

# For Whom the Banks Roll...

The CDFS Short Read – May 2026

Episode 2: The Allocation Triangle



**Banks are often misunderstood. They are routinely asked to be safe, cheap, inclusive, countercyclical and profitable. They are then scolded for not simultaneously delivering all of these objectives. The mistake is to speak about “the bank” as if it were a single creature with a single job. In reality, in many emerging and frontier markets, a commercial bank is asked to serve three masters. It must finance the state by absorbing sovereign issuance, lending to government entities, and facilitating policy implementation. It must finance the real economy by extending credit to households, SMEs, and corporates. And it must keep the plumbing of markets in functioning order: payments, trade, FX, treasury, settlement, and custody – the infrastructure without which formal economic activity becomes expensive and fragile.**

This Short Read is the second episode of a series focussed on the business models of commercial banks in Kenya and Nigeria and how they interact with and are influenced by development finance. It introduces three stylised banking archetypes that emerge when one of these masters becomes dominant.

The Sovereign Collector is the bank for which financing the sovereign becomes the centre of gravity. The Domestic Underwriter is the bank that does the difficult work of pricing, originating, servicing and recovering private credit. The Market Intermediary is the bank whose economics are driven primarily by flows rather than by warehousing long-dated credit risk. Together they form an allocation triangle that pulls a bank in different directions.

Although this framing is novel, it sits at the intersection of three established literatures. First, the sovereign-bank nexus literature shows how large bank holdings of domestic sovereign debt can amplify feedback loops between banks and the state and, in many settings, weigh on private-sector credit growth.<sup>1</sup> Second, the law-and-finance and credit-infrastructure literature shows that information sharing, creditor rights, collateral regimes and enforcement materially shape whether banks can scale lending to firms and households.<sup>2</sup> Third, the market-development literature emphasises the role of payments, trade finance, repo and local-currency capital-market infrastructure in widening the menu of intermediation beyond simple deposit-funded lending.<sup>3</sup> This Short Read uses these insights to

introduce a framework for understanding how and why banks allocate their balance sheets the way they do, and applies that framework to Kenya and Nigeria and to a small set of case-study banks operating within those markets.

Kenya and Nigeria provide a useful comparison because both are large and relatively sophisticated banking markets in Africa. Yet their incentive environments differ in ways that make different archetypes more likely to dominate. The point is not that Kenyan banks are “better” or Nigerian banks “worse”. Banks respond to the incentive stack they are given, including macroeconomic stability, sovereign yields, contract enforceability, deposit structures, and the depth of domestic markets. As a simple benchmark, across FDIC-insured US banks net loans and leases represent roughly 52% of total assets.<sup>4</sup> Across the six case-study banks examined in this Short Read, that figure ranges from 28% to 50%. Ultimately, the surrounding economic reality dictates this spread, not the individual ambition of the banks.

The final message is aimed at development finance actors. If DFIs want to influence bank behaviour, they must stop asking banks to “lend more” and start asking: *what must be true for it to be rational to do so?* Funding is helpful, but it is rarely decisive. If the underlying locks remain closed – credit infrastructure, local currency term funding, market plumbing and the gravitational pull of sovereign carry – banks will return to their corner of the triangle the very moment the development finance intervention ends.

<sup>1</sup> IMF, *The Sovereign-Bank Nexus in Emerging Markets in the Wake of the COVID-19 Pandemic*, IMF Working Paper 2022/223 (2022); Bryan Hardy, “Covid, Central Banks and the Bank-Sovereign Nexus,” *BIS Quarterly Review*, March 2023.

<sup>2</sup> Simeon Djankov, Caralee McLiesh, and Andrei Shleifer, “Private Credit in 129 Countries,” *Journal of Financial Economics* (2007); Thorsten Beck and Ross Levine, “Legal Institutions and Financial Development,” *NBER Working Paper 10126* (2003).

<sup>3</sup> Committee on the Global Financial System, *Trade Finance: Developments and Issues* (Bank for International Settlements, 2014); Stijn Claessens and Erik Feyen, “Benchmarking Financial Development Around the World,” *WB Working Paper 6175* (2012).

<sup>4</sup> FDIC, *Quarterly Banking Profile*, Table I-A, Balance Sheet of FDIC-Insured Institutions (2023–2024).



# 1. The Allocation Triangle. Bank Balance Sheets vs. Policy Objectives

***Banks do what they are paid to do, not what they are applauded for doing.***

Policy documents, speeches and supervisory guidance across many markets share a familiar aspiration of wanting deeper private-sector credit, longer-tenor local-currency finance, and banking systems that support productive investment rather than merely recycling liquidity. Those are reasonable objectives. Bank balance sheets in less developed markets, however, often show something more prosaic: a persistent allocation to sovereign assets and liquidity buffers, alongside more selective private credit. This stems from the simple fact that the incentive stack and the constraint set facing banks can *diverge* materially from the pursued policy outcomes.

