PROJECT SUMMARY – AFRICAN LOCAL CURRENCY BOND FUND "ALCB FUND"	
Fund Description/ Investment Strategy:	The African Local Currency Bond Fund ("ALCB Fund", the "Fund"), initiated in December 2012 by the German Development Bank (KfW) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) through paid-in permanent capital of USD 47m (all committed capital) is a private limited liability company domiciled in Mauritius. The objective of the Fund is to facilitate local currency corporate bond market development through (i) anchor investments of up to 30% of new bond issues; (ii) crowd in critical local private and institutional investors; and (iii) technical assistance, via a USD 2.59m ALCB Fund Technical Assistance Facility-"Fund TAF". The Fund invests throughout African countries and only in primary bond issuances by non-sovereign entities, focusing on high developmental sectors of financial institutions, renewable energy, housing, and agriculture. Since inception, ALCB Fund has made 23 investments of which 3 have matured/been exited; principally in first time or innovative issuances in terms of structure, tenor, local participation or through public listing.
Fund Manager / Governance:	The Fund was initially managed in-house by KfW as a proof of concept until 2015 when Lions Head Global Partners Asset Management LLP "LHGPAM" was appointed as Fund Manager "FM" by KfW, on a non-discretionary basis. It operates as a limited liability company with permanent capital and not as a closed end General Partner / Limited Partner structure with time-limited life. The Fund is governed by a Board of Directors (BoD) appointed by the shareholder(s) with delegated responsibility to the Investment Committee (IC) and the FM. The BoD is responsible for overall operations of the Fund. The FM is responsible for identification, structuring and negotiation of Fund investments. LHGPAM is regulated by the UK Financial Conduct Authority. Its team is comprised of experienced professionals with local know-how and diverse network, corporate finance, and capital markets expertise with proven combination of deal sourcing, execution, and portfolio management experience. This is complemented, for ALCB Fund, with an IC comprised of three shareholder representatives and two independent experts with significant and relevant experience.
Cost Structure and Financing Plan:	ALCB Fund commenced operations in 2013 and is now scaling up following the initial USD 47m commitment of KfW. The Fund is seeking to raise additional capital of up to USD 110m by way of: (i) equity; (ii) mezzanine; and (iii) senior debt from DFIs and impact investors. ALCB Fund will maintain a minimum equity to total assets ratio of 40%. The Fund has received commitments from FSDA-USD 10m equity and USD 10m in mezzanine; IFC-USD 20m Senior Loan; FMO-USD 10m Senior Loan; Calvert Foundation - USD 10m Senior Loan; and is in advanced discussions with: OPIC-USD 40m Senior loan, which are expected to be invested alongside the Bank. The management fee received by the FM is a declining percentage of invested unimpaired assets with the following bands: 1.2% of the first USD30m of invested capital; 1.1% of the next USD30m; and 1.0% for amounts invested above USD 60m. LHGPAM earns no carried interest.
Bank's Role:	Senior Loan investment of ZAR 140 million (USD 10million) for 7 years with 2 years grace period. The Bank's Senior Loan shall receive quarterly interest payments.
Implementation Arrangements:	The Fund investment will be provided based on drawdown requests. The Bank will execute a Senior Loan Agreement with the Fund to govern the use of proceeds, reporting and environmental and social requirements.
Market:	ALCB Fund has conducted and regularly updates a market opportunity analysis, with key drivers: macro-economic stability, strength of the banking sector, development of local investor base, and emergence of a long-term sovereign bond market. This has led to the identification of priority market groups: Investment Grade Southern African Economies (South Africa, Botswana, Namibia); North-African Middle Income Economies (Morocco, Tunisia, Egypt); Regional Centres in West and East (Nigeria and Kenya); Other Middle Income Economies (Zambia and Ghana), all considered conducive for private sector operations; Small Under Developed Markets (other east African countries); and Francophone West Africa (Central and West African Francs countries). The FM has demonstrated immediate pipeline and investment potential of USD 30m-40m per annum in its target sectors. This is conservative, but represents a practical upper limit on transaction and portfolio management. The Fund's high to medium probability ZAR linked pipeline is of ZAR 665 m.
