

FINANCIAL PRODUCTS HANDBOOK

2022 - 2023



for transforming Africa
pour transformer l'Afrique



SYNDICATION
CO-FINANCING &
CLIENT SOLUTIONS
DEPARTMENT (FIST)



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ACRONYMS

ACFA	Accelerated Co-Financing Facility for Africa
ADF	African Development Fund
ADOA	Additionality and Development Outcomes Assessment
AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AGTF	Africa Growing Together Fund
ALCO	Asset-Liability Committee
ALSF	African Legal Support Facility
ATI	African Trade Insurance Agency
AUDA	African Union Development Agency
BWP	Botswana Pula
CB	Confirming Bank
CCS	Cross Currency Swap
CGP	Co-Guarantee Platform
CI	Currency Inconvertibility
CPA	Country Performance Assessment
CTA	Common Terms Agreement
DFIs	Development Finance Institutions
DSA	Debt Sustainability Analysis
EC	European Commission
EGP	Egyptian Pounds
ESG	Environmental Social and Governance
EU-AIP	European Union African Investment Platform
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
FAPA	Fund for Assistance to the Private Sector in Africa
FDI	Foreign Direct Investment
FFL	Fully Flexible Loan
FSL	Fixed Spread Loan
GETF	Gender Equality Trust Fund
GEWE	Gender Equality/Women's Empowerment
GHS	Ghanaian Cedi
GMS	Gender Marker System
GNI	Gross National Income
GOR	Guarantor-of-Record
IB	Issuing Bank
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IDA	International Development Association
IMF	International Monetary Fund
IPO	Initial Public Offering

IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
JIBAR	Johannesburg Interbank Average Rate
JPY	Japanese Yen
KES	Kenyan Shilling
L/C	Letter of Credit
LOCs	Lines of Credit
MDB	Multilateral Development Bank
MICTF	Middle Income Countries Technical Assistance Trust Fund
MLA	Mandated Lead Arranger
MPA	Maximum Participation Amount
MZN	Mozambican Metical
NEPAD	New Partnership for Africa's Development (NEPAD)
NGN	Nigerian Naira
NSGLs	Non-Sovereign Guaranteed Loans
NTF	Nigeria Trust Fund
OTC	Over-the-Counter
PBA	Performance Based Allocation
PBLs	Policy-Based Loans
PBO	Policy-Based Operations
PCGs	Partial Credit Guarantees
PCS	Preferred Creditor Status
PCT	Preferred Creditor Treatment
PIDG	Private Infrastructure Development Group
PPA	Portfolio Performance Assessment
PPP	Public-Private Partnership
PRGs	Partial Risk Guarantees
RBF	Results-Based Financing
RMB	Chinese Renminbi
RMCs	Regional Member Countries
RMPs	Risk Management Products
RPA	Risk Participation Agreement
RWF	Rwandese Franc
SCFF	Soft Commodity Finance Facility
SDGs	UN Sustainable Development Goals
SEFA	Sustainable Energy Fund for Africa
SGLs	Sovereign and Sovereign Guaranteed Loans
SLCL	Synthetic Local Currency Loans
SMEs	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
SOFR	Secured Overnight Financing Rate
SPV	Special Purpose Vehicle
TFLOC	Trade Finance Line of Credit
TFP	Trade Finance Program
TG	Transaction Guarantee

TONA	Tokyo Overnight Average rate
TYS	Ten-Year Strategy
TZS	Tanzanian Shilling
UGX	Uganda Shilling
UMDF	Urban and Municipal Development Trust Fund
USD	United States Dollar
XAF	CEMAC Region CFA
XOF	ECOWAS Region CFA
ZAR	South African Rand
ZMW	Zambian Kwacha



Message from the Senior Vice President



Ms. Bajabulile "Swazi" Tshabalala
Senior Vice President for the African Development
Bank Group

As Senior Vice President of the African Development Bank Group, it is a pleasure to share the Financial Products Handbook with both our internal and external clients. The Handbook is intended to help disseminate and communicate in a systematic manner the financial products of the AfDB and the various diversified ways it serves to support both public and private sector transactions. As the continent's premier development finance institution and its only AAA rated entity, we take pride in availing over USD 10 billion every year to African countries and private sector to shore up development outcomes we all aim to achieve in accordance with Agenda 2063 and the Sustainable Development Goals.

By way of this Handbook, it is our ambition that our shareholders will appreciate the extent to which we are catalysing their generous resources and support into innovative and impactful financial instruments and structures. It is also our hope that this Handbook will assist Finance Ministries all over the continent to better understand our offerings and the various ways we can continue to partner with them to fulfil their national development programs. This Handbook also targets private sector sponsors, corporations active in Africa, commercial banks and other financial intermediaries which wish to invest on the African continent. Lastly but certainly not least, this Handbook also assists our internal clients to know the full breadth of support services and financing to which they have immediate access to solve challenges they may be facing as they lead the structuring and negotiations of transformative energy, transport, agriculture, SME or financial intermediation deals.

With an amazingly dedicated group of investment officers active in every sector and a fully-fledged Co-financing, Syndication and Client Solutions Department focused on guarantees, structured finance and crowding in partners to Africa's transactions we are ever ready to serve the Bank Group's clients – whether public or private. We believe coupled with this formidable arsenal of flexible financing instruments we can achieve the goals of this continent ridding itself of poverty for the future prosperity of all Africans.

1. Introduction

As a multilateral development finance institution, the African Development Bank Group (AfDB, or the Bank Group) seeks to further the social and economic wellbeing of its Regional Member Countries (RMCs). The Bank Group's strategic objectives are enshrined in the Ten-Year Strategy 2013–2022 (TYS) which seeks to achieve inclusive and green growth. At the centre of the Bank Group's agenda is a set of five operational priorities that are crucial for accelerating Africa's economic transformation. The Bank Group calls them the "High 5s": Light up and power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for the people of Africa. In 2016, the Bank Group reorganized itself to become more agile and responsive to the continent's needs and aligned its corporate structure and business delivery model with the High 5s. Since the launch of the High 5 priorities, the Bank Group has further sharpened its focus and rolled out ambitious and complementary strategies with specific targets and metrics for implementing each priority while keeping a close eye on cross cutting themes of climate change, gender, fragility and governance. The Bank's High 5s are further driven by four institutional strategic pillars: 'institution', 'people', 'delivery', and 'sustainability' to deepen the Bank Group's quality, impact and financial sustainability.

To achieve the implementation of the High 5s, the Bank Group had to evolve its menu of financial products and services, responding to the changing needs of its borrowers and the evolving profile of its clients, in particular, private sector entities. Currently, the Bank Group's financial products are comprised of lending instruments, guarantees, equity and quasi-equity, trade finance, and derivative-based hedging solutions, which as a whole represent the Bank Group's Risk Management Products (RMPs). Additionally, the Bank Group serves as fiduciary trustee and administrator of various external resources through which it can provide grants for technical assistance and other concessionary resources.

As an organization that has innovation and continuous improvement at its core, the AfDB is committed to expanding its product range as needed and in consultation with its clients, to ensure the rapid and sustainable development of the African continent.

Figure 1: Bank Group Link to Global Development Goals



2. Bank group resources

The Bank Group offers financing from its ordinary resources and resources provided by external parties as follows:

2.1/Ordinary Resources

Established in 1964, the African Development Bank (AfDB or the Bank) is the Bank Group's largest institution. Its shareholding is constituted by both African countries (RMCs) and non-African countries (Non-Regional Member Countries). As of 30 June 2020, there were 81 AfDB shareholders. To finance AfDB window operations, in addition to paid-in capital and self-generated resources, the Bank finances its operations mainly through borrowing in the international capital markets backed by its prime AAA credit rating. This allows AfDB to provide non-concessional financing and cost-effective pricing to eligible sovereign countries, public sector entities, as well as private sector entities across Africa at very competitive levels.

2.2/African Development Fund

In addition to the above, the Bank administers the resources of other entities under special arrangements. In this regard, the Bank administers the resources of the African Development Fund (ADF or the Fund). ADF is the concessional window of the Bank Group. Established in 1972, its resources are replenished periodically by donor countries, typically on a three-year basis, and also includes contributions made by the Bank on a yearly basis from its net income. There are 29 participants to the ADF comprising 3 regional donors and 26 non-regional participants. The ADF provides highly concessional financing, specifically concessional loans and grants to eligible sovereign and sovereign guaranteed entities, typically (in) Low-Income Countries. The main mechanism to allocate the ADF resources is the Performance Based Allocation (PBA) framework.

The main differentiating characteristic between the AfDB and the ADF financing windows is that the Bank provides financing on non-concessional terms, whereas the Fund window provides financing on concessional terms. Both institutions offer financing to sovereign and sovereign guaranteed clients, but the AfDB also serves the private sector.

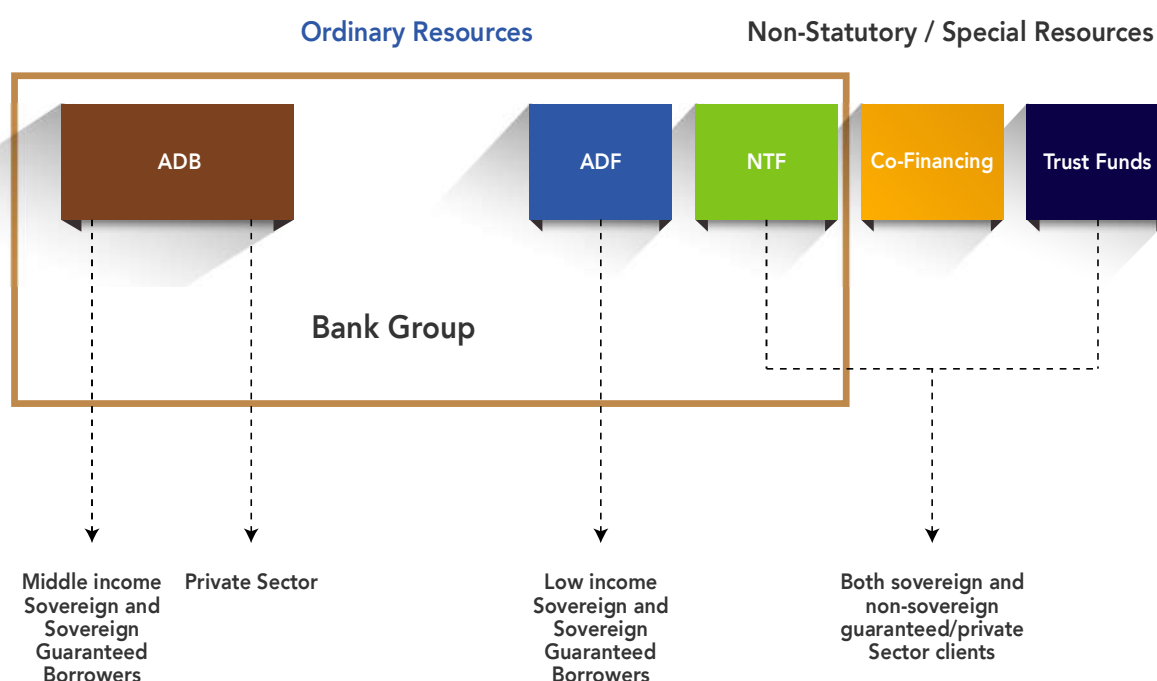
2.3/Non-Statutory Resources (Special Resources)

Furthermore, the Bank administers various special funds and trust funds, which have purposes that are consistent with its objectives of promoting the economic development and social progress of its RMCs. As such, the Bank administers the Nigerian Trust Fund (NTF) which is legally part of the Bank Group, as well as certain other non-statutory resources (special resources) comprising of multilateral and bilateral donor funds offering for their part several instruments, including grants, loans and guarantees.

The Bank pursues various partnership arrangements to mobilize additional resources to fund development activities on the continent. Resources from development partners take a variety of forms. Complementing its own statutory resources, beyond the ADF, the Bank is often entrusted with additional external resources to act as a fiduciary trustee by partners through different trust funds, co-financing vehicles or partnerships or global funds for which the Bank is an implementing agent. Such additional resources available to Bank Group's clients are referred to as non-statutory or special resources. Major examples are as follows:

- **Nigeria Trust Fund (NTF):** The NTF is a special fund administered by the Bank with resources contributed by the Federal Republic of Nigeria. The AfDB Board of Directors conducts the general operations of NTF based on the terms of the NTF Agreement signed between the Bank and the Nigerian Government. The NTF also utilizes the offices, staff, organization, services and facilities of the Bank for which it reimburses to the Bank its share of administrative expenses for such utilization.
- **Trust Funds and Special Funds:** Resources can be given to AfDB in trust by external partners under the umbrella of trust funds. Trust funds can be bilateral or multi-donor in nature, depending on the number of contributing donors. Such resources are treated as separate from the Bank's statutory funds, and they offer mainly concessional financing alongside the AfDB or ADF but can also finance (technical) assistance in some cases on a standalone basis. The AfDB also serves as an implementing agent for various global funds and administers co-financing facilities established with key partners housed at AfDB. This is elaborated further in Section 8.

Figure 2: Bank Group and its resources



Additional external resources:

The resources available at thematic Development Finance Institutions (DFIs) with targeted mandates established with direct equity contributions from the Bank Group such as Africa Export-Import Bank are additional examples of external financing. One of the hallmarks of the Bank Group is its convening power and capacity to catalyze additional resources for Africa's development. Thus, for specific areas where AfDB is not able to contribute directly, clients can be referred to AfDB affiliated partners dedicated to those areas. Where AfDB requirements or mandate do not facilitate consistent financing to a specific area or sector, AfDB has set up or helped establish dedicated Development Finance Institutions (DFIs) to address those bespoke needs of RMCs. The most recent example of this is the Africa50 investment vehicle, which focuses on project development and project financing in the infrastructure space.

2.4/Eligibility for bank group resources

To access the Bank Group's main financing windows (AfDB or ADF), the Bank Group distinguishes potential clients as either (i) sovereign and sovereign guaranteed or (ii) non-sovereign guaranteed.

2.4.1/Sovereign and Sovereign Guaranteed Borrowers

The Bank Group's original lending was targeted primarily to entities that were sovereigns or fully sovereign-guaranteed entities (e.g. a national utility). Such clients could obtain resources either through AfDB or ADF depending on the country classification in accordance with the Bank Group's Credit Policy. The Bank Group's Credit Policy therefore determines the financing window to which an RMC can apply for financing. There are currently 3 major country classification categories: (i) Category A, which refers to ADF-Only Countries and ADF-Gap Countries; (ii) Category C, which refers to AfDB-Only Countries; and (iii) Category B, also known as Blend Countries which can obtain financing from both/ either AfDB and/or ADF. This country classification is based on the evaluation of two main criteria: (i) Gross National Income (GNI) per capita and (ii) creditworthiness of the country for non-concessional financing. Table 1 below summarizes the country classification and access to the AfDB main financing windows.

Table 1: AfDB Country Classification

		Creditworthiness to Sustain Non-concessional Financing	
		NO	YES
Per capita income above the ADF ¹ operational cut-off for more than 2 consecutive years	NO	(Category A) ADF-Only Countries Countries below cut-off and not deemed creditworthy for non-concessional financing Only eligible for ADF resources	(Category B) Blend Countries Countries below cut-off but deemed creditworthy for non-concessional financing Eligible for ADB resources and for ADF resources on hardened terms and subject to a cap
	YES	(Category A) ADF-Gap Countries Countries above cut-off but not deemed creditworthy for non-concessional financing Only eligible for ADF resources on hardened terms	(Category C) ADB Countries Countries above cut-off and deemed creditworthy for non-concessional financing Only eligible for ADB resources.

Within these categories there may exist further nuances. For example, countries moving into Category C from Category A (graduating countries) where they would normally only have access to funding from the AfDB window can exceptionally keep their access to ADF resources albeit on hardened terms during a 2 to 5-year phasing-out period. Additionally, in response to market realities whereby many Category A countries were accessing the international capital markets albeit at high cost, AfDB approved an amendment to the Bank Credit Policy in 2014 allowing, on a case by case basis, Category A countries to access AfDB resources for specific viable projects, subject to stringent additional eligibility criteria including having: (i) low or moderate risk of debt distress under International Monetary Fund (IMF) Debt Sustainability Analysis (DSA); (ii) headroom for non-concessional borrowing; (iii) sustainable macroeconomic position and (iv) approval of the funding request by the Bank's Credit Risk Committee.

¹ ADF uses the same operational cut off as the International Development Association (IDA).

Similarly, there is sub categorization applicable to the ADF window. To allow efficient and customized use of ADF resources, Category A countries are grouped into further sub-categories. There are Category A ADF-Only Regular Countries which represent RMCs with a GNI per capita below the average of the Category A countries. ADF-Only Advance Countries are those with a GNI per capita above the average of Category A countries. These differentiations are important for determining the specific financing terms which will be applied in each case as elaborated upon in Section IV.

In addition to loans, the ADF lending window is authorized to provide development financing in the form of grants, that is a financial product that does not bear any charges. Prior to the ninth replenishment of the resources of the Fund (ADF-9), grant funds were provided for technical assistance activities only. With effect from the ninth replenishment, grants may be used for technical assistance as well as for financing projects.

Since ADF-10, the share of grants provided to clients is based on the country-by-country analysis of debt sustainability analysis (DSA) led by the IMF. Countries in debt distress, or with high risk of debt distress (i.e. red countries) under the Debt Sustainability Framework get their ADF allocation exclusively in the form of grants. Countries with moderate risk of debt distress (i.e. yellow countries) receive 50% of their allocation in the form of grants and 50% in loans. Countries with low risk of debt distress (i.e. green countries) get 100% of their allocation as loans.

2.4.2/Non-Sovereign Guaranteed Borrowers:

Private sector projects, also known as non-sovereign operations (NSOs), are financed with resources from the AfDB window (and from other non-Bank Group resources provided by co-financiers that participate in the transaction). NSOs in any RMC are eligible for AfDB private sector financing, irrespective of the country classification of the RMC where the project will take place. NSOs include financing to both private and public sector entities which do not benefit from a sovereign guarantee from any RMC or state that is a borrowing member of the Bank Group and operate on a standalone basis. A government entity or state-owned enterprise (SOE) can be considered a private sector project if one or more sovereign entities, any of their political or administrative subdivisions, agencies and/or affiliated entities hold either (i) more than 50% of the voting stock (or voting rights), or (ii) a percentage of the voting stock (or voting rights) enabling said persons to direct the policies and management of the enterprise (a 'controlling interest').

2.4.3/Transactions supported by the Bank Group:

Generally, all financing provided by the Bank Group must satisfy at least the following three (3) criteria: (i) demonstrate alignment with Bank Group and the host RMC strategic priorities, that is, be consistent with the member country's (or countries in the case of a regional project) economic and social objectives; (ii) in the case of private sector operations, be provided to creditworthy borrowers to support activities that are commercially viable with long-term financial sustainability as determined through a credit risk rating delivered and updated by the Bank's credit risk team through a thorough appraisal process; and (iii) allow the Bank to bring additional value to the transaction which will generate satisfactory development outcomes, that is, the borrower is also required to abide by environmental and social safeguards as well as procurement, integrity and fiduciary safeguards in line with Bank policies. The relevant Bank Group projects should be self-sustaining high impact projects with demonstrable capacity to repay the Bank's financing.

It is also important to note that AfDB does not provide financing in order to replace existing debt with new debt for the benefit of borrowers or their shareholders (e.g. refinancing is not permitted). However, subject to the relevant provisions set out in the Bank Group Policy on Non-Sovereign Operations, the Bank may retroactively finance eligible expenditures procured before execution of the loan agreement as agreed with borrower for the purpose of timely implementation of a project (i.e. retroactive financing). The Bank may also engage in restructuring distressed projects or well performing projects to attain specific development outcomes for the benefit of certain parties (e.g. lenders, employees and end-users) other than borrowers and their shareholders (i.e. debt restructuring). This being said, the Bank shall not restructure its own loans extended to sovereigns or sovereign guaranteed clients.

