



Strengthen African National Development Banks to Unlock Urban Investments

A Policy Brief by the Urban2063 Coalition

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Strengthen African National Development
Banks to Unlock Urban Investments
Astrid Haas

Publication date: June 2025

Published by the African Centre for Cities, University of Cape Town

ISSN: 3105-2665

Suggested citation: Haas, A. (2025) **Strengthen African National Development Banks to Unlock Urban Investments.**

Urban2063 Policy Brief, No. 6. Cape Town: African Centre for Cities.

Cover page photograph: Irandelson Salgueiro (Tubarones Photography)

Prologue

This policy brief was prepared by the African Centre for Cities (University of Cape Town) as part of South Africa's hosting of the Group of Twenty (G20). The G20 is organised around three core pillars - *solidarity, equality and sustainability*, and the five main objectives - *inclusive growth, employment, and less inequality; critical minerals; reform of the global financial architecture; artificial intelligence & innovation; and food security*, urbanisation, as one of the most important meta drivers of the 21st Century is absent. Thus, under the auspices of the ACC, an Urban2063 Coalition was formed to focus the G20, and especially the African Union, deliberations on the links between these pillars and objectives and the trajectory of Africa's rapidly growing cities over the next decade.

The stakes attached to Africa's urbanisation, and the prospects of the roughly 900 million people that will be living in African cities in 2035, could not be higher. As "grand living laboratories", African cities could offer new modes of planning, financing, insurance, construction and manufacturing to a global economy seeking to shift from extraction and pollution to circularity and regeneration.¹ This is critical for the African Union's *Agenda 2063* which envisages urbanisation as an "Opportunity ... [for a] positive turn around" in which "cities and other settlements [become] hubs of cultural and economic activities, with modernized infrastructure, and people have access to affordable and decent housing including housing finance together with all the basic necessities of life such as, water, sanitation, energy, public transport and

ICT".² Should the goal of sustainable urbanisation fail, Africa's rapidly evolving urban spaces will default to becoming a source of ecological and social instability, a liability rather than an asset to the global economy.

In order to foster an evidence-based debate across the African continent and with its global partners, the Urban 2063 Coalition produced 8 Policy Briefs on the following topics. The first four briefs are diagnostic and the last set of four is propositional.

1. Demographic and socio-economic data that underpins the urbanisation megatrend;
2. Prevailing fiscal status of African cities and the scope for attracting finance;
3. Linkages between African urbanisation and climate change;
4. Links between trade, industrialisation and urbanisation in Africa;
5. Policy recommendation number one: encourage Multilateral Development Banks to establish a dedicated lines of credit to National Development Banks for subnational lending
6. Policy recommendation number two: anchor the G20 international trade and finance agenda in initiatives that drive structural transformation in African cities;
7. Policy recommendation three: Global financial reform requires a paradigm shift that places African cities at the core; and
8. Policy recommendation four: Improve the quality and reliability of sub-national data through a shared protocol across African Statistical Agencies.

1 Pieterse, E., (2024), Panel Discussion on Infrastructure Finance at the Africa Urban Forum, Addis Ababa, September 2024.

2 African Union (AU), (2015), *Agenda 2063: The Africa We Want*.

MESSAGE 2: G20 efforts to make Multilateral Development Banks better, bigger and more effective should prioritise catalysing dedicated lines of credit through African National Development Banks to unlock the urban investments essential for the continent's structural transformation.

African cities are important cogs in the global fiscal ecosystem and are central to the continent's economic and social development, yet they face significant challenges in securing investments to drive sustainable growth. Currently, Africa is spending on average about 3% of GDP directly on urban development.³

In absolute values, this is a very small sum, given that the continent only accounts for 4.9% of global tax revenues. Furthermore, in terms of FDI, Africa is only attracting 5.2% of global flows and holds less than 3% of the global investment stock. And, with the exception of North Africa, FDI has been decreasing as a share of gross fixed capital formation since 2006. Projections for African urban development suggest an optimistic 4.3 trillion dollars in investment by 2043, but this still represents only 4.9% of global investment stock. Therefore, despite the need for urgent financing - especially when it comes to large-scale, climate-resilient urban infrastructure projects and services - Africa and its cities in particular remain sidelined in global financial flows.

