

AFRICAN ENERGY BANK AS A CATALYST FOR SUSTAINABLE FINANCING IN DEEPENING INDIGENOUS PARTICIPATION IN AFRICA

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ABSTRACT

Although Africa has rich energy resources, the African continent is witnessing chronic energy poverty and scant local involvement in energy value chains because of the expensive financing, the risk of investing there is high, and reliance on foreign capital. The paper is a critical assessment of the African Energy Bank (AEB) as an institutional process that can be used to increase the presence of indigenous people in the energy sector in Africa by accessing more enhanced sustainable financing. Based on a qualitative desk-based research design, the study will employ a review of documents and thematic analysis of data to analyze AEB institutional framework, policy documents, and mandate. It has analysed three aspects, which are de-risking mechanisms, the development of indigenous capacity, and the alignment with the objectives of continental energy transition. As can be analyzed, the proposed financial instruments of the AEB such as blended finance structures, sovereign guarantees and local currency financing offer four avenues of cutting the cost of financing projects, namely, the reduction of the premium of country risk due to multilateral backing, the extension of loan tenors beyond the commercial bank limit, technical support in preparing projects, and mobilization of domestic institutional capital. The study, however, lays down very important challenges in the implementation, such as the clarity in the structure of how the government should be governed, the compatibility with the already existing institutions of development finance, and the ability to ascertain the impact. Although AEB is conceptually believable in its approach to fill the energy financing gap in Africa, its success as an agent of local participation relies on good governance and strategic distinction between it and the current institutions coupled with quantifiable results in response to local content needs and capacity transfer models.

Key Words: Afreximbank, African Energy Bank, African Petroleum Producers' Organisation, Industrialisation, Sustainability

Introduction

The energy financing environment in Africa has changed its structure in a measurable way in the last decade. From 2019 to 2023, the international bank lending to fossil fuel projects in Africa has decreased by 67 per cent, that is, from USD 15.8 billion to USD 5.2 billion a year, based on the data of the International Energy Agency (Marzouk, 2025). At the same time, the weighted average cost of capital of oil and gas projects in sub-Saharan Africa rose to 14.7 per cent in 2023 out of 8.3 per cent in 2015, which is several times higher than the rates in similar emerging markets (Saliba et al., 2023). These tendencies take place against a background of large hydrocarbon endowments: the continent possesses a proven 125 billion barrels of crude oil deposits and 620 trillion cubic feet of natural gas, but is chronically poor in terms of finance: it faces energy projects it cannot fund, at commercially viable terms (Rudyak, 2024) This empirical trend, a decrease in external financing and an increase in capital costs, creates what can operationally be said is a constraint on financing: the disparity between energy projects that can be effectively financed This limitation has certain implications on the indigenous participation. It is shown by history that the foreign direct investments accounted for 82 per cent of the upstream energy investment in Africa between 2000 and 2019, and the indigenous operators possessed less than 12 per cent of the production resources in the form of equity (Ayuk, 2020). This withdrawal of traditional lenders thus impacts the local companies, which tend to use syndicated loans as the usual way of accessing capital disproportionately, as opposed to using the equity market. In this situation, the African Energy Bank was created after the collaboration of the African Petroleum Producers Organisation and the African Export-Import Bank, which became official in 2023 with the initial capitalisation of USD 5 billion. Being a special institution of development finance, its mandate statement is to finance and enhance credit and provide technical help of energy infrastructure in member states. It has already received preliminary operational data that its initial year of operations saw its loan commitments reach USD 1.2 billion to seven projects, 60 per cent of which went to indigenous operators (Abor et al., 2023). The analytical question that this paper will try to answer is whether the institutional design of the AEB and its initial patterns of operations are able to replace withdrawn international capital, and at the same time allow more ownership by the locals. This involves the study of the financing processes of the bank as well as structural elements which historically curtailed the involvement of local people in capital intensive energy industries. This question would be assessed in the following analysis by comparing the lending trends, risk profile of projects, and the institutional structures.

The Imperative for Indigenous Participation

The arguments behind the inclusion of indigenous in the energy industry in Africa are based on the structural transformation theory, which argues that economic development demands the gradual replacement of low-productivity sectors by capital-intensive sectors with more technological spillovers (Teshome, 2022). The history of the colonial and post-colonial extractive model proves that the energy industries controlled by foreign firms created a little domestic connectivity, and the production enclaves provided less than 4 per cent of the local employment even though they generated 40-60 per cent of export earnings in the oil-reliant economies (Maji et al., 2017). This trend indicates that the greater the local ownership the better the backward linkages, transfer of technology, and retention of economic rents in the economies.

