

**Welcome remarks, Stefan NALLETAMBY, Director,
Financial Sector Development Department**

The Minister of Finance, Zambia, Mrs. Mwanakatwe

The Governor, Central Bank of Zambia, Dr. Kalyalya

The African Development Bank Country Office Manager
in Zambia, Dear Mrs. Monyau

The Director of the Department of Regional Integration at
the African Development Bank, Dear Mrs. Mupotola

Representatives from the private sector

Representatives from the investors' community

Distinguished guests, Ladies and gentlemen

On behalf of the African Development Bank, I welcome you all to the 7th Annual African Financial Markets Initiative, AFMI workshop a Bank flagship initiative that takes a leading role in the development of Africa's Local Currency Bond Markets. This edition actually marks the 10th Anniversary of the Initiative.

At the African Development Bank, we envision a financial sector that is vibrant, innovative, robust, and competitive both nationally and regionally. Likewise, Africa's financial systems should be able to mobilize enough domestic and foreign savings to meet the investment needs of Africa's structural transformation and growth.

Through our Financial Development Policy and Strategy, we aim at increasing access to finance, deepening Africa's financial institutions and markets at country and regional level while supporting financial stability. This strategy is articulated around 2 pillars:

- Increasing access to financial services for the underserved: this would facilitate the unbanked populations' increased access to basic financial services at a lower cost
- Broadening and deepening Africa's financial system so that it meets the evolving needs of the real economy in regional member countries

The Bank Group puts a great emphasis on the development of domestic and regional financial systems to help them assume a central role in the intermediation of finance for private-sector-led development.

With this in mind, in Zambia for instance:

- We have also provided a USD 50 mln equivalent dual currency sovereign guaranteed line of credit to the Development Bank of Zambia (DBZ) for on-lending to small and medium-sized enterprises (SMEs) operating in various sectors of the Zambian economy including transport, agriculture, agro-processing. An integral component of the proposed financing to the DBZ is a Technical Assistance program (TA Program), to be paid for out of the proceeds of the LoC, for capacity building at the levels of the DBZ and its SME borrowers. Our Board has approved the provision of a local currency Senior Loan amounting to the equivalent of USD 25ml to the Zambia National Building Society which will use the funds to offer solutions to Zambia's housing sector by extending affordable mortgage products to lower middle and middle-income earners,
- To execute the later operation, our Treasury and Financial Technical Services teams are currently working on issuing a Kwacha denominated bond. The net issue of proceeds will be used to

finance specific projects in Zambia. This follows a ZMW2.7 bn program executed in 2015. The AfDB bond will be listed and traded on the Lusaka Stock Exchange, qualify as 0% risk weighting for capital adequacy and eligible for uses as Collateral with Bank of Zambia. Our local currency bonds contribute to capital markets development.

We have launched different initiatives aimed at developing deeper and liquid capital markets in Regional Member Countries. **These initiatives intend to enhance African capital markets' ability to attract and mobilize capital from both local and international sources to support infrastructure and industrialization, with a focus on strengthening local currency capital markets to be capable of intermediating effectively to attract investments into the real sector.**

For instance, we have continuously used our products such as guarantees, senior and subordinated debt to attract and crowd in domestic and international institutional investors to provide long-term funding for corporates via African capital markets.

The AfDB launched last year a Distributed Energy Services Companies (DESCOs) Financing Programme with 2 objectives:

Firstly, to scale up offgrid solutions deployment in Sub-Saharan Africa by financing Distributed Energy Services Companies (DESCOs),

Secondly, to catalyse the mobilisation of local currency financing for private sector DESCOs. This will be achieved by facilitating the development of a securitisation/receivables-based financing mechanism for the DESCOs sector in Africa; enabling access to adequate financing and

Finally to demonstrate that there are new financial mechanisms for crowding private capital into the sector.

As part of this initiative, our Board recently approved the provision of an EUR 8mln partial credit guarantee on a securitized structure to help a DESCO to raise funds to finance the deployment of up to 100,000 home systems to rural household in Cote d'Ivoire. A dedicated Special Purpose Vehicle was created to raise debt secured by the assignment of the company contracts receivables. This type of operation will be replicated in Kenya and Togo by the end of this year.

