank in particular. Chapter 3 details the evaluation framework. The evidence-based findings on the performance are presented in Chapter 4 under the three criteria of relevance, effectiveness, and efficiency. Finally, Chapter 5 shares lessons from the benchmarked institutions, while Chapter 6 concludes with the lessons and recommendations from the evaluation. ■

Background

Overview of Syndication

Evolution of Syndicated Loans

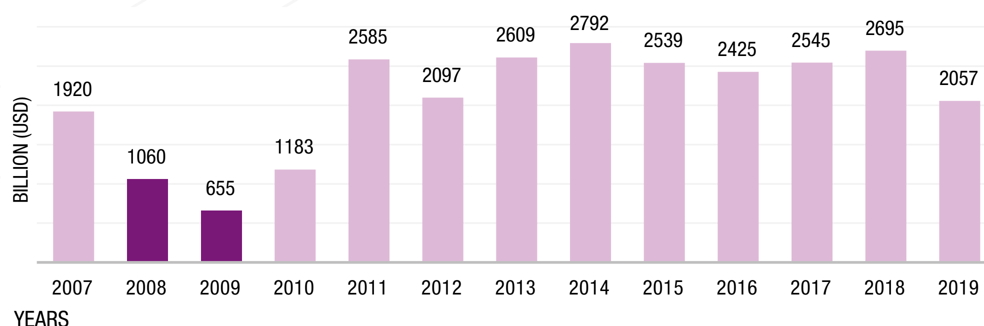
Syndicated loans are not new to the market, the practice of lending in syndicates or through a syndicated facility started in the 1970s, with a focus on lending to sovereigns. During that period, most of the debt of developing countries was in the form of syndicated loans. Between 1971 and 1982, medium-term syndicated loans were widely used to channel foreign capital to the developing countries of Africa, Asia, and especially Latin America. Following a downward trend due to the debt crisis of the 1980s, the syndication business then grew again in the 1990s to become progressively the most prominent corporate finance market in the world.

In the past two decades, project finance has been on the rise as the preferred tool for economic investment in infrastructure, telecommunications, energy, mining, and natural resource projects, particularly in developing markets. Added into the mix, loan syndication has played an increasing role in supporting these investments. Globally, the total volume of syndicated loans from 2008 to 2019 amounted to US$25.24 trillion for 27,179 deals.[9] The African market has a relatively low share of this volume. Over the same period, the total volume of transactions for Africa amounted to US$264.52 billion for 429 deals, or just 1.05 percent of the global syndicated loan volume.

The syndicated market was affected by the global financial crisis of 2008. Figures 1 and 2 show that yearly global volume fell from US$1,920 billion in 2007 to US$655 billion in 2009, equating to a 66 percent decrease. Specifically, the African market suffered from the credit crisis to a similar degree, with a decline of 63 percent from US$26 billion to US$10 billion during the same period.

According to Bloomberg data[10], major countries in the syndication markets are the emerging economies of Africa and those with a robust financial sector such as South Africa, Egypt, Nigeria, and Morocco. The most active regions are, therefore, southern and northern Africa, accounting for more than 68 percent of the total value of deals. The lenders' group was dominated by private institutions, mainly

Figure 1: Evolution of global syndication market (2007–2019)



Source: Loan Radar Syndicated Loan Data (June 2019).

private investment banks. Major banks in the league tables (leaders of the market) originated from the same regions with a predominance of South African banks, such as the ABSA Group and Standard Bank Group, and Arab banks such as the Arab African International Bank and Ahli United Bank Group.

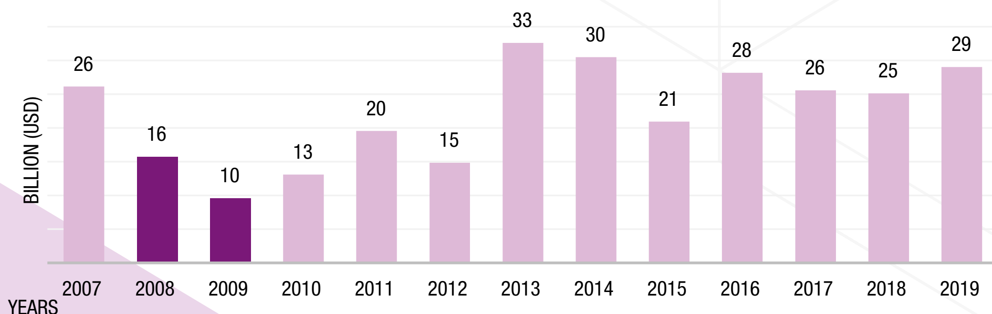
International banks also have a relatively large share of the market, with major players such as BNP Paribas, Citibank, and ABN Amro Bank NV, in addition to Export Credit Agencies (ECAs), MDBs and DFIs, such as the African Export-Import Bank, the KfW IPEX Bank, the Japan International Cooperation Agency (JICA), the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and the AfDB, which are all active in the market. A credible comparison of the detailed data from all the MDBs was challenging to do due to the scattered nature of the data.[11] It appears that MDBs hold a limited share of the market, although their contribution to the leverage of private investments could be significant. From 2008 to 2019, the AfDB, IFC, EBRD, EIB and IsDB syndicated loans worth more than US$18.5 billion in Africa.[12]

Loan Syndication at the African Development Bank

Syndication by MDBs and Development Finance Institutions (DFIs) or commercial co-financing is part of a global effort to improve direct and indirect co-financing for development. MDBs recently harmonized how loan syndication is considered under private resource mobilization efforts in MDB financing. The concern comes from the need to assess the level of co-financing, as well as the determination of attribution or contribution to co-financing.

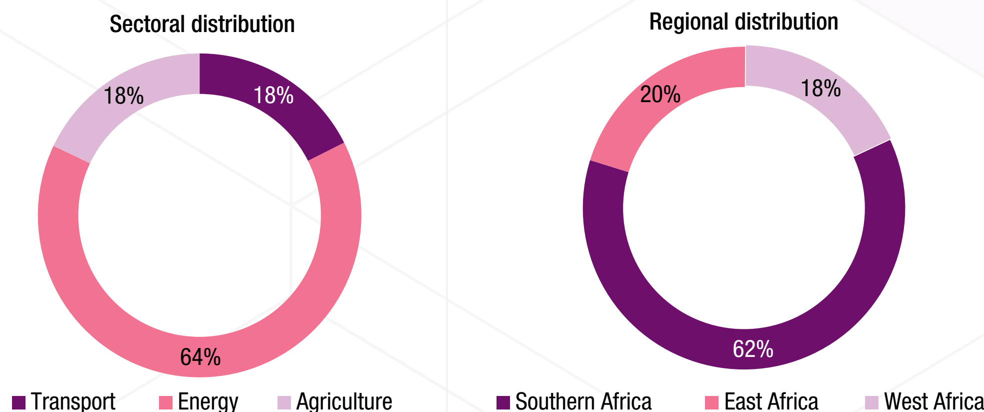
The Bank launched its private sector operations in 1991 to support private sector projects and entities incorporated in its RMCs. These operations—also referred to as Non-Sovereign Operations (NSOs)—involved the Bank providing funding in the form of loans, guarantees, and equity participations, or support through technical assistance (TA). To mobilize additional financing from private investors to fund long-term private sector projects, the Bank started considering loan syndication as a financing instrument in the early 2000s. In November 2008,

Figure 2: Evolution of African syndication market (2007–2019)



Source: Loan Radar syndicated loan data (June 2019).

Figure 3: Sectoral and regional distribution of closed deals



Source: FIST.1 data; Evaluation Team.

it launched its A/B Loans program and approved the Operational Guidelines for Syndication of Non-Sovereign Guaranteed Loans. These guidelines were revised in 2017 and approved by the Bank's Operations Committee in 2019 but are not yet approved at the President's level pending a strategic framework for syndication which has not yet been finalized to date. A more detailed overview of the syndication function at the Bank is presented in Technical Annex 1.

Overview of the portfolio

Since the launch of the Bank's loan syndication program, it has closed five syndicated transactions with the status of MLA. These transactions are: (i) Transnet (2011 – South Africa); (ii) Lake Turkana (2014 – Kenya); (iii) Eskom (2016 – South Africa); (iv) Redstone (2019 – South Africa); and (v) Cocoa Board (2019 – Ghana) (see Table 1).[13] A more detailed table is presented in Technical Annex 2. The total value of these transactions stands at US$3.7 billion in three sectors, namely, energy, transport and agriculture (Figure 3). There was a concentration of invested resources in the infrastructure sector (energy and transport), with energy accounting for 64 percent of total resources. In terms of regional distribution, the loans have mainly benefited the Southern African region, specifically South Africa, with a total of 62 percent in both energy and transport.

Out of the five syndicated loans, two have been contracted for projects financed by privately-owned entities, while three involve state-owned enterprises (SOEs) with the autonomy to borrow from their balance sheets.

The evaluation found evidence of other mandates or coordination roles held by the Bank in other transactions[14]. These are in two categories: (i) coordination roles in deals involving another group of lenders; and (ii) MLA mandates that were not implemented. An example of the first category is the development, construction, and operation of a 120 MW Independent Power Plant at the site of the Itezhi-Tezhi dam on the Kafue River in Zambia. This total project cost was estimated at US$239 million. The Bank was appointed by ZESCO (the sponsor) as the coordinating bank and provided a senior loan of US$35 million, a standby senior loan facility of US$3 million from the non-sovereign window, and a concessional loan of US$19 million to the Government of Zambia for its share of the equity in ZESCO. Other participants included the

Table 1: List of closed syndication deals

Year	Project	Country	Bank's Role	AfDB	Others	Total Loan	Share of AfDB	Leverage Ratio
				(US$ million)				
2011	Transnet SOC	South Africa	MLA	400	410	810	49 %	1.03
2014	Lake Turkana Wind Power	Kenya	MLA	175	606	781.25	22 %	3.46
2016	Eskom	South Africa	MLA	10	965	975	1 %	96.50
2019	Redstone	South Africa	MLA – Club deal	10	322	532	39%	1.53
2019	Ghana Cocoa Board	Ghana	MLA	150	450	600	25 %	3.00
Total				**945**	**2,753.25**	**3,698.25**	**26%**	**2.91**
Average				**189**	**550.65**	**739.65**	**27%**	

Source: FIST.1 & SAP data, Evaluation Team.

Development Bank of Southern Africa (DBSA), the Dutch Development Bank (FMO), and the French Investment Agency, PROPARCO. The syndication team was not involved in this transaction approved in 2010[15].

