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### Acronyms and Abbreviations

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADOA</td>
<td>Additionality and Development Outcomes Assessment</td>
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<tr>
<td>ADB</td>
<td>African Development Bank</td>
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<td>ADF</td>
<td>African Development Fund</td>
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<td>ALCO</td>
<td>Asset - Liability Management Committee</td>
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<td>Bank Group</td>
<td>ADB, ADF, NTF, and the Special Funds affiliated to the Bank</td>
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<td>Bank Agreement</td>
<td>Agreement Establishing the African Development Bank</td>
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<td>BDEV</td>
<td>Independent Development Evaluation Department</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<tr>
<td>CB</td>
<td>Confirming Bank</td>
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<tr>
<td>CRC</td>
<td>Credit Risk Committee</td>
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<tr>
<td>CRMU</td>
<td>Compliance Review and Mediation Unit</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<td>DFC</td>
<td>Development Finance Corporate Entity</td>
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<td>DFI</td>
<td>Development Finance Institution</td>
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<td>EGP</td>
<td>Egyptian Pound</td>
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<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<tr>
<td>EUR (or €)</td>
<td>Euro</td>
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<tr>
<td>FAPA</td>
<td>Fund for Assistance to the Private Sector in Africa</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FIDM</td>
<td>Financial Management Department</td>
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<td>FI</td>
<td>Financial Institution</td>
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<td>FSL</td>
<td>Fixed-Spread Loan</td>
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<td>GCI</td>
<td>General Capital Increase</td>
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<td>GP</td>
<td>General Partner</td>
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<tr>
<td>Global Forum</td>
<td>Global Forum on Transparency and Exchange of Information for Tax Purposes</td>
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<tr>
<td>IDD</td>
<td>Integrity Due Diligence</td>
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<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<td>IRM</td>
<td>Internal Review Mechanism (of the Bank Group)</td>
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<td>ISS</td>
<td>Integrated Safeguards System</td>
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<tr>
<td>JPY (or ¥)</td>
<td>Japanese Yen</td>
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<tr>
<td>KES</td>
<td>Kenya Shilling</td>
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<tr>
<td>KYC</td>
<td>Know your Client/Customer</td>
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<td>LIC</td>
<td>Low-income Country</td>
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<tr>
<td>MC</td>
<td>Member Country</td>
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<tr>
<td>MDB</td>
<td>Multilateral Development Bank</td>
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<td>MSME</td>
<td>Micro, Small or Medium scale Enterprise</td>
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<td>NBO</td>
<td>Nama Bank of Norway</td>
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<tr>
<td>NBF</td>
<td>National Bank of France</td>
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<td>NGN</td>
<td>Nigerian Naira</td>
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<td>NTF</td>
<td>Nigeria Trust Fund</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OFC</td>
<td>Offshore Financial Centre</td>
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<td>PCG</td>
<td>Partial Credit Guarantee</td>
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<td>PEUs</td>
<td>Politically Exposed Persons</td>
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<td>PFI</td>
<td>Private Financial Institution</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<tr>
<td>PRG</td>
<td>Partial Risk Guarantee</td>
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<tr>
<td>PSE</td>
<td>Public-sector Enterprise</td>
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<td>RECs</td>
<td>Regional Economic Communities</td>
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<td>RISP</td>
<td>Regional Integration Strategy Paper</td>
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<td>RMC</td>
<td>Regional Member Country</td>
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<td>RMPs</td>
<td>Risk Management Products</td>
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<td>RPAs</td>
<td>Risk Participation Agreements</td>
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<tr>
<td>SCFF</td>
<td>Special Commodity Finance Facility</td>
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<tr>
<td>SDR</td>
<td>Special Drawing Right (the financial accounting unit of the International Monetary Fund)</td>
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<tr>
<td>SPV</td>
<td>Special Purpose Vehicle</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>TFLOC</td>
<td>Trade Finance Line of Credit</td>
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<tr>
<td>UA</td>
<td>Unit of Account (the financial accounting unit of the African Development Bank Group — a composite unit composed of a basket of major, international convertible currencies: UA 1.00 = SDR 1.00)</td>
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<tr>
<td>UGX</td>
<td>Uganda Shilling</td>
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<tr>
<td>USD (or US$)</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WARR</td>
<td>Weighted Average Risk Rating</td>
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<tr>
<td>ZAR (or R)</td>
<td>South African Rand</td>
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Executive Summary

Under this Policy on Non-sovereign Operations (hereafter, the ‘NSO Policy’ or the ‘Policy’), the Bank may provide financing or investment without sovereign guarantees to private and public entities that meet specific eligibility requirements. In this Policy, Non-sovereign Operations (NSOs) refers to financing and investment operations that are not guaranteed by a State; this covers mostly private sector transactions, but also non-sovereign guaranteed financing of eligible public sector enterprises, as well as financing of regional development finance institutions (DFIs).

The purpose of the Policy is to clarify on the one hand (i) the specific modalities and safeguards required for Bank lending without sovereign guarantee, and on the other hand (ii) the specificities related to lending to commercial companies operating under very different business models and governance frameworks than government entities.

It is important to note that this Policy does not apply to the Bank’s sovereign loans, and sovereign-guaranteed loans. Such operations will continue to be governed by the relevant policies of the Bank Group that guide its public sector operations.

Under this Policy, the Bank may provide financing to non-sovereign operations subject to four conditions: (i) the borrower is a private enterprise or an eligible public sector enterprise; (ii) the operations are financially sound; (iii) they should result in satisfactory development outcomes, including supporting or creating opportunities for private sector development; and (iv) the Bank brings additionality, which could be either financial or non-financial.

The NSO Policy covers the following: objectives and guiding principles; the Bank’s privileges, exemptions, and immunities; eligibility requirements, including the domicile of clients and counterparties; investment criteria; financing operations, equity investments, and support to financial institutions; intermediate jurisdictions; knowledge-based operations; procurement, fiduciary and integrity safeguards; environmental and social safeguards; portfolio and risk management; and information disclosure.

A Technical Annex is provided at the end of the document. It includes a list of policies to be superseded and replaced by the new Policy; highlights of the Bank’s private sector development policy framework; a list of activities and operations that are not eligible to be financed by the Bank; a more detailed summary description of the Bank’s financial products; a list of key policies and guidelines applicable to non-sovereign operations; the Bank’s Independent Review Mechanism; and a glossary of important terms.

This document incorporates the comments and suggestions provided by the Committee on Development Effectiveness (CODE) Members in the session of May 08, 2018, as well as subsequent comments received from Board Members following the session on July 18, 2018. The Boards of Executive Directors of the African Development Bank Group approved the Policy on Non-sovereign Operations on September 12, 2018.

1 In the event of an equity investment or a guarantee, respectively: the investee company or the company whose obligations are guaranteed.
PART I: POLICY ON NON-Sovereign OPERATIONS
SECTION 1:

Introduction

1.1 Purpose and Scope

1.1.1 This Policy applies to operations financed by the African Development Bank (hereinafter referred to as the “Bank Group” or the “Bank”) through its private sector lending window on non-concessional terms and without the requirements of sovereign guarantees. Such operations are defined under this Policy as ‘non-sovereign operations’\(^2\) (NSOs).

1.1.2 The purpose of this Policy is to clarify on the one hand (i) the specific modalities and safeguards required for Bank lending without state or government guarantee, and on the other hand, (ii) the specificities related to lending to commercially viable companies operating under sound and autonomous business models and governance frameworks. This Policy would ensure that NSOs are well-prepared with clear value added/additionality brought by the Bank, technically, economically and financially sound, and diligently managed, and that they adhere to high ethical norms, are environmentally and socially sustainable, and have solid prospects of generating significant development results in the Regional Member Countries (RMCs) in which they are implemented.

\(^2\) The dotted underlined words (...) denotes the definitions of key terminology used in this Policy and are provided in Annex 6: Glossary of Important Terms.
1.1.3 This NSO Policy is aimed at complementing the Bank Group’s overarching Private Sector Development (PSD) policy framework notably by defining what the Bank will do in the area of non-sovereign lending, taking into consideration recent internal and national/regional as well as global developments. It addresses, among others, the recommendations of the independent evaluation of the Bank’s non-sovereign operations (covering the period 2006–2011). The policy puts particular emphasis on redefining more comprehensively the NSO eligibility criteria and the equity investments modalities. It also introduces policy provisions on the tax dimensions of NSO, including offshore financial centers (OFCs).

1.1.4 The rationale for a new NSO Policy is due to rising demand for non-sovereign operations, recent internal developments, including the general capital increase in 2010 (GCI-VI) and the risk appetite statement, which resulted in an increase of the Bank’s risk capital allocated to private sector operations, among others, particularly in the Low Income Countries.

1.1.5 This Policy consists of 13 sections. After these brief introductory paragraphs aimed at defining the purpose and the scope of the Policy (Section 1), the next section outlines the objectives and guiding principles for the Bank’s NSOs (Section 2). The rest of the Policy covers: RMCs’ no-objection as to Bank’s financing operations within their territories and assurances as to certain Bank’s privileges, exemptions, and immunities (Section 3); eligibility requirements relating to non-sovereign operations and clients, including domicile requirements (Section 4); investment criteria used by the Bank to select acceptable non-sovereign operations (Section 5); the Bank’s financing operations, including types of operations, financing instruments and products, equity investments, support to financial institutions and refinancing, retroactive financing and restructuring (Section 6); offshore financial centres in Bank NSOs (Section 7); knowledge-based operations (Section 8); procurement, integrity and fiduciary safeguards (Section 9); environmental and social safeguards (Section 10); project approval, portfolio and risk management (Section 11); information disclosure (Section 12); and, the conclusion (Section 13).

1.1.6 To avoid any misunderstanding, it should be noted that any financing which is extended to public entities or any other entity, repayment of which is an explicit, direct and irrevocable undertaking of an RMC, or is guaranteed by the latter, is classified as a sovereign operation, or a sovereign-guaranteed operation, and is thus not covered by the NSO Policy.

1.1.7 This NSO Policy consolidates the Bank’s policy provision for NSOs that were scattered in several documents and will supersede and replace the policies listed in Annex 1 as from the date of its approval.

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4 In this document the term “financing operations” is used to mean lending operations, guarantees, equity investments, or any other forms of financing products and services and/or assistance on the part of the Bank. (See Annex 6)
2.1 The Bank, in May 2013, adopted a Ten Year Strategy 2013–2022 (TYS), geared to these twin objectives – inclusive growth and the transition to ‘green growth’. Within this framework, the Bank, in order to accelerate the implementation of its TYS and better reflect the 2015 adopted Sustainable Development Goals (SDGs), undertook in 2015, bold transformational initiatives articulated around five priority areas of intervention, epitomized as the “High 5s”, namely: (i) Light Up and Power Africa, (ii) Feed Africa, (iii) Integrate Africa, (iv) Industrialize Africa and (v) Improve the quality of life for the people of Africa.

2.2 Within this new context, the objective of the Bank’s non-sovereign operations is to help accelerate the continent’s transformation through various financial support mechanisms and products as detailed in Annex 3 of this document, thus contributing to the sustainable economic and social development of its RMCs individually and jointly, in fulfilment of the Bank’s mandate. More specifically, the Bank’s engagement in its selected NSOs will aim to maximise the catalytic impact of the Bank’s limited resources, while seeking to promote inclusive growth and the transition to ‘green growth’ in African countries.
2.3 It will be recalled that by adopting its Private Sector Development Policy in 2013, the Bank Group recognises that support for private sector development in general is the most important means towards the fulfilment of the institution’s mandate. In this overarching policy, the Bank Group has identified three key objectives for its sovereign and non-sovereign operations in support of private sector development:

i. improvement of the investment and business climate;

ii. development of social and economic infrastructures and increasing access to reliable, quality services; and

iii. strengthening private sector enterprises.

2.4 The linkage between the above three private sector development objectives and the Bank’s newly adopted five top priority areas of interventions (High 5s) is further outlined in Box 1 below.

2.5 The NSOs financed by the Bank are those that contribute to its mandate by yielding development outcomes including (but not limited to) the following:

- socio-economic inclusion – job creation, improved livelihoods, increased income opportunities including for women, youth and rural population, or increased availability and affordability services, notably to underserved regions;

- improved national and regional economic and social infrastructures – increased access to services, reducing costs, improving reliability, boosting exports to the regional market and/or to the rest of the world;

- enhanced access to finance and financial deepening – alleviation of financing constraints for real sector enterprises, national or regional private institutions and capital markets development;

- national and regional food security – through strengthening of the agricultural value chain in RMCs;

- development of local entrepreneurship – strengthened private enterprises, including business start-ups by women and youth entrepreneurs, improved business practices through training and technology transfer, and support to innovative business models with demonstration effects; and

- sustained impact investments – continuously promote and support investments in its NSOs to generate measurable economic, social and environmental impact alongside financial returns.

Box 1: The Bank’s Private Sector Development Policy Framework as a solid basis for the High 5s

The Bank’s over-arching Private Sector Development policy framework responds to the High 5s, in that it provides a solid template to all of them, including:

i) **Light Up and Power Africa** through hard and soft infrastructure development, public-private partnerships (PPP), access to finance, etc.;

ii) **Feed Africa** through the promotion of local entrepreneurship, value chain development, support to Micro, Small and Medium Sized Enterprises (MSMEs), etc.;

iii) **Industrialize Africa** through the promotion of value chain development and local entrepreneurship, access to finance, PPPs as well as through the development of hard and soft infrastructure, etc.;

iv) **Integrate Africa** through support to regional connectivity, financial sector integration, and promotion of intra-regional trade and investment, etc.; and

v) **Improve the quality of life for the people of Africa** through the promotion of social business, soft infrastructure development, support to MSMEs, etc.

Thus, the High 5s will help in scaling up the Bank’s three key objectives for its sovereign and non-sovereign operations in support of private sector development i.e. (i) improvement of investment and business climate; (ii) development of social and economic infrastructures and increasing access to reliable, quality services; and (iii) strengthening private sector enterprises.

Therefore, this NSO policy will further strengthen the Bank’s private sector development efforts through the High 5s.

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5 The over-arching policy for the Bank’s involvement in the African private sector is the Private Sector Development Policy which was approved in 2013.
2.6 The Bank’s support of a NSO is predicated upon the following requirements being met, as further outlined in Sections 4 and 5:

a. the borrower\(^6\) is a private enterprise or an eligible public sector enterprise;

b. the proposed operation is commercially viable;

c. there is a satisfactory level of expected development outcomes, including strengthening opportunities for private sector development; and

d. the Bank brings additionality to the NSO, be it financial or non-financial.

2.7 The Bank’s NSO portfolio is guided by the core principles outlined in the Bank Group’s Private Sector Development Policy, aligned with a broad consensus among multilateral development finance institutions (DFIs). Specifically, those principles include:\(^7\)

a. Ownership: Respect for the right of individual RMCs to choose their approach to private sector development and to set their priorities for investment;

b. Client Responsibility: Unequivocal communication, to the clients, of their responsibility for their investments’ success, comprising (i) sound and timely implementation; (ii) competent management throughout the project’s economic life, including clients’ risk awareness; (iii) commercial and financial success; (iv) honouring obligations to financiers including the Bank; and, (v) attainment of development outcomes underpinned by clients’ regular reporting on the achieved impact.

c. Selectivity: Identifying opportunities for the Bank’s engagement, cognizant of the need to maximize impact and reach with its resources, and of its areas of comparative advantage vis-à-vis other sources of commercial and/or development finance;

d. Development Results, and Additionality: Focusing on the maximization of development outcomes expected from NSOs and their contribution to inclusive and green growth, in addition to the unique value added of the Bank’s participation that commercial and private investors cannot bring on their own. Specifically, the Bank will aim to play a catalytic role and mobilize resources from commercial and private investors while ensuring sustainability of its NSOs. As such, the Bank will strive to crowd in, but not crowd out, commercial operators.

e. Effective Partnerships: Collaborating with agencies dedicated to promoting private sector development; catalysing project co-financing; and ‘crowding in’ (rather than ‘crowding out’) commercial investors and financiers;

f. Reinforcement of markets, by promoting open and fair competition;

g. Compliance with safeguards: Ensuring that the Bank’s NSOs are anchored on social, environmental, and fiduciary responsibility, anti-corruption, and ethical integrity;

h. Preserving the Bank’s financial strength; and

i. Maintaining the Bank Group’s relevance to all its RMCs. \(\bullet\)

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6 In the event of an equity investment or a guarantee, respectively: the investee company or the company whose obligations are guaranteed.

