



**Promoting Sustainable Development  
via Non Sovereign Financing to  
State-Owned Enterprises & Private Companies**

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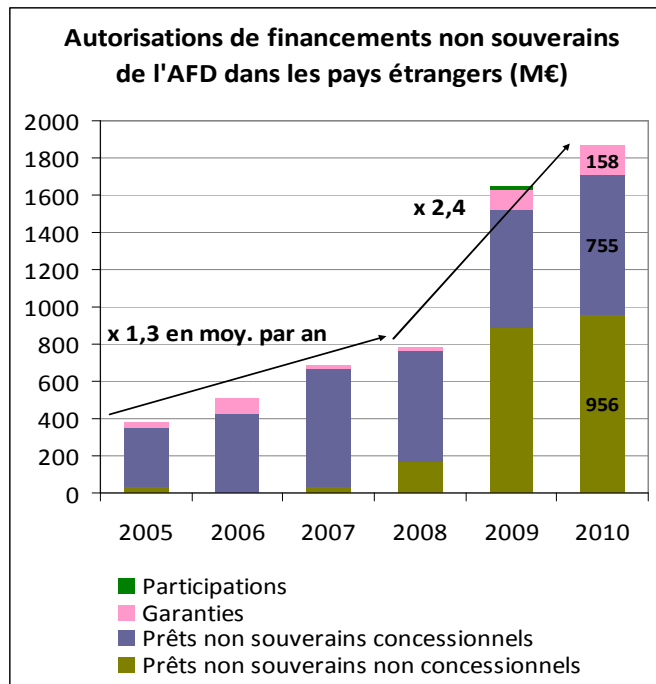
Vientiane, 4 November, 2011

*développeur d'avenirs durables*

## 1

# AFD's Non-Sovereign Financing Activities

- AFD “Non-Sovereign” activities aim at financing development projects through a wide range of financial tools **without any State guarantee**
- AFD's Non-Sovereign activities in brief:



- Annual Approval  
**380 M€ in 2005 → 1.9 B€ in 2010**
- Weight in total annual approval  
**27% in 2005 → 38% in 2010**
- Total Non Sovereign in portfolio  
**€ 3.7 B**
- All sectors : **Finance, Infrastructure, Health & education, industry...**

## 2

# A Wide Range of Beneficiaries and Products

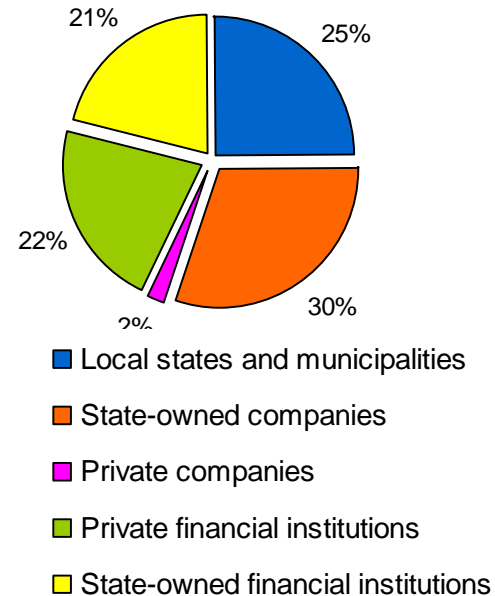
### ■ AFD provides NS financing to:

- State-owned or controlled enterprises
- Local authorities / municipalities
- Commercial and public banks
- Private entities
- NGOs

### ■ Using a wide range of financial tools:

- Loans (in 2010):
  - *concessional loans (755M€)*
  - *market-rate loans (956M€)*
- Guarantees (158M€)
- Equity investments through minority participation

NS commitment by client in 2010



# 3

## NS Lending to Public and Private Entities

### Public Entities

- 100% State-owned enterprises
- State-Controlled companies (>51% shares)
- Local governments/municipalities
- State-owned banks