A useful way to think about a bank in an emerging market is as an allocator of scarce balance-sheet capacity under uncertainty. It has a limited amount of capital, a limited appetite for volatility and a liability base that is often short-tenor and confidence-sensitive. It must choose where to place assets and where to earn income. Those choices are shaped by three realities: return, risk and time.

In theory, the bank takes deposits and extends loans. In practice, that is only one of the jobs it can do, and often not the most attractive one. The bank's deployable balance sheet tends to end up in one of three places. It can finance the **sovereign**: holding government securities, lending to government entities, absorbing issuance that must be absorbed, sometimes participating in quasi-fiscal programmes. It can finance the **real economy**: households, SMEs, corporates – exposures that do not come with the same regulatory comfort blanket as sovereign assets, and that require expensive underwriting and collections capability. Or it can finance the **market**: holding liquid assets,

intermediating flows, earning fees on payments, trade and treasury services, and, where the market infrastructure is sophisticated enough, acting as a genuine intermediary rather than a simple lender.

This produces a simple mental model: an allocation triangle whose corners are the sovereign, the real economy, and the market. Most banking systems drift toward one corner when the incentive stack becomes sufficiently lopsided. We refer to these corner-cases as three archetypes: the Sovereign Collector, the Domestic Underwriter and the Market Intermediary.

## ***The Sovereign Collector***

The Sovereign Collector is the bank for which financing the sovereign becomes a dominant centre of gravity. This can happen explicitly, through policy expectations, regulatory asymmetries, or the practical reality that domestic banks are the most reachable pool of balance sheet capacity when the state needs to refinance. It can also happen implicitly, through the quiet force of risk-adjusted return.

Sovereign instruments in many markets offer a powerful combination: they can be liquid, easy to value, easy to repo where markets exist, and often treated favourably for capital and liquidity purposes. At times they also offer high nominal yields. Compared with the operational burden of underwriting thousands of SMEs and managing recoveries through weak legal systems, the sovereign book can look like the rational choice.

The Sovereign Collector is therefore not “a bank that doesn't lend”. It is a bank that rations private credit because the opportunity cost of private lending is high and the penalty for getting it wrong is severe. Banks still lend –



often to the most bankable corporates, to salary-backed retail, or to relationships that are strategically important – but the marginal balance-sheet capacity tends to flow to the sovereign corner.

**The Domestic Underwriter**

The Domestic Underwriter is what many policy narratives implicitly assume the banking system should look like: a scaled machine for allocating credit to households and firms. In practice, this archetype is neither default nor automatic. It is built. And it is expensive to build.

A Domestic Underwriter invests in distribution, underwriting processes, data, collections and risk management discipline. It develops products that people actually use, and it learns how to manage defaults without turning credit cycles into solvency crises. It accepts that some credit will go wrong and designs the institution so that “wrong” is priced, contained, and recoverable.

This archetype tends to thrive when four conditions are at least partially satisfied.

1. Credit can be priced at levels that clear risk without becoming politically or commercially impossible.
2. Enforcement is plausible so recoveries are not a lottery.
3. Funding structures and tenors are compatible enough to make maturity transformation survivable.

4. The macro regime is sufficiently credible that long-dated balance-sheet promises are not repeatedly destroyed by discontinuous inflation or FX events.

In other words, ‘domestic underwriting’ is sustainable only where the surrounding conditions make credit pricing, enforcement and funding workable; otherwise, banks will eventually pull back or need fresh capital.

**The Market Intermediary**

The Market Intermediary is a bank whose economics are driven primarily by flows rather than by warehousing long-dated credit risk. Its revenues stem from transaction banking, payments, trade, treasury services, FX spreads, custody and fee-based products. Credit may still be present, but it is often shaped by the flow activity: short-tenor working capital, trade-linked exposures, high-quality counterparties and structures that protect liquidity and capital.

The reason this archetype matters in a development finance context is that it can be a bridge between today’s deposit-funded banking and tomorrow’s deeper domestic markets. A system that can monetise flows and build platforms can, under the right conditions, also become a system that helps create tradable instruments, investor access and a more competitive cost of capital. But that transition is neither automatic nor guaranteed.