7 See sections 2.4 - 2.8 of the Private Sector Development Policy.
3.1 In accordance with the provisions of Article 17(1)(b) of the Bank Agreement, the Bank shall not provide financing for an operation if that Regional Member Country (RMC) in whose territory the operation is located objects thereto. Consequently, before approving an investment, the Bank will notify the concerned RMC(s) of its intention to consider the financing of such operation and seek its (or their) no-objection to such investment.

3.2 Within the context of the same notification, the Bank will also seek prior assurances for itself as to exemption from all taxes and unrestricted repatriation of loan repayments, interest, fees, dividends, and any other income or proceeds relating to the investment of the Bank and the security held in the RMC(s) hosting a project. Before the Bank can submit an operation to the Boards of Executive Directors for its approval, a ‘no objection’ and other assurances sought from the RMC(s) hosting the operation must have been received.

8 The Agreement Establishing the African Development Bank, initialled in August 1963, which entered into force in September 1964, and was most recently amended in 2011, (2011 Edition). Article 17(1)(b) states “The Bank shall not provide for the financing of a project in the territory of a member if that member objects thereto.”
SECTION 4:

Eligible Non-sovereign Operations and Clients

4.0.1 This section presents the eligibility criteria applied by the Bank in identifying qualified clients for Bank-financed NSO. The first subsection outlines the domicile requirements and other general eligibility conditions for all NSOs and clients. The second and third sub-sections outline the eligibility requirements for private- and public-owned enterprises respectively. The fourth and fifth sub-sections provide guidance on the application of those criteria to investments relating to public private partnerships (PPPs) and special purpose vehicles (SPVs) respectively.

4.0.2 In addition to determining the eligibility of clients, the Bank applies pre-defined eligibility criteria in selecting suitable operations that maximize its impact, guided by the principles of development effectiveness.

9 For the sake of clarity, it should be noted that (i) PPPs are neither a special type of legal entity nor a category of operations to be funded under any special Bank’s window (PPPs may be funded under the Bank’s private and/or public sector window, as the case may be; and (ii) according to the composition of their shareholding, SPVs may fall within the category of private enterprises or public-owned enterprises (for further details please refer to sub-section 4.5).
4.0.3 In a limited number of cases considered to be of strategic importance, the Bank will proactively identify the NSOs that it can support. Normally, however, guided by the principles of respect for its clients' ownership and 'responsibility' for their investment proposals, the Bank supports NSOs selected from amongst numerous competitive proposals independently submitted for its consideration by project sponsors and corporates.

4.0.4 The Bank influences the operational orientation and quality of the proposals submitted for its consideration by clearly communicating the objectives, operational priorities, and principles of its NSOs. Adherence to its rigorous appraisal and due diligence process, enables the Bank to ensure that selected operations satisfy the criteria outlined in the following sub-sections.

4.1 General Eligibility Requirements

4.1.1 Country Eligibility – NSOs to be implemented in any of the RMCs are eligible to be considered for Bank investment under this Policy. The Bank can bear calculated risk exposure in countries where international private financial intermediaries and private investors may be reluctant or unwilling to operate on their own. However, the Bank will take into account macro-economic conditions, policies, laws, regulations, judicial institutions, and political and social situations, with a view to prudent risk management.

4.1.2 Sector Eligibility; use of Bank’s resources – In principle, all economic sectors and sub-sectors are eligible for Bank financing on NSO terms, except those set out in the Exclusion List provided in Annex 2.

4.1.3 Eligibility requirements relating to all clients – In line with its mandate, the Bank must ensure that the proceeds and benefits of its NSOs financing accrue to one or more of its RMCs. The recipient of the Bank's non-sovereign financing (client) must therefore satisfy the following core requirements, in order to be eligible for investments, financing, or other assistance by the Bank on non-sovereign terms: (i) must be incorporated in a Member Country with the project for which Bank’s financing is extended, located and/or implemented in one or more Regional Member Country(ies); (ii) must have legal personality; and (iii) must be in good standing with the Bank and with the relevant Member Country of the Bank.

4.2 Private Enterprises

4.2.1 Ownership – Private enterprises are enterprises in which individuals or private sector 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’). When private enterprises are partially owned by public persons, preservation of operational autonomy and managerial freedom will need to be ascertained.

4.2.2 Enterprises in which the Bank invests should generally promote local shareholding participation. However, other than observing the limits which might be imposed by the host country on the proportion of foreign versus local shareholding, the Bank itself has no particular rules on that aspect. Without prejudice to the foregoing, the Bank may invest in enterprises whose shares are entirely owned by foreign persons if the investment has particular importance or benefits for the host country or another RMC of the Bank. Under those circumstances, however, the Bank may seek an undertaking from the foreign shareholders to sell a part of their stake to local investors at a later date. With particular regard to

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10 In the event of a loan, an equity investment or a guarantee, respectively: the borrower, the investee company or the company whose obligations are guaranteed.
11 Either a Regional Member Country or Non-Regional Member Country. This statement introduces a purposeful reading of Article 14(1) of the Bank Agreement and broadens the category of enterprises eligible for Bank investment to include enterprises from Non-Regional Member Countries having a presence or operating in Africa; please see subsequent sub-section 4.2.3.
12 To have "legal personality" means to be capable of holding legal rights and obligations within a certain legal system, such as entering into contracts, suing, and being sued, owning assets etc.
13 A client is deemed to be in “good standing” if it is eligible to enter into contractual relationships with the Bank and the Member Countries which are relevant to the operations to be financed. More specifically, a client does not fulfil the “good standing” eligibility requirement if, for instance: it is currently “debarred” by the Bank or other institutions with whom the Bank entered into the 2010 Agreement for Mutual Enforcement of Debarment Decisions (subject to the terms and enforcement requirements set out therein); it has been prohibited, disqualified or suspended, by the authorities of a relevant Member Countries of the Bank, from (i) carrying out its business activities, or (ii) entering into contractual relationships with (or being awarded contracts by) the State or other public entities, etc.
14 In this document the word ‘enterprise’ is used to mean various types of privately-owned entities, including (but not limited to) those engaged in manufacturing, agro-industrial production, trading, commerce, services and various financial intermediaries.
15 The assessment of a ‘controlling interest’ will be made on a case-by-case basis, having regard to, inter alia, the legislation of the Member Country of incorporation, the constitutional documents of the enterprise, and any relevant contractual arrangements (e.g., shareholders’ agreement), in line with the provisions of the IFRS.
its equity investments (see sub-section 6.3) the Bank may also invest with the intention to divest by sale to local shareholders as soon as it becomes practicable.

4.2.3 Domicile – Pursuant to Article 14(1) of the Bank Agreement, in order to be eligible for Bank investments an enterprise must be incorporated, located or operating in a Regional Member Country (RMC) of the Bank. While enterprises which have been incorporated in Non-Regional Member Countries but have a presence or operate in Africa may — subject to satisfaction of the other requirements set out in sub-sections 4.1 and 4.2 with regard to private enterprises – be eligible for Bank investments, enterprises incorporated in countries which are not Member Countries of the Bank are not eligible.

4.2.4 NSOs involving multiple counterparties or jurisdictions – In the case of NSOs involving multiple counterparties and jurisdictions the core eligibility requirements are satisfied: (a) if the operation is structured such that: (i) a viable and legally autonomous recipient of Bank’s financing exists and is duly incorporated in a Member Country, (ii) the project targeted by Bank’s financing is located and/or implemented in at least one RMC, (iii) the recipient has legal personality, is in good standing and is subject to the laws and regulations of that jurisdiction; and (b) provided that the project matter is directed at generating substantial benefits in at least one RMC.

4.2.5 Provided the core eligibility requirements set out above are satisfied, the Bank may provide financing or other assistance to a project client entity in which a range of counterparties —including project sponsors (or controlling entities), other co-investors or co-financiers, commercial confirming banks (CBs) in trade finance, Fund Managers or General Partners (GPs) in the case of private equity funds, etc., participate. The counterparties may be domiciled in any jurisdiction in the world but the project must be located and/or implemented in an RMC(s) with the proceeds and benefits accruing to one or more of the Bank’s RMCs, subject to the no-objection of the RMC(s) that will host the proposed NSO (please see Section 3 above).

4.2.6 Local Entrepreneurship – The Bank, under its Private Sector Development Policy, is committed to supporting the continued development of local entrepreneurship. When considering proposals for financing or investment that are equally attractive, priority is given to African Enterprises. The Bank will prioritize local entrepreneurship development in its effort to encourage the growth of domestic private sector.

The Bank places particular emphasis on providing all necessary support to women and youth entrepreneurs, towards the goal of their economic empowerment. In line with the provisions under the Bank Group’s Gender Policy and Strategy, through partnerships with the private, social and voluntary sectors, the Bank will advocate for (i) innovative and affordable financial products (loans, mezzanine, savings, guarantee schemes, insurance, innovation grants targeting businesses that promote social entrepreneurship), (ii) social capital (networks, convening of professional business groups and business mentorship); and (iii) will support the development of frameworks and business environment that are conducive to gender equality. Furthermore, the Bank will more strongly link public, social and private sector operations, particularly with regard to developing women entrepreneurship.

4.2.7 Micro, Small and Medium-sized Enterprises – The Bank is committed to support micro, small and mid-sized enterprises (MSMEs), in line with its Private Sector Development Policy. It ensures, therefore, that they benefit significantly, directly and indirectly, from the Bank’s non-sovereign financing operations.

16 Regarding the domiciliation requirements, Article 14(1) of the Agreement establishing the African Development Bank provides as follows: “In its operations, the Bank may provide or facilitate financing for any regional member, political subdivision or any agency thereof or for any institution or undertaking in the territory of any regional member as well as for international or regional agencies or institutions concerned with the development of Africa”. The expression “institution or undertaking in the territory of any regional member”, which in the Private Sector Operations Policies of March 1995 (ADB/BD/WP/94/127/Rev.2) had been read as referring to “enterprises located and incorporated in the territory of any regional member” is now read, more purposefully within the spirit of Article 14(1) of the Bank Agreement, so to include enterprises from Non-Regional Member Countries which have a physical presence or are otherwise operating in Regional Member Countries.

17 The expression ‘Bank investments’ is used interchangeably with ‘the Bank’s financing operations’ (i.e. lending operations, guarantees, equity investments, or any other forms of financing products and services and/or assistance provided by the Bank).

18 The recipient of the Bank’s financing and investment are: in the event of a loan, the borrower; an equity investment, the investee company; or a guarantee, the company whose obligations are guaranteed.

19 African Enterprises are those that are majority-owned and controlled by RMCs’ citizens or legal entities incorporated and located in RMCs.
4.3 Eligible Public Sector Enterprises

4.3.1 Ownership and other specific requirements – Public sector enterprises (PSEs) are enterprises in which 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’). A public sector enterprise is eligible for Bank financing if it meets the conditions outlined below. It must:

a. be incorporated in any of the Bank’s RMCs and the project benefits accrue to one or more RMCs;

b. have legal personality, be subject to liquidation, bankruptcy and/or insolvency proceedings and not be protected by immunities or exemptions (e.g. immunities from legal process, taxes, seizure or attachment of its property and assets; exemptions from environmental or social regulations, etc.);

c. be financially sound and have sustainable capacity to generate substantial revenues directly from its mandated operational activities over an extended period;

d. have formally been granted, by the sovereign and/or non-sovereign public entities that own or control the majority of its shares, a statutory charter bestowing upon it full operational and financial autonomy, providing it full control over its funding, budgeting, and investment decisions;

e. be managed in a manner that fosters private sector development, and

f. be managed competently, with a sound governance structure that ensures efficiency, transparency and accountability as comparable private enterprises.

4.3.2 Enclave Projects – Under the previous NSO Policy, Enclave Projects were primarily aimed at enabling the Bank to support commercially viable, export-oriented, foreign-currency-earning projects operated by qualifying public sector enterprises located in Category-A Countries. Under this new Policy, public sector enterprises of any RMC may be eligible for Bank’s investment. As a result, the concept of Enclave Project is no longer needed to describe a distinct, targeted category of operations.

4.3.3 Subnational Governments/Entities – The Bank may extend NSO financing to subnational governments/entities subject to the satisfaction of eligibility requirements set in sections 4.1 and 4.3 and in accordance with Guidelines on Subnational Finance.

4.3.4 Rationale for financing operations of eligible public sector enterprises – In extending financing and other support to public sector enterprises, the Bank aims to support RMCs’

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20 A social enterprise is a cause-driven business, whose primary reason for being is to promote, encourage, and make social change; i.e. a revenue-generating, non-dividend business aimed at achieving social objectives – such as education, health, environment, poverty reduction and gender equality. Social enterprises have both business and social goals. As a result, their social goals are embedded in their objective, which differentiates them from other organizations and corporations. Although profits are not the primary motivation behind a social enterprise, revenue still plays an essential role in the sustainability of the venture. In fact, sustainable revenue differentiates a social enterprise from a traditional charity that relies on outside funding in the form of donations or grants to achieve its social mission.

21 The assessment of a ‘controlling interest’ will be made on a case-by-case basis, having regard to, inter alia, the legislation of the Member Country of incorporation, the constitutional documents of the enterprise, and any relevant contractual arrangements (e.g., shareholders’ agreement), in line with the provisions of the IFRS.

22 Traditionally, category-A regional member countries have been those whose gross national income per-capita is below a threshold and/or which do not meet a number of creditworthiness criteria to be considered eligible to borrow non-concessional Bank resources on sovereign terms.

23 A Subnational Government/Entity is defined as any legal entity within a RMC with delegated powers for a defined degree of self-governance such as a federalist state, county, province, district, city, municipality, or commune, or their departments or corporates pursuing specific activities (e.g. energy and water utilities, waste management, transportation systems, education and health institutions, etc.). Guidelines on Subnational Financing will be developed.

24 The criterion outlined in sub-section 4.3.4(d) will not apply to subnational governments considering their specificities. The eligibility criteria for subnational governments will be covered in the forthcoming Guidelines on Subnational Finance.
development objectives in sectors that are vital to development but where private operators have not shown appetite for investment. The second objective is to promote private sector development in RMCs, including supporting orderly privatization of public sector enterprises, wherever that is a feasible and desirable option.

4.4 Public-Private Partnerships (PPPs)

4.4.1 Under this Policy, the Bank may provide financing without sovereign guarantees to parties involved in a Public-Private Partnership (PPP) if the borrower meets the eligibility requirements respectively set out in sections 4.1 and 4.2 (private enterprises) or in sections 4.1 and 4.3 (public-owned enterprises). In the case of a public sector entity that does not meet the eligibility requirements, financing may be considered under relevant policies of the Bank’s public sector.

4.4.2 When a PPP involves sovereign liabilities including guarantees, the Bank will take into account the RMC’s debt sustainability, including the revenue flow expected to be generated for the benefit of the government. Such assessment is usually captured in the Additionality and Development Outcomes Assessment to ensure fairness of the deal to the government or state owned entity.

4.4.3 In the choice of PPPs to be financed by the Bank, particularly in the case of large projects, preference will be given to those projects that are based on open and fair competition, with a view to ensuring a fair distribution of risks and rewards between the government, people of the RMC or RMCs, and the private party (or parties), the Bank and other financiers supporting an investment. The Bank will ensure that private solutions will only be promoted where they are economically viable, fiscally and commercially sustainable, transparent regarding the allocation of risks, provide value for money, are environmentally and socially sustainable, and properly address equity and affordability concerns of consumers.

4.4.4 The Bank will consider participating in the financing of NSOs under PPP arrangements subject to the assessment that the procurement process followed by the RMC government and the relevant public agencies and entities in the selection of the private partner and the award of the concession (or concessions) and other public contracts do comply with national laws and regulations and is acceptable to the Bank having regard to, inter alia, the Bank’s Procurement Rules and Procedures for NSO.

