DRIVING AFRICA’S BOND MARKETS DEVELOPMENT

Bond Market Conference
Gaborone, 20 June 2019
1. African Local Currency (LCY) Bond Markets Status
2. Challenges of African LCY Bond Markets
3. AfDB’s Interventions to Develop LCY Bond Markets
4. Way forward
1. AFRICAN LOCAL CURRENCY (LCY) BOND MARKETS STATUS
AFRICAN LCY BOND MARKET DATA

Total issued amount and outstanding amount of LCY Bonds (US$ Billion)

- Increased issued and outstanding amounts of LCY Bonds in the last 10 years as LCY Bond markets develop

Sources: AFMI Database, African Development Bank
Most of the activity is skewed to the short-term

**Spectrum of Issuances by Maturity**

- **2011**: 77.0%
- **2012**: 75.6%
- **2013**: 80.2%
- **2014**: 75.7%
- **2015**: 70.1%
- **2016**: 73.6%
- **2017**: 80.0%

**Number of Issuers by maturity, 2017**

- **T-bills**: 39
- **[1;5]**: 26
- **[5;10]**: 22
- **>10**: 14

Sources: AFMI Database, African Development Bank
2. AFRICAN LCY BOND MARKETS: CHALLENGES
African Bond Markets: Challenges

- Yield curves do not go beyond 5 years in many countries
- No Government benchmark-basis for pricing corporate bonds
- Shallow and illiquid markets
- Market Infrastructure underdeveloped (CSD’s)
- Irregular benchmark auctions
- Primary Dealers frameworks need revisions
- Investor Base is not diversified
- Prohibitive Cost issuances frameworks for corporates
3. AFDB’S INTERVENTIONS TO DEVELOP LCY BOND MARKETS

- AFRICAN FINANCIAL MARKETS INITIATIVE (AFMI)
- AFRICAN DOMESTIC BOND FUND
- AFDB’S Technical Assistance Programs
- AFDB’S Investment Operations
AFRICAN FINANCIAL MARKETS INITIATIVE (AFMI)
## The African Financial Markets Initiative (AFMI)

### Pillar 1: African Financial Markets Database

- Comprehensive database to provide updated, reliable and complete information on African domestic bond markets, [www.africanbondmarkets.org](http://www.africanbondmarkets.org)
- Improving the availability and transparency of African fixed income markets-related data.
- Reconciling and standardizing data produced by several institutions, using different concepts and methods.
- Enhancing the quality of financial statistics on the continent

### Pillar 2: African Domestic Bond Fund

- The 2 main components of the ADBF:
  - **African Domestic Bond Index**
  - **Bond Fund**
- The ADBF is investing in African local currency denominated sovereign bonds. The specific objectives of the fund are the following:
  - Reduce African countries dependency on foreign currency denominated debt
  - Encourage the deepening of domestic bond markets through investments in longer dated debt
  - Contribute to enlarge the investor base in African domestic bond markets

### Technical Assistance Programmes
AFRICAN FINANCIAL MARKETS PLATFORM

Comprehensive platform to provide updated, reliable and complete information on African domestic bond markets, www.africanbondmarkets.org

- Improving the availability and transparency of African fixed income markets-related data;
- Reconciling and standardizing data produced by several institutions, using different concepts and methods;
- Enhancing the quality of financial statistics on the continent.

Static content information: Country profiles (48), Publications

A dynamic database that provide accurate data and customized dashboard

AFRICAN DOMESTIC BOND FUND
AfDB/AFMI SM Bloomberg® African Bond Index (ABABI)

ABABI

- Market capitalization index composed of local currency sovereign bonds of 8 countries;
- Investable product measuring the value of the universe;
- Takes into account market liquidity and price discovery.
African Domestic Bond Fund (ADBF)

**KEY INVESTORS CONCERNS**

- **ADBF as an Exchange-traded Fund**: An ETF, or exchange traded fund, is a marketable security that tracks an index or a basket of assets like an index fund.

- An ETF offers the following advantages: Ease of use, Liquidity, Timely access, Diversification

- Enhanced ETF:
  - 20% left at the discretion of the Fund Manager
  - It will allow the FM to invest in short-term bonds of the ABABI countries
  - A pre-set percentage of the Fund will be invested in countries that are close to inclusion in ABABI to incentivize them to continue their bond market development
African Domestic Bond Fund (ADBF)

Year to Date Performance: Delivering strong returns in USD

<table>
<thead>
<tr>
<th>Fund Characteristics</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Average Yield to Maturity</td>
<td>13.80%</td>
</tr>
<tr>
<td>Total expense ratio</td>
<td>0.65%</td>
</tr>
<tr>
<td>ISIN</td>
<td>MU0607S00004</td>
</tr>
<tr>
<td>Bloomberg Code</td>
<td>ADBF MP</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Solid returns vs. other asset classes</th>
<th>Since ADBF inception (Total Return)</th>
<th>YTD (total Return)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADBF</td>
<td>10.9%</td>
<td>6.7%</td>
</tr>
<tr>
<td>EM local Currency Bond</td>
<td>6.63%</td>
<td>2.47%</td>
</tr>
<tr>
<td>EM Hard Currency Bonds</td>
<td>6.48%</td>
<td>5.52%</td>
</tr>
<tr>
<td>African Hard Currency Bonds</td>
<td>8.07%</td>
<td>9.45%</td>
</tr>
<tr>
<td>US High Yield</td>
<td>2.54%</td>
<td>7.43%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-2.41%</td>
<td>14.03%</td>
</tr>
<tr>
<td>Global Bonds</td>
<td>3.00%</td>
<td>2.45%</td>
</tr>
</tbody>
</table>
AFDB’S Technical Assistance Programs
AFDB Support-TA Activities

