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# FOREWORD

The African Development Bank (AfDB) Group's mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for Africa's economic and social development. It has over the years developed a broad range of products primarily to serve the various needs of its growing clientele, being innovative and acting as a catalytic agent in mobilizing capital to projects in both the public and private sectors.

This brochure introduces AfDB's financial products. Standard products consist of loans, guarantees, equity and quasi-equity, risk management products and technical assistance. Other products include a Trade Finance Initiative that was launched as part of the Bank's response to the financial crisis. Their main features, basic terms and conditions are presented in this brochure.

We hope that this information will enhance clients understanding of the Bank's financial products and services, thereby enabling them to fully benefit from the financial assistance provided by the Bank.

**Pierre Van Peteghem**

Treasurer

April 2011

# INTRODUCTION

As the lead multilateral development finance institution in Africa, the African Development Bank (AfDB or the Bank) has the mandate to enhance the social and economic well-being of its Regional Member Countries (RMCs). The Bank's AAA rating allows it to on-lend to its borrowing countries, funds raised in international capital markets at favourable terms. Beyond the provision of affordable capital, the AfDB offers an attractive, diversified menu of options that allows borrowers to tailor financing to their circumstances.

The Bank's financial products comprise of loans (including synthetic local currency, and syndicated loans), guarantees, equity and quasi-equity, and risk management products. Also, in response to the global financial crisis and recession, the Bank added to its menu of products some shorter term counter-cyclical products in order to meet the emergent requirements of its regional member countries; these included a Trade Finance Initiative and an Emergency Liquidity Facility, which was discontinued in December 2010. In addition to these products, the Bank provides technical assistance (TA) through various grant funds, the aim of which is to support project preparation and other activities that contribute to the long-term success of Bank-financed projects.

**Background**

The Bank's menu of products has evolved over the last decade. The need for the Bank to be more responsive to the varied and evolving requirements of its borrowers called for more flexibility. Some of the more innovative changes include the introduction of risk management products that allow clients to hedge against financial risks associated with their AfDB loans. Other innovations include the introduction of equity, quasi-equity products, guarantees and loan syndications. These products allow the Bank to play a catalytic role in mobilising capital to projects in both the private and public sectors.

The Bank has also broadened its scope to accommodate the possibility of lending in local currencies; and has developed a policy framework to guide the provision of loans in RMC currencies[1]. In a further response to demand from clients for financing in their domestic currencies as a means of reducing foreign exchange risk, the Bank also offers the synthetic local currency loan product.

During the financial crisis, the Bank was compelled to be proactive in safe guarding and mitigating against a reversal in the development gains made by many RMCs over the last decade. The Bank thus introduced an Emergency Liquidity Facility (ELF) that was subsequently discontinued in December 2010 and a Trade Finance Initiative (TFI) which includes a new trade finance line of credit (TF LOC) that will allow African commercial banks and Development Financial Institutions to use AfDB resources to support trade finance operations.

[1] The provision of loans in RMC currencies is subject to sufficient demand from a client, and the Bank's ability to fund itself efficiently.

# 1. STANDARD LOAN PRODUCTS

**Overview**

The Bank's standard loans are categorised either as Sovereign Guaranteed Loans (SGL) or Non-Sovereign Guaranteed Loans (NSGL). The Bank defines an SGL as a loan made to a regional member country (RMC) or a public sector enterprise from an RMC supported by the full faith and credit of the RMC in whose territory the borrower is domiciled. Multinational institutions are eligible to SGLs if they are guaranteed by an RMC or by RMCs in whose territory or territories they will execute the project.

NSGLs are loans made either to public sector enterprises, without the requirement of a sovereign guarantee, or to private sector enterprises.

The Bank's standard loan product has evolved through time; the terms are more accommodating and responsive to client needs.

**Recent Adjustments**

In response to the conditions in the financial markets, including the funding markets in which the Bank raises debt for on-lending, the Bank adjusted its approach to SGLs in January 2009. The goal of this adjustment was to ensure a full pass-through of the Bank's increased funding costs to its borrowers in order to safeguard the institution as a stable source of long-term loans.

As a result, for sovereign guaranteed borrowers, the Bank temporary withdrew the Fixed Spread Loan (FSL); product for which the Bank commits to a fixed spread over the life of the loan; and reintroduced the Variable Spread Loan (VSL). This product is made up of the Bank's cost of borrowing relative to its benchmark rate and the lending margin. The average cost of borrowing is calculated twice a year, in January and July. For NSGLs the FSL product is still applicable.

In December 2010 the VSL was further enhanced by providing a free option to fix the base rate and was then renamed Enhanced Variable spread Loan (EVSL).

In May 2010, the lending margin of the EVSL was increased to 60 basis points (from 40 basis points) for every loan approved after January 1st, 2011; and a time dependant graduated commitment fee ranging from 25 to 75bps was introduced for fast disbursing policy-based loans that remain undisbursed after negotiated drawdown period.

The lending margin (contractual spread) shall be reviewed periodically for reasonableness, particularly with respect to adequacy of coverage of the Bank's operational expenses.

## SOVEREIGN GUARANTEED LOANS

### Eligibility

Eligible countries for Public Sector Sovereign Guaranteed Loans are regional member countries (RMC) from the Bank's Category C countries, which are only eligible to receive financing from the non-concessional AfDB window (Angola (graduating country), Algeria, Botswana, Egypt, Equatorial Guinea, Gabon, Mauritius, Morocco, Namibia, Seychelles, South Africa, Swaziland and Tunisia) and Category B countries, otherwise known as 'blend' countries, which are eligible to receive Bank Group financing from both the non-concessionary AfDB window and the concessional African Development Fund (ADF) window (Nigeria, Cape Verde and Zimbabwe). Additionally, public sector enterprises from Category C and B with a sovereign guarantee are also eligible for SGLs.

**Table 1: Summary terms of SGL**

<table>
<tr><th colspan="2">Public Sector Sovereign Guaranteed Standard Loan Terms</th></tr>
<tr><td>Borrowers</td><td>All AfDB borrowers</td></tr>
<tr><td>Currencies</td><td>USD, EUR, JPY and ZAR, and any other currency if there is sufficient demand*<br>(*) Currency substitution clause is in effect</td></tr>
<tr><td>Disbursement</td><td>Disbursements are denominated in the selected currency(ies) and are contingent on the fulfilment of disbursement conditions specified in the loan agreement.</td></tr>
<tr><td>Maturity & Grace Period</td><td>Maturity: Up to twenty (20) years<br>Grace period: Up to five (5) years</td></tr>
<tr><td rowspan="2">Repayment terms<br>(Repayments are in currency(ies) disbursed)</td><td>Principal: Equal instalments of principal. Other principal repayment terms such as annuities, bullet repayment and step-up or step-down amortization of the principal may be considered</td></tr>
<tr><td>Frequency: Interest and any other charges are payable semi-annually for USD, EUR and JPY and quarterly for ZAR on the Bank's standard payment dates, or any combination of semi-annual payments dates selected by the borrower.<br>Other payment frequencies (e.g. monthly) may also be considered</td></tr>
<tr><td rowspan="4">Interest rate terms<br>=<br>Base rate<br>+<br>Funding margin<br>+<br>Lending margin</td><td>Floating base rate: 6-month reference rates Libor (USD, YEN)/Euribor (EUR); 3-month reference rate Jibar (ZAR)</td></tr>
<tr><td>Fixed base rate: Calculated as the swap market rate corresponding to the principal amortization schedule of a particular tranche of a loan</td></tr>
<tr><td>Funding margin: The Bank's cost of borrowing relative to Libor. It resets semi-annually on January 1 and July 1</td></tr>
<tr><td>Lending margin: Currently 60 basis points</td></tr>
<tr><td>Loan fees</td><td>Front-end-fee: No charges<br>Commitment fee: Time dependant graduated commitment fee for policy based loans</td></tr>
<tr><td>Prepayment premium</td><td>The Bank may charge a prepayment penalty that reflects the Bank's cost of redeploying the prepaid funds</td></tr>
<tr><td>Cancellation</td><td>Undisbursed portion of loans can be cancelled</td></tr>
</table>

Please refer to the Detailed Financial Terms section at the end for a broader definition of the terms outlined above.

**Public sector enterprises**

Non-Sovereign Guaranteed Loans to Public Sector Enterprises are made to public enterprises that meet specific eligibility criteria, without the requirement of a sovereign guarantee by the host government.