4.5 Special Purpose Vehicles (SPVs)

4.5.1 SPVs are special purpose (limited liability) vehicles, which are exclusively ‘dedicated’ to the realization of specific projects. They are generally utilized in project finance transactions in order to insulate (‘ring-fence’) projects’ assets and liabilities from the assets and liabilities of their shareholders. SPVs do not constitute a special category of borrowers. In that sense, they will have to meet the same eligibility requirements set out for private enterprises (sections 4.1 and 4.2) or public sector enterprises (sections 4.1 and 4.3), as the case may be, in order to be eligible for Bank financing under this Policy.

25 In the event that the voting stock (or voting rights) in the borrower is (are) evenly split between private and public persons (50:50) and the control over the borrower is jointly exercised by such persons, the Bank may provide financing to the borrower on ‘non-sovereign guaranteed’ terms if such borrower meets the eligibility requirements set out in sections 4.1 and 4.2 (provided that, with regard to this type of borrower, the requirement relating to the ownership of the majority voting stock (or voting rights) or of a controlling interest on the part of private persons set out in sub-section 4.2.1 will not apply).

26 This includes sub-sovereign authorities (municipal and other local councils).
SECTION 5:

Investment Criteria

5.0.1 Only those NSOs adequately satisfying the investment criteria outlined below may qualify for Bank investments under this Policy. These criteria are — strategic fit on development priorities; creditworthiness and commercial viability; development outcomes and the Bank’s additionality.

5.1 Alignment to the Bank’s and RMCs' Strategic Priorities

5.1.1 Strategic alignment with the Bank – NSOs financed by the Bank should contribute to the attainment of the strategic orientations and priorities of the Bank Group outlined in its Ten Year Strategy, 2013–2022 or successor corporate strategies.

5.1.2 Strategic alignment with RMCs – In addition, operations should be compatible with the development strategy and medium- or long-term priorities of the RMCs that are home to the client enterprises or that are the target beneficiaries of those undertakings. The Bank’s established policy is to align its operational priorities in its individual RMCs, as outlined in Country Strategy Papers (CSPs), to the strategic development priorities determined by individual RMCs. Likewise, the Bank’s regional operational priorities outlined in its Regional Integration Strategy Papers (RISPs) have to be aligned to development priorities of
sub-regional economic communities (RECs) or similar organisations of RMCs.

5.1.3 Notwithstanding the foregoing, financing may be provided, by way of exception and on a case-by-case basis, for NSO that is compatible with the strategic development orientations of a RMC or REC but is not strictly aligned with the operational priorities set out in a CSP or RISP.

5.2 Creditworthiness, Commercial Viability and Financial Sustainability

5.2.1 Creditworthiness – To be eligible for Bank financing on non-sovereign terms, Borrowers must have the capacity to meet their repayment obligations to the Bank and other financiers supporting their investments. They should be operating under competent management and good corporate governance, with a track record or demonstrable capacity for environmental and social responsibility, in good standing, financially solvent, with realistic business strategies, and capable of generating sufficient revenues to reimburse the Bank and other financiers.

5.2.2 Commercial viability and long-term financial sustainability – Operations to be financed by the Bank should have solid prospects of being financially profitable, generating adequate cashflow to service debt repayment and interest charge obligations in the case of loans. In the case of equity investments, operations should have good prospects to support dividend payments and/or retained earnings, yielding satisfactory expected internal rates of economic and financial return.

5.2.3 Market distortions must be taken into account when computing the respective rates of economic and financial return. The Bank will not invest in projects whose sustained commercial viability is dependent on the maintenance of high effective market protection, preservation of monopoly or oligopoly franchises by preventing competitors from entering the market, or unreasonably favourable tax or regulatory treatment by the RMCs in which those operations are located.

5.2.4 Credit risk exposure – Credit shall be granted primarily on the basis of the viability of the project and the ability of the borrowers to meet their obligations to repay the Bank. The Bank will not assume credit exposure unless the risks can be assessed through the use of specific criteria and factors to determine a credit rating of the obligor or project.\(^\text{27}\)

5.3 Development Outcomes and Additionality

5.3.1 As outlined in the Bank’s Additionality and Development Outcomes Assessment Framework\(^\text{28}\), the Bank will strive to bring a unique value added to its NSOs and ensure that they generate satisfactory development outcomes in the RMCs where they are implemented.

5.3.2 The Additionality and Development Outcomes Assessment (ADOA) is conducted ex-ante evidence-based independent evaluation of NSOs along two key dimensions: Additionality and expected Development Outcomes. These dimensions address whether DFI’s intervention will (i) bring additional value to the transaction that the market alone cannot provide, and (ii) articulate whether the project will provide satisfactory development outcomes.

5.3.3 The key dimensions of the Additionality and Development Outcomes considered in the ADOA framework along with their rating scale are outlined in Box 2 below.\(^\text{29}\) In its NSOs, the Bank will ensure that ADOA ratings are issued and updated throughout the appraisal process to inform the decisions made by Senior Management and the Board of Executive Directors. In so doing, development misalignment risks will be highlighted systematically for Senior Management’s attention during the processing of NSOs.

5.3.4 The development results of a proposed NSO shall be clearly identified and enumerated, within a results framework indicating the flow from inputs utilized and activities implemented to development outcomes, effects and long-term impacts generated, and identifying significant key risks that

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\(^\text{27}\) For more specific guidance, please consult the Bank’s Capital Adequacy and Exposure Management Framework, and the Credit Risk Management Guidelines for Non-sovereign Operations.

\(^\text{28}\) The Bank’s Additionality and Development Outcomes Assessment Framework 2.0 for Private Sector Operations (ADB/BD/WP/2015/17), which was approved by the Board in 2015, provides clear guidelines for the ex-ante assessment and rating scale of the development outcomes expected over the economic life of a non-sovereign operation under appraisal.

\(^\text{29}\) The ADOA rating scales follow the Evaluation Cooperation Group Good Practice Standard for performance rating scales. A detailed outline of the rating scale can be found in The Bank’s Additionality and Development Outcomes Assessment Framework 2.0 for Private Sector Operations (ADB/BD/WP/2015/17).
Section 5: Investment Criteria

Box 2: Important dimensions of the Bank’s Additionality and Development Outcomes Assessment Framework 2.0 for Private Sector Operations

(a) Key Additionality and Development Outcomes Assessment (ADOA) Rating Scales

<table>
<thead>
<tr>
<th>Key concept</th>
<th>Description</th>
<th>Rating scale</th>
</tr>
</thead>
</table>
| Additionality   | **What do the Bank and other participating DFIs bring to the project that commercial investors would not?** | 1. Strongly positive  
                           2. Positive  
                           3. Marginally Positive  
                           4. None |
| Development outcomes | **What are the expected development outcomes generated by the project relative to the no-project scenario?** | 1. Excellent  
                           2. Very Good  
                           3. Good  
                           4. Marginal  
                           5. Unsatisfactory  
                           6. Highly Unsatisfactory |
|                  | • Political Risk Mitigation  
                           • Financial Additionality  
                           • Improved Development Outcomes | |
|                  | • Household benefits and job creation  
                           • Infrastructure  
                           • Governance and fiscal effects  
                           • Regional integration and economic resilience  
                           • Environmental effects and contribution to green growth  
                           • Gender and social effects  
                           • Private sector development and demonstration effects | |

(b) Additionality Category Ratings Scale as outlined in the Bank’s ADOA Framework 2.0

<table>
<thead>
<tr>
<th>Category</th>
<th>Rating Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Strongly Positive</td>
<td>2-Positive</td>
</tr>
<tr>
<td>SATISFACTORY RATING</td>
<td>BELOW-SATISFACTORY RATING</td>
</tr>
</tbody>
</table>

(c) Aggregation Rules for Development Outcomes as outlined in the Bank’s ADOA Framework 2.0

<table>
<thead>
<tr>
<th>DEVELOPMENT OUTCOME RATINGS</th>
<th>WEIGHTED SCORE</th>
<th>SATISFACTORY RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>1.0 — &lt;1.6</td>
<td>SATISFACTORY RATING</td>
</tr>
<tr>
<td>Very Good</td>
<td>1.6 — &lt;2.1</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>2.1 — &lt;2.5</td>
<td></td>
</tr>
<tr>
<td>Marginal</td>
<td>2.5 — &lt;2.9</td>
<td>BELOW SATISFACTORY RATING</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>2.9 — &lt;3.4</td>
<td></td>
</tr>
<tr>
<td>Very Unsatisfactory</td>
<td>3.4 — &lt;4.0</td>
<td></td>
</tr>
</tbody>
</table>

Box 3: Categories of Development Outcome

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Benefits and Job Creation</td>
<td>NSO’s effects on the welfare of households such as job creation, introduction of new or higher quality products and improvements in the price/quality of goods and services.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Improvements in the capacity and supply (e.g. power generation, increased capacity, etc.), as well as access to infrastructure services (number of connections to the grid) due to the NSO.</td>
</tr>
<tr>
<td>Governance and Fiscal Effects</td>
<td>NSO’s effects on the budget of concerned governments in RMCs including fiscal effects, public sector governance (e.g. compliance with investment codes) and accountability, and the fairness of concessions and public contracts awarded to private parties.</td>
</tr>
<tr>
<td>Regional Integration and Economic Resilience</td>
<td>NSO’s contribution to regional integration (e.g. intra-regional trade or projects serving several countries within the region) and macro-economic resilience such as effects on regional trade, external balance, forex generation and economic diversification.</td>
</tr>
<tr>
<td>Environmental Effects and Contribution to Green Growth</td>
<td>Captures all relevant environmental effects caused by a NSO (effects on local ecosystem) including effects on green growth (e.g. greenhouse gas emissions and sustainable use of non-renewable natural resources).</td>
</tr>
<tr>
<td>Gender and Social Effects</td>
<td>NSO’s contribution to gender equity (e.g. employment, capacity building and ownership of means of production) and social inclusion (e.g. increased access to electricity for rural populations, financial inclusion for women and the poor, projects in fragile states, contribution to food security, social programs for local communities).</td>
</tr>
<tr>
<td>Private Sector Development and Demonstration effects</td>
<td>NSO’s effects on private sector development (e.g. development of value chains) and the enabling environment for private sector to thrive. The category captures the alleviation of financial constraints and improved supply of business inputs as well as the spread of good corporate governance, managerial and technological know-how and local linkages and positive externalities.</td>
</tr>
</tbody>
</table>
may reduce the likelihood of materialization of expected development results in a timely manner.

5.3.5 The Bank’s ADOA tool was developed to improve quality at entry of NSOs by evaluating ex ante their expected development outcomes, the Bank’s additionality as well as their contribution to inclusive and green growth. The ADOA assessment of development outcomes covers seven categories under the revised Framework as outlined in Box 3. The Bank’s priority areas will continue to be emphasized and documented in the different development outcomes categories of the ADOA assessment and indicators will be differentiated across different types of NSOs.

5.3.6 The Bank will not provide financing on non-sovereign terms if, in the Bank’s opinion, the client can obtain financing elsewhere on terms that may be considered reasonable for the recipients. Furthermore, the Bank will only participate in a transaction if its role is ‘additional’ over resources that can be provided by commercial sources of financing — that is, if through its participation it can apply its privileged position with RMCs to yield certain benefits. Specifically, the Bank’s ‘additionality’ is evaluated in three dimensions:

a. political risk mitigation;

b. financial additionality, including extension of the tenor of financing, and spurring the development of capital markets; and

c. the role of the Bank in improving development outcomes.

Box 4 lists the Bank’s additionality in its NSO engagements.

5.3.7 Furthermore, the Bank’s ADOA assessment of additionality is evidence-based and requires provision of information on key elements including – (i) availability or lack of non-DFI funding at appropriate terms; (ii) evidence of sponsors efforts to secure private source of financing; (iii) evidence of role played in a syndication; (iv) evidence to substantiate possible catalytic role; and (v) lack of long-term funding which can jeopardize projects’ commercial viability, etc.

5.3.8 In the assessment of ‘additionality’, a special focus is on the Bank’s role in mobilizing co-financing that would not have been forthcoming in the absence of the Bank’s and/or other DFIs participation in the operation, and catalysing other investments in related sectors of the economy.

5.3.9 The transaction documents between the Bank and its NSO client sets out, inter alia, the development results targeted to be realized through the undertakings concerned, and appropriate monitoring and reporting mechanisms. The Bank, on its part, through periodic monitoring and evaluation, will provide clients with its feedback and advice on the progress toward attainment of targeted results during the project implementation and operation phases. Additionally, the Bank will strive to perform both independent evaluations and impact evaluations of selected NSOs to draw lessons and inform design of future operations.

30 Article 17(1)(c) of the Bank Agreement.

31 ‘Additionality’ is assessed utilizing the ADOA framework to determine, qualitatively, how much of the expected development outcomes can be attributed to the Bank’s involvement in participation in financing the operation.
SECTION 6:

Financing Operations

6.1 Types of Financing

6.1.1 NSO financing may be deployed using one or more instruments. Generally, the financing provided by the Bank to its non-sovereign clients falls under either of two categories: corporate or project financing with several hybrid variants.

6.1.2 Corporate financing – The Bank may provide financing to eligible enterprises in support of their investment programmes to strengthen those enterprises’ overall corporate performance and capacity to spearhead development in key sectors of the economy.

6.1.3 Project financing – The Bank may finance specific projects by eligible private or public sector enterprises with loans and other financing instruments which are not guaranteed by sovereign entities. The instruments used by the Bank in project finance primarily include senior and subordinated loans, credit or risk guarantees, and equity or quasi-equity participation in projects’ special purpose vehicles.

6.2 Financing Instruments and Products

6.2.1 The Bank Group can provide to its clients a range of financing products, including (but not limited to) the following: senior loans, lines of credit, agency lines, partial credit guarantees (PCGs), partial risk guarantees (PRGs), trade

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finance instruments, equity participation, and quasi-equity (e.g. subordinated, mezzanine, and convertible debt) instruments.

6.2.2 An executive outline of the Bank’s financial products, which are subject to change from time to time, is in Annex 3. Under the terms of the General Authority on the Bank’s Financial Products and Services (ADB/BD/WP/99/164) approved by the Board of Directors in January 2000, guidance on individual financial instruments, products and services delivered by the Bank in its NSOs is provided in the form of Operational Guidelines that are prepared and updated by the Asset-Liability Management Committee (ALCO) from time to time and approved by the Bank’s President. The guidelines currently in force are included in Annex 4.

6.2.3 The Bank may assume a lead role in promoting NSO. For instance, the Bank may underwrite securities issued by a private enterprise or securities in a public sector enterprise in the process of being privatized. Alternatively, it may guarantee securities issued by an SPV housing key NSO projects. Without prejudice to the prohibitions contained in the Bank Agreement on acquiring a controlling interest in investee companies or assuming responsibility for managing the latter33, the Bank may also take a lead role in sponsoring institutions which promote the deepening of specific capital markets through the use of Bank approved products including making anchor investments.

6.2.4 Loan Maturity – Loans generally have a tenor of up to fifteen (15) years, inclusive of the grace period of up to five (5) years. Loans of longer maturity may be considered by the Board of Directors where warranted by the requirements of the project. In such cases, Management should secure prior clearance from the Credit Risk Committee (CRC). In addition, tenor restrictions may also apply to certain currencies and product types depending on market conditions. The full range of conditions and options under which the Bank provides loans to non-sovereign borrowers are outlined in the Revised Financial Guidelines for Non-sovereign Guaranteed Loans (ADB/BD/IF/2006/53) cited in Annex 4, or its updated version, as appropriate.

6.2.5 Guarantees – The Bank can provide guarantees to assist eligible clients to obtain additional financing or hedging solutions from third-party lenders, including through capital markets, as outlined in Annex 3 paragraph A3.7 and in line with the Bank Policy on Guarantees (ADB/BD/ WP/2003/85/Approval) cited in Annex 4, or its revised version, as appropriate. Portfolio guarantees may also be used to partially guarantee the risk of default on a portfolio of loans made by a qualified partner financial institution or capital markets securities (bonds). Subject to binding agreement with the government of the RMC hosting an investment, the Bank may offer third-party PRGs to investors in NSOs, providing to them a level of assurance against pre-specified risks. Such risks include payment defaults of the government, public sector enterprises or other public sector entities, availability and convertibility of foreign exchange, changes in laws and regulations, expropriation and nationalization, breach of contract etc.