Environmental, Social and Governance Safeguards

As an investor in a client's project or business, the Bank Group has both an opportunity and responsibility to encourage the adoption of higher Environmental, Social and Governance (ESG) standards. As such, ensuring high standards in ESG safeguards is an important element of the work carried out at all stages of the appraisal and investment cycle. Clients can be obliged to use their best efforts to ensure that their own projects or companies also meet the Bank Group's standards. Ultimately, investee businesses benefit from the positive association with the AfDB's high ethical, social and environmental standards.

Gender

The Gender Marker System (GMS) is a mechanism used to classify/categorize Bank operations based on the extent to which they specifically address gender equality/women's empowerment (GEWE) issues in their objectives, components, and expected results. GMS helps to systematize the Bank's approach to gender mainstreaming in its operational work by: (i) differentiating operations that have a greater impact on reducing gender gaps; (ii) making strategic use of the Bank's gender resources; and, (iii) better accounting for the actions and resources the Bank is dedicating to gender. The current phase of implementing the GMS is focused on public sector operations only but plans are underway to roll it out to the private sector operations in due course. Each operation is assigned either one of four categories based on the hierarchy of the results framework (Goal, Outcome, Output, Activity). Before a category is assigned, operations are subject to an upstream gender screening. The GMS is part of the Bank's policy commitments in the 7th General Capital Increase which targets to have 100% of all operations screened by 2025, and the 15th replenishment of the ADF which targets to have 50% of its operations categorized by the mid-term review of the replenishment, and reaching 75% by 2022.

Procurement

The fiduciary responsibility in its charters requires the African Development Bank Group to ensure that the loan or grant proceeds that are made available to borrowers to finance projects and programs on the continent are used only for the purposes for which they were granted. The charters also require that proper attention is paid to matters of economy and efficiency in the procurement processes in Bank Group funded projects. Accordingly, the Bank Group prefers the most open competitive procedures for procurement of goods, works and services. Political and other non-economic influences or considerations must not influence procurement in Bank financed projects. The procurement processes and procedures should give fair and equal opportunity to contractors, suppliers and consultants from member countries of the Bank Group. Transparency is also essential in the procurement process.

The Bank has developed Rules and Procedures for Procurement of Goods and Works, and Rules and Procedures for Recruitment of Consultants that govern all contracts for goods, works, and consulting services financed in whole or in part by the Bank Group both for sovereign and non-sovereign guaranteed operations. The Procurement Framework also applies to trust funds administered by the Bank where the procurement is carried out by the Borrower and where the agreement establishing such funds stipulates the use of the Bank Group's procurement framework. To assist borrowers, the Bank has, in collaboration with other Multilateral Development Banks, also developed Standard Bidding Documents that should be used for contracts financed by the Bank Group.

As a part of its development mandate, the Bank Group is equally active in supporting the development and reform of public procurement systems in borrower countries. As the expenditure through public contracts is a sizeable portion of Government expenditure, increased efficiency, fairness, transparency and equal opportunity are critical for sustainable development and poverty reduction.

Additionality & Development Impact

In financing private sector operations specifically, the Bank aims to fulfil two objectives. The first one relates to its standing as a DFI fulfilling a development mandate while the second one aims to ensure that the Bank's financing is not crowding out private investors. In this regard, each private sector operation considered by the Bank is assessed against an Additionality and Development Outcomes (ADOA) framework. The additionality aspect rates the additional value the Bank brings to the transaction that the market alone cannot provide, while the development outcomes aspect of the assessment quantifies the expected development outcomes of the transaction (to the country, market, or sector). In this way, the ADOA framework is used as a decision-making tool for the Bank's senior management in differentiating across private sector operations. It also helps clients gain a greater awareness of the Bank's development objectives and ensure their adequate monitoring and tracking. For more on private sector operations and requirements visit: <https://www.afdb.org/en/topics-and-sectors/sectors/private-sector>.



3. | Bank group financial products and services

Throughout the years, AfDB has continuously developed financial solutions that respond to the evolving needs of its diverse clients. AfDB offers long-term debt solutions to both public and private sector clients. These lending instruments can be accompanied by derivative-based hedging solutions called Risk Management Products (RMPs), which are embedded in certain loans or offered to clients as a standalone product, allowing them to hedge themselves against interest, foreign exchange and commodity price risks as needed.

Building on its international standing and top-notch credit ratings, the AfDB has been offering guarantee products since 2000 to mitigate and share risks with its client and partners, catalysing commercial investments into Africa. In 2013, the Bank tailored specific lending and guarantee products for trade finance, contributing to bridging the trade financing gap in Africa.

The AfDB window can also take, in the case of highly strategic or multinational projects or corporations, direct equity positions, but also more generally indirect equity participations in various entities, to bring in the long-term capital needed to build and develop strategic and high impact public and private sector companies or national and regional DFIs in Africa. AfDB provides equity or quasi-equity through subscriptions to private equity funds, other fund types or portfolio vehicles.

Grants are available to countries eligible to access the ADF window in cases where loans are not possible due to a fragile national debt sustainability position, for example, when countries are deemed to be in high risk of debt distress or in debt distress. Grants and other products are also available under various trust funds hosted or implemented by AfDB to finance technical assistance, including trainings, feasibility studies and project preparation and in some cases direct project investment financing.

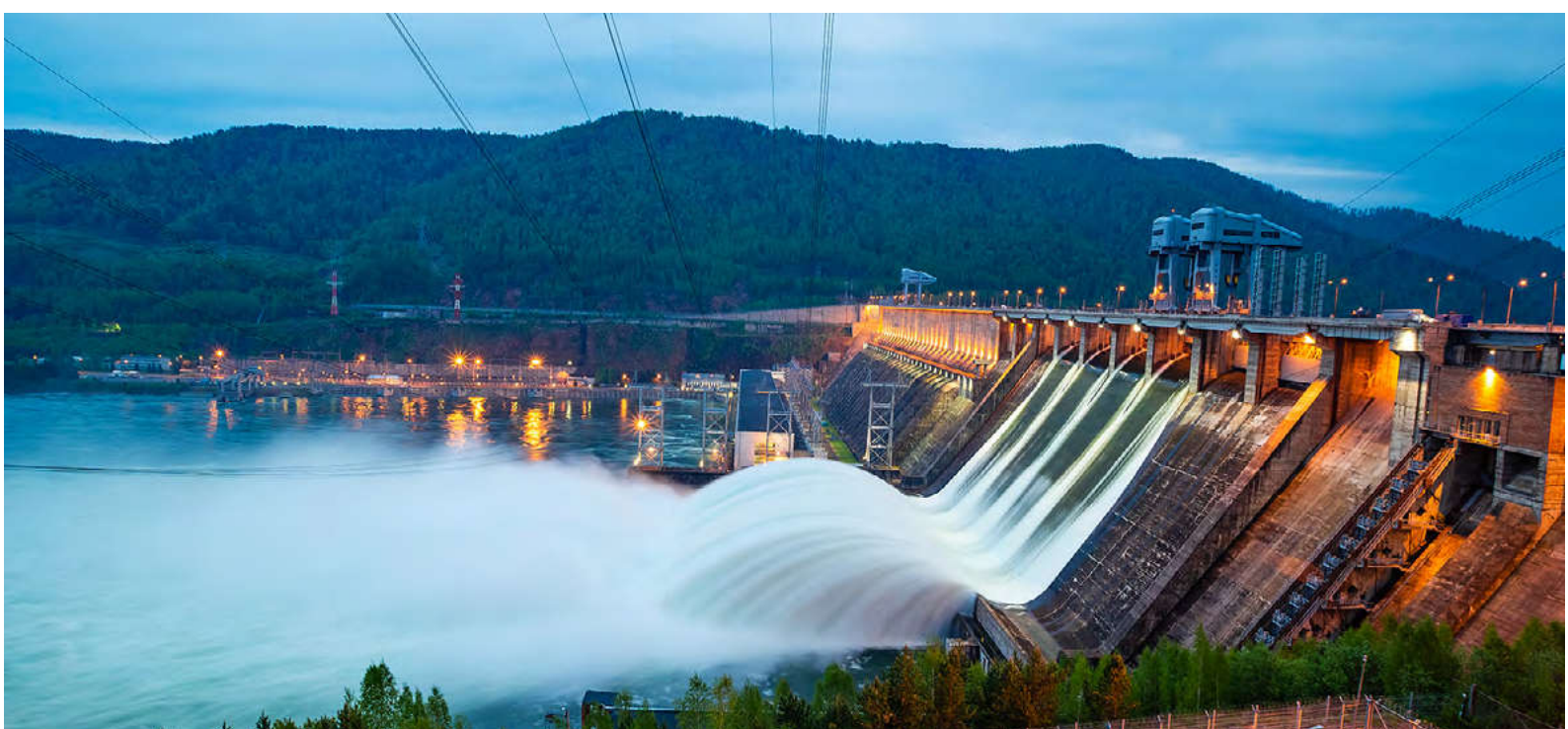


Figure 3: Menu of AfDB financial products and services



3.1/Lending instruments

Lending products are offered through both the AfDB and ADF financing windows but to different types of clients and on very different terms. Loan products of the Bank Group are characterized as either: (i) Sovereign-Guaranteed Loans (SGLs) referring to borrowings provided to a state government or government-guaranteed entity backed by a 100% full faith guarantee of the central government, including multinational institutions if they are guaranteed by one or several RMCs or (ii) Non-Sovereign Guarantee Loans (NSGLs), that is, loans made to (a) public sector entities on a standalone basis without a sovereign guarantee by the RMC or any borrowing entity of the Bank Group, or (b) to private sector entities in any RMC provided that they meet specific eligibility criteria.

3.1.1/Sovereign and Sovereign Guaranteed Loans (SGLs)

Sovereign and Sovereign Guaranteed Loans from the ADB Window – Fully Flexible Loan (FFL)

In response to borrower demand for a flexible loan product that facilitates dynamic debt management and easily adapts to specific maturity and risk profile needs, in March 2016 AfDB introduced the Fully Flexible Loan (FFL) for the benefit of its sovereign and sovereign guaranteed borrowers. The FFL combines a standard loan product with maturity-based pricing and embedded risk management products. The FFL can be applied as a (i) regular project finance loan to eligible AfDB sovereign borrowers, or (ii) policy-based operation (PBO) specifically to finance public sector reform implementation, or as a (iii) Results-Based Financing (RBF) where disbursement of the loan is linked to the achievement of certain results by the borrower.

The maturity-based pricing allows borrowers to choose up to a 25-year maturity and 8-year grace period against an ascending Maturity Premium depending on the exact tenor-grace period combination selected. The embedded risk management products allow borrowers to: (i) fix, unfix and re-fix the Base Rate on a disbursed portion of the loan, (ii) to cap or collar the Base Rate on a disbursed portion of the loan ((i) and (ii) constituting Base Rate Conversions options), and (iii) change into any other AfDB approved lending currency, the original lending currency of all or part of the undisbursed and/or disbursed loan amounts (Currency Conversion option). The borrower can exercise any of these options, including automatic Base Rate Conversions at each disbursement or at the end of all disbursements, by sending requests to the Bank when desired at any time during the life of the loan or by reflecting such in the loan agreement ex ante. Table 2 below provides a summary of the main features of the FFL. Furthermore, the Applicable Lending Rates for sovereign guaranteed AfDB loans are updated every six months and displayed at: <https://www.afdb.org/en/documents/financial-information/lending-rates>.

Table 2: Lending Terms of Fully Flexible Loan

Loan features	Description
Eligibility	<ul style="list-style-type: none"> Blend (Category B) or ADB (Category C) countries and public sector entities with their sovereign guarantee from a Category B or C regional member country. Under the 2014 amendment to the Credit Policy, ADF countries can also access ADB resources on a case by case basis subject to stipulated criteria.
Amount	<p>While maintaining the principle of cost-sharing in seeking borrower's counterpart funding for the transaction, ADB may finance more than 50% of the total project/program costs on a case by case basis, up to 100% according to the following criteria:</p> <p>(i) the country's commitment to implement its overall development program;</p> <p>(ii) the financing allocated by the country to sectors targeted by Bank assistance; and</p> <p>(iii) the country's budget situation and debt level.</p>
Loan Currency	<ul style="list-style-type: none"> USD, EUR, ZAR, JPY or any other approved Bank lending currency (including approved local currencies EGP, BWP, MZN, XOF, XAF, GHS, TZS, KES, UGX, RWF, ZMW and NGN) The Bank may consider additional local currencies on a case by case basis subject to the required authorizations
Maturity	Up to 25 years inclusive of Grace Period from signature
Grace period	Up to 8 years from signature
Repayments	<p>Equal and consecutive semi-annual (or quarterly for ZAR) instalments of principal after expiration of the grace period.</p> <p>Customized repayment terms can also be considered.</p>
Payment Date	<ul style="list-style-type: none"> Standard Payment Dates on February 1 and August 1; or Any combination of the 1st or 15th of any month (excluding 1st January) in accordance with the payment frequency selected by the Borrower.
Interest Rate*	<p>$(\text{Base Rate} + \text{Funding Cost Margin} + \text{Lending Margin} + \text{Maturity Premium}) \geq 0$</p> <p>If the interest rate is negative, it will be deemed to be zero (interest rate floored at zero).</p>

Base Rate	<ul style="list-style-type: none"> Floating Base Rate: <ul style="list-style-type: none"> For USD: Daily SOFR Compounded in Arrears over the billing period, For JPY: Daily TONA Compounded in Arrears over the billing period For EUR: 6-month EURIBOR reset each 1st February and 1st August; For ZAR: 3-month JIBAR resets each 1st February, 1st May, 1st August and 1st November; or The borrower has a free option to exchange the Floating Base Rate against a Fixed Base Rate by requesting AfDB to implement a swap on part or fully disbursed and outstanding amount at any disbursement, after all disbursements or anytime during the loan tenor as decided by the borrower. The borrower can ask for a Fixed Base Rate by sending a request once its decision is made any time during the life of the loan. The Borrower can also choose automatic Base Rate Conversion at each disbursement or at the end of all disbursements in the loan agreement or through a specific request.
Funding Cost Margin	<ul style="list-style-type: none"> The Bank's average funding cost margin as determined each 1st January and 1st July and applied on top of the benchmark Base Rate each 1st February and 1st August The Funding Cost Margin can be negative which means it reduces the total interest payable by the borrower, however it can also be positive depending on market conditions. The Funding Cost Margin cannot be fixed upfront.
Lending Margin	<ul style="list-style-type: none"> 80 basis points (0.8%) since September 2016 The same Lending Margin applies to all sovereign and sovereign guaranteed borrowers accessing the ADB window.
Average Loan Maturity	Average Loan Maturity is used to determine the Maturity Premium. It is capped at 17 years maximum. A calculator is available to simulate different amortization profiles and determine Average Loan Maturity and corresponding Maturity Premium. Please contact FIST2@afdb.org .
Maturity Premium	<ul style="list-style-type: none"> 0% if Average Loan Maturity \leq 12.75 years 10bps (0.10%) if 12.75 years < Average Loan Maturity \leq 15 20bps (0.20%) if 15 years < Average Loan Maturity \leq 17 years.
Front-end fees	<ul style="list-style-type: none"> 0.25% of the loan amount Due at loan effectiveness and payable at the earliest of (i) up to 60 days from Loan Effective Date, or (ii) at the time of first disbursement. If the loan is partially or fully cancelled after the Loan Effective Date, the Front-end Fee is still due on the full loan amount and no refund is made. The borrower has the option to pay the Front-end Fee: (i) either from its own resources, or (ii) by deducting its amount from the loan proceeds at the first disbursement.
Commitment fees	<ul style="list-style-type: none"> 0.25% of the undisbursed amount on each payment date. Commitment fees start accruing 60 days from signature of the loan agreement and are payable on selected Payment Dates.

Base Rate Conversion	<ul style="list-style-type: none"> • In addition to the free option to convert the Floating Base Rate into a Fixed Base Rate, the Borrower may reconvert the fixed base rate into floating and re-fix it again or establish a cap or collar on a part or fully disbursed amount. • Conversion for a period shorter than the remaining maturity is allowed. • Conversion options and transaction fees are subject to the Bank Conversion Guidelines available online here: https://www.afdb.org/en/documents/document/guidelines-for-conversion-of-loan-terms-july-2014-87643 or by emailing FIST2@afdb.org. • Transaction fees are payable.
Currency Conversion	<ul style="list-style-type: none"> • The borrower may convert the loan currency for both undisbursed or disbursed amounts in full or in part to another approved lending currency of the Bank. • Currency conversions to approved local currencies shall be considered on a best effort basis. Conversion for a period shorter than remaining maturity is allowed. After a Currency Conversion, the pricing applicable to the new currency will apply to the converted amount. Transaction fees are payable.
Conversion unwinding costs	<ul style="list-style-type: none"> • Any costs incurred by the Bank in adjusting or terminating executed conversions requested by the Borrower are passed on to the Borrower.

Sovereign and Sovereign Guaranteed Loans from the ADF Window

ADF is the Bank Group's concessional lending window, providing financing to low-income RMCs in accordance with the country classification guidelines described in Section 2.3. The volume of funds available for a country depends on its "Performance", as measured by the Country Performance Assessment (CPA) and "Needs", as measured by the three main criteria. In terms of performance, Performance Based Allocation (PBA) methodology relies on (i) Country Policy and Institutional Assessment (CPIA) which measures the capacity of a country to support sustainable growth, poverty reduction, and the effective use of development assistance (ii) and criteria such as project portfolio performance assessment (PPA). Meanwhile, the needs component of the PBA methodology focuses on the GNI per capita, size of population and the level of infrastructure development. Furthermore, the PBA system ensures that a minimum allocation is attributed to eligible RMCs regardless the PBA measurement parameters.

In terms of concessionality, ADF loans can be up to 61% concessional versus market-based lending for RMCs and capped in alignment with the PBA for that specific RMC, as determined every 3-years as part of the ADF replenishment process. Within the ADF lending window there are differentiated financing terms depending on the strength of the borrowing RMC's economy and profile. Table 3 below shows lending terms under the ADF window.

Table 3: Differentiated financing terms for ADF loans

COUNTRY CLASSIFICATION	ADF-ONLY REGULAR COUNTRIES	ADF-ONLY ADVANCE COUNTRIES	ADF GAP COUNTRIES	BLEND COUNTRIES	GRADUATING COUNTRIES
Definition	All countries with a GNI per capita below the average of ADF-Only Countries Category	Countries with GNI per capita above the average of all ADF-Only countries Category	Countries not deemed creditworthy for non-concessional financing but whose income is above the operational cut-off	Countries deemed creditworthy for non-concessional financing but whose income is below the operational cut-off	Countries graduating to ADB during a 2 to 5 years phasing out period
Maturity (inclusive of Grace Period)	Up to 40 years	Up to 40 years	Up to 30 years from signature		
Grace Period	Up to 10 years	Up to 5 years	Up to 5 years from signature		
Interest Rate	N/A	N/A	1% per annum of the disbursed loan amount payable semi-annually on the agreed payment dates		
Service Charge	0.75% per annum of the disbursed loan amount payable semi-annually on the agreed payment dates				
Commitment Fees	0.50% per annum of the undisbursed loan amount, starts accruing 120 days from signature and is paid semi-annually on the agreed payment dates				
Repayments	Semi-annual with 2% amortization per year for 10 years then 4% for 20 years	Equal and consecutive semi-annual repayments for 35 years	Equal and consecutive semi-annual repayments (4% amortization per year for 25 years)		
Grant Element	Up to 61%	Up to 51%	Up to 35%		
Currencies of disbursement	ADF financings are denominated in UA but disbursed and repaid in currencies in the UA basket which currently includes EUR / USD / GBP / JPY / RMB. A free FX spot service is offered to borrowers who want to disburse or repay in other payment currencies.				

