



African Development Bank

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Enhancing Regional Financial Cooperation in Southern Africa

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African Development Bank



This presentation is organised in three sections:

1. Africa's Infrastructure investment needs and funding alternatives
2. AfDB 's contribution to infrastructure development
3. AfDB and Capital Markets development

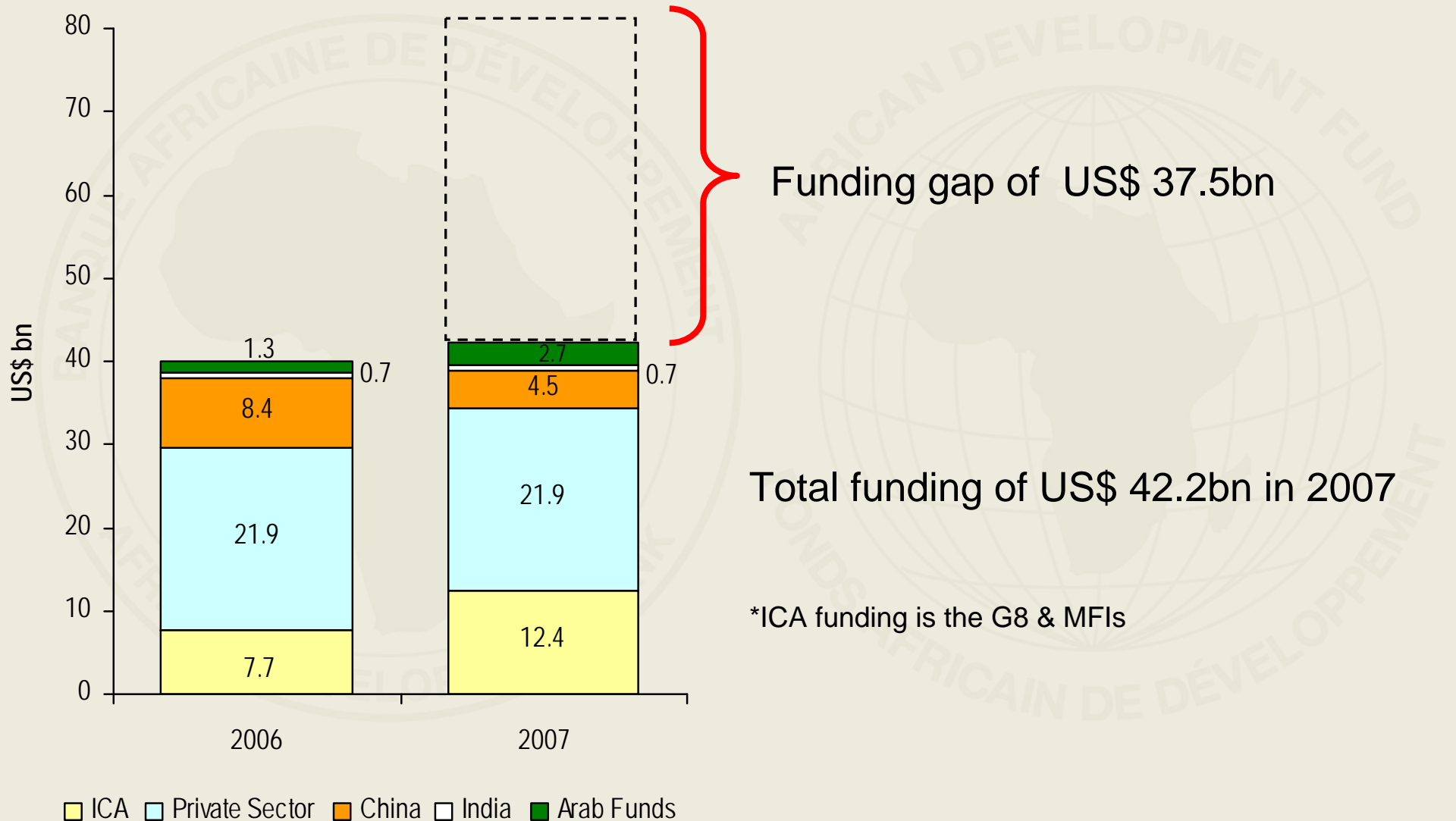
Snapshot of Africa's current infrastructure development

