Resourcing the African Development Bank for effective delivery

Investing in Africa’s Future, Meeting Global Challenges
Regular capital increases have supported the Bank’s mandate.

- **1963:** Initial capital, USD 356 million
- **2017:** Authorized capital, USD 95.38 billion

The Resourcing the African Development Bank for effective delivery.

Helped Africa effectively respond to the financial and economic crisis.
Increased demand for African Development Bank resources in an evolving environment

- Graduation from ADF

- Amendment to credit policy
  - Côte d’Ivoire, Ethiopia, Rwanda, Senegal, Tanzania, Uganda
  - Approvals of USD 2.34 billion

- Challenging operating environment
  - Arab spring - Downgrades of the Bank’s main clients
  - Commodity price slump
  - Depreciation of local currencies

Resourcing the African Development Bank for effective delivery
A solid Bank with a strong performance

Proven efficiency in the management of operations

Source: S&P Supranational Report 2017

(*MDBs): IBRD, IFC, AsDB, EBRD and IADB

**Resourcing the African Development Bank for effective delivery**
A Very strong financial profile

Fitch Ratings
Moody’s
Standard & Poor’s
Japan Credit Rating Agency, Ltd.

A critical development mandate, a very strong public policy role, a preferred creditor
Prudent governance and management
Adequate capital position and earnings
Strong and stable access to funding

Aaa/AAA/AAA

Strong and stable support from shareholders
Preferred creditor status
Sound and solid financial risk management policies
Excellent liquidity position
Adequate capitalization
Diversified wholesale funding profile and market access

Resourcing the African Development Bank for effective delivery
Crowding-in resources through co-financing and Balance sheet optimization

**EPSA**
- USD 4.8 billion
- Japan
- Enhanced Private Sector Agreement, sovereign co-financing facility with JICA and direct private sector lending facility

**AGTF**
- USD 2 billion
- China
- Africa Growing Together Fund, established with China to co-finance projects

**AFIF**
- EUR 2.2 billion
- European Union
- Africa Investment Facility, a co-financing partnership with the EU

**Private Sector Credit Enhancement Facility**
- Increase lending capacity by USD 1 billion for private sector projects in ADF countries

**Syndication and partial guarantees**
- Crowd-in investments

**Sale of loans**
- Of loans to external investors to recycle capital for new loans

**Synthetic securitization**
- To create additional lending headroom

**Exposure Exchange Agreement**
- Provide additional lending headroom

Resourcing the African Development Bank for effective delivery
Positioning the Bank as the leading arranger of Africa’s syndicated co-financing

**ESKOM**

USD 965 million

**A-Loan**
- USD 365m (in ZAR) sovereign loan
- USD 10m private sector loan

**B-Loan**
- Bank of China USD 150m
- BTMU USD 150m
- Caixa Bank USD 100m
- Citi USD 50m
- HSBC USD 100m
- JPMorgan USD 115m
- KFW-Ipex Bank USD 100m
- Siemens Financial USD 50m
- Standard Chartered Bank USD 150m

**AB/ Loan structures to crowd-in private sector investment**

**Largest syndicated loan in Africa**

**Preferred Creditor Status to benefit commercial lenders**

Resourcing the African Development Bank for effective delivery
Partial Risk Guarantee, an innovative political risk mitigation instrument

**Government Benefits**
- Leverages country borrowing program
- Risk sharing with private sector
- Facilitates privatizations and PPPs
- Project benefits from Bank’s safeguards
- No additional contingent liability to the country

**Private Sector Benefits**
- Mitigates some lending risks
- Improves a project’s financial viability
- Project benefits from Bank’s safeguards
- Reinforces government undertakings
- Provides lender confidence to invest

**PRGs extended by the Bank for**
- Sovereign governments and sovereign-owned entities with the Bank signing a counter-guarantee with the respective governments

**To protect private lenders against...**
- Inability to repatriate or convert currency earned in the country
- Confiscation, expropriation, nationalization and deprivation
- Not honoring contractual obligations
- Changes in law and force majeure risks
Partial Credit Guarantees, to attract financing for Africa’s transformation

- Eligible Regional Member Countries
- Sovereign owned entities
- Private sector project sponsors

that meet the Bank’s due diligence criteria for loans

To protect against

Debt service defaults, including both

- Political risk
  - Availability of foreign exchange and convertibility into foreign exchange
  - Expropriation and nationalization
  - Contractual obligations
  - Changes in law

- Commercial risks such as demand risk, market risks, etc.