ADF loans include an accelerated repayment clause. This is a simple, transparent and fair mechanism to redirect scarce ADF development resources from the more economically successful RMCs to those with greater development challenges. In such a case for example, a borrowing member country will be required to accelerate the repayment of its outstanding ADF loans if (i) its GNI per capita has remained above the ADF operational cut-off for more than two consecutive years; (ii) it is deemed creditworthy for borrowing from the AfDB and (iii) the Board of Directors of the Fund approves the modification of its loan terms. There is also a voluntary repayment option for ADF loans to give a platform for graduated countries to demonstrate their solidarity with RMCs that may be more in need by enabling and encouraging the prepayment of ADF loans that currently do not contain an acceleration clause. A financial incentive is provided to graduated countries that opt to prepay their outstanding loans. Ultimately, ADF is a key partner to many low-income countries in Africa, providing concessional resources in a stable and predictable manner that can help these countries develop their economies in an inclusive and sustainable way, while considering their financial capacity and debt sustainability position.

3.1.2/Non-Sovereign Guaranteed Loans (NSGLs) – Fixed Spread Loan

Non-Sovereign Guaranteed Loans (NSGLs) are offered exclusively through the AfDB window. NSGLs are offered in the form of a **Fixed Spread Loan (FSL)**, a standard loan priced with a risk-based lending spread that is fixed for the life of the loan and added to its Base Rate.

FSL can be used for corporate or project financing. With corporate finance, the Bank provides financing to eligible entities in support of their investment programs to strengthen their overall corporate performance and capacity to spearhead development in key sectors of the economy. Capacity to

repay the loan is assessed, among other means, through an in-depth analysis of income statement dynamics and evaluation of the strength of the entity's balance sheet. With project finance, the Bank may fund specific projects with no or limited recourse to the project sponsors (in cases where there is adequate level of capitalization in the special purpose vehicle; high debt service coverage ratio etc.), with debt service expected from the project's own cashflows.

Under the FSL, the Bank may subscribe to debt or subordinated debt instruments issued by a private enterprise or public sector enterprise in the process of being privatized. The FSL is also used to provide Lines of Credit and Agency Lines to financial intermediaries and other third parties, as well as provide local currency or synthetic local currency loans and loans discussed in Section 3.1.2.3. The FSL is also the loan product underpinning the syndication business of the Bank as explored in Section 3.1.2.4.

Table 4 below provides the main features of the FSL.

Table 4: Fixed Spread Loan Terms and Conditions

Loan features	Description
Eligibility	Non-sovereign guaranteed borrower in any Member Country with a project domiciled in any Regional Member Country, including viable and autonomous public sector entities without a sovereign guarantee and private sector entities.
Currency	<ul style="list-style-type: none"> EUR, USD, ZAR, JPY and any lending currency approved by the Bank, including approved local currencies EGP, BWP, MZN, XOF, XAF, GHS, TZS, KES, UGX, RWF, ZMW and NGN The Bank may consider additional local currencies on a case-by-case basis subject to the required authorizations
Amount	The Bank's exposure in any project shall not exceed (i) 33% of the total cost of the project or investment program or (ii) 50% of shareholders' equity at any time in the case of lending to private financial institutions.
Maturity and Grace Period	<ul style="list-style-type: none"> Up to 15 years including up to a 5-year grace period from the time of signature of the loan agreement. Loans of longer maturity may be considered where needed subject to obtaining a waiver from the Bank Group's Credit Risk Committee
Repayment Terms	<ul style="list-style-type: none"> Equal and consecutive semi-annual (or quarterly for ZAR) instalments of principal after expiration of the grace period. Customized repayment terms can also be considered.
Payment Dates	<ul style="list-style-type: none"> Standard Payment Dates on February 1 and August 1; or Any combination of dates (excluding 1st January) in accordance with the payment frequency selected by the Borrower.
Interest Rate	<p>(Base Rate \geq 0) + Risk-based Lending Margin</p> <p>Exclusively in the case of ZAR loans, depending on prevailing market conditions, an additional funding cost margin corresponding to the Bank's cost of funding in ZAR on top of 3M-JIBAR may be added to the Base Rate.</p>
Base Rate	<ul style="list-style-type: none"> Floating Base Rate: <ul style="list-style-type: none"> For USD: Daily SOFR Compounded in Arrears with 15-business days lookback without observation shift, For JPY: Daily TONA Compounded in Arrears with 15-business days lookback without observation shift, For EUR: 6-month EURIBOR that resets semi-annually on agreed interest payment dates For ZAR: 3-month JIBAR that resets quarterly on agreed payment dates. If the Floating Base Rate is negative, it will be deemed to be zero (floor at zero). For SOFR and TONA, the floor at 0 is applied on the daily SOFR rates and the daily TONA rates. The borrower has a free option to exchange the Floating Base Rate against a Fixed Base Rate by requesting AfDB to implement a swap on part or fully disbursed and outstanding amount at any disbursement, after all disbursements or anytime during the loan tenor as decided by the borrower. The borrower can ask for a Fixed Base Rate by sending a request once its decision is made any time during the life of the loan. The Borrower can also choose automatic Base Rate Conversion at each disbursement or at the end of all disbursements in the loan agreement or through a specific request.

Lending Margin	<p>Risk-based margin which is function of the project/borrower risk as rated and advised by the AfDB Credit Risk Team and finalized by the commercial operations team.</p> <p>For SOFR and TONA, the Lending Margin includes an additional margin to cover AfDB's funding cost.</p>
Fees	<ul style="list-style-type: none"> • Front-end fee: In general, 1% or more of the AfDB loan amount • Appraisal fee: Negotiated in the mandate letter • Commitment fee: In general, between 0.5% to 1% of the undisbursed portion of the AfDB loan amount. • Supervision fee: Negotiated in the mandate letter • Other fees: All reasonable fees payable to the Lender shall be exclusive of any third-party fees, cost and expenses, such as the fees and expenses relating to legal counsel (including the international counsel and local counsel) retained by the Lender in consultation with and as agreed with Borrower in connection with the loan.
Late payment & prepayment fees	<ul style="list-style-type: none"> • Late payment fee: 2% per annum of the unpaid amount (above the applicable interest rate) • Prepayment premium: As a deterrence to early prepayments of a loan, the Bank may charge a prepayment fee. In the case of fixed rate loans or where risk management products have been applied to the loans, conversion unwinding costs may also apply. • Break Costs: In case of prepayment on a date which is not a Payment Date, the Bank will charge Break Costs to recoup the difference between the Base Rate and the applicable deposit rate between the prepayment date and the next Payment Date.
Conversion Unwinding Costs	Any costs incurred by the Bank in adjusting or terminating hedging swaps requested by the borrower are passed on to the borrower.
Loan Security	When the Bank provides a senior loan to the private sector, it requires a creditor status no less favourable than other senior lenders. Security may take various forms including but not limited to: mortgage on project site and/or other relevant real estate property; first- ranking security interests on shares of the borrowing entity, bank accounts, equipment and other assets; assignment (by way of security) of project contracts and receivables; guarantees provided by sponsors...etc.

3.1.2.1/Lines of Credit

Lines of Credit (LOCs) are a type of Fixed Spread Loans. The Bank offers this product to financial institutions for on-lending to their customers based on an indicative pipeline of transactions. The Bank may target various end beneficiaries through this product but in general small and medium-sized enterprises (SMEs) and women or youth-led enterprises represent the targets of choice for the use of proceeds. Indeed, LOCs represent one of the approaches used by the Bank to reach SMEs or other underserved communities that are too small or have needs that are too specific to benefit directly from the Bank Group's financing. The terms of the LOC typically specify the conditions under which Bank Group's funds will be provided to the financial institution for on-lending, and also indicate the eligibility criteria for sub-projects to be financed with the proceeds.

While the Bank bears the credit risk on the intermediary of the instrument (i.e., of the financial institution to which the LOC is made available), the credit risk of the end beneficiaries of the instrument is borne by the intermediary. This product is generally a senior unsecured loan, and thus only possible to provide to financial institutions when the Bank is completely satisfied with their credit standing and with the intermediary's ability to manage the on-lending business. However, in some cases the Bank may additionally require security to guarantee reimbursement of the LOC

3.1.2.2/Agency Lines

Another type of Fixed Spread Loan is the agency line. To better serve SMEs, the Bank can go further than LOCs and take the credit risk on the end beneficiaries with the financial institutions or other third-party partners acting as the Bank's agents through Agency Line arrangements. The selection of individual projects for Bank support is largely delegated to these intermediaries, which draw on Bank resources to make loans for the Bank's account, in projects meeting pre-agreed criteria. As part of an agency agreement, financial intermediaries are required to commit their own funds in each investment in parallel with the Bank and to supervise the borrower companies. The financial intermediary acts only in an agency capacity for the Bank when investing the latter's funds and assumes no risk in this regard. An agency fee will be paid by the Bank to the intermediary under an agency agreement for its services in appraising, documenting, billing and collecting payments on the loans on behalf of the Bank as the case may be.

3.1.2.3 / Local Currency Loans

In 1997, the Bank Group introduced the South African Rand (ZAR) as a lending currency of the AfDB. The rationale for offering local currency loans is two-fold. Firstly, to assist AfDB clients in mitigating foreign exchange risk from projects financed by the AfDB. Secondly, to contribute to the development of the domestic capital markets in raising the required local currency funds particularly by issuing bonds in the domestic market.

ZAR quickly became the Bank's third largest lending currency and full treasury operations, and portfolio were developed to manage liquidity. In 2006, the Bank drew up a policy framework to provide loans in other RMC currencies, provided there was sufficient demand from clients and the Bank could fund itself efficiently. To raise local currency funding, the Bank must obtain various authorizations and waivers from the Government, Central Bank and other regulatory bodies of the RMC, as well as secure the necessary internal approvals - from the Asset-Liability Committee (ALCO) and the President of the Bank Group. Local currencies for which the Bank has already obtained some of the required authorizations and have been approved as AfDB lending currencies include: Egyptian Pounds, Uganda Shilling, Nigerian Naira, Kenyan Shilling, Zambian Kwacha, Tanzanian Shilling, Ghanaian Cedi, Botswana Pula, Mozambican Metical, Rwandese Franc, CEMAC region CFA and ECOWAS region CFA. Other local currencies can be considered depending on the demand and funding opportunities; the necessary authorizations from the RMC will then be sought accordingly.

Generally speaking, local currency loans abide to the following guiding principles: (i) the Bank raises the local currency funding to disburse for an identified project; (ii) the funding terms are structured back-to-back with the loan terms to the borrower using the same profile; (iii) pricing is based on a cost pass-through principle with the benefit of the competitive funding cost of the Bank passed on to the borrower.

Local currency loans can be in the form of the FFL for sovereign and sovereign guaranteed loans or FSL for non-sovereign guaranteed loans. The main difference between the AfDB standard loans (FFL and FSL) and local currency loans is the All-in-Cost needed to raise local currency which replaces the Base Rate in the interest rate pricing formula of the FFL/FSL. In other words, an additional funding cost margin may be required when a local currency financing is involved. It is important to note that the applicable lending margin still applies in either case. Additionally, because of the back-to-back structure of local currency loans, terms and conditions like tenor, loan profile, hedging features and ability to prepay may be limited to the respective terms and conditions AfDB is able to obtain in the domestic financial markets.

The Bank can raise local currency funds in one of four ways. The decision on which of the four funding methods to adopt will depend primarily on cost and time considerations – as the most efficient funding that meets project requirements will be pursued. The options to raise local currency include:

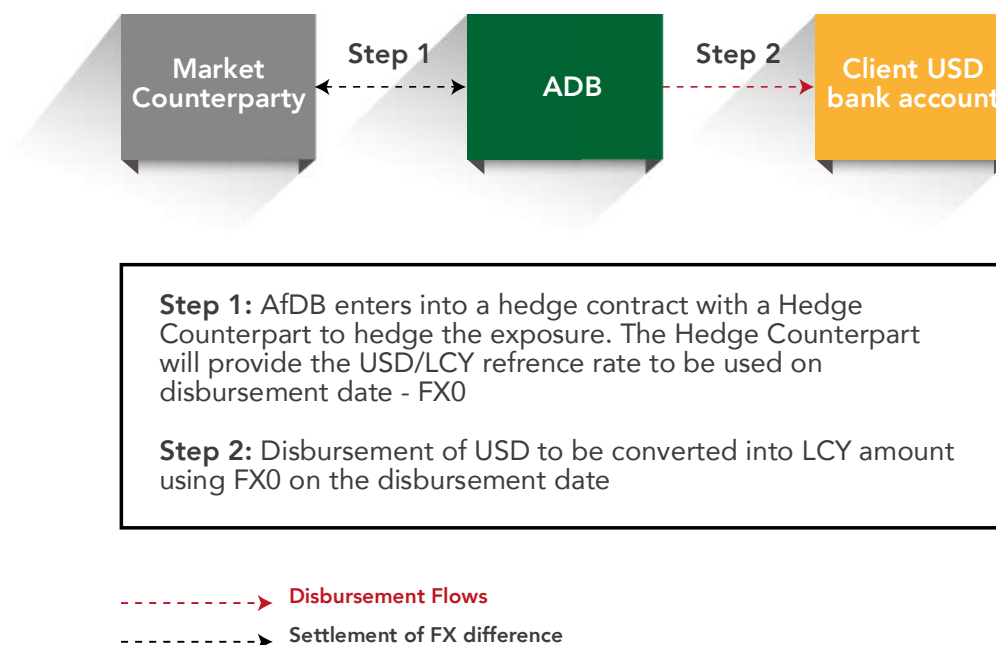
(i) Borrowing from local financial institutions. This is the most straightforward means of obtaining local currency and involves the Bank Group simply receiving a line of credit facility from a local banking institution in the desired currency.

(ii) Cross currency swaps. As elaborated further in the Risk Management Products section, cross-currency swaps are over-the-counter (OTC) derivative transactions where the Bank and a counterparty agree to exchange interest payments and principal denominated in two different currencies with interest payments exchanged at fixed intervals during the life of the underlying loan.

(iii) Domestic bond issuances. This involves issuing a bond on the local capital market, which is typically purchased by domestic institutional investors, commercial banks, and high net worth individuals who will provide the AfDB the required local currency liquidity. The interest rate on the bond reflects the markets dynamics and regulations, as well as the Bank's AAA credit rating.

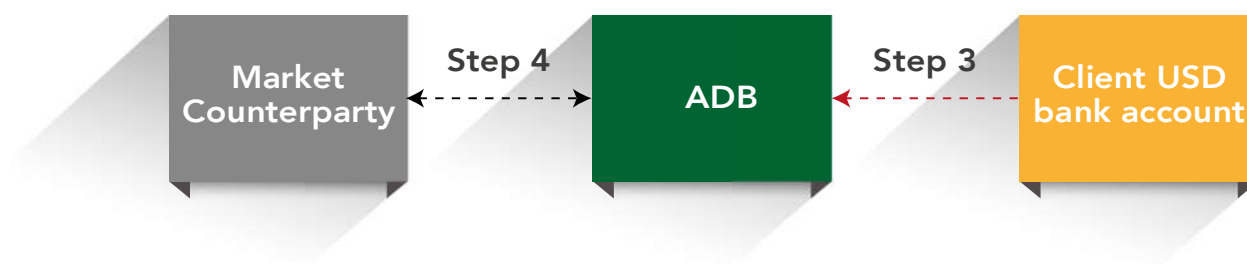
(iv) Synthetic Local Currency Loans (SLCL). This is used when physical cash delivery of the local currency is not required for the viability of the transaction and/or none of the other options are viable. Essentially, a SLCL combines a hard currency loan with a non-deliverable² foreign exchange hedge. It is important to note that under the SLCL, the borrower will bear the conversion and transfer risks as debt service is expected to be made in hard currency. The borrower will also bear a basis risk between the agreed spot FX reference rate to be applied for each payment date and the actual FX rate the borrower will achieve when performing the conversion. Figures 4 and 5 reflect a schematic of this product offering.

Figure 4: Disbursement Flows under a SLCL



² A non-deliverable swap between a major currency and a minor currency that happens to be restricted or not convertible. Such a transaction settles in the major currency as there is no actual delivery of the minor currency, unlike a typical cross-currency swap where there would be a physical exchange of liquidity in both currencies.

Figure 5: Repayment Flows under a SLCL



Step 3: Conversion of LCY amounts (interest and principal) into USD using agreed spot USD/LCY reference rate FX on the payment date (quoted by Market counterparty)

Step 4: Settlement in USD of FX difference with market counterparty

- Interest and Principal Repayment Flows
- Settlement of FX difference

3.1.2.4/Loan Syndication

As part of its mission to mobilize capital for productive use in viable projects in Africa, the Bank's syndication activities constitute part of the broader guiding principle of the Bank Group to co-financing its lending activities to crowd in resources for the continent. Co-financing broadly refers to a coordinated process whereby more than one lender provides the required funding under a project, whether sovereign guaranteed or a purely private sector transaction. A syndicated loan is a type of co-financing approach where a large loan is provided by a group of financial institutions (the syndicate) to a borrower. Usually, one or more of the financial institutions are nominated as lead banks (the arranger/s), provides a percentage of the loan directly and leads the negotiations with the borrower, while the balance is subscribed to by other syndicate members (financial institutions).

The Bank may, through loan syndication, fund any project or sector eligible for an NSGL in any RMC. Loan syndication activities can be executed via several operational methodologies as determined by the overall financial objectives and the chosen capital structure of the project. The Bank mainly offers two operational structures for loan syndications: A/B-loans and parallel co-financing.

A/B-loan Structure

Under this structure, the Bank acts as the Lender-of-Record of the loan provided to the Borrower. The loan provided is made in two tranches known as an A-Loan and B-Loan. The A-loan is the amount of the loan that the Bank has agreed to keep for its own credit, on its balance sheet, while the B-loan is the portion of the loan that is syndicated to other financial institutions. As the arranger of the B-loan, AfDB, under a written mandate from the borrower, undertakes on a best efforts basis to find eligible financial institutions to participate in the B-loan. B-loan participants take full exposure to the underlying project's credit risk in proportion to their participations. Figure 6 below gives an illustration of an A/B loan.

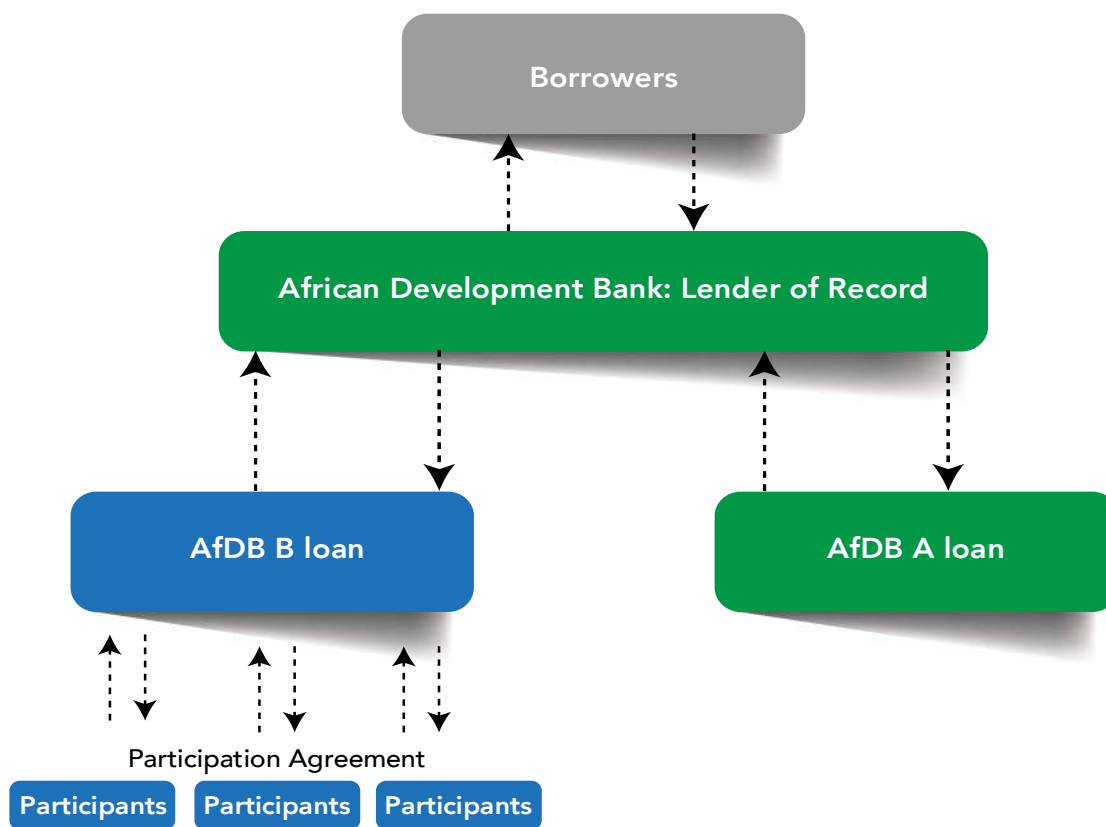
The benefits of using the A/B loan structure are multiple, both for the borrower and the lenders. The Bank's prime objective in facilitating B-loans is to attract private capital to the continent to finance the realization of impactful development projects. Under this structure, the B-loan participants benefit from the AfDB's Preferred Creditor Status (PCS)³ as a multilateral development institution. The leverage of its PCS makes lending to Bank Group projects more attractive as it enables eligible lenders to finance under the Bank's "umbrella" and therefore benefit from its MDB status. As such, A/B loans allow the Bank to assist eligible borrowers in obtaining financing from foreign private sector financial institutions interested in lending to projects in Africa but for whom the risk perceptions were too high, which ultimately results in an increase of foreign direct investment (FDI) and/or improved financing conditions. In addition to benefiting from the PCS status of the Bank, B-lenders benefit from the AfDB's infrastructure, relying on its risk and development outcomes assessment capacity. They also benefit from the Bank's client relationship with RMCs as well as deep knowledge of the African context.