- Energy: Africa generates only 4% of its electricity needs for close to 20% of world population ,
- Water & Sanitation: Only 56% of the population has access to safe water when compared to the world average of 80%
- Transport: The transport network is of poor quality; road access available to 34% of the population compared to 50% in other developing countries
- ICT: Only 5% of households in Sub-Saharan Africa have access to a fixed telephone line. Limited high-capacity backbone network infrastructure

To meet international standards, investment in infrastructure should exceed 9% of GDP for the coming decade

	Capital expenditure		Operating Expenditure		Total infrastructure expenditure	
	<i>US\$bn/ annum over 10 years</i>	<i>% of GDP</i>	<i>US\$bn/ annum over 10 years</i>	<i>% of GDP</i>	<i>US\$bn/ annum over 10 years</i>	<i>% of GDP</i>
ICT	0.8	0%	1.1	0%	1.9	0%
Power	23.2	3%	19.4	2%	42.6	5%
Transport	10.7	1%	9.6	1%	20.3	2%
WSS	2.7	0%	7.3	1%	10	1%
Irrigation	4.1	1%	0.8	0%	4.9	1%
Total	41.5	5.08%	38.2	4.7%	79.7	9.7%

Funding from external sources is inadequate to meet requirements



African countries are exploring alternative sources of funding

Issuing bonds on international Capital markets:

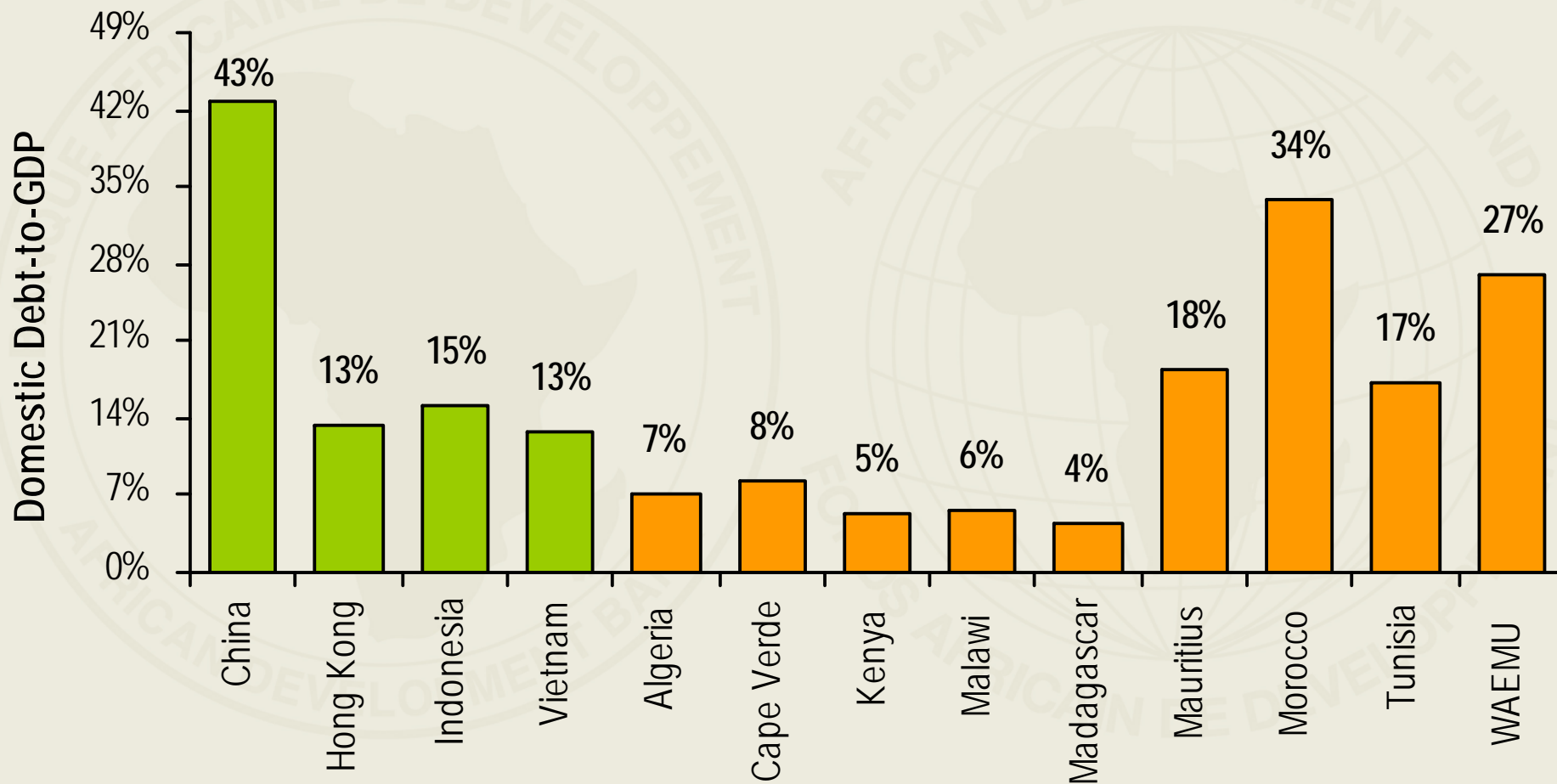
- **Ghana (September 2007)**
 - US\$750 million 10-year Eurobond, 8.68% coupon rate
 - Very successful as 4 times oversubscribed
 - Proceeds targeted for energy and infrastructure projects