***Eligible Sectors***

Under NSGL operations, the Bank may provide assistance to a public sector enterprise engaged in activities in any sector, including, but not limited to, manufacturing, infrastructure, extractive industries, energy, and other productive activities, provided that the enterprise meets the eligibility criteria.

***Eligible Countries***

Eligible countries for Public-Sector NSGLs are regional member countries (RMC) from the Bank's Category C and Category B or blend countries.

***Eligible Enterprises***

Public enterprises which are established, incorporated and operating under the laws of category B and C countries can be considered for NSGLs. They would also present the following characteristics:

**a.** Share capital is majority (i.e., over 50%) owned by the government or by corporations the capital of which is majority owned by the government of an eligible country, including cases of full (100%) ownership

**b.** Managed autonomously from the host government

**c.** Must have a distinct legal personality and capacity to sue and be sued, as well as incur debt on their own account

**d.** Those not protected by immunities, for example, from legal process, seizure, attachment or execution of judgment. Where such immunities are enjoyed by an eligible public enterprise, the waiver of such immunity for the purpose of the NSGL will be required

**e.** Financially and commercially viable, with full control over funding, budgeting, investment, and pricing policies, and must demonstrate a track record of good operational and financial performance

**f.** Adequate accounting and cost control arrangements and management information systems, and must be subjected to annual audits by independent auditors acceptable to the Bank

**g.** Sound management and corporate governance systems

**h.** Demonstrable developmental impact through their activities, and demonstrable contribution towards poverty reduction in the RMC

In the case of special purpose vehicles (SPVs) (i.e., corporate entities established for the specific purpose of operationalizing special capital projects), a due diligence process will be carried out to assess the sponsors of the SPV, in order to determine their financial perspective, operational track record, generally to evaluate their ability to guarantee the SPV. In addition, the SPV should have good prospects for meeting all its financial obligations and generate adequate surpluses to sustain its long-term viability.
Public enterprises wishing to apply for NSGLs will be encouraged to seek a credit rating from one of the major international credit rating agencies, or a reputable local rating agency.

**Government Support**

***Privileges, Exemptions and Immunities***

Government's role is a critical factor in the financing of public sector projects. The Bank

will bear the commercial risk; but it may require that the host government provide general [comfort] commitment as evidence of its recognition of the potential benefits of the project, to protect the Bank against government decisions and actions that may adversely affect the sustainability and success of the project, and also reassure co-lenders and even the project sponsors.

To facilitate its non-sovereign guaranteed public sector lending operations, the Bank will seek prior confirmation concerning its privileges, exemptions and immunities. This may include exemption from taxes, unrestricted repatriation of loan principal repayments, interest and any other income from sale proceeds of Bank's investment or security held in the country as well as any other privileges and immunities accorded to the Bank under the Bank Agreement.

The Bank will not undertake public sector NSGL operations in a category C or B country if that country has not signed a *Letter of Assurances* confirming the privileges, exemptions and immunities of the Bank in respect of such operations.

Before approving a NSGL operation, the Bank will formally notify the government so as to provide an opportunity for the government to provide its non-objection to the proposed Bank intervention, in accordance with the provisions of Article 17(1) (b) of the 'Agreement Establishing the African Development Bank'.

***Countries under Sanctions***

The accrual of arrears on any NSGL operation will not translate into the application of Bank sanctions provisions on the country as a sovereign borrower, as the government will not be directly responsible for the default on loans extended by the Bank under the public sector NSGL facility.

However, where a government fails to meet or honour its obligations in connection with an undertaking given with respect to a NSGL operation, such a failure, if not cured, may result in the country being placed under sanctions pursuant to Article 44 of the Agreement Establishing the African Development Bank.

**Private Sector Enterprises**

***Eligibility***

To be eligible for financing, an enterprise should be privately owned and managed, meaning that more than 50% of its voting shares must be in private hands.

**Table 2: Summary terms of NSGL**

| Non-Sovereign Guaranteed Loan (NSGL) Standard Terms | |
|---|---|
| **Borrowers** | Public sector NSG borrowers and private sector borrowers |
| **Currencies** | USD, EUR, JPY and ZAR, and any other currency if there is sufficient demand*<br>(*) Currency substitution clause is in effect |
| **Disbursement** | Disbursements are denominated in the selected currency(ies) and are contingent on the fulfilment of disbursement conditions specified in the loan agreement |
| **Maturity &**<br>**Grace Period** | **Maturity:** Up to fifteen (15) years<br>**Grace period**: Up to five (5) years |
| **Repayment terms**<br>(Repayments are in currency(ies) disbursed) | **Principal**: Equal instalments of principal. Other principal repayment terms such as annuities, bullet repayment and step-up or step-down amortization of the principal may be considered |
| | **Frequency**: Interest and any other charges on the Bank's loans are payable semi-annually for USD, EUR and JPY and quarterly for ZAR on the Bank's standard payment dates , or any combination of semi-annual payments dates selected by the borrower.<br>Other payment frequencies (e.g. monthly) may also be considered |
| **Interest rate terms**<br>**=**<br>**Base rate**<br>**+**<br>**Lending margin** | **Floating base rate:** 6-month reference rate Libor/Euribor; the 3-month reference rate Jibar (ZAR) |
| | **Fixed base rate**: Calculated as the swap market rate corresponding to the principal amortization schedule of a particular tranche of a loan plus a premium to reflect the Bank's refinancing risk |
| | **Lending margin**: Project specific credit risk-based margin |
| **Fees** | **Commitment fee:** 0-1%<br>**Front-end fee:** 1% of the loan amount<br>**Appraisal fee:** The Bank charge an appraisal fee on a case-by-case basis |
| **Prepayment premium** | The Bank may charge a prepayment penalty that reflects the Bank's cost of redeploying the prepaid funds |
| **Late payment penalty** | In case of late payment, the Bank will charge a penalty of two percent (2%) in addition to the applicable interest rate on the late payment |
| **Cancellation** | Undisbursed portion of loans can be cancelled |

Please refer to the Detailed Financial Terms section at the end for a broader definition of the terms outlined above.

# 2. LOCAL CURRENCY PRODUCTS

In 2006 the Bank drew up a policy framework to provide loans in RMC currencies, provided there is sufficient demand from clients for these currencies, and the Bank can fund itself efficiently. The rationale for offering the local currency loan product is three-fold: to reduce clients' foreign exchange risk, to avail long-term funding in RMC currencies, and to contribute to the development of the local capital markets (fund raising by issuing bonds). The Bank has since developed the synthetic local currency loan product, and is still exploring the option of providing more flexibility in local currency loan products.

## SYNTHETIC LOCAL CURRENCY LOANS

Synthetic Local Currency Loans (SLCLs) represent part of the Bank's response to demand from clients for financing in their own currency to reduce foreign exchange risk. They simulate local currency financing by indexing payments of interest and principal (paid in an approved loan currency) to local currency interest and exchange rates through an agreed formula.

**Eligibility**

The availability of a non-deliverable forward contract (NDF) or any other hedge with a market counterparty is the cornerstone of the product. Provided that the SLCL's interest rate and currency risk can be hedged in this way, the Bank can fund any eligible project or sector through this product. SLCL can be offered to both sovereign-guaranteed borrowers and to non sovereign-guaranteed borrowers in Middle Income Countries.

An SLCL consists of:

**a.** A loan denominated in one of the Bank's lending currencies, currently USD, EUR, JPY and ZAR; and any other currency if there is sufficient demand and if the Bank can fully hedge the currency and interest rate risk with at least one market counterparty

**b.** Disbursements made in the lending currency;

**c.** Interest and principal repayments are also denominated in the same lending currency;

**d.** The payments are indexed to a local currency interest and exchange rate through an agreed formula that would provide exposure (synthetically) in the same way as that of a loan denominated in the local currency;

**e.** An NDF with a market counterparty which would hedge the interest rate and currency risk exposure created by the indexation mechanism.

**Interest Rates Terms**

The interest rate on the SLCL will be the same as the interest rate benchmark selected for the hedging transaction (NDF) with the market counterparty.

***Base Rates***

The Bank offers two principal structures for the base lending rate on SLCLs - floating base rate and fixed base rate.

***Floating Base Rate***

The Bank's standard floating base rate is the currency specific six (6) month reference rate which is reset semi-annually on 1 February and 1 August and is applicable for the sixth month period following the reset date. The

local currency floating base rate and reset frequency are determined for each currency based on the selected local currency reference interest rate in each local currency market. This rate should have adequate liquidity, be objectively obtained from accessible sources and be acceptable to the client. The range of options could include the equivalent of Libor in any given market, Treasury Bill rates, Money market rate, Central Bank rate or a combination/basket of observed or quoted rates.