An example of MLA mandates won but not completed is the Transnet Corporate Loan II in 2014. The Bank secured a mandate as the MLA for a B loan of US$250 million from commercial lenders, in addition to the second corporate loan of ZAR 3.5 billion, equivalent to US$250 million, approved by the Board. This mandate was finally not carried out for various reasons that could not be uncovered. ■

The Evaluation Framework

Overview

Purpose. The purpose of this evaluation is to provide the Bank with evidence-based knowledge on the performance of the Bank's loan syndication and to identify levers for improvement.

Objectives. The evaluation aimed to: (i) provide an assessment of the relevance, effectiveness and efficiency of loan syndication operations of the AfDB; (ii) identify the factors affecting the performance of loan syndication and the conditions under which they could achieve better results; and (iii) draw lessons and propose recommendations to improve the effectiveness and efficiency of present and future syndication operations.

Scope. The evaluation covered the period between 2008 and 2019. The co-financing of non-sovereign-guaranteed loans was not covered by the evaluation. It focused mainly on the syndicated loans in which the Bank had the role of MLA or coordinating bank and involved commercial financiers. This focus was justified by the fact that the Bank can only fund the private sector to a maximum of one-third of the total financing need, thus compelling some form of co-financing, directly or indirectly. In this regard, the evaluation chose to assess only how the Bank performed both as an MLA and on its A/B loan program, and how this performance might be improved. This narrow focus allowed the evaluation to assess more critically loan syndication as a resource mobilization instrument.

Evaluation questions. The evaluation identified three strategic questions, with the intent of ensuring the utilization of the evaluation and its findings to inform the Bank's decision-making process and improve the performance of loan syndication. The detailed evaluation matrix can be found in Technical Annex 4. The three strategic questions are as follows:

i. Relevance: Was the Bank's approach to loan syndication adequate?

ii. Effectiveness: To what extent was the Bank successful in syndicating loans?

iii. Efficiency: How well was the Bank organized to deliver its loan syndication operations?

Rating scale. To rate the performance, the evaluation used a four-point rating scale of Highly Unsatisfactory (1-HU), Unsatisfactory (2-U), Satisfactory (3-S) and Highly Satisfactory (4-HS), the details of which are presented in Technical Annex 7.

Approach and Methodology

Approach. The evaluation applied a mixed-method approach to answer the evaluation questions. This included a qualitative analysis, specifically, an assessment of existing loan syndication guidelines, a benchmarking with similar institutions, and stakeholder interviews, while quantitative evidence was drawn from a portfolio analysis. The findings were supported by additional evidence, namely: (i) the analysis of processes, capacity, and incentives in place; and (ii) the perception of the Bank's partners. In sum, the evaluation's findings were arrived at using: (i) a literature review; (ii) a portfolio analysis; (iii) key informants' interviews; and (iv) a benchmarking exercise with similar organizations, namely, the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (AsDB). The report was reviewed for quality assurance by a

reference group composed of Bank staff of relevant departments, together with one internal peer reviewer and one external reviewer.

Limitations

The evaluation faced some challenges mainly: (i) the scarce information, especially in the period from 2008 to 2017; (ii) the confidentiality concerns which hindered access to detailed information from the various benchmarked institutions; and (iii) the few syndicated deals completed that limited the ability to perform a detailed analysis. The evaluation addressed these challenges by strengthening existing information with in-depth interviews and whenever possible, using proxies to corroborate the findings. ■

Evaluation Findings

Relevance

The relevance of the Bank's loan syndication approach was assessed with respect to its strategic alignment, operational relevance, and adequacy vis-à-vis the needs of clients.

Overall Relevance

The relevance of the Bank's loan syndication approach is rated as Satisfactory. The syndication approach was aligned with the Bank's key policies and strategies, including the TYS 2013-2022, the Private Sector Development Strategy 2013-2017, the 2013 Private Sector Development Policy (PSD Policy), and the 2018 Policy on Non-Sovereign Operations (NSO Policy). These policies recognize loan syndication as one of the financial products to be used by the Bank to address the needs of clients. Syndicated loans are categorized as an appropriate instrument to boost resource mobilization from the private sector and increase the Bank's leverage in various sectors, mainly infrastructure. The Bank's syndication program was seen as a useful and adequate instrument that fits both the needs of the Bank's clients and potential investors.

The Bank has shown an increasing interest in mainstreaming loan syndication operations into its NSOs and has developed adequate tools to achieve this objective. However, it has yet to develop a clear strategy, one that would be supported by the Revised Guidelines on loan syndication and the new institutional setup. A loan syndication strategy has been prepared but not yet approved. The overall relevance of the function during the period 2008-2019 was hampered by a lack of clarity in the loan syndication function's medium- and long-term objectives. The performance analysis distinguished two main periods, the first from 2008 to 2016, and the second from 2017 to 2019 following the creation of FIST.

During the first period, loan syndication was a support function embedded in the Private Sector Department. The evaluation could find no evidence of a clear strategic direction given to loan syndication during this period. There was no evidence of the systematic promotion of loan syndication as a new line of business to mobilize additional resources. Indicative targets of resource mobilization during the period did not focus on syndication specifically. At the operational level, the 2008 loan syndication Guidelines were found to be relevant, consistent with Bank processes, and in line with best practices from comparator organizations at the time.

In the second period, the recent institutional evolution with the creation of the syndication division within FIST brought some noticeable improvements, with better defined guidelines, indicators, and targets. However, the current setup is better articulated in theory than in practice. FIST's mandate still appears to be supportive rather than to develop syndication as a business line. This mandate is limited considering the new economic environment in Africa and the highly competitive market segment of MDBs and commercial banks in which the Bank operates. The Revised Guidelines in 2017 brought some clarity on the roles of SYNEXs and IOs. This revision ensured consistency with current Bank practices and the creation of a specific syndication division.

The existing processes, however, still show some inherent weaknesses. The Revised Guidelines do not address properly all the issues regarding the division of roles, process mapping, and other gray areas, especially the coordination of the responsibilities of the SYNEXs and IOs as regards origination and the alignment of activities with their

KPIs. Neither did the 2018 Delegation of Authority Matrix (DAM) include any provision regarding the implementation of a syndication operation. At the time of the evaluation, issues of coordination and collaboration between FIST and the Private Sector Department remained unresolved. However, efforts by FIST and the private sector teams were underway to ensure effective collaboration through the finalization of a syndication process mapping, and discussions to achieve a common understanding of their respective roles.

Strategic Alignment

The Bank's primary objective is Africa's economic transformation. This was reaffirmed by both the Bank's MTS (2008-2012) and the TYS (2013-2022). Subsequent strategies and policies emphasize the Bank's strategic choice to support infrastructure, economic integration, and the private sector. The Bank estimated in 2016 that investments required to implement the High 5s amounted to US$170 billion over a five-year period. Mobilizing such a large scale of resources makes it crucial for the Bank to crowd in private sector financing partners to achieve Africa's funding needs. Loan syndication was, therefore, one instrument among others (balance sheet optimization, fine-tuning products, capital increase, etc.) to free up internal funding capacity and liquidity to fund the Bank's High 5s agenda.

The loan syndication approach is aligned with the Bank's key policies and strategies. There is no specific strategy addressing the Bank's objectives in terms of loan syndication. However, the Bank has developed tools that show how syndication should be used for non-sovereign-guaranteed loans. In this regard, it fits perfectly with the Bank's intention to mobilize additional resources from the private sector in Africa.

The syndication products provide avenues for the Bank to leverage its balance sheet and stretch its capital for a more significant development impact. It is within this context, and as part of the Bank's strategic ambition of mobilizing additional financing from the private sector to fund long-term private sector projects, that loan syndication and co-financing play an instrumental role in supporting the continent's transformation. Investors generally seek to maximize their returns while minimizing or mitigating the risks of the transaction. They are also continually seeking and exploring new markets, and new types of clients. In this regard, loan syndication is an essential risk mitigation tool for the Bank to spread the project risks across multiple financing partners.

The strategic coherence of the Bank's approach to loan syndication lacks appropriate leadership support. While loan syndication was entirely coherent with the Bank's policies and strategies, it is also clear that strategic emphasis on the instrument as a credible and long-term alternative to increase the Bank's leverage was not always present. After a strong leadership emphasis from 2008 onward, the interest in loan syndication later gradually declined before being renewed once again in 2017-2018 with the creation of FIST, which brought the syndication function to the forefront.

Operational Relevance

The evaluation found that the loan syndication program was operationally coherent with the processes in place when launched in 2008. However, these processes fell short of the measures needed to address implementation challenges and incentives to boost syndication activities. The 2008 Guidelines suffered from the core issue of failing to foster internal collaboration. This lack of collaboration drew from the fact that the responsibilities of SYNEXs were considered secondary or optional to the structuring of a deal once the Bank had secured a mandate. While this approach demonstrated the willingness to prioritize a support function approach, it led to a situation in which two teams worked on the same loan. The IO led the project appraisal team, while the syndication team was led by the SYNEX. As a result, this dichotomy formed a set of asynchronous yet

complementary objectives. The IOs were focused on closing a deal for the Bank, while the SYNEXs were solely focused on selling the deal to the market.

Loan syndication was focused on private sector medium-term and long-term lending. According to policies in place by 2008 and revised since 2015, the Bank was expected to seek MLA mandates for eligible projects and interested sponsors. The Guidelines defined roles and rules to undertake a syndicated loan in the Bank. As per the institutional setup at the time, the Guidelines were elaborated with the primary responsibility assigned to OPSM (Private Sector Department) to undertake loan syndication. This approach was coherent with the situation at the time, whereby the syndication unit was located within OPSM, thus potentially ensuring seamless collaboration between the IOs and the SYNEXs.

Clarity over the syndication process came late. The Guidelines were approved in 2008 and it is only since 2018 that actions have been taken to establish proven processes. As the creation of FIST called for Revised Guidelines for loan syndication, they were elaborated to adapt to the new institutional setup. These Revised Guidelines were adequately complemented by a manual in 2018 to facilitate their implementation. This manual suggested a step-by-step process for the SYNEXs as part of the Project Appraisal Team. However, these documents were not widely disseminated during FIST's communication events, nor were they placed in the workflow in SAP to ensure accountability and proper automation of the process implementation.

The operational relevance was also weakened by the perception of the role of SYNEXs in collaboration with IOs. Interviews with IOs indicated a limited understanding of the role of FIST as a support function. The majority of IOs consider FIST to be mainly useful to advise on pricing, and sounding the market, rather than being a leading team to place syndication deals in the market. In conclusion, while coherent in theory, the operational relevance of loan syndication lacks strong leadership and clarity of roles.