...but raising money offshore has become costly and erratic due to low investor appetite leading to postponed bond issues

Countries are increasingly relying on domestic resource mobilisation

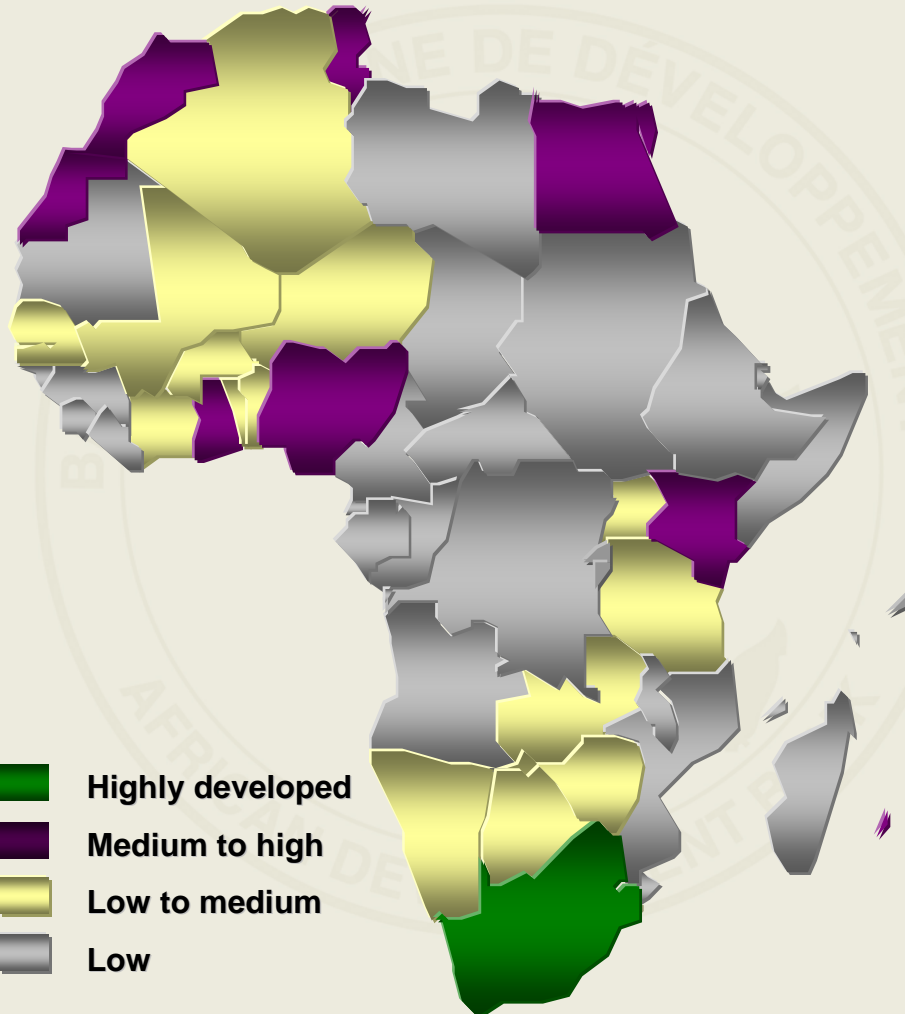
- **Private sector syndicated loan (March 2009)**
 - MTN's Ivory Coast subsidiary
 - 5-year loan facility worth US\$ 150 million (76.1 billion CFA Francs)
 - Deal involves nine local banks
- **Kenya's domestic bond issue (January 2009):**
 - US\$ 232.4 million 12-year infrastructure bond denominated in Kenyan shillings, 12.5 % coupon rate to be redeemed in 3 stages
 - Oversubscribed by 45%
 - Funds used for water and sanitation, transport and power projects