Nevertheless, indigenous participation is a necessary condition but inadequate condition on the development outcomes. In the political economy literature on resource governance, there are a lot of risks that are marked by localisation policies that are in place without a strong institutional cover. Indigenous Nigeria local content regime post-2010 Empirical data of the document case where divested assets are available through local content lend credence to the fact that politically connected actors gain control of such assets in non-

transparent mechanisms and yet show ineffective functionality (Ovadia, 2016). The same trends could be seen in the Angola-based indigenous firms with Sonangol support, whereby, through the state-patron network, the distribution of rent was prioritised over technical skill, and hence products produced were consistently inefficient, with cost increases averaging 35 per cent higher than premium and international standards (Abdelalim et al., 2024).

Certain institutional conditions are what are thus critical to the effectiveness of indigenous participation. First, there should be clear licensing and transfer of assets systems to avoid allocation of patronage by letting the political affiliation to take precedence over technical skills. Second, the presence of regulatory structures that mandate established financial and operational capacity minimizes the chances of non-performing through undercapitalization or incompetence of the management staff of divested assets. Third, commercial activities and political control should be separated to avoid financializing indigenous companies to extract short-term fiscal benefits instead of developing long-term capacities (Young, 2021).

These institutional requirements have to be considered in the role of the African Energy Bank. Unless the bank systematically reinvests the capital to politically preferred actors without performance criteria, the bank will have to run the risk of duplicating the state-subsidized inefficiency performance, as had been observed in these past industrial policy experiments around the continent. In its turn, in case AEB financing is underpinned with rigorous due diligence, technical capacity requirements, and performance-based disbursement, it might overcome the lack of coordination that restricted the access of indigenous operators to patient capital historically, whilst providing developmental discipline. The major query is, does the governance structure of the bank provide the latter and not the former?

The Concept of Sustainable Energy Financing

To give the analytical accuracy, the proposed study operationalises sustainable energy financing in 3 dimensions that are different yet interdependent including: financial sustainability, environmental sustainability and developmental sustainability. Financial sustainability is the ability of energy investments to produce risk-adjusted returns that would be adequate to repay debt requirements and elicit the continued flow of capital. The operational indicators are those with debt service cover ratios of over 1.3, internal rates of returns that are at least 200 basis points above the weighted average cost of capital, and loan default rates that stand at less than 5 percent in project portfolios (Nukala and Prasada Rao, 2021).

Environmental sustainability relates to the level of emissions of the project and adherence to internationally accepted norms. Such measurable criteria are greenhouse gas emissions per unit of energy generated (calculated in CO₂ equivalent per megawatt-hour) as well as demurrage to the World Bank Group Environmental and Social Framework standards and evident plans of emissions reduction or emission offset mechanisms during project lifespans (Malik and Stone, 2018). In the case of hydrocarbon projects, the following dimension involves a specific level of gas flaring that should not exceed 2% and reported mitigation strategies on the impact on the environment.

Developmental sustainability refers to the level of energy funding in terms of structural economic change. The major indicators are the ratios of local content in evaluating the percentage of retained project worth at the local level in procurement and employment, transfer mechanisms of technology, which are reflected in the training programs and skills development initiatives, and fiscal linkages, which are the ratio of the government revenues to project worth (Aerts et al., 2017). Other measurements include the employment generated per hundred dollars outlay and creating backward relationship with domestic supplier industries.

These three dimensions interact in terms of trade-offs and complementaries. The use of investments with emphasis on the short-term financial gains can either harm environmental quality or development, and the extreme rules and regulations can result in financial losses. Institutional mechanisms needed in financing sustainable energy should thus be to optimise all

three aspects and not just one aspect. The effectiveness of the African Energy bank should be assessed with respect to the potential of the bank to balance these conflicting interests with due project selection standards, pricing, and conditionality standards that would at the same time warrant financial sustainability, environmental friendliness and developmental implications.

Statement of the Problem

The paper can fill three gaps of analysis recognized in the existing literature on the subject of energy financing and African indigenous involvement in the hydrocarbon industry.

First, specialised development funds towards the energy sector of Africa have an institutional gap. Although infrastructure finance comes through generalist multilateral development banks, including the African Development Bank, no continent-wide institution has ever structured its operations with the express purpose of funding the energy sector specifically to empower indigenous operators. Available body of literature records the funding limitations to African energy projects but fails to offer a systematic analysis of how specialized sector development finance institutions can effectively replace withdrawn commercial lending (Carras et al., 2022). This disjunction is all the more acute when it comes to the 67 per cent reduction in the amount of international bank lending to African fossil fuel projects over the period between 2019 and 2023, which empirically puts the purpose of alternative financing mechanisms under stringent scrutiny.

Second, there is a policy-implementation gap that describes the local content frameworks of African energy-producing countries. Although legislation like the NOGICD Act 2010 used in Nigeria provides preferences to the indigenous involvement, there is empirical evidence to show that there have been gaps between policy goals and the ability to finance. The ownership of upstream assets by equity value is less than 15 per cent in native firms, despite 20 years of local content policy (Berahab, 2022). The literature has not sufficiently theorised why policy instruments, which give preferential access rights to indigenous firms, do not result in actual asset ownership, and has not identified the particular financial processes needed to fill the gap between policy instruments and actual asset ownership.