Adequacy for Client Needs

The loan syndication program is viewed as positive by the Bank's clients. Feedback from sponsors indicated that loan syndication by the Bank was a solution that fits their funding needs, especially when large amounts are required. Clients involved in closed deals have experience in syndicated loans with commercial banks. Therefore, they see the option to give the MLA mandate to the AfDB as a good option when needed. The A/B loan structure, for example, offers benefits to borrowers, mainly completing the financing package, borrowing with longer tenors than otherwise available, and enjoying simplified loan administration and documentation, with the AfDB as the lender of record.

For participants in most syndication products, the Bank presents an opportunity to invest in the African market, while benefiting from the AfDB's preferred creditor status (PCS). For participants this was also an opportunity to work with new clients and countries, while also diversifying their portfolios. Following the 2008 global financial crisis, international banks reduced their footprint in project finance on the African continent, especially in syndicated lending with long maturities, because they needed to de-risk their balance sheets and comply with Basel III[16] requirements. However, this situation has improved since 2013, and there is a renewed appetite for long-term lending. The market has also seen the entrance of non-bank financial institutions (NBFIs), including pension and insurance funds that invest in project finance.

This evolution put the AfDB in an ideal position to offer both borrowers and investors an opportunity to increase syndicated lending in Africa. This is illustrated by the successful uptake of initiatives such as the Room2Run, a US$1 billion synthetic securitization of a portfolio of the AfDB's private sector loans. A synthetic securitization is a synthetic balance sheet securitization that is generally

regarded as being a transfer by a bank of tranche risk exposure to a portfolio or pool of loans, bonds or other financial assets, achieved using credit default swaps, credit guarantees or other derivatives contracts.

Investors raised two significant concerns, namely the market terms offered by the AfDB and the execution time. For market terms, the AfDB's pricing and loan tenors are often seen by commercial banks as less competitive and risky, as their primary drive remains profit, while the AfDB's motive remains development. The Bank's processing times are also considered long, thus making it relevant to engage only in large transactions that would generally take a longer time to complete.

Effectiveness

The evaluation assessed the performance of the Bank in terms of resource mobilization and results achieved by the syndicated loans during the period under review.

Overall Effectiveness

The effectiveness of loan syndication at the Bank is rated as Unsatisfactory, because whilst syndicated loans mobilized substantial amounts of financing, the number of deals has been limited over the period under review. In actual projects according to data gathered, while participation in ordinary co-financing deals has been steady, the Bank was only able to lead five MLA deals during the period 2008-2019.

The limited performance could be partially attributed to the fact that prior to 2018, loan syndication was not a core activity of the Bank and was operating with limited staffing and insufficient focus or incentives to actively pursue commercial co-financing. These years of under-prioritization hampered the syndication function. The Bank's syndication performance has improved in recent years but still represents only a fraction of its real potential.

Resource Mobilization

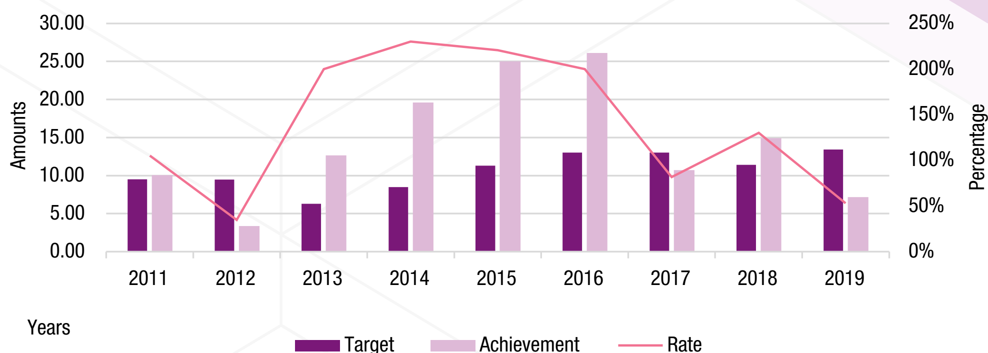
The Bank's results from loan syndication operations were rated Unsatisfactory, considering their limited and uneven achievements. Private direct co-financing (syndication) remained a limited proportion of the total resources mobilized. While overall resource mobilization might be considered satisfactory, the portion of this performance related to syndication did not match expectations and remained exceptionally low, considering the potential of the market and the total co-financing achieved.

Loan syndication accounted for US$3.7 billion over 10 years, which represents 2.06 percent of the total resources mobilized (US$179.26 billion). At the same time, even if the number of transactions carried out by the Bank is relatively low, the average ticket size was substantial. For example, in 2016, the Bank mobilized US$965 million in one single transaction.

The total amount raised from commercial and institutional lenders through all types of syndications amounted to US$2.75 billion, while the total contribution of the AfDB was US$0.95 billion, resulting in a leverage of 1:2.89. Out of this amount, US$1.78 billion were raised from commercial lenders only. This performance was low when compared with data from other MDBs. The average contribution for the Bank was US$189 million for US$550 million from other investors.

Most of the Bank's performance is achieved through public co-financing. The cumulative co-financing (active and passive) between 2008 and 2019 stood at US$179.26 billion. This performance translates into an annual financial leveraging effect of US$16.30 billion. The performance of the Bank in leveraging additional development finance varied over the period. For instance, it recorded the most co-financing in 2016, leveraging US$26.05 billion against a target of US$13.03 billion, but it has been on the decline since then. The push to monitor co-financing was driven by an increasing emphasis

Figure 4: Total co-financing leveraged for public and private sector operations (2011–2019), US$ million



Source: Prepared by Evaluation Team with data from various Retrospective Review Reports of the Bank Group's Budgets and Performance (from 2008 to 2018) and FIST.

on the Bank growing its leveraging financial effect and optimizing the use of its risk capital. Figure 4 presents the Bank's annual co-financing targets and the actual achievement levels.

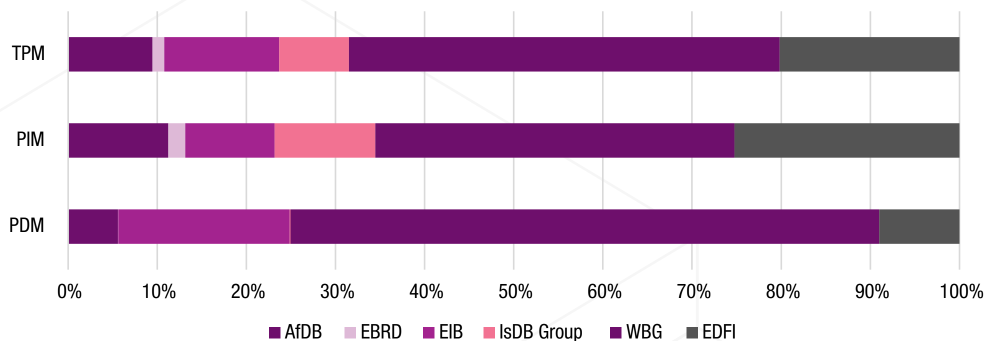
According to staff interviews, the Bank was not able to win MLA or coordinating bank mandates consistently, thus leading to a rate of only 0.5 of a deal closed per year. The chronology of the five closed deals shows an average of two years between each deal, with 2019 being the last year when deals were closed. This performance points to the lack of a deliberate strategy to increase the volume of syndicated loans. Interviews indicated that the Bank frequently failed to win MLA mandates. It also lost mandates that were canceled by sponsors. The reasons for cancellation included dissatisfaction with the Bank's offerings, processes, and delays. It should be noted, however, that improvements have been noticeable in recent years since the creation of FIST and the push by the Bank's Management for a more active syndication role.

The evaluation could not access a full list of all mandates won over the 10-year period of the review. This would have allowed assessing to what extent the Bank has been able to carry out the mandates and enlightened on the major reasons for their abandonment. It should be noted that the current FIST deal tracker includes details on the status of existing mandates and details on the reasons why they were not completed or were on hold. However, this only covers deals from 2017 and ongoing transactions on which a judgment cannot be made at this stage. The evaluation therefore reached the conclusion that the Bank lacks a repository of all MLA, syndication, and coordination mandates with updated information on their implementation and status.

The performance of the Bank compared with other MDBs and DFIs shows that there is considerable room for improvement. The African market is relatively small and challenging compared with that of other regions of the world. Recent joint reports on the mobilization of private finance by MDBs and DFIs[17] reveal the Bank's performance during 2016–2018 (see Technical Annex 3 for detailed figures). Africa's share of MDBs' and DFIs' Total Private Mobilization (TPM) for 2017–2018 stood at 8.7 percent, or US$28.2 billion for a total of US$324.5 billion. In Africa, the Bank appears to remain a small player in the loan syndication business compared with other MDBs, with only 5.6 percent of Private Direct Mobilization (PDM) and 11.23 percent of Private Indirect Mobilization (PIM) over the said period (see figure 5).

A comparison between the period 2008-2017 and 2018-2019 points to encouraging progress

Figure 5: MDBs and DFIs private total private mobilization in Africa 2017–2018



Source: Joint report on the mobilization of private finance by MDBs and DFIs 2016, 2017 and 2018.

during the latter period. While the most significant deals recorded were signed in the earlier period 2008-2017, it is worth noting that around one third of the total number of syndication deals were closed in 2019 with others poised to be closed in 2020 and 2021.[18] The Bank during the period 2018-2019 also developed a strong pipeline of more than 25 potential deals. In addition to this, initiatives such as the Africa Investment Forum have shown potential to increase the Bank's leveraging by mobilizing more potential lenders around bankable projects, as it was the case of the Cocoa Board Project in 2018.

Possible improvements can be expected in the future and these could be credited to the restructuring of the syndication function within the Bank. Interviews have indicated that the sharp increase in the pipeline of deals is to be attributed to the recent changes in the Bank, with the introduction of the new Development and Business Delivery Model (DBDM), the renewed focus on co-financing, and the creation of FIST.1 division in 2018 to manage syndication and co-financing.

Achievement of Results

The evaluation could not comprehensively assess achieved outputs and outcomes since most closed syndicated deals have not yet been fully implemented. Out of the five projects, one was completed, two were ongoing, while two reached financial close in 2019. The projects were aligned with the High 5s and have a strong potential for energy generation and transportation improvement, as well as agricultural productivity and economic growth. However, the current level of implementation did not allow for a credible assessment of their effectiveness at the results level. Therefore, these sub-criteria were not rated by the evaluation. According to consulted supervision documents and evaluation reports, the implementation of the various projects, despite challenges and delays, was effective, and planned outputs were delivered or were in the process of being delivered. Most projects were instrumental in financing the construction of significant infrastructure for energy and transportation. The two projects showcased below are the Eskom loan in South Africa and the Lake Turkana project in Kenya. Box 1 also offers an overview of the COCOBOD project and its expected outcomes.

