Abidjan 2010

Leveraging ADF Resources for Private Sector Development

THIRD ADF 12 REPLENISHMENT MEETING

AFRICAN DEVELOPMENT FUND

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MAY 26-27 2010

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An evolving context requires new approaches

- Private investment is necessary to:
  - Boost growth and pull ADF countries out of poverty.
  - Narrow the development financing gap.
- ADF countries are committed to private sector led growth.
- Reduced liquidity and heightened risk aversion inhibit their ability to attract foreign and domestic investment.
- Two instruments to innovate and consolidate:
  - The First Loss Portfolio Guarantee
  - Partial Risk Guarantees

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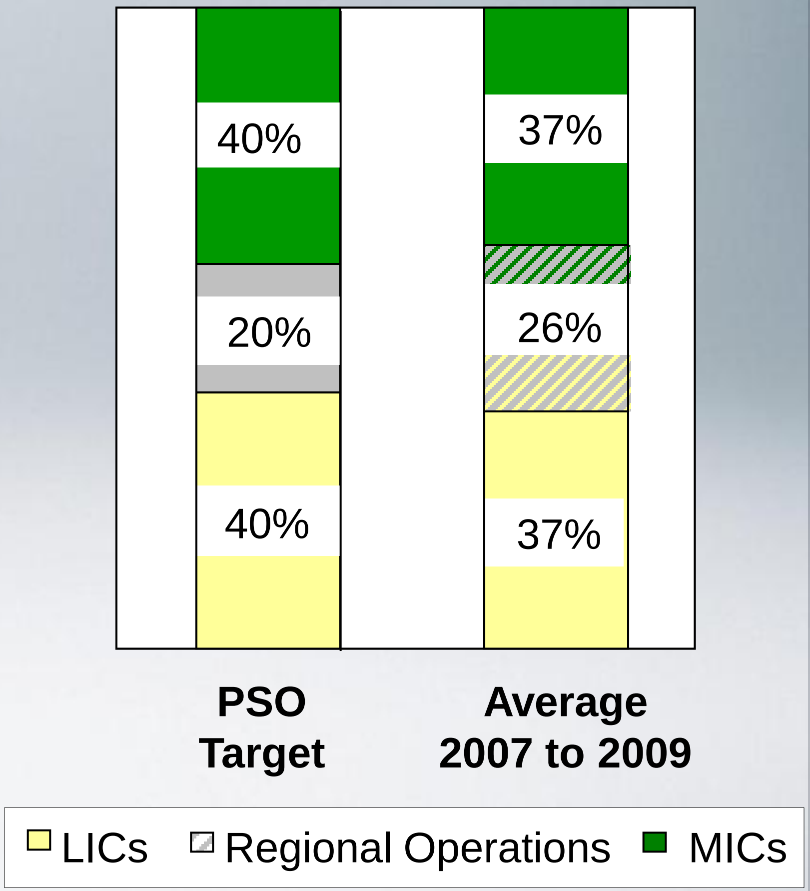
The instruments would leverage AfDB Group capabilities and boost results

- Demonstrated capacity to process and supervise an increasing volume of non-sovereign operations in LICs.
- One-stop-shop for private sector development.
- Growing non-sovereign pipeline across ADF countries.
- Every 1 UA of non-sovereign lending attracts an additional 5 UA from external sources.

Non-sovereign operations, targets, achievements



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The FLPG significantly raises the share of PSO in LICs over the ADF 12 cycle