For the Borrower, the main benefit of A/B loans is on the structuring of the transaction and its financial terms. In fact, the client, through these types of syndicated loans can access larger financing volumes and a more diverse pool of lenders, while maintaining only the AfDB as the administrative interface. Also, the borrower can benefit from improved lending conditions, as B-lenders often seek to match the Bank

³ The Bank Group, like other MDBs and their constituent entities, enjoys the privilege of being a preferred creditor to its borrowers. Preferred Creditor Status (PCS), also referred to as Preferred Creditor Treatment (PCT), reflects the choice made by member countries to prioritize repayment of their debts to MDBs over other creditors (bilateral and commercial). PCS is most easily observed when: i) a country chooses to pay MDBs if it is unable or unwilling to service its debts to all other creditors; or ii) other creditors accept subordination to MDBs in a default scenario. Although PCS is not explicitly mentioned in the Bank's Articles of Agreement, pursuant to Articles 27 and 54, RMCs' have agreed not to impose any restrictions, regulations, control or moratoria of any nature whatsoever on Bank resources, or to impose restrictions on debt service payments made by a borrower.

Group tenors which are usually longer than what is available in the market. The overall project cost can also be seen as lower given that, with the AfDB as lender-of-record, the entire project's financing would be deemed exempt from withholding tax on interest. Lastly, to ensure that the borrower does not have to engage with all syndicate members individually after financial close, an agent is appointed to act as a focal point for and on behalf of all syndicate members.

Figure 6: Structure of an A/B Loan



Eligibility of B-loan Participant

Viable, strong and commercially operated banks or financial institutions that have a minimum investment grade rating from a major and reputable credit rating agency are eligible B-loan participants. In exceptional cases and subject to suitable justification, the Bank may accept a lower rated or unrated participant subject to clearance from the Bank Group Credit Risk Committee.

Entities that are not eligible as B-Loan participants include (i) project's sponsors and off-takers, export credit agencies or other governmental, quasi-governmental or multilateral agencies; or (ii) a bank or financial institution that is incorporated in the country where the borrower is carrying out the project. For the avoidance of doubt, a foreign financial institution's office or a branch located in the borrower's country is not an eligible B-loan participant. Any eligible B-loan participant should be acceptable to the borrower.

Proportion of A-loan to B-loan

As a general rule, when deciding on the size of the A-loan in relation to the B-loan, the Bank will balance the authority and benefits derived from holding a significant amount of A-loan with the desire to attract a larger number of B-loan participants in the syndicate. At all times during the life of the B-loan syndication, the drawn amount of the A-loan should not be less than 25% of the Loan. Any exception is subject to the approval of the Bank's Credit Risk Committee. Where the A-and B-loans are denominated in different currencies, 25% should refer to the loan amount at origination and the Bank will not be required to maintain 25% of the loan purely on the basis of changes in amounts due to exchange rate fluctuations.

Financial Terms of A/B Loan

Loans syndicated by the AfDB shall be priced according to prevailing international loan market terms and practices, in line with the assessment of the credit risk assumed by participants in the syndication. The A-Loan follows the Bank's non-sovereign guaranteed loan terms as described on Section 3.1.2. Some of the FSL features may be adapted to fit the requirements of other participants.

Table 5: Summary of A/B Loan terms

Lending terms	Eligibility	Public Sector Companies without a sovereign guarantee, Private Sector Companies in all RMCs. As the Arranger of a B-loan, AfDB, under a written mandate from the Borrower, undertakes on a best efforts basis to find eligible financial institutions to participate in the B-loan. ADB will act as the Lender of Record.
	Maturity/Grace period/Currencies	Same as AfDB Non Sovereign Loans (FSL). Usually A-Loan and B-Loan have same currency, maturity and grace period however when needed, B-Loan can have shorter maturity and grace period, and different currency than A-Loan
Lending Rate	Pricing formula	Same as AfDB Non Sovereign Loans. A-Loan and B-Loan will usually carry the same currency and have the same types of interest rates but when justified, can be different. Free Option to Fix the Floating Base Rate is offered by ADB on the A-Loan.
Fees	Standard Fees & Costs	Same as AfDB Non Sovereign Loans (FSL) and as agreed with participants and borrower
	Syndication specific Fees	Arrangement and syndication fee, loan administration/Agency fee, legal costs

Other syndicated loan structures

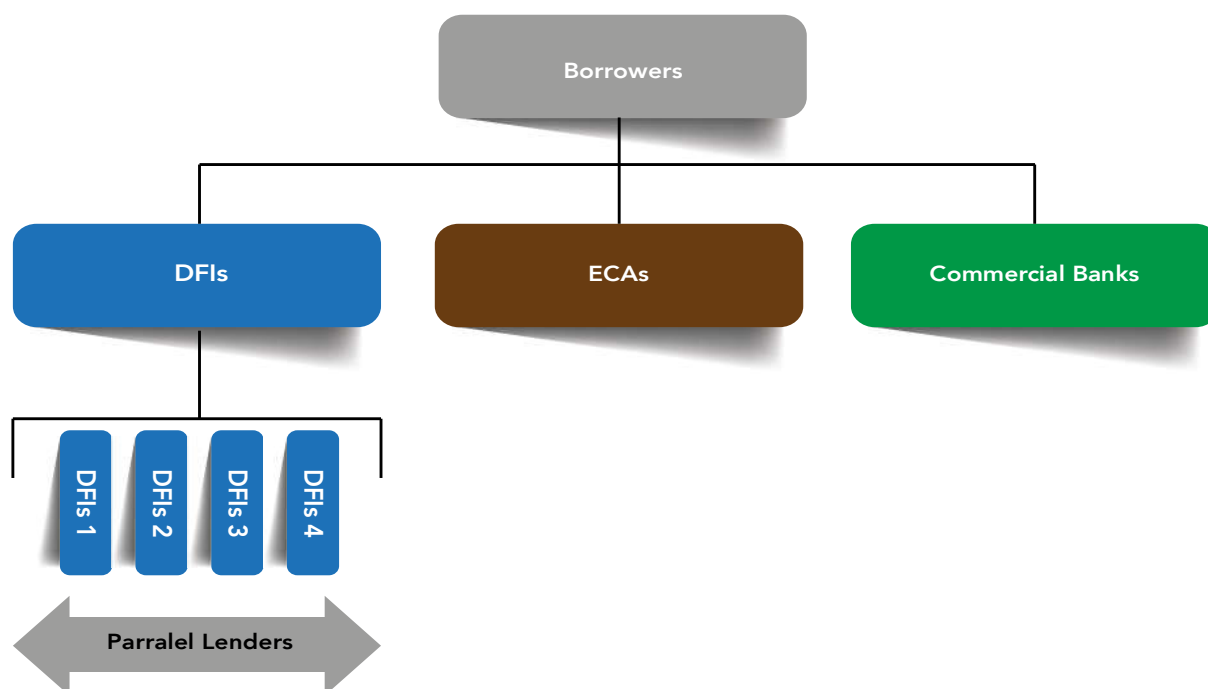
In addition to A/B loans, the Bank can syndicate loans as well under two additional structures, namely through a parallel loan structure or through the regular commercial syndicated loan facility.

Parallel loan structure

As the arranger of a parallel loan structure, the Bank, under a written mandate from the borrower, undertakes on a best efforts basis to find eligible financial institutions to participate in the underlying loan. Typically, the Bank would partner with financial institutions which are not eligible for A/B loans such as Development Financial Institutions (DFIs) and some local commercial banks in these structures. In this case, the Bank does not act as the lender-of-record, but rather acts as a mandated lead arranger (MLA) and coordinator of the various financial institutions who would lend into this structure. As MLA, the Bank would act as the coordinator of the various partners who would participate in the transaction, under parallel facility agreements, which would all fall under a contractual arrangement known as the Common Terms Agreement (CTA). This structure is commonly seen in a syndicated facility for a majority DFI syndicate, DFIs tend to have internal lending and operational policies which may not apply to commercial lenders or even other DFIs within the syndicate. Therefore, the individual loan agreements allow each lender to explicitly refer to these policy requirements.

Under the parallel loan structure, and particularly for large and complex transactions, the Bank may choose to appoint a co-MLA, with the consent of the borrower; or divide some aspects of the due diligence with other financiers in the syndicate.

Figure 7: Structure of a parallel loan structure



Classic Syndicated Loan Structure

The regular syndicated loan facility generally follows the principles of a commercial loan syndication, whereby all lenders fall under one facility document, and may accede to the facility through global transfer certificates during the primary syndication phase. The eligibility criteria and financing terms would be the same as those for the parallel syndicated loan structures.

Eligibility Criteria for Syndicated Loan Structures

Any viable, strong and commercially operated banks or financial institutions are eligible to lend alongside the Bank in a syndicated loan structure. These structures typically attract lenders who are not eligible for B-loans. Underlying facility structure will determine the ultimate syndicate as well sign-off from the borrower.

Financing terms of Syndicated Loan Structures

Loans syndicated by the AfDB shall be priced according to prevailing international loan market terms and practices, in line with the assessment of the credit risk assumed by participants in the syndication. The pricing of the facility follows the Bank's non-sovereign guaranteed loan terms as described on Section 3.1.2. Some of the FSL features may be adapted to fit the requirements of other participants.

Syndication of non-loan instruments

The Bank is also able to syndicate instruments other than loans, namely guarantees. For more on the Bank's guarantees see Section 6.



4. Risk management products

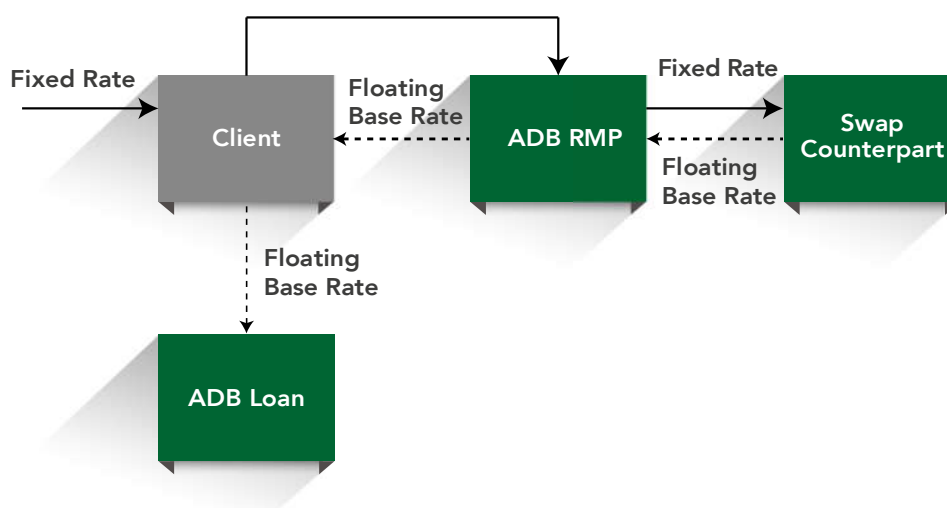
The Bank offers Risk Management Products (RMPs) to its borrowers from the AfDB lending window. Such RMPs include interest rate swaps, cross-currency swaps, commodity swaps and interest rate caps and collars. These products are available to borrowers at any time during the life of their loans but only in respect of their obligations outstanding to the Bank or new Bank loans. RMPs enable borrowers to hedge their exposure to market risks thus allowing them to optimize their debt management strategies. Below are some features of 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 debt instrument without renegotiating or amending the terms of the original instrument.
- Clients are required to enter into market-based Master Derivatives Agreement (ISDA agreements) with the Bank prior to entering into RMP transactions. This agreement provides a contractual framework upon which RMPs can be executed.
- Certain RMPs are already embedded in the (i) Fully Flexible Loan product (the inclusion of commodity swaps is under consideration) and the (ii) Fixed Spread Loan product, namely floating to fixed interest rate conversion) as per Section 3.1.1 and 3.1.2 respectively. As such, a client who obtains an FFL or the FSL from the AfDB lending window would not need to enter into an ISDA Master Agreement prior to requesting the conversions options already available within each of those loan products.
- When using RMPs (both through ISDA or loan agreement), the Bank passes on to the borrower the benefit of lower hedging costs and better terms as can be achieved by the Bank in the market. In the same way, any cost incurred by the Bank in regard of the executed swaps will be passed on to the borrower particularly in case of changes in the underlying loan that require adjustment or early termination of the hedge.

4.1/Interest Rate Swaps (IRS)

An interest rate swap is an exchange of cash flows between two parties, which generally transforms a floating rate obligation in one currency into a fixed rate obligation in that same currency or vice versa.

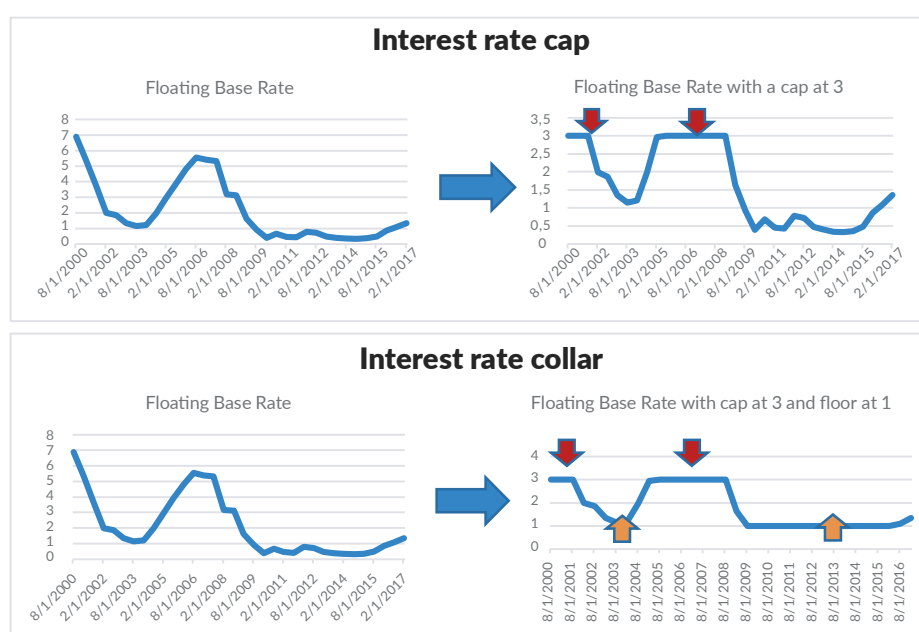
Figure 8: Conversion of a Floating Base Rate into a Fixed Base Rate



The borrower can also request an interest rate cap or collar. The interest rate cap limits the maximum interest rate on a floating Base Rate loan regardless of the future level of the market reference rate. By purchasing an interest rate cap, a client with a floating Base Rate loan can enjoy lower interest costs when market rates are above a specified maximum rate (the cap).

Conversely, the interest rate collar sets a maximum (via the purchase of a cap) and minimum (via the sale of a floor) interest rate on a floating Base Rate loan. By purchasing an interest rate collar, a floating Base Rate client can enjoy interest costs that are limited to an upper and lower band while market rates may fluctuate outside the range of the collar. Figure 9 provides an illustration of a cap and collar.

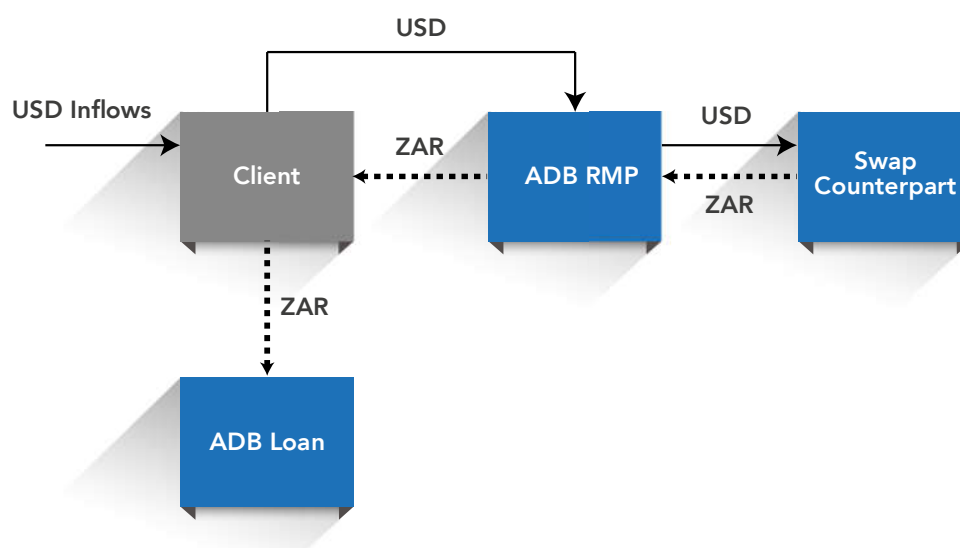
Figure 9: Illustrations of a cap and a collar on a Floating Base Rate



4.2/Cross-Currency Swap (CCS)

This is an exchange of cash flows denominated in different currencies. The cash flows are based on agreed-upon exchange rates and may or may not include the exchange of principal. This product is available only for the disbursed portion of a loan and for as long a maturity as the currency swap markets provide, subject to the final maturity of the loan.