The loan to Eskom in South Africa was instrumental in financing the company's five-year capacity expansion program (2015-2020) to alleviate the energy crisis in South Africa. The investment contributed to the increase of generation capacity of 4,800 MW at the Medupi power plant. It was also expected to help in the

Box 2: Expected results of the Ghana Cocobod Project

This USD 600 million project approved by the Board in 2018 consists of a senior (receivables-backed) loan and a Partial Credit Guarantee to Ghana Cocoa Board to finance key components of its Productivity Enhancement Programmes that will improve productivity per hectare and increase cocoa production levels above 1 million tons per year from 2019 versus an average of 800,000 tons per year over the last ten years.

With an expected USD 450 million to be raised from commercial financiers, the project would contribute to increasing sustainable farm productivity; effective disease control and management; agricultural transformation with domestic value addition which in fine would have some effect on the economic growth of Ghana as the cocoa sector is one of the main export commodities of the country.

Source: COCOBOD Appraisal Report (2018)

creation of 10,000 direct and indirect jobs in South Africa. The commissioning of the Medupi power plant, and the improvement of Eskom's financial and economic health, is also expected to yield regional benefits, for example electricity exports to countries such as Zambia, Zimbabwe, Namibia, Botswana, Mozambique, Lesotho, Eswatini, and the Democratic Republic of Congo.

The Lake Turkana Wind Power (LTWP) project supported by the Bank in Kenya is expected to generate an energy capacity of 310 MW.[19] A presentation made by LTWP to the Bank in January 2018 indicated that the project was 99 percent completed. It said that the project outputs were delivered effectively and within the prescribed timeline, and that the project further succeeded in achieving many of its immediate outcomes, particularly the creation of employment opportunities, and the delivery of enhanced social and economic infrastructure to the communities surrounding the project. An economic analysis undertaken during project appraisal predicted that the project would yield an economic internal rate of return of 19.6 percent. According to the IDEV project results assessment (2019), the project has a high economic rate of return (beyond the opportunity cost in the country) based on its high-quality socioeconomic impact, including a high contribution to government revenues. In practice, however, the expected economic benefits of the project in the medium term have not yet materialized, since the power plant is not yet operational. Delays in the completion of the transmission lines are likely to adversely affect the financial efficiency of the project. Similarly, while the project filled a significant infrastructure gap in the energy sector, the development impact has yet to materialize.

At the same time, the performance of borrowers constitutes a concern for the Bank. It should be noted that Eskom and Transnet, two SOEs among the largest clients of the Bank, with more than US$2 billion worth of exposure, are currently facing a severe financial crisis. Eskom's debt levels for example, currently at US$24.3 billion, represent 15 percent of South Africa's sovereign debt. While a sovereign guarantee backs these loans, they raise the question of the issuance of large loans to SOEs and strengthen the need to leverage further the Bank's balance sheet through syndication and distribution as well as de-risking the Bank's investments with innovative finance solutions.

Efficiency

The efficiency criterion has been assessed by examining the syndication products offered by the Bank, the processes in place, and the people and incentives that support the syndication function, respectively.

Overall Efficiency

The overall efficiency of the syndication function is rated as Unsatisfactory. The Bank is yet to organize the loan syndication function efficiently. The Bank has shown its ambition to mobilize more private capital resources to support achieving its development objectives and through its Syndication and Co-financing programs. However, this ambition has not yet been supported by adequate resources.

The evaluation found that issues in the Bank's timelines were significant and posed a risk to its competitiveness. MDBs often pursue large projects with long completion timelines. However, for loan syndication operations, these timelines are likely to affect the attractiveness of the Bank. Internal processes in the AfDB were burdened by inefficiencies, and a culture that hampered collaboration. Substantial challenges remained in the ecosystem of the Bank, including, according to IOs, an inadequate support to the preparation of projects during the origination process. They mainly referred to not always finding the support they needed from other departments to prepare quality projects. Some of the underlying factors mentioned were the inadequate resources to support the syndication process, and a lack of appropriate incentives and monitoring. While the external perception of the syndication function appeared positive, there was a lack of consensus internally about its effectiveness, how syndication should be run, and the adequacy of the current institutional setup. This lack of consensus on the capacity of the Bank to adequately manage syndication mandates played a significant role in the Bank's ability to secure, operationalize and lead in MLA roles.

Loan syndication was not organized as an institutional business supported by a productive ecosystem consisting of people, products and processes that function efficiently to deliver value-added transactions. The MLA role requires adequate resources for the entire ecosystem and not just with the SYNEXs, especially if the Bank is the sole MLA. Moreover, it is a source of income for the Bank and, therefore, requires significant investment and preparation to ensure its effectiveness and profitability. The main observations from the evaluation of the issues related to products, processes, and people are presented below. The analysis builds on the current ecosystem, while learning from past loan syndication operations in the Bank.

Products

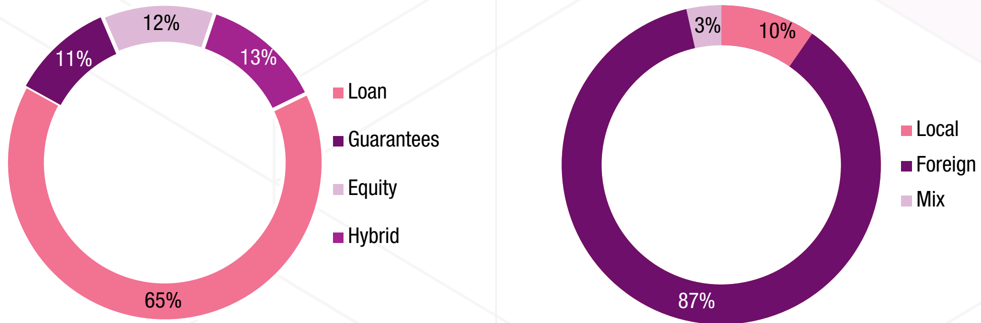
The Bank's syndication products were rated as Satisfactory, with promising prospects as more initiatives are rolled out. The products offered under syndication are similar to those offered by other DFIs and MDBs. They include A/B loans, guarantees, unfunded risk participations, secondary loans and equity sell downs. The products offered by the Bank were considered satisfactory by the interviewed clients. They considered the AfDB's options to be suited to their needs and profiles. Clients indicated that they were provided with good options and solutions for their financing needs.

<u>Adequacy of the Product Mix</u>

The analysis of the pipeline over the period 2017-2019 indicates that the Bank could see a sharp increase of syndication roles in the future. The evaluation focused on this period and the pipeline to assess the current trend and possible evolution of the syndication activity for the next few years. Both syndicated and non-syndicated transactions revealed a predominance of loans in the distribution of instruments used.

In the 2017-2019 syndication pipeline, the Bank was proposing a diverse set of products. Loans (FSLs, FFLs, Senior Loans) account for a substantial portion of the products, with 65 percent of the syndicated loans. They are complemented by partial credit/risk guarantees (PCG/PRG) at 11 percent, equity at 12 percent, and debt and hybrid products including debt at 13 percent. The Bank was also active in adapting to clients' needs by proposing loans in local currencies to offer competitive

Figure 6: Instruments and currency distribution of the 2017-2019 syndication pipeline



Source: Portfolio 2017–2019; Calculated by the Evaluation Team.

borrowing costs. Figure 6 shows that 87 percent of transactions were proposed in foreign currencies, mainly US dollars and euros, while 10 and 3 percent, respectively, are in local currencies, and mixed foreign and local currencies.

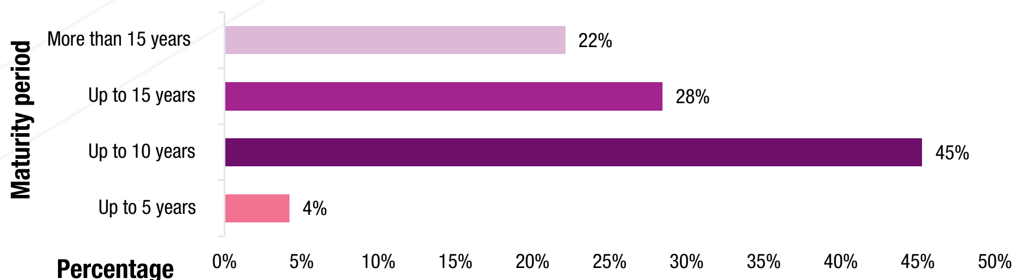
In line with its development mandate as shown in figure 7, the Bank has been providing long-term financing with maturity of over 10 years, accounting for 50 percent of total transactions.

The regional distribution of the 2017-2019 pipeline was more diverse than in the period 2008-2016, where closed deals were concentrated in Southern Africa. There was an increase in private transactions and syndication in low-income countries (LICs) and middle-income countries (MICs), especially as more countries are now accessing the blend countries' window. The current portfolio has the largest number of potential deals in West Africa, followed by East and Southern Africa (Figure 8). The energy and power sectors represent most of the Bank's syndication and co-financing transactions, followed by the transport, agriculture and industry sectors.

Award of mandates

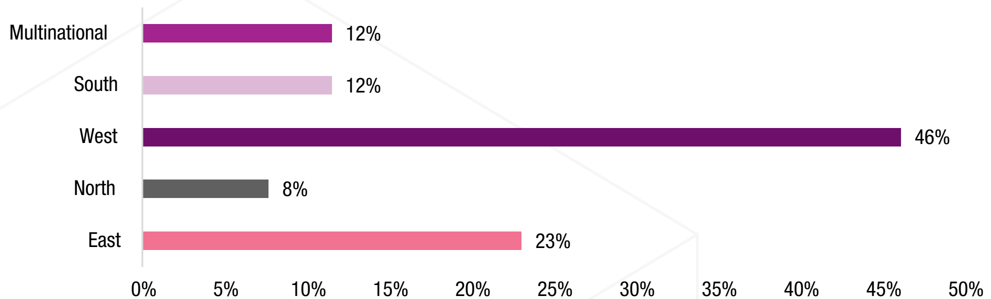
The Bank has also adopted a more aggressive strategy in seeking MLA roles in syndicated transactions over the past few years. This was

Figure 7: Maturity/exit years distribution of the 2017-2019 syndication pipeline



Source: Portfolio 2017–2019, calculated by the Evaluation Team.