Third, the available literature does not focus on the study of a risk mitigation tool being indigenous-oriented, as applied to the frontier energy markets. Although the general development finance literature addresses the concept of guarantee mechanisms and credit enhancement devices, the application and effectiveness of these tools in facilitating capital-abundant firms to access competitively priced energy assets is under-researched among indigenous firms. In particular, the implication of how sovereign-backed guarantees, partial risk guarantees, or mixed finance systems or arrangements can sensibly lower the cost of capital to the native operators to a level within international standards will be an unanswered research question that needs to be systematically investigated.

Objectives of the Study

The objectives are stated in such a manner as to explore the conceptual underpinnings and structural attributes of the African Energy Bank, as opposed to finding causal relations, because the nature of this research is exploratory, and no causality is established.

Aim and Objectives of the Study

The main goal of this paper is to evaluate the institutional structure and mandate of the African Energy Bank as a specialised development financing mechanism and the role that it may play in overcoming the problem of financing that hinders the contribution of indigenous actors in the energy sector in Africa.

1. To determine and classify the structural financing constraints found in the extant literature and policy frameworks that inhibit the entry of indigenous firms into substantive asset ownership in the African energy markets.

2. To discuss operational architecture, governance structure, and declared mandate of the AEB, it is possible to compare it with the actual institutional features of recognised multilateral development banks and national development finance institutions.
3. To develop a theoretical understanding of how the derisking instruments, namely credit enhancements, sovereign-backed guarantees and blended finance structures, are theorised to overcome capital access issues among indigenous operators.
4. The problem of compliance between the institutional framework of AEB and the presence of local content policy in the state with energy production is to be analysed through identifying possible complementarities and gaps in implementation.
5. To generalize regional experience of the role of finance in facilitating comparative development that could be adopted to streamline the role of AEB in facilitating the indigenous role.

Research Questions

1. Which financial and institutional obstacles to the acquisition and operation of energy assets by indigenous firms in Africa are found in existing literature and in policy documents?
2. What is the difference between the institutional mandate and governance arrangement of the African Energy Bank and the traditional multilateral development banks in their approach to financing the energy sector?
3. What are the theoretical constructs of the design of the particularised derisking instruments, and how is the representation of these instruments conceived to counter the risk premiums related to indigenous energy projects?
4. What trends do we find on comparative analysis of similar institutions of regional development finance that have tried to facilitate indigenous involvement into capital intensive sectors?
5. In what ways can the conceptual alignment of African energy-producing states' existing local content structures be aligned with the AEB institutional goals and financing models?

Literature Review and Theoretical Framework

In a section, it constructs a coherent analytical approach which combines three different theoretical surface lessons of structural transformation theory, developmental state theory, and financial derisking mechanisms, in providing an answer to how the development finance institutions can overcome obstacles to indigenous entry into capital-intensive industries. Instead of considering these theories as a complementary view, this framework clearly states their areas of exposition, areas of convergence, and conflicts between the theories.

Integrated Theoretical Framework: Linking Structural Transformation, Developmental State Theory, and Derisking Finance

The model of analysis of indigenous involvement in the energy sector of Africa is that three analytically distinct and empirically interdependent obstacles to indigenous involvement exist: structural economic obstacles elucidated by transformation theory, coordination obstacles as solved by developmental state theories, and financing obstacles that the derisking structures are meant to address. The theoretical traditions explain various aspects of the problem, though they also produce conflicting policy prescriptions which have to be resolved.

According to the theory, the process of economic development happens through the reallocation of resources, which are extracted by the economy, to manufacturing and services of a higher product. The implication of this, in the context of African energy, is that the indigenous companies need to shift their status to core operations to be able to reap the productivity benefits and technology spillovers. It works via the learning externalities, where the local firms will accumulate tacit knowledge that will lower the operation cost in the long run and gain a competitive advantage (Yang and Gan, 2024).

Nevertheless, structural transformation theory has an African energy industry empirical conundrum. Although 20 years of the implemented local content laws are specifically

aimed at ensuring this shift, indigenous companies are still concentrated in the low-productivity service areas. The theory has failed to materialize on the Markets driven learning-by-doing prediction that local capabilities would be built gradually. The presence of this gap implies that structural transformation theory is not a sufficient explanation especially in terms of why policy interventions do not help in speeding up the predicted transition.

Developmental state theory provides a very particular theory of explanation based on the concept of coordination failures and strategic industrial policy (Ovadia & Wolf, 2020). This tradition argues that market mechanisms systematically underinvest in sectors with high coordination requirements, long gestation periods, and uncertain returns. The state's role is not merely correcting market failures but actively coordinating investment across complementary sectors. Applied to energy, developmental state theory suggests indigenous participation requires synchronized interventions: simultaneous investment in upstream assets, midstream processing capacity, downstream distribution, and technical training infrastructure. No single private actor can profitably coordinate this complexity, creating the "ownership vacuum" observed empirically.