Closing the investment gap is critical for African cities to meet the demands of rapid population growth, reducing poverty and expanding economic activity. National Development Banks (NDBs) have historically played a key role in financing local infrastructure and driving urban transformation, yet in Africa they remain undercapitalised and underutilised. At the same time, Multilateral Development Banks (MDBs) lack both the scale and local reach required to respond effectively to the continent's urbanisation opportunity. Therefore, **stronger collaboration with African NDBs offers a practical way to channel resources directly to where they are most urgently needed: the continent's cities - in line with the G20's 2023 commitment to making MDBs "better, bigger, and more effective".**⁴

This approach would help MDBs overcome institutional and market barriers to city-level lending, while also building the capacity of local institutions to finance and deliver much-needed urban infrastructure. In doing

so, **MDBs could significantly increase their local development impact and directly support the G20's wider goals of inclusive growth, climate resilience and global financial stability.**

The Comparative Advantage of NDBs

As financial institutions that are fully or partially owned by national governments, NDBs usually operate with an explicit legal mandate to achieve specific socio-economic objectives within a defined region, sector or market segment. There are some major advantages to NDBs providing financing for cities.⁵ These include:

- **Domestic Focus:** As NDBs are deeply embedded within their national economies and settlement systems, it allows them to develop a nuanced understanding of local financial, regulatory and spatial developmental contexts. This enables them to potentially craft more suitable financial solutions, directly aligned with the needs of cities and the national urban system, ensuring that investments are both targeted and sustainable. Moreover, their familiarity with local governance structures and fiscal constraints allows them to better assess a city's financial health based on locally relevant criteria. As a result, NDBs may offer more accurate and flexible lending terms that reflect the true financial potential and growth trajectory of African cities;
- **Development Mandate:** Given that NDBs usually have a mission centred on long-term national development, they usually have greater flexibility to take on funding that prioritises socio-economic benefits over immediate financial returns. This makes them particularly valuable in financing essential public infrastructure and services that may not otherwise attract private sector investment. Their close ties to national governments can also position them as key players in shaping policy and strategic frameworks, ensuring that urban investments

³ This figure will be slightly higher if public service expenditure that is taking place in cities, such as on health and education, is included.

⁴ G20. (2023). G20 Roadmap Towards Better, Bigger and More Effective MDBs. https://www.bu.edu/gdp/files/2024/12/G20_MDB_Roadmap.pdf

⁵ Löffler, G. & Haas, A. (2023). Bridging Africa's urban infrastructure gap: Financial intermediaries for facilitating cities' access to debt finance in Africa. Working paper, ODI Global, 31 October 2023. <https://odi.org/en/publications/bridging-africas-urban-infrastructure-gap-financial-intermediaries-for-facilitating-cities-access-to-debt-finance-in-africa/>

align with a country's spatial and development priorities. Therefore, by channelling resources into infrastructure projects that foster local economic growth, social inclusion, and environmental sustainability, NDBs can help cities unlock further financing by providing a credible alternative to other domestic and international financiers about where the priorities lie;

- **Mobilising Diverse Financing Sources for Cities:** NDBs are well-positioned to access a broader range of financing sources than cities can accomplish on their own. These include domestic and international capital markets, as well as regional and international development finance institutions. Since city revenues are typically denominated in local currency and cities lack instruments to hedge against currency risk, access to local currency financing is critical. NDBs, while able to borrow in hard currency, can on-grant or on-lend to cities in local currency, thereby mitigating exchange rate risks. This approach also offers a more stable and less risky pathway for scaling up sub-national lending over the long term;
- **Pooling Infrastructure Projects:** NDBs often play a crucial role by pooling multiple smaller projects, either across different sectors within a single city or across multiple municipalities, into larger investment portfolios. This aggregation makes projects more appealing to investors while also creating cost efficiencies that would be difficult to achieve for individual cities acting alone. This is particularly important in the African context, where some of the fastest-growing cities are often small and lack the scale to attract large-scale private investment; and
- **Climate Finance:** Globally, NDBs are playing an increasingly vital role in unlocking climate finance for cities. Large climate funds often struggle to engage directly with subnational governments, creating a financing gap that NDBs are uniquely positioned to bridge. By becoming accredited entities to some of the major climate funds and, at the same time, structuring financial products tailored to cities, they facilitate city access to much-needed finance for climate resilient projects. In Africa, this role is particularly crucial, as climate finance is predominantly debt-based, yet many cities lack the legal authority and financial capacity to borrow independently. As intermediaries, NDBs can secure funds from major sources like the

Green Climate Fund (GCF) and on-grant or on-lend them to cities under more manageable terms, ensuring that urban climate initiatives receive the investment they require.⁶

National Development Banks across the G20

The involvement of NDBs in funding and financing urban infrastructure, enhancing climate resilience, and supporting health and social development has been instrumental in shaping the urbanisation trajectories in both historical and contemporary contexts across the G20. By adapting these lessons to Africa's rapidly growing cities, NDBs can play a pivotal role in bridging the infrastructure investment gap and fostering sustainable urban growth.