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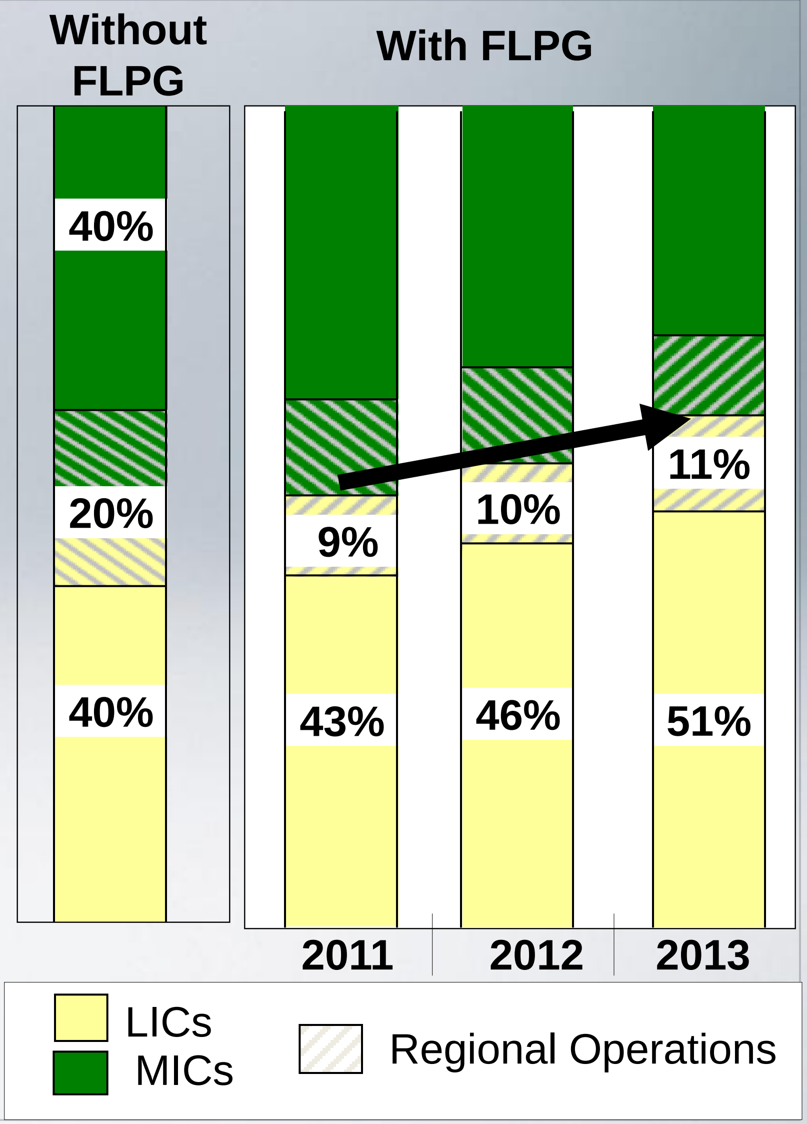
- The GCI provides headroom for non-sovereign portfolio growth in LICs and MICs.
- The FLPG would boost the non-sovereign portfolio risk-bearing capacity for LICs.
- Ring-fenced benefit to eligible transactions to offset high country risk in LICs.
- Overall risk for an entire portfolio is lower than the sum of risks on individual transactions in that portfolio.



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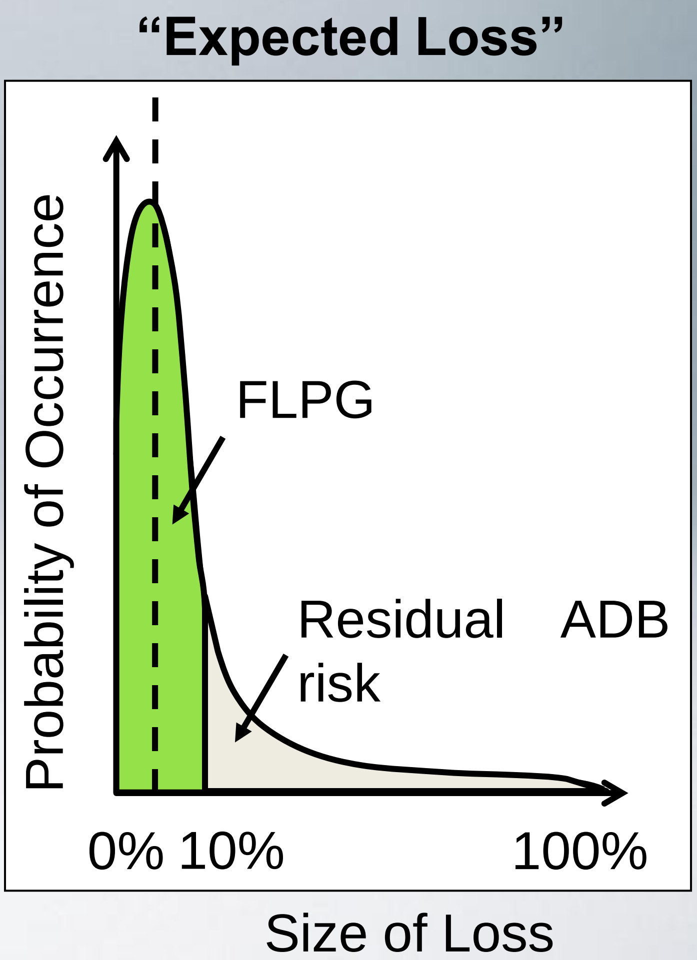
The FLPG takes the first 10% of losses on a designated portfolio

- ADB remains risk bearer of residual risk.
- The pilot approach assumes a gradual build up of the portfolio.
- Seeded by a UA 100 million ADF "top-slice" and voluntary bilateral contributions.
- Procedures and modalities would be governed by Framework Agreement to be negotiated between the ADB and ADF Boards.



Eligibility criteria would also need to consider the implications of …

- Country and sector portfolio diversification.
- Portfolio homogeneity:
  - A few very large operations could deplete the facility rapidly
- Size of the guarantee facility

Average country risk

Country	Rating
Fragile state	5.4
LIC	4.3
MIC	2.2

Commercial risk

Sector	Rating
MFI and SME	2.8
Agriculture & agribusiness	2.5
Infrastructure	1.9
Industry & services	1.4
Financial intermediation	1.3

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Partial risk guarantees (PRGs) are an enabling instrument for PPPs

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- In LICs, PPPs remain risky business for investors : projects bear higher premiums to pre-empt the risk of government non-performance.
- PRGs are not a substitute for non-sovereign loans but increase the feasibility of PPPs:
  - Cover non-performance of the public sector partner.
  - Encourages Government to undertake enabling reforms.
  - Defaulting on one loan triggers default on other loans.
  - Only uses 25% from the requesting country's PBA.
  - Guarantees have a 1:4 leverage.