**Exhibit 1. Three bank archetypes (summary)**

	Sovereign Collector	Domestic Underwriter	Market Intermediary
<b>Core logic</b>	Balance sheet optimised for sovereign carry and liquidity	Balance sheet optimised for private credit creation	Franchise optimised for flows, fees and treasury intermediation
<b>Balance-sheet signs</b>	High government-securities share; loans selective	High loans-to-assets ratio; broad retail/SME/corporate book	More liquid and market assets; lending often supports flows
<b>Income signs</b>	Carry and securities income dominate	Net interest income on loans dominates	Material fees, FX, transaction, treasury and trading income



<b>When it tends to dominate</b>	Sovereign paper attractive; weak enforcement; macro or FX volatility	Credit can be priced and enforced; funding and tenor workable	Payments, trade, FX and client-flow capability already exist
<b>System implication</b>	Helps fund the state; can crowd out private credit	Expands access to credit; absorbs credit cycles	Lowers transaction costs; supports commerce, liquidity and market access
<b>Binding question</b>	Why lend if safe yield dominates?	Can we price, enforce and survive losses?	Is there enough plumbing to intermediate?

These archetypes are not neat boxes. Many banks are hybrids. But the archetypes are still useful because they clarify an uncomfortable truth: the same bank cannot necessarily be all things at once. A bank that is incentivised to be a Sovereign Collector will struggle to be an effective Domestic Underwriter. A bank that is structurally funded short and faces macro volatility will struggle to lend long, no matter how many policy documents demand it.

To be clear, these archetypes are not moral categories. The Sovereign Collector is not automatically bad. In some environments, domestic sovereign financing via banks is more stabilising than external borrowing or forced monetisation. The Market Intermediary is not automatically advanced. Flow-based banking can be highly profitable and still deliver little productive transformation if it merely skims

rents from scarcity and asymmetry. The Domestic Underwriter is not automatically heroic. Underwriting can become predatory if competition and consumer protections are weak.

The more useful question is therefore not which corner is virtuous, but rather which corner is rational given the current environment, and what would have to change for the system to move. That question is also closer to the literature. IMF's and BIS' work on the sovereign-bank nexus shows how bank holdings of domestic sovereign debt can intensify bank-sovereign feedback loops, while cross-country work on creditor rights and information sharing shows why some systems sustain deeper private credit than others. The triangle is a way of making those forces more visible.



## 2. Three Corners. What Tilts Banks Towards Each

Section 1 describes the three corners of the triangle. This section explains why banks end up nearer one corner than another. A simple way to think about it is to ask three questions – two about the country, one about the bank.

### **First, what does the environment reward?**

That is the macro story, and it is the strongest force pulling banks between the Sovereign Collector and Domestic Underwriter corners. If inflation is high or unpredictable, lending long becomes risky and expensive. If the exchange rate moves in jumps, shocks hit borrowers, funding and capital at the same time. And if government paper offers attractive yields with low operational hassle, it becomes the obvious “safe” use of balance-sheet capacity. In those conditions, banks rationally shorten duration, hold more liquidity, and allocate more to sovereign assets. They drift toward the Sovereign Collector corner because the macro regime makes it the highest risk-adjusted use of scarce balance-sheet capacity.

Where the macro environment is more benign – inflation is single-digit, the currency is broadly stable, sovereign yields are moderate – private lending can begin to compete with sovereign assets on risk-adjusted terms. The system can move toward the Domestic Underwriter corner. But macro stability is necessary, not sufficient.

### **Second, what can the system support at scale?**

This is the structural story. Even where the macro environment is supportive, private lending at scale requires plumbing, such as credit information systems that allow banks to assess unfamiliar borrowers, contract enforcement regimes where recoveries are plausible and timely rather than a lottery, and legal and regulatory frameworks that support

secured lending and collateral realisation. World Bank research on movable-collateral registries finds that registry reform is associated with almost an eight-percentage-point increase in firms’ access to bank finance and a seven-point increase in access to loans, underlining how changes in credit infrastructure can reshape what banks are able to do at scale.<sup>5</sup>

Where this credit plumbing is strong, banks can price risk, extend credit, manage defaults and sustain a Domestic Underwriter posture through cycles. Where it is weak, private lending becomes expensive, recovery-dependent and fragile, and the opportunity cost of allocating balance sheet away from sovereign assets rises, even when the macro suggests lending should be attractive. Systems lean toward the Sovereign Collector corner due to the complexities and risks of scaling private credit, rather than a default choice of sovereign carry.

Together, the macro environment and credit infrastructure determine where a banking system sits between the Sovereign Collector and Domestic Underwriter corners. Both must line up for domestic underwriting to emerge at scale. Benign macro alone is not enough if you cannot enforce contracts. Good credit infrastructure alone is not enough if inflation is above 30% and the currency is unstable.

### **Third, what is this particular bank built to do?**

That is the institutional story, and it is what pulls a bank toward the third corner of the triangle: the Market Intermediary. The first two questions are about the country. This one is about the bank, and it explains why banks in

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<sup>5</sup> World Bank, Collateral Registries for Movable Assets: Does Their Introduction Spur Firms’ Access to Bank Finance? Policy Research Working Paper 6477

(2013); see also World Bank, ‘Getting Credit Good Practices.’



the same market can look different even under the same macro and structural conditions.

