



AFRICAN DEVELOPMENT BANK GROUP  
FINANCIAL PRODUCTS PRESENTATION  
September 2020



GRUPE DE LA BANQUE AFRICAINE  
DE DEVELOPPEMENT  
AFRICAN DEVELOPMENT BANK GROUP

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# THE BANK GROUP



AFRICAN DEVELOPMENT BANK GROUP

# Africa's Premier Development Finance Institution

The AfDB Group: three constituent institutions, separate legally and financially, with a common goal



## African Development Bank (ADB)

- Established in 1964
- 81 member countries
- Authorized capital: USD 208 billion
- Resources raised from capital markets
- 0% Risk Weighting under Basel II
- Level 1 under Basel III



## African Development Fund (ADF)

- **Concessional financing**, established in 1972
- Financed by 27 State participants and 4 regional donors
- Subscription: USD 41 billion
- **Focus on low income countries**
- Replenished every 3 years



## Nigeria Trust Fund (NTF)

- Established in 1976 by Nigeria
- Targeted at the Bank's needier countries
- Maturing in 2023
- Total resources: USD 242 million

### Board of Governors

- Highest decision making body
- Composed of Ministers of Finance and Ministers of Cooperation of the Bank's member countries

### Board of Directors

- 20 Executive Directors elected by the Board of Governors
- Oversees the general operations of the Bank

Decisions by both Boards require two third majority or 70% should any member require so

...focused on combating poverty, and improving living conditions on the continent

# Country Classification Framework – CREDIT POLICY

The Bank’s regional member countries are classified according to the Bank’s credit policy into 4 categories which determines which financing window they can access.

		Creditworthy for non-concessional financing? (In line with the Country Policy and Institutional Assessment - CPIA analysis)	
		No	Yes
Per capita income above the ADF/IDA operational cut-off (USD 1,165 for 2018) for more than 2 consecutive years?	No	<b>ADF- Regular and Advanced</b> countries or Low Income Countries (LICs) eligible to ADF concessional financing (61% concessionality for ADF Regular and 51% for ADF-Advanced)	<b>Blend countries</b> Simultaneously eligible for ADB non concessional & ADF concessional financing
	Yes	<b>ADF Gap</b> countries eligible for ADF concessional financing on blend terms (35% concessionality)	<b>ADB-Only</b> Middle Income Countries (MICs) eligible to non-concessional financing only  <b>Graduating</b> <i>Graduating countries are eligible for ADF resources on blend terms during a 2 to 5-year phasing-out period (decreasing access to ADF resources)</i>

Addressing the diverse financing needs of the continent

# Summary of AfDB Financial Products

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**LENDING INSTRUMENTS**

Providing long-term debt to public and private sectors

- *ADF Loan*
- *Fully Flexible Loan*
  - *Policy-Based Operations (PBO)*
  - *Results-Based Financing (RBF)*
- *Fixed Spread Loan (FSL)*

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**EQUITY**

Bringing scarce risk capital to transformative projects

- *Direct Equity*
- *Subordinated Debt*
- *Mezzanine Debt*
- *Other quasi-equity*

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**TRADE FINANCE**

Bridging the gap in trade financing in Africa

- *Risk Participation Agreements (RPAs)*
- *Trade Finance Lines Of Credit (TFLOC)*
- *Soft Commodity Finance Facility (SCFF)*

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**GUARANTEES**

Mitigating the risks attached to investments in Africa

- *Partial Risk Guarantee*
- *Partial Credit Guarantee*
- *Portfolio Guarantee*

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**RISK MANAGEMENT PRODUCTS**

Allowing our borrowers to hedge and manage their debt responsibly

- *Interest Rate Swaps including caps and collars*
- *Cross Currency Swaps*
- *Commodity Swaps*

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**TECHNICAL ASSISTANCE FUNDS**

Financing the completion of feasibility studies, training and project preparation