Germany offers a leading example of how NDBs can drive urban development.⁷ The Kreditanstalt für Wiederaufbau (KfW), established in 1948, played a pivotal role in post-war reconstruction, helping rebuild cities devastated by World War II and later supporting East Germany's urban renewal after reunification in 1990. By providing long-term loans to municipalities, KfW enabled the modernisation of housing and the rehabilitation of local infrastructure. Over time, its mandate has expanded to include financing projects that enhance energy efficiency, climate resilience and sustainable urban development. Therefore, by facilitating German cities' access to affordable loans, KfW has empowered them over time to invest in essential infrastructure without relying solely on market financing.

In **Italy**, Cassa Depositi e Prestiti (CDP) has played a similar role in supporting urban infrastructure investment, that is firmly rooted in national and local needs.⁸ Established in 1850, CDP initially managed citizen deposits through postal savings. Over time, it has evolved to become a key player in financing public works, research, and sustainable development projects. In recent years, CDP has partnered with municipalities to fund larger infrastructure projects ranging from public transportation systems to environmental and green economy initiatives. CDP's ability to provide grants and low-interest loans to local authorities has allowed Italian cities to upgrade their infrastructure thereby fostering a more sustainable urbanisation trajectory.

6 Attridge, S., Getzel, B. & Gilmour, A. (2023). National Development Banks: Building Markets for a Net-Zero World, Briefing/ policy paper. ODI Global, 18 July 2023, <https://odi.org/en/publications/national-development-banks-building-markets-for-a-net-zero-world/>

See also: Climate Policy Initiative. (2021). National Development Banks as Key Enablers of Cities Climate Finance. March 3, 2021. Webinar, <https://www.climatepolicyinitiative.org/event/national-development-banks-as-key-enablers-of-cities-climate-finance/>

7 KfW Group (Bank aus Verantwortung). (2025). History of KfW. <https://www.kfw.de/About-KfW/F%C3%B6rderungsauftrag-und-Geschichte/Geschichte-der-KfW/>

8 CDP Group (Cassa Depositi e Prestiti). (2025). History. Group website, https://www.cdp.it/sitointernet/en/170_timeline_storia.page

Another model is the **United Kingdom's** Public Works Loan Board (PWLB), created in 1793.⁹ Its role in providing low-interest loans to local authorities in the UK has been crucial for funding capital projects, particularly in the aftermath of World War II. Today, the PWLB, managed by the UK Debt Management Office, continues to serve as a vital source of affordable financing for local governments, helping cities fund large-scale infrastructure projects like transportation systems and public housing. By providing loans at government-backed interest rates, the PWLB ensures that cities and municipalities can access capital without relying on private lenders or international markets. This long-standing institution's role in financing urban infrastructure exemplifies the ability of NDBs to offer cities affordable, reliable sources of financing tailored to their specific needs.

Situations such as **Brazil, China and India** provide perhaps even more important lessons for African cities.¹⁰ In Brazil, which has several NDBs, one of its largest - the National Bank for Economic and Social Development (BNDES) - has supported infrastructure projects in cities for decades. BNDES finances a range of urban development projects, including transportation, housing and energy efficiency, helping cities meet the demands of rapid urbanisation. The China Development Bank (CDB) and India's Infrastructure Finance Company Limited (IFCL) have played similar roles in financing infrastructure projects in some of the most rapidly urbanising contexts globally. All three of these NDBs operate by offering both concessional financing and market-based loans to municipalities, enabling cities to access large amounts of capital for infrastructure development and simultaneously providing technical assistance to help structure projects.

One of the most successful examples is in **South Africa, the Development Bank of Southern Africa (DBSA)**, which was established in 1983 by South Africa's National Treasury to address infrastructure gaps as a key constraint to economic growth.¹¹ Its mandate is to raise funding for sustainable economic and social infrastructure, using its balance sheet to crowd in investment and enhance the state's capacity for large development projects. The DBSA plays a crucial role in the municipal debt market, supporting creditworthy cities in attracting private finance while assisting under-resourced municipalities with basic infrastructure

through grants and technical assistance. A key priority for the DBSA is financing social infrastructures, particularly in education and health. In education, it funds both public and private sector projects, including the Student Housing Infrastructure Programme to address student accommodation shortages.¹² In health, the DBSA invests in the development of hospitals and clinics.¹³ Its role as a development bank has expanded regionally, now also offering similar services albeit in a more limited capacity, to cities outside of South Africa.