Justifications for the Bank's Involvement	
Strategic Alignment:	The Fund's objective to promote local capital market development, access to long-term local currency financing, and to crowd-in domestic institutional investors is aligned with both pillars of the Bank's Financial Sector Development Policy and Strategy and with the Bank's High Five agenda - Industrialize Africa-by supporting access to finance and growth of liquid and effective capital markets to better serve private enterprise development and the real economy. The Fund's

	ultimate beneficiaries are predominantly micro, small and medium enterprises (MSMEs) and private lower income households, in addition to the provision of access to long-term capital in local currency which is critical for the sustained growth of private enterprises thereby supporting job creation, and is aligned with the Bank's TYS by promoting inclusive growth.
Commercial Viability:	As of Financial Year End (FYE) 2016, the Fund had total assets of USD 47.0m with corresponding outstanding portfolio of 31.3m (2015: USD 29.0m). It registered total income of USD 6.9m (2015: USD 4.8m), KPMG audited, thereby showing a positive trend. As of Sept. 2017, the Fund had deployed USD 51.9m across 23 issuances in 10 African countries. KfW requires no dividend or distributions from the Fund, profits are retained to increase capital base and reinvested. The Fund targets absolute yield of Libor +3.5-4.0% net of withholding tax. The minimum 40% equity ratio (first loss capital) covenant provides significant risk cushion for senior loan investors into the Fund. It actively manages FX exposure by executing back to back swaps on individual investments with The Currency Exchange Fund (TCX) and other investment grade swap counterparties and limit total open currency exposure to maximum 15% of equity capital (actual 3% as of end 2016). Single issuer and country limits cannot exceed 10% and 20% of Fund total assets, respectively-providing for a well-diversified portfolio. The portfolio has remained strong with no default as of FYE 2016. To mitigate asset and liability mismatch, the Fund on a forward looking basis does match portfolio repayment profile with liability profile when looking at new investments, drawdowns and maintains adequate liquidity per its ALM policy to meet ongoing obligations. The Fund's commercial viability is backed by its solid credit profile and track record as complemented with the in-built risk management frameworks.
Development Outcomes:	ACLB Fund assesses and tracks social and environmental (SE) risk and impact as per its SE Policy and the FM's SE Management System, keeping SE risk low in the portfolio. The Fund applies the IFC's Performance Standards and its investments generate positive development outcomes in the host countries in terms of: (i) increasing access to long-term capital; (ii) local capital market development by deepening product offerings in terms of tenor, maturity, rating and listing; (iii) stimulating job creation; (iv) crowding in of local investors and domestic savings i.e. local investor participation stood at about 10.6x the Fund's contribution as of FYE 2016; and (iv)enhancing commercial viability of investees' by improving their balance sheet structure.
Additionality & Complementarity:	The Bank, through provision of long-term local currency financing to a bond fund which is dedicated to the development of domestic local currency capital markets through anchor investments will: (i) support local bond markets development; (ii) reduce currency risk for the Fund in 4 currencies (ZAR as well as the ZAR pegged LSL, SZL and NAD), and (iii) play a catalytic role via ALCB Fund anchor investor mandate that attracts co-investments thereby mobilizing domestic institutional capital. When determining priority intervention markets, the Fund takes into consideration the African Bond Market Development Index ranking published by the Bank's African Financial Markets Initiative and its priority intervention markets are also aligned with the Bank's sovereign bond markets focused African Domestic Bond Fund, therefore complementing the Bank's efforts in deepening domestic financial systems.
Processing Plan	
Project Team	P. Onyango, Team Leader (PIFD.2); Akane Zoukpo Sanankoua, Co-Team Leader (PIFD.2); Qingwei Meng (ECMR.2); S. Dash (PGCR.2); M. Ndiaye (FIST.2); T. Uchegbune (PGCL.2); Yusef Hatira (SNSC); L. Picard (PISd.2)
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Concept Review	July 2017
Final Review	October 2017
Board Approval	November 2017