In all cases, the payment frequency will be linked to the interest rate reset frequency. This means that there could be small basis mismatches between the Bank's Libor funding base and the local currency interest rate.

The interest will be payable in the loan currency (converted at the prevailing spot rate usually 2 days prior to the interest payment dates) and credited to the Bank's account in the loan currency.

***Fixed Base Rate***

Subject to availability of suitable hedging options, the borrower could request a fixed base rate on all or a portion of the outstanding loan. A loan with a floating base rate may also be converted to a fixed base rate. This conversion may be subject to a conversion fee. The fixed base rate for each loan tranche shall be determined by the Bank in accordance with the currency specific market practice.

**Principal repayment terms**

The Bank's principal repayment terms provide for the payment of equal instalments of principal after the expiration of the grace period.

Other principal repayment terms, notably, annuities, bullet repayment and step-up or step-down amortization of principal may be considered subject to satisfactory justification of project requirements by the Borrower and availability of hedging solutions.

**Payment Frequency**

Interest and any other charges on the Bank's loans are generally payable semi-annually. However, these would also largely be driven by the specific currency.

Monthly, quarterly, and annual payment frequencies may be permitted subject to currency specificities, availability of hedges and suitable justification by the Borrower. In accordance with the asset-liability matching and cost pass-through principles, any additional costs that the Bank incurs in order to offer these features will be passed on to the Borrower.

**Loan fees**

The loan fees will depend on the specificities of the loan but would be payable in the loan currency. The following guiding principles will apply:

***Front-End Fee***

The Bank will charge a front-end fee of up to 1% flat of the SLCL amount. This fee is generally payable on or before loan signature, but not later than the date of first disbursement.

***Commitment Fee***

The Bank will charge a commitment fee of up to 1% on the undisbursed amount of an SLCL.

**Table 3: Summary terms for SLCL**

| Synthetic Local Currency Loan Terms | |
|---|---|
| **Borrowers** | All AfDB borrowers |
| **Currencies** | USD, EUR, JPY and ZAR, and any other currency with interest and principal repayments also denominated in the same lending currency with an indexation formula that links these repayments to interest and exchange rates in a local currency, provided that the risks of such indexation can be fully hedged with at least one market counterparty*<br>(*) Currency substitution clause is in effect |
| **Disbursement** | Disbursements are made in the lending currency |
| **Maturity & Grace Period** | **Maturity:** Dependent on availability of adequate hedging options for the specific local currency loan<br>Up to twenty (20) years for sovereign guaranteed borrowers<br>Up to fifteen (15) years for non-sovereign guaranteed borrowers<br>**Grace period**: Dependent on the specific characteristics of the project and the time required for its implementation<br>Up to five (5) years |
| **Repayment terms** (Repayments are in currency(ies) disbursed) | **Principal**: Equal instalments of principal. Other principal repayment terms such as annuities, bullet repayment and step-up or step-down amortization of the principal may be considered |
| **Interest rate terms**<br>**=**<br>**Base rate**<br>**+**<br>**Funding margin**<br>**+**<br>**Lending margin** | **Floating base rate:** Determined by the Bank and is the local currency benchmark |
| | **Fixed base rate**: The fixed base rate for each loan tranche shall be determined by the Bank in accordance with the currency specific market practice |
| | **Funding margin:** It is the Bank's cost of borrowing relative to Libor. It resets semi-annually on January 1 and July 1 **<br>(**) Applicable for Variable Spread Loans only. |
| | **Lending margin:** Currently 60 basis points for SGL and Project specific credit risk basis for NSGL |
| **Loan fees** | **Front-end-fee:** Up to 1% flat of the loan amount<br>**Commitment fee:** Up to 1% of the undisbursed amount |
| **Prepayment premium** | The Bank's cost of redeploying the prepaid funds or unwinding the hedging transactions attached to the loan<br>In addition, a prepayment fee of up to 25 bps of the prepaid amount could be charged to the borrower |
| **Cancellation** | Will be in accordance with appropriate Bank financial policies and guidelines and/or provisions of the loan agreement. Breakage costs may be applicable. Unused portion of loans can be cancelled |
| **Late Payment Fee** | 2% |

# 3. SYNDICATION OF NON-SOVEREIGN GUARANTEED LOANS

As part of its mission to mobilize capital for productive use in viable projects in Africa, the Bank offers two loan syndication structures - the more common parallel co-financing loan structure and the A- and B-loan structure.

A syndicated loan is typically a large loan in which a group of financial institutions (the syndicate) work together to provide funds for a borrower. Usually, one or more lead banks (the arranger/s) take a percentage of the loan and syndicate the rest to other financial institutions. To ensure that the borrower does not have to deal with all syndicate members individually, an agent acts as a focal point for and on behalf of all syndicate members.

The more common parallel co-financing loan structure includes an Arranger and an Agent**;** whereby the arranger originates, structures and syndicates the transaction, and their duties include the preparation of the information memorandum and all the necessary steps to syndicate the loan in return for a fee. The agent administers the loan in return for a fee. The duties and responsibilities of the agent are described in an agency agreement.

**A- and B-loan structure**

Under this structure, the Bank acts as the 'lender-of-record' of the 'loan-on-record',

keeps part of the loan (the A-loan) and sells participations to B-loan participants who take full exposure to the underlying project credit risk in the proportion of their participations. Thus, the **A-loan** is the amount of the loan that the Bank has agreed to keep for its own credit while the **B-loan** is the portion of the loan that is syndicated to commercial financial institutions. Under this structure, the B-loan participants benefit from the AfDB's Preferred Creditor Status (PCS) as a Multilateral Development Institution.

In introducing a B-loan programme, the Bank's prime objective is to attract private capital to the continent with its involvement in the transaction as lender-of-record and co-financier. The leverage of its' special status allows the Bank to assist eligible borrowers in obtaining financing from foreign private sector financial institutions interested in lending to projects in Africa, which shall result in an increase of foreign direct investment (FDI).

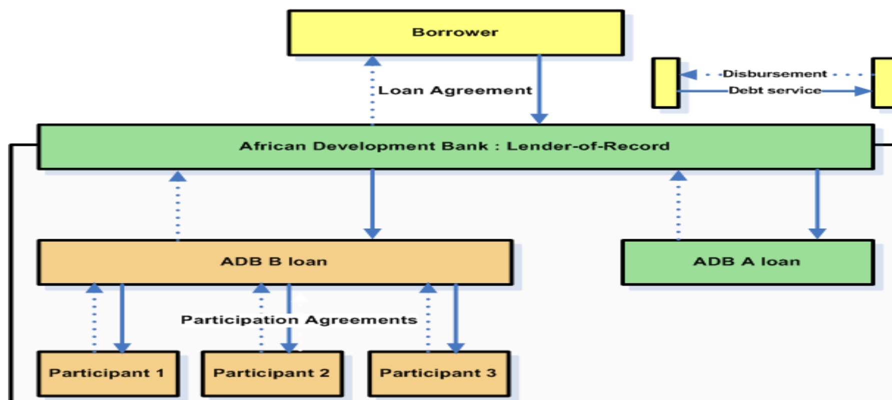



**Diagram 1: An illustration of an A- and B- syndicated loan structure**

**Country, Project and Sector Eligibility**

The Bank may, through B-loan syndication, fund any project or sector eligible for an NSGL in a regional member country, provided that the country signs a comfort letter explicitly recognizing the preferred creditor status of the Bank.

Viable, strong and commercially operated financial institutions are eligible participants. However, financial institutions that are incorporated or have their head office in the country where the borrower is incorporated or carrying out the project are excluded. Export credit agencies or governmental, quasi-governmental or multilateral agencies, the project's sponsors and off-takers are also not eligible to participate in the B-loan.

An eligible participant must have a minimum investment-grade rating from a major and reputable rating agency. In exceptional cases and subject to suitable justification, the Bank may accept a lower rated or unrated participant.

**Pricing**

Loans syndicated by the AfDB shall be priced according to prevailing international loan market terms and practices, in line with the assessment of the credit risk assumed by participants in the syndication. Hence the credit exposure supported by participants could be priced differently from the A-loan.

**Proportion of A-Loan to B-Loan**

As a general rule, in deciding on the size of the A-loan in relation to the B-loan, the Bank seeks to balance the benefits derived from holding a significant amount of A-loan with the desire to attract a larger number of participants and volume of private capital through the B-loan. Over the life of the B-loan syndication, the A-loan should not be less than 25% of the total loan.