#### ■ Rationale:

- Accompany public entities towards increasing responsibility and autonomy
- Promote sound financial management
- Support viable projects that cannot be entirely financed by the market

#### ■ Impact :

- Complement the State's financial efforts and limit its indebtedness
- Act as a leverage to generate other public and private flows
- Create long term partnerships with public entities

### Private Entities

- Private companies
- JV with minority equity interest by the GoL
- NGOs
- Private financial institutions

#### ■ Rationale:

- Public interest mission carried out by private entities
- Additional Corporate and Social Responsibility commitment
- Support to companies in their effort to upgrade environmental and social standards
- Demonstration effects, pilot phases

#### ■ Strict criteria:

- Subsidiarity - *i.e. non competition with commercial banks or financial markets*
- Additionality - level of subsidy element adapted to the project's additionality

# 4

## AFD's Added Value (1)

- Favorable financial terms to face the lack of private financing resources
  - Un-tied financing (not tied to French interests)
  - AFD's AAA rating guarantees competitive funding
  - Long maturity: 5 to 20 years including the relevant grace period
  - Convertible currency financing possibilities
  
- Complementary partner, additional to commercial banks' offer
  - Support viable projects with insufficient private financing
    - *Borrower exposure limit reached by commercial banks*
    - *Longer maturity not available in local capital markets*
    - *Risk-adverse attitude of commercial banks in certain sectors*
  
- Leverage in-house expertise and co-financing capacity
  - Financial engineering (Project Finance through PPP, Corporate Finance etc.)
  - A privileged access to consultancies
  - Co-financing with other donors : World Bank, European Investment Bank, ADB, etc
  - Access to grant funds for technical assistance

# 5

## AFD's Added Value (2)

### ■ Innovative financial solutions

- **Countercyclical loans example: repayment indexed on international raw material prices**
- **Subsidized interest rates indexed on the borrower's performance in terms of environmental or social responsibilities**

### ■ Non financial risk mitigation

- **Reduced environmental and social risks based on high standard E&S due diligence**

### ■ Strong expertise in key sectors for development

- **Energy and climate**
- **Productive sector**
- **Infrastructure**
- **Agribusiness & rural sector**
- **Water and Sanitation**
- **Health and education**
- **Urban development**

## 6

## Indicative Terms & Conditions of a NS loan (1)

- **Loan Amount :** USD 5M – USD 150M \*
- **Currency:** USD or Euro \*\*
- **Maturity:** up to 20 years including a max 5-year grace period
- **Interest rate :** market-rate or subsidized rate \*\*\*
- **Interest rate option:** floating or fixed
- **Appraisal fee:** 0.5-1.0% of loan amount
- **Commitment fee :** 0.5% per annum on undisbursed amount