6.2.6 Cofinancing – The Bank Group’s financing partnerships and cofinancing operations add value to its clients by leveraging financial assistance and expertise for investment and effective development in its RMCs. In pursuing cofinancing arrangements in its NSOs, the Bank Group seeks to: (i) mobilise additional financial resources from external sources (other than project sponsors); (ii) complement and pool the comparative advantage and knowledge of the Bank Group and its financing partners; and (iii) broaden, duplicate, and sustain development impact by ensuring coordination and avoiding replication. Through cofinancing, the Bank Group aims to reduce the administrative burden of clients in dealing with multiple parties, and support the Bank Group’s commitment to development partner harmonization under the Paris Declaration on Aid Effectiveness and related agreements. When cofinancing NSOs with other Multilateral Development Banks (MDBs), the Bank will endeavour to harmonize its policies, procedures and requirements with those of the other financiers, in particular those of the MDB that is the mandated lead arranger (MLA), where the said policies and procedures are deemed to be globally equivalent or more stringent or aligned with market best practices.

6.2.7 Blended Finance – In addition to providing commercial financing from its own account, the Bank may use concessional funds (including

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33 Articles 15.4(b) and 17.1(j) of the Agreement establishing the African Development Bank.
from development partners, governments, philanthropic organizations, etc.) to crowd in private sector financing that would otherwise not be available to projects with high development impact. This combination of commercial and concessional financing is referred to as blended finance.\textsuperscript{14} Concessional financing can help mitigate real or perceived risks and cover the cost linked to externalities or market failures or to the provision of public goods; without compensation for these additional costs or risks, commercial financing would not be forthcoming. In extending blended finance, the Bank would be guided by the principles of - (i) additionality, (ii) crowding-in and minimum concessionality, (iii) commercial sustainability, (iv) reinforcing markets, and (v) promoting high standards. In its NSOs, the Bank will employ blended finance to help bridge gaps and address market barriers that prevent private sector development in areas of strategic importance and high development impact for the Bank's RMCs.

6.2.8 Leveraging ADF resources – The Bank may finance NSOs in any of its RMCs including ADF-only (Category-A) countries\textsuperscript{35}. In some instances, ADF resources (i.e. the Bank Group's concessional lending window) may be used to finance NSOs, including participation in PPPs, blended finance and the use of PRGs. By leveraging ADF resources, the Bank Group will (i) take advantage of its competitive edge to progressively deploy risk-sharing instruments that will leverage its risk capital base, and (ii) foster the development of the private sector in ADF countries and attract private sector financing to projects benefiting ADF countries.

6.2.9 Choice of Currencies – The Bank may provide financing for non-sovereign operations in one or multiple currencies. Approved currencies of the Bank include (but are not limited to) the Euro (€ or EUR), the Japanese Yen (¥ or JPY), the United States Dollar ($) or USD), the South African Rand (R or ZAR), the Nigerian Naira (N, or NGN), the Kenya Shilling (KES), the Uganda Shilling (UGX), and the Egyptian Pound (EGP)\textsuperscript{36}. Where feasible, the Bank will offer NSO borrowers the option of financing in local currency. The borrower may choose the specific denomination of the loan, subject to availability of the relevant currency. Loans are repaid in the currencies in which they are disbursed.

6.3 Equity Investments

6.3.1 Equity Instruments – Equity Investments include both direct participations in non-concessional Bank resources (ADF lending window) may be used to finance NSOs, including private equity funds, regional and sub-regional institutions, and eligible state-owned financial institutions that meet the conditions outlined in Section 6.4. The Bank’s participation in the equity capital of an eligible public sector enterprise, a state-owned financial institution, or in a project sponsored by a public sector enterprise, may be envisaged only as part of a process for that enterprise's further privatisation.

6.3.2 Eligibility – Eligible beneficiaries for the Bank’s equity participation are: (a) private enterprises that meet the criteria outlined in Sections 4.1 and 4.2; (b) public sector enterprises that meet the conditions set out in Sections 4.1 and 4.3; (c) project financing for appropriately structured SPVs or in PPPs defined in Sections 4.4 and 4.5, respectively; and (d) private financial institutions, including private equity funds, regional and sub-regional institutions, and eligible state-owned financial institutions that meet the conditions outlined in Section 6.4. The Bank's participation in the equity capital of an eligible public sector enterprise, a state-owned financial institution, or in a project sponsored by a public sector enterprise, may be envisaged only as part of a process for that enterprise's further privatisation.

6.3.3 Core Requirements – The Bank may participate in the equity of an enterprise subject to that enterprise meeting the core requirements stated in sub-section 4.1.3, including the domiciliation requirement as provided for in the Bank's Agreement. Management will ensure that the equity participation agreement will include appropriate conditions and safeguards to protect the Bank's interests and assure development results.

\textsuperscript{14} Blended Finance refers to a financing package comprised of concessional funding provided by development partners and commercial funding provided by the Bank Group and co-investors. Blended Finance solutions can provide financial support to a high-impact project that would not attract funding on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk.

\textsuperscript{35} Traditionally, ADF-only countries (Category-A countries) are RMCs whose gross national income per-capita are below a threshold and/or which do not meet a number of creditworthiness criteria to be considered eligible to borrow non-concessional Bank resources (ADB lending window) on sovereign terms. Under the GCI-VI, the Bank amended its Credit Policy to allow a number of ADF countries to borrow ADB resources, both directly and in the form of blended finance, at rates considerably more favourable than those they could obtain from the financial markets.

\textsuperscript{36} The Bank may approve other lending currencies, including a number of African currencies.

\textsuperscript{37} In this document, the expressions “state-owned” (whose scope would normally be narrower than the expression “public owned”) and “public-owned” are used interchangeably and refer to entities controlled by one or more sovereign entities, any of their political or administrative subdivisions, agencies and/or affiliated (non-sovereign) entities.
6.3.4 **Objectives** – In addition to financial return for the Bank, Equity Investments aim to promote:
(a) regional ownership of productive enterprises; (b) efficient use of resources; (c) regional economic cooperation and integration; (d) entrepreneurial risk-taking to support the diversification and modernisation of national or sub-regional economies; (e) the adoption of best-practice standards in corporate governance, business management, and corporate responsibility; and (f) the mobilisation of domestic, regional and foreign direct investment resources in pivotal sectors of the economy.

6.3.5 **Investment Criteria** – Equity investments entail greater risk exposure for the Bank than other financing operations. In addition to those outlined in Section 5, the key criteria for the Bank’s equity investment decisions are (a) the expected rate of return on the Bank’s investment; and (b) a feasible ‘exit strategy’:

a. **Return on Investment** – The Bank deploys equity only to investees that show good prospects of sustained value creation likely to generate rates of financial return commensurate with their individual risk exposure level. In assessing financial return on equity (at the investment and portfolio levels), the Bank calculates the financial rate of return on investment (FRRI). Each investment is justified on its merits; but, as a rule, the Bank expects a FRRI that reflects an adequate premium over the rate at which it would extend a senior loan to the same investee.

b. **Exit Strategy** – The Bank will approve an equity investment only after an attainable ‘exit strategy’ has been defined and agreed upon with other key shareholders, as part of the equity participation documents submitted to the Bank’s Board of Directors. The Bank will hold equity only for as long as continued participation directly generates development benefits. When the benefits are no-longer significant, the Bank shall consider divesting part or all of its equity holding to redeploy its risk capital into new opportunities, taking into account the opportunity cost of exit.

6.3.6 **Size of Investments** – The Bank’s participation shall not exceed 25% of the total share capital of the investee company throughout the duration of its investment therein, thereby also limiting its exposure to the downside risks of individual investees. In no event shall the Bank seek to obtain a controlling interest in companies in which it invests.\(^3\)

6.3.7 **Risk Exposure** – In addition, the Bank exercises prudence in selecting investment opportunities, to ensure sufficient portfolio diversification — on the basis of the deployment of resources by sectors, countries, sub-regions, individual and categories of investees. Equity investments must adhere to the risk exposure limits set by the Bank’s Risk Management Framework and the Capital Adequacy and Exposure Management Framework.

6.3.8 **Participation in Investee Companies’ Boards and Advisory Committees of Funds.**

a. 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: the size of investment, strategic importance, a 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, etc.

b. Subject to the relevant procurement rules and procedures, the Bank may appoint a suitably qualified and experienced staff member or external professional to represent the Bank on an investee’s board or a fund’s advisory committee. 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. Particular attention will be paid to ensuring that qualified women are considered to serve as members of the investee’s board or fund’s advisory committee representing the Bank.

c. 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 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

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\(^3\) ‘Exit strategy’ can be defined as the scenario, conditions and arrangements under which the Bank can transfer its shares to one or more third-parties on the basis of “willing-seller and willing-buyer”, which includes share offering on the stock exchange, put options and call options.

\(^3\) This is in line with Article 15(c)(b) of the Bank’s Agreement.
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.

6.4 **Bank Support to Financial and Capital Markets Institutions**

6.4.1 **Eligible Institutions** – The range of Financial Institutions (FIs) eligible for support on non-sovereign terms include commercial banks, merchant banks, investment banks, trade banks, mortgage finance institutions, national, regional and continental development finance institutions (DFIs), microfinance institutions, insurance corporations, pension funds, asset managers, commodity exchange entities, leasing and factoring companies, capital markets and capital markets support institutions, and private equity, among others. Also eligible are apex structures mandated to channel financial resources to second-tier financial institutions.

6.4.2 Private financial institutions (PFIs) which meet the eligibility requirements relating to private enterprises outlined in sections 4.1 and 4.2 are eligible for financing by the Bank on non-sovereign terms.

6.4.3 Similarly, public-sector financial institutions and capital markets institution including development finance entities, stock exchanges, state owned (or controlled) entities, etc. that meet the eligibility requirements outlined in sections 4.1 and 4.3 are also eligible for financing by the Bank on non-sovereign terms.

6.4.4 **Operational Objectives** – The Bank may provide corporate financing to FIs and capital markets institutions, toward closing specific financial market gaps in RMCs. The Bank’s objectives are to: (a) enhance financial inclusion by increasing access to a wide range of financial services notably to underserved groups such as MSMEs, women and young entrepreneurs and base of the pyramid population; (b) increase the depth of financial institutions and capital markets; (c) improve the efficiency of the financial system and strengthen its stability, in part by strengthening regulatory frameworks. The first two of those objectives can be advanced through non-sovereign operations. The third objective may be supported through policy dialogue and programme-based sovereign operations or through targeted Technical Assistance programmes, financed through any of the Bank's trust funds or partners. The Bank Group’s support to FIs and capital markets institutions may comprise a mix of financing, advice, and technical assistance.

6.4.5 Under the first objective, the Bank channels capital through suitable Financial and Capital Markets Intermediaries including microfinance institutions, commercial banks and DFIs, with a view to contributing to (a) supporting the financing of micro, small and medium scale enterprises (MSMEs) and social enterprises; or (b) contributing to the market financing of critical sectors of the economy such as infrastructure, industrial development, agriculture and food security, trade, or services. As an international and continental institution, the Bank has a comparative advantage in mobilising financing resources from regional and external sources. On their part, FIs operating at the national or sub-regional level generally have a better understanding of and ability to monitor and tackle local opportunities, challenges and risks faced by small and medium enterprises, including corporate governance issues.

6.4.6 Support is provided in the form of loans, lines of credit, agency lines, credit or risk guarantees, or trade financing instruments, to leverage additional commitment of financing to the FIs’ clients. The loan support may be reflected through normal loan agreements to the institution or through bond subscription agreements under specific conditions or to support the deepening of local currency capital markets. Financing targeted for on-lending to MSMEs that do not directly receive revenues in foreign currencies will be denominated in appropriate local currencies whenever feasible.

6.4.7 Under the second objective, the Bank may provide corporate financing using any of a range of products including equity participation, quasi-equity instruments, corporate loans and guarantees to eligible FIs. It may also provide advice and technical assistance to client FIs or capital market institutions toward strengthening their balance sheets, their corporate governance and prudential frameworks, and their management of operational and investment risks. Deepening financial and capital markets contributes to broadening access to financial services for all to reduce poverty.
6.4.8 Investment Criteria – The Bank’s NSOs in support of FIs and capital markets institutions, like other NSOs, must fulfill the investment criteria outlined in sections 5.1 to 5.3. Justification for the Bank’s support is the expected contribution of the financial and capital markets institution to economic growth and development in general, and private sector development, in particular — including the provision of financial services to MSMEs and social enterprises.

6.4.9 Monitoring of Financial Institutions and Capital Markets Institutions Results Commitments – Transaction documents between the Bank and client FIs shall set concrete development results frameworks and performance targets expected to be achieved, linked to: (a) strengthened prudential standards and client service; (b) increasing competition in the financial market; (c) the expansion of business services to under-served segments of society or the economy as applicable (e.g., for MSMEs, low-income households, women, rural districts, renewable energy, etc.); and (d) an adequate target level of profitability to support sustained growth in order to achieve or maintain a good credit rating. The Bank will periodically monitor the FIs benefitting from its support to gauge their performance on the agreed-upon results. Normally, however, the Bank will rely on the performance monitoring and reporting systems of the Financial Institutions to provide the necessary information and data. When considering to provide further financing (e.g., a new line of credit), as part of due diligence, the Bank will evaluate and take into account the FI’s performance as a client, its fulfilment of financing agreements, and its utilisation of previous rounds of financing provided by the Bank.

6.4.10 Safeguards – Operations in support of FIs are subject to the Bank’s fiduciary, integrity, environmental and social safeguards outlined in Section 9 and Section 10, respectively. Attention is drawn to sub-sections 9.3 to 9.6 of this policy. In addition, the Bank will ascertain that a FI has adequate capacity to manage the environmental and social impacts that could be generated by the projected on-lending operations. Further, the Bank reserves the right to examine any on-lending operations subsequently, to ensure FI operations’ compliance to the Bank’s standards. Also, Bank support to FIs is subject to portfolio and risk management provisions outlined in Section 11. Under the provisions outlined in Section 8, the Bank will provide advice, technical assistance, and financing on suitable terms tailored to different client circumstances, to FIs toward strengthening their capacity to manage procurements, disbursements, fiduciary, environment and social safeguards, prudential standards, and risk management.
Trade Finance Support

6.4.11 The Bank supports trade facilitation by supporting the reduction or removal of trade barriers and providing wholesale trade financing. The Bank will maintain its Trade Finance Program, dynamically building into it successive lessons-learnt from implementation. Under this programme, the Bank may provide financing to facilitate trade flow among African countries or between RMCs and the rest of the world.

6.4.12 The Bank's trade finance operations currently comprises three key instruments (more details in Annex 3.10 – 3.15):

- Risk Participation Agreements (RPAs) with major international commercial confirming banks that are engaged in documentary trade with African banks;
- Trade Finance Lines of Credit (TFLOC); and
- The Soft Commodity Finance Facility (SCFF).

6.4.13 Participation in joint initiatives with sister institutions will be considered where there is strong potential for development impact and clear justification of the Bank's additionality.

6.4.14 Also, the Bank may offer supply and value chain financing and more bespoke risk mitigation support (including trade guarantees) for individual trade transactions. Bank staff will monitor to ensure that clients follow well-documented risk management procedure agreed upon with the Bank.

6.5 Refinancing, Retroactive Financing and Restructuring

6.5.1 Refinancing – Refinancing is a generic term referring to the replacement of existing debt with new debt for the benefit of borrowers (and their shareholders) and is fundamentally aimed at reducing financing costs and ultimately increasing the profitability of the project. International Financial Institutions (IFIs) and MDBs are traditionally reluctant to engage in the refinancing of existing transactions, mainly on account of the lack of additionality and development outcomes. In light of the above, in principle the Bank does not refinance loans extended by other lenders or creditors.

6.5.2 Retroactive Financing – Notwithstanding the foregoing, procurement rules of IFIs and MDBs, including the Bank, usually permit “retroactive financing” with regard to a Borrower’s “advance contracting”. According to the Bank Group's Procurement Rules, a borrower may consider, for the purpose of the timely implementation of a project, to proceed at his own risk with the procurement of eligible goods, works and/or services before signing the related Bank loan agreement. In that case, the Bank may “retroactively finance” eligible expenditure, usually funded by the borrower by means of bridge/shareholders' loans and incurred prior to execution of the Bank's loan agreement, within the limits specified in the latter; in that case, the proceeds of the Bank's loan may be used by the Borrower to repay the existing bridge/shareholders' loans which were incurred for the purpose of funding said eligible expenditure.