These examples illustrate that there is no single institutional model or sectoral focus for an NDB, but they all share the ability to unlock financing for urban development and support local governments with tailored financial solutions, often on more favourable terms than direct capital market access. **NDBs have played and continue to play a unique and critical role in urban development globally due to their national focus, development mandate and capacity to mobilise diverse financing sources, on-lend or on-grant funds in local currencies, and blending of financing instruments.** These characteristics should position them as essential intermediaries in closing Africa's urban investment gap, particularly for infrastructure and climate-resilient development. Despite this potential, NDBs have yet to fully address the financing challenges faced by African cities.

Unlocking the Potential of African NDBs

Africa currently has an estimated 92 NDBs, which collectively held total assets of \$98.6 billion between 2018 and 2022.¹⁴ However, there is significant variation among them: the top 10 African NDBs controlled \$78.9 billion, approximately 80% of total assets. On average, African NDBs' total assets represented only 3.7% of their countries' GDP during the same period. By comparison, the assets of China's CDB equalled about 16% of China's GDP, while NDBs in North America, Asia, Europe and South America had asset-to-GDP ratios of 31%, 20%, 16%, and 9%, respectively.¹⁵

Despite these disparities, African NDBs already play a crucial role in financing urban infrastructure, leveraging domestic capital, provide loans in local currencies, and pooling resources to make smaller projects more attractive to investors - all of which are critical for large-scale urban transformation. Data shows that, on

9 United Kingdom Debt Management Office. (2025). PWLB lending facility. DMO website, <https://www.dmo.gov.uk/responsibilities/local-authority-lending/history-of-public-works-loans/>

10 AFD (2021) Mapping 500+ Development Banks

11 Haas, A. & Löffler, G. (2023). Case studies of subnational financial intermediaries in Africa. London: ODI. <https://odi.org/en/publications/case-studies-of-subnational-financial-intermediaries-in-africa/>

12 See: DBSA Education. <https://www.dbsa.org/sectors/education>

13 See: DBSA Health. <https://www.dbsa.org/sectors/health>

14 Attridge, S. Chen, Y. & Mbate, M. (2021). Financial performance and corporate governance: evidence from national development banks in Africa. Report, ODI, 21 March. https://media.odi.org/documents/financial_performance_and_corporate_governance_report_final_0.pdf

15 Amoussou, O., Mabuza, P. & Bah, M. (2024). National Development Banks in Africa: An overview of their Mandates, Capitalization, and Challenges. Vol 15(2). <https://www.afdb.org/ar/documents/national-development-banks-africa-overview-their-mandates-capitalization-and-challenges-volume-15-issue-2>

average, NDBs provide 22–27% more medium- and long-term loans to governments than private banks. Their countercyclical role has also been evident during financial crises.¹⁶ For instance, during the COVID-19 pandemic, many African NDBs used external commercial borrowing, customer deposits, and reserves to support government crisis responses and economic recovery efforts.

However, African NDBs, excluding the DBSA, are not yet equipped to drive urban development at the scale seen in other G20 contexts. Their capital bases remain too weak to attract the volume and quality of investment required, as evidenced by the fact that they currently account for just 1% of total global development bank assets.¹⁷ Given the scale of Africa’s urbanisation and infrastructure needs, strengthening these banks with access to long-term, stable financing is critical.

A 2021 survey identified weak capitalisation as the main barrier limiting African NDBs from playing a stronger role in national and urban development. With many African governments constrained by rising debt and limited fiscal space, MDBs are well-positioned to help close this gap. Given their ability to raise low-cost capital on global markets, backed by government guarantees and preferential creditor status, MDBs can provide financing and de-risking instruments that enable African NDBs to scale up their operations.

Establishing dedicated lines of credit for NDBs would be a practical way to unlock much-needed investment in urban infrastructure, while also addressing institutional constraints that often prevent MDBs from lending directly to cities.

Beyond capitalisation, MDBs can play a vital role in **helping African NDBs scale their operations by providing technical assistance and supporting the development of dedicated urban infrastructure pipelines** in sectors such as transport, energy, health and education. Drawing on their extensive experience in large-scale infrastructure lending and implementation, MDBs can assist in designing tailored financial instruments, such as project aggregation mechanisms and blended finance models, to improve cities’ access to capital, particularly in rapidly growing secondary cities. In addition, MDBs can **facilitate cross-learning initiatives** that connect African NDBs with their counterparts in other G20 emerging economies - such as South Africa’s DBSA, Brazil’s BNDES and India’s IIFCL. This kind of targeted support would strengthen institutional capacity, enhance asset management and financial oversight and ultimately enable African NDBs to provide consistent and sustainable funding for urban development.

