Facilitating Private Sector Investments in Transition Countries

The African Development Bank’s non-sovereign operations footprint
Transition contexts at the African Development Bank

A transition context is defined as “a condition of elevated risk of institutional breakdown, societal collapse or violent conflict”. It represents an imbalance between the strains and challenges a state and society faces and their ability to manage them. Viewing a transition situation as a condition recognizes that it can affect countries, regions, or areas within countries, as well as both middle-income and low-income countries.

Transition states, however, are not monolithic but rather multifaceted and evolutionary. External shocks and pressures can weaken even countries with strong capacity and stable institutions.

Africa has enjoyed fairly rapid growth over the last few years, but the risk of a downturn remains ever present due to fragility and conflict. The Covid-19 pandemic and its devastating impact on some African economies was a reminder of this.

Twenty-one African countries are considered to be in a state of transition. They are home to more than 200 million people, approximately 20 per cent of the continent’s population.

Addressing transition contexts is therefore a high priority for the African Development Bank. In 2008, the Bank scaled up its support to transition states with an anchor strategy for enhanced engagement in these countries, the African Development Bank’s Group Strategy for Addressing Fragility and Building Resilience in Africa.
A new vision for strengthening private sector development in transition states

Transition states are prone to perennial shortfalls in private sector financing, weak development of financial and capital markets, and are perceived as unattractive by private investors due to their high-risk profile.

Engagement of private entities is a key lever for job creation and inclusive growth. Improving the business environment – through investment facilitation, support to financial markets, promotion of state regulation of markets and supply chain programs – is crucial to promote a number of strategic goals. These include private sector-led initiatives targeting climate change adaptation and mitigation; developing local SMEs and youth, and women-owned enterprises. This, in turn, will boost long-term resilience, economic stability and inclusive, sustainable growth.

In the early 2000s, the African Development Bank was among the first multilateral organizations to formulate an agenda for transition countries, highlighting its longstanding engagement with addressing fragility and building resilience.

The African Development Bank’s non-sovereign financing window places special focus on developing the private sector in transition states. The Bank’s private sector development-related activities span all transition countries across sectors that include infrastructure, agriculture, energy, industry, and trade.

Our operational engagement falls into three categories, depending on the degree of fragility:

- **Very severe fragility**: the Bank focuses on upstream activities such as institutional capacity building and reforms support.

- **Severe fragility**: The Bank focuses on midstream activities, including building the capacity of intermediaries and enablers, and preparing projects.

- **Moderate fragility**: We concentrate on downstream activities such as pipeline development and investment.
Blended finance

Through its trust funds, the African Development Bank remains at the forefront of innovation in deploying concessional finance for private sector development. Blending concessional and non-concessional funds improves lending terms for project sponsors, thus encouraging private sector investment in countries with fragile situations.

Eligibility criteria:

- **Minimum concessionality**: the concessional funds will be kept at the minimum necessary to ensure transaction feasibility
- **Additionality of blended finance**: the concessional component is justified as a means to increase the probability of achieving development objectives without creating market distortions
- **Long-term commercial viability**: the business model is commercially viable following an initial phase with concessional support

Instruments and tools

The Bank’s private sector financing window provides a wide range of financial solutions to drive transformational projects in transition states:

- **Lending instruments**, including project finance, corporate loans, and lines of credit to financial institutions. Senior loans, subordinated loans, mezzanine loans and local currency solutions are available.
- **Equity**, including direct equity, quasi-equity and investments in private equity funds
- **Risk management solutions**, including interest-rate swaps, caps and collars, cross-currency swaps and commodity price swaps
- **Guarantees**, including partial risk guarantees and partial credit guarantees
- **Trade finance**, including risk-participation agreements, trade finance lines of credit and a soft commodity facility
- **Technical assistance funds** to supplement financial solutions. Areas of focus include capacity building, project preparation and advisory services

The Bank also leverages initiatives and special purpose vehicles to scale up private sector participation in fragile settings. The Bank emphasizes project preparation, co-financing, de-risking, guarantees, blended finance mechanisms in key sectors and human capital to enable business activities.
From Vision to Action: facts & figures

Non-sovereign approvals for transitions states

Transition countries in the bank’s non-sovereign portfolio

The importance of the Bank’s investments in transition countries has increased by 75% in 3 years, representing 4% of the active non-sovereign portfolio in 2017 and 7% in 2020.