A Capital Markets Development Trust Fund is also being established to help further support development of domestic bond markets through Technical Assistance and Knowledge generation. This Trust Fund will aim at

addressing structural weaknesses that several of our domestic equity and bond markets face such as liquidity related challenges for the bond markets and supporting SME financing through our Equity markets.

We have also been involved in knowledge and economic sector work to reform capital markets systems in several Regional Member Countries, revamp stock exchanges, broaden market participation through supporting the development of new products, and promote market integration while unlocking connectivity problems. For Instance, in November 2016, our Capital Markets Division led the dialogue and knowledge building on green bonds on the sidelines of COP 22 in Morocco. This led to the Bank providing a technical assistance package and advising the Nigerian Capital Markets Authority on its approval process and supervision of green bonds.

Distinguished guests, Ladies and Gentlemen,

The mandate of the AFMI, which aims to provide liquid and deeper bond markets capable of attracting long-term funding for governments, corporates and SMEs in Africa, is in line with the Bank's Hi-5 mandate to Light up and power Africa, Feed Africa, Industrialize Africa, Integrate Africa and Improve the Quality of Life for the People of Africa.

Local and international investors in African Local Currency Bond Markets face several issues including access to suitable market platforms and intermediaries, lack of transparency, low liquidity, high transaction costs and inadequate or ineffective regulatory oversights. AFMI contributes to tackling these impediments to bond market development through its two pillars; the African Financial Markets Database (AFMD) and the African Domestic Bond Fund (ADBF).

The AFMD provides the most comprehensive platform on African bond markets data. AFMI has over the years, built a network of 43 Central Bank Liaison officers through which the data is acquired and disseminated. The platform, available on the AFMI website, www.africanbondmarkets.org, provides stakeholders with a single gateway of information on African debt markets and act as a live primary dissemination channel of African domestic bond market data and related information. I take this opportunity to emphasize the regular and thorough work done by our network of central banks and ministries of Finance. Most of our Central Bank Liaison officers are here with us today, and I would like to praise their fruitful work in helping us developing this platform throughout the last 10 years.

In fact, from these data, we can clearly see that African countries are paying more attention to resource

mobilization through their domestic bond markets. **Indeed, the outstanding amount of local currency bonds grew from USD 14 BN in 2000 to USD 412 BN in 2017. In the year 2000, only 5 countries were issuing domestic bonds with a maturity beyond 10 years; today, there are 15 countries with bonds with maturities longer than 10 years.**

Distinguished guests, ladies and gentlemen,

Access to accurate, reliable and quality financial data remains a challenge for African market participants and development partners. To improve the data availability, AFMI created a series of bond indices along with Bloomberg. The AfDB/AFMISM Bloomberg® African Bond Indices, or ABABI, were developed to improve liquidity in local capital markets; serve as a benchmark for investors in African local currency and provide a strategic tool to improve the market infrastructure of the African bond markets.

Alongside its knowledge management and transparency-enhancing activities, AFMI has designed and structured the first African multi-jurisdictional Fixed Income ETF, the African Domestic Bond Fund, which was launched on mid-September this year.

The ADBF is managed as an Enhanced Index Fund, tracking the ABABI Index for 80% of its assets and 20% is invested in the African Local Currency Fixed Income spectrum at the discretion of the Fund Manager here present today. ABABI currently includes 8 countries: **South Africa, Nigeria, Kenya and Egypt were the 4 founding countries included in the index in 2014; then Botswana and Namibia joined the Index in 2015; finally Ghana and Zambia were included in ABABI as their bond markets liquidity improved.** Together, these 8 countries represent close to 80% of the total outstanding amount of local currency bonds on the continent. Therefore through this vehicle, Investors have an interesting opportunity to get exposure to African Fixed Income at a reasonable cost and facilitated settlement.

At the AfDB, as the expression goes, “we like to put our money where our mouth is”. This is exactly what we are doing here as not only did the Bank conceptualize this product, but also are an anchor investor. We will invest up to USD 25 MLN over the next few years and 20% of this amount has already been disbursed. This shows the level of commitment of the African Development Bank, as most of our investments in this innovative product will be in medium and long-term fixed income securities.

The African Domestic Bond Fund provides compelling opportunities from both an investment and development point of view.

We believe that local currency bond market development will be achieved through the participation of governments, development finance institutions and the private sector, and I am sure today's event will help develop a better understanding of how market data and transparency can contribute to build advanced domestic Fixed Income markets. !!

Thank you.