**Cancellation of un-disbursed Loan amount by the Borrower**

The Borrower may, by written notice, request the AfDB to cancel the un-disbursed portion of the Loan with an effective date for such cancellation not earlier than a reasonable period after the date of the notice. The AfDB shall, by written notice to the Borrower, cancel the un-disbursed portion of the Loan on the effective date provided that: (i) the AfDB has received all fees and other amounts accrued in relation to the cancelled portion, and (ii) the AfDB is reasonably satisfied that this cancellation shall not jeopardize the physical completion and the financial performance of the underlying project. Once the cancellation is effective, the AfDB shall inform the Participants. Any portion of the Loan that is cancelled may not be re-borrowed. The un-disbursed A-loan and the un-disbursed B-loan shall be cancelled on a pro-rata basis.

**Repayment of principal to Participants**

Upon receipt of principal repayment the AfDB shall allocate and pay to each Participant its pro-rated share.

**Prepayment of principal to Participants**

The Borrower may opt to prepay a portion of the A- and/or B-loan. For a prepayment that affects both the A- and B-loan, the Participants shall be paid their pro-rated share of the total amount prepaid and due to them. For a prepayment that only affects a Participant, the relevant Participant shall be paid the amount prepaid.

**Table 4: Summary Terms for Syndication of Non-Sovereign Guaranteed Loans**

| Syndication of Non-Sovereign Guaranteed Loans Terms | |
|---|---|
| **Borrowers** | NSG borrowers in a RMC and private sector borrowers |
| **Currencies** | USD, EUR, JPY and ZAR, and any other currency if there is sufficient demand*<br>(*) Currency substitution clause is in effect<br>The A-loan and the B-loan shall carry the same currency. Under the participation agreements, the AfDB shall not carry any hedges on behalf of B-loan participants |
| **Maturity & Grace Period** | **Maturity:** Depending on the structure of the underlying project and the respective risk appetite of the participants, the AfDB may accept participations having a different maturity profile from the A-loan<br>**Grace period** as the final maturity on the participations in the B-loan, may be shorter than the grace period and the final maturity on the A-loan |
| **Interest rate terms** | The A-loan and the B-loan shall carry the same type of interest rate. |
| **Fees** | **Commitment fee:** 0-1% for MIC countries, 0.5%-1% for others<br>**Front-end fee:** 1% of the loan amount<br>**Appraisal fee:** The Bank may charge an appraisal fee on a case-by-case basis<br>**Arrangement and syndication fee**: The arrangement fee, also known as *praecipium*, is levied to pay for the work and expenses of the arranger. This flat fee, applicable to the B-loan amount, shall be paid by the borrower to the AfDB or for onward transfer to another arranger. The syndication fee shall be paid to the AfDB on or before the date of signature of the loan agreement.<br>**Loan administration fee**: This is a flat fee, to be levied for the work of the agent, it shall be paid by the borrower to the AfDB or for onward transfer to another agent.<br>**Underwriting fee**: Where the AfDB underwrites a portion of the B-loan, the borrower shall pay an underwriting fee to the AfDB<br>**Other fees**: Legal and other expenses incurred by the AfDB during the processing of an A- and B-loan syndication, other than the AfDB's normal operational expenses, shall be charged to the borrower |
| **Late payment penalty** | In case of late payment, the Bank will charge a penalty of two percent (2%) in addition to the applicable interest rate on the late payment |
| **Cancellation** | The un-disbursed A-loan and the un-disbursed B-loan shall be cancelled on a pro-rata basis. |

# 4. GUARANTEES

A guarantee is an undertaking by a third party (guarantor) to fulfil the obligations of a borrower, to a lender under an agreement, in the event of non-performance or default by the borrower of its obligations under the agreement. The underlying causes of default are defined ex ante as either commercial or political risks.

The Bank's guarantees can generally be classified into two categories: Partial Credit Guarantees (PCGs) and Partial Risk Guarantees (PRGs).

**Partial Credit Guarantees**

PCGs cover a portion of scheduled repayments of private loans or bonds against all risks. They could be utilized to support mobilization of private funds for project finance, financial intermediation and policy-based finance.

***Project Finance***

PCGs can be used for both public sector and private sector investment projects, especially in infrastructure, to encourage the extension of maturity and to improve access to capital markets. The guarantee could cover the principal for bullet maturity of corporate bonds, or later maturity principal payments of amortizing syndicated loans. (Example of MTN in Box 1)

***Financial Intermediation***

Financial Institutions can use PCGs to support the mobilization of long-term resources from both international and domestic capital markets. In this context, the Bank can also guarantee short and medium term instruments such as commercial paper issued by both private and public financial institutions.

***Policy Based Finance***

A special example of a PCG is the Policy Based Guarantee (PBG), which can be structured to cover the full risks of portions of sovereign borrowings from private creditors. PBGs can help improve a sovereign's access to capital markets to raise funds in support of agreed structural, institutional and social policy reforms. Given that PBGs are considered as an alternative or supplement to adjustment loans, eligible client countries should have demonstrated a strong track record of macroeconomic performance.

**Box 1: Example of an existing guarantee**

**MTN Partial Credit Guarantee for Project Finance**

This guarantee covers up to Euro 13 million equivalent of principal payments on a local currency (CFA) syndicated loan raised by MTN Cameroon for a Euro 209 million mobile telephone development project. This was a project financing for the purchase of equipment and the provision of related working capital. The AfDB guarantee is shared parri-passu by FMO, which issued a guarantee of a similar amount to the company. The guarantee is secured by the project's comprehensive security package.

**Partial Risk Guarantees**

PRGs cover private lenders against the risk of the government, or a government owned agency, failing to perform its obligations vis-à-vis a private project. PRGs can attract commercial financing in project finance transactions, particularly in public sector utilities such as power, water, oil and gas, and mining, where project success depends as much on Government undertakings, as on private commercial acumen. In public-private partnerships (PPPs), PRGs can give assurance to the private partners that government will meet its obligations toward the partnership. These guarantees can cover a variety of

government risks, including government contractual payment obligations; availability and convertibility of foreign exchange; changes in law; expropriation and nationalization. The commercial risks under PRGs are fully borne by the private investors.

**Eligibility**

The country creditworthy and eligibility criteria applicable to loans will also apply for guarantees. In this connection, the projects and programs to be supported by guarantees must be consistent with the Bank's country strategy.

Therefore, the eligibility criteria for guarantees will be similar to the current one for loans (both SGL and NSGL). For Policy Based Guarantees (PBG), the eligibility would be governed by the same policies and practices as Policy Based Loans (PBL).

**Linkage with Bank Lending**

Guarantees, as complementary instruments to loan products, are intended to broaden the range of the Bank's instruments of intermediation on behalf of its borrowing member countries. A Bank guarantee can be used in conjunction with a loan, or as a stand-alone instrument.

**Currencies**

Generally, the Bank will consider guarantees for financing denominated in one of its approved lending currencies. However, on a case-by-case basis, guarantees for financing in local currency or convertible currencies that are not one of the Bank's lending currencies, may be considered. Guarantees' payments will be in the currency in which the guarantee is denominated, unless the borrower chooses to pay in another currency, on terms specified, in the Guarantee Agreement.

Guarantees may be particularly useful in order to assist borrowers in obtaining financing in their own local currency. The Bank may provide guarantees for financing in local currency provided that:

**a.** The guarantee is denominated in one of the Bank's lending currencies; due consideration being given to the potential appreciation of the local currency with respect to the lending currency;

**b.** All fees will be payable, at the Bank's discretion, either according to a schedule approved by the Bank or as a front-end payment in one of the lending currencies of the Bank;

**c.** The amount payable in local currency in the event of a call on the guarantee is capped, using the spot exchange rate, at the lesser of (i) the maximum guaranteed amount in the Bank's lending currency, or (ii) the amount, in local currency, that has been called;

**d.** If the guarantee is called, the Bank will pay the appropriate amount in local currency and obtain a claim on the borrower/counter-guarantor in the applicable Bank lending currency at the spot exchange rate on the date of payment of the claim.

**Pricing of Guarantees**

The Bank will charge the same fees for guarantees as for loans. Guarantee charges will be applied on a loan equivalent basis.

**Validity Period of an Approved Guarantee**

The Bank reserves the right to terminate the guarantee facility if the guarantee agreement is not signed within 180 days of the Board's approval.