Figure 10: Conversion of a loan currency into another approved lending currency

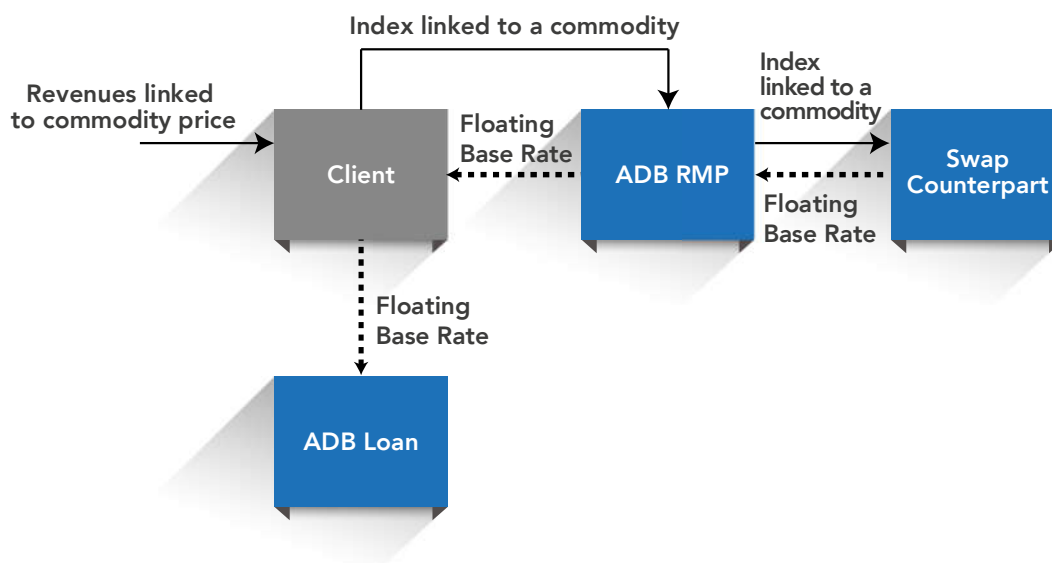
4.3/Commodity Price Swap

Commodity price fluctuations can adversely impact a business' profitability, debt serviceability, credit worthiness and corporate valuation. Commodity Consumers or Producers can look to enter hedges to moderate commodity price fluctuations. AfDB offers to facilitate those hedges in relation to loans it has provided (existing or new) to its borrowers. This can be done through Commodity price swaps where AfDB uses its expertise in the derivative markets and its network of swap counterparties to book the hedge using its own high standing credit profile to the benefit of the borrower.

A commodity price swap is an exchange of cash flows, where one of the cash flows is based on the price of a particular commodity or basket of commodities, and the other cash flow is based on a traditional reference interest rate. For the clients borrowing from the AfDB lending window, the Base Rate of disbursed portions of a loan may be converted from an interest rate reference to a commodity price reference and vice versa for as long a maturity as the commodity swap markets provide, subject to the final maturity of the loan.

This product responds to both commodity producers and consumers needs by linking the payments under their loans to the actual commodity price and the value of a fixed quantity of commodity. The swap is financially settled, and the loan could be secured by physical offtake contracts. The main benefit of this product is to remove the commodity price risk from the transaction with debt service that adjusts to the repayment capacity of the borrower (if production is not disrupted). The borrower can hence assign a portion of the production (typically more stable than commodity prices) for debt service. The Borrower will face AfDB through a swap while AfDB faces the market counterparty through a mirroring swap. This allows borrower to benefit from lower hedging costs, longer maturities and larger volumes than it could get on its own from the market.

Figure 11: Conversion of a Floating Base Rate into a commodity linked index



The main terms and conditions of ADB RMPs are summarized in Table 6 below.

Table 6: Principal terms and conditions of Risk Management Products

Eligibility	ADB loans whether sovereign (FFL) or non-sovereign guaranteed (FSL)
Maximum transaction amount	Limited to the outstanding loan amount.
Minimum conversion amount	Generally, the equivalent of USD 3 million. May vary from market to market depending on market conditions at the time of transaction.
Maximum maturity	Dependent on the maturities available in the relevant market but not longer than the outstanding maturity of the underlying loan or the portion of the loan being hedged.
Currencies	USD, EUR, JPY, ZAR and other approved Bank lending currencies for which a liquid derivative market exists.
Premium	The amount paid by the Bank to purchase options (cap or collar) in the market on behalf of the client
Pricing Methodology	Any cost incurred by the Bank under the hedge is passed on to the client ("cost pass through" pricing methodology).
Conversion start date	Must coincide with an interest rate payment date on the underlying loan.

Conversion end date	Must coincide with an interest payment date and be beyond the starting date.
Conversion fee payment dates	Must coincide with the repayment dates of the underlying loan or portion of loan being hedged.
Early termination	The client may terminate an RMP transaction at any time and pay the applicable transaction fee on the terminated principal amount in addition to the settlement of the mark-to-market value of the terminated RMP.
Termination due to late payment	The Bank retains the right to terminate RMP transactions if payment of fees is late by more than 30 calendar days. Late payment fees may be applicable.
Payment of premiums and fees	Payable as a single, upfront payment within 5 business days from the date of execution of the transaction. Must be paid from client's resources and not from the underlying loan proceeds.
Currency of payments	Premiums and fees are paid in the currency of the hedges and not the currency of the underlying loan.
Loan prepayment	The RMP transaction will be automatically terminated if the related portion of the underlying loan is prepaid and the early termination provision of the loan agreement will be applied.
Conversion Fees	<p>In addition to the actual cost of the offsetting transaction that the client shall pay, the Bank will also charge a transaction fee as follows (expressed as a percentage of the transaction amount):</p> <ul style="list-style-type: none"> • Interest Rate Swaps: 1/8% of the relevant loan tranche • Currency Swaps: 1/4% of the relevant loan tranche • Commodity/Index Swaps: 3/8% of the relevant loan tranche • Interest Rate Caps & Collars: 1/8% of the relevant loan tranche <p>These fees are non-refundable (e.g. in the case of premature swap cancellation) and are applicable for each individual conversion transaction. Fees for RMP transactions are payable as a single, front-end payments within five (5) business days from the date of execution of the conversion transaction.</p>

5. | Equity & quasi-equity

The Bank provides equity and quasi-equity (the latter being a product which has both debt and equity characteristics) to qualifying business enterprises as well as to investment vehicles incorporated in an AfDB Member Country, with the project for which Bank's financing is extended, located and/or implemented in one or more Regional Member Country(ies). The Bank Group considers these interventions as part of its strategic development financing mandate. The Bank provides equity and quasi-equity as instruments of investment to (i) promote the efficient use of resources, (ii) promote African shareholding in commercial enterprise, (iii) play a catalytic role in attracting other investors and lenders to financially viable projects, entities and organizations as well as (iv) promoting new activities and investment ideas.

Equity and quasi-equity instruments are available to non-sovereign guaranteed clients. The Bank can undertake equity and quasi-equity investments in four types of organizations: (i) privately owned enterprises and financial intermediaries including investment vehicles; (ii) public sector companies (including state-owned financial institutions) that are in the process of being privatized; (iii) regional and sub-regional institutions without a sovereign guarantee; and (iv) appropriately structured SPVs or PPPs in project financing. It can provide risk capital to both established companies embarking on expansion, modernization or diversification, and start-up enterprises (this latter is mainly via indirect participations in Private Equity funds or fund of funds approach). Only self-sustaining enterprises and institutions supported by realistic financial projections, are eligible for Bank equity and quasi-equity participations. Ultimately, these instruments can be tailored to the borrower's needs provided that each product feature has clearly explained rationale, developmental and strategic value for the Bank and assures financial sustainability (e.g. profitability). Figure 12 outlines the Bank Group's approach to equity transactions.

Eligibility and Types of Equity and Quasi-Equity Investments

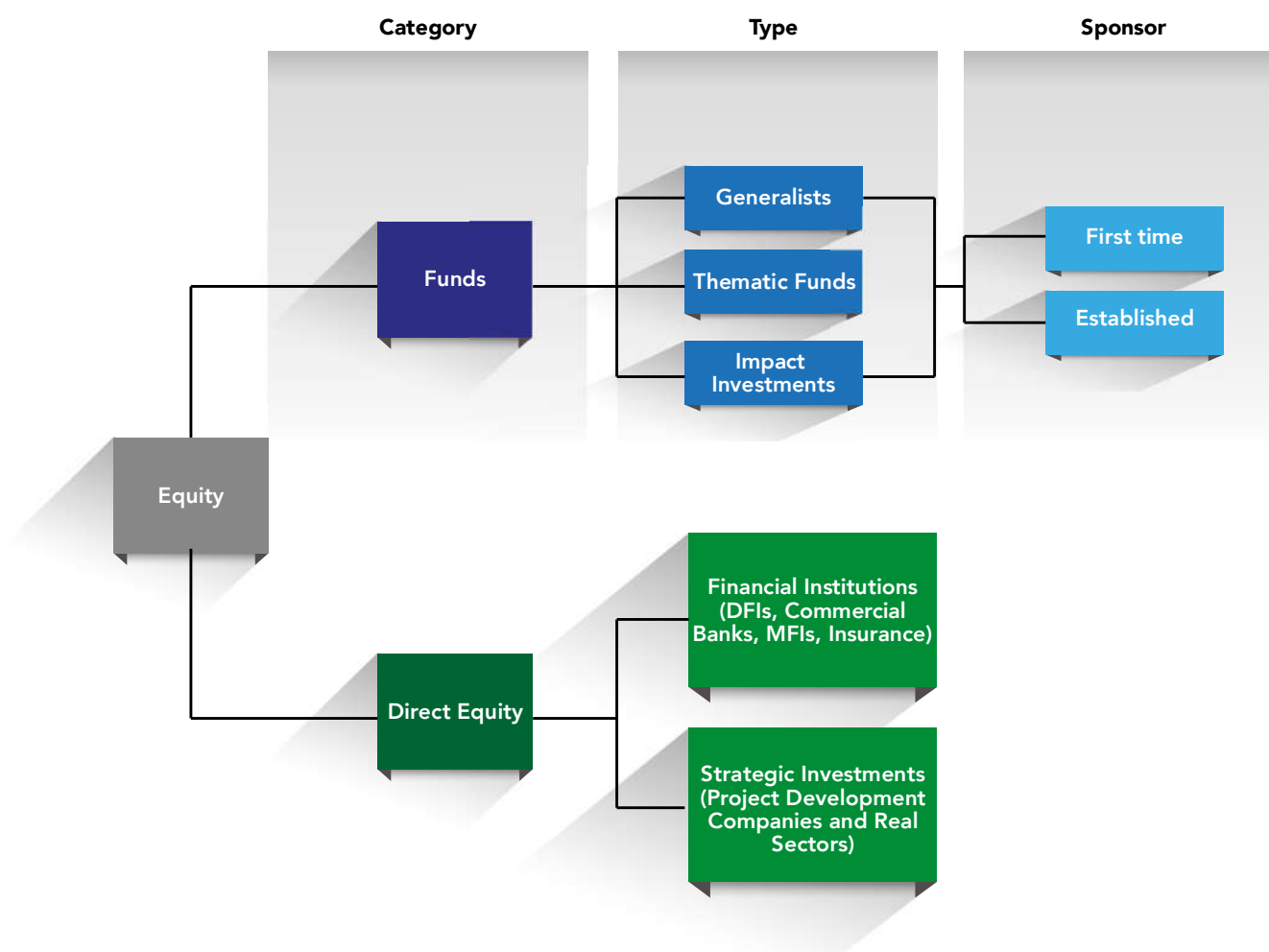
The Bank can invest throughout the spectrum of private equity instruments and in the different parts of the capital structure of a qualifying business. In general, the Bank participates in investments either (i) directly, by acquiring equity or quasi-equity in a company or project (ii) indirectly, by investing in equity or quasi-equity through a fund, a fund of funds or other suitable intermediaries such as special purpose vehicles, investment companies, and partnerships.

The Bank may subscribe traditional equity including redeemable preference shares, preferred stock among others, as well as quasi-equity instruments. Quasi-equity instruments include non-senior debt instruments with characteristics or triggers which make them able to transform into or reflect the characteristics of equity given their position in the cash waterfall such as subordinated loans, mezzanine loans and convertible loans. Quasi-equity investments normally rank junior to loans in the event of liquidation.

The Bank may consider quasi-equity investments as an alternative to traditional equity if any of the following apply: (i) the Bank seeks security or a relatively more senior position with respect to equity while keeping some participation to the upside typically provided by an equity investment i.e. mezzanine with an equity kicker; (ii) the Bank's participation on the board or relevant supervisory structure of the beneficiary company is not considered necessary or appropriate as a tool to enhance value creation from the Bank investment (this particularly applies in case of subordinated-debt); (iii) Exit at an envisaged horizon cannot be easily achieved with an equity investment and quasi-equity investments typically offers an easier 'self-liquidation' strategy (e.g. quasi-equity instruments are most useful where the absence of an organized capital market would hinder the sale of equity investments or the exit of the investor), or (iv) where the foreign exchange risk involved in a straight equity instrument would be excessive (in the case where this is required and provided in a local currency for instance).

In case the Bank enters a transaction for multiple roles as senior debt provider or equity/quasi-equity provider, it will be handled by different teams to ensure a Chinese wall.

Figure 12: Approaches to Equity and Quasi-Equity investments by ADB



Investment Size and Approach to Ownership

The charter of the Bank Group does not permit the institution to assume responsibility for managing an institution or any undertaking in which it has an investment. The Bank will decide on a case-by-case basis whether or not to seek a seat on the Board of Directors of the investee company or on an Equity Fund's advisory committee. The decision will depend on factors including: size of investment, strategic importance, catalytic role in influencing corporate governance and sound management, complementarity between the investee's strategic and operational objectives and those of the Bank Group, risk exposure. The objective of the Bank's participation in the boards or advisory committee of investees is to provide oversight and strategic guidance, in line with the highest standards of corporate governance. The Bank's participation in the board or advisory committee of investees will be through a suitably qualified and experienced staff member or external professional appointed following relevant procurement rules and procedures. Former members of the Bank's staff or Board of Directors are eligible for consideration after a cooling-off period as required by Bank Staff Rules. The task of Bank representatives, therefore, shall be to provide oversight from the Bank's point of view as well as in the corporate best interest of the investee, to monitor that management are diligently implementing the goals, objectives, and policies established collectively by the shareholders, and that the concerns of other stakeholders are adequately taken into account, it being understood that the Bank's representatives shall not be involved in management of investee entities. In no case will the Bank's equity investment be larger than the lower of (i) 25% of the total share capital of the investee company, and (ii) a (lower) percentage of the total share capital representing a non-controlling interest in the investee company.

Financial Return

The Bank's equity and quasi-equity participations shall only be undertaken when prospects of returns are clearly discernible. Each investment should show a projected rate of return commensurate with the business and foreign exchange risk borne by AfDB. As a yardstick measure of the success of its equity investments, the Bank would consider the financial return on its investment as equal to the interest rate that the Bank would charge for a loan to the same undertaking plus an appropriate premium reflecting the specific risks involved. Based on projections of future earnings, each proposed investment should, as a precondition for approval, meet this requirement.

Divestment

Proposals for equity investments should include a thorough assessment and rationalization of a well-defined exit strategy. Specifically, the Bank's equity investments shall, as an integral part of the shareholders' agreement, include a clearly defined exit clause to be exercised once the investment objectives have been attained as well as the right to withdraw its investment in the case where the enterprise or institution is assessed as non-performing. When appropriate, and based on financial considerations, the Bank may sell its equity to revolve funds for other projects.

The Bank's preferred exit strategy is through a listing (Initial Public Offering or IPO) on a local stock exchange and sale of its stake to local investors. Sales to foreign or public sector investors may also be considered. Clearly such exits may be challenging in RMCs that lack developed capital markets. Where a market sale is unlikely or not feasible, an alternative exit mechanism will be agreed upon at the time of the original investment (e.g. a put option vis-à-vis the Sponsor or majority shareholder). In the absence of clear exit opportunities, the Bank may opt away from traditional equity and consider the creative use of quasi-equity structures such as subordinate debt or a redeemable instrument. The Bank may also grant the other shareholders the right of first refusal on its shares.



6. | Guarantees

The basic structure of a guarantee involves an applicant (often a borrower), who has contractual payment obligations (often debt repayments and interests) towards a beneficiary. AfDB, acting as a guarantor, commits through a guarantee agreement to compensate the beneficiary if the applicant does not fulfil its obligations covered by the guarantee. The guarantor, through subrogation rights and/ or a counter-indemnity agreement can eventually claim directly to the applicant any amount paid to the beneficiary under the guarantee.

The resources of the Bank Group, together with that of other development partners, is far exceeded by the financing needs of RMCs. Although private capital flows to developing countries have increased significantly over the past decade, countries in Sub-Saharan Africa have been less successful than other developing regions in attracting private investments. Investors continue to perceive doing business in RMCs as excessively risky and require an additional risk premium to go forward with investments as compared to other regions of the world. This perception of disproportionately high risk directly impacts the cost and volume of commercial financing and capital accessible to RMCs and the private sector in Africa.

Guarantees can help respond to those challenges and crowd in private investors into Africa at more sustainable terms. The Bank Group's objective is to cover risks that it is uniquely positioned to bear, given its international financial standing and AAA rating, its preferred creditor status and the strong support of its shareholders. It also builds on its solid financial base and prudent financial and risk management policies, strong relationships with investors throughout the world, rich credit experience with its RMCs and private sector in Africa and its special relationships with governments. Bank Group guarantees can thus play an important part in enabling and maintaining the flow of private financing to projects in RMCs.

The Bank Group offers two types of guarantee products: (i) guarantees to protect the beneficiary against political risks emanating from the government or its sub-entities - Partial Risk Guarantees (PRG); and (ii) guarantees to protect the beneficiary against non-payment on debt service by the applicant - Partial Credit Guarantees (PCG).

6.1/Partial Risk Guarantees (PRGs)

Bank Group PRGs cover a private project (beneficiary) in relation to relevant government or government owned entity (applicant) undertaking and/or political related risks vis-à-vis the project and not genuine commercial risks. Government undertakings towards the private project can be of a financial or non-financial nature and these undertakings shall clearly be defined in contracts between the government and the private project or its sponsor.

A PRG can attract investments (debt and/or equity financing) in project finance transactions, particularly in sectors such as power, water, transport, telecom, oil and gas, and mining, where a project's success depends as much on government undertakings, as on private commercial acumen. In public- private partnerships, PRGs can give assurance to the private partners and commercial financiers that government will meet its obligations toward the partnership.

The AfDB offers PRGs from both the AfDB and ADF lending windows in support of sovereign and sovereign guaranteed clients as applicants.

Risks Covered by a PRG

Risk coverage under the PRG can be requested for protection against the one or several of the following sovereign risks:

(I) Non-honoring of contractual payment obligations of a government or state-owned entity towards a private project. This includes contractual funding agreements (provision of debt or equity by the government / state-owned enterprise), obligations under off-take agreements, termination payment etc.

(II) Breach of contract such as contractual performance of public counterparties, regulatory risk, change of law such as negation or cancellation of license, approval or non-allowance for agreed tariff adjustment formula or regime; frustration of arbitration etc.

(III) Currency inconvertibility (CI) and non-transferability to ensure that dividends, profits, fees, share capital, and loan proceeds from a guaranteed project are remitted or repatriated from a host country in a timely fashion and at prevailing exchange rates. However, CI coverage does not protect against currency fluctuation, devaluation, or any pre-existing restrictions on conversion or transfer, unless government has expressly undertaken to cover those risks.

(IV) Political force majeure risks such as damages to assets, business interruptions or loss of use resulting from politically motivated violence such as strikes, riots, civil commotion, terrorism, sabotage, war and/or civil war.

(V) Confiscation, expropriation, nationalization, and deprivation referred to as CEND, designed to protect a foreign investor when a host government interferes with the investor's fundamental ownership rights.

Eligibility of Applicants

All RMCs (including sovereign guaranteed borrowers) of the Bank Group are eligible to request for a PRG. Cross-country obligations (e.g. state-owned enterprise from Country A investing in Country B) is also eligible for coverage by a PRG. However, public sector projects or sponsors with majority government shareholding are not eligible beneficiaries of a PRG in their own jurisdiction.

Eligibility of Beneficiaries

A typical beneficiary of a PRG would be a private sector project, sponsor or company irrespective of the funding mix of the beneficiary entity (e.g. financed fully with equity or with a debt/equity repartition) or capital structure of the project. Lenders with a Preferred Credit Status cannot be direct beneficiaries of a PRG. However, their involvement as lenders to any eligible project may result in their indirectly benefitting from the coverage provided by an AfDB PRG. Hence, the provision of a PRG will indirectly benefit equity investors and lenders by assuring the success of the underlying transaction and by facilitating the mobilization of financing to a project.

Eligible Structures

The PRG can support a project mainly through two types of structures: (i) PRG with a deemed loan provided to the beneficiary for protection against termination risk and (ii) PRG with a standby letter of credit for protection against temporary liquidity shortfalls from the guarantee applicant. These two structures are illustrated in Figures 13 and 14 below. However, additional structures can be considered.