For the benefit of

- Private lenders to both private sector clients and/or sovereign clients
- Bondholders of both public and corporate debt
The Bank has been taking a greater role in promoting investment in ADF Countries

Outstanding Private Sector Portfolio in ADF Countries (USD million) *

<table>
<thead>
<tr>
<th>Year</th>
<th>Portfolio (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2000</td>
</tr>
<tr>
<td>2016</td>
<td>1500</td>
</tr>
<tr>
<td>2015</td>
<td>1000</td>
</tr>
<tr>
<td>2014</td>
<td>500</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>1000</td>
</tr>
<tr>
<td>2011</td>
<td>2000</td>
</tr>
</tbody>
</table>

* Excluding Blend

Challenges
- Business and regulatory environment
- Access to medium and long term finance
- Inadequate infrastructure

Our Private Sector Strategy
1. Improving the investment climate
2. Improving access to social and economic infrastructure
3. Promoting enterprise development including SMEs

Private Sector Investment in ADF Countries
- More than 458 companies financed
- Results and Impact:
  - Accessibility to social infrastructure
  - Financing of SMEs
  - Government revenues generated
  - Positive environment and social impact
  - Job creation
Threats to the bank’s rating: no protection today against significant shocks

<table>
<thead>
<tr>
<th>Potential Event</th>
<th>Rating Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downgrade of major AAA shareholders</td>
<td>• Negative Outlook</td>
</tr>
<tr>
<td>Default of the Bank’s largest borrower</td>
<td>• Downgrade</td>
</tr>
<tr>
<td>Significant deterioration of operating environment</td>
<td>• If no formal GCI discussions started with Shareholders</td>
</tr>
<tr>
<td>Fitch Ratio expected to be breached in 2019 with the current lending trajectory</td>
<td>• Negative Outlook or Downgrade</td>
</tr>
<tr>
<td>2018 lending targets reduced to UA 4 billion</td>
<td>• Fitch Ratio expected to be breached in 2019</td>
</tr>
<tr>
<td>No capital increase</td>
<td>• Perception of weakness of the Shareholders support</td>
</tr>
<tr>
<td>2018 lending targets set to UA 5.5 billion</td>
<td>• No Rating action</td>
</tr>
<tr>
<td>Start of capital increase negotiations (Governors Consultative Committee)</td>
<td>• Fitch Ratio expected to be breached in 2019</td>
</tr>
<tr>
<td></td>
<td>• BUT mitigated by commencement of formal GCI discussions with shareholders</td>
</tr>
</tbody>
</table>
Affordability to ADF countries

Payment terms

- 6% Paid-up capital
- 94% Callable capital

- Issue: Overlapping GCI-VI & GCI-VII payments
- Solution: Step up payments for ADF-only countries with payments effectively starting in 2023-2024, notwithstanding, 10% of the first instalment will be due during the 2019-2020 period.

Longer payment period vs GCI-VI to reduce annual payment amounts

- 12-years (2019-2020 to 2030) for Middle Income countries and Non-regional shareholders
- 15-years (2019-2020 to 2033-2034) for ADF-only countries
Next steps in GCI-VII conversation

- **February 2018**: Technical session with the Board of Directors
- **March 2018**: Board of Directors request to Board of Governors to convene Governors Consultative Committee (GCC)
- **May 2018**: Board of Governors approval of GCC meeting
- **Q3 2018**: GCC meeting
- **Q4 2018**: GCC meeting
- **May 2019**: Board of Governors decision on GCI-VII
We need a stronger African Development Fund

ADF resources committed vs Eurobond issuance*

* Eurobond issuance by: Angola, Cameroon, Ethiopia, Ghana, Cote d’Ivoire, Kenya, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, Zambia

Resourcing the African Development Bank for effective delivery
Global constraints call for new sources of financing for ADF

ADF to borrow from international capital markets

Provide additional lending of USD 4-6 billion per ADF cycle

ADF Resources

(in USD million)

ADF-IX [2002-2004] 3,431
ADF-X [2005-2007] 6,738
ADF-11 [2008-2010] 8,785
ADF-12 [2011-2013] 9,359
ADF-13 [2014-2016] 8,063
ADF-14 [2017-2019] 7,058

Market Access

12,000
At the service of Africa's development

- Strong policy advice and intellectual leadership
- Sharpened strategic focus for Africa’s transformation
- Continually adapt to meet changing conditions
- Catalytic and transformative role for Africa
- Closer to clients with decentralization
- Efficient and effective delivery of services in line with mandate
- Strong business model to scale up development support

Fit for purpose for the continent’s transformation
A totally transactional opportunity for investors

- Bringing together AfDB and global multilateral financial institutions to de-risk investments at scale
- Leverage investments strategically in Africa
- Catalyze investments into projects to help the High 5s agenda
- Scaling up project preparation facilities and tools
- Addressing policy and regulatory issues
- Promoting projects for co-investments and blended finance
- Providing effective risk-mitigation instruments (creation of a co-guarantee platform)

AfDB estimates investment needs for infrastructure in the range of USD 130–170 billion a year

November 7-9, 2018
Johannesburg, South Africa

- Private sector: banks, insurance companies, private equity and venture capital firms, impact investors, pension funds, project developers
- Government officials: Heads of State and Government, Ministers of Finance, Central Bank Governors, Sovereign Wealth Funds
- Multilateral development finance institutions