**Table 5: Summary terms for Guarantees**

| Bank Guarantees Terms | |
|---|---|
| **Borrowers** | All AfDB borrowers |
| **Currencies** | USD, EUR, JPY and ZAR. However, on a case-by-case basis, guarantees for financing in local currency or convertible currencies that are not one of the Bank's lending currencies, may be considered |
| **Maturity** | **Maturity**: Up to twenty (20) years for sovereign guaranteed borrowers<br>Up to fifteen (15) years for non-sovereign guaranteed borrowers<br>The principal repayment period of the financing should match to the requirements of the project being financed<br>For structures with bullet repayments, the maximum period is limited to 15 years and an average life of 10 years<br>Maturity restrictions may apply to certain guarantee structures and currencies, which may reflect particular market conditions |
| **Loan fees** | **Front-end-fee:** For SGL, No charges<br>For NSGL borrowers, 1% of the Bank's possible maximum exposure under the guarantee<br>**Standby-fee:** charged on the un-disbursed portion of the underlying loan**.**<br>Between 0 and 1% for NSG borrowers from MICs<br>Between 0.5 and 1% for NSG borrowers from other countries<br>**Guarantee Fee***:* This fee is similar to the lending spread on a Bank loan. The level of the guarantee fee will be equal to the lending spread that would have been charged if the Bank makes a direct loan, plus a risk premium. The risk premium would reflect the risks associated with particular guarantee structures<br>**Other Fees:** Legal and other expenses incurred by the Bank during the initiation, appraisal and underwriting process of a guarantee, other than the Bank's traditional operational expenses, will be charged to the borrower/lender and are payable upon request by the Bank. Other fees, which may be chargeable on equivalent Bank loans, shall be applied to guarantees, for example, appraisal fees for private sector projects |
| **Prepayment premium** | The borrower and lender may reduce the outstanding guaranteed amount by mutual agreement or prepayment of the underlying loan without penalty |
| **Cancellation** | The borrower and lender may cancel undisbursed portions of the guarantee without penalty |

## 5. EQUITY & QUASI-EQUITY

The Bank's overriding objective in undertaking equity and quasi-equity investments is to promote the emergence of a dynamic private sector in the RMCs. It also seeks to play a catalytic role through equity investment in attracting other investors and lenders to financially viable projects, as well as promoting African participation. As risk capital is scarce in Africa, this is an important developmental role.

**Types of Equity Investment**

The Bank may invest in equities either directly or indirectly - through appropriate funds and other investment vehicles. Moreover, the Bank may also choose to invest in quasi-equity instruments. These occupy a hybrid position in corporate capital structures, ranking junior to senior debt but ahead of pure equity. Examples include redeemable preference shares/preferred stock, subordinated loans and convertible subordinated loans.

**Eligible Companies**

The Bank undertakes equity and quasi-equity investments in financially viable private sector companies (both start-ups and established entities) in any sector, public sector companies in the process of being privatized (so long as government provides assurances about the timeframe in which private shareholders will gain majority control), and regional/sub-regional institutions. Special consideration is given to financial intermediaries; due to their important macroeconomic role, the access they provide to otherwise difficult-to-reach smaller companies and their complementary fit with the Bank's activities.

**Approach to Ownership**

The Bank will seek to be an active and constructive owner; accordingly, it aims for board representation in any company where it becomes a shareholder. Board representation will enable the Bank to provide valuable advice and insights to company management from its deep and broad experience – both geographically and by industrial sector, in the aim to safeguard its investment.

As a matter of policy, however, the Bank will not seek majority ownership of the companies in which it invests. No Bank shareholding normally exceeds 25% of a portfolio's equity capital. Conversely, no direct participation of less than UA 50,000 will normally be undertaken.

**Divestment**

The Bank's preferred exit strategy is through a sale of its shares to local private investors via the local stock exchange. Sales to foreign or public sector investors may also be considered. Exit is particularly challenging in RMCs that lack developed capital markets, where a market sale is unlikely, an alternative mechanism must be agreed at the time of the original investment. The Bank may also grant the other shareholders the right of first refusal on its shares.

**Cancellation**

To the extent practicable, the Bank will withdraw its investment if any portfolio company fails to perform satisfactorily or otherwise fails to fulfil the conditions for its participation.

# 6. RISK MANAGEMENT PRODUCTS

Risk management products (RMPs) are financial products which allow clients to transform the financial risk characteristics of their obligation under a loan or other instrument without renegotiating or amending the terms of the original instrument. The Bank offers RMPs to its clients in order to enable them to hedge their exposure to market risks including interest rate, currency exchange and commodity price risks. RMPs will be available to clients at the time of loan signature or at any time during the life of the loan.

**Eligibility Criteria**

The Bank may offer RMPs to its clients only in respect of obligations under outstanding or new Bank loans, whether in whole or in part. Any client with an existing or new Bank loan will be eligible for a RMP. Clients under sanctions are not eligible for Bank RMPs.

**The Bank's Role and Obligations**

The Bank shall not act as an advisor to a client in relation to any RMP transaction. The Bank will act on a 'best efforts' basis and exercise reasonable effort to execute the RMP transaction. However, the Bank will not be liable if it fails to execute a RMP transaction. Depending on the nature of the loan or portion of loan to be hedged, the client must be aware that the hedge may not be perfect.

**Pricing Methodology**

For RMP pricing, the Bank shall apply the 'cost pass-through' principle, i.e. the costs related to a specific RMP transaction will reflect the cost of executing an offsetting transaction with a market counterpart. The full cost of that offsetting transaction will be passed through to the client. In addition, a transaction fee will be charged.

**Risk Management Products Offered**

The Bank may offer the following RMPs, or combinations thereof, to eligible clients:

**a.** Interest rate swaps
**b.** Currency swaps
**c.** Commodity/index swaps
**d.** Interest rate caps and collars

**Interest rate swap -** This is an exchange of cash flows between two parties, which generally transforms floating rate obligations in a particular currency into a fixed rate obligation in that same currency or vice versa. For the Bank's clients, the floating rate on the disbursed balance of a loan may be converted into a fixed rate and vice versa. Interest rates may be fixed (or unfixed) at the client's option for as long a maturity as the interest rate swap markets provide, subject to the final maturity of the loan.

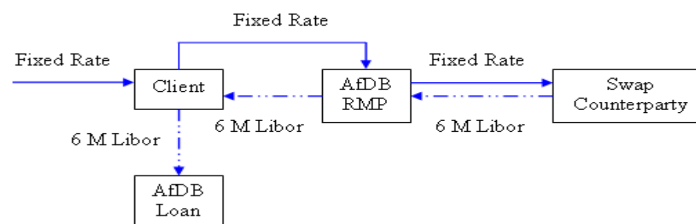



**Diagram 2: An illustration of an interest rate swap**

**Currency swap -** This is an exchange of cash flows denominated in different currencies. The cash flows are based on agreed-upon exchange rates and may or may not include the exchange of principal. Currency swaps will, however, be available only for the disbursed portion of a loan and for as long a maturity as the currency swap markets provide, subject to the final maturity of the loan.

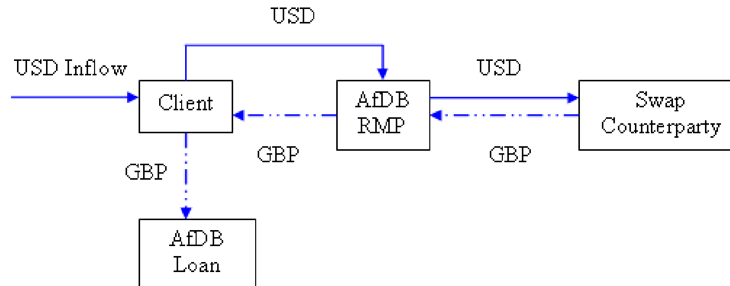



**Diagram 3: An illustration of a cross currency swap**

**Commodity/index swaps** - This is an exchange of cash flows, where one of the cash flows is based on the price of a particular commodity/index or basket of commodities, and the other cash flow is based on an interest rate. For the Bank's clients, the interest rate of the disbursed portion of a loan may be converted from an interest rate reference to a commodity price reference and vice-versa for as long a maturity as the commodity swap markets provide, subject to the final maturity of the loan.