- *Grants*
- *Concessional Loans*
- *Equity in select cases*
- *Reimbursable grants*

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**AFFILIATED PARTNERS**

Leveraging partnerships with catalytic financial intermediaries

- *Africa 50*
- *Africa Guarantee Fund*
- *African Export-Import Bank*

## Menu of Existing Financial Instruments

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# PRIVATE SECTOR LOANS



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# Non-Sovereign Guaranteed Loans

## Fixed Spread Loan (FSL)

Viable enterprises & multinational projects

### Additionality and Development Outcomes

- Job creation
- Government revenues
- Financial return
- Foreign currency earnings
- Social and environmental safeguards



Project Finance



Line of Credit



Corporate Loan

Lending terms	<b>Eligibility</b>	Public Sector Companies of ADB and Blend countries without a sovereign guarantee; and Private Sector Companies in all RMCs
	<b>Maturity</b>	Up to 15 years
	<b>Grace period</b>	Up to 5 years
	<b>Currencies</b>	EUR, USD, JPY, ZAR, LCY
Lending Rate	<b>Pricing formula</b>	Base rate: Floating (6m Libor/Euribor, 3m Jibar) or Fixed (Amortizing swap rate) + risk-based lending spread/margin based on project risk
	<b>Interest Rate Features</b>	Free option to fix up upon disbursement
	<b>Front-end fee</b>	100 bps of loan amount at signature
Fees	<b>Commitment Fee</b>	50bps – 100bps of undisbursed amount
	<b>Appraisal fee</b>	Determined during appraisal
	<b>Supervision fee</b>	As needed
	<b>Prepayment premium</b>	Hedge unwinding cost in case of a fixed rate loan + a premium determined in the loan agreement



# Non-Sovereign Guaranteed Loans – LOCAL CURRENCY

## Rational

- ✓ Provide long term funding in local currencies
- ✓ Promote domestic capital market development

- ✓ Reduce clients foreign exchange risk /overall economic risk exposure

### Funding option 1: Domestic Bond Issuance

- 1 The Bank will issue a local bond to provide the funding for the client. The Bank is hedged as it has its assets and liabilities aligned in the same currency.

### Funding option 2: Synthetic Local Currency Loan (SLCL)

- 2 The Bank enters into a hedge contract with a market counterparty that provides the equivalent local currency conversion rate. The Bank's liability is then completely hedged against currency and interest rate variations and the client's exposure in local currency.

### Funding option 3: Cross Currency Swap

- 3 This involves an exchange of notional amount with the swap counterparty at inception and termination, and subsequent receipts of debt repayments in its preferred currency based on the swap transaction executed.

### Funding option 4: Local Bank Loan

- 4 The Bank enters into an agreement with a local commercial bank that would provide the client with the funding, and receives its funding cost from the Bank. The Bank bears the credit risk of the client.

## Lending currencies

The Bank currently has **12 approved African lending currencies**:

South African Rand, Egyptian Pounds, Uganda Shilling, Nigerian Naira, Kenya Shilling, Zambia Kwacha, Tanzania Shilling, Ghana Cedi, Botswana Pula, CEMAC region CFA and WAMU region CFA and Rwandan franc (RWF).





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# GUARANTEE PRODUCTS



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# AfDB Guarantees



- Risk perception often leads to an additional risk premium on projects compared to other regions of the world
- This skewed perception of risk impacts the cost and volume of commercial financing and capital investment
- Africa has been less successful than other developing regions in attracting private investment

**AfDB Group offers 2 types of guarantees:**



Guarantees to protect the beneficiaries **against political risks** emanating from the government or its entities: **Partial Risk Guarantees (PRGs)**



Guarantees to protect the beneficiaries **against non-payment** by the Applicant: **Partial Credit Guarantees (PCGs)**

# AfDB Guarantees



## Purpose of Partial Risk Guarantee (PRG)

- Currency Inconvertibility and Non-transferability
- Expropriation, Confiscation, Nationalization and Deprivation
- Political Force Majeure Risks
- Breach of Contract