As low levels of domestic indebtedness allow for some borrowing headroom



However, for many, it is still a challenge to raise funds

African debt markets are at varied levels of development, marked by:



Low levels of liquidity

Narrow investor base

Short maturities



**Loss of competitiveness
&
breadth of financial products available**

The African Development Bank Group: who are we?

Africa

Algeria
 Angola
 Benin
 Botswana
 Burkina Faso
 Burundi
 Cameroon
 Cape Verde
 Central African Rep.
 Chad
 Comoros
 Congo
 Côte d'Ivoire
 D. R. Congo
 Djibouti
 Egypt
 Equatorial Guinea
 Eritrea
 Ethiopia
 Gabon
 Gambia
 Ghana
 Guinea
 Guinea Bissau
 Kenya
 Lesotho
 Liberia

Libya
 Madagascar
 Malawi
 Mali
 Mauritania
 Mauritius
 Morocco
 Mozambique
 Namibia
 Niger
 Nigeria
 Rwanda
 S. Tome & Principe
 Senegal
 Seychelles
 Sierra Leone
 Somalia
 South Africa
 Sudan
 Swaziland
 Tanzania
 Togo
 Tunisia
 Uganda
 Zambia
 Zimbabwe

AFRICAN DEVELOPMENT BANK (AfDB)

- Established in 1964
- Subscribed capital - US\$ 34 billion
- 53 African and 24 non-African countries
- Raises funds in the capital markets
- Provides assistance at market interest rates

AFRICAN DEVELOPMENT FUND (AfDF)

- Established in 1972
- Subscriptions - US\$ 24 billion
- Financed by donor countries
- Provides assistance on concessional terms

Turkey and Luxembourg expected to be members of Bank Group

Europe

Austria
 Belgium
 Denmark
 Finland
 France
 Germany
 Italy
 Netherlands
 Norway
 Portugal
 Spain
 Sweden
 Switzerland
 UK