Figure 8: Regional distribution of the 2017-2019 syndication pipeline

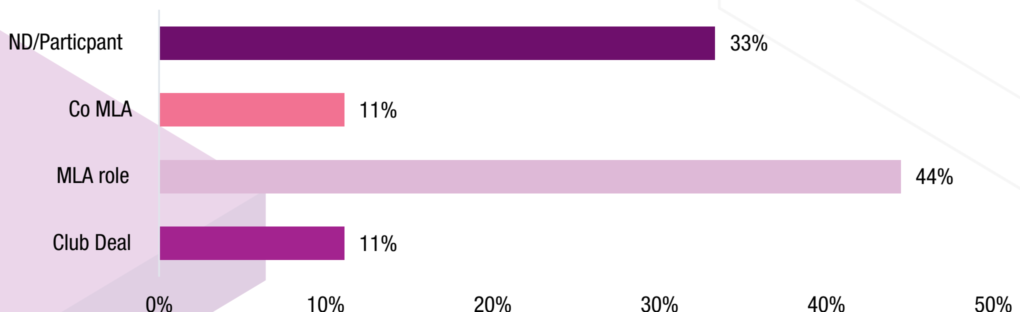


Source: Portfolio 2017–2019 – Calculated by the evaluation team

progress on previous years, when the reported trend among staff was not to pursue an MLA role actively. The creation of FIST and the recent push by the Bank's Management for more dynamic loan syndication have contributed to this trend. From 2017, the responsiveness of FIST and its involvement in the early stage of the transactions have also contributed to the increased number of MLA opportunities. Figure 9 shows that in the pipeline, the Bank was pursuing more active roles, such as MLA and co-MLA, in more than half of the potential deals (55 percent). While no data exist to compare with the period before 2017, interviews with the Bank's managers indicated the adoption of the High 5s, the streamlining of private sector operations, the creation of FIST, and the constant push from Management as the reasons behind the drive for syndication as one of the priorities of the Bank.

Some departments saw the existence of FIST as an opportunity for a more aggressive strategy. However, others believed that the current situation poses more risks to the institution, as they are unsure of whether the Bank can play the role of an MLA given the major demands that it represents in terms of work, expertise, and staff time. The risks posed by an excess of MLA mandates if resources are not adequate include: (i) longer deal processing times; (ii) the withdrawal of mandates; and

Figure 9: Syndication roles distribution of the 2017-2019 pipeline



Source: Portfolio 2017–2019. – Calculated by the Evaluation Team. evaluation team

(iii) sending the wrong signals to the market about the Bank's delivery capacity.

Timeliness

In terms of operational performance, the predominant issue found by the evaluation was the deal processing time. Syndicated projects require large amounts of financing that need time to be structured. In addition, the Bank's internal processes showed operational inefficiencies that have contributed to extended deal processing times and, in most cases, take up to one year to obtain internal approval.

Interviewed sponsors find that the Bank has excessively long processing times, which reduce their appetite to engage with the Bank when faced with urgent needs. It also increased the risk that sponsors may withdraw their previously given mandate if deals are not closed on time. On average, the reviewed deals took more than two years to reach financial close, whereas turnover with commercial banks is relatively lower, at around 8 to 12 months. Borrowers have also indicated that the Bank does not compare favorably even with other DFIs on timeliness. However, they appreciate the Bank's competitive pricing and availability to address their needs and specific requests.

Processes

The Bank's loan syndication processes were rated as Unsatisfactory with respect to implementation. The processes are adequate in theory but lacked proper implementation. The evaluation reviewed each step of the existing processes and interviewed staff regarding their experience of actual implementation. It concluded that there was still, in practice, a gap in understanding of the syndication roles and coordination challenges. While these challenges reduced over the years, they still affected the Bank's capacity to be an MLA and conduct a more successful business. Process efficiency was also hampered by the perception of low importance of loan syndication, the approval culture within the Bank, and the focus on the Bank's lending objectives, which had negative effects on the quality and the maturity of the projects sent to the Board.

Appropriateness of the processes

The evaluation assessed the main steps of the origination of transactions to identify strengths and weaknesses from the 2008 and 2017 processes. It found the following:

1. At the Pre-Mandate/Origination stage: there was a lack of clarity and enforcement of the systematic involvement of the syndication team on deals with syndication opportunities. There was a perception of the syndication team as a support unit more equipped to advise on pricing than mobilizing commercial co-financing. This perception has been changing since the creation of FIST.1 and the rollout of the updated guidelines leading to better collaboration.

The process mandated that IOs identify co-financing/ loan syndication opportunities or funding gaps and involve the Syndication team to start working on possible options (see Technical Annexes 5 and 6 for detailed processes). This involvement did not systematically occur in the past from 2008 to 2018 due to a lack of clarity in the guidelines, the limited knowledge by IOs or a conscious decision to manage the deal without the involvement of the syndication team. IOs indicated in interviews that they often turned down loan syndication opportunities due to the additional burden that this might place on the closing of a deal. Their focus remained on the delivery of their lending program from the balance sheet of the Bank.

Furthermore, some interviewed IOs and managers indicated that the collaboration with the syndication team in the past was not always successful or helpful. As a result, IOs sometimes overlooked the syndication team's guidance, pursuing the proposed deals on their own and sometimes at the risk of losing the syndication mandate. IOs also cited

some divergences in views about deals. These divergences would vary from the pricing to the actual attractiveness of the market for a syndication deal. While the IOs pushed for MLA mandates, they perceived a reluctance on the part of the syndication team for this commitment due to negative feedback from the market on the attractiveness of the pricing of the deal.

The situation has improved since 2018, as the updated process made it mandatory to involve FIST from the origination stage by including a SYNEX in the project appraisal team. A SYNEX is now systematically appointed to be part of the Project Appraisal Team. FIST has the additional responsibility to advise on the pricing and to survey the market for loan syndication opportunities.

To better conduct its activity and raise awareness, FIST has also been conducting some awareness and communication missions in HQ and the Regional Hubs. These activities have had positive results as some IOs are now embracing the technical expertise within FIST and the value addition that it could bring to syndication deals. However, more efforts are required as almost half of the interviewed IOs still saw FIST's primary role as providing support, such as producing pricing notes and advising on deals.

2. Mandate/Deal Structuring stage: Originally, IOs managed MLA roles without substantive support from the syndication team. This approach resulted in limited success. From 2018, the creation of FIST.1 has evolved into a stronger involvement of the syndication team, although instances of deals managed or closed without their direct involvement still persist. However, FIST's role at the mandate stage is steadily increasing to support all deals with syndication opportunities.

IOs traditionally played a leading role in securing mandates and closing deals. In some instances, however, the lack of interest of IOs in loan syndication led to failures in reaching financial close. However, with the creation of FIST.1, there have been noticeable improvements and involvement in transactions, at different levels, depending on the transaction. The majority of IOs and SYNEXs indicated that, for projects where FIST was included at an early stage (i.e., origination), support was active and satisfactory. Technical expertise, as well as market knowledge and networking with potential lenders, were provided.

Frequent complaints from IOs at this stage are related to the extent of FIST's support to IOs in structuring deals, and these experiences reveal opposing approaches to pricing. IOs tend to propose pricing that they believe to be competitive for the client to avoid losing a business opportunity. They complain about what they see as a somewhat commercial market view taken by the SYNEXs, who tend to price using terms that are closer to market interests.

Since FIST's opinion on pricing is mandatory for approval of the operations by respectively the Credit Risk Committee (CRC), the Country Team (CT) and the Operations Committee (OpsCom), this discord has resulted in discussions of pricing being resolved by these committees. In this sense, IOs have sometimes viewed SYNEXs as being unhelpful, as they do not provide solutions to allow deals to move forward, sometimes resulting in deals being abandoned or mandates being lost. For SYNEXs, the priority has been to ensure that projects are marketable to private investors and coordinated with the IOs to this end.

In this regard, the syndication manual suggests that SYNEXs should use several sources, such as Dealogic, Loanware, Loan Radar, informal market soundings, Bloomberg data, industry knowledge and trade magazines, to obtain market information on pricing. The view of some IOs that the pricing is not always realistic could also be linked to the need for SYNEXs to include more data sources, as at the time of the evaluation, few of these sources were available to the IOs in the Bank.

Once the Board approves a deal, the IO's job is to ensure that the Bank's tranche is disbursed. The

SYNEX's role is to continue to finalize negotiations with potential (B) lenders and place the deal in the market. When the Board approves the financial terms, it can become challenging to sell the deal to the market, if it has a different interest in pricing. SYNEXs have indicated that the steps to achieve financial closure are challenging, especially as the IOs provide less effort after closing the Bank's tranche, which is their primary responsibility. The deal processing time tends to be too long, as it is necessary to request the Board's approval for subsequent changes to the deal initially approved, contrary to the practices in other organizations. Some delays may also arise from the sponsors, for example, when a project is put on hold by the client, low responsiveness, or lack of availability for due diligence activities.

Management and Monitoring

The Bank's portfolio management capacity in relation to syndicated loans is still limited. It lacks adequate tools and proper supervision. Loan syndication is a time-consuming activity and requires working with multiple stakeholders and following numerous links simultaneously. The Bank works with Agent banks, as in the case of COCOBOD and others, given that the Agency role is not one that is undertaken at the Bank. The evaluation views this as a missed opportunity to develop in-house expertise and the capability to manage the deal process, which would lead to additional revenues. This becomes even more important as the Bank's portfolio for syndication continues to grow, therefore needing more expertise and careful consideration of activities to be managed in-house or subcontracted to other banks.

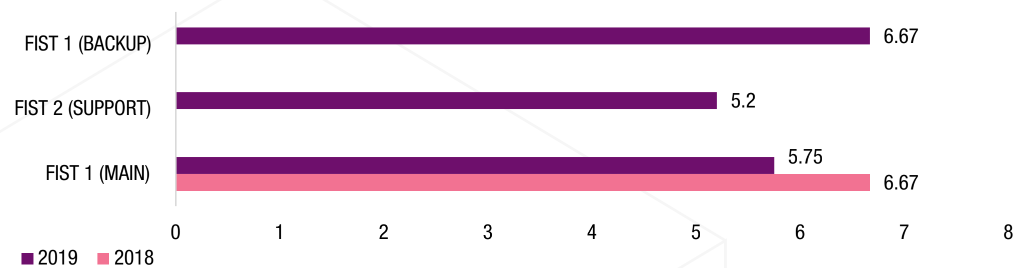
According to the Bank's managers and staff interviewed, the current situation, however, is still one of limited capacity to carry out the core responsibilities of an MLA internally. This weakness played a major role in the reluctance of some departments and managers to seek a more active role in loan syndication, thus limiting the Bank's ability to grow this line of business and earn more revenue. These perceptions should be considered with caution since, as an MLA, the Bank can delegate some of the roles to other banks, e.g., documentation, environmental and social safeguards, etc.

Nevertheless, sufficient internal capacity is necessary for supervision, coordination and management of the core responsibilities entrusted in the MLA role. There is no clarity of the moment of the Bank's Management options regarding the level of internal capabilities that the Bank should develop to manage syndication. It is noteworthy that unlike the AfDB or the AsDB, the EBRD can play the role of agent and currently has a significant portion of its syndicated portfolio that is managed directly by the bank.