In sub-Saharan Africa today, the Market Intermediary behaviour we observe is driven primarily by institutional capability. Subsidiaries of large regional or international banking groups import transaction banking platforms, treasury systems, risk controls and cross-border connectivity from their parents. They are built for flows: payments, trade finance, FX intermediation, custody and corporate treasury services. They earn a material share of income from fees, trading and FX rather than from the loan book alone.

This institutional wiring pulls a bank toward the Market Intermediary corner regardless of whether the broader system is tilted toward Sovereign Collector or Domestic Underwriter. The balance sheet still responds to the local incentive stack – the same subsidiary will hold more sovereign assets in a macro environment that rewards it – but the franchise logic travels with the institution. The Market Intermediary corner describes primarily how the bank earns and what capabilities it has, not simply where it parks assets at a point in time.

A deeper version of Market Intermediary behaviour would look different, with genuine intermediation between issuers and investors rather than a narrower dependence on payments, FX and treasury flows. But that requires market infrastructure that remains thin in much of sub-Saharan Africa today, leaving banks to warehouse risk that in deeper markets could be distributed.<sup>6</sup> The narrow Market Intermediary banks are the natural candidates to evolve into something more substantial if

that plumbing is built around them. But that plumbing will not build itself.

**Box: Reading the evidence – clues that indicate archetype tilt**

For distinguishing between a Sovereign Collector and a Domestic Underwriter, the cleanest clue is the asset mix. What share of the balance sheet goes to customer loans versus sovereign securities and liquidity? Where loans can structurally dominate assets, the bank is leaning toward Domestic Underwriter. Where a large share of balance-sheet capacity sits in securities and liquidity, with lending present but unable to dominate, the bank is leaning toward Sovereign Collector.

For the Market Intermediary, the most useful first clue is often institutional type. Subsidiaries of large regional or international groups are more likely to show Market Intermediary behaviour as they are typically built around transaction banking and treasury capability (payments, trade, FX and related services) rather than around expanding long-tenor credit. We then look for confirmation in the numbers: a liquidity-first, short-duration posture on the balance sheet, and material fee, FX and trading income alongside interest income.

We use this framework in the country sections that follow – what the macro environment rewards, what the structure allows, and what the institutions are built to do. We then test it against what shows up on balance sheets and income statements.

<sup>6</sup> IMF, *Regional Economic Outlook: Sub-Saharan Africa* (2024); FSD Africa, *Capital Markets Progress Report* (2025).



### 3. Two Countries, Two Corners. Why Nigerian Banks Collect and Kenyan Banks Lend

Nigeria and Kenya are among the larger and more developed banking markets on the African continent. Yet their banks allocate balance sheets in markedly different ways, shaped by the incentive stacks they face.

Nigeria in 2024 combined very high inflation, sharp FX adjustment and an exceptionally heavy reserve requirement. Headline inflation stayed above 30% through much of the year and reached 34.19% in June, while the official Naira exchange rate also depreciated sharply after the post-2023 FX reforms.<sup>7</sup> Kenya, by contrast, had a difficult but more benign macro setting. Inflation stayed within the central bank's target band for much of 2024 and ended the year at 3.0%, while the shilling stabilised and then appreciated through much of the year.<sup>8</sup> Nigeria's cash reserve ratio for deposit money banks was 45% in 2024 while Kenya's was 4.25% during 2024 and was only cut to 3.25% in February 2025.<sup>9</sup>

The structural picture also differs. Kenya's credit infrastructure is still imperfect, but it is

more usable. Credit reference bureaus have operated since 2010 and are widely used by lenders,<sup>10</sup> and the latest broadly comparable World Bank data show credit bureau coverage of 36.4% of adults in Kenya, versus 13.9% in Nigeria.<sup>11</sup> Land registration, while uneven, supports mortgage and secured lending in major urban centres, and the broader framework for secured lending and recovery is somewhat more workable in practice, even if enforcement remains slow and costly.<sup>12</sup> Nigeria has credit bureaus and reform efforts of its own, but coverage remains lower and recoveries can be more operationally uncertain. None of this makes Kenya a frictionless lending environment. It does, however, suggest that the conditions for sustainable domestic underwriting are partially met in ways they are not yet in Nigeria. These differences help explain why banks in one system can sustain more of a Domestic Underwriter posture, while those in another remain pulled toward the Sovereign Collector corner.

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<sup>7</sup> National Bureau of Statistics (Nigeria), *CPI and Inflation Report, June 2024*; Central Bank of Nigeria, exchange-rate policy materials and 2024 policy communications on the post-2023 FX reforms.