However, developmental state theory faces serious challenges in the eyes of the public choice economics and the political economy school (Offner, 2019). These refutations prove that the coordination of states is often degenerated into rent-seeking, where the politically-linked actors are able to obtain state-financed financing without any relevant productivity gains. Such concerns have been supported by evidence provided by the indigenisation policies in Nigeria, which have recorded cases where the action of state patronage was used to facilitate the acquisition of assets by technically unqualified operators. This dilemma is also vital: coordination might require developmental state interventions but not be funded without institutional protection against elite capture (Shapland et al., 2021).

The third analysis dimension is financial derisking theory, which describes how information asymmetries and risk perceptions on sovereign risk exert financing limitations that are not dependent on the actual creditworthiness of firms (Saba, 2025). The development finance institutions deal with all these market failures by offering risk-sharing instruments that change the calculation of risk-reward by the private investors. The example of partial credit guarantees provides a way to lower the exposure of lenders to downside, theoretically allowing capital flows to economically viable but seen as too risky projects because of country-level risk factors.

The derisking literature, in its turn, demonstrates that there is an inherent debate regarding whether these market-correcting interventions actually deal with market failures themselves or just subsidize uncompetitive projects. According to the skeptics, when commercial lenders reject their projects despite guarantees that have minimized their risks, they infer actual project unviability and not market failure (Park, 2018). According to proponents, the presence of chronic information asymmetry, especially on frontier markets, is suitable to learn temporary state aids before track records build market confidence (Stiglitz, 2017).

The coordinate mechanism forming these three theories works as follows Structural transformation theory defines the change that needs to occur (indigenous firms must shift to low-movement to high-productivity activities), developmental state theory defines why markets, taken on their own, are unable to coordinate the change (indicates coordination failure across complementary investments), and derisking theory states how particular steps of financial intervention can facilitate change (through information asymmetries and sovereign risk). The analytical strength of the framework is in the harmonization of these theories, as the framework posits the specific areas of their explanation and where the theories make conflicting predictions (Sovacool and Hess, 2017).

Theoretical Tensions and Reconciliation

This integration gives rise to three major tensions. One, the structural transformation theory focuses on gradual accumulation of capability in the market, while the developmental state theory theory exercises state coordination that can ignore market signals. The hypothesis then forms the following empirical question: in which empirical circumstances is the state intervention accelerating versus distorting learning process? (Ikenberry, 2019)

Second, developmental state theory presupposes that the state actors are able to locate viable industries and firms whereas public choice theory foreshadows systematic rent-seeker capture. This framework should then outline institutional grounds that will result in developmental aligning and limit predatory behavior. Clear selection criteria of project, disbursement founded on the performance, and clarity in terms of oversight mechanisms start to function as critical variables as opposed to auxiliary details (Cao & Wang, 2023).

Third, the optimism of the theory of derisking with regard to redressing market failures goes hand in hand with the fact that subsidized funding, in many cases, is a proponent of fundamentally uncompetitive projects. Reconciliation should be made to differentiate between projects that can temporarily be non-bankable because of the information asymmetry and the projects that cannot be viably run. This difference means that successful derisking should include stringent due diligence and performance standards as opposed to blanket guarantees (Lynch, 2018).

The case of the African Energy Bank offers practical ground on which these theoretical disagreements are tried. To the extent that the bank only directs capital to politically favored firms without setting standards of performance, this confirms the critics of the public choice approach and indicates that the intervention of developmental states can only worsen rather than eliminate the problems of coordination. On the other hand, in case AEB financing has proved to be characterized by strict project selection, good governance, and performance-based conditionality, and has been effective in mobilizing capital to technically competent indigenous operators, this will support the prediction in the integrated framework that all three mechanisms (transformation dynamics, state coordination, and derisking) should all operate to be effective when adequately institutional safeguards are in place (Atuhaire & Kyokusiima, 2023).

Operationalizing the Framework: Barriers to Indigenous Participation

Using this integrated framework in African energy sectors, the three theoretical dimensions can be seen to be displayed in a form of observable barriers. The capital intensity factors are an indication of structural transformation issues: no way an indigenous company can raise enough capital by way of incremental service contracts to accumulate billions of dollars of upstream assets. This is a poverty trap because the inability to get high-productivity results initially due to low productivity.

Technological asymmetries reflect a scenario of coordination failure: indigenous firms may not make an investment in proprietary technology unless they are guaranteed access to the assets, and asset holders may not transfer assets until they have confidence in its demonstrable technological capability. This office chicken-and-egg dilemma needs a concerted effort to break the stalemate.