\* *check with AFD for amount out of the indicated range*

\*\* *check with AFD for local currency offer's availability*

\*\*\* *level of subsidy element adapted to the project's additionality*

# 7

## Indicative Terms & Conditions of a NS loan (2)

### ■ Securities/Guarantee scheme (indicative)

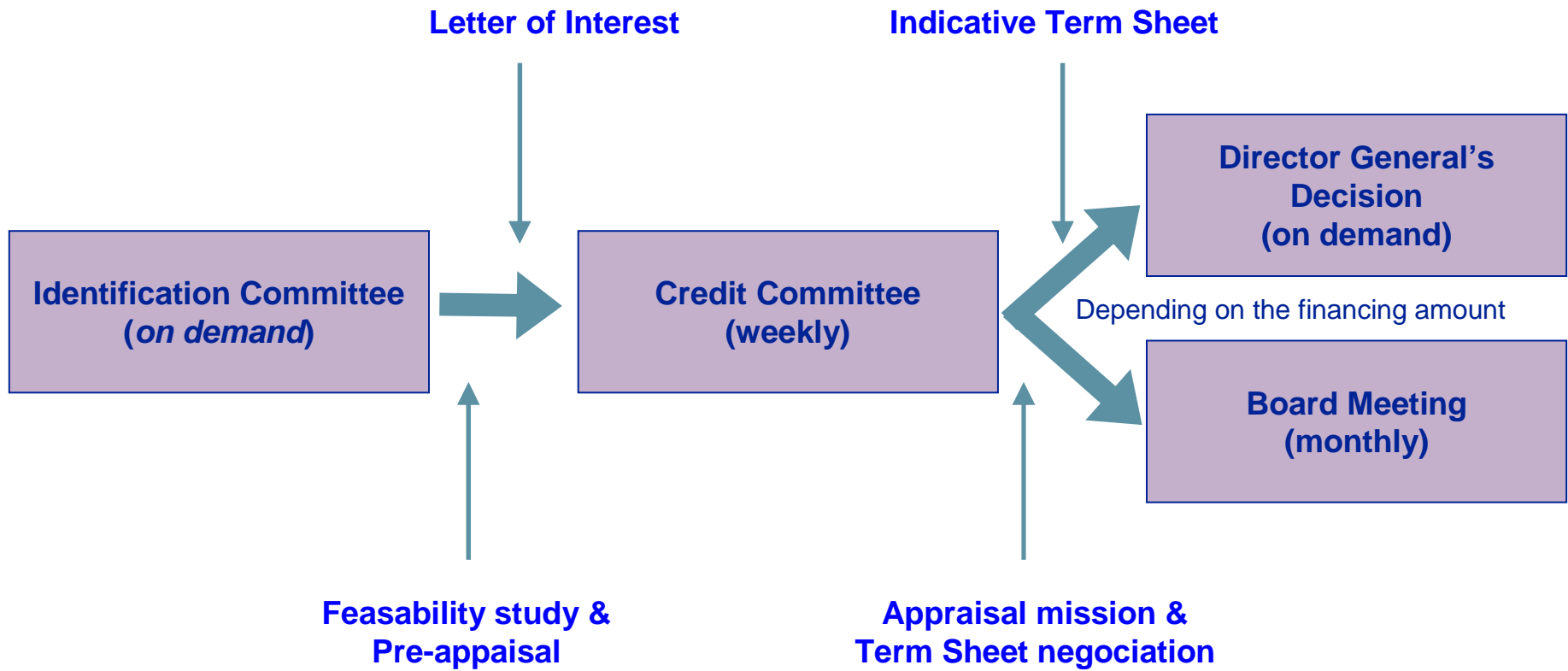
- **Pledges on assets**
  - Equipment, buildings, land, shares
  - Pledge on operating cash flows of the project/company
- **Agreements on payment mechanisms (cash waterfall)**
  - Debt service reserve account
  - Revenues from important clients transferred to an escrow account, permanent minimum cover
- **Indemnity agreements with governments**
  - Commitment of government to compensate AFD if default of the borrower has been caused by non-fulfilment of government's contractual obligations towards the borrower

### ■ Main covenants (indicative)

- **Financial ratios**
  - Debt service coverage ratio
  - EBITDA/net debt ratio
  - Debt/Equity ratio
- **Other covenants**
  - Limit on new indebtedness and negative pledge
  - Limit on dividends distribution
  - No change of control

# 8

## AFD's decision process



# 9

## Preparing a Non Sovereign Loan request

### Basic questions to address

- Would your company be allowed to borrow hard currencies loan from a bilateral donor on a non-sovereign basis?
  - *check company's bylaws, article of association, decree etc ?*
  - *check needed approvals from line Ministries, Ministry of Finance, Central Bank ?*

### NS loan request check list

- Project feasibility study
- Project contribution to the Government sector strategy, sector regulations etc.
- Project impacts in terms of poverty reduction, economic growth, E&S aspects
- Last 3-year audited financial statements (profit& loss, balance sheet, cash flow statement)
- Investment costs and financing plan
- Financial projections over the project's lifetime
- KYC documents : corporate registration, articles of association, board members, shareholders
- Other material contracts signed with co-financiers (negative pledge, financial covenants etc.)