<sup>8</sup> Central Bank of Kenya, 55th Monetary Policy Statement, December 2024; Central Bank of Kenya, Quarterly Economic Review, October–December 2024.

<sup>9</sup> Central Bank of Nigeria, MPC Communiqué (July 2024); Central Bank of Kenya, MPC Press Release (5 February 2025) and Weekly Bulletin (7 February 2025).

<sup>10</sup> FSD Kenya, “Credit, Where It Is Due: Kenya’s Credit Information Sharing Journey” (2023).

<sup>11</sup> World Bank, *Doing Business 2020*; World Bank DataBank, private credit bureau coverage (% of adults).

<sup>12</sup> World Bank, *Doing Business 2020*; World Bank, Subnational Doing Business, enforcing contracts.



**Exhibit 2. Illustrative indicators that tilt bank behaviour**

Indicator	Nigeria	Kenya
<b>Inflation environment in 2024</b>	Headline inflation above 30%; June 2024 print at 34.19%	Inflation remained within the 2.5-7.5% target band for much of the year; 3.0% in Dec-2024
<b>Exchange-rate environment</b>	Sharp official depreciation after the post-2023 FX reforms	2023 stress gave way to appreciation and stabilisation through 2024
<b>Cash reserve ratio during 2024</b>	45% for commercial banks	4.25% during 2024 (cut to 3.25% in Feb-2025)
<b>Credit information (latest comparable World Bank data)</b>	Credit bureau coverage about 13.9% of adults	Credit bureau coverage about 36.4% of adults
<b>Loans to customers as a share of assets in the six-bank sample</b>	28-34%	39-50%

The balance sheets reflect these differences clearly. Across the three **Nigerian** case-study banks – Access Bank, FirstBank Nigeria and Stanbic IBTC – loans to customers represent roughly 28 to 34% of total assets, leaving securities, cash and other liquid assets to absorb most balance-sheet capacity.<sup>13</sup> Access Bank ended 2024 with ₦40.8 trillion in assets and a near-even split between loans and securities, with each accounting for around 28% of the total. FirstBank’s customer loans were large in absolute terms, at ₦8.8 trillion, but still represented only around one-third of total assets. These banks lend, but lending does not dominate.

Across the three **Kenyan** case-study banks – KCB Group, Equity Group and Standard Chartered Kenya – loans represent roughly 39 to 50% of total assets, materially above their Nigerian counterparts.<sup>14</sup> KCB sits at the most loan-heavy end of the six-bank sample, with customer loans at about half of total assets, and remains unmistakably credit-led.<sup>15</sup> Equity also allocates a larger share of assets to loans than the Nigerian sample, while complementing that posture with substantial

non-interest income generated through mass-market distribution.<sup>16</sup> That distinction matters, as strong fee income can reinforce a Domestic Underwriter model rather than imply a different one.

Kenya’s system was not operating in ideal conditions in 2024. The banking sector’s gross non-performing loan ratio rose to 17.1% in December 2024, the mortgage market remained small, and government securities still occupied meaningful space on bank balance sheets.<sup>17</sup> But the system absorbed the cycle without abandoning the underwriting model. That is the key point. Private credit could still compete for balance-sheet space. In Nigeria’s 2024 environment, it was much harder for that model to dominate.

A useful benchmark highlights the contrast. Across FDIC-insured US banks, net loans and leases represented 51.88% of total assets at end-2024.<sup>18</sup> The six-bank sample in this Short Read spans 28 to 50%. The range is explained less by bank ambition than by the environment in which each institution operates.

<sup>13</sup> Access Holdings, Annual Report and Accounts 2024; First HoldCo, FY2024 results materials; Stanbic IBTC Holdings, FY2024 results.

<sup>14</sup> KCB Group, FY2024 results; Equity Group Holdings, audited financial statements for year ended 31 December 2024; Standard Chartered Bank Kenya, 2024 annual report materials.

<sup>15</sup> KCB Group, FY2024 results.

<sup>16</sup> Equity Group Holdings, audited financial statements for year ended 31 December 2024.

<sup>17</sup> Central Bank of Kenya, *Bank Supervision Annual Report 2024*.

<sup>18</sup> FDIC, *Quarterly Banking Profile: Fourth Quarter 2024*.



## 4. The Third Corner. Banks Built for Flows

Section 3 compared the sovereign-versus-underwriter axis. This section isolates the third corner of the triangle. In both Nigeria and Kenya, one institution in the sample sits apart from its domestic peers. Although exposed to the same country-level incentive stack, they are fundamentally built to do something different.

Stanbic IBTC in Nigeria is a subsidiary of Standard Bank Group, Africa's largest bank by assets. Standard Chartered Kenya is a subsidiary of the Standard Chartered global network. Both are built for flows – payments, trade finance, FX intermediation, custody and corporate treasury services – all running on platforms and connectivity imported from their parents.