## Beneficiaries

- Commercial /private sector sponsors/financiers lending to projects in Africa

## Purpose of Partial Credit Guarantee (PCG)

- Covers a portion of debt service defaults regardless of the cause thus supporting the borrowing of the government or public sector entities in investment operations, as well as private sector borrowers.
- Can help countries get access to the capital markets

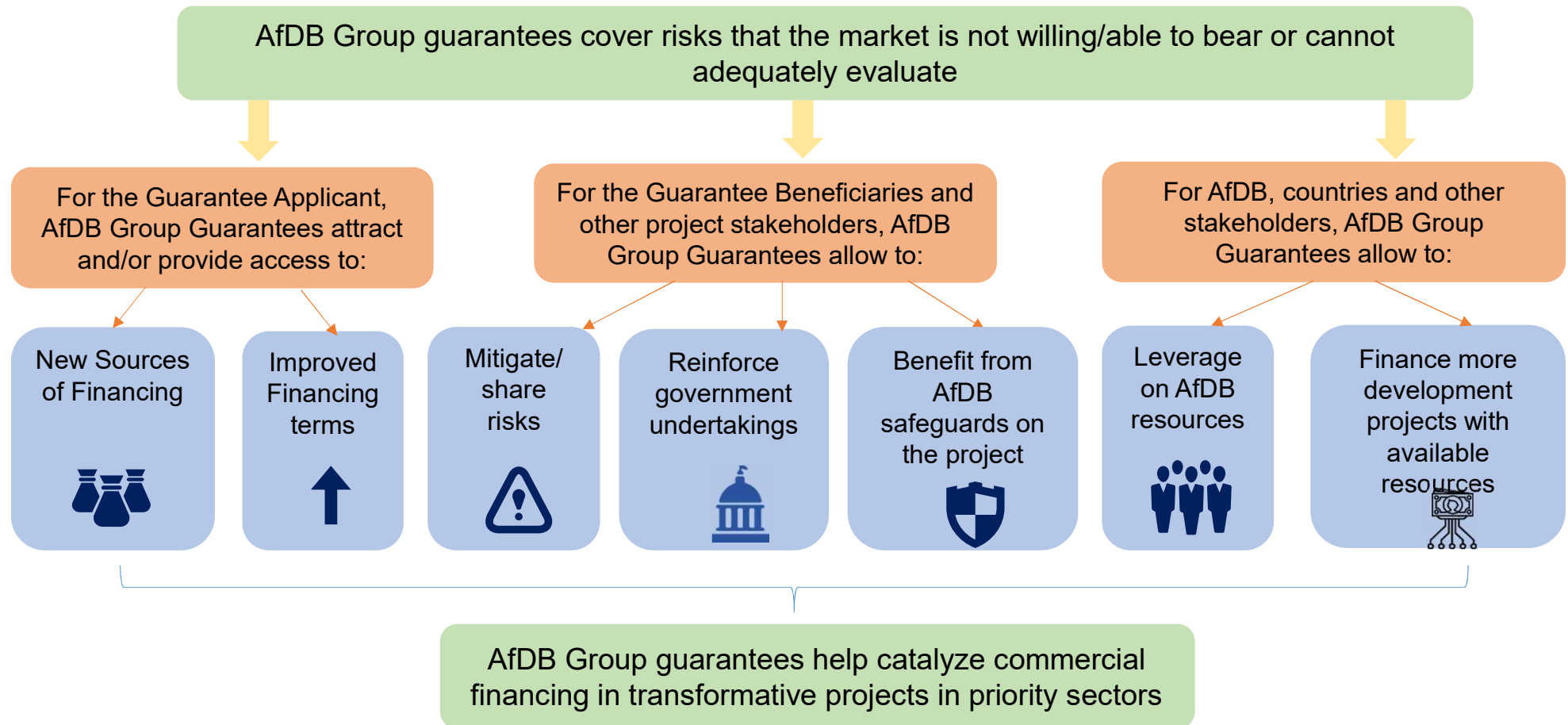
## Beneficiaries

- Private lenders to both private sector clients and/or sovereign clients

*The Bank also launched an innovating collaborative platform for risk mitigation called the **Co-Guarantee Platform** pooling the products of five guarantee providers across Africa into a one-stop shop.*