Regarding the use of tools, the evaluation has found that the monitoring of syndication activities is still being managed using Excel spreadsheets. The tool is useful but limited in terms of comprehensiveness and its ability to provide real-time information on the evolution of deals. As each syndication mandate is a project, it requires well-adapted, collaborative tools, such as dedicated loan syndication software.[20] The technology could help streamline the loan process and execute deals more efficiently. Ensuring that the right tools are in place would give FIST the capability to manage all the stages of financing from origination to execution, thereby limiting time-consuming, expensive, and error-prone tasks. The same applies to the access to more sources of information to survey the market and ensure the structuring of loans.

Post-Mandate Portfolio Management. The role of the SYNEXs ends once financial closure is reached and the first disbursement is made to the sponsor, at which point the deal is handed over to the portfolio management team. According to portfolio managers, the involvement of SYNEXs in portfolio management is limited, except in rare cases. While portfolio managers do not consider this an impediment, cases arose where specific expertise or background on the deal process was needed to expedite the management of portfolio issues. However, this was

Figure 10: Syndication staff workload (number of transactions)



Source: Portfolio 2017–2019 – Calculated by the evaluation team

not considered a major issue and not one that has negatively affected business.

People and Incentives

Staffing

The evaluation concludes that the Bank's capacity is still limited in terms of staffing, as syndication is a product that requires specific expertise. An analysis of the workload in 2018 and 2019 indicated that each SYNEX was working on at least 5.75 transactions in 2019 and 6.67 transactions in 2018. Also, each staff member played a backup role on 6.67 transactions in 2019 (Figure 10).

Considering the complexity of the deals and their demanding nature in terms of communications, the current staffing and workload remain within acceptable limits when compared to comparators. However, overall, to improve the timeliness and quality of syndicated loans, additional support to the syndication team would be needed in other areas of the Bank's ecosystem. IOs reported that the ecosystem is hampered by a lack of timely support by services from the legal and environmental safeguards departments and the same challenge could be faced during negotiations. This additional bottleneck increased the failure risk level for transactions and led to extended deal processing times. The evaluation recognizes that the performance in terms of the number of syndicated loans may not justify an increase in dedicated staff. Nonetheless, the existing transaction pipeline shows a significant increase in syndication activity which requires adequate staff to ensure productivity and fulfillment in the future.

Key Performance Indicators

The Bank's focus on lending approval targets has adversely affected its ability to deliver syndicated loans. The IOs' main focus has traditionally been on achieving their Key Performance Indicators (KPIs) which, until recently, were focused on obtaining loan approval from the Board. This situation led to perverse incentives whereby, after Board approval, some IOs failed to focus on the closing of the syndicated tranche.

While some syndicated loans were achieved over the period, as indicated under effectiveness, the data were not adequately monitored. A review of the Retrospective Review Reports of the Bank Group Budgets and Performance from 2008 to 2019 shows that the Bank only established a private sector resource mobilization KPI in 2011. However, there was little clarity over the definition of this KPI.

The Bank had no clear target for syndication specifically. The indicative targets were mixing different types of mobilization sources. For instance, the performance in arranging a loan syndication was tracked along the performance of just being a mere participant in a syndication (thus, coupling active and passive commercial co-financing). This

way of measuring mobilization led to the reporting of unrealistically high mobilization figures including both active and passive co-financing. Active mobilization includes the co-financing achieved because of the Bank's active and direct involvement in raising resources. It is also inclusive of funds mobilized by the Bank as an MLA through syndicated loans. Passive co-financing represents resources provided by entities other than the AfDB and made available to a client that could have occurred without the coordination or active involvement of the Bank.

A revised KPI was defined in 2018 labeled as 'Resources Mobilized for Private Sector Entities' and includes firmed-up commitments for commercial syndication, co-financing through guarantees, equity, special funds, and wholesale- and transaction-level co-financing and risk sharing, or as specified. An additional KPI was also added in 2019 to track the volume and number of A/B loans separately. This separation from other types of co-financing is particularly important in order to appreciate the performance of each instrument.

The issues that affect the loan syndication KPI include: (i) the focus on commitments rather than disbursements or financial closure; and (ii) the incentive for the IOs to deliver mainly the AfDB tranche of the deal, which in turn is a disincentive to pushing hard to achieve the syndicated tranche. In addition, interviews have revealed that there are limited incentives for IOs and SYNEXs to undertake systematic collaboration, such as a joint KPI that makes them responsible for the financial close of the entire deal rather than loan approval by the Board. There are also no incentives for IOs to include co-financing in the financial structure of their projects and, therefore, no incentive to rely on SYNEXs to support the transaction from origination to financial close. Finally, there is a focus on large-ticket transactions as they were more highly rewarded by the Bank, leading IOs to neglect smaller deals that did not bring the same level of revenue.

It is essential to recognize the importance of the time needed for the successful origination and syndication of deals, especially in sectors such as infrastructure, energy, and industry. It often takes two to three years for a project in the pipeline to materialize, without any guarantee that the borrower will not cancel the request. This means that the efforts to build a pipeline of projects by IOs or networks of lenders are not always rewarded. This weakness is a disincentive for staff as it encourages them to work on quickly winnable projects with a strong financial component, but which may have limited additionality and development impact. ■

Practices of Benchmarked Institutions

The benchmark exercise was conducted with the IFC, the IDB, EBRD and AsDB. It considered criteria such as the institutional approach adopted by each organization, their products and processes and finally the people and incentives in place. The benchmark focused on good practices and lessons to be learned.

Institutional Approach: A Focus on Private Sector Transactions

At the comparator organizations, loan syndication teams are mostly organized as departments and work on a variety of co-financing solutions focused on the private sector. Organizations such as the IFC, IDB, AsDB and EBRD have made loan syndication a significant part of their business models to increase the leverage of their balance sheets dramatically. To do so, each institution has developed its own approach, with variations across the board. Nonetheless, **a common practice is to locate this function within the Treasury or the Finance complex,** as loan syndication has a resource mobilization aspect.

This is the case for the AfDB and the EBRD. In the EBRD, two departments within the Finance and Operations Complex oversee the syndication function. First, a Loan Syndication department in charge of mobilizing foreign and domestic capital supports the bankers (IOs) negotiating syndicated loans. Second, a Syndicated Loans Administration team operates with the Operations and Service Management to manage closed syndication loan agreements as well as relationships with the commercial co-financiers.

At the AsDB, the syndication function retains the format of a unit within the Private Sector Department.[21] The Guarantees and Syndications Unit assists clients in securing debt financing on commercial terms for AsDB projects through engagement with commercial financial institutions. The syndication unit was previously coupled with the official co-financing (public sector) and was managed outside the Private Sector Department. In 2008, syndication (commercial co-financing) was moved to the Private Sector Department with the objective to bring the function close to the business with the same reporting line and thus rendering it more effective.

Unlike the AfDB, the IDB and the World Bank Group have specific entities dealing with the private sector. These are IDB Invest for the IDB and IFC for the World Bank Group. **In the IFC and IDB Invest, loan syndication operates as a business function rather than a support function.** While these organizations have not developed a specific strategy for loan syndication, they have set business targets and delivery objectives, as well as goals for the deployment of each type of product. The deployment goals have realistic targets for each type of instrument (B loans, parallel loans, and others). For instance, the IFC's 2030 Plan has a target of US$23 billion mobilized through loan syndication with a mandate from the Board and, so far, around 50 percent of the core mobilization of the IFC has been through syndication. In IDB Invest, the syndication mandate has also been approved by the Board, and there is strong presidential leadership that pushes for delivery. The lending targets for 2019 are to originate US$5 billion of assets, of which US$2.2 billion (i.e. 44 percent of the lending target) should be syndicated.

Products and Processes: Innovation as the Main Driver

Loan syndication is an alternative option for most organizations, along with other traditional forms of co-financing. It has, however, gained in importance in recent years. All organizations offer similar products and propose innovative finance solutions, building on their credibility with the market and the appetite of investors for new products that could help to diversify their portfolios.

The standard set of products includes: (i) A/B loans; (ii) co-financing with other international financial institutions; (iii) parallel or joint financing with commercial banks supported by Export Credit Agencies (ECAs) or with direct lending by ECAs; (iv) parallel loans with commercial banks and official government agencies; (v) guarantee facilities; (vi) joint placement of equity; and (vii) debt co-financing with institutional investors.

Other organizations also invest in innovative finance. At the IFC, the Managed Co-lending Portfolio Program (MCPP) is used to mobilize funding from institutional investors to support syndication initiatives. The program creates diversified portfolios of emerging market private sector loans, allowing investors to increase exposure to this asset class. As of 2018, the MCPP had raised US$7 billion from eight global investors. Similarly, the IDB Invest B-Bond program aims to achieve longer tenors and more competitive pricing than typical A/B loans and reach institutional investors that cannot participate in loans. The B Lender is a Special Purpose Vehicle (SPV) that funds itself by selling notes to institutional investors as a private placement. Most organizations face the issue of lending in local currencies, and the trend is toward increasing the proportion of loans in local currencies. For the IDB, the share of loans in local currencies accounted for 40 percent of total lending in 2019.

A good practice by IFC in terms of processes is to align resources to objectives. The syndication department is alerted once IFC resources are less than those required by the sponsor. The IO then gathers further information about potential deals within the system, including the financing gap and the need for resource mobilization. Once this is flagged within the system, the syndication unit appoints a SYNEX. The IO offers to provide the full loan to the sponsor, with the view to retaining the MLA mandate and mobilize from commercial co-financiers. The SYNEX has full authority and responsibility in closing the syndication deal. The IO oversees the loan negotiations, while the SYNEX negotiates the participation. While other MDBs do not systematically apply this practice, their objective is to mobilize and leverage their balance sheet as actively as possible using the various products available depending on their clients' needs.

Generally, most comparators ensure the deal only goes to the Board once pricing terms and conditions have been firmed up, but are not yet signed, in order to speed up the closing process after approval. This good practice differs from the AfDB, where changes generally occur during negotiations after the Board's approval, leading to delays or the syndication mandate not being fulfilled.

Finally, for the loan administration, while the AfDB and the AsDB use agent banks to manage the syndicated loans, it is noteworthy that the EBRD has a dedicated team to manage their syndicated loans. In 2020, the EBRD Syndicated Loan Administration team has a portfolio of approximately 80 projects with more than half representing loans syndicated directly by the institution. The dedicated team handles all affairs related to the syndicated loans and serves as a focal point for all requests from the commercial co-financiers while ensuring compliance with the bank's rules. A specific IT tool (Debt domain) is maintained to communicate with all participant banks in a syndicated loan. The Syndicated Loan Administration team is also responsible for ensuring that the EBRD addresses the concerns of the participating banks regarding regulations and other important issues. The EBRD's team suggested that such an approach kept the bank close to its partners and fosters stronger, more confident and successful relationships.