North & South America

Argentina
 Brazil
 Canada
 USA

Middle East

Kuwait
 Saudi Arabia

Asia

China
 Korea
 India
 Japan

The Bank's four strategic pillars have ensured operational focus and growth

Infrastructure

Gouvernance

Regional
Integration

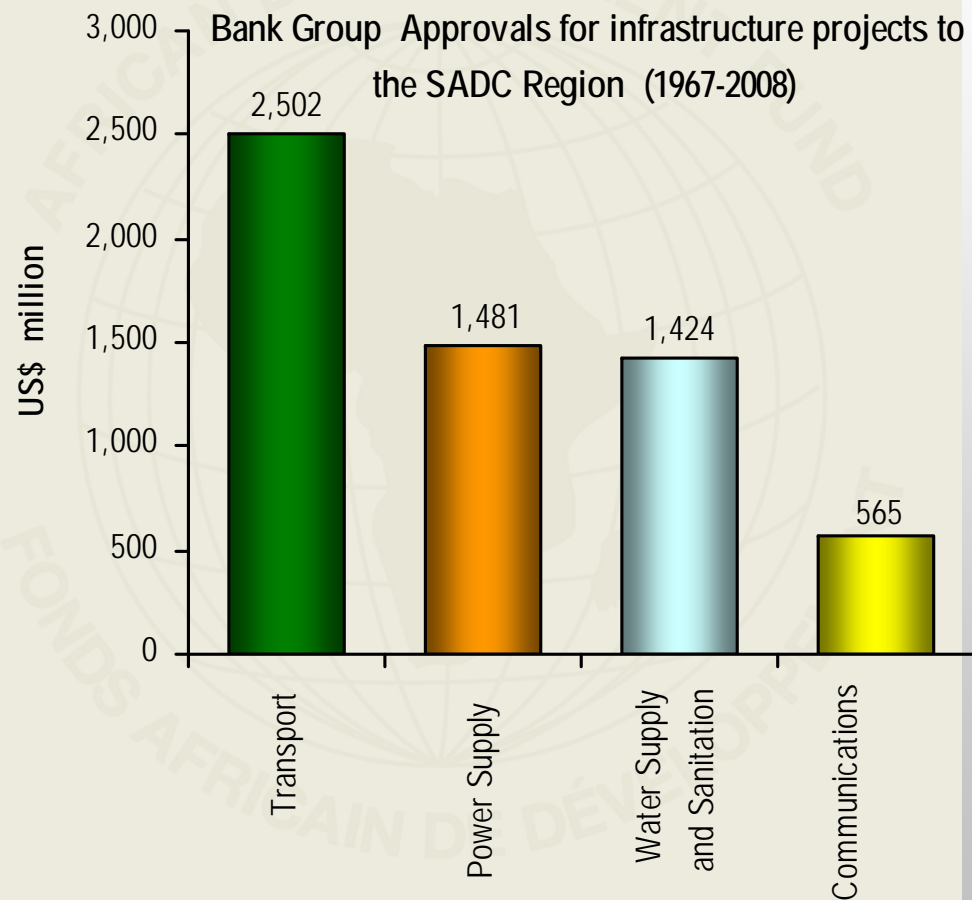
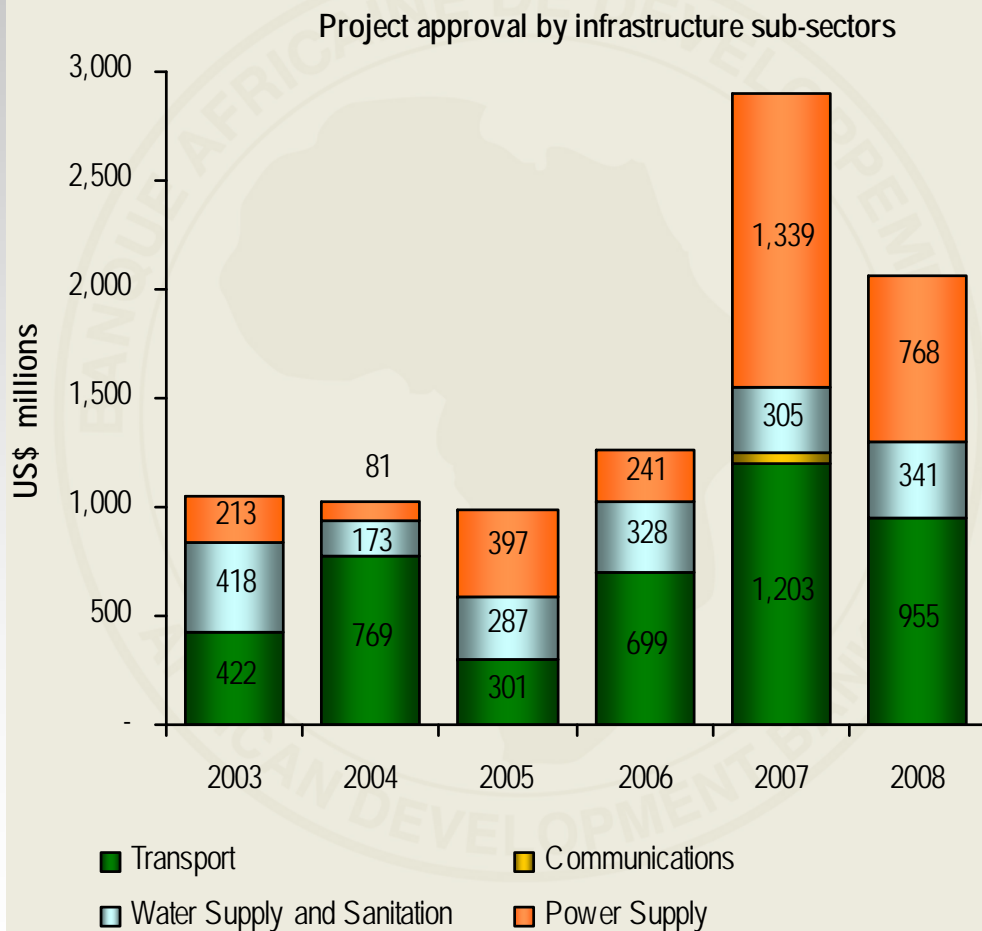
Private Sector
Investments