Risk premiums is a symptom of failures in the financing markets showing the “Africa discounts continent wide sovereign risk ratings on individual projects irrespective of individual credit-worthiness. One of the Nigerian companies that is based in the stable regulatory environment where there is a good cash flow would still remit the risk premiums of wider perceptions of the continent. The asymmetry of information develops financing gaps that do not relate to the project fundamentals.

Lessons from African Development Finance Institutions

The empirical experience between the Afreximbank and the African Development Bank is the comparative experience that can be used to provide theoretical predictions which are true within particular institutional set ups. The information asymmetry analysis at Afreximbank project preparation facilities depicts that technical capacity and documentation standards have to be invested without additional financial guarantees to deal with the information asymmetry. This aids the thesis of derisking theory that focuses on alleviating the cost of information, but it also shows that successful derisking needs technical support and not just the capital provision.

The regional integration strategy applied by the AfDB confirms the coordination mechanism proposed by developmental state theory besides providing evidence of weakness. Trans-boundary energy pools are effective to the extent that supported by timely power purchase agreements and certifiable regulations. In areas where these institutional pillars lack, the coordination efforts do not go work even with the appropriate funding. The integrated framework relies on the institutional quality as a mediating variable, which is supported by this pattern of conditional success.

The derisking processes of both institutions in their plight to fund their local currency reflect frictions between the derisking goals and the macroeconomic circumstances. Whereas, borrowers are not exposed to foreign exchange risks with local currency loans, the lenders are exposed to the same risks and incur losses in their balance sheets due to currency incongruities. Both derisking theory and developmental state models do not sufficiently explain this redistribution of risks issue, and both theories need to be furthered to explain macroeconomic limitations to institutional design.

Methodology

Study Design

The qualitative institutional approach that is used in the study is the combination of document analysis and comparative policy evaluation (Fischer & Maggetti, 2017). The study of the impact of formal rules, decision making process and structure of governance on organizational behavior and outcome is referred to as institutional analysis and in this case it is operationalized based on institutional grammar frameworks. In particular, this methodology will examine the constitutive documents of the African Energy Bank and determine:

- (1) Institutional mandates and objectives,
- (2) Governance structures and decision-making procedures,
- (3) Financing instruments and risk allocation mechanisms,
- (4) Performance criteria and accountability frameworks.

The tactic of analysis is divided into three phases. To begin with, institutional mapping determines formal organizational features of AEB, based on a systematic examination of founding documents. Second, the design features of the AEB are compared with those of the established development finance institutions on a structured comparison matrix established by comparative institutional analysis. Third, the gap analysis is used to analyze the conformity of the institutional design of the AEB and the reported financing constraint revealed in the local content policy literature.

Document Selection and Sampling Strategy

The study employs purposive sampling with explicit inclusion criteria across four document categories, yielding a total corpus of 87 documents analyzed between August 2024 and January 2025.

Primary institutional documents (n=12) include: AEB founding charter and statutes, APPO enabling resolutions, shareholder agreements, and operational guidelines. Inclusion criteria required official publication by APPO or Afreximbank with legal or regulatory status.

DFIs' reports (n=31) include annual reports, project assessment reports, policy briefs of Afrexigroup Bank (2019-2024), the African Development Bank (2018-2024) and other similar regional institutions. The following are the selection criteria required:

- (1) focus on energy sector financing,
- (2) discusses native involvement or local content.
- (3) The last seven years of publication to ensure its relevance in the present.

The sources of national policy documents (n=18) comprise local content legislation, petroleum sector regulation and industrial policy in Nigeria, Angola, Ghana and Senegal. These countries were chosen because they contribute 73 per cent of the oil production of sub-Saharan Africa and have established formal local content schemes for over ten years, to the extent of having policy enough to evaluate.

The sample of the academic literature (n=26) was formed based on systematic searches of Web of Science and Scopus databases by Boolean search terms: (development finance institution*" OR sovereign guarantee institutiROe) AND (indigenous participation OR local content) AND (energy OR oil OR gas) AND (Africa*). The inclusion criteria included peer-reviewed publication in the period 2015-2025 in journals that had an impact factor of more than 1.5 in development economics, energy policy or political economy.

Analytical Procedures and Coding Strategy

Document analysis followed a three-stage coding procedure adapted from Mayring's (2014) qualitative content analysis framework.

Stage One used deductive coding based on a set of a priori codes which were based on the theoretical framework: (1) structural transformation mechanisms (capability building, technology transfer, learning externalities), (2) developmental state functions (coordination, strategic guidance, risk absorption), and (3) derisking instruments (guarantees, credit enhancement, concessional terms). Two coders used this framework independently on 20 per cent of the documents (n=17), with an inter-coder reliability of Cohen 0.82, which is significantly higher than the 0.80 standard of substantial agreement.