*Email: [cgp@afdb.org](mailto:cgp@afdb.org)*

# AfDB Guarantees – THE BENEFITS OF WORKING WITH US



# AfDB Guarantees – THE TERM SHEET



<i>Lending Window / Terms</i>	Partial Credit Guarantee			Partial Risk Guarantee	
	ADF	ADB		ADF	ADB
<b>Leverage</b>	Only 25% of the guarantee amount is deducted from the Performance Based Allocation	A PCG will consume same level of headroom as an equivalent loan		Only 25% of the guarantee amount is deducted from the Performance Based Allocation	100% loan equivalent risk capital is assigned to a guarantee
<b>Borrower/Applicant</b>	Public	Public	Private	Public	Public
<b>Maturity (yrs)</b>	Up to 40	Up to 25	Up to 15	Up to 40	Up to 25
<b>Guarantee fee</b>	0.75%	0.80%	Lending margin	0.75%	0.80%
<b>Front-end fee</b>	Up to 1%	0.25%	1% or more	0%	0.25%
<b>Standby fee</b>	0.5%	0.25%	0.5% – 1%	0.5%	0.25%

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# EQUITY



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# Direct Equity

## Eligibility

- Financially viable private companies and financial intermediaries
- Public sector companies that are in the process of being privatised and regional as well as sub-regional institutions / companies
- Includes Subordinated loans, income participating loans
- Convertibles and other hybrid instruments

## Ownership Approach & Divestment

- Bank's equity participation not to exceed 25%
- Bank will seek board representation in any company in which it becomes a shareholder.
- Clearly defined exist clause to be exercised upon achievement of objectives





# Indirect Equity

Private Equity Investments	Size of Fund (USD)	ADB (USD)
South African Infrastructure Fund	221 million	25 million
AIG Infrastructure Fund	400 million	50 million
Pan-African Infrastructure Fund	450 million	50 million
African Infrastructure Fund II	500 million	30 million
Argan Infrastructure Fund	200 million	15 million



AfDB currently holds **\$43.4 billion** in assets and a committed portfolio of **\$1.1 billion** in equity investments.

*We invest in PE infrastructure funds to diversify our equity investments, target specific regions and industries and reduce transaction costs.*

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# RISK MANAGEMENT PRODUCTS



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# Risk Management Products (RMPs)

- The Bank’s RMPs are financial products which allow clients to transform the financial risk characteristics of their obligation under a loan or other instrument without renegotiation or amending the terms of the original instrument
- RMPs enable clients to hedge their exposure to market risks, including: interest rate, currency exchange and commodity price
- Clients are required to enter into market-based Master Derivatives Agreement with the Bank prior to entering into RMP transactions



- (1) Interest rate swaps: fixed rate for floating or vice versa
- (2) Cross-Currency Swap: one currency for another (USD to EUR, for example)
- (3) Commodity Price Swap: fixed / floating rate cash flows for price of commodity or basket of commodities
- (4) Interest rate Caps and Collars

## FEES

Interest rate swap	Currency Swap	Commodity / Index swap	Cap and collar
0.125 %	0.25 %	0.375 %	0.125 %