Capacity Building required to stimulate bond markets development

Primary Dealers
- PD Framework in Central Africa
- PD Framework in Tunisia

Market Infrastructure
- Yield Curve and Central Securities Depository (CSD) in Egypt

Training and Capacity Building
- Yield Curve Methodology for CEMAC with the Central Bank (BEAC)
- Trainings on Debt Management with MEFMI

Regulatory environment
- Strengthening Financial Markets through review of Pension Funds and Insurance environments

AFMI Annual Workshop
- Training of 45 officials (from Central Banks and ministries of Finance) on Data collection Techniques

Publications
- Yield Curve Guidebook
- African Bond Markets Development Index
Multi-donor Trust Fund to mainstream all capital markets TA activities

Developing African Capital Markets

INTERVENTIONS TO CREATE EFFECTIVE CAPITAL MARKETS IN AFRICA

I – Strengthening Financial Markets Enabling Environment & Institutions

Support Legal & Regulatory Frameworks & Reforms for:
- Government Debt Management Offices and Strategies
- Market development (primary, secondary & repo markets)
- New capital markets products
- Pension Fund reforms
- Financial markets regulatory frameworks.
- Broadening market participants, including SMEs
- Support efficient financial centres

Support Market infrastructure development:
- Stock and Securities Exchanges, CSDs, etc.
- Post trade settlement infrastructure
- Regulation and Promotion of Credit Rating culture

Regional Integration work
- Promoting frameworks for cross listing of capital markets products

2 – Knowledge Management & Market Capacity Building

General: Research (including diagnostic studies) and analysis of capital markets structures and weaknesses within RMCs
- Research and diagnostic studies into unlocking SME capital markets in RMCs
- Bond Markets: Assist in developing bond yield curves in African markets
- Collect, aggregate and disseminate bond markets information
- Credit Ratings: Promote improved risk & pricing identification for capital markets products
- Bond Indices: Develop and maintain African Bond indices
- Capacity Building: Promote forums, workshops, webinars’ etc. for capital markets capacity building

CROSS CUTTING ISSUES – CLIMATE CHANGE, GENDER INCLUSION AND FRAGILITY MAINSTREAMED IN ALL OPERATIONS

BUILDING A SOLID FOUNDATION FOR CAPITAL MARKETS DEVELOPMENT IN AFRICA
AFDB’S Investment Operations
AFDB Support - Investment Operations

African Domestic Bond Fund (ADBF)
- Up to USD 25 million
- Investing in LCY sovereign Bonds

African Local Currency Bond Fund (ALCBF)
- USD 10 million loan to boost ALCBF portfolio
- Improves access for corporate issuers to long-term funding

InfraCredit (Nigeria)
- Provision of a Partial Credit Guarantee Facility to enable InfraCredit expand its LCY Bond guarantee operations

Africa Financial Sector Deepening Fund
- USD 10 million equity commitment
- Investments in subordinated debt issued by financial institutions
- Support to bond issuances
AFDB’S TREASURY OPERATIONS: LOCAL CURRENCY SOLUTIONS
A natural issuer of African currency-linked bonds

Selected AfDB African currency-linked transactions

- **GHS 92 million**
  - Due: August 2021
  - Issued: July 2016

- **GHS 45 million**
  - Due: January 2021
  - Issued: January 2018

- **UGX 18.5 Billion**
  - Due: May 2020
  - Issued: April 2018

- **NGN 3.5 billion**
  - Due: September 2021
  - Issued: September 2016

- **NGN 5 billion**
  - Due: November 2018
  - Issued: November 2016

- **ZMW 70 million**
  - Due: March 2020
  - Issued: March 2015

- **GHS 45 million**
  - Due: January 2021
  - Issued: January 2021

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Prior transactions in African currencies

- **TZS**
- **BWP**
- **ZMK**
- **KES**

About **USD 80 million** issued since 2015

- Providing visibility to African countries among international investors
- Investors looking into Africa for opportunities
SYNTHE TIC LOCAL CURRENCY LOANS

In the case the Bank cannot issue a bond (i.e. not approved lending currency, market conditions, loan structure/tenor, interest rate levels, quantum), we can provide hedges against FX risk through a synthetic local currency loan / NDS contract in selected currencies, dependent on the availability of a market counterparty.

CONSISTS OF THE FOLLOWING ELEMENTS

- Loans denominated and disbursed in hard currency
- Interest and principal repayments denominated in lending currency with an agreed indexation formula linked to local currency and FX rates
- A Non-Deliverable Swap (NDS) contract with a market counterparty provides a hedge against interest rate and currency risk exposure

- 2019: ZMW 168 mln (USD 25 million eq.) Synthetic loan (15Y) for Zambia National Building Society: a USD loan plus a hedge against FX risk
WAY FORWARD
African Bond Markets: Way forward

Governments

- Strengthen regulators
- Primary Dealer Framework to ensure liquidity
- Benchmark bond issuance strategy (including long-dated papers)
- Reform Institutional Investor EcoSystem

Market Players

- Consider LCY Fixed Income's part of their asset allocation (institutional investors)
- Regulatory environment (Investment guidelines for Pension Funds, etc)
- Capacity Building for Institutional Investors, Asset Managers, Bankers, et al

Development Finance Institutions

- Technical Assistances
- Stock Exchanges/Regulators
- Primary Dealers framework
- Insurance/Pension Fund reforms
- LCY Bonds issuances to ensure DFIs LCY funding and stimulate LCBMs
- Guarantees
- Catalyse the introduction of new instruments and institution structures
Many thanks for your kind attention
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