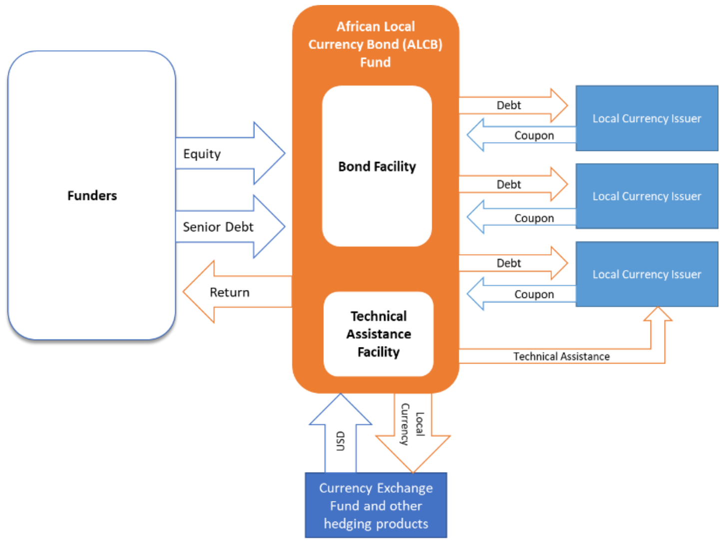
MITIGATION & ADAPTATION
BLENDED

FUND NAME	**The African Local Currency Bond (ALCB) Fund**[1]
COUNTRY/REGION	Africa (currently active in 16 countries)
MANDATE	To act as an anchor investor and provide technical assistance for local currency bond issuances by financial service providers and companies operating in developmental sectors
SIZE, FINANCIAL CLOSE AND TERM	Size: Committed: USD 107M; Anticipated: USD 160M First Financial Close; 2013
INVESTOR(S) AND FUNDERS	KfW/BMZ, FSD Africa, IFC, Dutch FMO, Calvert Impact Capital, AfDB, US DFC
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Multilateral, Bilateral, and DFIs Philanthropy and Impact Investors
OBJECTIVE	The Fund creates benefit for MSMEs and lower-income households, e.g. its investees provide direct lending to over 450,000 people, with proceeds mostly used for education, housing, and micro-enterprise working capital. The Fund has also successfully mobilized private sector co-investment with a multiplier of 10.6 to 1. Approximately 80% of the co-investments come from domestic institutions (e.g. pension funds, insurance companies, and asset managers). ● Contribute to local capital market development by supporting new deal-flow, innovative transactions, and providing intermediation in the market; ● Improve the financial capacity of local issuers in reducing balance sheet mismatches relating to foreign exchange (FX), interest rates and maturity risk; ● Support investment in certain key developmental sectors, including financial inclusion, housing, renewable energy, agriculture, health, and education.
ENVIRONMENTAL IMPACT (ON CLIMATE MITIGATION AND/OR ADAPTATION)	Mitigation and Adaptation The fund supports investment in key climate sectors, such as renewable energy and agriculture The fund invests in key NDC mitigation sectors, such as energy and agriculture, and contributes to adaptation outcomes such as improving health and supporting vulnerable populations
TECHNICAL ASSISTANCE (IF PROVIDED)	Technical Assistance Facility (TAF): USD 2 million facility that funds transaction support, issuer capacity building, product development, knowledge building, and market studies on a cost-sharing basis.
CAPITAL STRUCTURE	Equity: USD 67M Debt: USD 40M (to be ~USD 90M) Technical Assistance: USD 2M
FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)	Blended
RATIONALE FOR FINANCING MODEL/APPROACH	Local currency bond markets in developing countries are often inefficient and lack liquidity, and corporate bond markets in developing countries are usually underdeveloped or absent. KfW conceptualized the ALCB as a way to deepen domestic capital markets by targeting small to medium-sized financial institutions and issuers in other developmental sectors in difficult to non-existent capital markets. The economics of investing in local currency bond markets, especially with first-time issuers, makes it difficult to attract