6.5.3 Restructuring – A distinction needs to be drawn between “refinancing” (as defined above) and “restructuring”. Debt restructuring entails modifications to the financial terms and conditions of an existing loan and may often be coupled with the grant of additional debt (from the same or new lenders) and equity injections. Restructuring is often aimed at benefiting parties (for e.g. lenders, employees and end-users) other than borrowers (and their shareholders) as opposed to refinancing (which tends to benefit borrowers and their shareholders). A typical restructuring of existing debt implies extension of the maturity date, changes in repayment schedule and interest rate etc. While restructuring mostly occurs in circumstances where the borrower is experiencing financial difficulties, it may also be used with regard to projects which are performing well for the purpose of attaining a specific development outcome (e.g. the lowering of tariffs of the utilities for the benefit of the local population). The Bank may engage in restructuring distressed projects or good performing projects to attain specific development outcomes.
SECTION 7:

Offshore Financial Centres in Bank NSOs

7.1 The Bank is concerned by the involvement of Off-shore Financial Centers (OFCs) in financial transactions due to the heightened risks that OFCs can be used for dubious purposes, such as tax evasion and money-laundering, by taking advantage of a higher potential for less transparent operating environments, including a higher level of anonymity and the facilitation of opaque governance and cash flow structures.

7.2 Through its anti-fraud, anti-corruption and anti-money laundering policies, the Bank continues to ensure that its financing operations and investments are not used for illegal or tax evasion purposes. In addition, certain measures are currently in place to address the issue of OFCs and the accompanying risks. Through the Bank's revised Policy and Strategic Framework and Action Plan on the Prevention of Illicit Financial Flows in Africa and Policy on the Prevention of Illicit Financial Flows (cited in Annex 4), the Bank supports RMCs' efforts to strengthen regimes on anti-money laundering and to combat the financing of terrorism as well as all other forms of illicit flows in the continent. Additionally, the Bank will continue to undertake extensive due diligence on recipients and beneficiaries of Bank's resources and provide technical, financial and advisory assistance to RMCs' institutions, regional intergovernmental organizations, civil society organisations (CSOs), and other external stakeholders through the African Integrity Fund (AIF).

7.3 This Section sets forth the Bank's regime concerning clients and counterparts domiciled in Offshore Financial Centres (OFCs) in NSOs, while Annex 6 provides the definition of OFCs.

Clients Domiciled in Offshore Financial Centres

7.4 There may be instances where a borrower/investee company of the Bank is domiciled in a Member Country (MC) that is also considered an Off-shore Financial Centre, particularly where such a jurisdiction is not the host country of the concerned project or investment.

7.5 In certain regional or cross-border projects, or projects involving several multinational counterparts, entities domiciled in a jurisdiction different from the host country of the project's target outputs or outcomes, may be used as borrowers or investees of Bank funds, provided that they are incorporated in a Member Country. For example, in the Bank's private equity fund investments, co-investors may invest in a company registered in one RMC or in another Member Country, while the fund's resources may be invested in several RMCs. In project finance transactions, one or more SPV may be incorporated in an RMC other than that/those in which the project is physically located.

7.6 In such situations, the Bank may proceed with the project having satisfied itself that: (i) the home jurisdiction of such recipient entity is a Member Country; (ii) the applicable regulatory regimes of the concerned RMCs do not exclude the involvement of the concerned jurisdiction, or that appropriate exemptions have been granted; and (iii) the use of intermediate jurisdictions and corporate vehicles does not result in enabling the project client recipient entity to utilize the Bank's resources to make investments that the Bank itself would not be permitted to make. In its evaluation of investment proposals, in addition to legal requirements, the Bank will also consider the practicality, expediency, and additionality or development outcomes of using the said jurisdiction.

7.7 The Bank will also require full transparency with regards to the corporate governance structures and their related cashflow, allocation of benefits, financial transparency and strength, compliance and integrity, including with regard to tax matters — all of which will be reviewed according to best practices. The aim of the due
diligence will be to obtain a reasonable level of assurance that offshore structures are not set up or used for the purpose of tax evasion, money-laundering and terrorism-financing activities and to ensure RMCs receive the appropriate level of taxes from activities carried out on their territory. Appropriate legal clauses will also be included in the legal agreement of the transaction to mitigate any risks identified during the due diligence process.

7.8 Furthermore, the Bank will take into account the assessments and advisories of the concerned Member Country (if any) as may have been published by the Financial Action Task Force (FATF) and the Global Forum on Transparency and Exchange of Information for Tax Purposes (“Global Forum”) in particular whether the said MC has complied with the Global Forum Peer Review Process and is not considered non-compliant. In cases where FATF and/or the Global Forum have released public statements that highlight continuing institutional weaknesses of concerned RMCs, the Bank may provide appropriate technical assistance to the concerned RMCs in implementing the internationally agreed tax standards by reference to the Global Forum’s Peer Review reports. The Bank will also carry out periodic due diligence on a case-by-case basis to ensure that Bank-financed operations are not at risk of being used for tax crimes, money laundering and terrorism financing.

Counterparts domiciled in Offshore Financial Centres

7.9 NSOs typically involve a number of counterparts such as Sponsors, commercial confirming banks, co-investors and/or Fund Managers/General Partners (“GPs”) or other similarly structured qualifying entities that may be located anywhere

40 FATF is an inter-governmental agency housed in the OECD, which was established to develop policies and guidelines on combating money laundering and terrorism financing risks. The Global Forum, also housed by the OECD, is an inter-governmental agency to promote cooperation among international jurisdictions against tax crimes.

41 In September of 2009, the Global Forum launched a peer review process, as part of which countries undergo detailed substantive assessment by the other members of the Global Forum against the Transparency Standard. For more information see http://www.oecd.org/tax/transparency/.
in the world, as there is no domiciliation requirement for them (see Section 4). Sponsors are usually shareholders of the Borrower entities/companies in which the Bank invests, and sometimes provide guarantees to the Bank while Fund Managers (GPs of private equity funds, asset managers, etc.) manage PE funds, debt funds or ‘hybrid’ funds into which the Bank invests.

7.10 In some instances, the Bank finances projects where such Counterparts are domiciled in an OFC. This may include: (i) a situation whereby the jurisdiction of incorporation or registration of the Sponsor or GP is an OFC; and (ii) the Sponsor/GP owns a significant share of the Borrower/entity or controls the Borrower/entity. In this case, both the Sponsor and the GP stand to indirectly benefit from the Bank’s financing by way of receiving distributions from investment income of the Project company or for GPs in the form of management fees and also carried interest in a fund structure.

7.11 In such situations, the Bank will undertake in-depth due diligence on Sponsors and GPs domiciled in OFCs and require full transparency to ascertain the corporate governance structure, cash flow within the structure, beneficial ownership, financial transparency and strength, compliance and integrity, including in relation to tax matters, are reviewed according to best practices. Such due diligence will be carried out in line with the Integrity Due Diligence Policy on Non-sovereign Operations to inter alia identify the beneficial owners of such counterparts and obtain a reasonable level of assurance that the concerned offshore entity is not set up or used for the purpose of tax evasion, money laundering and terrorism financing activities. Appropriate legal clauses will also be included in the relevant legal agreements pertaining to the transaction to mitigate any risks identified during the Integrity Due Diligence (IDD) process.

7.12 The information gathered and the assessment of clients and counterparties with regard to money laundering and terrorism financing risks, beneficial ownership, and cooperation on taxation issues will be incorporated in the project appraisal report presented to the Board of Directors.

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42 Control will be determined in the context of the specific transaction structure and means the ownership by vote or value of 50% or more of the enterprise (or less than 50%, if the facts and circumstances of the investment indicate de facto control), and, in the context of a fund, any control exercised by a general partner or manager.

SECTION 8: Knowledge-Based Operations

8.1 Advisory Services and Technical Assistance – In addition to financing operations, the Bank, subject to the availability of the relevant financial resources, may provide advisory services and technical assistance (TA) to clients, at their request, using its internal expertise or, subject to the relevant procurement rules and procedures, by outsourcing to firms or consultants as necessary. This technical assistance may be provided as the Bank’s contribution to seed capital; and its advisory services may be provided as “sweat equity.” The Bank can also provide advisory services through shareholding, partnership and by supporting specialized for-profit and non-profit organizations.

8.2 Subject to the availability of the relevant financial resources, technical assistance may be provided on grant or concessional terms where such support: (i) is justified as a means to increase the probability of achieving development objectives without creating market distortions; (ii) does not substitute for the additionality of the Bank’s financing on NSO terms; (iii) avoids creating permanent dependency on long-term subsidies; and (iv) aims to align incentives of the project participants with market-compatible behavior.

8.3 Alternatively, the Bank may charge a reasonable remuneration (in the form of a fee, or a share in the venture’s revenues, or its equity, or other consideration that is appropriate under the

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Provision of TA services is subject to the availability of “ad hoc” financial resources (e.g., third parties’ resources or special resources); furthermore, expenditure relating to such TA services is, in principle, to be reimbursed to the Bank (Article 23(f) of the AfDB Agreement).

“Sweat equity” is a party’s contribution to a project in the form of effort, as opposed to financial equity, which is a contribution in the form of capital.

This is subject to the availability of “ad hoc” financial resources (e.g., third parties’ resources or special resources): as a matter of fact, AfDB ordinary resources cannot be used for grants or investments on concessional terms (Article 14.1, AfDB Agreement).
circumstances), to recover part or all the costs incurred in delivering or mobilizing TA and/or advisory services.

8.4 In order to avoid any reputational risk, the Bank before providing any form of advisory services and TA will sign a formal agreement for the provision of advisory services with the beneficiary of such services. Such agreements should clearly delineate the responsibilities of the parties involved and also include appropriate clauses protecting the Bank from any perceived risks and liabilities arising from the provision of the advisory services.

8.5 The Bank Group can provide advisory services and TA in a number of areas. These include (but are not limited to) the following: (i) project preparation and financing strategy; (ii) corporate governance; (iii) public enterprise restructuring and privatisation strategy; (iv) the management of financial and capital market institutions; (v) prudential standards and corporate governance for development banking and social business; (vi) procurement and fiduciary safeguards; (vii) environmental and social safeguards; (viii) business development services (BDS); and (ix) value-chain development.

8.6 The Bank Group may also provide advisory services and technical assistance financed from its appropriate Bank windows to RMCs in support of PPPs in areas including (but not limited to) the following: capacity building; development of regulatory and legal frameworks; sector policy reforms; and preliminary PPP project preparation. Technical assistance and advisory services may also be provided to eligible private sector entities, on request, subject to the provisions of sub-section 8.7 below.

8.7 When providing TA and advisory services, the Bank Group ensures that there is no conflict of interest7 or moral hazard in the two competing roles — on one hand, as advisor or source of technical assistance, and, on the other hand, as creditor/investor. When such risks are identified, mitigating measures must include: (i) ensuring that advisory services are provided by Bank organisational units that are independent and separate from those that are involved in the origination and management of financing operations; (ii) not providing downstream financing if the Bank Group has been significantly involved in upstream advisory services; or (iii) providing resources to clients to independently procure technical services from third-party sources of expertise.

8.8 In instances where the Bank’s exposure to a project/corporate entails simultaneously (a) the provision of finance to an entity without sovereign guarantees and (b) the provision of policy, institutional, and/or strategic advice or other assistance to the RMC(s) concerned, the Bank Group will maintain a strict separation of organisational structure or groups of staff whose work involves in either types of activity to mitigate conflict of interest. On the other hand, the Bank will ensure that the departments involved in the origination and portfolio management of NSOs have full and timely access to the regional departments’ assessments and advice on RMCs'/RECs’ policies, institutions, and strategies.48

8.9 Assistance to Women Entrepreneurs – The Bank Group will step up support for training women in capacity building projects, particularly through technical vocational education that can encourage women’s entrepreneurship in rural areas. It will also ensure that technical and vocational education training and higher education projects include activities and incentives to encourage girls’ entrepreneurship. The Bank Group will promote capacity building for women entrepreneurs through technical and business management skills training and micro-finance programmes to encourage income-generating activities and easy access to finance.

8.10 In line with the Private Sector Development Policy, the Bank Group will facilitate knowledge-based services to ensure that local entrepreneurs have access to technology, knowledge and know-how. Through such services, the Bank Group

47 For instance, in preparing regional integration projects or programs, the Bank may provide technical assistance to RMC(s) to develop projects or program with resources from the New Partnership for Africa’s Development Infrastructure Project Preparation Facility (NEPAD-PPF). Also, the Bank’s African Development Fund Project Preparation Facility (ADF-PPF) may be used to help RMC(s) prepare projects to ensure good project quality at entry. These upstream cases cannot be considered as generating conflict of interest, as at the time, the Bank cannot definitively pre-empt the nature of the project or program being generated – i.e. private- or public-sector, in nature.

48 The Bank Group’s Independent Development Evaluation Department (BDEV - formerly OPEV), in its periodic assessments of the quality of the NSO portfolio and the Bank’s performance in promoting private sector development, will on one hand evaluate the degree to which the policy advice and technical assistance provided by the Bank to the RMCs and RECs is geared to protecting the Bank’s lending and investment portfolio as compared to promoting the countries’ developmental best interests. On the other hand, BDEV will evaluate to what degree the NSO origination and portfolio management departments have benefited from knowledge work of the Regional/Country Departments.
will advocate for strengthened entrepreneurial culture (through entrepreneurship development in the education system) and markets for sustainable business development services, training, and the provision of business information. In its effort to support the development of local entrepreneurship the Bank Group will seek market-based solutions, including commercially viable providers of services. At programming level, the Bank Group will ensure that women and youth are given adequate priority by ensuring that they can participate in the development of projects and programmes.
SECTION 9:

Procurement, Integrity and Fiduciary Safeguards

Procurement

9.1 The procurement of goods, works and non-consulting services and the selection of consultants for NSO are subject to the Bank Group’s Procurement Rules and Procedures, which emphasise the principles of economy and efficiency. The Bank shall agree with the non-sovereign borrower, as outlined in the Procurement Rules and Procedures, on acceptable procurement procedures that are in line with well-established private sector procurement methods or commercial practices.

Disbursement

9.2 The borrower is entitled to request disbursements of funds from the Bank, for amounts spent or planned to be spent for the purposes set out in the financing agreement between the two parties, subject to fulfilment of conditions outlined in

49 These are, respectively: the Rules and Procedures for Procurement of Goods, Works, and Non-Consulting Services; the Rules and Procedures for the Use of Consultants; and, the Guide for the Procurement of Goods, Works and Services in Private Sector Operations Financed by the Bank (see Section A4.4 of Annex 4).
the financing agreement. Except with the Bank's consent, no disbursements shall be made (a) on account of expenditures procured in violation of the Bank's Procurement Rules; or (b) to finance expenditures incurred prior to the date of the financing agreement other than those that are expressly permitted. Requests for disbursement shall be made promptly and in conformity with the Bank's disbursement rules and procedures.

**Integrity and Fiduciary Safeguards**

9.3 Under the Bank's integrity and fiduciary policies (included in the list of policies in Annex 4) the following are prohibited in all Bank-financed operations: corrupt, fraudulent, coercive, collusive or obstructive practices, referred to as 'sanctionable practices'. Other unethical practices including crimes, money laundering, and the leakage of Bank resources to finance terrorism are also prohibited. Similarly, countries and persons affected by international sanctions under relevant decisions of the Security Council of the United Nations are also prohibited from participating in Bank-financed operations.

9.4 A non-sovereign project's controlling entity and the other counterparties in general have their respective shareholding structures (including other legal persons controlled by other entities such as holding companies) that, with the exception of state-owned enterprises (SoEs), ultimately are owned by natural persons. In line with the Integrity Due Diligence Policy on Non-sovereign Operations, the Bank will carry out an appropriate, risk-based “know your customer” (KYC) due diligence process to: (a) identify the beneficial owners of clients, counterparties and significant related parties involved in the NSO's transactions as well as their principal officers; (b) assess their civil, criminal, and regulatory backgrounds; and (c) establish if any of them are politically exposed persons.

