



BRIEF ON THE RATIFICATION OF THE AFRICA FINANCE CORPORATION CONSTITUTIVE INSTRUMENTS

PARLIAMENTARY BUDGET OFFICE

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1.0 INTRODUCTION

This Brief has been prepared by the Parliamentary Budget Office (PBO) in response to a request from the Committee on the National Economy, Trade and Labour Matters on the ramifications of the ratification of the Africa Finance Corporation Constitutive Instruments namely: *Agreement for the Establishment of the African Finance Corporation (AFC)* and the *Charter of the Africa Finance Corporation*. The Government of Zambia is in the process of ratifying this Agreement and according to *Article 63 (2) (e) of Constitution of Zambia (Amendment) Act No. 2 of 2016*, the National Assembly is mandated to approve international Agreements and Treaties before they acceded to or ratified.

The focus of the Brief is on the economic aspects of the AFC Agreement and the Charter.

2.0 PRELIMINARY OBSERVATIONS

2.1 Pan Africanism

The AFC was established in 2007. It is a multilateral development financial institution dedicated to infrastructure financing in Africa, through debt, equity, project development, financial advisory and treasury management services. The Corporation focuses on bridging Africa's large infrastructure deficit by financing projects with high developmental impact and economic growth. At inception, AFC's initial capital was provided by Nigeria through the Central Bank of Nigeria (CBN) (42.2%), and major Nigerian commercial banks, financial institutions and Nigerian private investors (57.8%).

However, there have been recent additions to the shareholding of AFC which include the Government of Ghana and the Africa Reinsurance Corporation (AfricaRe)¹ and the Africa Development Bank (AfDB).

The AFC also cooperates with other financial institutions in its operations. For example, in 2012, the Board of Directors of the AfDB approved a US\$ 200 million line of credit in favour of the AFC. This provides an avenue for attracting new financing to Africa and in sourcing and co-investing with the AfDB in important infrastructure and industrial projects which contribute directly to sectors critical to regional economic integration and development and economic growth².

PBO Comments

By creating and promoting favourable circumstances for a wider flow of investment capital into the continent, membership in the AFC offers a new avenue for funding investments in Africa. With partnerships such as the line of credit approved by the AfDB, the AFC provides opportunities for co-investing in infrastructure and industrial projects. This collaboration can leverage resources and expertise, maximising the impact of investments on economic development.

2.2 Membership to the AFC

Currently, forty-two African States are listed as members of the AFC.

¹ Africa Development Bank Project Summary Note on the Africa Finance Corporation (AFC), 2018

²<https://www.afdb.org/en/news-and-events/afdb-approves-usd-200m-line-of-credit-to-africa-finance-corporation-for-infrastructure-support-8942>

Membership to the AFC would enable Zambia gain access to direct loans, credit extensions, and lines of credit guaranteed by the corporation. This is crucial in seeking financial support for development projects and economic initiatives. The corporation can guarantee transactions made by reputable financial institutions, providing stability to the financial sector, and enhancing investor confidence. By acting as an international financial agent, the AFC can represent the interests of the country in global financial matters, potentially giving the country a stronger voice in international financial institutions and negotiations. This may benefit Zambia through equity financing provided by the AFC. Access to equity financing can benefit the country's private sector and infrastructure projects. The provision of technical assistance for project preparation, financing, and execution can enhance the capacity to effectively implement development initiatives, leading to sustainable growth and development.

As can be observed, benefits are both of a public and private nature. Membership will supplement existing government initiatives to support the private sector such as the Citizens Economic Empowerment Commission and the Credit Guarantee Scheme.

Other benefits that may accrue to Zambia include sharing dividends (if purchases shares), and becoming a candidate for setting up an AFC branch.

PBO Comments

Despite the numerous benefits of membership to the AFC as given, subscribing to membership also presents some challenges. Prudent

borrowing is crucial to avoid accumulation of excessive debt and burdening future generations, it is therefore vital to carefully examine and conduct thorough due diligence on project loans or agreements such as Public Private Partnerships (PPP's) that may arise as a result of membership as these may come with conditions and may conflict with domestic priorities.

The Committee may further wish to establish which institution will be designated or elected to represent the country on the shareholding structure of the AFC. It will also be important to have an understanding of the financial implication (how many shares and at what cost) that will come with having a stake in the AFC.