Figure 13: PRG with a Deemed Loan Structure

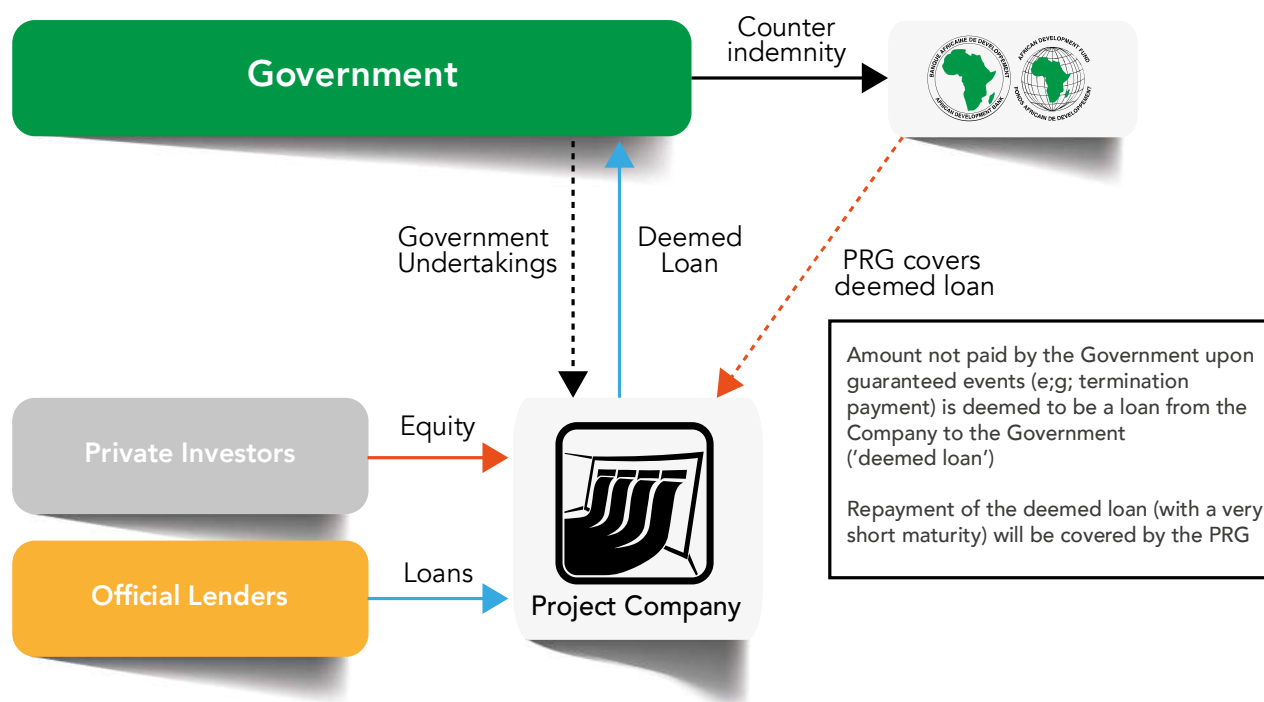
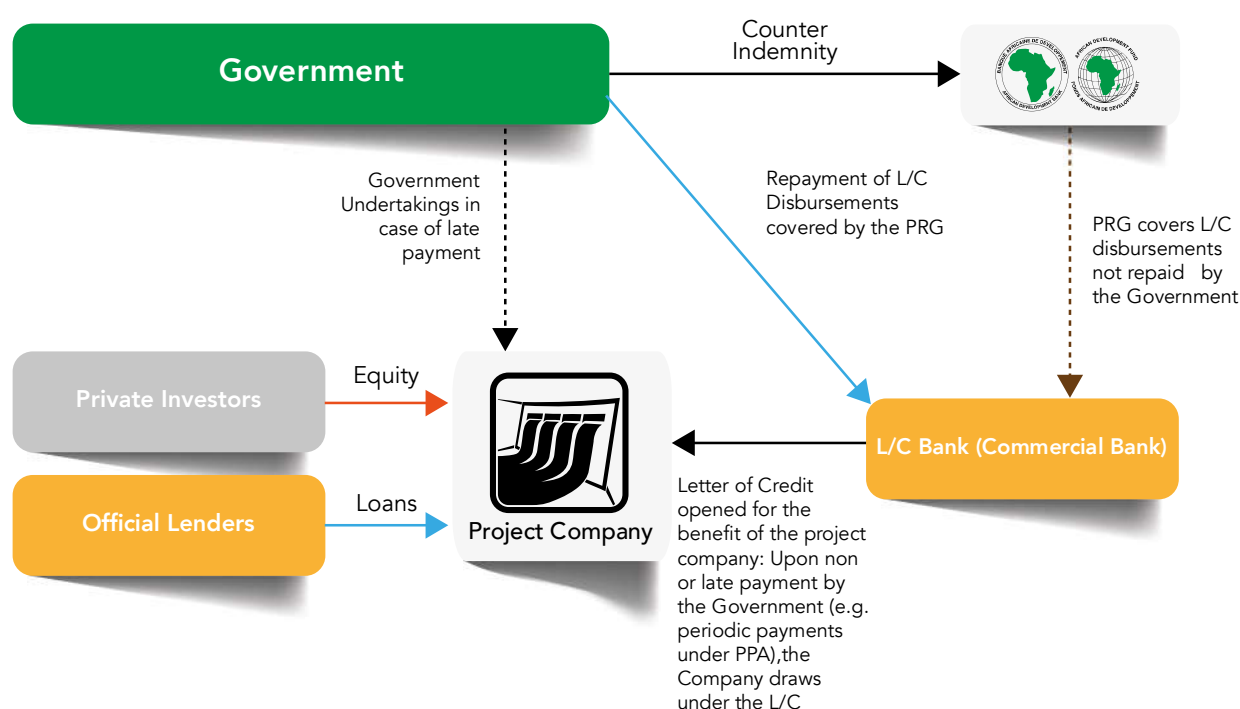


Figure 14: PRG with a Standby Letter of Credit Structure



6.2/Partial Credit Guarantees (PCG)

The PCG instrument covers default on scheduled payments of an obligation against all risks and are offered from both AfDB and ADF financing windows. PCGs support private sector entities, government and SOEs (applicants) in mobilizing debt (i.e. guaranteed obligations) from commercial lenders/investors (beneficiaries) to finance their activities and projects. Governments can also use PCGs to raise commercial financing in support of strategic public sector reforms under the Framework for Policy-Based Operations (PBO) (i.e. budget support) of the Bank Group. These are referred to as Policy-Based Guarantees (PBGs).

Eligibility for Applicants

With the PCG instrument, there is a distinction between eligible applicants who wish to access the AfDB window for the guarantee versus the ADF window. In the case of the AfDB window, all eligible RMCs, SOEs in AfDB countries with sovereign guarantee and private sector entities or SOEs without sovereign guarantee are eligible for an AfDB window PCG. Additionally, ADF countries with access to the AfDB window through the Bank's amended credit policy (see Section 2.3.1 on country classification) also have access to the AfDB PCG.

In the case of the ADF window, given that the PCG is a tool for raising debt financing more easily, consideration is given to applicants' debt accumulation and debt service sustainability. To ensure the Bank Group contributes to the debt sustainability of its RMCs, ADF countries can only raise commercial debt only with the PCG in line with their debt vulnerability assessment and their debt management capacity, hence eligibility is therefore governed by the Bank Group Policy on Non-Concessional Debt Accumulation. Specifically, only ADF countries with low to moderate risk of debt distress as per the IMF Debt Sustainability Analysis (DSA) can be applicants to the ADF PCG. This notwithstanding, exceptionally, ADF PCGs can be used to support transactions that significantly improve the DSA of an ADF country with high risk of debt distress or in debt distress. For example, the PCG can be applied to facilitate the debt re-profiling of a short-term commercial loan with a longer tenor debt instrument. Eligible applicants also include SOEs in ADF countries with low to moderate risk of debt distress subject to sovereign counterindemnity and additional requirements including the SOE being financially autonomous and viable.

Eligibility for Beneficiaries

PCGs are beneficial to lenders and investors including local and international financial institutions and investors in the financial markets. However, the following institutions cannot be direct beneficiaries of the Bank Group PCGs: (i) other governments providing public bilateral financing to another government, (ii) SOEs operating under public law or for public policy purposes, institutions with a Preferred Credit Status, Export Credit Agencies or bilateral donor agencies.

Coverage Eligibility of Financial Product

PCGs can cover any debt instrument including commercial debt from an individual lender or a syndicate of lenders, bond issues, and debt derivatives such as cross currency swaps. Instruments which do not trigger a default in case of non-payment are not directly eligible such as equity participations and equity linked derivatives.

Eligibility of Underlying Guaranteed Obligations

Any project eligible for AfDB financing (whether public or private sector) is eligible for an AfDB PCG. Similarly, any project eligible for ADF financing (sovereign only) is eligible for an ADF PCG. Accordingly, the eligibility criteria for PCGs in both cases is similar to the prevailing criteria for loans from the respective lending window being considered. For Policy-Based Guarantees (PBGs), the eligibility criteria would be governed by the same policies and practices as Policy-Based Loans (PBLs). See Section 2.3.3 for an overview of eligible transactions the Bank Group may consider.

Key Structuring Features of PCGs

AfDB Group PCGs can be structured on a pro-rata, first loss or second loss protection basis, with great flexibility to fit the underlying project's needs. PCGs can be structured to cover the following (but not limited to) :

- Individual projects or a portfolio of multiple projects;
- Principal repayments, interest repayments or both; however, default interest and other penalties are not covered;
- Various risk sharing modalities such as AfDB providing a funded Risk Participation Agreement to third party lenders/financiers, are particularly useful to cover local currency debt.

6.3/General Terms and Conditions of AfDB Guarantees

The Bank Group Guarantees have certain terms and conditions which are cross cutting irrespective of the instrument (PCG or PRG) or the lending window (AfDB or ADF). These general principles are outlined below.

Counter-Indemnity and Other Security

Partial Risk Guarantee: Partial Risk Guarantee applicants looking to access the AfDB or ADF windows are typically required to provide a counterindemnity or some form of commitment where the government assumes final liability for non-payment. This allows AfDB or ADF as the case may be, to request for reimbursements for any payments made under the PRG. However, under the AfDB window, guarantees can be issued without a host country counterindemnity or any form of commitment. Instead security will need to be provided to back the guarantee.

Partial Credit Guarantee: For a Partial Credit Guarantee, under the AfDB or ADF window a sovereign counter indemnity is required only if the debt issuer is a government or an SOE with a sovereign guarantee. For private sector entities or SOEs without a sovereign guarantee, the PCG will be backed by the normal project security that would have been taken if a loan was being made.

Tenor

Tenors for both PCGs and PRGs, irrespective of the lending window, will correspond to the tenor of the underlying guaranteed obligations. In terms of sovereign guaranteed transactions or obligations, tenor is limited to the maximum for an equivalent loan to the applicant depending on their country classification (e.g. up to 40 years from ADF window applicants and 25 years for AfDB sovereign and sovereign guaranteed applicants and 15 years for AfDB non-sovereign guaranteed operations).

Currencies

While guaranteed obligations can be in any currency, the guaranteed amount will be denominated in one of the Bank's lending currencies applicable to the relevant lending window including African currencies designated as lending currencies of the Bank in the case of AfDB to the extent the Bank can easily raise local currency in case of a call under the guarantee.

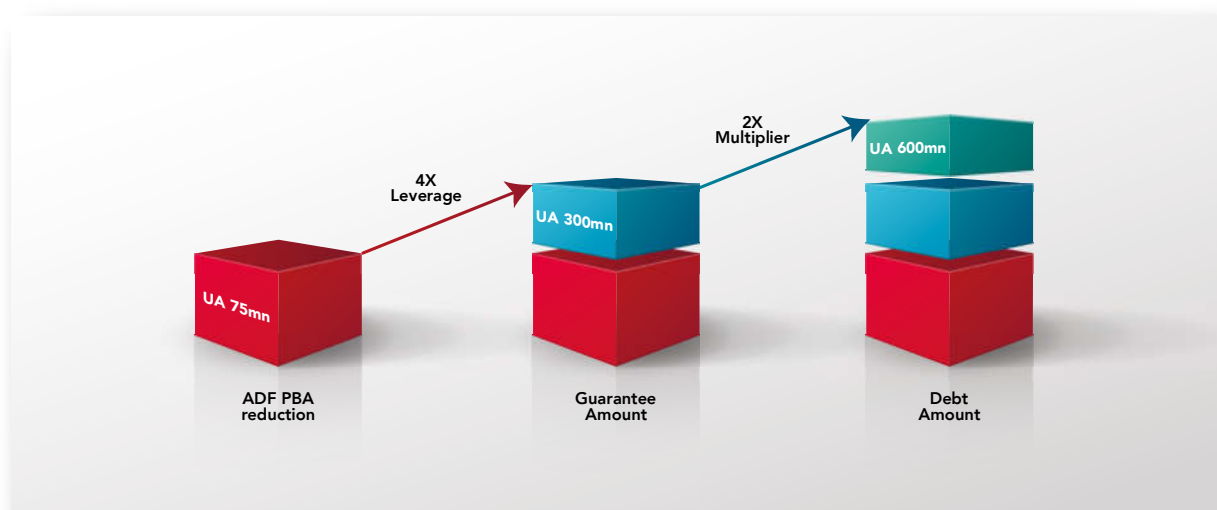
Leverage and multiplier effect

The multiplier effect of Bank Group guarantees can be significant, referring to the leverage impact of the products on the overall mobilization of external resources to a project. In general, only a portion of the underlying debt or other obligations will be covered by AfDB to enable risk sharing between the Bank and private investors or lenders. The level of, or percentage of coverage will be determined on a case by case basis, however AfDB will only provide coverage enough to catalyze private investors and other commercial lenders. The Bank Group typically strives to a minimum 2X multiplier effect on any guaranteed amount, nonetheless final coverage ratios may vary. This notwithstanding, the Bank Group does not provide 100% guarantees.

Furthermore, in terms of internal capital consumption, ADF guarantees in particular, consume only a portion of the resources that would have been allocated for an equivalent loan, allowing ADF to make available more resources to countries and borrowers than would have been possible otherwise given its mandate to support lower income countries. Specifically, for an ADF guarantee, only 25% of the guaranteed amount is deducted from the country's Performance Based Allocation (PBA). This is equal to a 4x leverage factor on the PBA. Therefore, a country can use ADF guarantees to raise debt equivalent to its allocated PBA for an ADF cycle. Conversely, an AfDB guarantee will consume the same risk capital as an equivalent loan to the underlying borrower, therefore the main leverage hinges on the multiplier effect, that is, how much external financing the guarantee is able to raise towards the project.

Leverage and multiplier effects allow guarantee applicants to mobilize around 8X the allocated PBA for ADF or 2X the allocated headroom for AfDB, from investors and other lenders. Figure 15 below shows an example where using a USD 75 million resource allocation, an ADF country can obtain a USD 300 million guarantee (4X leverage). This guaranteed amount can cover say 50% of the country's debt facility allowing it to raise UA 600 million (2X multiplier). This corresponds to a total 8X leverage on ADF resource envelope.

Figure 15: Illustration of ADF Guarantee Leverage and Multiplier Effects



Pricing of Guarantees

ADF and AfDB price their guarantees on a loan equivalent basis taking into account that guarantees (that are not yet called) are unfunded financial instruments (for information on loan pricing see Section 3.1 on lending instruments). It should be noted that under the AfDB window, guarantees can be issued without a host country counterindemnity or any form of commitment. As such, such guarantees will be subject to commercial pricing in accordance with the Bank's rules for non-sovereign operations. This pricing will follow the same market-based procedures applicable to pricing the political and/or credit risk component of the Bank's non-sovereign guaranteed loans. Hence, the sovereign loan equivalent pricing will no longer be applicable. In all cases, the underlying debt pricing should be in line with market practice and take into account the applicant's (e.g. underlying project) credit risk.

In certain risk sharing credit guarantee structures such as Risk Participation Agreements (RPAs), the Bank may choose to structure its fee as a share in the underlying debt's pricing with the lender (applicant), pro rata to the Bank's risk participation. Additionally, the Bank may pay an Administration Fee to the lender for its services in appraising, documenting, billing and collecting payments on behalf of the Bank's risk participation.

The above notwithstanding, the main fees that apply to AfDB guarantees are described below.

- **Front-end fee:** A front-end fee is charged to recover development costs and to compensate the Bank or the Fund as the case may be. It is set at 0.25% or more for AfDB and up to 1% for ADF, of the maximum possible exposure under the guarantee and would be payable before, or at guarantee signature for non-sovereign applicants and at effectiveness for sovereign applicants.
- **Guarantee fee:** For AfDB guarantees, this fee is similar to the Lending Margin (plus Maturity Premium when applicable) and for ADF, it is similar to the applicable service charge on standard ADF loans. The guarantee fee accrues on a daily basis and is payable in advance either according to an agreed schedule or as a one-time upfront payment.
- **Standby fee:** The Standby Fee is similar to the commitment fee on AfDB and ADF loans. For PCGs, the standby fee ceases to be applied once the guaranteed facility is fully disbursed. For PRGs, the Standby Fee applies during the period between guarantee signature and when it becomes effective. For PCGs, the Standby fee applies from effectiveness of the guarantee agreement.

- **Late Payment and Arrears Fee:** The Bank will charge a late payment fee to cover the cost of delays in receiving payments of guarantee fees that come due. The fee will be at least 2% per annum above the applicable fee.

These fees would be paid to the Bank or Fund by the guarantee applicant. However, the guarantee beneficiary may opt to pay the fees directly to ensure there are no arrears that could inadvertently cancel the guarantee over the course of the loan or project. Table 7 below summarize pricing of ADF and AfDB guarantees in comparison to loans.

Table 7: Guarantee Pricing

	Partial Credit Guarantee			Partial Risk Guarantee	
Lending Window / Terms	ADF	ADB		ADF	ADB
Leverage	Only 25% of the guarantee amount is deducted from the Performance Based Allocation	A PCG will consume same level of risk capital as an equivalent loan		Only 25% of the guarantee amount is deducted from the Performance Based Allocation	A PRG will consume same level of risk capital as an equivalent loan
Borrower/ Applicant	Public	Public	Private	Public	Public
Maturity (yrs)	Up to 40	Up to 25	Up to 15	Up to 40 (Depending country classification)	Up to 25
Guarantee fee	0.75%	0.80%	Lending margin	0.75%	0.80%
Maturity Premium (add to Guarantee Fee)	Not applicable	10-20bps if average loan maturity > 12.75 years	Not applicable	Not applicable	10-20bps if average loan maturity > 12.75 years
Front-end fee	Up to 1%	0.25%	1% or more	Up to 1%	0.25%
Appraisal fee	To be determined during appraisal				
Supervision fee					
Standby fee	0.5%	0.25%	0.5% – 1%	0.5%	0.25%
L/C Bank Costs	Not applicable			Only for structures using a Letter of Credit. Any fees or interest charged by the LC Bank shall be paid by the applicant or beneficiary as agreed amongst the Parties	
Legal Costs	As agreed with external legal counsel if applicable				

Claims Procedure

In line with its development mandate, AfDB will, as the need may be, negotiate standstill periods that provide the applicant with needed time to solve temporary liquidity issues before default is activated. However, the applicant and beneficiary must take the following into consideration regarding how claims on AfDB guarantees are processed:

- **No acceleration of AfDB guarantees:** In general, AfDB guarantees are non-accelerable. In this case, under no circumstances can AfDB be obligated by the beneficiary to pay amounts not yet in default under the guarantee agreement. However, AfDB reserves the right, at its own and sole discretion, to accelerate payment of amounts due to the beneficiary, but not yet payable following the failure of an applicant to honor a scheduled payment under the guarantee. Under exceptional circumstances, a waiver can be obtained to provide accelerable guarantee where doing so will result in material positive impact on the transaction.
- **Call Mechanism:** Every guarantee contract will contain a call mechanism that outlines the procedures in the event of a call on the guarantee and the corresponding applicant's liabilities. In any case, a beneficiary has to inform the appropriate Bank Group lending window of any event that could result in a claim under the guarantee.
- **Claims Process:** For a PRG, the beneficiary may file a claim for any of the risks covered, beginning from the occurrence of a guaranteed event up to an agreed number of days following the due date of expected payment of the obligation. In such an instance, the beneficiary would be obliged to promptly submit to the Bank or the Fund as applicable, all material evidence available to support such a claim. The Bank/Fund may reasonably request additional information concerning the circumstances of the claim within 30 days of receipt of the claim.
- For PCGs, the beneficiary has a certain number of days as agreed between it and the Bank Group from a guaranteed debt service payment date to send a written notification of default to the Bank or Fund, as applicable. From the time the Bank or Fund receives the notification of default, the parties to the guarantee agreement have a certain number of pre-negotiated calendar days (typically, 45 calendar days) to agree and approve the claim specifying the amount and schedule of the payments to the beneficiary. From the date the parties to the guarantee agreement reach an agreement on the claim, the Bank or Fund has a further minimum ten (10) business days to process and settle the claim.
- For the specific case of PCGs supporting bond issuances, if a guaranteed bond payment is not received by the designated Paying Agent by latest two (2) business days before the payment due date, the Paying Agent must notify the Bank or the Fund that the payment due has not been made. Upon receiving that notification, the Bank or the Fund shall consult with the issuer and the Paying Agent and make the outstanding guaranteed payment within seven (7) business days of the Bank or the Fund's receipt of the notification. Once it receives the funds from Bank or Fund, the Paying Agent will service the bond.