Stage Two used inductive coding to find out emergent themes outside the categories of theory. This warranted additional codes such as: transparency mechanisms, performance conditionality, elite capture safeguards and macroeconomic risk factors. The resulting codebook included 34 specific codes which were placed hierarchically under the three key theoretical dimensions.

Stage Three had conducted an institutional mapping in a structured matrix, which revealed the AEB in comparison with seven dimensions; namely, the governance structure, requirements of adequate capital, risk assessment, price mechanisms, performing monitoring, accountability frameworks and the level of transparency. All dimensions were evaluated based on the benchmarks of Afreximbank, AfDB, and the Development Bank of Southern Africa on a four-point scale (absent, partial, substantial, comprehensive), where the operational definitions were offered in Appendix A.

Validity and Limitations

Triangulation based on document types and systematic relations with existing institutional literature increased the methodological validity. Nevertheless, a number of shortcomings will have to be mentioned. To start with, since the AEB has been operational only since 2023, the actual data about the operations is limited to initial loan approvals and project reports. Longitudinal data is not available yet, and only longitudinal data can be used in a conclusive assessment of institutional effectiveness (Valenzuela et al., 2016). Second, the use of publicly available documents does not encompass any confidential credit assessments, as well as internal decision-making documents that could highlight the existence of inconsistencies between the outlined policies and practices. Third, the paper is unable to draw any causal relationship between institutional design attributes and the developmental outcomes

and can make conclusions about the institutional characterisation and comparative evaluation instead of the impact evaluation (Kuhlmann and Wayenberg, 2016).

Such restrictions guide the analytical assertions of the study, which are concerned with investigating the institutional design of the AEB and matching its features with the recorded constraints to financing, as opposed to claiming cause and effect and developmental influence.

Results and Institutional Mapping

Analytical Findings: Institutional Characterisation and Comparative Assessment

In this section, analytical results are provided using documents on the characteristics of the institutional design of the African Energy Bank (Zimba, 2025). Since these are not based on independent empirical validation or operational performance data, as explained in the methodology, these findings are based on analysis of founding documents, policy statements, and comparative institutional literature. Claims about institutional architecture reflect what the bank claims about its design characteristics, written in official sources, but not the final performance of operations (Hirani, 2025).

Institutional Architecture: Capital Structure and Governance Design

The founding charter and shareholder agreements of the AEB would be analysed to establish that the institutional structure would be modelled as a specialised multilateral development finance institution. The approved capital base of the bank is registered at USD 5 billion, and the capitalisation framework is tiered, including input of APPO member states (60 per cent), Afreximbank as anchor investor (30 per cent), and institutional investors (10 per cent) (APPO, 2024). Table 1 gives comparative capital structure data in similar African development finance institutions.

Table 1: Comparative Institutional Characteristics of African Development Finance Institutions

Institution	Authorised Capital (USD billion)	Paid-in Capital Ratio	Number of Member States	Year Established	Sectoral Focus
African Development Bank	208.0	6.5%	81	1964	Multi-sector
Afreximbank	10.0	23.4%	52	1993	Trade finance
Development Bank of Southern Africa	5.8	42.3%	1 (RSA)	1983	Infrastructure
Trade & Development Bank	5.0	18.6%	24	2007	Trade/Infrastructure
African Energy Bank*	5.0	Not disclosed	18	2023	Energy sector

The form of governance identified in AEB statutes defines decision-making power spread to a Board of Governors (policy-level), a Board of Directors (operational oversight), and a Management (execution). Member states have representation in proportion to their capital contribution, which is typical in the multilateral development banking governance theories. Janis (2013) notes that the charter creates a developmental requirement in which energy security and engagement of indigenous people become a priority, unlike commercial banking practises that are geared towards optimisation of risk-adjusted returns.

Documented Financing Mechanisms

Document examination demonstrates three major financing mechanisms as presented in AEB operating guidelines, which are acquisition finance facilities, project syndication arrangements, and technical assistance programmes. The provisions of acquisition finance outline credit facilities which are intended to be taken by the indigenous firms acquiring divested assets that belong to international oil companies. Formal lending terms comprise tenors to 15 years, prices, which have been benchmarked against sovereign risk plus institutional margin (particular spreads are not publicly stated) and collateral agreements of reserve-based lending approaches.

The syndication arrangements of its projects make the AEB either lead arranger or co-financier with domestic commercial banks. This framework theoretically can overcome single-obligor limit constraints, in which the individual domestic banks cannot finance large-scale energy projects, notwithstanding costs, without assistance. The bank report shows that it has committed to taking senior or mezzanine in structured bonds, but a certain risk distribution formula has not been disclosed in the market (WUTYI, 2018).

The uncovered areas in the AEB operation framework are the technical aid programmes that are accredited under the preparation of projects in terms of funding the feasibility studies, assessment of the environmental impact and structuring of finance. These non-lending services deal with the official bankability gap in which the indigenous project proposal lacks documentation to meet international due diligence procedures (WUTYI, 2018).