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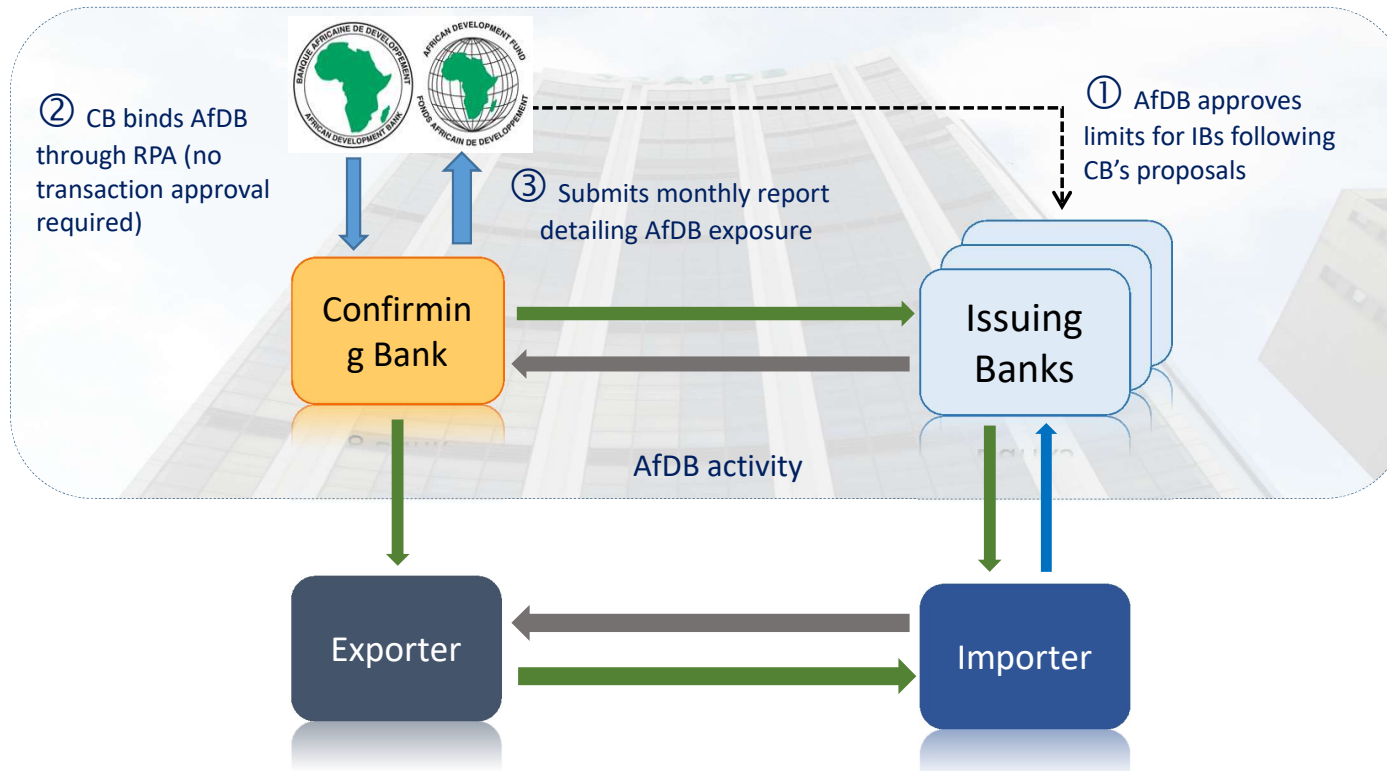
# TRADE FINANCE



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# Trade Finance – RISK PARTICIPATION AGREEMENT (RPA)