Syndication of Guarantees

The Bank is also able to pursue the syndication of its unfunded instruments such as partial credit or partial risk guarantees with other risk mitigation providers. As a guarantor-of-record (GOR), the Bank would issue a guarantee contract in its name on behalf of one or more other guarantors, which assume all guaranteed risks under a syndication or participation arrangement on their own account. In effect, GOR structures are 'fronting arrangements', which afford participating guarantors the benefit of the Bank's reputation and capabilities as a multilateral development institution, as well as the advantages reaped from its preferred creditor status, while optimizing the amount of risk the Bank actually assumes in a transaction. The guaranteed obligor has no relationship with the guarantors that participate in the GOR structure. The Bank maintains responsibility for the administration of the GOR

structure, including collecting and transferring guarantee fees and recoveries to the participants. The Guarantee of record structure provides for syndication of guarantees on a best efforts basis, meaning that the Bank will not underwrite the entire amount of guarantees requested before sharing the risk with other parties. Other guarantors in the GOR arrangement may include, among other eligible entities, private insurers or reinsurers, Development Financial Institutions, other guarantee providers and commercial banks. Entities with PCS will not be eligible as guarantors under the Bank's Guarantor of record. Similar to A/B loan syndication structures where the Bank is lender of record, the Bank will be sharing its preferred creditor status with other private participating guarantors. See Syndications Section 3.2.1.4 as well as Box 1 below which describes the Bank's syndicated guarantee initiative, the Co-Guarantee Platform.

Box 1: Co-Guarantee Platform: DFIs Unite to De-Risk Africa

The Africa Co-Guarantee Platform (CGP) was launched in 2018 as an AfDB Presidential Initiative aimed at scaling up the risk mitigation required to mobilize more capital for trade and investment across the continent. Current CGP Participants are: African Development Bank (AfDB) (as promoter and host of the Secretariat), African Export-Import Bank (Afreximbank), African Trade Insurance Agency (ATI), GuarantCo, part of the Private Infrastructure Development Group (PIDG), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), member of the Islamic Development Bank Group, and AUDA-NEPAD, the African Union Development Agency responsible for developing transformative infrastructure projects.

During 2018, the five CGP Participants that have guarantee or insurance instruments issued approximately US\$ 10.3 billion of coverage for transactions in Africa collectively, of which US\$ 5.7 billion was for investments. Going forward, the CGP aims to become a one-stop shop for trade and investment-related guarantees and insurance; harmonize and streamline application and underwriting procedures; and improve or develop new risk mitigation instruments to better crowd in private investment and financing.

To submit transactions for consideration by CGP or to obtain more information about the Platform, please email: cgp@afdb.org



7. Trade finance products

The Bank's Trade Finance Program (TFP) was approved by the Board of Directors in February 2013, with the key objective of reducing the trade finance gap in Africa by complementing the activities of private sector players and regional Development Finance Institutions (DFI) already active in the market. The TFP was established with a global exposure limit of USD 1 billion and initially for a period of 4 years. In September 2016 the Board of Directors approved the revised TFP business plan to make the provision of trade finance facilities a standard business activity of the Bank.

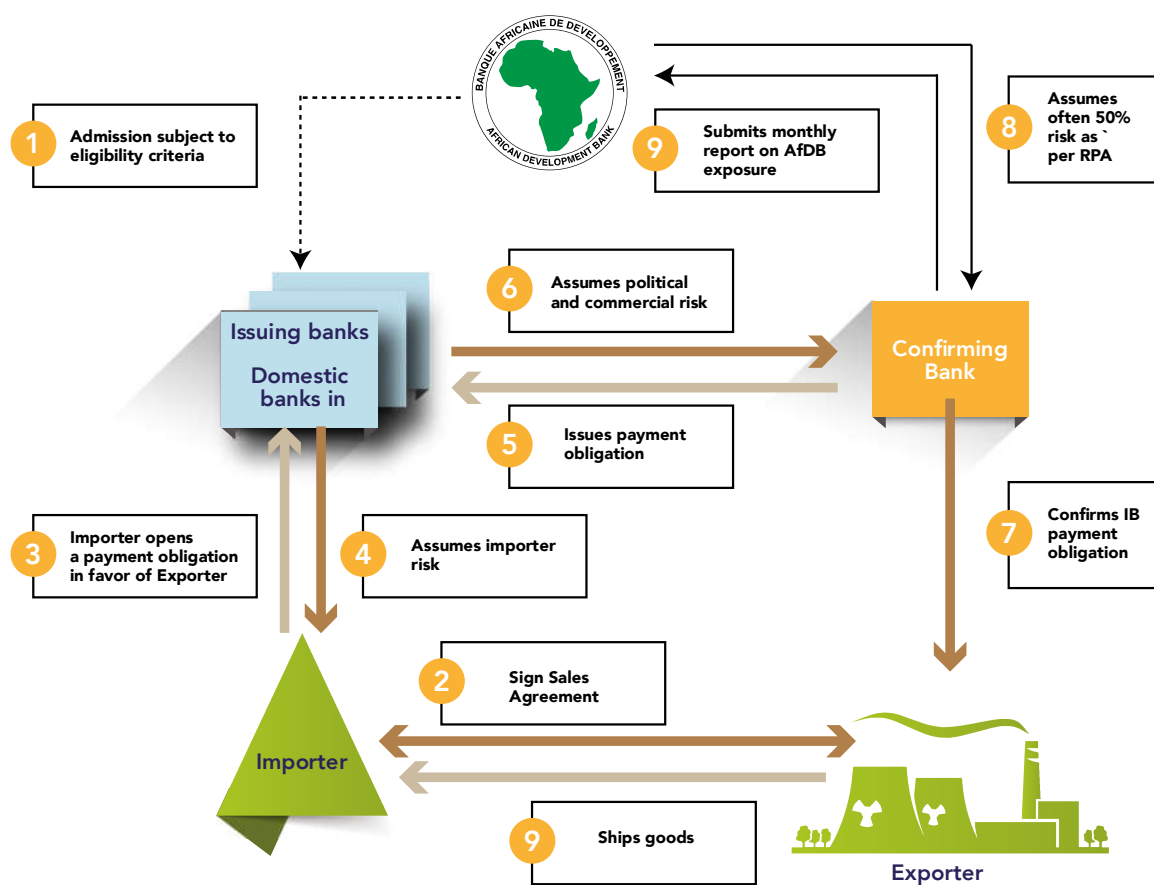
The Bank's TFP activities seek to reduce the trade finance gap in Africa by crowding in global banks and strengthening local Financial Institutions that are critical to the promotion of trade on the African continent. To this end, greater emphasis is placed on the promotion of regional integration and intra-African trade.

The Bank offers a wholesale approach to trade finance through the provision of risk mitigation facilities and liquidity support. The bulk of the operations are targeted at low-income countries, primarily for the benefit of local banks and small and medium-sized enterprises (SMEs) in critical sectors including agriculture/agribusiness, light manufacturing and intermediate/capital goods. The Bank's TFP is currently available exclusively under the AfDB private sector financing window and provides three complementary financing and risk mitigation instruments: (i) Risk Participation Agreement (RPA); (ii) Trade Finance Line of Credit (TFLOC); (iii) Soft Commodity Finance Facility (SCFF), and (iv) Transaction Guarantee (TG). The TFP focuses on short-term revolving instruments where use of proceeds is exclusively dedicated to trade transactions. In addition to these, the TFP makes selective use of equity and technical assistance instruments to enhance the risk-bearing and operational capacities of local financial institutions involved in trade finance.

7.1/Risk Participation Agreement (RPA)

The Risk Participation Agreement (RPA) is a portfolio-based unfunded or funded risk sharing facility through which the Bank collaborates with a regional or international commercial bank (RPA Bank) that serves an existing network of African respondent banks. For an unfunded RPA, the Bank shares or assumes a portion of the payment risk on a portfolio basis, related to short-term trade finance obligations of Issuing Banks (IBs) initially underwritten by an RPA Bank as a Confirming Bank (CB). For a funded RPA, the Bank provides co-financing to respondent banks on a portfolio basis through the RPA bank. In both cases the IBs/respondent banks must be domiciled in one of the Bank's regional member countries. Figure 16 below illustrates the roles of various parties in a trade finance transaction that is supported by an RPA facility.

Figure 16: RPA workflow



Agency Role

Operating on a wholesale basis through regional and international banks, the AfDB is not involved in the day-to-day operations of the facility. Instead, the RPA bank only communicates exposures under the unfunded RPA to the Bank on a monthly basis, subject to clearly defined eligibility criteria. For funded RPAs, subject to the defined eligibility criteria, the RPA bank communicates exposures through a participation certificate with details of the transactions for consideration by the Bank. The Bank accepts the transactions within one business day, although the actual disbursement of the funds by the Bank to the RPA bank could take place at a later date.

Risk Sharing Proportion

The risk sharing ratio for each RPA transaction is determined by the RPA bank within the approved credit limits of each IB. Given the portfolio nature of unfunded RPAs, RPA banks could bind the Bank to trade transactions up to the agreed maximum of individual IB limits and up to the aggregate Maximum Participation Amount (MPA) without prior notification. The Bank reserves the right to suspend or cancel an approved IB limit at any time by giving appropriate notice to the RPA partner. While the Bank assigns a limit to each IB based on the list of IBs proposed by the RPA banks, neither a formal agreement nor direct contact exists between the Bank and the respective IBs. Table 8 below summarizes the main terms and conditions of an RPA.

Table 8: Guarantee Pricing

Eligibility for Confirming/ RPA banks	<ul style="list-style-type: none"> • Satisfactorily passed the Bank's due diligence process for Trade Finance projects and approved by the Board of Directors. • Significant trade finance presence in Africa or has the potential to have such presence. • Strategic intent to undertake trade financing in low income countries. • A satisfactory credit rating as defined in the Bank's Non-Sovereign Credit Risk Management Guidelines. • A reputation acceptable to the Bank.
Eligibility for Issuing Banks	<ul style="list-style-type: none"> • Have satisfactorily passed the due diligence process of the RPA bank and obtained 'no objection' approval from the Bank. • Have satisfactorily passed the Bank's appraisal process. • Remain in good standing in the books of both the Bank and RPA bank throughout the life of the facility. • Be a financial institution located and registered in an RMC of the Bank.
Eligible trade finance instruments	<p>The Eligible Instrument should always relate to a real underlying trade transaction. The underlying transactions must involve export from or import to an RMC and must comply with the Bank's exclusion list of goods and services.</p> <p>The type of trade finance transactions to be supported by the Bank's unfunded RPA facility include among others: documentary credit, standby letter of credit, bond, guarantee, promissory note, bill of exchange, bank-to-bank trade loan or financing including pre-export or post-shipment financing, etc.</p> <p>The type of trade finance transaction to be supported by the Bank's funded RPA facility include among others: negotiation/purchase or discount of documentary presentations by the RPA bank under usance letters of credit (L/Cs) issued by approved IBs that create a deferred payment obligation of the IB to the RPA bank, extension of credit to IBs to finance revolving obligations in respect of L/Cs issued by such IBs, reimbursements under L/Cs issued by the IBs that create a deferred payment obligation of the IB to the RPA bank, purchase/discount of drafts/bills of exchange or promissory notes issued or accepted by IBs, bankers' acceptances funded by the RPA bank, trade advances including pre-export and post-shipment finance extended by the RPA bank to the IBs, etc.</p>
Tenor	The maximum tenor of RPAs between the Bank and RPA banks is 3.5 years. Tenor of underlying transactions are limited to no more than 2 years.
Currency	RPA limits are denominated in any of the Bank's major lending currencies but principally USD and EUR. Irrespective of the denominated currency of the RPA, RPA banks could bind the Bank to transactions in any of the Bank's major lending currencies (USD, EUR, ZAR, YEN) provided that the conversion value of the portfolio of transactions does not breach the respective Issuing Bank's limit with the RPA Bank nor the MPA allocated to that bank. All amounts payable by either the Bank or RPA bank are settled in the currency in which that particular transaction in the portfolio is denominated.
Coverage	The Bank generally covers or co-finance up to 50% of the eligible transaction value and would not ordinarily assume more risk than the RPA bank. Exceptionally and subject to a waiver, the Bank may accept to cover up to 75% in low income countries.

Pricing/ Guarantee Fee	The Bank does not set its own guarantee fee or interest rate for each transaction under either the unfunded RPA or funded RPA. The guarantee fee is a function of the market- driven interest the RPA bank charges the IB for the transaction. The RPA bank and the Bank share the applicable income on a pro-rata basis depending on the percentage of risk assumed or co-financing provided. For funded RPAs, this income may also include arrangement and funding related fees the IB pays to the RPA bank.
RPA Administration Fee	The Bank cedes part of its earned income (typically between 10% - 30%) to the RPA bank to cover origination and administration expenses. This expense percentage is negotiated independently with each RPA bank at the project level and is netted out of the income or guarantee fees when those are paid to the Bank.
Payment Frequency	<ul style="list-style-type: none"> • The RPA bank makes unfunded RPA net fee payments to the Bank on a quarterly basis in arrears. • Income on funded RPA facilities are settled by the RPA bank net of administration expenses on a quarterly or semi-annual basis, as applicable.
Security	RPA arrangements with CBs are by nature unsecured. Nonetheless, the underlying trade transactions financed by IBs are in many instances secured by cash margins, commodity pledges and assignment of proceeds. The Bank reserves the right to obtain security from the RPA bank or share in the security held by the RPA bank where that is deemed appropriate and feasible.

7.2/Trade Finance Line of Credit (TFLOC)

The Trade Finance Line of Credit (TFLOC) is similar to the conventional line of credit offered by the Bank except that the TFLOC are short-term lines of credit, offered to financial institutions to facilitate their own trade finance operations in RMCs. Figure 17 expresses a typical TFLOC structure. TFLOC is used to finance trade transactions, which include among others, pre-shipment and post-shipment financing, capital expenditure, international trade logistics, letters of credit discounting, factoring/forfaiting, import and export trade finance. Capital expenditure refers mainly to purchase of machinery and plant/warehouse extensions that are directly related to expansion of international trade business. These are capital investments used in the production of tradable goods. Table 9 below summarizes the commercial terms unique to TFLOCs. All other terms of conditions align with the line of credit product outlined in Section 3.1.2.1.



Figure 17: Trade Finance Lines of Credit

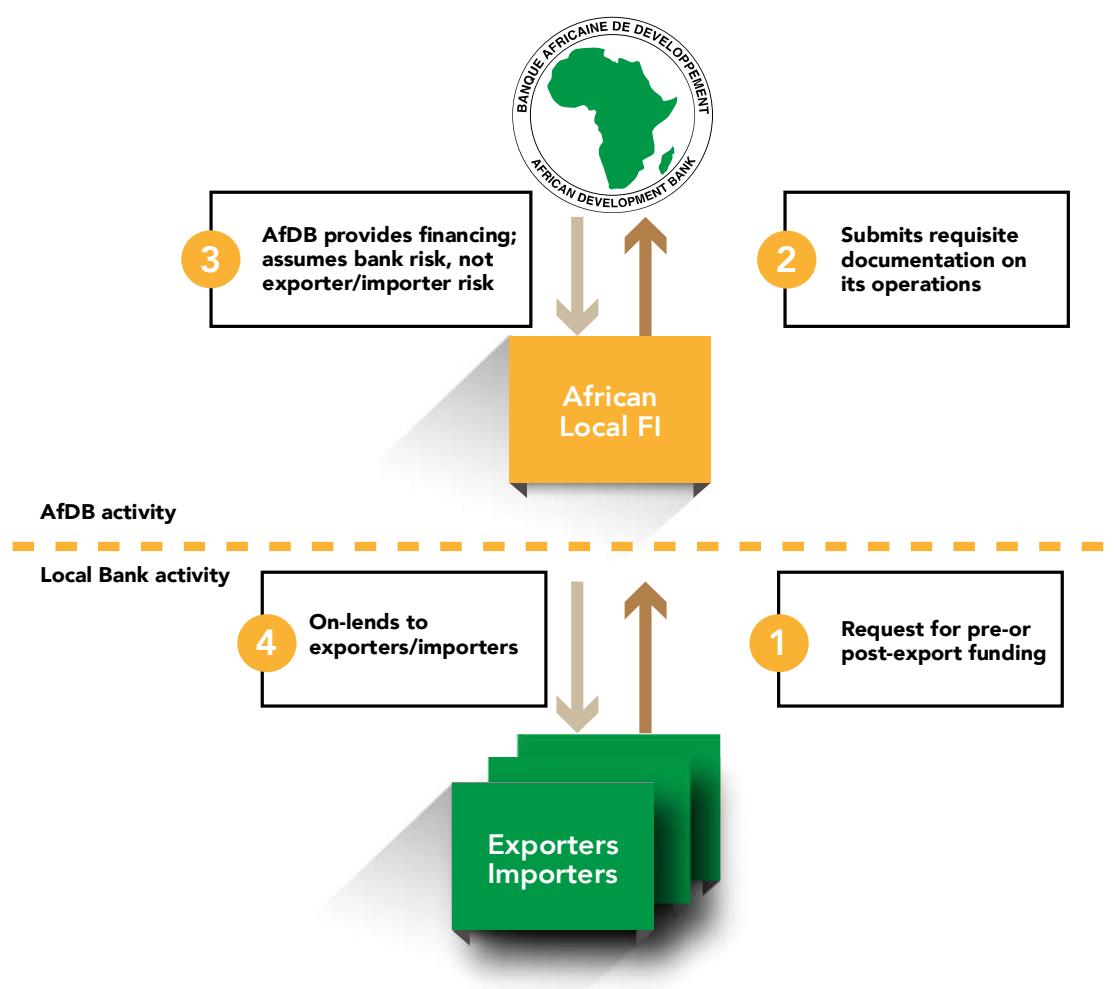


Table 9: TFLOC Terms and Conditions

Eligibility	Local banks, regional DFIs and trade funds engaged in trade finance in Africa with demonstrable track record in trade financing on the continent, acceptable credit rating and satisfactory risk management and corporate governance practices among others.
Tenor	In general, up to 3.5 years maturity. Given that most trade finance transactions have a maturity of less than a year, the borrowing banks could recycle the proceeds until the maturity of the TFLOC.
Pricing	Similar to the Bank's normal LOC facilities, that is, for non-sovereign guaranteed borrowers, the Base Rate + Lending Spread, where the spread will take into account the short-term nature of the transaction and where fees will be in line with trade finance market practice. A funding cost margin may be added for ZAR and Local currency TFLOC.
Currency	Any of the Bank's approved lending currencies. However, given that most trade finance transactions are usually contracted in the major world currencies such as USD, EUR and JPY, these currencies will normally be used.
Security	In general, senior unsecured debt.