9.5 Clients, counterparties (including other co-investors or co-financiers, general partners/fund managers of equity funds, borrowers and sub-borrowers and investees of equity funds) and significantly related parties (including principal officers of the clients, counterparties, suppliers, service providers, consultants, contractors, sub-contractors, the personnel of all the for-mention- ed in Bank financed or administered NSOs) are required to observe the highest standards of ethics during the procurement, execution and implementation of NSOs.

9.6 Specific provisions will be inserted in financing agreements in relation to sanctionable practices in which its clients and counterparties may engage, or have engaged, in connection with the project to be financed. Furthermore, without prejudice to any other measures and remedies, the Bank may sanction any person or enterprise shown to have engaged in sanctionable practices in its NSOs. Sanctions include debarment from participating in the preparation or implementation of operations financed or administered by the Bank Group. As part of its strategic preventive framework to optimise the integrity and fiduciary safeguards as stated in this Policy, the Bank will employ its integrity due diligence processes and guidelines to mitigate integrity and fiduciary risks.

**Politically Exposed Persons**

9.7 The Bank’s participation in NSOs owned by, benefiting or otherwise involving politically exposed persons (PEPs), persons that wield political influence or other privileged and high risk relationships raises ethical concerns. These concerns include the potential for bribery, corruption, conflict of interest, insider trading, and the distortion of markets, among others. In general, the Bank will not participate in a transaction when, upon integrity due diligence, it finds that there are significant and unmitigated integrity risks or ethical concerns, or adverse reputational risks. In order to meet the requirements of this Policy, the Bank will apply effective KYC due-diligence procedures and mechanisms.

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51 Under the Agreement for Mutual Enforcement of Debarment Decisions (signed by the Presidents of DFIs on 9 April, 2010), clients debarred by the Bank are liable to be debarred by other Participating Institutions.

52 PEPs are natural persons who are or have been entrusted with prominent domestic or international public functions, as well as their immediate families and close associates. PEPs include central, regional and local government officials, senior politicians, senior government officials, legislators, senior executives of state owned corporations, judicial or military officials, important party officials, senior management of International Organisations and supranational institutions and people with similar functions in government and international organisations. PEPs do not include junior or middle ranking officials in these organisations. ‘Immediate family’ includes direct family members as spouses, children, parents, grand-parents, and siblings. ‘Close associates’ include widely and publicly known close business colleagues or personal advisors of PEPs as well as financial advisors or persons acting in a financial fiduciary capacity.
SECTION 10:

Environmental and Social Safeguards

10.1 The Bank is committed to making economic growth and development inclusive by broadening access to economic opportunities for more people, countries and regions, while protecting the most vulnerable. It recognises, however, that human well-being in Africa depends on the quality of the environment and the sustainable use of natural resources. It strives, therefore, to ensure that Bank operations have no unintended adverse direct or indirect environmental or social impact on communities.

10.2 The main objective of the Bank Group’s Integrated Safeguards System (ISS)53 is to mainstream sound environmental and social management practices into all Bank operations to ensure that they are sustainable and that public and private sector clients are supported in meeting the requirements. Additionally, the Bank’s Environmental and Social Assessment Procedures (ESAP)54 is designed to address the challenges in implementing the ISS. ESAP provides guidance on the specific procedures that the Bank and its borrowers or clients should follow to ensure that Bank’s sovereign and non-sovereign operations meet the requirements of the Operational Safeguards (OSs) at each stage of the Bank’s project cycle. The Bank Group’s ESAP for NSOs differ in a limited number of instances from sovereign operations, taking account of slight differences in the Bank’s project cycle requirements for NSOs.55

10.3 NSO clients are responsible for adhering to the ISS throughout the project lifecycle and complying with the requirements and principles set out there in as well as in the ESAP. The Bank will ensure that environmental and social safeguards are monitored for compliance. Sanctions will be applied in the event that NSO sponsors/operators persist in not complying with the Bank’s safeguards.

10.4 As part of the requirements of the Bank Group for financing NSOs, which may entail negative environmental and social impacts, the client of a Category-1 or Category-2 project should establish a credible and independent local grievance redress mechanism to address the concerns and resolve the complaints of persons affected by such NSO.

10.5 Communities and/or individuals in project areas who feel that they are unfavourably affected or will be adversely affected by any Bank-financed NSO can recourse to the various Bank Group’s grievance redress mechanisms: (i) at project level through the mechanism established and managed by the sponsor and relevant local stakeholders; (ii) at the Bank’s country office which has responsibility for receiving and responding to requests for redress in coordination with relevant stakeholders at country and Bank’s levels for dispute resolution. Although the Bank addresses grievances primarily at the country and project levels, it has an interest in ensuring that these processes are responsive, treat claimants fairly, and operate effectively. In the event that the above-mentioned mechanisms are not able to resolve the dispute, the claimant

53 African Development Bank Group’s Integrated Safeguards Systems (ISS) (ADB/BD/WP/2012/184/Rev.2/Final- ADF/BD/WP/2012/135/Rev.2/Final) approved in 2013. The ISS requirement is adjusted to accommodate changes linked to key steps in the project cycle with the proportionality and adaptive management, which should be proportionate to the level of Environment and Social Safeguard (E&S) risk, and should be flexible enough to be adapted to changing circumstances during project implementation.

54 Environmental and Social Assessment Procedures (ADB/BD/IF/2015/240 - ADF/BD/IF/2015/178) approved in 2015 (following the entry into force of the ISS). The 2015 ESAP provides in particular: (i) detailed and clear description of the steps needed to implement the operational safeguards at every stage of the project cycle; and (ii) coverage of both sovereign operation and NSO lending into one single ESAP, with specific provisions designed to fit the different circumstances applicable to NSO. The ESAP is periodically revised to (i) adjust to institutional changes within the Bank (role and responsibilities within the project ecosystem) and (ii) take into account lessons learned and emerging issues.

55 These include inter alia: (i) the exploratory review process and inclusion of NSO in the Bank’s project pipeline; (ii) the concept note format including E&S content and review process. It also clarifies required steps for NSO in instances of co-financing; (iii) the appraisal report format including the E&S content, annexes and review process; (iv) the NSO disclosure requirements for Category 1 projects; (v) E&S loan conditions, covenants and negotiation process; (v) the format and E&S content of monitoring and completion reports.
may submit a complaint to the Independent Review Mechanism (IRM) of the Bank Group, which is administered by the Compliance Review and Mediation Unit (CRMU). The mandate of the IRM is to provide people adversely affected by a project financed by the Bank Group, with an independent mechanism through which they can request the Bank to comply with its own policies and procedures. The IRM handles complaints through problem-solving (mediation), compliance review (investigation) or both. Annex 5 provides the contact information of the CRMU and IRM.

10.6 Corporate Environmental and Social Responsibility. The Bank values private sector and other non-sovereign clients that are committed to maintaining or strengthening corporate social responsibility. The Bank encourages clients to comply with the standards promoted under the Extractive Industries Transparency Initiative (EITI), the Equator Principles, and other initiatives whose purpose is to ensure that private sector operations are socially responsible and environmentally sound. In general, good corporate citizenship behaviour is taken into account in the Bank’s assessment of the creditworthiness of clients, sponsors and co-financiers of NSOs.

56 The CRMU is the organizational entity that administers the IRM, registers complaints and reports directly to the President and the Boards of Directors of the Bank Group; it is independent of the Bank’s Management.
SECTION 11:

Project Origination, Portfolio and Risk Management

11.1 The evolution of the Bank’s non-sovereign operations portfolio is linked with the institution’s Risk Appetite Framework. The framework57 is anchored on a firm commitment to maintain the Bank’s AAA international credit rating, for the benefit of all its clients. The selection of each individual operation and the composition of the overall non-sovereign portfolio, and aggregate risk capital utilisation for the Bank’s active non-sovereign portfolio are expected to comply with the rules, standards and limits outlined in the Bank’s Operational Risk Framework, the Capital Adequacy and Exposure Management Framework58 and the Credit Risk Management Guidelines in force at the time.

11.2 Project processing at entry – Bank staff and managers responsible for project origination carry out due diligence and assessments of non-sovereign financing proposals. The origination team’s findings and recommendations undergo a rigorous internal review process before they are cleared by Senior Management to be presented to the Bank’s Board of Directors for approval.

11.3 Bank’s Share in Financing of Operations – The Bank’s financial participation 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 facilities to financial institutions. Financing exceeding such percentage may be considered where warranted by the requirements of the project, subject to prior clearance from the Credit Risk Committee. The Bank’s share for equity investments is discussed in sub-section 6.3.6, above.

11.4 Portfolio Diversification – The Bank’s NSO portfolio must not exceed the respective ceilings for total exposure to single-obligor or single-sector outlined by the Bank’s Capital Adequacy and Exposure Management Framework to ensure adequate portfolio diversification and effective risk management.

11.5 Loan Security – When the Bank provides a senior loan, it requires a creditor status no less favourable than that of other senior lenders. Where specific security has not been requested by the other lenders and is not considered necessary by the Bank, a negative pledge may be accepted. In cases where other lenders have not requested security but where the Bank believes that proceeding on an unsecured basis would be imprudent, it will require that its loan be secured. Where co-lenders have requested security, the Bank will require that its loan be secured pari passu with such other lenders. Where co-lenders have requested nonproject-related security, or third-party guarantee, the Bank will normally seek a compensating enhancement of its security position in the project.59 The Bank ensures that its security interests are properly registered to obviate conflicting claims by other creditors.

11.6 Project Monitoring – As enforcement of security is expensive and time-consuming, and the realisable value of the assets encumbered in favour of the Bank and other financiers is likely

57 “Proposal for a Definition of the Bank’s Risk Appetite, Risk Dashboard and Enhancement of Credit Risk Governance” (ADB/BD/WP/2011/53); April 2011. The framework was approved in May 2011 by the Boards of Directors.

58 The Bank’s Capital Adequacy and Exposure Management Framework is subject to periodic review and revision. The current framework was adopted in May 2011.

59 By way of illustration, security may take the form of any, or all of, the following: a mortgage on the project site and/or other relevant real estate property; first-ranking security interests on the 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.
to be lower than the debt amount, business risks and compliance with loan terms and conditions will need to be attentively monitored on a regular basis.

11.7 Risk Capital Management – For each active NSO, the Bank sets aside an amount of risk capital calculated as the sum of the operation’s expected and unexpected loss estimates, on the basis of best banking practices, corresponding to the latest risk assessments. For the overall active NSO portfolio, the total amount of risk capital set aside for the entire non-sovereign operations portfolio shall not exceed the limits prescribed under the prevailing Bank’s risk appetite framework, its operational risk framework, and capital adequacy and exposure management framework.

11.8 Pricing – The Bank charges market-determined and risk-based interest rates on its loans; and it charges reasonable fees on its lending operations, credit and risk guarantees. It invests in equity in expectation of adequate returns, as stated in section 6.3.5(a). Generally, the Bank’s financing for a NSO under consideration is priced to cover the following aspects: (a) the market cost of capital in the specific currencies requested by the borrower; (b) opportunity cost of maintaining liquidity; (c) a charge for the recovery of the Bank’s administrative expenses linked to an operation; (d) a premium proportional to risk exposure; and (e) a negotiable flexible margin. ‘Price’ here denotes the interest rate charged on a loan (senior, subordinated or unsecured), lines of credit, or debt contingency of a guarantee. It also

60 “Risk capital” is defined as total shareholders’ paid-in capital and the Bank’s (i.e., the AfDB window’s) operating net reserves (other than the special reserves) and surplus.

61 Under the current risk appetite framework, non-sovereign operations may not consume more than 45% of the Bank’s risk capital. Out of this amount, the Bank’s equity participations may not consume more than 15% of risk capital.

62 Provisions relating to financing terms—tenor, grace period, repayment terms, interest rate structure, type of loan fees, penalties and their repayment terms—are stated in the Revised Guidelines for Non-Sovereign Guaranteed Loans (ADB/BD/1F/2006/53) and the Bank Policy on Guarantees (ADB/BD/ WP/2003/85/Approved) or successor documents.
stands for the threshold expected rate of return on invested capital (ROIC) below which an equity participation can be considered a poor investment. In addition, the Bank may charge reasonable fees for its services to recover its expenses in providing technical expertise in project preparation and appraisal, syndicating projects, or underwriting equity investment operations.

11.9 Portfolio Management – The Bank’s Management ensures that active individual NSOs and the portfolio as a whole are diligently managed. This is accomplished through maintaining close dialogue with clients, and by periodically monitoring and evaluating individual operations. The objective is to enhance the prospects of: (a) delivering expected development outcomes; (b) minimising harmful environmental and social impacts over the course of projects’ economic life; and (c) meeting debt repayment obligations, or, in the case of equity and quasi-equity investments, helping to maintain good prospects of investment success. In the case of FI operations, the key development outcome is increase in access to financial services especially for traditionally excluded segments — including MSMEs, low-income households, women, youth, rural populations, etc. In the case of agency lines and trade financing instruments, operations must be monitored following well-documented procedures.

11.10 Portfolio Performance – The target for portfolio management is to maintain the portfolio’s weighted average credit risk rating (WARR) set by the Bank’s Capital Adequacy and Exposure Management Framework, and portfolio post-approval weighted averages of “Good” or better on Development Outcomes.

11.11 Restructuring, Workout and Recovery – Operations where the Bank’s risk capital is in jeopardy present developmental, environmental, social, governance and reputational risks for the Bank and all parties concerned63. Resolving problem investments, requires a shift in management approach to emphasize value preservation and managing reputational risks under adverse conditions, while maximizing development impact, where possible.

11.12 It is the Bank’s practice to try and find solutions to projects facing problems as opposed to seeking immediate recovery of all or a portion of its investment through the enforcement of a security interest or the liquidation of the investee company. The normal course for the Bank will be to help diagnose the causes of problems, participate with shareholders and lenders in the formulation of a plan of action to redress the situation, and monitor the application of the plan and the company’s progress. The Bank may also participate in debt relief measures provided that by doing so the prospect of recovering the Bank’s investment would be greater than through a forced liquidation.

11.13 To perform this function effectively requires additional flexibility in the application of the policy prescriptions applicable in the case of investments that are performing. Key areas which may warrant flexibility to ensure that ample scope is provided for enabling effective workout, restructuring and recovery will be elaborated in the Procedural Manual. They include, among others, the use of loan proceeds and eligible expenditure restrictions, bank investment as a percentage of project cost, exposure limits to diversify risk, specific ceiling of the Bank’s total equity investment in a corporate, loan currency risk, and business process. The Bank Group will proactively seek to strengthen the quality at entry instruments and procedures of non-sovereign operations to achieve better results on the ground in its RMCs.

11.14 Decentralisation – Staff and managers in the Bank’s Field Offices, in continuous communication with their headquarters counterparts, will play an increasingly important role in the identification, preparation and appraisal of NSO and in the management of the Bank’s NSO portfolio. Similarly, Field Offices will take the lead in delivering the Bank Group’s support towards the RMCs’ private sector development policies and strategies in general.

11.15 Monitoring and Evaluation of NSOs – The implementation of this Policy will be assured through the application of the Bank’s operational review process. The process will ensure that:

i. non-sovereign operations have acceptable risk ratings, and that operational and risk management arrangements are adequate;

63 While Bank strives to preserve shareholder capital in its NSOs, events of default, calls on guarantees, unrecoverable value erosion of equity investments are inevitable. This can be due to borrower or investee company financial distress, country or industry performance, currency devaluation, or other factors.
ii. the Bank Group's interventions bring additionality, and that such interventions have sufficiently high development outcomes; and

iii. non-sovereign operations are well-prepared, technically and financially sound, environmentally and socially sustainable, and that they adhere to high ethical norms.