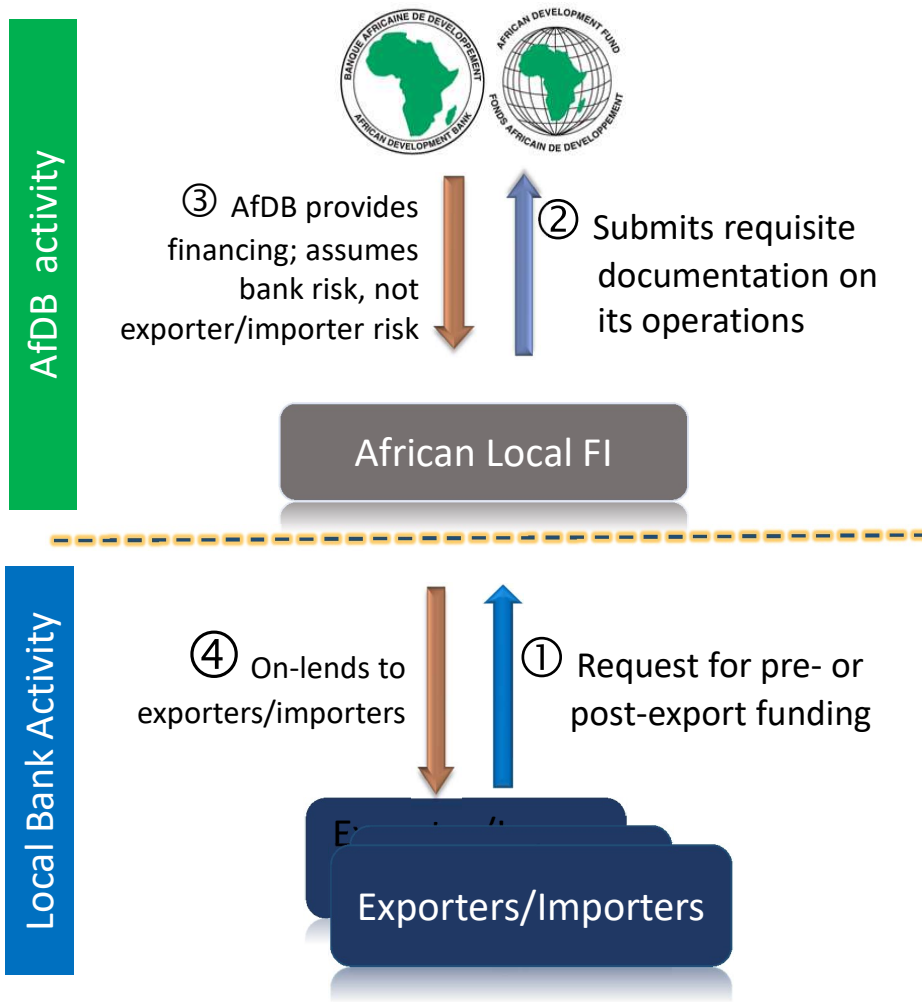
*AfDB shares credit risk (up to 50% of transaction value) on a portfolio basis with confirming banks (CBs) that have large and consistent trade finance volumes*



## TERMS

- **Bank Cover:** Up to 50% of eligible transaction value or risk assumed by the RPA Bank, whichever is lower
- **Tenor:** Maximum tenor of RPAs is 3.5 years; underlying transactions limited to no more than 2 years
- **RPA Administration Fee** - typically between 0.1% - 0.2% of Bank's earned commission
- RPA arrangements with CBs are by nature unsecured