1 The Bank uses a Unit of Account (“UA”) as its reporting currency. The value of the UA may vary from month to month. Projects approved by the Board of Directors of the African Development Bank are expressed in the currency of the operation. This may be in US Dollars (USD), Euros (EUR) or Units of Account (UA). The currency conversion rate used in this publication is equivalent to UA 1=USD 1.426.
Impact stories

Country: Democratic Republic of Congo  
Sector: Industry & Services  
Project: Nyumba Ya Akiba  
Client: Nyumba Ya Akiba SARL  
African Development Bank commitment: $100 million  
Approval date: 6 December 2017  
Commitment date: 29 March 2019

Key features:

• The DRC has identified infrastructure development as one of the main drivers of its economic growth. However, cement supply remained expensive, unreliable, and was mainly imported.

• In response, Nyumba Ya Akiba (NYA), a joint venture between Lucky Cement Pakistan and Rawji Group DRC, was established to address this issue. The African development bank has provided NYA with $100 million in long-term debt to provide much-needed financing, particularly scarce for investments in transition countries such as the DRC.

• The project consists of a cement production plant, a limestone quarry, and associated facilities. The key components of the project include: (i) an overburden storage facility; (ii) a 220 KV power line (6 km long) to an existing substation; (iii) employee accommodation; (iv) a waste management facility; (v) access and haul roads; (vi) a railway connection to the national rail network; (vii) auxiliary facilities (water management infrastructure, sewage treatment plant, explosives store, etc.)

• The operation is a strong showcase for foreign investors. It provides the country and the government with: (i) a reliable and stable source of cement supply, which will address the current cement shortage in the country and thus support economic growth, social and infrastructure development by reducing implementation times and prices in DRC; (ii) the best available technologies and environmentally friendly production capacities; (iii) a catalyst for the growth of SMEs and industrial economy in a transition state; (iv) substantial positive social effects in the form of technology transfer and training programs; (v) macro-economic resilience arising from significant foreign exchange savings and regional integration.
Country: Zimbabwe  
Sector: Agriculture & Rural Development  
Project: Lake Harvest Aquaculture Expansion  
Client: African Century Foods  
African Development Bank commitment: $8 million  
Approval date: 26 October 2011  
Commitment date: 17 December 2012

Key features:

• The Lake Harvest Aquaculture Expansion project on Lake Kariba in Zimbabwe is the largest sustainable tilapia fish farming operation in Africa.

• The African Development Bank invested $8 million to finance a viable agro-industrial project in a transition state. This is the Bank’s first private sector investment in Zimbabwe, part of its efforts to re-engage in the country. Lake Harvest Aquaculture will produce 20,000 tons of fish annually, primarily targeting African markets, with Zimbabwe expected to absorb 37 percent of production. A further 50 percent of production will go to major regional markets, including Zambia, South Africa, Democratic Republic of Congo, Malawi and Angola. The total unmet demand for tilapia in these markets is 100,000 tons per year.

• Key outcomes: (i) The project is expected to generate more than 900 high-quality permanent jobs; (ii) increased intraregional trade; (iii) positive balance-of-payments impact; (iv) increased government revenues; (v) improved food security in Zimbabwe and neighboring countries through greater availability of low-cost protein; (vi) gender needs and diversification as most of the fish is sold by women traders; and (vii) a strong demonstration effect by promoting investment in a transition state.