People and Incentives: Experienced Staff and Adequate KPIs

Experienced staff is likely to make a difference in closing deals. Discussions with IDB and IFC indicated that their SYNEXs are highly experienced staff members with a minimum of 10 years of experience in deal structuring and origination. Some SYNEXs have previously been IOs and sector experts and, as such, can contribute significantly to the design of projects, including the technicalities and pricing. In other cases, they come from the private banking industry and possess experience in project finance and loan syndication, as well as useful contacts and extended networks. It was noted that part of the SYNEXs' work program is dedicated to the engagement of partners and lenders, institutional investors, insurance firms, and other non-traditional investors, in order to build their networks both locally and internationally.

Adequate staff also means sufficient staffing to enable expedited project execution. In 2018 the syndication department of IFC had a headcount of 50 SYNEXs, including 12 in the teams for Europe, the Middle East and Africa.[22] IDB Invest operated with nine staff across 26 countries, while at the AsDB, the Syndication Unit was operating in 2020 with 7 internationals for 49 regional member countries. In comparison, the AfDB has five SYNEXs for 54 RMCs.

Attracting and maintaining talent in loan syndication involve providing staff with adequate incentives. All interviewed organizations indicated that KPIs are vital to incentivize staff. To this end, IFC has aligned its syndication KPIs with the operational KPI incentive metrics. If an IO provides a syndicated loan, it is counted in his/her performance assessment. These internal scorecards are calibrated on loan commitments, not Board approvals, which means that the definition of success is when the first disbursement is achieved. As the SYNEXs and IOs share the same KPIs, IOs are more likely to be interested in ensuring the success of the entire transaction.

The AsDB has abolished the volume target for a target number of projects each year. It monitors commitments (loan effectiveness) rather than Board approvals, thus reducing the disincentive of approving projects that are not mature. In addition, to promote syndication, it has set itself a yearly target ratio of 1:2.5 USD mobilized from commercial co-financiers. Each division has an individual target commercial co-financing ratio to achieve. Coupled with the strategy of the Risk department to reduce the exposure of the Bank especially to clients with big loans, and the objective to promote some form of co-financing in the majority of private sector loans, the changes in KPIs have contributed to making the syndication department a very active unit in supporting the private sector department's objectives through active syndication. The comparator institutions underline that it is crucial to reward the desired behavior in order to achieve good results. ■

Conclusion, Lessons and Recommendations

Conclusion

The evaluation concludes that, while relevant, the implementation of the loan syndication function has not been effective and efficient. However, the Bank is moving in the right direction with the creation of FIST.1 and the current reforms that are being implemented.

The Bank has some key advantages linked to its MDB status, which could enable it to position itself more assertively in the syndication market in Africa. However, these competitive advantages are not used as optimally as they could be. This situation is notably due to organizational issues that prevented the operations and syndication teams from working seamlessly and effectively together. The main challenges observed by the evaluation team were intrinsically linked to operational and organizational inefficiencies.

The Bank was only able to close five syndication operations over the 2008–2019 period. This performance is modest, given the Bank's status and its financial reach. However, all the deals closed were substantial, with amounts in excess of US$500 million. This establishes the Bank as a potential agent for a more prominent role in the syndication market in Africa.

The experience of benchmarked institution indicates that KPIs and other incentives play a significant role in the effectiveness of loan syndication processes. Recognition, capacity building, and exposure are necessary incentives to ensure that SYNEXs perform better by working on multiple transactions and closing more deals.

The Bank has an opportunity to perform better in the syndicated loans market by opening itself to more innovation and strengthening its syndication capabilities and processes. This requires ensuring adequate staffing, attracting the right talent and experience, and applying the right incentive structure. This is important for the Bank given that, with the globalization of the world economy and robust growth in many emerging economies in Africa, the market for syndicated loans is likely to continue to increase in the foreseeable future.

The evaluation recognized that performance in terms of the number of closed syndicated loans may not justify an increase in dedicated staff. Nonetheless, the existing pipeline shows a significant increase in syndication activity that would necessitate adequate staffing to ensure productivity and achievement going forward.

Lessons

Lesson 1: Deals are likely to be more successful and closed relatively faster when processes are efficient.

One of the main advantages of syndication for the borrower, is the speed at which the loan can be obtained compared to other avenues. Establishing efficient processes that ensure timely delivery are essential for business growth, borrowers' confidence, and the Bank's track record. The AfDB's syndication model, while different from commercial banks, can be successful if it adopts a private sector business mindset. This means improving the processes to be as efficient, agile and quick

as possible and as permitted by the Bank rules, to respond to both the Borrower's needs on time and satisfying commercial co-financiers needs.

Lesson 2: Reducing the average size of syndicated deals could increase the Bank's activity.

The average value of the five syndicated deals closed by the Bank is over US$500 million. This level places the Bank in the top segment of DFIs capable of mobilizing vast resources for significant projects in Africa. While pursuing only large-scale loans could be a comparative advantage, it also affects the Bank's effectiveness, as these transactions take longer to complete and may be dependent on public guarantees, economic prospects, or other political factors.

The current pipeline shows an increase in the number of potential deals, with the total average value to be syndicated declining to US$300 million per year. This highlights an opportunity for the Bank to also syndicate smaller deals (albeit with a minimum ticket size), thus increasing the Bank's experience and outreach. Processing deals with high amounts may be attractive as they require the same investment of time as smaller tickets but increasing the number of closed syndicated deals by working on smaller loans could also be positive to establish the Bank's experience, outreach, and success track record.

Lesson 3: Coordination and cooperation between IOs and SYNEXs are essential factors for success.

When IOs and SYNEXs collaborate actively on deals, this reduces frustrations and leads to better results. To this end, it would be good for all internal parties to develop the same understanding and vision about a deal's potential to be closed and to work together to remove all hurdles that might prevent success. A collaboration culture should, therefore, complement the culture of compliance to ensure the efficient co-management of the deal. Precious time could be wasted if IOs and SYNEXs do not develop this collaborative spirit from the onset with the single purpose of achieving the Bank's lending and syndication mandates.

Lesson 4: Building a strong network of lenders is another key to success.

Strong networks are one of the critical factors for success in syndication. Placing deals on the syndication market is conditional on having attractive deals and pricing. More importantly, an excellent and reliable network of private banking institutions that lend credibility to the Bank's projects and are ready to sign onto the Bank's transactions is necessary. Building such networks requires time, experienced staff, and high exposure to the market actors. Furthermore, it is beneficial to establish a database of potential banks that have experience in specific sectors of interest (energy, transport, IT, etc.) to ensure that the syndication opportunities pursued by the Bank as the MLA offer value addition to the respective sponsors.

Lesson 5: Adequate delegation of authority empowers IOs and SYNEXs to close deals.

When deals are negotiated and presented to the AfDB Board, they have often not been finalized, especially the syndicated part. This creates a risk of failure or delays in later negotiations if the conditions approved by the Board cannot be significantly revised. Successful deals by other organizations (IFC) are negotiated in principle with all partners and participants before the Board approves the deal. The approval empowers Management to negotiate, within a margin, the final terms of the deal. This authority implies that the Board is informed of the final terms without the need for a second approval. This approach has proven to be both time- and cost-effective.

Lesson 6: Concentration could boost syndicated loan performance and the Bank's additionality

Studies show that syndicated loans perform better when: (i) they are led by banks with a good track record in syndication and lending portfolios concentrated

in specific sectors; and (ii) banks choose syndicate partners that have similar lending specialization.[23] Also, additionality in syndication is strongest: (i) when DFIs such as the Bank respond to markets with limited resources for syndication operations for the private sector, or unusually low global liquidity; (ii) when the DFI's presence in emerging markets and sectors helps alleviate nascent industry risks; and (iii) when there is evidence of strong catalytic effects of the loans.[24]

For the AfDB, this could translate into ensuring that syndicated loans focus more on: (i) countries with limited syndication opportunities to set precedents that could boost market confidence; (ii) sectors with a strategic interest where it has a comparative advantage; (iii) improving lending terms, especially in areas such as enhanced terms and the cost of debt, and exploring more opportunities for local currency financing; and (iv) developing in-house expertise to become a leader and mobilize participating banks based on interest but also lending specialization profile.

Recommendations

Recommendation 1: Develop a five-year strategic framework to establish syndication as a cost-covering and revenue-generating business function, with a sharper focus on business development.

A successful syndication function will require moving from an opportunistic origination approach to a more strategic one. In this regard, the Bank is advised to ensure the syndication function is revamped into a more systematic co-financing and syndication business development-oriented function with the objective to significantly increase the share of syndication in the Bank's delivery.

Recommendation 2: Strengthen the syndication processes and delegation of authority in line with the One Bank Approach.

It is advised that Management consider putting in place a more coherent and efficient process that enhances coordination and improves the use of the syndication function by all relevant departments in the Bank. Such reform should be coherent with the Bank's overall direction laid out in the One Bank approach. It also appears important that the Board supports the development of the syndication function by granting the appropriate authority to sign-off on revised lending terms under syndications to enable deals to be quickly closed.

Recommendation 3: Provide additional incentives to promote syndication.

A strong incentive system is needed to ensure that Investment Officers and Syndication and Co-financing Officers work collaboratively to develop the syndication business in the Bank. Making the Bank a leader in the domain would require adopting a set of ambitious targets with the right KPIs that focus on active resource mobilization.

Recommendation 4: Build a team of industry specialists to support the syndication and business development capacities.

Adequate staffing capacity is key to the success of syndication. The Bank should strive to build its capabilities to support its growing pipeline of syndication operations as well develop in-house tools to support its ambition to be a leader in syndication.

Recommendation 5: Improve innovation, reporting, and learning of co-financing and syndication.

The Bank is advised to fully capitalize on existing initiatives, such as the Africa Investment Forum, and to pursue innovations that could attract financiers and lenders to invest in the Bank's operations. Finally, improving reporting, monitoring and knowledge management of syndication would help in better steering the Bank's action towards achieving its objectives. ■

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Annex 1: Concepts

Concepts

A **syndicated loan** is a debt facility that is granted to a single borrower by a group of lenders where one lender is not ready or able to finance the entire amount of the loan or prefers to share the risk with other lenders. It is used to fund significant investments by corporations, project developers or sponsors to mobilize debt for their projects or by sovereign entities to bridge gaps in their national budgets.

A **syndicate** is a general term describing any group formed temporarily to conduct commercial loan financing. Syndicates can be organized as corporations (formal) or partnerships (informal). For example, a group of investors (e.g., investment banks, MDBs, commercial banks) underwriting a loan can constitute a syndicate.