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# Annexes

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# AFD Group: developing a sustainable future

## ■ Three main missions

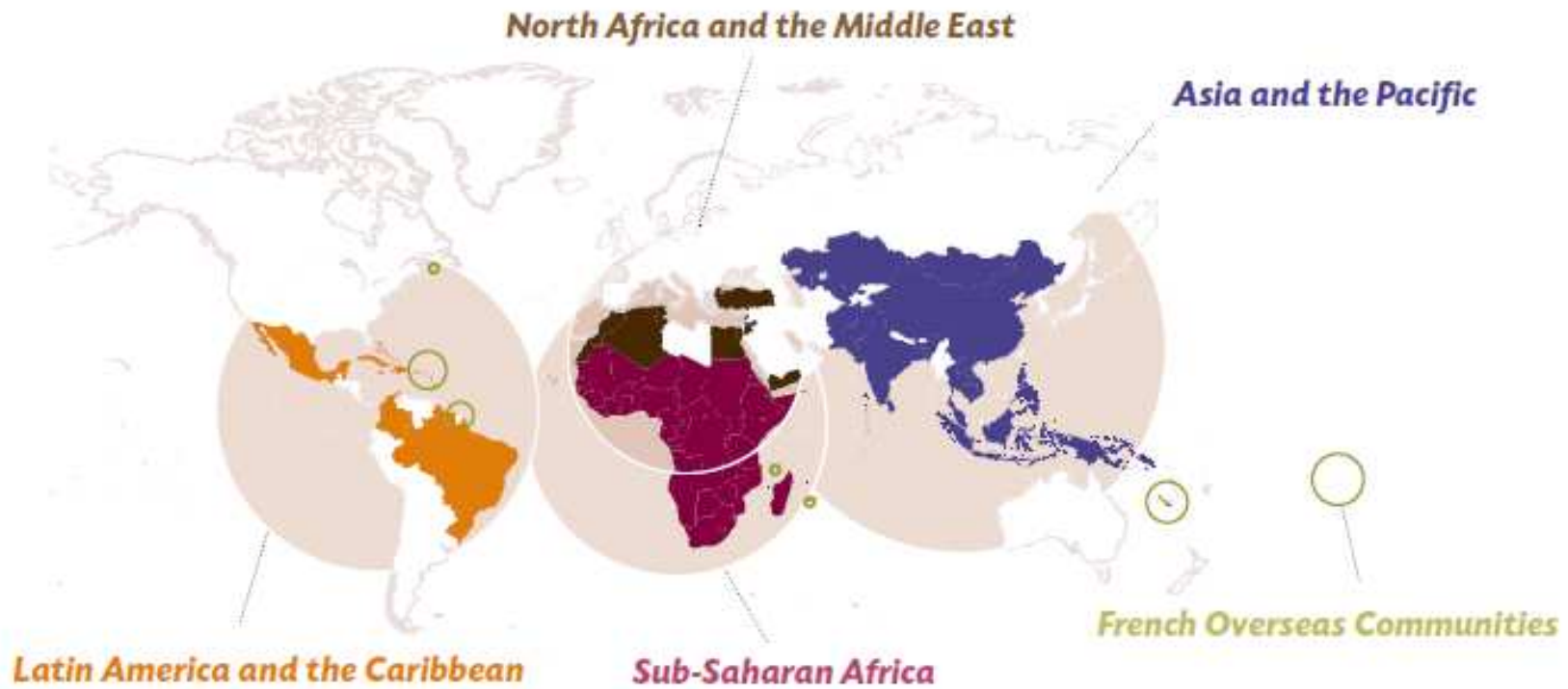
- Reducing poverty and inequalities
- Promoting sustainable economic growth
- Preserving Global Public Goods