Approvals and disbursements increased by over 10% between 2007 and 2008



Total approvals since inception: US\$ 69 billion

Close to 50% of Bank's approvals in the last 2 years have funded infrastructure



Contributing to the development of African capital markets (1)

Equity Funding

Africa Energy Infrastructure Fund

- Invests in power and energy projects in Sub-Saharan Africa
- Fund size: US\$ 500 mn, first closing of US\$ 150 mn. AfDB investment: US\$ 30 mn.
- Exit strategy: (i) listing of the fund or (ii) list of underlying investments in African financial markets, or (iii) entirely or partially trade the Fund, or (iv) swap shares in individual plants and create a listed entity

Rising Infrastructure Fund

- 15-year fund investing in Greenfield PPP infrastructure projects in North Africa, West, Central Africa, Mauritius and Madagascar
- Fund size: US\$ 500 mn, AfDB investment US\$ 25 mn as a Strategic Investor
- Exit strategy: listing on a stock exchange

Contributing to the development of African capital markets (2)

Issuing African currency denominated debt: Offshore Transactions

RATIONALE

- Proceeds are swapped at a cost effective level into desired currency (US\$, Euro...)
- There is demand from international investors

IMPACT

- Strengthens Investor confidence in the country
- Provides financial visibility to country
- Acts as a catalyst for other issuers

2006



- BWP 300m Eurobond
- US\$ 10m linked to TZS
- US\$ 45m linked to GHC

2007



- US\$ 100m linked to NGN due Jan08
- US\$ 100m linked to NGN due May10
- US\$ 15m lined to TZS due May09
- US\$ 10m linked to KES due May08
- US\$40m linked to GHS due May09

2008



- US\$ 15m linked to UGX due May 11

Contributing to the development of African capital markets (3)

Issuing African currency denominated debt: Onshore Transactions

RATIONALE

- Reduce clients/country foreign exchange risk
- Meet requirement for long term local currency resources
- Promote capital market development

IMPACT

- Deepens local financial markets
- Contributes to introduction of international best practices in certain domestic markets
- Acts as a catalyst for other issuers

2007

- ZAR 1bn 9.04% Domestic Bond
Issue due 2012
- ZAR 0.2bn 8.98% Domestic Bond
Issue due 2012



2008

- ZAR 2bn 9.53% Domestic Bond Issue
due 2013

Other targeted countries: Egypt, CFA Zone, Kenya, Uganda, Tanzania, Botswana, Ghana and Nigeria

Contributing to the development of African capital markets (4)

Use of Derivatives

- Interest rate swaps
- Cross currency swaps
- Commodity swaps
- Synthetic Local Currency Loans: Loans are denominated and disbursed in Bank's lending currency, client converts proceeds into local currency and is not exposed to FX risk through a swap arrangement.

“Lekki Epe Toll Expressway (NIGERIA)”

The Bank financed a senior loan of US\$ 85 million (the equivalent in Naira), with interest of US\$ 19 million capitalised in years 4 and 5, representing 35% of total senior debt through a synthetic NGN loan.