11.16 A logical results framework and Bank-wide Key Performance Indicators (KPIs) will be established on a medium-term basis to provide benchmarks for monitoring and evaluation of the Bank Group's non-sovereign operations in support of private sector development in Africa. The relevant quality assurance, as well as the strategy and operational policy departments will monitor the policy's implementation and assess the interim results including through the use of disaggregated information of the Bank Group's non-sovereign investments (including loans and guarantees) to key beneficiaries including: (i) private enterprises as defined in sub-section 4.2.1 above; (ii) public sector enterprises as defined in sub-section 4.3.1 above (including national DFIs); (iii) regional DFIs; and (iv) equity funds. These results will be presented in an annual report to be submitted to the Operations Committee (OpsCom). At intervals not greater than three (3) years, Management will present to the Committee on Development Effectiveness (CODE) a Progress Report on Non-sovereign Operations of the Bank Group. In addition, the Independent Development Evaluation Department will undertake periodic evaluations of the Bank Group's implementation of this Policy.  

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SECTION 12:

Information Disclosure

12.1 Under the terms of its Policy on Disclosure and Access to Information, the Bank shall not provide, to a third-party, access to information provided to it by a non-sovereign client that has indicated in writing that such information is to be kept confidential, however, it being understood that, in principle, the Bank will not commit to confidentiality obligations for a period exceeding 3 years. It shall also not make publicly available documents that contain proprietary information, such as trade secrets or pricing information, without the written authorization of the owner of such information. Materials held by the Bank in which other parties (including the client) hold copyrights may be made available for review subject to any confidentiality undertakings, but copying or distributing of such material may be limited to respect the rights of the copyright holders. Financial, business or proprietary information of private entities received by the Bank Group in the analysis or negotiation of loans will not be disclosed unless written authorization is given by those private entities to release such information.

12.2 The Bank shall disclose key Environmental and Social Assessment information generated over the economic life of the project and make documents available to the public on request, in line with provisions of the Bank’s Integrated Safeguards System.

ANNEX 1:

List of Policies and Policy-Guidelines Superseded and Replaced by this Policy on Non-sovereign Operations

Table A1.1: List of Policies and Policy Guidelines proposed to be superseded and replaced by this Policy

<table>
<thead>
<tr>
<th>Document Reference</th>
<th>Date of Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Revised Policy and Procedures Relating to Lines of Credit</td>
<td>September 1986</td>
</tr>
<tr>
<td>2 Revised Private Sector Operations Policies</td>
<td>March 1995</td>
</tr>
<tr>
<td>3 Revised Equity Investment Policy Guidelines</td>
<td>March 1995</td>
</tr>
<tr>
<td>4 Revised Policies for Lines of Credit, Agency Lines and Guarantees to Private Financial Institutions</td>
<td>August 1998</td>
</tr>
<tr>
<td>5 Operational Guidelines for Non-sovereign Guaranteed Loans for Public Sector Enterprises</td>
<td>October 2003</td>
</tr>
</tbody>
</table>

Table A1.2: List of Policies and Policy Guidelines proposed to be superseded without replacement by any new Policy

<table>
<thead>
<tr>
<th>Document Reference</th>
<th>Date of Approval</th>
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2 While this document is named an “Operational Guidelines”, it was in effect a “Policy Guidelines” — a document that has both a policy section and a guidelines section. As a policy document, its approval by the Board changed the Bank’s policy from restricting access to non-concessional resources without sovereign guarantees only to enterprises majority-owned by private interests to also extending access to those resources to enterprises that are majority-owned by middle-income RMC states that meet specified criteria.
ANNEX 2:

Exclusion List—Expenditures Not Eligible for Financing by the Bank

The Bank Group’s Policy on Eligible Expenditures\(^3\) has provided a list of economic activities that should not be financed by the institution. The Bank Group’s Environmental and Social Integrated Safeguards System\(^4\) has supplemented that list by clarifying the scope of “goods harmful to the environment” cited by the policy. Drawing upon the two documents, below is the exclusion list of activities and products that, unless a waiver is granted by the Board of Directors, are not eligible for financing by the Bank:

**Box A2: Activities and Products Not Eligible for Financing by the Bank**

- Production of alcoholic beverages, tobacco, and luxury consumer goods.
- Production or trade in weapons, ammunition and other goods used for military or paramilitary purposes.
- Production, trade in, or use of:
  - nuclear reactors and related products, radioactive materials (except in the case of medical materials and quality-control equipment where the radioactive source is in small quantities and is adequately shielded), combustible elements not exposed to irradiation (cartridges for reactors);
  - unbonded asbestos fibres or other products with bonded asbestos as a dominant material; or
  - harmful substances that are subject to international phase-outs or bans (including pharmaceuticals and pesticides classified as Class Ia (extremely hazardous); Class Ib (highly hazardous); Class II (moderately hazardous); and ozone-depleting substances).
- Speculative trade or investment in platinum, pearls, precious stones, gold and related products.
- Gambling, casinos and equivalent enterprises to the extent that such activities constitute the main business of the borrower/recipient.
- Use of logging equipment in unmanaged primary tropical rainforests.
- Economic activities involving harmful or exploitative forms of forced labour\(^5\) and/or child labour\(^6\) as defined by international conventions and/or national regulations.
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.


\(^4\) Board document reference ADB/BD/WP/2012/184 & ADF/BD/WP/2012/135

\(^5\) Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

\(^6\) Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, spiritual, moral, or social development.
ANNEX 3:

The Bank’s Financial Products for Non-sovereign Operations

A3.1 The Bank offers an attractive and diversified menu of financial product options that allows borrowers to tailor their financing requirements to their circumstances. The Bank’s financial products comprise of loans (including those denominated in local currency, and syndicated loans), lines of credit (including for trade finance), agency lines, guarantees, equity and quasi-equity, trade finance (risk participations and commodity finance facilities), and risk management products. In addition, the Bank provides technical assistance to its clients through grant funds.

Loans

A3.2 The Bank provides loans to its eligible clients (who are private and public sector enterprises meeting the requirements set out in Section 4) on non-concessional terms and without the requirement of a sovereign guarantee.

A3.3 Loan structures offered by the Bank include parallel and A/B loan syndications, and local currency loans. Lending in local currency is only offered if the Bank is able to fund efficiently in the relevant local currency market. These loans are offered under the Fixed-Spread Loan (FSL) pricing framework with a cost pass through principle for local currency loans to ensure that the overall cost of funds is fully covered.

Lines of Credit

A3.4 The development of a dynamic small and medium-size enterprises (SMEs) sector in the continent is an important objective of the Bank as is the development of private financial institutions (PFIs). To this end the Bank offers lines of credit for loans to PFIs for on-lending to SMEs. Lines of Credit also can be used to contribute to meeting the financing needs of operators in other critical sectors of the economy such as infrastructure, industrial development, trade, or services. The terms of the lines of credit specify the conditions under which Bank funds will be provided to the PFI (or the DFC) for on-lending. The credit risks of the sub-loans are borne by the PFIs.

Agency Lines

A3.5 The Bank makes ordinary capital resources available for SMEs under agency arrangements with local financial intermediaries. The selection of individual projects for Bank support is largely delegated to the intermediaries, which draw on Bank resources to make loans on 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 investee 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 regards. The credit risk of the borrower is borne by the Bank. However, Bank staff will monitor this product to ensure that the agent financial intermediary follows a well-documented risk management procedure approved by the Bank.

Please also refer to sub-section 6.4.
Guarantees

A3.6 Through the guarantee product, the Bank seeks to leverage its preferred creditor status to assist eligible borrowers to obtain financing from third-party lenders, including capital markets. Guarantees also enable borrowers to obtain financing in their own local currency where the Bank is not able to provide such financing directly from its own resources. The Bank may also partially guarantee the risk of default on a portfolio of loans made by a qualified partner financial institution. The Bank's guarantees can generally be classified into two categories: Partial Credit Guarantees (PCGs) and Partial Risk Guarantees (PRGs).8 PCGs cover a portion of scheduled repayments of private loans or bonds against all risks. PRGs cover private lenders against the (political) risk of a government or a state-owned agency, failing to perform its obligations vis-à-vis a private project.

Risk Management Products

A3.7 The Bank offers Risk Management Products (RMPs) to its borrowers only in respect of obligations outstanding to the Bank or new Bank loans to enable them to hedge their exposure to market risks including interest rate, currency exchange and commodity price risks, thus allowing them to optimize their debt management strategies. RMPs offered by the Bank include interest rate swaps, currency swaps, commodity swaps and interest rate caps and collars. These products are available to borrowers at any time during the life of the loan.

Equity and Quasi-Equity Participations

A3.8 Bank takes equity positions in eligible enterprises as part of its strategic development financing mandate. The Bank’s ability to provide risk capital through equity and quasi-equity investments is a key element of its resource mobilization role. The use by the Bank of equity and quasi-equity participation as instruments of investment have the objectives of promoting the efficient use of resources, promoting African participation, playing a catalytic role in attracting other investors and lenders to financially viable projects as well as promoting new activities and investment ideas. The Bank may invest in equities either directly or indirectly, through appropriate funds and other investment vehicles. Additionally, it may choose to invest via quasi-equity instruments through redeemable preference shares, preferred stock, subordinated loans or convertible loans.

Trade Finance

A3.9 Through operations of its Trade Finance programme, the Bank addresses the shortage of trade finance for Regional Member Countries (RMCs) and helps to reduce the structural gap between the demand for trade finance and the market supply through provision of liquidity and risk mitigation solutions to financial institutions actively involved in trade finance in Africa. Bank staff members monitor to ensure that client financial institutions follow well-documented risk management procedure agreed upon with the Bank.

A3.10 The Program provides to eligible clients, funded and unfunded products including: (a) Risk Participation Agreements (Guarantee), (b) Trade Finance Lines of Credit, (c) Soft Commodity Finance Facility.

Risk Participation Agreement

A3.11 The Risk Participation Agreement (RPA) is a trade finance product that enables the Bank to share risk with a select group of international and regional Confirming Banks, who provide documentary credit confirmation services to African Issuing Banks, with the objective of supporting and expanding trade in Africa. Under this product the Bank shares trade finance credit risk (generally no more than 50% of a trade transaction exposure) on a portfolio of eligible IB trade transactions of partner confirming banks. RPAs operate on a portfolio basis and do not require the Bank to sign direct agreements with the local Issuing Banks.

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8 For example, the PRG and PCG provided by the African Development Fund pursuant to the Strategic Framework and Operational Guidelines for the African Development Fund Partial Risk Guarantee Instrument (ADF/BD/WP/2011/65) of July 2011 and the Strategic Framework and Operational Guidelines for the African Development Fund Partial Credit Guarantee Instrument (ADF/BD/WP/2013/120) of December 2013.
The Bank’s Financial Products for Non-sovereign Operations

Trade Finance Line of Credit
A3.12 The Trade Finance Line of Credit (TFLOC) is similar to the conventional line of credit offered by the Bank to local financial institutions except that the TFLOC will be used to finance exclusively trade-related transactions in RMCs. TFLOC is used to finance trade transactions, which include among others, pre-shipment and post-shipment financing, capital expenditure, 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 growth in international trade business. These are capital investments used in the production of tradable goods.

A3.13 Considering that most trade transactions have maturities of less than one year, the intermediary financial institutions would utilize the line of credit as a revolving credit facility to trade finance clients until the final maturity of the TFLOC itself, which in any case will not exceed 3.5 years. The facility is available to local banks engaged in trade finance in Africa.

Soft Commodity Finance Facility (SCFF)
A3.14 The Soft Commodity Finance Facility (SCFF) is a funded trade finance product that is used to support mainly 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 for the purchase and export of soft commodities. Commodity finance is usually structured and has credit protection in such forms as pledge of underlying commodity, assignment of proceeds, letters of credit, and private or state guarantees. SCFF is provided directly to entities such as commodity aggregators, which are not necessarily financial institutions. These entities could include state-owned commodity boards or agricultural cooperatives that meet the eligibility requirements for Bank borrowing under this Policy. Intermediaries such as commodity traders would not be clients or direct counterparties of the Bank.

Other Financial Services
A3.15 In addition to the products described above, the Bank may offer technical assistance through grant funds to supplement its financial products for both the public and private sector windows. The Bank’s technical assistance is primarily focused on raising the effectiveness of project preparation which is vital in ensuring the best developmental and poverty-reducing outcomes for projects that receive Bank financing. In addition, the technical assistance also aims to foster and sustain efforts in creating enabling business environment in order to promote private sector investment and growth.
ANNEX 4:

Policies, Strategies and Guidelines Applicable to Non-sovereign Operations

The list of documents provided below is indicative and not exhaustive and it is subject to change over time. To provide greater visibility to individual documents, the list is organised in seven sections: (1) Bank Group main agreements; (2) general strategies and policies; (3) financial instruments and products policies and guidelines; (4) procurement, fiduciary and integrity safeguards; (5) environmental and social safeguards; (6) operations management; and, (7) risk management.

A4.1 African Development Bank Group – Main Agreements


A4.2 General Policies, Strategies and Documents


A4.3 Financial Instruments and Products Policies and Guidelines


A4.4 Procurement, Fiduciary and Integrity Safeguards

12. Integrity Risk Tool

A4.5 Environmental and Social Safeguards

7. Other applicable sector policies for non-sovereign operations.

A4.6 Operations Management

1. Logical Results Framework (ORQR document)
2. Core Sector Indicators (ORQR document)
3. ADOA Framework 2.0 For Private Sector Operations (ADB/BD/WP/2015/17)

9 Note: These guidelines have largely been superseded by other agreements, policies and guidelines.
11. Rules and Procedures for the functioning of the Operations Committee

A4.7 Risk Management

8. Rules and Procedures for the functioning of the Credit Risk Committee.
ANNEX 5:

Independent Review Mechanism

A5.1 The contact information of the Independent Review Mechanism (IRM) which is administered by the Compliance Review and Mediation Unit (CRMU) of the Bank Group are provided below:

The Director
Compliance Review and Mediation Unit
African Development Bank Group Headquarters

Mailing Address:
Rue Joseph Anoma
01 BP 1387
Abidjan 01
Côte d’Ivoire
Tel: (+225) 20 20 20 56 / (+225) 20 26 29 00

E-mail: complaints@afdb.org or BCRMINFO@AFDB.ORG

Web-site: https://www.afdb.org/irm
ANNEX 6:
Glossary of Important Terms

Additionality
Features, including development results, that can reasonably be attributed to financing and/or other assistance by the African Development Bank or other development assistance providers and that would not be obtained if a development operation was funded only by commercial operators.

Beneficial Owner
A natural person who directly owns or controls an entity, or on whose behalf a transaction is proposed to be conducted. Where the entity is a publicly held company, the Beneficial Owners are natural persons who directly or indirectly own at least 5% of the total (voting or non-voting) shares of the entity. For other entities, the Beneficial Owners are all natural persons who control or own the Entity (or the persons on whose behalf the transaction is proposed to be conducted). Where ownership is exercised through a chain of ownership or indirect control, the Beneficial Owners are the ultimate natural persons with interests in the chain of clients, counterparties or Significant Related Parties.

Significant Related Party
Natural persons or entities prominently connected to a project and who could be a source of Integrity Risks in such an operation. Significant Related Parties would typically include parties that provide or are projected to provide more than 10% of AfDB’s funding in a project, off-takers or clients who will purchase more than 50% of the output of a project, among others.

Blended Finance
In the context of the Bank’s NSOs, Blended Finance refers to a financing package comprised of concessional funding provided by development partners and commercial funding provided by the Bank Group and/or co-investors. Blended Finance solutions can provide financial support to a high-impact project that would not attract funding on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk. In extending blended finance, the Bank would be guided by the principles of additionality, crowding-in and minimum concessionality, commercial sustainability, reinforcing markets and promoting high standards.

Catalytic effect
The ‘multiplier effect’ of lending, investment, or technical assistance by the Bank in support of a public-sector or private-sector operator in a country or countries—in terms of attracting additional private investments into the sector or the economy at large beyond the specific operation supported by the Bank.

Client
An entity that is eligible to receive financing, investment, or technical assistance from the Bank on non-sovereign terms, to whom financing or investment flows will be disbursed, and who is responsible for fulfilling specific conditions and for repayments to the Bank as per financing agreements, in the case of non-grant resources.

Commercial viability
Capacity of an enterprise or an undertaking to be profitable under the prevailing economic, socio-political, or environmental conditions and risk factors.

Counterparty
An entity other than the client (as defined above) that participates together with the Bank in a financing or investment operation and stands to benefit directly or indirectly from Bank Group resources invested in that operation.