## ■ Interventions in:

- Developing countries...
  - *Supporting local governments' social priorities (health, education, etc)*
  - *Developing infrastructure (energy, water and sanitation, transport, etc)*
  - *Promoting financial markets and private sector*
- ...and emerging countries
  - *Preserving Global Public Goods*
  - *Typical projects: promoting renewable energy, upgrading energy efficiency, etc*

# AFD Group: a focus on developing countries

- International coverage and extension of the operational zone
  - Africa, Mediterranean countries, Asia, Caribbean
  - A widespread local network with 68 foreign field offices
  - Strong focus on Africa : 41% AFD's commitments in 2008
  - New extension in 2009: Philippines, Bangladesh, Mexico, Columbia, Sri Lanka





## AFD's expertise: energy sector

- AFD-financed projects in 2008 supported energy efficiency by:
  - Saving 4.9 million tons of CO2 (equivalent to emissions produced by 1.8 million cars each year)
  
- New energy strategies governed by three constraints:
  - World discovering energy market tensions and high prices
  - Climate change and growing local impacts
  - Energy security and long term sustainability needs
  
- AFD's strategic objectives:
  - Accessible energy: Energy accessible to the greatest number
  - High-yield energy: Economically competitive energy
  - Sustainable energy : Renewable energy diversification & scaling up

# Hydroelectricity in Vietnam



**Sector :** Energy

**Country :** Vietnam

**Year :** 2010

**Total amount :** \$ 600 M

**AFD Participation :** \$ 100 M

**Financing Solution :**  
Concessional loan

## Project

Construction of a dam in the northern region of Vietnam

## Project impact

- Reduction of CO2 emissions and greater economic efficiency
- Sustain the Vietnam's growth (10% yearly) and needs of electricity
- Better regulation of water floods

## AFD's role

- Concessional loan containing a subsidy element to sustain EVN in its desire to enhance its Environmental and Social acknowledge
- Implement the first non-sovereign loan in Vietnam



# Hydroelectricity in Uganda



**Sector :** Hydroelectricity

**Country :** Uganda

**Year :** 2007

**Total amount :** \$ 880 M

**AFD Participation :** \$ 73 M

**Financing Solution :**  
Market-rate loan and  
Concessional loan

## Project

250MW run-of -the-river power plant developed on a BOOT basis, with a private JV as sponsor

## Project impact

- Bridging Uganda's electricity gap, with 50% of Uganda's needs in 2012
- Reduction of CO2 emissions
- Social impact with improved water supply and rural electrification

## AFD's role

- AFD and Proparco co-financing helped complete the financial closing
- AFD USD 13 M concessional loan financed through its grant element additional environmental and social investments : rural electrification, reforestation, improved water supply and ecotourism



# Thermal plant in Turkey



**Sector :** Cement

**Country :** Turkey

**Year :** 200 8

**Total amount :** € 13 M

**AFD Participation :** € 11 M

**Financing Solution :**  
Concessional loan

## Project

New thermal drying plant for the treatment and energy recovery of industrial and municipal sludge

## Project impact

- Disposal of 80 000 tones of sludge a year, avoiding soil pollution
- 46 000 tones of CO<sub>2</sub>eq per year avoided through sludge energy recovery and methane emission avoidance

## AFD's role

Concessional terms on AFD loan to private company to encourage an innovative and risky investment beneficial to the community

# Thermo-electricity in Kenya



**Sector :** Thermo-electricity

**Country :** Kenya

**Year :** 2007

**Total amount :** € 40 M

**AFD Participation :** € 40 M

**Financing Solution :**  
Concessional loan

## Project

Conversion of an oil power plant to a combined-cycle gas power plant

## Project impact

- Reduction of CO2 emissions and greater economic efficiency
- Preservation of the Tana river basin and of the water quality in the dams through an environmental program