The Bank faces several challenges in Local Currency Funding

Domestic Bond Issuance

Autorisation to issue
Maximum tenors available
Cost of carry
Project pipeline (Demand)
Cost-effectiveness of the bond issue
Crowding out of local issuers

Cross Currency Swap

Approval to swap local currency
Macro economic stability
Maximum tenors available
Available market counterparties
Cost-effectiveness of the swap

Non deliverable Forward-Synthetic Local Currency Loan

Ability to hedge both interest rate and currency risk
Cost-effectiveness of the SLCL

The AfDB is also committed to the development of African domestic bond markets through

The African Financial Markets Initiative (AFMI)

- One main goal: *“Contribute to the development of Domestic Debt Markets in Africa”*
- A Cooperative Approach: African Regional Associations, Development Partners, Central Banks, Governments & Public / Private direct involvement
- Two separate but complementary components:

1. African Financial Markets Database (AFMD)

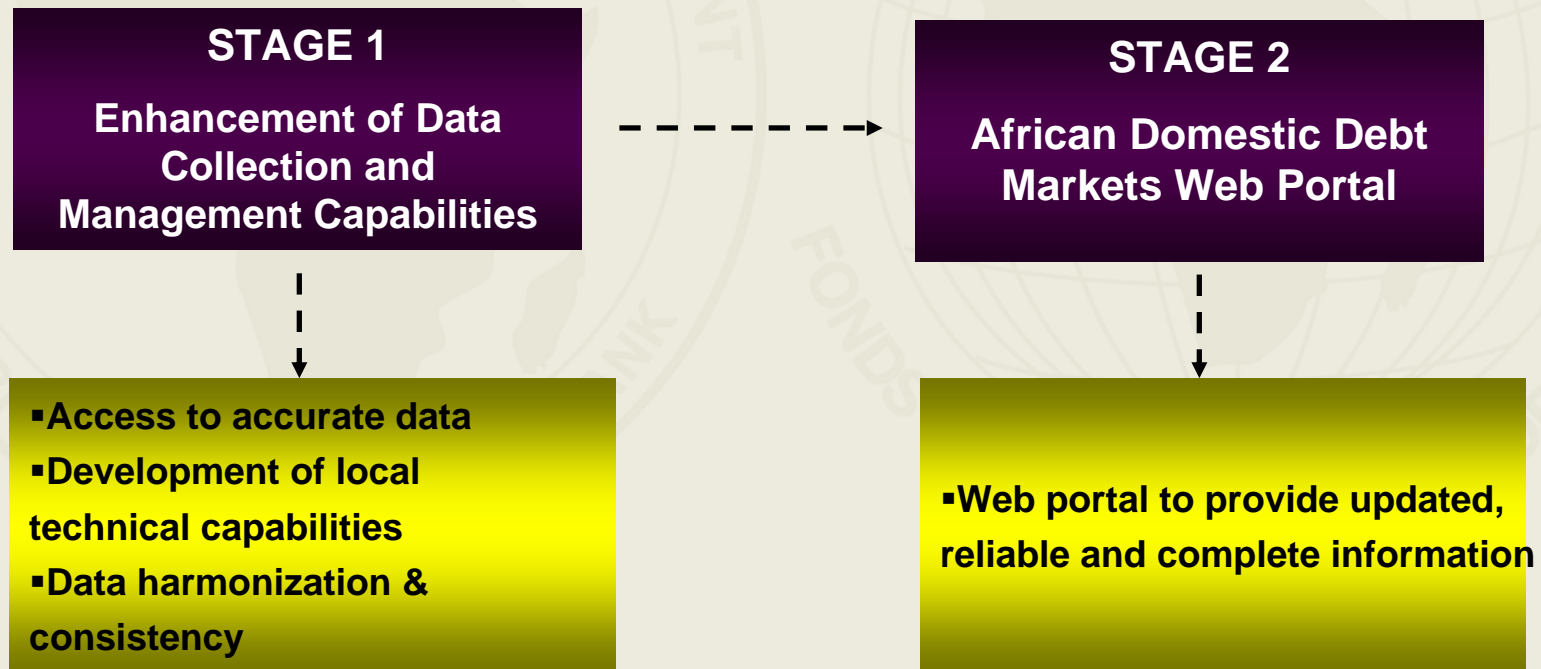
2. African Domestic Bond Fund (ADBDF)

The African Financial Markets Database (AFMD)

- Three Specific Objectives

- Improve availability and transparency of African Fixed Income Markets related data
- Reconcile data produced by several institutions using different concepts and methodologies
- Ensure quality of financial statistics in Africa