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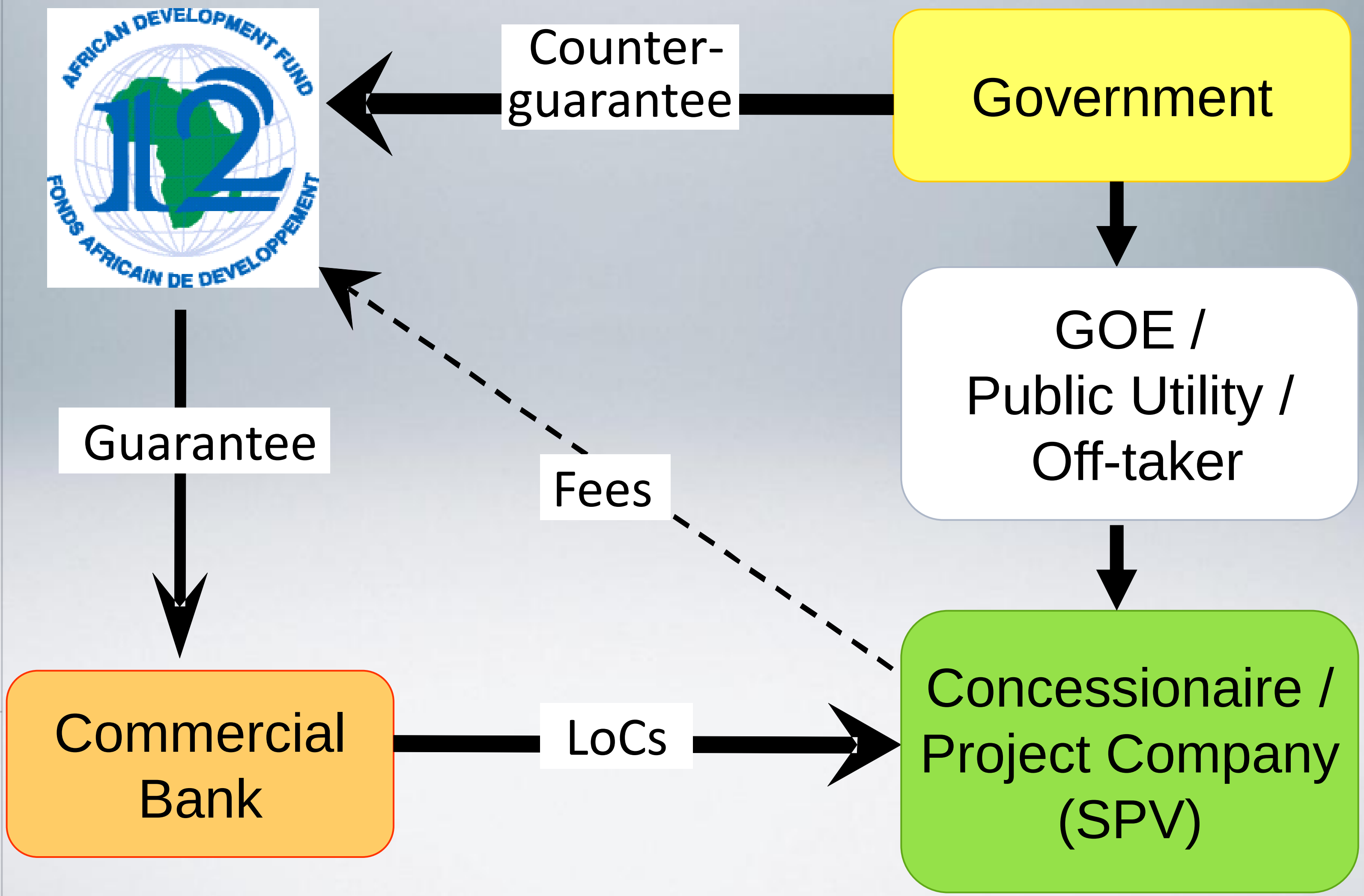
PRG structures are customized to specific project risks, partners and modalities.



The AfDB will leverage the 20 year-strong experience of sister institutions in PRGs

- During ADF XII, PRG demand is about UA 475 million.
- Financing modalities are built into the PBA and are therefore contingent on government demand:
  - Serving both public and private sector clients enables the AfDB to mobilize demand effectively.
- PRGs require project finance skills and methods :
  - Investment officers, credit risk managers and legal officers have solid experience.
  - Technical assistance and piloting to grow in-house expertise.

In summary…

- Private sector development is essential for sustainable economic growth that leads to meaningful poverty reduction.
- Two new financing instruments have been proposed that will leverage more private sector operations in LICs by significantly amplifying the benefits of the GCI.
- Both instruments would be introduced on a pilot basis before mainstreaming and scaling up.