## AFD's role

- Concessional loan containing a subsidy element for an environmental project outside of scope of main project : conservation of water catchment areas in the Tana and Mau Rivers Basins
- The hydroelectric plant would also benefit from the environmental project



# Electricity in Namibia



**Sector :** Electricity

**Country :** Namibia

**Year :** 2007

**Total amount :** ZAR 4013 M (€ 420 M)

**AFD Participation :** ZAR 334 M (€ 35 M)

**Financing Solution :**  
Concessional loan

## Project

Transmission line linking Namibia's electricity grid to those of its neighbouring countries to securize the country's electric furniture

## Project impact

Improved quality of the electricity service for about 800 000 people (40% of Namibian population linked to the network)

## AFD's role

- First non sovereign loan in Namibia to his company, contributing to greater autonomy and borrowing capacity of the company
- Loan in local currency
- Co-financing with EIB/KFW
- Trust Funds Infrastructure



# Environmental issues in Senegal



**Sector :** Environment

**Country :** Senegal

**Year :** 2009

**Total amount :** € 200 M

**AFD Participation :** € 15 M

**Financing Solution :**  
Concessional loan

## Project

Equipment of high environmental standards in a cement factory

## Project impact

- Increase in cement production (about 3M tones)
- Allowed the reduction of cement imports
- Creation of added value + 400 jobs

## AFD's role

- Subsidiary to the other lenders for AFD's loan has a longer maturity (5 years compared with only 10 years) and a grace period (4 years)
- Concessional terms to support an additional environmental investment very costly (EUR 20 M)

# Environmental issues in South Africa



**Sector :** Municipal Dumps / Clean Development Mechanism

**Country :** South Africa

**Year :** 2005

**Total amount :** ZAR 53 M  
(€ 6 M)

**AFD Participation :** ZAR 53 M  
(€ 6 M)

**Financing Solution :**  
Concessional loan

## Project

New infrastructure for gas recovery from municipal slums

## Project impact

- Substantial methane emission reductions (approx. 300 000 CO2 eq tones / year)
- Economic benefit from sale of free energy
- Factory nuisance reduction

## AFD's role

- Project made possible by CDM mechanism
- AFD loan backed by guarantee on CDM revenues
- Local currency loan through local bank



## AFD's expertise: water sector

- Water and sanitation projects represented 316 MEUR and 9.9% of AFD's total commitments in 2008
- AFD-financed projects in 2008 gave access to:
  - Drinkable water for 7.3 million people
- AFD's strategic goals:
  - Access to water and sanitation for everybody
  - Integrated Water Resource Management
  - Food security issues

# Water treatment in Cambodia



**Sector :** Water treatment

**Country :** Cambodia

**Year :** 2008

**Total amount :** \$ 80 M

**AFD Participation :** \$ 20 M

**Financing Solution :**  
Concessional loan

## Project

Building of a new water treatment plant and expanding the transmission and distribution network

## Project impact

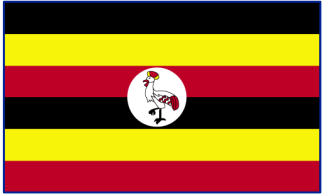
- 60 000 thousand new water outlets serving 35 000 people
- Improved health for the population

## AFD's role

- Concessional loan
- AFD is the only DFI to provide non-sovereign loans to this company, contributing to greater autonomy and borrowing capacity
- Long term partner : first loan to this counterpart in 2002
- Co-financing with JICA



# Water treatment in Uganda



**Sector :** Water

**Country :** Uganda

**Year :** 2008

**Total amount :** € 13.3 M

**AFD Participation :** € 12 M

**Financing Solution :**  
Concessional loan and Grant

## Project

Financing of two intakes in the Lake Victoria

## Project impact

- Increase in the capacity of water treatment in the three major cities of the country
- Reduce quantity of chemicals used for the water treatment

## AFD's role

- Concessional loan at a fixed rate in local currency and partly benefited to the counterpart
- Loan in local currency, channeled through a local bank
- First non sovereign loan to NWSC