Stanbic IBTC's balance sheet is the most distinctive in the Nigerian sample. Cash and balances sit at 32% of assets – far above Access Bank's 13% or FirstBank's 17% – and a further 9% sits in trading positions, a share that dwarfs the other five banks in the sample where trading assets barely register. This is a balance sheet organised around liquidity and market-facing activity.<sup>19</sup>

Standard Chartered Kenya shows a similar income signature from the other side. It is the smallest bank in the six-bank sample at KES 385 billion in assets – roughly a fifth the size of KCB or Equity. Of KES 17 billion in non-interest income, KES 8.3 billion comes from FX trading and KES 3.2 billion from gains on financial assets. Its corporate and investment banking segment generates KES 23 billion in operating income, dwarfing wealth and retail banking at KES 2 billion.<sup>20</sup> This is a bank whose franchise is built on cross-border flows, FX

intermediation and treasury services channelled through the global network. It lends selectively, primarily to corporates and institutions, rather than pursuing the mass-market origination that KCB and Equity have built.

### **Box: Why Market Intermediaries matter for development finance**

The contribution of Market Intermediary banks is often invisible in the development finance conversation, which tends to focus on lending volumes and credit access. But transaction banking, trade finance and treasury services are infrastructure. They lower the cost of doing business. They connect domestic firms to international capital flows. They provide the FX liquidity and settlement reliability that other banks depend on.

A banking system without capable Market Intermediaries does not just lack a type of bank. It lacks plumbing that the rest of the system needs to function. DFIs that engage with these institutions should assess them on different terms from those applied to Domestic Underwriters: not how much they lend, but how effectively they intermediate.

The comparison between these two banks is where the framework earns its keep. Both are subsidiaries of major international groups, operating in different environments. Both show Market Intermediary characteristics in their income profiles: fees, FX and trading lines that make up a material share of total revenue. The institutional wiring travels with the parent, not with the country. The local environment affects

<sup>19</sup> Stanbic IBTC Bank, Audited Financial Statements 2024; Access Holdings, Annual Report and Accounts 2024; First HoldCo, FY2024 results materials.

<sup>20</sup> Standard Chartered Bank Kenya, Annual Report 2024.



how much sovereign paper they hold, but it does not fully determine the franchise they have been built to monetise.

Equity Group's non-interest income, 44% of operating revenue, looks similar on an income statement, but its source is entirely different. 22 million retail customers and 85,000 agents generating transaction fees across a domestic distribution network, not wholesale flow capability imported from an international parent.<sup>21</sup> Equity has monetised financial inclusion. Stanbic and Standard Chartered are monetising cross-border connectivity. The income statements may rhyme, but the institutional models do not.

For now, Market Intermediary banking in both countries remains narrow, characterised by a small number of subsidiaries channelling flows through parent-group infrastructure. A deeper version, where domestic banks originate, distribute and trade financial assets at scale, would require local market infrastructure that does not yet exist, i.e. liquid secondary bond markets, functioning repo markets and standardised hedging instruments. Until that infrastructure develops, the Market Intermediary corner of the triangle will remain the preserve of international subsidiaries.

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<sup>21</sup> Equity Group Holdings, *Audited Financial Statements for the Year Ended 31 December 2024*; Equity Group, FY2024 investor materials.



## 5. The Role of DFIs: Underwriting Movement within the Triangle

Development finance actors typically approach banks as channels. They provide funding. They attach reporting requirements. They celebrate disbursements. They are surprised when systemic outcomes remain largely unchanged.

If DFIs want to play a serious role in shifting bank archetypes, they must think less like lenders moving capital through channels and more like investors forming a view on each bank, set against the system it operates in. The question is *“how do we make it rational for banks to allocate balance sheets differently, and to keep doing so after we leave?”*

Answering that question requires DFIs to diagnose correctly, then act.

### Diagnose

The starting point is the incentive stack of the country in which the DFI is operating, and the direction in which it is pulling the banking system as a whole. That country-level picture is already well-served. Article IV reports, central bank financial stability reviews, rating agency sovereign analysis and the work of organisations such as FSD Africa provide ample material for a DFI to understand the macro and structural environment of any given market. Commissioning further country analysis is rarely the binding step.

The bank-level diagnostic is where the gap sits, and where the framework in this Short Read is designed to help. A target bank has to be placed on the triangle in its own terms. Whether it leans toward Sovereign Collector, Domestic Underwriter or Market Intermediary, or sits as some hybrid between them, is the question that determines what kind of engagement is likely to move it. Bank diligence in development finance currently focuses on credit risk, governance and ESG, all of which answer whether a DFI can lend to the bank safely.

None of them answers which archetype the bank most resembles, or which intervention would actually shift its allocation.

