Developing Bankable Projects

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AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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The African Development Bank in figures

1964 year when the AfDB was established	**81** member countries, incl. all 54 African countries
125 percent capital increase in 2019	**209** billion dollar of authorized capital
AAA ratings with a stable outlook from all main rating agencies	**26** billion dollars of outstanding loans with an attractive pricing
5 strategic priorities to accelerate Africa's development	**10** billion dollars of approvals in 2019 for public and private sector operations

What is project bankability

Bankability of a project may be defined as the level of willingness of prospective lenders to finance the project, that is, what amount and under what conditions. Higher bankability means access to more funding and/or better conditions in terms of the amount of debt (leverage), the loan term, and the loan costs.

- **Commercial banks and other commercial infrastructure debt providers do not make a project bankable.**

- Infrastructure projects are increasingly being delivered using the Public Private Partnership structure

- Normally, the debt finance is provided using the “project finance” technique.

- Project finance is a non-recourse financing technique in which project lenders can be paid only from the SPV’s revenues without recourse to the equity investors

- If the project risks are not allocated to the right parties during a project’s conceptualization phase, the ultimate consequence is the inability to find investors and lenders.

Considerations of Project Lenders

- Certainty about the project cash flows needed to meet debt service requirements;
- Sufficiency of the project cash flows for making the expected (or a reasonable) profit for the equity investor;
- Creditworthiness of the public sector (in terms of meeting its obligations);
- Soundness and stability of the legal framework;
- Effectiveness and enforceability of the contract and related agreements;
- Confidence in the regulatory regime;
- Right to step in if a project fails, and availability of alternative contractors;
- Ability of contractors to perform and the quality of their management;
- Creditworthiness of the contractors and the quality of their guarantees;
- Risks must be understandable, controllable, finite, and appropriately allocated;
- Acceptability of the termination regime (providing sufficient protection to the debt);
- Reputation impact of the project (environmental and social); and
- Availability and effectiveness of insurance coverage.

Measures to improve project bankability

De-risking the country	De-risking the project

- Aligned and consistent policies on ease of doing business
- Frameworks for aligned and smoother infrastructure implementation
- Country's credit worthiness
- Viability gap funding
- Provision of contingent liability fund by governments
	- Project Preparation Facilities
	- Market Sounding
	- Credit Enhancement Instruments
	    - Partial Credit Guarantees
	    - Partial Risk Guarantees
	    - Letters of Credit
	    - Escrow accounts

For more information please contact

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