For loans, equity and quasi-equity investments, Counterparty includes, by way of illustration, sponsors, promoters, guarantors, financial intermediaries, significant final beneficiaries of third party guaranteed loans, originator, fund manager (or equivalent entity with managing or delegated investment powers), entities established for the collection of revenues for the benefit of the fund manager and equivalents.

For other financing transactions including loan syndications and risk management products, Counterparty includes, by way of illustration, arrangers,
lead managers, dealers, paying agents, hedge counterparties, correspondent banks, and financial intermediaries.

For risk management products, Counterparty includes, by way of illustration, issuers, dealers, brokers, paying agents, lenders (e.g. repo, reverse repo), borrowers (e.g. deposit, securities lending), derivative counterparties, and correspondent banks.

For special programmes, technical assistance and grants, Counterparty includes beneficiaries of resources (if different from the recipients).

Creditworthiness

Projected capacity of a borrower client or an investee to repay the Bank in full plus a suitable rate of return within the timeframe agreed upon.

‘Crowding in’ effect

Situations where the Bank’s assistance toward an operator serves to attract or create additional supply of investment and from private sources—thereby substantially increasing the amount of financial resources flowing to the RMC.

‘Crowding out’ effect

The opposite of “crowding in” effect: The Bank's assistance toward an operator competes unfairly against or supplicants other providers of investment and/or technical assistance—thereby reducing the number of the RMCs’ development partners and the inflow of non-Bank resources.

Development Finance Institution/Corporation

Development Finance Institutions/Corporations (DFIs/DFCs) are government-funded institutions that make investments in sectors and countries that would not otherwise attract significant capital. DFIs generally aim to have a developmental impact in the markets in which they invest, alongside the requirement for sustainable returns. They are set up to foster economic development, often taking into account objectives of social development and regional integration, mainly by providing long-term financing to, or facilitating the financing of, projects generating positive externalities. Private investors often tend to follow suit in frontier markets pioneered by DFIs, enabling the second wave of investors to leverage off established expertise and a coordinated strategy. Examples include multi-lateral development banks (MDBs), national and sub-regional development finance institutions.

Domicile

Jurisdiction(s) where an enterprise is incorporated and enjoys the status of a citizen or legal resident.

Development Results

Specific contributions by an investment of resources, relative to the counterfactual ‘no project’ scenario, toward the economic and social advancement of a local area, a regional member country or sub-regional group of countries. Development results materialise over time, initially being manifested in the form of outputs during the implementation phase; then, increasingly in the form of outcomes over the intermediate and long term; and, in the form of lasting impacts over the longer term.

Output – A verifiable realisation aimed to be achieved before the final step of the implementation of an operation financed by the Bank Group. Examples include: a physical infrastructure asset newly constructed; a rehabilitated or upgraded existing asset; the investment portfolio of a financial intermediary leveraged by a credit line provided or by an injection of capital subscription by the Bank; or expansion of production output supported by an enterprise supported by a loan or guarantee by the Bank.

Outcome – An effect (positive or negative) that materialises during or in the medium term following the execution of a financing operation. Examples include: an increase in employment opportunities and aggregate wage incomes generated by the construction of a new physical infrastructure asset is a positive outcome or desirable effect even though it will end when construction activities are completed. On the other hand, for members of an isolated remote community, increased exposure to communicable diseases through contact with an influx of construction workers is a negative outcome. The Bank, through its safeguards policies and procedures, aims to avoid, minimise or mitigate negative outcomes.

Impact – A lasting direct or indirect effect created or fostered by activities or assets stemming from an intervention. A positive [negative or harmful] impact
is often associated with desirable [undesirable] behavioural changes that contribute to improvement [diminution] of social well-being. Positive impacts include increased productivity, strengthened international competitiveness, greater gender equality, reduced income disparities among regions, poverty reduction. Negative impacts include irreversible environmental degradation or destruction of the social fabric. Development financing is aimed to generate significant positive impacts while avoiding, minimising and mitigating harmful impacts.

An economic operator that is sharp-eyed and quick to spot profitable opportunities, who is an intuitively prudent or calculating risk-taker and careful manager of scarce resources, and, who therefore has the talent to identify and bet on lucrative opportunities worth investing in scarce available resources.

Local Entrepreneurs – Entrepreneurs that are citizens of the Bank’s Regional Member Countries.

A business undertaking. More often, however, a productive entity with a legal personality—endowed with the right to conduct business on its own account (i.e., to enter into contracts, acquire, own, and dispose of properties, establish bank accounts, lend or incur liabilities, etc.), but which also has duties and responsibilities (e.g., to pay taxes, respect laws and regulations of the land, etc.), and which can sue and be sued in courts of law and be subjected to judicial penalties. An exemplificative list of enterprises is set out in footnote no. 12.

Local Enterprise – An enterprise that is incorporated in at least one of the Bank’s regional member countries, whose headquarters is located in Africa, and which is controlled by interests located in Africa.

Private Enterprise – Private Enterprises are defined in sub-section 4.2.1 of this Policy. Private enterprises are enterprises in which individuals or private sector 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’).

Public Sector Enterprise – Public Sector Enterprises are defined in sub-section 4.3.1 of this Policy.

Public Entity – Any legal entity in which one or more sovereign entities, any of their political or administrative subdivisions, agencies and/or affiliated (non-sovereign) entities hold more than 50% of the voting stock (or voting rights).

Social Enterprise – A social enterprise is a cause-driven business, whose primary reason for being is to promote, encourage, and make social change; i.e. a revenue-generating, non-dividend business aimed at achieving social objectives – such as education, health, environment, poverty reduction and gender equality. Social enterprises have both business and social goals. As a result, their social goals are embedded in their objective, which differentiates them from other organizations and corporations. Although profits are not the primary motivation behind a social enterprise, revenue still plays an essential role in the sustainability of the venture. In fact, sustainable revenue differentiates a social enterprise from a traditional charity that relies on outside funding in the form of donations or grants to achieve its social mission.

Subnational Government/Entity – A Subnational Government/Entity is defined as any legal entity within a RMC with delegated powers for a defined degree of self-governance such as a federative state, county, province, district, city, municipality, or commune, or their departments or corporates pursuing specific activities (e.g. energy and water utilities, waste management, transportation systems, education and health institutions, etc.). Guidelines on Subnational Financing is currently being developed.

Clearly defined process through which the Bank will wind down and ultimately liquidate its participation in an investment or other financing operation—including the conditions that would trigger the process, the transactions expected to be executed, the disposal of assets and liabilities, and the conditions that would mark the conclusion of the process.
Annex 6  Glossary of Important Terms

Financial Institution
A specialised enterprise, public-sector or private corporate institution, whose business or purpose is to supply the financial services and products demanded or needed by a range of operators in the local economy.

Financial product
A typical contract between a financier (e.g., the African Development Bank) and a borrower or investor (the client), stipulating the terms and conditions under which resources will be provided (e.g., the length of time over which the client is expected to repay the financier, forms of security that must be provided by the client, and acceptable forms in which repayment may be effected).

Financial service
A beneficial function rendered by a financial institution (e.g. the African Development Bank, a commercial bank, or a microfinance institution) to a client.

Investment
Participation in equity capital, loan financing or guarantee as to the payment obligations of an enterprise.

Growth

Inclusive Growth – Dynamic increase in real economic output that involves opening productive opportunities to a wider range of stakeholders, benefits from which are shared across social groups (including by the youth, women, the skilled and the unskilled) and across geographical regions (e.g. urban and rural areas) while protecting the vulnerable—leading to sustained reduction in the incidence and severity of poverty, and contributing toward reducing national income and social welfare gaps.

Green Growth – Sustainable paths to socio-economic development and national income growth that are anchored on innovativeness, effective use of science and technology, managerial competence, and responsiveness to all stakeholders (especially the most vulnerable) to ensure: increasing efficiency, declining waste, and the conservation of natural resources; and better management of social and economic vulnerability to natural disasters and climatic variability—leading toward better protection of livelihoods; improved water, energy and food security; greater resilience to natural and climatic shocks; and sustained improvement in the people’s quality of life.

Offshore Financial Centre
The International Monetary Fund (IMF) defines an OFC as a place "where the bulk of financial sector transactions on both sides of the balance sheet are with individuals or companies that are not residents, where the transactions are initiated elsewhere, and where the majority of the institutions involved are controlled by non-residents." More commonly, OFCs are centres which provide some or all of the following opportunities: low or zero taxation; moderate or light financial regulation; banking secrecy and anonymity.

Intermediate Jurisdiction – Any jurisdiction involved in a transaction but which is not the host country of the project or investment financed by the AfDB.

Operation
An undertaking—in the form of a project or a programme of initiatives—by a Borrower, toward the achievement of specific, well-defined objectives and outputs, which is predicated on the proper execution of a set of activities and the availability of the necessary financing and other resources. An AfDB Operation is the financing and/or non-financing assistance provided by the Bank in support of the client toward the realisation of such undertaking.

Financing Operation – Lending operations, guarantees, equity investments, or any other forms of financing products and services and/or assistance on the part of the Bank to a Client.

Sovereign Operation – Financing, advisory services, or technical assistance support rendered by the Bank to a Government or departments of a Government of a Regional Member Country (or Governments of Regional Member Countries), which, if it is offered on loan terms, is subject to be repaid under the terms formally agreed upon between the Bank and the Government (or Governments).

Sovereign Guaranteed Operation – Financing support provided by the Bank to a third-party—a sub-sovereign entity such as a Municipal Council, a State

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11 The IMF further provides that several OFCs have the following additional characteristics: jurisdictions that have financial institutions engaged primarily in business with non-residents; and financial systems with external assets and liabilities out of proportion to domestic financial intermediation designed to finance domestic economies.
African Development Bank Group’s Policy on Non-sovereign Operations

or Provincial Authority, or a public sector corporation, or even a private corporation—covered by a guarantee signed by a Government of a Regional Member Country (or Governments of Regional Member Countries) promising to meet the client’s repayment obligations in the event of its default.

**Non-Sovereign Operation** – Financing provided by the Bank to a non-government client that is not covered by a sovereign guarantee. Such financing is provided by the Bank at full exposure to the risks involved. In addition to such financing, the Bank may also provide to the client financial and other technical services, advice and technical assistance.

**Ownership**

Effective leadership by the Government local authorities of a regional member country over the development policies, strategies and priorities. This term is used in the sense popularised by the “*Paris Declaration on Aid Effectiveness*”.  

**Politically Exposed Person**

Natural person who is or has been entrusted with prominent domestic or international public functions; his/her immediate family and close associates. PEPs include central, regional and local government officials, senior politicians, senior government officials, legislators, senior executives of state owned corporations, judicial or military officials, important party officials, senior management of International Organisations and supranational institutions and people with similar functions in government and international organisations. PEPs do not include junior or middle ranking officials in these organisations. ‘Immediate family’ includes direct family members as spouses, children, parents and siblings. ‘Close associates’ include widely and publicly known close business colleagues or personal advisors of PEPs as well as financial advisors or persons acting in a financial fiduciary capacity.

**Private Sector**

The segment of the economy that is driven by the investment, production, distribution and marketing decisions made independently by numerous private (i.e., non-government) operators including individual entrepreneurs, partners, and corporations that are motivated by profit-making, philanthropic, or other goals and objectives. All these actors acting independently in response to market demand and supply signals, in the aggregate contribute a large part—over 80% among the African countries—of aggregate national economic output and over 90% of labour employment.

**Private Sector Development** – Sustained expansion, transformation, diversification, improvement in the quality of goods and services supplied, growth in productivity and international competitiveness, and real increase in value-added of the private sector.

**Privatisation**

Transfer control of a firm from the hands of the State or other public authorities into the hands of private legal persons and natural persons.

**Public Sector**

The segment of the economy organised into departments run by an apolitical cadre of professional workers that serve the Government of the day in implementing its political mandate to promote economic growth and social progress. The public sector is responsible for maintaining the rule-of-law, security and macro-economic conditions under which markets can function efficiently. It is expected to provide or ensure access to public services and public goods that are vital for improving social well-being, increasing productivity, and creating an enabling environment for the private sector.

**Refinancing**

Debt Refinancing refers to the replacement of an existing debt obligation with another debt obligation, usually with different creditors/lenders, i.e. a new loan is created and new lender(s) come on board. Debt might be refinanced for various reasons including, but not limited to, taking advantage of a better interest rate, consolidating other debt(s) into one loan, reducing repayment amounts, switching from a variable-rate to a fixed-rate and freeing up cash through tenor extension.

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**Bridge Financing** – Bridge loans are typically short-term facilities used to bridge a financing gap until the borrower and/or the project owner is able to obtain long-term financing from other sources of funding including capital markets, banks and development financial institutions (DFIs). Often, businesses find themselves in need of fast funding during an interim period while they work out access to long-term financing loans. In doing so, the borrower plans to pay back the bridge loan with the money raised in the longer-term financing. From the outset, both the borrower and provider of the short-term loan know in advance that this temporary loan will be replaced by long-term funding.

**Debt Restructuring** – Debt Restructuring entails modifications to the financial terms and conditions of an existing loan and may often be coupled with the grant of additional debt (from the same or new lenders) and equity injections. A typical restructuring of existing debt implies extension of the maturity date, changes in repayment schedule and interest rate etc. While restructuring mostly occurs in circumstances where the borrower is experiencing financial difficulties, it may also be used with regard to projects which are performing well for the purpose of attaining a specific development outcome (e.g. the lowering of tariffs of the utilities for the benefit of the local population).

**Retroactive Financing** – Retroactive Financing refers to the agreement by the Bank (or another MDB or IFI) to retroactively finance all or part of the eligible costs incurred by a borrower with respect to a project up to a pre-agreed number of months before the date of the relevant loan agreement or even before the date of project approval.

**Risk Capital**

Total shareholders’ paid-in capital and the Bank’s (i.e., the AfDB window’s) operating net reserves (other than the special reserves) and surplus.

**Safeguards**

Sets of policies, guidelines, limits, processes and procedures, and sanctions in cases of non-compliance, the purpose of which is to ensure that the operations financed or in any way supported by the Bank do not violate well-defined principles or norms that are universally affirmed—or, at least, those that have been endorsed or adopted by the Bank’s shareholders.

**Environmental Safeguards** – Policies, guidelines, limits, processes and procedures and prescribed sanctions the purpose of which is to encourage avoidance of harmful impacts on the biosphere, and where that cannot be avoided, to minimise, mitigate and manage harmful impacts caused by operations supported by the Bank.

**Fiduciary Safeguards** – Policies, guidelines, processes and procedures to ensure that entities whose activities are financed or guaranteed wholly or in part by the Bank use the proceeds only for the purposes for which the financing was provided, with due attention to considerations of economy and efficiency (Article 17(1)(h)) of the Bank’s Charter, including ensuring that no resources are fraudulently or otherwise unaccountably diverted by or to unauthorised third-parties or used to finance criminal undertakings.

**Social Safeguards** – Safeguards to avoid, or minimise and mitigate, harmful impacts on human welfare or on the integrity of social systems on which human welfare depends.

A legally constituted, limited purpose (or dedicated) entity endowed with the right to enter into contracts, to own and dispose of assets, to sue and be sued, while independently of its shareholders. Generally utilized in project finance transactions in order to insulate (‘ring-fence’) projects’ assets and liabilities from the assets and liabilities of their shareholders.
The Policy on Non-sovereign Operations (NSO Policy) provides the framework within which the African Development Bank Group (AfDB), through its private sector lending window, may provide financing or investment without sovereign guarantees to private and public entities that meet specific eligibility requirements on non-concessional terms. Non-sovereign Operations refers to financing and investment operations that are not guaranteed by a State, covering mostly private sector transactions. They also cover non-sovereign guaranteed financing of eligible public sector enterprises, as well as financing of regional development finance institutions.

The objective of the AfDB’s non-sovereign operations is to help accelerate Africa’s transformation through various financial support mechanisms and products including loans, lines of credit, guarantees, blended finance, equity investments and trade finance.

The NSO Policy covers the following: objectives and guiding principles; the AfDB’s privileges, exemptions, and immunities; eligibility requirements, including the domicile of clients and counterparties; investment criteria; financing operations, equity investments, and support to financial institutions; intermediate jurisdictions; knowledge-based operations; procurement, fiduciary and integrity safeguards; environmental and social safeguards; portfolio and risk management; and information disclosure.