

AfDB Pilot Business Development Initiative in the Industries and Services Sectors for Zambia and Tanzania – Frequently asked questions

1. What types of projects does the African Development Bank (AfDB) fund through its Private Sector Window?

The AfDB provides financing for projects that involve the establishment, expansion, diversification, and/or modernization of production facilities in a variety of sectors, including energy, manufacturing, agribusiness, tourism, transport, infrastructure, extractive industries, banking and finance and other service industries. To date, most of the private sector projects have focused on financial services, manufacturing and infrastructure. The recipients of such assistance are both private entities as well as eligible public entities not requiring sovereign guarantees.

2. What does the AfDB view as important objectives for private sector projects?

- Employment generation
- Technology transfer and the acquisition of specific skills and knowledge
- Generation of foreign exchange earnings and savings
- Enhancement of value-added products
- Development of local financial markets
- Fostering foreign direct investment (FDI) to African countries.

3. What criteria are important when the AfDB evaluates a project?

General criteria

- The project sponsor's company(s) must be incorporated in an African country
- The project sponsor(s) must have at least 30 percent equity of the total project cost
- The project must be environmentally sound and comply with the AfDB's environmental guidelines and the regulations of the respective country

- Sponsors must have satisfactory track-record and financial capacity
- Evidence of adequate management skills
- The project must be financially viable
- The project must aim to maximize development impact in line with the country's strategic priorities

Additional criteria for agribusiness projects

- The project should be transformative in nature, i.e. should combine primary production with processing (value addition component)
- The project should benefit smallholders through outgrower schemes
- Minimum project investment should be USD 30 million and upwards
- There will be a preference for projects which are scalable and regional in nature
- Projects which are sponsored by local entrepreneurs or where local communities have an equity stake will be preferred
- Preference for PPP projects with an agricultural infrastructure component as part of the project

4. Does the AfDB promote smaller scale projects?

The African Development Bank usually provides private sector lines of credit to commercial banks for on lending to the private sector and particularly in their respective countries. This is part of the Bank's broader promotion of the development of small and medium-sized enterprises (SMEs). The AfDB also contributes to investment funds that are targeted to SME development and smaller scale infrastructure projects.

In addition, the AfDB develops through its Private Sector Window, specific programs for SMEs which provide a critical mass of technical and financial assistance instruments.

5. What types of financial instruments are available through the AfDB Private Sector window?

Loans: The AfDB offers hard currency term loans at market interest rates, with a term of 5 to 12 years taking into account a grace period (up to 3 years) reflecting project implementation and projected cash flow. The fees charged are in line with normal market practice, and the Bank requires reasonable collateral to secure the loan, which is dependent upon a variety of factors.

Equity and Quasi-Equity: The AfDB takes equity investments in a variety of forms, including common shares and preferred stock, with or without participating features. The Bank does not assume any management responsibility and normally develops an exit strategy once the performance goals of the project are realized.

Guarantees: The Bank provides guarantees to cover the payment of principal and interest for loans and debt instruments extended by others, primarily local or foreign financial institutions and commercial firms.

Lines of Credit: The Bank offers lines of credit to financial institutions for on lending to small and medium-sized enterprises.

Loan Syndications: Syndications may involve the Bank acting as arranger of financing or involve arrangements whereby banks and other financial institutions are offered to participate in a Bank loan with the banks taking the same project risk as the Bank on a pro-rata basis.

Underwriting: The Bank can act as an underwriter of a portion of the securities issued by private sector entities and national or regional investment funds.

6. What steps do I need to take to have my project reviewed by the AfDB?

Develop an executive summary of the project, including the project description, the sponsors, cost estimates, financing plan, key technical and environmental features, feasibility indicators, business

climate and market prospect, and implementation plan.

If the Bank decides that your project meets their requirements, you will be asked to submit a full proposal, which must include a feasibility study, business plan, and environmental impact assessment (depending on the nature of the project).