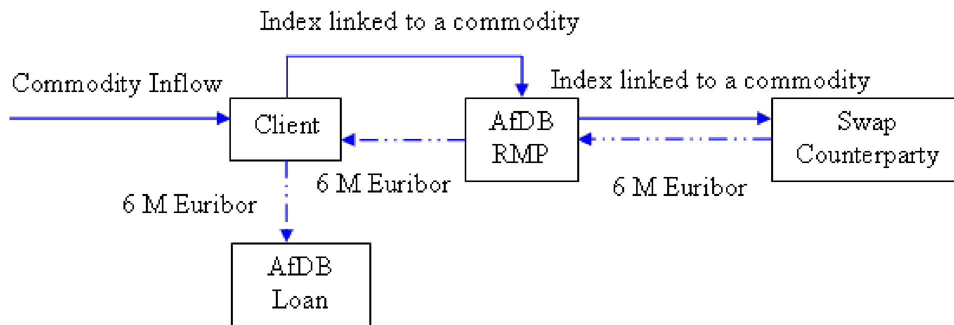
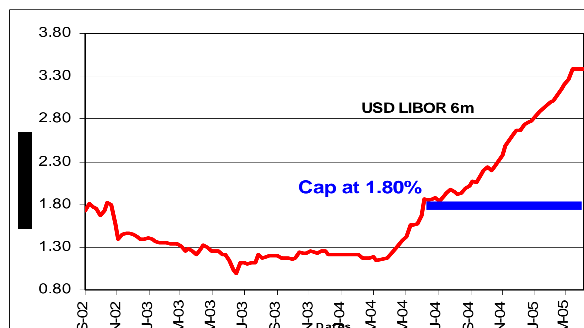



**Diagram 4: An illustration of a commodity/index swap**

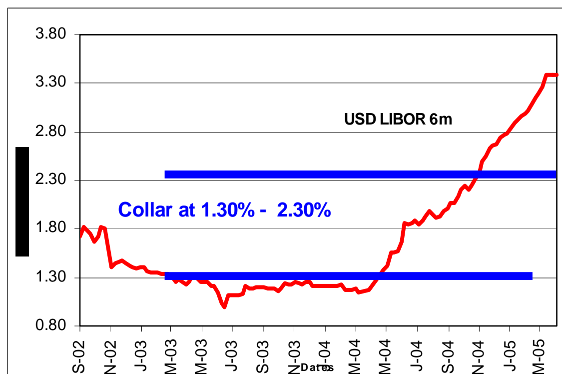
**Interest rate cap -** An interest rate cap limits the maximum interest rate on a floating rate loan regardless of the future level of the market reference rate. By purchasing an interest rate cap, either at loan signature or during the life of the loan, a floating rate client can enjoy lower interest costs while market rates are above the specified maximum rate, for the duration of the cap.

**Graph 1: An illustration of the use of interest rate caps.**



**Interest rate collar -** An interest rate collar sets maximum (via the purchase of a cap) and a minimum (via the sale of a floor) interest rate on a floating rate loan. By purchasing an interest rate collar, either at loan signature or during the life of the loan, a floating rate client can enjoy, for the duration of the collar, interest costs that are limited between an upper and lower level while market rates are outside the range of the collar. Under no circumstances shall interest rate collars be executed such that there is a net inflow of funds to the client. 'Zero cost' collars are permissible where the premium payable on the cap is exactly offset by the premium received on the floor. Under no circumstances should the client, directly or indirectly, 'strip[2]' the collars.

**Graph 2: An illustration of the use of interest rate caps and collars.**




## Transaction Fees and Other Costs

### *Schedule of Transaction Fees*

In addition to the actual cost of the offsetting transaction that the client shall pay, the Bank will also charge a transaction fee.

These fees are non-refundable and are applicable for each individual transaction. Transaction fees may be reviewed, within the range approved by the Board, from time to time, by management. Fees for RMP transactions are payable as a single, front-end payment within five (5) business days from the date of execution of the transaction.

[2] To strip a collar means to trade the components of the collar separately

**Table 6: Summary of RMP fees**

| RMP Transaction | Transaction fee |
|---|---|
| Interest rate swaps | 1/8% |
| Currency swaps | 1/4% |
| Commodity/Index swaps | 3/8% |
| Cap & Collar | 1/8% |

### *Transaction Fee and Sanctions Policy*

Even though RMP transactions are not specifically covered by the Bank's Sanctions Policy, failure to make a payment due on a RMP transaction will result in sanctions given the cross default provisions which will trigger a default in the underlying loan in the event of a default on an RMP.

### *Additional Costs*

If in the course of processing a request for an RMP the Bank envisages additional costs, such as legal costs, it will inform the client. The Bank will only continue the processing of the request if the client agrees to cover these additional costs. The payment of such costs is immediately due upon demand by the Bank.

## Termination/Rejection of a RMP Transaction

If the counterpart on the offsetting RMP transaction defaults, the Bank would enter into a new RMP transaction with another counterpart for the remaining maturity of the original RMP transaction, if market conditions permit. In the event that the offsetting transaction is not possible, the Bank reserves the right to terminate the RMP transaction with the client.

Clients shall be required to provide a persuasive rationale for the intended use of a RMP when making the request. The Bank reserves the right to refuse a request that does not meet the terms and conditions of the use of RMP or if, in the opinion of the Bank, it is not suitable for the project or other risk management needs. If a client is more than thirty (30) calendar days late in its RMP transaction payment, the Bank reserves the right to terminate the RMP transaction.

**Table 7: Summary terms for RMPs**

| Risk Management Products Terms and Conditions | |
|---|---|
| **Maximum transaction amount** | The maximum amount will always be limited to the outstanding loan amount |
| **Minimum transaction amount** | Generally, the equivalent of USD 3 million. The minimum transactions amounts, however, may vary from one market to the other and are dependent on market conditions at the time of the transaction |
| **Maximum maturity** | Dependent on the maturities available in the relevant market but not longer than the outstanding maturity of the underlying loan or the portion of the loan being hedged |
| **Currencies** | USD, EUR, JPY, ZAR and other approved Bank lending currencies for which liquid derivative markets exist |
| **Starting date** | The starting date on a RMP transaction must coincide with an interest payment date on the underlying loan |
| **Ending date** | The ending date on an RMP transaction must coincide with an interest payment date and be beyond the starting date |
| **Payment dates** | Payment dates will coincide with the payment dates on the underlying loan or portion of the loan being hedged |
| **Early termination** | The client may terminate the RMP transaction at any time. The client shall pay, as a single payment, within five (5) business days from the date of the termination transaction, the applicable transaction fee on the terminated principal amount in addition to the settlement of the mark-to-market value of the terminated RMP |
| **Termination due to late payment** | The Bank retains the right to terminate a RMP transaction, if payment on the RMP transaction is late by more than 30 calendar days. The early termination provision, above, will apply |
| **Payment of premiums and fees** | Premiums and fees are payable as a single, up-front payment within five (5) business days from the date of execution of the transaction. Premiums and fees must be paid from the client's own resources and not from the underlying loan proceeds |
| **Currency of payments** | Premiums and fees are paid in the currency of the hedges and not the currency of the undergoing loan |
| **Loan prepayment** | The RMP transaction will be automatically terminated if the related portion of the underlying loan is prepaid. The early termination provision, above, will apply |
| **Application of partial payments** | A partial payment[3] will be applied first to interest and other charges on the loan, then to the RMP transaction and finally to the loan principal. For public sector clients, if the partial payment net of interest and other loan charges is insufficient to settle the RMP transaction, for consistency with the Sanctions Policy, when applicable, a cure period of thirty (30) days from the payment due date will be granted. However, during the cure period the late payment fee for RMPs will apply |
| **Late payment[4] fee** | A late payment fee equal to the floating interest base rate in the currency of the payment plus one percent (1%) for public sector clients or two percent (2%) for private sector clients will apply to late payment amounts, in addition to any foreign exchange loss due to the delayed payment on the RMP transaction |

[3] A partial payment is a payment that does not cover the net payment of the loan and the RMP transaction, as specified on the bill

[4] A payment is said to be late on the RMP transaction if the amount received net of interest and other loan charges is not sufficient to settle the payment on the RMP transaction on the due date.

## Legal Requirements

### *Due Diligence*

Before requesting for an RMP, the client must ensure that it is legally authorized to enter into the envisaged derivative transaction.

### *Legal Documentation*

Prior to entering into RMP transactions, clients would be required to enter into a market-based Master Derivatives Agreement (MDA) with the Bank. In addition to local legal specific requirements, this agreement would provide the contractual framework between the two parties. In most cases, the Multi-currency Cross Border Master Agreement published by the International Swaps and Derivatives Association (ISDA) will be used as the basis for the agreement. In cases where the need of a Master Agreement is not justified the Bank can document the RMP transaction by a stand-alone agreement or amend the loan agreement in the case of loan conversion. The loan agreement shall be amended to reflect the Derivative Agreement between the Bank and the client. The Derivative Agreement shall clearly stipulate that RMP transactions and the obligations arising in respect thereof would be considered to be within the purview of the Bank's assets for the purposes of the Bank's preferred creditor status in its Regional Member Countries (RMCs).