Types of Loan Syndication

There are three main types of syndicated deals found in the market, namely: (i) Underwritten Deals; (ii) Best-Effort Syndication Deals; and (iii) Club Deals.

In an **Underwritten Deal**, the Mandated Lead Arranger (MLA) of the loan guarantees the entire loan and opts to absorb the under-subscribed portion. The borrower is guaranteed to receive the full amount of the requested loan, while the MLA can sell loan portions on the market at a profit or loss. The AfDB's guidelines do not currently allow it to underwrite loan facilities, as the Bank is capped to one-third of total project size.

Under a **Best-Effort Syndication Deal**, the MLA bank only guarantees its portion of the loan. It will then make its 'best effort' to place the unsubscribed portion with other lenders, thus shifting to the borrower the risk of receiving a lower to no amount, depending on the interest of the market.

In a **Club Deal**, all the lenders agree to share equally, or nearly equally, parts of the fees earned from the loan facility, thus also agreeing to work together to structure and take portions of the loan. In this case, the responsibility for the success of the facility is shared by all members of the club. However, certain club deals have designated coordinators that will charge coordination fees, even though there is no MLA.

As part of the syndication financing, banks may offer other instruments, including guarantees, derivatives and structured finance, equity trade and commodity finance, and others to fit the borrower's needs. Banks often use different structures of the loan, with the most common being the **A/B Loan**.

Under an **A/B loan structure in an MDB**, the Bank is the lender of record for, and administers, the entire loan amount consisting of an A loan and a B loan. The Bank keeps the A loan for its own account while the B loan is funded by commercial banks pursuant to a "Participation Agreement". The borrower benefits from longer

tenors and higher-value financing. The Bank fully shares project risks with the participating banks which are able to share the Bank's privileges as an IFI. The A/B loan structure enables the Bank to improve the delivery of its mandate by offering more comprehensive, larger-value financing packages.

Parties

Other than the borrower, a typical loan syndication process involves various other parties: the MLA, the underwriting bank, the book-runner, the participating banks, the facility agent, and a security agent. It should be noted that the same bank can play various roles depending on the deal.

The **MLA** is a bank that is mandated by the prospective borrower (or sponsor) and is responsible for placing the syndicated loan with other banks and ensuring that the syndication is fully subscribed. The MLA is responsible for coordinating the syndication process and managing all the parties in the transaction. The MLA charges arrangement fees for playing this role. Its reputation matters in the success of the syndication process, as its expertise as the MLA represents a guarantee of credibility for the participating banks.

The **underwriting bank** underwrites or guarantees the loan or portions of the loan. The risk of underwriting means it is responsible for the credit risk of the larger portion of the loan. Not all syndicated loans may have this underwriting arrangement.

The **book-runner** is responsible for identifying potential participating banks and selling the syndicated loan to the targeted banks. The role includes close follow-up and ensures that participating banks obtain the appropriate approval and sign the necessary legal documentation.

The **participating banks** (or parties) contribute to the loan syndication by lending a portion of the total amount required, for a participation fee. They carry the credit risk of the loan, or put differently, the risk of default by the borrower.

The **facility manager** or the **loan agent** takes care of the administrative arrangements over the tenor of the loan, overseeing disbursements, repayments and compliance with the terms agreed upon with lenders. The loan agent represents the interests of all the syndicate members for the lifetime of the loan. In many cases, the arranging/underwriting bank itself may undertake this role. In larger loan syndications, a co-arranger and a co-manager may be used.

MDB/DFI Syndication

Syndication by MDBs and Development Finance Institutions (DFIs) is part of a global effort to improve direct and indirect co-financing for development. MDBs recently harmonized how loan syndication is considered under private resource mobilization efforts in MDB financing. The concern comes from the need to assess the level of co-financing, as well as the determination of attribution or contribution to co-financing.

For loan syndication, this means that when an MDB is co-financing a project that it is leading as an MLA, it is considered **direct or active co-financing.** When the MDB is merely a participant with no leading role, it is **indirect or passive co-financing.**

Syndication by MDBs mobilizing private investors (including commercial banks and other private institutions) is often referred to as **commercial co-financing** as opposed to **public co-financing** which involves actors from the public sector or other MDBs and DFIs.

The following three main concepts are key in appreciating the Bank's performance in this aspect.

Private Direct Mobilization (PDM) is defined as the financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment. To qualify as PDM, an investment should demonstrate evidence of active and direct involvement, including mandate letters, fees linked to financial commitment, or other validated or auditable evidence of an MDB's active and direct role leading to the commitment of other private financiers. PDM does not include sponsor financing.

Private Indirect Mobilization (PIM) is the financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance. PIM includes sponsor financing if the sponsor qualifies as a private entity.

Total Private Co-Financing/Mobilization (TPM) consists of the investment made by a private entity or public entities with financial and managerial autonomy. Private Co-Financing/Mobilization is the total of Private Direct Mobilization and Private Indirect Mobilization.

Technical Annexes

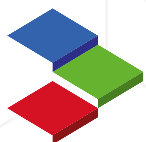
The Technical Annexes can be found on the following page:

https://idev.afdb.org/en/document/evaluation-loan-syndication-afdb-2008-2019

1. Overview of the Bank's Syndication
2. List of closed transactions executed by the Bank
3. Total Private Mobilization by MDBs and DFIs
4. Evaluation Matrix
5. Detailed syndication Process
6. Syndication Process Flowchart
7. Rating Criteria
8. List of interviewees
9. References

Endnotes

1. This revision was internal to the department pending the preparation of a strategic framework.
2. The Bank potentially worked on more deals but did not keep a proper repository or the syndication team was not involved. Therefore, deals identified at a late stage of the evaluation were not included in the analysis. See page 4 for details.
3. The syndication guidelines make references to Syndication Experts while the positions in the Bank are known as syndication officers. The acronym SYNEX is used in this evaluation to avoid confusions with other acronyms such as SO (Sovereign Operations).
4. Francis, Hasan, Liu (2010) Relative Performance of Syndicated Loans: An Empirical Analysis.
5. Yannis Arvanitis and Emelly Mutambatsere (2012) Additionality of Development Finance Institutions in Syndicated Loans Markets, Africa Economic Brief, Volume 3 Issue 12.
6. Revised Guidelines for Syndication of Non-Sovereign Guaranteed A/B Loans.
7. Facility Agent is the primary point of contact between the transaction parties to a syndicated loan, namely the lenders and the borrowers. A Security Trustee is the entity holding the various security interests created on trust for the various creditors (lenders).
8. The A/B loans is a type of syndicated loan with two tranches known as an A-Loan and B-Loan. The A-Loan is the amount of the loan that the Bank has agreed to keep for its own credit, on its balance sheet, while the B-loan is the portion of the loan that is syndicated to other financial institutions.
9. Data from Loan Radar https://www.loanradar.co.uk/loans/data_wizard accessed on 24 June 2020.
10. Data from Bloomberg Analytics provided by FIST on syndicated loans in Africa from 2008 to 2020.
11. Data vary depending on the source and was challenging to reconcile. Organizations submit data on a voluntary basis to major database services.
12. Indicative amounts for compilations of two sources, Loan Radar and Bloomberg. Real amounts could be significantly higher.
13. We did not include the SA Taxi transaction finalized in 2019 but for which the syndication tranche has been halted by the sponsor.
14. Historically, the Bank did not systematically document and archived projects in a syndicated deals repository. It led to some projects being only identified at a later stage of the evaluation and therefore they could not be included in the analysis.
15. Also included in this first category, the Henry Konan Bedie Toll Bridge project where the Bank was an MLA
16. Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. It introduced a set of reforms designed to mitigate risk within the international banking sector.
17. Joint Reports [2016–2018] Mobilization of Private Finance by Multilateral Development Banks
18. Due to the COVID- 19 crisis, an economic downturn is forecast in all African countries and is likely to affect private investment, thus putting in jeopardy some of the deals expected to be closed in 2020 and 2021, due to borrowers' investment plans.
19. LTWP website. Available at: https://ltwp.co.ke/lake-turkana-wind-power-ready-to-produce-310mw-of-energy/
20. No specific software is cited here. However, various specialized companies develop such IT tools to fit the needs of commercial and investment banks.
21. The format of the Asian Development Bank corresponds to the previous format of the syndication unit in AfDB in 2008. The unit retains the attributes of the Division with a Head of Unit, Advisor of the Private Sector
22. Europe, the Middle East, and Africa are the three regions that make up the broader EMEA region. As of 2019, there are 116 countries in the EMEA. However, it must be noted that IFC's activities are concentrated in Europe, and the Middle East, where the bulk of syndication activities are located.
23. Francis, Hasan, Liu (2010) Relative Performance of Syndicated Loans: An Empirical Analysis.
24. Yannis Arvanitis and Emelly Mutambatsere (2012) Additionality of Development Finance Institutions in Syndicated Loans Markets, Africa Economic Brief, Volume 3 Issue 12.



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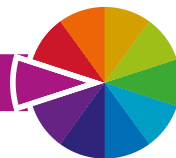


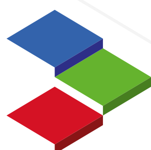
About this evaluation

This report summarizes the findings, lessons, and recommendations of an evaluation of the Bank's performance in mobilizing resources from the private sector through loan syndication over the period 2008–2019. It is a distinct component of the evaluation of the AfDB's partnerships that presents additional evidence on how the Bank is mobilizing resources and partners to further its development agenda for Africa. The Bank's syndication program has closed five syndicated transactions since its launching in 2008, with a total value of US$3.7 billion, in the energy, transport, and agriculture sectors.

The evaluation found that the Bank's approach to syndicating loans was relevant and coherent with the approaches of similar benchmarked organizations. However, the syndication function lacked a clear strategy which hampered its relevance. The implementation of syndication and the achievement of results thereof did not meet expectations, mainly due to the low level of mobilization and the limited number of deals that the Bank led and brought to financial closure over a decade. Although syndication remains a useful, viable and relevant private sector resource mobilization instrument, the Bank is yet to achieve optimal efficiency.

The evaluation drew a number of lessons, including: (i) deals are likely to be more successful and closed relatively faster when processes are efficient; (ii) reducing the average size of syndicated deals could increase the Bank's activity; and (iii) coordination and cooperation between investment officers and syndications officers, as well as building a strong network of lenders, are essential factors for success.

The evaluation recommends that the Bank establish syndication as a cost-covering and revenue-generating business function, with a sharper focus on business development. It should also strengthen the syndication processes and build a team of industry specialists, providing additional incentives to promote syndication. Finally, the evaluation recommends to improve innovation, reporting and learning from co-financing and syndication.



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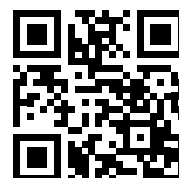

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