# Water treatment in Senegal



**Sector :** Water treatment

**Country :** Senegal

**Year :** 2007

**Total amount :** € 58.5 M

**AFD Participation :** € 21.8 M

**Financing Solution :**  
Concessional loan and Grant

## Project

Reinforcement of Dakar's water production, transmission and distribution network

## Project impact

- Improved water access for 540.000 people
- Increase in water quality

## AFD's role

- Concessional terms to support public-interest mission with weak financial return : 50 000 "social water outlets"
- AFD lead financier, harmonizing terms and conditions of all participating DFIs
- AFD long-term partner : third project of this kind with this company
- Subsidy for capacity building





# AFD's expertise: education and vocational training sector

- AFD-financed projects in 2008 gave access to:
  - Primary and secondary education for 1.8 million children
  
- AFD's strategic goals:
  - Access to education for everybody
  - Economic development through improvement of manpower skills
  - Improvement of partnerships with the economic sector
  - Active contribution to:
    - *National reforms in the field of education and vocational training sectors*
    - *Capacity building activities*



## **AFD's expertise: other sectors**

- Thanks to its pragmatic approach, AFD contemplates all projects in its geographical area whose objectives are on line with its mission:
  - **Reducing poverty and inequalities**
  - **Promoting sustainable economic growth**
  - **Preserving Global Public Goods**
  
- Other sectors of AFD's expertise include:
  - **Infrastructure**
  - **Urban development**
  - **Support to productive sector**
  - **Agribusiness and rural sector**
  - **Healthcare...**

# Airport in South Africa



## Project

Expansion of South African airports

**Sector:** Airport Infrastructure

**Country:** South Africa

**Year:** 2009

**Total amount:** ZAR 17 bn (EUR 1.3 bn)

**AFD Participation:** ZAR 1.1 bn (EUR 85 M)

**Financing Solution:** Market-rate loan

## Project impacts

- Economic development of the region
- Enhancement of the infrastructure ahead of the Football World Cup in 2010

## AFD's role

- AFD financing helped complete the financial closing
- Loan in local currency





# Telecom in East Africa

**Sector :** Telecom

**Country :** East Africa

**Year :** 2008

**Total amount :** \$ 85.1 M  
(€ M)

**AFD Participation :** \$ 9.5 M  
(€ 7 M)

**Financing Solution :** Market-rate  
loan

## Project

Financing of submarine telecom cable in East Africa

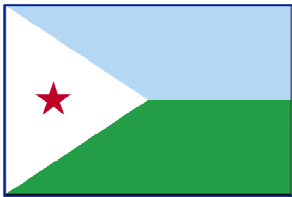
## Project impact

- Broadband interconnection of national telecom networks of East African countries to worldwide telecom system
- Creation of a reliable regional transmission system with high capacity

## AFD's role

- Project financing on SPV at market conditions
- Co-financing with 5 DFI (SFI, BEI, BAD, KfW and DBSA)
- Grant from the Infrastructure Trust Fund to finance personnel costs and recruitment during construction period

# Telecom in Djibouti



**Sector :** Telecom

**Country :** Djibouti

**Year :** 2009

**Total amount :** \$ 30 M  
(€ 31.3 M)

**AFD Participation :** \$ 25 M  
(€ 20 M)

**Financing Solution :**  
Market-rate loan

## Project

Participation of the counterpart in the submarine telecom cable EIG (Europe India Gateway) between England and India

## Project impact

- Positioning Djibouti as a regional hub for telecommunications with access to several submarine and land optic fibers cables
- Connection of East Africa and Horn of Africa to worldwide communication network

## AFD's role

- AFD loan at market conditions to complete the financing closing behind
- Co-financing of two local commercial banks for 2,5 M USD each
- First non sovereign loan in Djibouti contributing to greater autonomy of the company
- Loan in USD