The diagnostic itself is not heavy work. Asset mix, income mix and institutional type, read over a few years of published accounts, will usually place a bank on the triangle and identify the binding constraint a DFI engagement would need to address. The six-bank analysis earlier in this Short Read illustrates the approach. The binding constraint then points to which of the three levers in the next section is relevant. In the absence of that step, instrument choice tends to be driven by what the DFI is configured to deploy rather than by what the bank actually needs.

### **A first step for DFIs – audit the FI portfolio against the triangle**

DFIs should begin by auditing their existing FI portfolios against the triangle, placing each bank in the book at the corner that best matches its current balance-sheet behaviour. This produces a picture of how the portfolio splits across Sovereign Collector, Domestic Underwriter and Market Intermediary positions, and sets up the question of what kind of engagement is relevant for each bank.

### Act

The diagnostic places a bank somewhere on the triangle. The work of Act is to move it, and to be explicit about which move is being underwritten. The same instrument applied to two different banks produces two different outcomes, because banks at different corners face different binding constraints. A line of credit to a Sovereign Collector may increase the size of its balance sheet without changing



its allocation. A trade facility to an international subsidiary may strengthen narrow Market Intermediary capability without contributing to the deeper version. A risk-sharing programme paired with credit-infrastructure work may gradually create more Domestic Underwriting, but only where the bank has the capability to price risk sustainably.

Three movements within the triangle are realistic destinations for DFI engagement: pulling a Sovereign Collector toward Domestic Underwriter; broadening and deepening what a Market Intermediary underwrites in the corporate segment; and deepening narrow Market Intermediation into the real version that markets, rather than balance sheets, ultimately require. Each has its own binding constraint, its own time horizon, and its own definition of success.

#### ***From Sovereign Collector toward Domestic Underwriter***

This is the movement most DFI engagements implicitly set out to engineer. The Sovereign Collector allocates to sovereign assets because the risk-adjusted return on private credit is too low and the operational cost of underwriting it too high. Movement therefore requires changing that calculus on three fronts.

On the **risk side**, guarantees and portfolio risk-sharing facilities can absorb part of the tail-risk the bank would otherwise carry alone — but only if they expand what the bank is willing to underwrite at the margin, rather than wrap around lending the bank would have done anyway. Too small a share of risk transferred and the underwriting calculus is essentially unchanged. Too generous and too cheaply priced, and the bank's incentive to underwrite carefully erodes, with losses migrating to the donor balance sheet. The strongest frameworks reflect this through governance requirements, leverage caps, and a focus on long-run financial sustainability rather than headline disbursement volume.

On the **funding side**, banks cannot sustainably underwrite long-tenor local-currency credit if their liabilities are short and confidence-

sensitive. Subordinated debt structured as actual capital, with the tenor and loss-absorbency that lets a bank build a longer book against it, addresses this directly. So do anchor investments in domestic bond issues that give the bank access to longer-dated local-currency liabilities. The mechanism is the same in each case: lengthen or stabilise the liability side, and the cost of carrying long-tenor private credit on the asset side falls. Hard-currency loans, swapped or unswapped, do not achieve this — they shift FX risk to the borrower rather than removing it from the system, a theme developed in Episode 1 of this series.

On the **credit-infrastructure side**, neither of the above persists at scale without information sharing, collateral registries, and enforceable creditor rights. DFI capital can move a single bank temporarily; DFI advocacy and technical assistance on credit infrastructure are what allows the movement to repeat across institutions and survive the DFI's exit.

#### ***From Market Intermediary toward Domestic Underwriter***

The Market Intermediary banks in the sample, Stanbic IBTC and Standard Chartered Kenya, lend, but they lend selectively and almost exclusively to the local subsidiaries of multinationals and the largest domestic corporates. Their wholesale infrastructure is imported from parents and was never built around mass-market origination. Asking these institutions to behave like Equity Group or KCB is to ask them to abandon their comparative advantage. The more realistic ambition is to deepen and broaden the underwriting they already do.

Concretely, this means working with these banks to extend their corporate books down market into mid-tier and lower-tier corporates that currently fall between the cracks of large-corporate coverage and SME programmes. It means supporting supply-chain and trade-linked credit structures that use the bank's existing flow franchise as the origination channel for term financing. And it means term loans for corporate capex, including climate-aligned investment, which the bank's parent



infrastructure can underwrite but which have historically been crowded out by shorter-tenor working-capital business.