[1] This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

	private sector investors at a feasible rate of return, which necessitated a model that relied on impact funders able to take more risk.
Financial instrument(s) (loans (commercial/ concessional), equity, guarantee)	Commercial debt (bond purchases for 30% or less of an issuance) Individual ticket size ranges from USD 1-10 million Average ticket size between USD 2 and 5 million
Diagram of the financing structure	

Executive Summary

The ALCB Fund is the largest local-currency bond fund in Africa and a unique player in capital market development. It promotes financial stability and economic growth through deepening domestic capital markets to increase finance available for economic development and build resilience against international capital flow shocks. It was established in 2012 by the German development bank, KfW, following the G20 Action Plan on the Development of Local Currency Bond Markets (LCBMs). After two years of operation, KfW scaled the fund and hired a formal fund manager, Lion's Head Global Partners (LHGP), whose mission was to implement an institutional upgrade and grow the Fund to beyond USD 100 million. Fundraising efforts focusing on attracting equity and senior debt partners started in 2017. Currently, the total fund commitment is USD 170 million. Equity is contributed through paid-in share capital; shares are redeemable long-term but take a first-loss position, and their earnings are reinvested in the capital base. Senior loan tenors range from 4 to 10 years and offer a semi-annual coupon. The terms of each investment are negotiated individually.

The establishment of the ALCB in 2012 followed on from the G20 Finance Ministers and Central Bank Governors endorsed action plan to support the development of local currency bond markets, which acknowledged the frequent inefficiency of local currency bond markets in developing countries and the underdevelopment or absence of corporate markets in developing countries. The ALCB also has enabling environment criteria for its investees, which include conducive regulatory environment, including legal frameworks, banking regulation, and currency strength and stability.

ALCB invests across Africa in first-time or innovative (e.g. public listing, longer tenor) local currency financial instruments, including listed or privately-placed bonds and local currency club deals in countries where bonds are not possible. Key investment criteria include:

- **Development sector focus:** sectors including financial inclusion, housing, renewable energy, agriculture, healthcare, education
- **Financial position:** issuer has evidence of growth over 3 years, sound financial results, healthy capital base
- **Country context:** conducive regulatory environment (legal frameworks, banking regulation, currency strength and stability)

The Fund invests primarily in senior notes. Investments are priced to the local market, and the terms are at a minimum USD 100,000 to USD 5 million equivalent, tenor between 3-15 years, fixed or variable coupon. Each investment is made alongside local investors with a minimum leverage ratio of 2 to 1 local capital to Fund. The Fund provides TA both to first-time issuers and issuers new to the bond market, and more experienced issuers.

Ultimate beneficiaries of all ALCB investments need to be MSMEs and low-income people. Fund investees provide direct lending to over 450,000 people, with proceeds most commonly used for education, housing, and micro-enterprise working capital.

Analysis

What made this project successful?	• Three-stage piloting process which provided ample proof of concept and ability to improve the model based on operational evidence • Flexibility of ALCB approach to working with potential issuers' constraints and terms, including ability to provide TA • Detailed knowledge of local capital markets and issuers
To what extent is this model scalable?	Scalability of the model depends on ability to attract sufficient concessional capital from impact funders, as the model is limited in its appeal to private funders expecting market-rate risk-return profiles.
What are the necessary conditions to make it replicable in other countries/regions?	The Fund is currently active in 16 countries but is increasing its outreach across the African continent, given adequate company financial position and country enabling environment.
Constraints/Drawbacks of Financing Model	Currently, investors in the Fund are developmental and impact finance institutions only. The economics of investing in local currency bond markets and the complexity of establishing bond programs for first-time issuers are considerable barriers to attracting private sector investors. The currency hedge used in this model is a tradeoff between long-term financial sustainability of the Fund and accessibility (price, timeliness) of Fund's capital.
Lessons Learnt	• Capital market development interventions should seek to build local capacity and avoid market distortions. • Additionality and impact are both important considerations for blended finance transactions. • Determining the additionality and proper pricing of anchor investment is a holistic process where many factors must be carefully considered. • TA can ease the upfront cost of getting "investment ready" as well as the perception of high transaction costs associated with capital markets in developing countries. • A "proof of concept" approach to fund development can achieve both innovation and scale.