Comparative Positioning Within Development Finance Architecture

The AEB finds itself in a continuum of development finance strategies in comparative institutional mapping. Table 2 includes a comparative evaluation of the main institutional dimensions according to the publicly-disclosed policy statements and work rules.

Table 2: Comparative Institutional Positioning

Institutional Dimension	International Commercial Banks	Multilateral Development Banks	African Energy Bank (Stated Design)
Risk appetite	Low (market-driven)	Medium (policy-constrained)	High (development-prioritised)
Fossil fuel financing	Declining (ESG mandates)	Conditional (climate alignment)	Explicit inclusion (transition framework)
Indigenous participation priority	Not specified	General consideration	Strategic priority
Typical loan tenors	3-7 years	10-20 years	Up to 15 years (stated)

Institutional Dimension	International Commercial Banks	Multilateral Development Banks	African Energy Bank (Stated Design)
Technical assistance provision	Minimal	Selective	Integrated offering
Sectoral specialization	Diversified	Multi-sector	Energy-exclusive

This comparative analysis, which bases its information on institutional documentation as compared to operational information, would imply that the AEB is in its own institutional niche. However, as international commercial banks grow more inclined to cease financing fossil fuels because of the requirements of their ESG policy, and the long-time multilateral development banks offer conditional funding to multiple sectors, the stated mandate of the AEB is clearly focusing on energy sector funding with indigenous involvement as one of its strategic objectives and not as a sidestep issue.

Nevertheless, critical evaluation must note that institutional design characteristics reflected in written charters at the time of foundation do not assure effectiveness in operations. One of the constraints of document-based analysis is the difference between projected institutional goals and real performance. The effectiveness of the AEB recorded financing procedures in mobilising capital among indigenous operators, lowering the costs of financing or improving the bankability of any project, is a subject matter that requires longitudinal operational information that is yet to be documented by the institutions with the freshly established operational stages. These analysis results then define the institutional architecture and comparative positioning, and specifically leave the statement of the institutional effectiveness or developmental effect to the next empirical analysis when adequate data about operations becomes accessible.

Discussion: Strategic Pathways

The foundation of the African Energy Bank (AEB) is an indication of the paradigm shift to donor-driven financing to financial sovereignty. The evaluation of this discussion is to examine the strategic levers that need to be drawn by the AEB to turn the Financing Wall into an indigenous industrialisation bridge. It is also an institutional and ideological reaction to the fast-changing social environment of the political economy of global energy funding. As the introduction has indicated, the long-running energy paradox in African conditions of massive hydrocarbon endowment and simultaneous energy poverty are conditions that have been greatly aggravated by the exit of Western capital in fossil fuel investments under increasingly liberalised ESG-oriented decarbonization policies (Ayuk, 2023). It is not just an adjustment of the markets to move to the fleeing ground, but a reinterpretation of global financial interests that risks leaving behind late-industrialising areas. It is against this backdrop that the AEB can be viewed as a strategic institutional intervention that is expected to protect the energy sovereignty of Africa, reorient its course of development, and reinstate its position in the global energy transition (Ayuk, 2023).

The Derisking Imperative: Aligning AEB Operations with Investor Confidence

The main strategic advantage of the AEB is that it will solve the Africa Risk Premium, which is a systemic bias that exorbitantly scales the cost of capital on projects on the continent, whether they are technically merited or not (Romanazzi, 2024). As one method of countering this, the AEB needs to be a Specialised De-risking Agent and not a passive lender.

The AEB can wrap the debt of indigenous firms with Partial Credit Guarantees (PCGs) and First-Loss Capital, and increase investor pursuit to the investment-grade level. This institutional signalling plays a vital role in attracting institutional investors, e.g. pension funds and sovereign wealth funds, which are usually repelled by regulatory uncertainty. The way to do this is by developing a Common African Risk Framework, which will standardise the assessment of projects and will offer a predictable long-term context of patient capital (Nyamboga & Obeagu, 2024).

Political Economy: Navigating Global ESG and "Just Transition" Pressures

One of the key issues that is being debated in the modern literature is the Green Financing Gap. With the pull-out of hydrocarbon projects by Western lenders in a bid to meet the net-zero requirements of external sources, there is a risk of asset stranding and energy poverty in African countries (Nalule et al., 2022). The AEB occupies a geopolitical niche demanding a Balanced Energy Mix.

The strategy of the bank is to reposition natural gas as a transitional fuel that is necessary in the power base and heating industry. Through formulating an African-focused ESG (Environmental, Social, and Governance) Scorecard, the AEB can focus on the projects that will yield high scores on any of its four pillars of Social and Developmental returns (job creation and access to energy) in addition to carbon abatement. This will enable the bank to sail through the forces of globalisation, as well as to make the transition of the continent a just, fair, and one based on the socioeconomic realities of Africa (Magnus-Eweka, 2023).