### *Cross Default Provisions between a Loan and Related RMPs*

Cross default provisions will be included in the MDA to ensure that a default under the loan agreement will also trigger a default under the MDA. Concomitantly, the underlying loan agreement shall be amended to provide that a default under the MDA will also trigger a default under the loan agreement.

### *Guaranteed Loans*

In the event that the underlying loan has a guarantee, the prior consent of the Guarantor will be a condition for the RMP. Furthermore, taking note of Article 18(3)(b) of the Bank Agreement, and the related Bank Policy requiring that public sector loans to non-members be supported by a sovereign guarantee, RMPs to non-members will be accompanied by adequate credit support, specifically provided for in the MDA.

# 7. RESPONDING TO THE IMPACT OF THE FINANCIAL CRISIS

Concerned that recent trends in global financial markets, particularly the rapidly diminishing availability of capital worldwide, are having an increasingly adverse impact on African countries and its clients, the Bank established a USD 1 billion Trade Finance Initiative (TFI) on 4 March 2009 as part of a global response to the financial crisis.

## TRADE FINANCE INITIATIVE

The TFI is intended to enable the Bank to deliver in the short-term, a rapid response to the sudden shortfall in financing for trade. The Bank's new Trade Finance Lines of Credit (TF LOC) is part of that response. It has the following characteristics:

**Eligibility**

African financial institutions (commercial banks and DFIs) that are engaged in trade finance. All applications will be subject to the Bank's prescribed review and approval processes and procedures.

**Terms and Conditions**

***Maturity***

Up to 3.5 years. Shorter final maturities can be expected.

***Currency***

A TF LOCs will be denominated in one of the Bank's lending currencies. All disbursements and repayments will be made in the currency of the TF LOC.

***Pricing***

A TF LOC will attract up-front fees of up to 1% of the committed amount and will be priced with a margin over a standard interest rate reference such as LIBOR in the currency of the facility.

***Disbursement Terms***

A TF LOC will usually disburse in two tranches. The first tranche (generally up to 50%) will be drawn after the conditions precedent have been met. The second tranche will be disbursed after the Bank has verified that the use of proceeds of the first tranche complies with the terms and conditions of the legal agreement.

***Repayment Terms***

A TF LOC may have amortizing repayment terms with an agreed grace period on principal repayments (typically up to one year) or may be repaid in a single (bullet) installment at final maturity. In line with standard practices, the Bank may charge a prepayment fee for early repayment and a penalty for late repayment.

***Use of Proceeds***

The proceeds of a TF LOC will be used by the recipient FI for trade finance operations. This includes, but is not limited to, standard import and export finance operations including pre- and post shipment finance. Given the short-term nature of trade finance (90% is less than one year), the FI will be permitted to "re-use" or "revolve" the proceeds until the contractual repayment dates of the facility.

***Security and Seniority***

Like standard LOCs, a TF LOC is unsecured senior obligations of the borrowing FI. The risk assumed by the Bank will be the corporate risk of the FI and not the risk of the individual trade transactions financed under the TF LOC.

**Table8: Summary terms of TF LOC**

| | |
|---|---|
| **Currencies** | USD, EUR, JPY and ZAR |
| **Pricing** | Interest Rate + margin |
| **Final Maturity** | Up to 3.5 years |
| **Grace Period** | Up to 1 year |
| **Front end fee** | Up-front fees up to 1% |
| **Disbursement** | multiple drawdown |
| **Repayment** | Amortizing repayment or single instalment at final maturity |
| **Prepayment** | Prepayment penalty charged |

# 8. TECHNICAL ASSISTANCE

Alongside its financial products, the Bank is able to supplement these financial products with grants to fund technical assistance to the borrowers. This initiative is particularly focused on raising the effectiveness of project preparation, which is vital to ensure the best developmental and poverty-reducing outcome for projects that receive Bank financing.

The most important areas of technical assistance requiring grants include the training of central and regional/local government officials in project design, preparation and analysis. In addition, the technical assistance aims to foster and sustain RMC efforts in creating an enabling business environment in order to promote private sector investment and growth.

In all cases, activities financed must be related to projects/programmes that are of priority to the country concerned. Moreover, they should offer the prospect of leading to new business opportunities for the Bank.

The Bank's main sources of funds for technical assistance are its Technical Assistance Fund for Middle Income Countries (MIC Fund) and the Fund for African Private Sector Assistance (FAPA).

**The Technical Assistance Fund for Middle Income Countries**

The main objective of the MIC Fund, which has been in operation since 2002, is to allow the Bank to address the critical needs of borrowers in its middle income RMCs by financing priority activities. Priority is given to project/programme preparation, intensification of Economic and Sector Work (ESW) and other country analytical work, private sector promotion and capacity building.

***Project Preparation***

The MIC Fund will finance project/programme preparation in both the public and private sectors. This also includes preparation/upgrading of project engineering designs, environmental impact assessments and the preparation of environmental management plans. The MIC Fund may also be used to finance studies. Care will be taken to ensure that fund resources are not utilized to duplicate studies already undertaken.

***ESW and Other Country Analytical Work***

The MIC Fund may finance ESW and other country analytical work, such as core diagnostic reports, sector reviews, country governance profiles and topical analysis. The fund could also be used to finance studies related to the achievement of Millennium Development Goals as they relate to poverty reduction efforts in the MICs.

***Private Sector Promotion***

The private sector is an important growth engine in MICs. To maximize the benefits of private sector development the MIC Fund can be used to strengthen private sector participation by creating and sustaining environments conducive for private sector growth, for example by supporting legal and regulatory reform processes.

***Capacity and Institution Building***

The MIC Fund may be used for capacity building and strengthening of institutions in eligible RMCs. Capacity building should aim at enhancing preparation and implementation capacity by funding training of government officials, and members of various business associations, responsible for the preparation and management of Bank-financed projects. In all cases, training is limited to short-term targeted skills-upgrading.

The fund may also finance institutional strengthening i.e. by modernising facilities through the provision of IT equipment for example.

***Eligible Countries***

The MIC Fund can be used to finance activities in Category C[5] and Category B[6]

***Ceilings***

The technical assistance ceiling per project eligible for support from the MIC Fund is UA 600,000. A minimum of UA 100,000 also applies.

These limits are based on historical averages.

***Foreign Exchange and Local Cost Financing***

Grants from the MIC Fund may be used to finance both foreign exchange and local cost components of approved activities. Beneficiaries will be required to contribute at least 5% of the total cost. The Fund may finance up to 100% of the foreign exchange costs of approved activities.

***Requirements for Proposals***

Detailed requests for grants from the MIC Fund should be submitted to the Bank by national governments (for public sector activities) or private sector entities. Private sector requests should be accompanied by a letter of no objection from the local Ministry of Finance.

**The Fund for African Private Sector Assistance**

The Fund for African Private Sector Assistance (FAPA) provides the Bank's public and private sector clients with grant funding for studies, technical assistance and capacity building.

Potential recipients of FAPA grants include RMC governments, regional economic communities and other inter-governmental bodies, business associations, market regulators, business development service providers, business training and research organisations and public/private enterprises.

FAPA funds are available to support RMC governments in undertaking legal and regulatory reforms, particularly those that strengthen the private sector and develop entrepreneurship. They may also be used to deepen and broaden financial markets, trade finance and non-banking financial products, as well as for developing essential infrastructure. No project may exceed USD 1 million.

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[5] These are Middle Income Countries (MIC) only eligible to receive financing from the non-concessional African Development Bank window include: Algeria; Botswana; Egypt; Equatorial Guinea; Gabon; Libya; Mauritius; Morocco, Namibia; Nigeria; Seychelles; South Africa; Swaziland; Tunisia; and Zimbabwe

[6] Blend Countries, eligible for both non-concessional AfDB funding and African Development Fund (ADF) grant funding, these include Nigeria and Zimbabwe.

# Annex

## STANDARD LOAN TERMS

**Currencies**

The Bank may finance a project in one or several currencies approved as lending currencies - currently USD, EUR, JPY and ZAR. In principle, the Bank can also consider lending in other currencies in which it can fund itself efficiently and for which there is sufficient demand.

Disbursements, principal repayments and all loan charges are denominated in the loan currency chosen by the borrower.

**Loan Maturity**

The Bank provides long-term financing to suit the needs of its borrowers; SGLs may have a maximum maturity of up to 20 years, inclusive of the grace period. Maturity restrictions may apply to certain currencies and product types, depending on market conditions.