Having a functional local development bank could enable the country reap more benefits as the AFC provides on-lending and refinancing facilities.

3.0 CURRENT PROJECTS OF THE AFRICA FINANCE CORPORATION

The AFC has been involved in various projects across the continent, primarily focused on infrastructure development, energy, transportation, and other key sectors.

3.1 Notable Projects in Zambia

- US\$25 million deal that supported the importation of petroleum products from 2009 through the PTA Bank. Specifically, the comingled 'sweet' crude oil for INDENI.

- AFC provided a US\$55 million Senior Debt Facility to Maamba Collieries Limited for the construction of the 300MW coal-fired power plant.
- Co-financed a US\$60 million stock finance facility to finance Meridian's fertiliser manufacturing and soft commodity business activities across Malawi, Mozambique, Zambia and Zimbabwe.
- AFC is involved in the development of the Lobito Corridor. The MoU on the Lobito Corridor Project names the AFC as lead developer on the new Zambia-Lobito Rail Line extending from the Benguela Line into the North-Western Province of Zambia.

3.2 Notable projects rest of Africa

Dangote Refinery

Dangote Industries Limited functions as the parent company of the Dangote Group, holding equity stakes in its various subsidiaries such as Dangote Cement, Dangote Sugar, and Dangote Salt. AFC is a significant lender, providing \$300 million out of a total of \$5.6 billion in debt facilities for the development of two major projects: a 2.8 million metric tons per annum urea fertiliser plant and a 650,000 barrels per day crude oil refinery. The refinery was slated to be the largest in Africa upon completion.

MTN Nigeria

AFC served as the mandated lead arranger and contributed funding of up to \$80 million as part of a \$100 million term loan facility spanning three years, organised by Rand Merchant Bank (RMB). This funding was designated to support MTN Nigeria Communications'

capital expenditure, primarily for essential equipment in Nigeria, as well as for other purposes³.

Alufer Mining

Alufer Mining holds four bauxite exploration licenses and situated in the Boffa region of western Guinea and the Labé Project in central Guinea. Alufer has reported over 3 billion tonnes of mineral resources at both the Bel Air and Labé Projects. The production capacity is set at 5.5 million tonnes per year, significantly contributing to the country's current exports of approximately 35 million tonnes of bauxite. AFC, along with partners Orion Mining Finance and Resource Capital Funds, invested \$35 million in the project. The total project funding amounts to \$205 million, marking one of the largest foreign investments in the country since the 2014 Ebola crisis. AFC stands as the sole private investor in Guinea's largest foreign investment since 2014. The Project was anticipated to generate over 3,500 jobs. To facilitate trans-shipment, a 1.4-kilometer causeway was constructed on bedrock, providing access from the shore to suitable water depth⁴.

Government of the People's Republic of Tanzania

The AFC participated in a US\$1 billion syndicated loan facility by lending US\$85 million to the Government of Tanzania. The facility assisted meeting its budgetary requirements towards infrastructure-related projects for the 2018/2019 fiscal year.

³ ibid

⁴ibid

Djibouti Wind Farm

The AFC collaborated with the Djibouti Ports and Free Trade Zone Authority in a joint venture to develop a 60MW wind Independent Power Producer (IPP). With a total project cost of US\$122 million, AFC, along with other financial institutions co-developed the project over a 24-month period. However, the breakdown of the contribution of AFC has not been included in this statistic⁵.

4.0 CONCLUSION

Based on the above analysis, it is evident that joining the Africa Finance Corporation (AFC) presents both advantages and challenges. In order to maximise benefits and manage challenges, it is advisable for the Country to have in place a deliberate requirement to be undertaking of comprehensive due diligence/risk assessments for projects financed and loans obtained through AFC as they are of a private nature.

It is further advisable to establish mechanisms for ongoing monitoring and evaluation of membership to such multilateral institutions with respect to benefits.

As earlier stated, the focus of the Brief was on the economic aspect of the Agreement and the Charter. Approval has to take into account the legal aspect as well. Member States are expected to fulfil the stated obligations relating, to among others, immunities, exemptions, privileges, facilities and

⁵ibid

concessions. It is therefore important to ensure that these are comparable to those already offered to other multilateral institutions.