Where the Sovereign Collector needs to be persuaded that private credit can be priced, enforced and funded at all — a constraint sitting partly at the bank and partly at the country level — these banks face neither problem in the same way. The local subsidiary already underwrites corporate credit at scale, and the institutional wiring travels with the parent. What is missing is the group's willingness to allocate more of its balance-sheet capacity and risk appetite to a broader corporate segment in this jurisdiction rather than elsewhere in its footprint. That points to a different conversation, at group level as much as country level, and to DFI tools that make a given country and segment compete more attractively for group balance sheet: anchor co-investment in defined programmes, segment-specific risk-sharing, and longer-tenor local-currency funding tied to specific lending mandates.

***From narrow Market Intermediary toward real Market Intermediation***

The destination here is a domestic capability that originates, distributes and trades financial assets at scale, rather than the current model in which a small number of international subsidiaries channel flows through parent-group infrastructure. Securitisation, the subject of an earlier CDFS Short Read, is a useful illustration of what that capability looks like. A bank that can originate a local-currency loan book, transfer part of the risk to a capital-markets vehicle, and recycle the freed-up balance sheet into new origination is doing precisely the kind of intermediation that turns a system from sovereign-dominated into market-led. None of that is possible without the surrounding plumbing, and building it requires DFI engagement on multiple fronts, starting with the banks themselves.

With banks, DFIs can support the building of capital-markets capability that domestic institutions currently lack. Anchor investments in bank-issued local-currency bonds extend the

bank's funding tenor and at the same time create new tradeable assets for the market, since each new issuer adds a point on the curve. Risk-sharing in early securitisation transactions, whether as first-loss investor or as partial guarantor, gives banks a route to recycle balance sheet that does not yet exist organically. And technical assistance can support the build-out of originate-to-distribute capability, and of CIB and treasury functions located within the domestic bank rather than imported from a parent.

Beyond banks, DFI engagement shifts toward regulators and supervisors. Frameworks for securitisation, repo, and derivatives often need to be written or modernised before banks can do this work at all. Supervisors need capital-markets capability of their own, not only credit and prudential supervision. And disclosure regimes, both sovereign and corporate, remain patchy enough to add a premium to the cost of capital across the board, a theme picked up in the Transparency Short Read.

DFIs can also invest directly in the market infrastructure itself. Central securities depositories and exchanges have capital needs that match well with patient equity. PAPSS, the Pan-African Payment and Settlement System, deserves more than the current diet of pilots, and regional bond market integration is exactly the slow, multi-jurisdictional work that benefits from concessional capital and long horizons.

This kind of work moves slowly, produces little that fits on a results dashboard, and is a harder thing to take to a board than a credit line. But without it, the Market Intermediary corner remains the preserve of international subsidiaries.



**Exhibit 3. The three movements and what each requires**

Movement	What funding alone often does	What is more likely to change behaviour
<b>Sovereign Collector</b> ↓ <b>Domestic Underwriter</b>	Expands the balance sheet without reliably shifting allocation between sovereign and private credit	<ul style="list-style-type: none"> <li>• Risk-sharing and guarantees calibrated to expand marginal underwriting</li> <li>• Subordinated capital and anchor bond investments to lengthen local-currency liabilities</li> <li>• Technical assistance and policy dialogue on credit infrastructure</li> </ul>
<b>Market Intermediary</b> ↓ <b>Domestic Underwriter</b>	A line of credit deploys through the existing corporate book; the franchise does not broaden	<ul style="list-style-type: none"> <li>• Group-level engagement alongside country-level</li> <li>• Anchor co-investment in defined corporate-segment programmes</li> <li>• Segment-specific risk-sharing on mid-tier and lower-tier corporates</li> <li>• Longer-tenor local-currency funding tied to specific lending mandates</li> </ul>
<b>Narrow Market Intermediary</b> ↓ <b>Real Market Intermediation</b>	A loan to the bank cannot, by itself, build the market into which the bank would distribute	<ul style="list-style-type: none"> <li>• Anchor bond investments and securitisation risk-sharing at the bank</li> <li>• Technical assistance and policy dialogue on capital-markets frameworks</li> <li>• Patient equity in CSDs, exchanges and cross-border infrastructure</li> <li>• Anchor investor role to crowd in domestic institutional capital</li> </ul>

*The movements reinforce each other. A stronger Domestic Underwriter base produces the assets that real Market Intermediation needs to distribute; a deeper Market Intermediary capability gives the Domestic Underwriter a way to recycle capital and extend further. Without one of those, the gravitational pull of the Sovereign Collector corner remains the path of least resistance. None of them, though, can substitute for macro credibility. Sovereign gravity can be reduced but not wished away – where the macro environment is broken, DFIs can manage consequences but cannot abolish equilibria that extend beyond finance. The broader implication is that "more lending" is the wrong headline for what development finance does with banks in these markets. The right headline is movement within the triangle.*

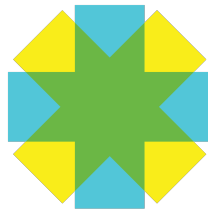


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