# Trade Finance - LINES OF CREDIT (TFLOC)

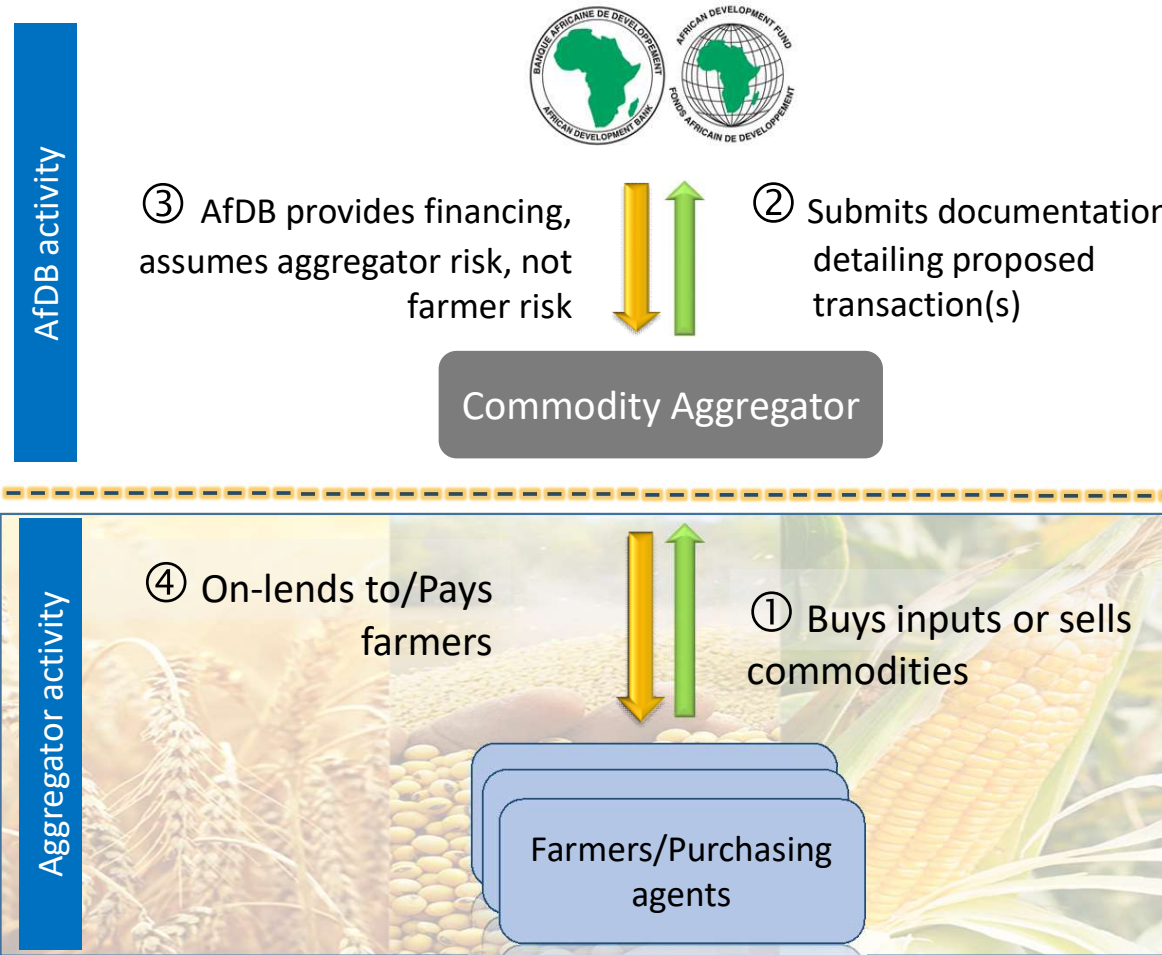


*AfDB provides pre- and post-export financing through local banks*

TERMS
<ul style="list-style-type: none"> <li>• Tenor: Maximum tenor is 3.5 years; borrowers can recycle proceeds until final maturity of TFLOC</li> <li>• Pricing: based on market practices and includes a credit spread that reflects the Bank's assessment of the risks, facility ranking, tenor etc.                             <ul style="list-style-type: none"> <li>• Front-end and commitment fees not exceeding 1% are applicable.</li> <li>• Interest will be paid semi-annually</li> </ul> </li> <li>• Security and Collateral: Facility classified as unsecured senior debt</li> </ul>

# Trade Finance – SOFT COMMODITY FINANCE FACILITY (SCFF)

*AfDB provides input and post-harvest financing through aggregators*



## TERMS

- **Tenor:** Maximum tenor is 2 years; on an exceptional basis, tenor beyond 2 years may be permitted subject to the approval of the Bank’s credit risk committee
- **Pricing:** Pricing will reflect the transaction risks and the Bank’s pricing policy for non-sovereign operations and Front-end and commitment fees apply
- **Security and Collateral:** The facility is a senior debt obligation of borrowing institutions who may require security from their own clients. Such security shall be used as risk mitigation for the Bank’s exposure and may include commodity and documentary pledges, escrow accounts with assignment of proceeds, and private and sovereign guarantees among others



