PARTIAL RISK GUARANTEES AND INSURANCE PRODUCTS PANEL
# PARTIAL RISK GUARANTEES AND INSURANCE PRODUCTS PANEL

- **Product initiatives**
- **Partial Risk Guarantees**
- **Partial Credit Guarantees**
- **Portfolio Support**

- **The London and Lloyds Insurance Market – Supporting FDI**

- **Terrorism, Sabotage and Politically Motivated Violence Insurance**

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<th><strong>Stewart Kinloch</strong></th>
<th>Consultant, Initiative for Risk Mitigation in Africa (IRMA) African Development Bank</th>
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<tr>
<td>Toby Heppel</td>
<td>Divisional Director, Political, Credit and Financial Risks RFIB Group</td>
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<td>Rupert Morgan</td>
<td>Divisional Director, Political, Project &amp; Credit Risks, Gallagher London</td>
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The Initiative for Risk Mitigation in Africa (IRMA) is a program of the Bank financed by a Trust Fund established by the Italian government to enhance risk evaluation and to seek out the best and most cost-effective risk mitigation solutions.

The initiative aligns with the ADB’s strategy for Public-Private Partnerships (PPPs) across sectors, and notably in infrastructure financing.

IRMA is also intended to support the effective utilization of the African Development Fund (ADF) Partial Risk Guarantee instrument endorsed by deputies during the negotiations of the 12th replenishment of the ADF.

The main objective of IRMA is to encourage the effective use of the Bank’s risk mitigation products as a catalyst for mobilizing private investment for projects in Africa.
Guarantees - Transaction Diagram

- Project Company
- Loans
- Commercial Lenders
- Government Undertaking
- Government
- Indemnity Agreement
- ADB Group
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<th><strong>Table 1: Summary terms for ADB Partial Risk Guarantees and Partial Credit Guarantees</strong></th>
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<td><strong>Borrowers</strong></td>
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| **Maturity** | Up to twenty (20) years for sovereign guaranteed borrowers  
Up to fifteen (15) years for non-sovereign guaranteed borrowers  
The principal repayment period should match the project financing requirements.  
NB. Maturity restrictions may also apply to certain guarantee structures and currencies, which may reflect particular market conditions e.g. bullet repayments are limited to a 15 year tenor (10 year average life). |
| **Fees** | **Front-end-fee**: No charges for Sovereign Guaranteed Loans (SGL)  
1% of the Bank’s possible maximum exposure under the guarantee for Non-Sovereign Guaranteed Loans (NSGL)  
**Standby-fee**: Charged on the un-disbursed portion of the underlying loan.  
Between 0 and 1% for NSGL borrowers from MICs  
Between 0.5 and 1% for NSGL borrowers from other countries  
**Guarantee Fee**: The level of the guarantee fee will be equal to the lending spread that would have been charged if the Bank made a direct loan, plus a risk premium (the risk premium would reflect the risks associated with the guarantee structure).  
**Other Fees**: Legal and other expenses incurred by the Bank during the initiation, appraisal and underwriting process of a guarantee, other than the Bank’s traditional operational expenses, will be charged to the borrower/lender and are payable upon request by the Bank. |
<p>| <strong>Late Payment Fee</strong> | The Bank may charge a late payment fee to cover the costs of delays in receiving payments of the front end, standby and guarantee fees. In line with the Bank’s prevailing practice on loans, the fee will be at least 2% per annum above the applicable guarantee fee |
| <strong>Prepayment Premium</strong> | The borrower and lender may reduce the outstanding guaranteed amount by mutual agreement or prepayment of the underlying loan without penalty. |
| <strong>Cancellation</strong> | The borrower and lender may cancel undisbursed portions of the guarantee without penalty. |</p>
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<th><strong>Table 2: Summary terms for ADF Partial Risk Guarantees</strong></th>
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| **Fees** | **Front-end-fee**: 0-1% of the loan amount  
**Standby fee**: 0.5% charged on the unused portion of the guarantee  
**Guarantee Fee**: The level of the guarantee fee will be equal to the service charge applicable to ADF loans, currently 75bps. The guarantee fee will accrue on a daily basis and is payable either according to a schedule approved by the Bank or as a one-time up-front payment.  
**Other fees**: Legal and other out of pocket expenses incurred by the Bank during the initiation, appraisal and underwriting process of a guarantee, other than the Bank’s traditional operational expenses, will be charged to the beneficiary and are payable upon request by the Bank. |
| **Late Payment Fee** | The Bank may charge a late payment fee to cover the costs of delays in receiving payments of the front end, standby and guarantee fees. In line with the Bank’s prevailing practice on loans, the fee will be at least 2% per annum above the applicable guarantee fee |
| **Cancellation** | The beneficiary and the country may cancel unused portions of the guarantee without penalty. They may also reduce the outstanding guaranteed amount by mutual agreement without penalty |
**Seychelles Debt Restructuring**

This guarantee covers up to USD 10 million of interest payment on a bond issued by Government of Seychelles in 2010 to restructure USD 320m worth of debt. The facility which took the form of a rolling non-re-instatable guarantee was instrumental in getting Seychelles debt burden on a sustainable path. This is the first debt restructuring with a Multilateral Development Bank guarantee.
Partial Credit Guarantee for Project Finance
This guarantee covers principal payments equivalent to about Euro 13 million, on a local currency (CFA) syndicated loan raised by a company in Cameroon, for a Euro 209 million mobile telephone development project. This was a project financing for the purchase of equipment and the provision of related working capital. The guarantee is secured by the project’s comprehensive security package, and which was shared pari-passu by FMO, who guaranteed a similar amount to the company.
Portfolio Support

- Assess and enhance the platform of risk mitigation instruments presently available at the bank

- Interacting with the various departments of the AfDB, ensure that the best and most cost-effective risk mitigation solutions are implemented

- By paying specific attention to the different layers of risk involved in a transaction, deals can be structured in a coherent and cost efficient way.

- Contribute to launching and establishing IRMA as a recognized knowledge center on risk mitigation issues.