Scaling Indigenous Participation: From Service Providers to Strategic Operators

The statistics indicate that the native sector has matured, such as the case of the African IOCs, and among others, Seplat Energy, Oando, and Chappal Energies, which have effectively purchased assets worth multi-billion dollars of the divesting multinationals. Nevertheless, to become a continent-wide trend, the AEB should be able to conduct the shift between low-value services to the high-value asset ownership (Aldaba, 2024).

Strategic pathways include:

- i. **Equity Participation Funds:** Offering the so-called equity cheque to enable local firms to offer bids on maturing onshore assets.
- ii. **Regional Integration:** Equipping cross-border infrastructure, including the African Gas Pipeline, where the local companies can reach more extensive regional markets and economies of scale (Afreximbank, 2025).
- iii. **Technology Transfer Facilities:** Investigating R&D and collaboration with technology industries to cover submarine-engineering setback and digital-oilfield setback, which currently restrict local operators (Newman et al., 2016).

Policy Coherence: Integrating the AEB with National Master Plans

To be effective, the AEB operations must be in correlation with the national regulatory frameworks, such as the Petroleum Industry Act (PIA) in Nigeria and at the national level with the organisation of the Agenda 2063 of the A.U. Financing objectives incompatible with the laws of national fiscal policy are a significant obstacle (Ninyio, 2024).

It is suggested that the creation of National AEB Liaison Desks in the energy ministries of the member countries is the way to go. This would make sure that the projects funded by AEB are aligned with the national electrification goals and the laws of local content. Also, this means that the AEB provisions will be combined with the African Continental Free Trade Area (AfCFTA) protocols, which will enable the free flow of energy services and capital to establish a homogenous African energy market that will be much more appealing to international investors than fragmented and nation-specific ones (Shen and Power, 2017).

Risks and Limitations

Although the strategic pathways are promising, critical analysis requires consideration of high institutional risks. Governance failures are inherently dangerous, since African

institutions regularly experience the problem of political capture and elite capture, in which interested parties receive preferential funding despite the lack of merit (Joseph et al., 2025). The issue of credit risk is urgent, taking into consideration fluctuating commodity markets and a low level of bailout. With socialisation of losses, moral hazard could give an incentive to take excessive risks (Pernell and Jung, 2024). The constraints on institutional capacity pose a threat to decision-making. The political pushback and fluctuations of currencies may limit working efficiency (Sugiardi, 2025). The AEB has to have realist expectation of these risks in terms of transformational capacity (Dey, 2025).

Summary of Analytical Findings

This paper has critically examined the African Energy Bank (AEB) as a possible strategic intervention in the energy financing framework in Africa, both in terms of institutional design and how it will likely contribute to further implications involving indigenous involvement. The discussion recommends some of the analytical propositions that should be researched empirically. To begin with, according to the literature, the multilateral development banks can, in theory, soften the AFRICA Risk Premium, which is the systemic risk that drives up capital cost to the African energy project, using sovereign-guaranteed guarantees and de-risking instruments. Nevertheless, the effectiveness of the AEB in actual terms to enhance risk repricing is yet to be empirically proved (REGULATOR, 2018). Governance quality and dynamic political economy will determine institutional performance. Second, policy discourse of the just transition implies that the AEB can ensure institutional gaps of the promotion of the balanced energy portfolio, favouring African developmental demands, such as industrialisation, energy access, and employment, together with global climate goals (Abe and Azubike, 2024). This makes the bank a possible intermediary between the decarbonization pressures of the West and the development demands of Africa, but the sustainability of this positioning must continue to be evaluated. Third, the indicator of indigenous firm development in Nigeria's petroleum industry, such as the success of asset acquisition, shows an increase in the technical capacity of African energy firms. But the extent to which AEB can truly scale this capacity-building process in various national settings with varying regulatory frameworks is a question that has to be recapitulated through a longitudinal approach (Catsambas & Aslam, 2024). These results offer analytical passages of current policy frameworks and institutional structures, as opposed to empirically validated results. The analysis offers a semantic basis for how the AEB can develop over time, yet it does not make the institution effective.

Policy Recommendations

Jumping on the basis of this conceptual analysis the following recommendations can be suggested:

1. The AEB is supposed to focus on open systems of governance that will not be much interfered by politics. The credibility of the institutions would be enhanced by the formation of independent project selection committees that have clear technical requirements. Equivalentization of risk assessment procedures by member states might minimise information distortions that exaggerate the borrowing prices.
2. The policy makers must consider aligning the national regulatory frameworks to the AEB operational priorities such as simplification of the licencing procedures and setting of predictable policy environment to facilitate the long-term investment planning.
3. Firms intending to obtain AEB funding are advised to enhance internal potential in development of projects, environmental standards and financing. Cooperation among technical service providers may solve the gaps in capabilities.

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