## Other Resources – TRUST FUNDS & SPECIAL FUNDS

- ❑ The Bank is able to supplement its financial products with grants to fund technical assistance to borrowers:
  - Objective: (i) Raising the effectiveness of project preparation; (ii) TA aims to foster and sustain RMC efforts in creating enabling business environment in order to promote private sector investment and growth
  - Focus Areas: capacity building / training of government officials in project design, preparation and analysis

### AfDB Hosted Instruments

- African Legal Support Facility

### External Funds

- Climate Investment Funds (CIF)
- Global Environment Facility – AfDB is the implementing agency for Africa
- We-Fi

### Trust Funds

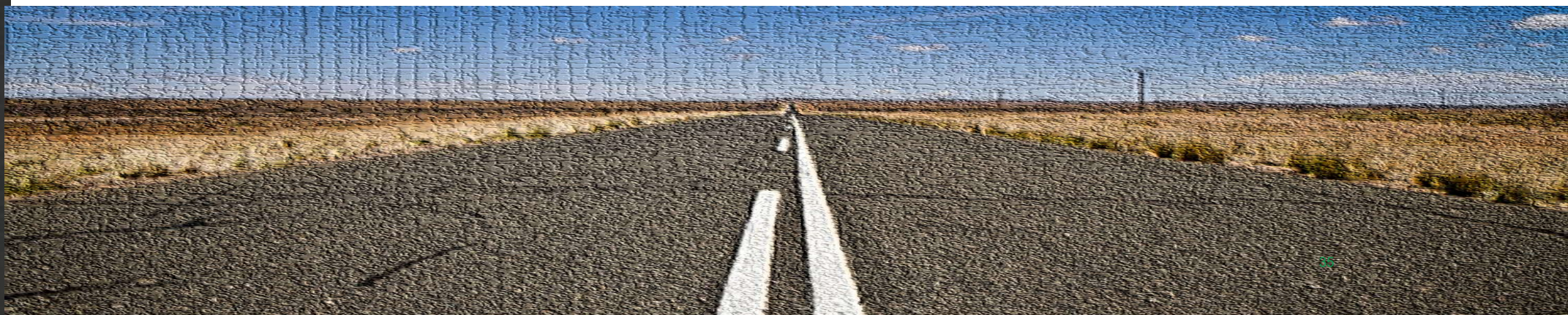
- Zimbabwe Trust Fund
- Kore-Africa Economic Cooperation Fund
- Sustainable Energy Fund for Africa

*Providing grants & highly concessional loans for capacity building/technical assistance/analytical work*

# Conclusions & Takeaways

## AfDB works with and invests in the private sector to transform Africa

- AfDB's goal is to **mobilize resources and blended finance initiatives** to close the financing gap for private-sector-led development of the continent.
- The Bank provides a **diversified product menu** to support Non-Sovereign Operations targeting all sectors, namely agribusinesses, infrastructure and transportation, financial sector development, energy and industrialization.
- Through our sovereign products, the **Bank also supports the enabling environment for private sector** development by de-risking investment and ensuring public sector stakeholders have the capacity to engage in PPP structures
- The Bank also **leads strategic partnerships** with key private sector clients, financial institutions, and commercial banks to provide a comprehensive support package to private sector clients. The Co-Guarantee Platform is such an example.
- The Bank can both **innovative and high quality** deals to encourage private-sector value-chain development
- AfDB focuses on leverage with the **objective of catalyzing capital flows, especially commercial lending** and private investment to large scale transactions.





# THANK YOU

Contact:  
Structured Finance | Risk Mitigation  
[FIST2@AFDB.ORG](mailto:FIST2@AFDB.ORG)



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