7.3/Soft Commodity Finance Facility (SCFF)

SCFF is a funded trade finance product that is mainly used to support the import and export of agricultural commodities and inputs across RMCs. This will include, for instance, the provision of pre- export financing to commodity aggregators and traders for the purchase and export of soft commodities or value-added commodity products. Commodity finance is often structured and has credit protection in such forms as pledges of the underlying commodity, assignment of proceeds, letters of credit, and private or state guarantees. Figure 18 demonstrates a typical SCFF structure.

SCFF is provided directly to entities such as commodity aggregators, which are not necessarily financial institutions. These entities could include state-owned commodity aggregators, or agricultural cooperatives that meet the eligibility criteria for AfDB private sector borrowing. Table 10 below summarizes terms and conditions for SCFF.

Figure 18: Illustration for a SCFF

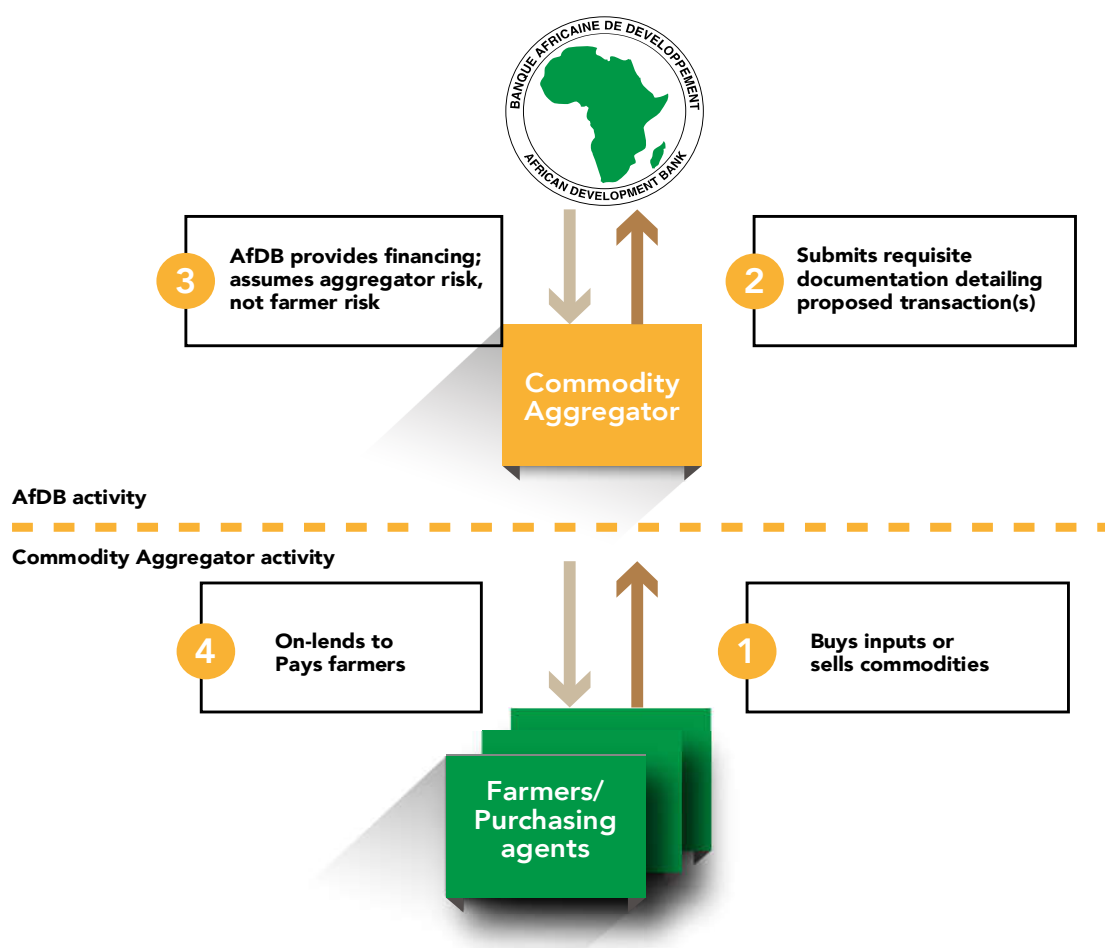


Table 10: Main lending terms and conditions for SCFF

Eligibility	<p>The main target groups for this facility are trade funds, commodity aggregators and traders who are engaged in the marketing, value addition, financing and exporting of soft commodities that are pivotal to most African economies. They must:</p> <ul style="list-style-type: none"> • be registered and be operating in a Member Country with the caveat that the proceeds must be used in a Regional Member Country • be commercially viable on a standalone basis • have an acceptable level of operational autonomy • have a strong risk management culture and satisfactory corporate governance practices
Tenor	In general, up to 2 years. On an exceptional basis, tenor beyond 2 years may be permitted subject to the approval of the Bank's Credit Risk Committee, and subsequent approval by the Board of Directors.
Pricing	Similar to the Bank's normal LOC facilities, that is, for non-sovereign guaranteed loans, Base Rate + Lending Spread, where the spread will take into account the short-term nature of the transaction and where fees will be in line with trade finance market practice. A funding cost margin may be added for ZAR and Local currency TFLOC.

7.4/Transaction Guarantee (TG)

The Transaction Guarantee Product is an unfunded instrument that provides up to 100% non-payment risk cover to Confirming Banks (CBs) for trade finance transactions of eligible Africa-based Issuing Banks (IBs). By covering up to 100% non-payment risk, the TG will enable AfDB to support local African banks operating in the RMC and particularly in low-income countries and transition states.

The AfDB works with local issuing banks in RMCs to provide companies with the financial support they need to engage in import and export activities in Africa and specifically in the most challenging markets. The AfDB issues a Transaction Guarantee (TG) in favor of confirming bank covering up to 100% of issuing bank risk within 48 hours of request. The ultimate objective of the TG product is to help increase trade to Africa and from Africa.

TG was introduced in 2021 with the following rationale:

- The TG instrument is a more flexible and targeted development intervention tool: Unlike the RPA, the TG will allow the Bank to directly engage with local banks.
- Enables the identification of many local banks for capacity building. The direct engagement with local banks required for the implementation of the TG product provides the Bank with an opportunity to determine not only the financing requirements of these local banks but also their capacity building needs.
- Ensures greater visibility for the Bank and acknowledgement by local banks and RMCs of the Bank's support to trade in their markets.
- Crowds in and attracts new correspondent banks to the continent.
- Gives the Bank full control over the choice of local banks and transactions supported: For the Bank to introduce the TG instrument it must conduct its own due diligence on participating IBs and have a better understanding of the local environment. Contrary to what subsists for RPAs, this independent assessment gives the Bank full control and comfort over any credit risk it assumes on these IBs, thereby mitigating any potential moral hazard.

- Brings the Bank in line with other MDBs. The single transaction guarantee product is the predominant trade finance instrument of other MDBs.
- Serves as a more effective countercyclical tool. During global pandemics such as Covid-19 or financial crises, international correspondent banks tend to cut their risk by reducing or freezing credit lines to more vulnerable countries and local banks. In such circumstances international banks are simply unwilling to take more risk on local banks without full guarantees. The TG is a more effective countercyclical tool in such times as it provides full payment guarantees that enable international correspondent banks to continue providing credit lines to local banks.

Figure 19: Illustration for a Transaction Guarantee

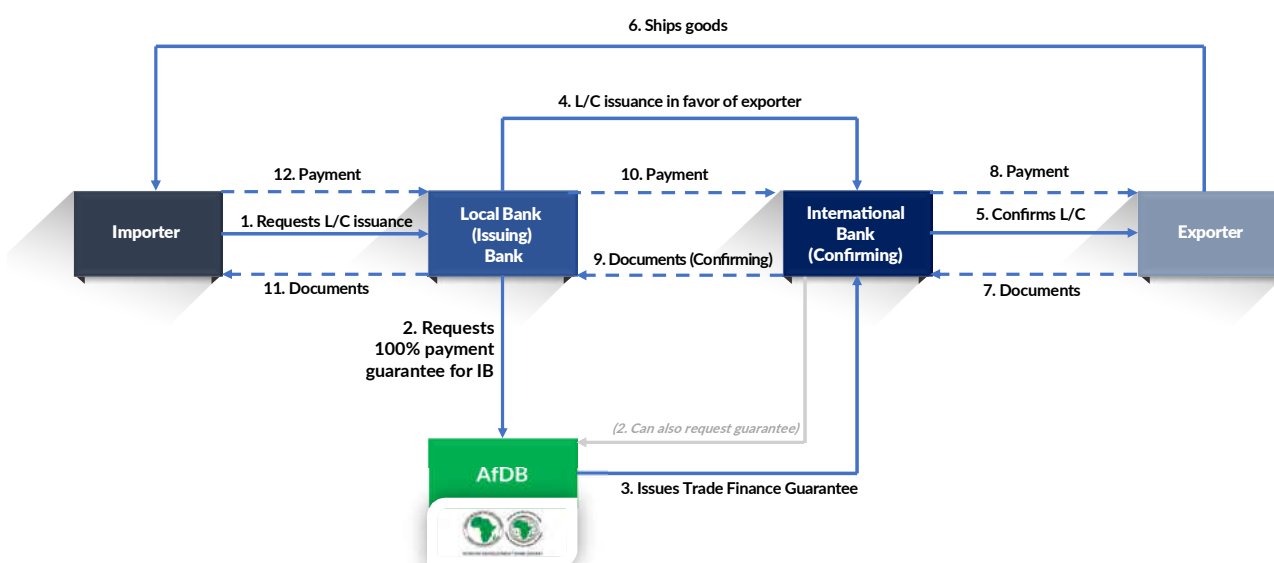


Table 11: Sample of the Bank Group Trust Funds & Special Funds

Eligibility for Confirming/ RPA banks	<ul style="list-style-type: none"> Satisfactorily passed the Bank's due diligence process for Trade Finance projects and approved by the Board of Directors. Significant trade finance presence in Africa or has the potential to have such a presence. Strategic intent to undertake trade financing in low-income countries. A satisfactory credit rating as defined in the Bank's Non-Sovereign Credit Risk Management Guidelines. A reputation acceptable to the Bank.
Eligibility for Issuing Banks	<ul style="list-style-type: none"> Have satisfactorily passed the due diligence process of the RPA bank and obtained 'no objection' approval from the Bank. Have satisfactorily passed the Bank's appraisal process. Remain in good standing in the books of both the Bank and RPA bank throughout the life of the facility. Be a financial institution located and registered in an RMC of the Bank.
Trade transaction eligibility	<p>The TG can be issued only if the following conditions are met:</p> <p>(a) the underlying goods/services involve an export from or an import to a RMC; (b) the IB and CB are both approved by the Bank; (c) the IB is registered and operating in Africa in line with the NSO Policy on eligible clients. This covers IBs in countries under sanctions; (d) there is sufficient headroom in that approved IB's limit; (e) the underlying trade transaction is in one of the Bank's major lending currencies; and (f) the goods/services are not on the Bank's Exclusion List.</p>
Tenor	<p>The maximum tenor of a TG transaction would not exceed three years. Depending on the risk profile of the IB, the Bank may decide to further limit the transaction tenor to a shorter period.</p>
Currency	<p>TG limits are denominated in any of the Bank's major lending currencies but principally USD and EUR. Irrespective of the denominated currency of the RPA, RPA banks could bind the Bank to transactions in any of the Bank's major lending currencies (USD, EUR, ZAR, YEN) provided that the conversion value of the portfolio of transactions does not breach the respective Issuing Bank's limit with the RPA Bank nor the MPA allocated to that bank. All amounts payable by either the Bank or RPA bank are settled in the currency in which that particular transaction in the portfolio is denominated.</p>
Coverage	<p>The Bank will provide non-payment risk cover up to 100% of the value of each trade transaction. This will allow international correspondent banks that do not have pre-existing country and IB limits for certain RMCs to develop sufficient credit history on these local banks over time, strengthen business contacts, and know more about these countries. This experience would enable them to eventually provide financing to local banks without the Bank's guarantee.</p>

8. Technical assistance grants and co-financing vehicles

The Bank Group hosts various trust funds, special funds, co-financing arrangements and also acts as implementation agent for various external funds, whose resources could jointly, or on a standalone basis provide grants and concessional or non-concessional financing to support activities ranging from enabling the business environment and project preparation to long term project financing. AfDB maximizes value addition by ensuring complementarity across different facilities and its own financial products. Figure 20 below shows how the Bank Group can deploy additional donor resources throughout the project cycle in complementarity with its own resources and products.

Figure 20: Deployment of additional donor resources throughout project cycle



Technical Assistance

Technical assistance grants are particularly focused on raising the effectiveness of project preparation, vital to ensuring the best developmental and poverty-reducing outcome for projects that receive Bank Group financing. The most important areas of technical assistance requiring grants include the training of central and regional/local government officials in project design, preparation and analysis. In addition, technical assistance aims to foster and sustain RMC efforts to create enabling business environments to promote private sector investment and growth. In all cases, activities financed must be related to projects/programs that are of priority to the country concerned and the Bank Group. Moreover, they preferably can also offer the prospect of leading to new business opportunities for the Bank. Some of the various funds and co-financing arrangements at the Bank Group are listed in Table 12 and 13 below.

Table 12: Sample of the Bank Group Trust Funds & Special Funds

Fund	Acronym	Description
Nigeria Trust Fund	NTF	One of the first co-financing resource vehicles entrusted to AfDB was the Nigeria Trust Fund (NTF) established in 1976 as a way for Nigeria to contribute further to the strengthening of African solidarity and to channel assistance to less developed African countries. NTF's objective is to assist with the development efforts of the Bank's low-income RMCs whose economic and social conditions and prospects require concessional financing. NTF resources can co-finance operations with the ADB and ADF, as well as fund standalone operations, in both the public and the private sector. Supplementary loans for Bank Group financed projects can also be considered.
Middle Income Countries Technical Assistance Trust Fund	MICTF	The MIC Trust Fund seeks to support activities promoting the development of the private sector in middle income countries, particularly promoting the importance of building country knowledge through intensified analytical work. Specifically, this trust fund provides technical assistance grant resources for i) project preparation, ii) advisory services and project cycle activities, iii) the training of government officials and capacity building work and iv) activities promoting regional integration.
Fund for Assistance to the Private sector in Africa	FAPA	FAPA supports the implementation of the Bank's Private Sector Development Strategy. It provides untied grants for technical assistance and capacity building to African governments, regional economic communities and similar intergovernmental organizations, non-governmental organizations such as business associations, market regulatory institutions, business development services providers, business training and research institutions, and to public and private enterprises.
African Legal Support Facility	ALSF	ALSF provides grants and recoverable advances to remove asymmetries in government technical capacity in executing legally binding contracts. This Facility aims to level the playing field of legal expertise among parties during litigation and negotiations. The ALSF also strives to remove obstacles to debt relief through its work in vulture fund litigation. It also provides advisory services to improve the negotiating capabilities of its member countries in the infrastructure sector covering power/energy, transport, water and sanitation. It also provides advisory services on extractives and the natural resources sector mainly focusing on mining, oil & gas and agriculture. Through all of its activities ALSF aims to build additional legal capacity of African nations.

Sustainable Energy Fund for Africa	SEFA	<p>SEFA was established in 2011 as a multi-donor Special Fund contributing to universal access to affordable, reliable, sustainable, and modern energy services for all in Africa. SEFA provides catalytic finance to unlock private sector investments in renewable energy and energy efficiency.</p> <p>SEFA supports interventions across three strategic priorities:</p> <p>(i) Green Baseload (GBL); (ii) Green Mini-Grids (GMG); (iii) Energy Efficiency (EE). SEFA avails technical assistance and concessional finance instruments to remove market barriers, build a more robust pipeline of projects and improve the risk-return profile of individual investments.</p>
Gender Equality Trust Fund	GETF	<p>The objective of GETF is to contribute to improved gender equality and women empowerment in Africa. Through grants, the Fund will support the delivery of the Affirmative Finance Action for Women in Africa (AFAWA). Through technical assistance to financial institutions (FIs), the GETF will enhance FI understanding of the female market and increase their ability to provide tailored financial services to Women Empowered Businesses (WEBs). The fund will also enable AFAWA to spearhead enabling business environment and policy dialogue. The Fund's will also deliver gender transformative lending and non-lending operations in collaboration with partners and services to narrow and eliminate gender gaps and disparities in the continent.</p>
Urban and Municipal Development Trust Fund	UMDF	<p>Launched in April 2019, the UMDF is a multi-donor trust fund with the objective to support African cities and municipalities to better manage urban growth and climate-resilient development by improving governance and quality of basic services. The UMDF seeks to enhance technical assistance, capacity building in the field of urban planning, project preparation and governance to strengthen the viability and competitiveness of African cities to reach sustainable economic and social development. The UMDF will focus on unlocking local government access to financing, including the preparation, management and implementation of bankable projects by municipalities, updates to master plans and the review of the regulatory environment.</p>

Co-Financing

In 2018 the Bank consolidated the management of co-financing facilities and agreements under one department. This allowed for the provision of shared service(s) platform for co-financing facilities in the following areas: (i) financial management and reporting; (ii) management information systems; (iii) contracts management; communication of the availability of the facilities as well as how they are being utilized; and (iv) business development. The co-financing facilities are managed by a team of dedicated partnership liaison/co-financing coordinators for an enhanced co-financing pipeline and portfolio management. The various co-financing facilities provided grants or loans alongside the Bank's sovereign guaranteed and non-sovereign guaranteed transactions. Some of the facilities are fully managed by the Bank under joint co-financing arrangements; whilst others co-finance on a parallel basis. The eligibility criteria for the co-financing facilities mirror those of the Bank's as outlined in sections 3.1.1 and 3.1.2. The specificities are also contained in the respective co-financing framework arrangements signed between the Bank and the Contributor(s).

Table 13: Flagship co-financing arrangements with the Bank Group

Funding Resource	Description	Use of Available Resources	Available Resources/Target
Accelerated Co-Financing Facility for Africa (ACFA)	Co-financing agreement with Japan International Cooperation Agency (JICA) under the Enhanced Private Sector Assistance Initiative.	Co-financing for selected African Countries on comparable or better terms.	USD 2.06 billion in combined approvals for EPSA III
Africa Growing Together Fund (AGTF)	Special Fund with Foreign exchange reserves from the People's Bank of China.	Co-financing for the Bank Sovereign and Non-Sovereign projects (80/20 split).	USD 2 billion: USD 400 million for non-sovereign and USD 1.6 billion for sovereign operations until 2024. Over 1 billion is already approved and ongoing.
EU- Africa Investment Platform (AIP)	Investment facility with the European Commission. The funds are approved by the EC on project by project basis. While a dedicated Bank account is held by the Bank, the resources are held by the EC and transferred in tranches.	Blended finance: combination of EU grants with loans or equity from public and private financiers, including the Bank. The EC has recently approved guarantees.	Global envelope for Africa accessed by different DFIs including the Bank. As at December 2021, Over EUR 804 million approved and ongoing.



9. CONCLUSION

Through the years, the AfDB Group has developed a large menu of financial products designed to meet the evolving needs of both public and private sector clients. These products include long term loans and investment grants, risk management products to hedge against interest, currency or commodity price risks, equity and quasi equity, guarantees, trade finance products, and various technical assistance support. The Bank Group, through its Syndication, Co-Financing and Client Solutions Department (FIST) continues to monitor the use of its products and bring enhancements, innovation to various financing structures or design entirely new offerings to tackle challenges faced by the Bank's clients. Staff and clients can address queries or feedback regarding the Bank Group's financial products, to FIST at: FIST2@afdb.org.





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