NSGL may have a maximum maturity of up to 15 years, inclusive of the grace period.

**Grace Period**

Grace periods are dependent on the specific characteristics of the project and the time required for its implementation, but should generally not exceed 5 years. In exceptional cases, grace periods longer than 5 years may be considered subject to satisfactory justification of project requirements by the borrower. The grace period starts from the date of signature of the loan agreement.

**Interest Rate Terms**

The Bank provides several alternative interest rate mechanisms:

**a.** For Enhanced Variable Spread Loans, the applicable rate of interest is the sum of three components – the chosen base rate plus a lending margin (or spread) plus a funding margin.

**b.** For Fixed Spread Loans, the applicable rate of interest is the sum of two components – the chosen base rate plus the lending margin.[7]

Interest rates on Bank loans are expressed as nominal rates. Interest and any other charges are computed on the basis of the actual number of days elapsed and a 365-day year.

**Base Rates**

To provide its borrowers with the flexibility to match the interest rate structure of their loans with their individual financial needs, the Bank offers two principal structures for the base lending rate: floating base rate and the fixed base rate.

***Floating Base Rate***

The floating base rate is determined for each loan currency and reset frequency based on the Bank's selected reference interest rate in each market. For USD and JPY, the Bank's standard floating base rate is 6-month Libor, while for EUR 6-month Euribor is used; these rates reset semi-annually (value February 1 and August 1). For ZAR, the Bank's standard floating base rate is 3-month Jibar; this rate resets quarterly (value February 1, May 1, August 1 and November 1).

***Fixed Base Rate***

The principal feature of the fixed base rate is that it remains fixed for the life of the loan. However, because loans are generally disbursed in several tranches and the rate applicable to each loan tranche is fixed independently, a loan with a fixed base rate is usually initially composed of several tranches each with a different fixed base rate. The fixed base rate for each loan tranche is computed by the Bank as the inter-bank swap market rate corresponding to the principal

[7] The Fixed Spread Loan is temporarily suspended for SGLs until further notice.

amortization schedule of that tranche. When the disbursement of a loan is complete, the Bank gives its borrowers the option to consolidate multiple loan tranches into a single equivalent structure to simplify the future administration of the loan.

### Funding Margin[8]

The funding margin is the semester weighted average of the currency-specific cost spread relative to Libor/Euribor/ Jibar of the Bank debt allocated to fund all single currency floating rate loans in the loan currency. It is computed twice a year, for value 1 January, 1 July, based on allocated borrowings in the semester ending 31 December and 30 June.

### Lending Margin

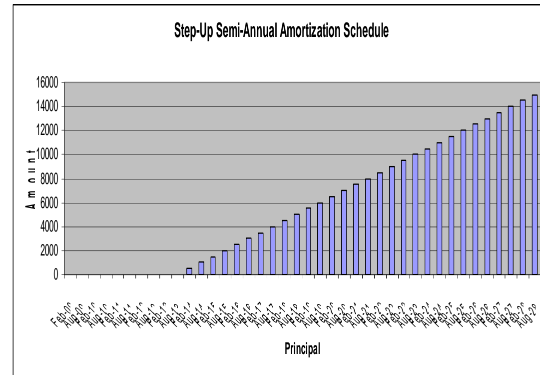
The lending margin is a rate premium expressed as a nominal interest, determined by the Bank and is independent of the base rate chosen; it remains unchanged throughout the life of the loan. For SGLs it is currently at 60 basis points (0.60%).

For NSGLs, the lending margin is project specific and is based on the Bank's assessment of the risks inherent in each project.

### Principal Repayment Terms

The Bank's principal repayment terms provide for the payment of equal instalments of principal, after the expiration of the grace period. Other principal repayment terms - notably, annuities, bullet repayment and step-up or step-down amortization of principal - may be considered subject to satisfactory justification of project requirements by the borrower.

**Graph 3: An illustration of a step-up amortization schedule**




### Payment Frequency

Interest and any other charges on the Bank's loans are payable semi-annually on any of the standard repayment dates of 1st February and 1st August. The Bank recognises that it's clients have differing borrowing requirements, and to accommodate this the Bank also offers for it's clients who choose the Variable Spread Loans, any combination of the 1st and 15th of any month (excluding 1st January).

For Variable Rate Loans February 1 and August 1, March 1 and September 1, April 1 and October 1, May 1 and November 1, and June 1 and December 1 are the standard repayment dates. Monthly, quarterly, and annual payment frequencies are allowable (except for Variable Rate Loans), subject to suitable justification by the borrower.

### Loan Status

In most cases, the Bank makes its loans on a senior basis. Unless the Bank specifically agrees to other arrangements, its loan must rank on a par, regarding debt service and security, with other senior loans of the borrower.

[8] This Funding margin is only applicable for Variable Spread Loans.

## Loan Fees[9]

### *Front-End Fee*

The front-end fee is designed to partially compensate the Bank for the costs associated with processing a loan request and preparation of the documentation for loan approval. It is only charged on an approved project. It is not reimbursed if the project is subsequently cancelled. The front-end fee is 1 % of the loan amount. The fee is payable before or at loan signature, however when market and/or conditions warrant, the front-end fee may be paid up to thirty (30) days after loan signature or as agreed among co-financiers in co-financed projects.

### *Commitment Fee*

The commitment fee is in the range of 0-1 % per annum for clients from middle income countries and 0.5%-1% for clients from other countries, and is calculated on undisbursed loan balances. The commitment fee starts to accrue at latest 60 days after loan signature. The commitment fee is payable on each payment date.

### *Appraisal Fee*

In cases where project appraisal contains a large advisory component such as external legal counsel and/or due diligence, the Bank may charge an appraisal fee. The fee is set in order to partially or fully recoup the Bank's costs during appraisal and is payable even in cases where the project is, for whatever reason, not approved. The appraisal fee is payable no later than the date of first disbursement, or as agreed among co-financiers in co-financed projects.

### *Late Payment Fee*

To cover the financial cost of delayed interest, principal or any other amounts due under the loan, the Bank charges a late payment fee and breakage costs, if any, as incurred by the Bank. The late payment fee will be at least 2 % per annum above the interest rate on the loan and will be calculated on the amount overdue.

### Prepayment Premium

Subject to having paid all interest and upon giving the Bank 45 calendar days notice, loans can be prepaid in whole or in part. In the event of early repayment, the Bank may charge a prepayment premium that reflects the Bank's cost of redeploying the prepaid funds. The premium is based on current market interest rates, loan interest rate and repayment structure of the remaining term of the loan.

The premium will reflect the Bank's cost of redeploying the prepaid funds or unwinding the hedging transactions attached to the loan.

Should prepayment be permitted, and subject to having paid all interest, commitment fees and any other charges, and upon giving the Bank 45 calendar days notice, loans can be prepaid in whole or in part.

### Arrears

For amounts in arrears in the loan currency, the late payment interest rate will be computed by adding the base rate in the loan currency (Libor in USD/JPY or Euribor or Jibar), the default penalty rate (usually 2%) and the applicable lending margin. This rate will be applicable to amounts in arrears.

### Other Fees and Penalties

The Bank may charge other fees and/or penalties on a case-by-case basis.

### Loan Cancellation

Loan cancellation will be in accordance with appropriate Bank financial policies and guidelines and/or provisions of the loan agreement.

[9] These are only applicable to NSGLs.

**Loan Security**

The Bank will require borrowers requesting NSGLs to provide it with suitable security – including but not limited to mortgages, fixed and/or floating charges over the assets of the borrower, as well as pledges. In cases where there are other co-financiers of the project, the Bank shall require that its own security is of a rank *pari-passu* with that of the other co-financiers.

In addition, the Bank may require adequate guarantee to cover its loan exposure, including commercial bank guarantees and/or guarantees issued by other corporate entities acceptable to the Bank. The Bank may accept a central bank guarantee if offered by the NSGL client, provided it is determined that such a guarantee is, firstly, legally callable, and, secondly, does not constitute a sovereign guarantee. As other alternative forms of security, in particular cases, the Bank may request the establishment of (i) foreign or domestic escrow accounts that will have on deposit a certain amount of project revenues, which could be used for debt service repayment, (ii) support agreements under which third parties would undertake to cure defaults of the borrower to the Bank and or (iii) any other mechanisms that the Bank, in consultation with the borrower, deems necessary and appropriate under specific project circumstances. Guarantees, escrow and support arrangements may cover a specified period (e.g. project construction) or the entire duration of the Bank's loan.

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