National development banks have proven to be indispensable in financing urban infrastructure and driving the structural transformation of cities across the G20. By advocating for the establishment of dedicated credit lines for African NDBs as well as scaling up technical assistance to these institutions, the G20 can actively work to unlock the public and private investments of the scale needed to build climate-resilient and economically vibrant African cities. Leveraging the potential of NDBs is therefore a strategic pathway for translating MDB reform into meaningful, local outcomes for Africa’s cities.

¹⁶ Ibid.

¹⁷ Attridge, S. Chen, Y. & Mbate, M. (2021). Financial performance and corporate governance: evidence from national development banks in Africa. Report, ODI, 21 March. https://media.odi.org/documents/financial_performance_and_corporate_governance_report_final_0.pdf

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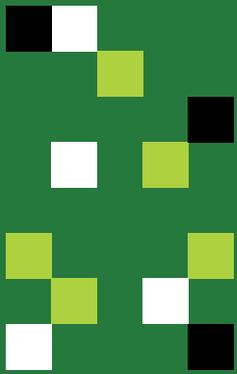
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About the authors of this series

Anton Cartwright is an economist focussed on Africa's urban transition, infrastructure and services, green finance and the interactions between environmental degradation and poverty alleviation. He is an associate at the [African Centre Cities](#) (ACC) at the University of Cape Town, a Fellow of the Cambridge Institute for Sustainability Leadership (CISL) at Cambridge University (UK) and was a Lead Author on Chapter 4 of the [IPCC's Special Report on of 1.5°C](#) of warming released in 2018. He led the [New Climate Economy's](#) Special Initiative, the [Coalition for Urban Transition's](#) work in Tanzania and Ghana and was a lead author of South Africa's Just Urban Transition framework in 2023. He is the founding Director of the advisory firm Econologic, and [Credible Carbon](#) South Africa's first voluntary carbon market registry.

Astrid R.N. Haas is an Austrian-Ugandan independent feminist urban economist. Her work bridges research and practice, with a focus on supporting cities to develop strategies and governance systems for financing public infrastructure and services, including climate finance. Her expertise lies in shaping funding and financing mechanisms that embed gender-responsive planning and policies into municipal finance to ensure cities are inclusive and equitable from the outset. She currently serves as Chair of the Board at the Mawazo Institute, is a Research Associate at both the African Centre for Cities (University of Cape Town) and ODI as well as a Fellow for the African Urban Lab (African School of Economics). Her academic background includes an MSc in Public Financial Management from SOAS, University of London, and an MA in International Economics and International Development from Johns Hopkins University. For more information: www.urbanasti.com

Arindam Jana is based at the African Centre of Excellence for Inequality Research at the University of Cape Town (UCT). Trained as an economist, Arindam's scholarship lies at the intersection of urban, spatial, and information economics. His ongoing work in Africa tries to understand how different types of data can be used to interpret complex city-level problems like multidimensional inequality and its spatiality, emergent forms of urbanisation, and wealth accumulation. Prior to UCT, Arindam was based at the Indian Institute for Human Settlements, where he was instrumental in the setting up of its Urban Informatics Lab, and leading numerous projects related to the dynamics of urbanisation in India.



About the Urban2063 Coalition

The Urban2063 Policy Brief Series forms part of a larger initiative led by the African Centre for Cities, University of Cape Town focused on foregrounding the importance of sustainable urbanization as central to Africa's structural transformation in line with the vision of Agenda 2063. During 2025, the work of the Urban2063 Coalition is focused on the deliberations of the G20, with specific focus on the Urban 20 outcomes.

The Urban 2063 Coalition is comprised of contributing partners that include: African Centre for Cities, African Climate and Development Institute, Association of African Planning Schools, ARUP – Africa Region, Cambridge Institute for Sustainability Leadership (Africa chapter), Centre for Sustainability Transitions – Stellenbosch University, Climate KIC, Club of Rome (Africa Section), Urban Futures Studio – Utrecht University, Women in Employment Globalizing and Organizing (WIEGO), World Resource Institute (WRI), Overseas Development Institute (ODI) & GSM Association (GSMA).

The work of the Urban2063 Coalition is generously supported by the: Africa Climate Foundation, Bloomberg Philanthropies, Development Bank of Southern Africa and Ford Foundation.