- Two Defined Stages

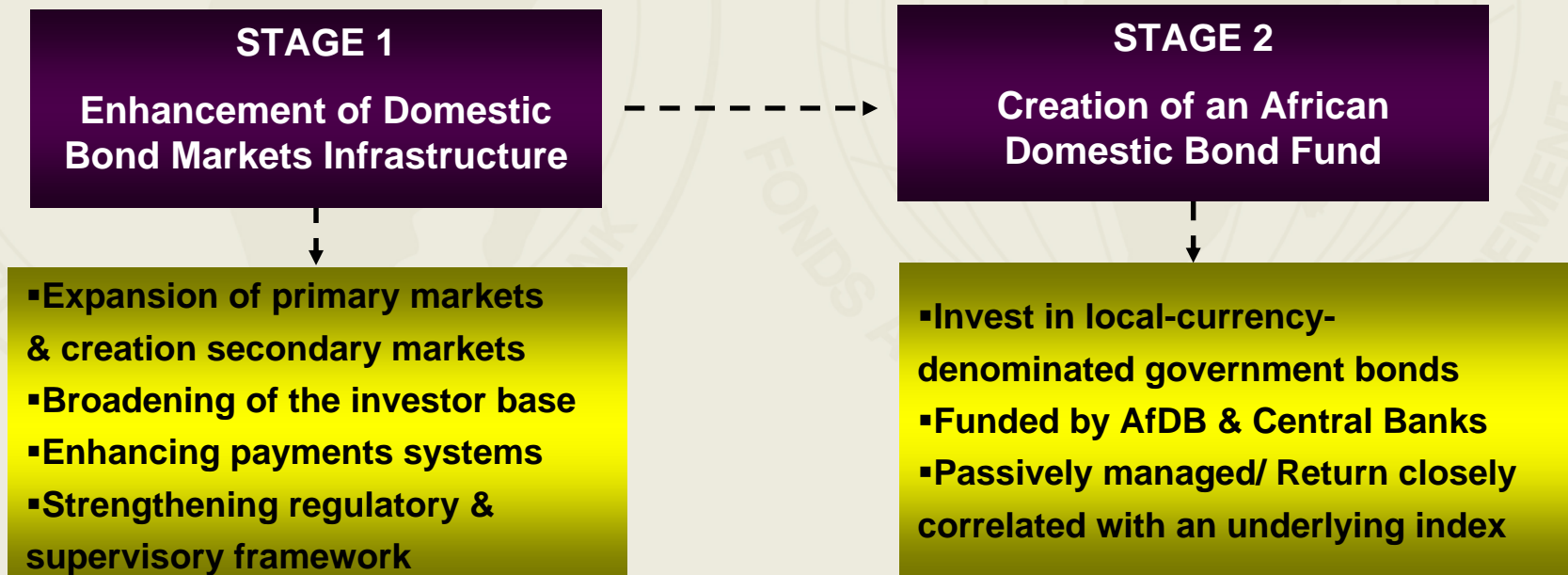


The African Domestic Bond Fund (ADBDF)

▪ Four Specific Objectives

- Reduce African countries dependency on foreign currency denominated debt
- Encourage the deepening of domestic bond markets through investments in longer dated assets
- Contribute to enlarge investor base in African domestic bond markets
- Create a permanent forum for discussion and provision of technical assistance on domestic bond market issues

▪ Two Defined Stages



The Bank also hosts the Making Finance Work for Africa (MFW4A) Partnership Secretariat

- The overarching objectives are to:
 - facilitate financial sector development activities at the country and regional levels;
 - promote public and private sector initiatives;
 - encourage an increase in the efficiency of development partner support.
- To reach these objectives we provide a platform for co-ordinating financial sector development efforts
 - Dedicated Website (Go live in Q409)
 - Project Portal
 - Dissemination and production of research, publications & data
 - Country-specific and sector specific activities
 - Monitoring of financial sector development

Making Finance Work for Africa (MFW4A) is supported by



To summarize...

- Africa's infrastructure financing needs are enormous and there is a need to better access domestic resources. The development of African domestic bond markets is crucial to encourage sustainable domestic resource mobilisation;
- The AfDB's participation in African capital markets has not only brought visibility to certain African financial markets but it has also enabled African clients to access longer dated local currency funding for infrastructure investments;
- Through the Partnership MFW4A, the Bank will continue to support and advocate for public and private initiatives dedicated to the development of efficient African capital markets.

THANK YOU