• Lake Harvest Aquaculture is considered by many experts to be a model for sustainable fish farming on the continent.
Country: Madagascar
Sector: Energy
Project: Sahanivotry Small Hydro Power
Client: Hydelec Madagascar SA
African Development Bank commitment: $6 million
Approval date: 26 October 2011
Commitment date: 17 December 2012

Key features:

- The project, developed as a public-private partnership, and the first privately owned hydro power plant in Malagasy history, entailed the construction of a 15 MW run-of-river hydroelectric power station on the Ampamehena river in Sahanivotry, in the agro industrial region of Antsirabe, with an annual electricity generation of 80 GWh.

- The project also involved the construction of access roads, bridges, a water intake structure, a water retention pond and a penstock.

- The plant will generate renewable energy using clean hydropower and sell the output electricity into the regional grid of the capital Antananarivo.

- Sahanivotry supplies the equivalent of 400,000 people with green electricity and averts emissions of 35k tons of CO2 equivalent a year. Moreover, the regular supply of electricity to Sahanivotry boosted small and medium-size industries such as milling and activities related to the operation of the dam. It also helped improve living conditions in the area.

- Sahanivotry had a catalytic role in the development of Madagascar’s power sector. It was also a means to transfer technology to the country’s private sector.
**Country**: Democratic Republic of Congo  
**Sector**: Finance  
**Project**: Rawbank  
**Client**: Rawbank  
**African Development Bank commitment**: $15 million  
**Approval date**: 7 March 2018  
**Commitment date**: 14 December 2018

**Key features:**

- The project, supported via a $15 million line of credit, financed businesses and SMEs operating in the infrastructure, transport, business hospitality, services, distribution and commerce sectors. The project is expected to provide Rawbank a technical assistance grant of up to $300,000 to provide training, information and coaching to local SMEs (of which 50% are women-owned).

- The line of credit is also expected to help Rawbank address its steadily rising medium- and long-term resource requirements. Rawbank aims to improve its long-term liquidity, diversify its funding base, consolidate its balance sheet and support the growth of its activity portfolio.

- The financing will provide Rawbank with the resources to support the expansion of businesses, especially SMEs, which will receive at least 30% of the Bank’s proposed financing. The project should create at least 870 jobs.
How to work with the African Development Bank

Eligibility criteria

Any recipient of the Bank’s non-sovereign financing must satisfy the following core requirements:

- Be incorporated in a member country of the African Development Bank. The project for which financing is sought must be located or implemented in one or more of the Bank’s regional member countries in Africa.
- The company must be majority owned by private investors, or publicly owned investors with proven autonomy.
- The company must operate under competent management and good corporate governance. It must comply with the Bank’s fiduciary and integrity safeguards and those of the relevant member country.
- The Bank’s financial participation in any project is limited to:
  - 33% of the total cost of the project for project financing and corporate financing
  - 50% of shareholder equity at any time in the case of facilities to financial institutions
  - 25% of the total share capital of the investee company for equity investment

Thus, a minimum equity contribution is required from the sponsor.

Investment criteria

- The project must aim to maximize development impact, in line with the strategic priorities of the Bank and the country/countries of implementation.
- The project must be creditworthy and commercially viable with long-term financial sustainability.
- The project must demonstrate the capacity for environmental and social responsibility.
- The Bank’s participation must provide financial or non-financial benefits that commercial investors alone would not.

The African Development Bank’s interventions typically start at $10 million, but in certain cases smaller amounts are considered.
Standard application pack

After an initial review, to conduct the preliminary assessment, the following documents are required:

1. Feasibility study with supporting financial model
2. Market study
3. Financial structure and financing plan
4. Terms of any off-take agreements under discussion
5. Initial environmental and social impact assessment studies, if applicable
6. Ownership chart and audited financial statements for the last 3 years, if applicable
7. Details and status of procurement and contract management and other relevant practical arrangements

The Bank reserves the right to request any other document deemed necessary, depending on the operation, and observes appropriate confidentiality in its dealings with sponsors and the information required to consider project financing.

Find out more on how to work with us:
www.afdb.org/en/private-sector/how-work-us

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