AfDB's historic $6bn ESG milestone

The African Development Bank has successfully launched and priced its first sustainable US dollar-denominated 750 million perpetual subordinated hybrid capital notes.

Source: Supplied.

On Monday, 30 January 2024 the African Development Bank launched a hybrid capital transaction with a coupon of 5.75% until August 2034, with a 10.5 year first call date at the bank's discretion.

The bank achieved a top quality and granular orderbook with over 275 investors, of which over 190 were allocated. Investor demand was very strong with a peak orderbook of over $6bn.

The largest share of the allocation was taken up by hedge/specialised funds (54.8%), followed by asset managers (27.8%), central banks and official institutions (6.7%), Pension funds/insurance (6.6%) and banks/private banks (4.1%).

Demand came mainly from the UK (51.1%), followed by Emea (26.5%), Asia (14%) and Americas (8.4%).

This is the first sustainable hybrid capital issuance by a multilateral development bank, marking the African Development Bank's pioneering role in optimising its balance sheet in line with the G20 Capital Adequacy Framework (CAF) recommendations to boost lending capacity.

Hybrid capital is an innovative form of capital which increases sustainable lending capacity.

The bank mandated BNP Paribas and Goldman Sachs International as joint structuring agents and Barclays, BNP Paris, BofA Securities and Goldman Sachs International as joint bookrunners to lead manage its new Perpetual Non-call (PerpNC) 10.5-year inaugural USD Global SEC-exempt sustainable hybrid transaction.

African Development Bank vice president for finance and chief financial officer, Hassatou N'Sele said the move followed close monitoring of the market since the institution's roadshow last September, to generate interest in the bond.

"This landmark transaction was received with marked enthusiasm by a broad range of investors. It paves the way for the African Development Bank and other AAA-rated multilateral development banks (MDBs) to further leverage their capital base and increase their support to Africa and the developing world, that is facing multiple crises and long-term development challenges, in a context of constrained development resources."

AfDB greenlights $300m loan to bolster SA's energy governance and climate resilience
13 Dec 2023

Omar Sefiani, bank group treasurer said: "We saw tremendous interest from more than 275 investors resulting in a record order book for the AfDB. The outstanding success of this transaction allows the African Development Bank to demonstrate that MDBs can tap the private investor market to supplement their capital base and therefore allow incremental sustainable lending to their clients."

A decade of ESG bond issuances

Monday's transaction marks a decade of bond issuance in the Environmental, Social and Governance (ESG) space for the pan-African lender.

The notes will be issued in a Sustainable Bond format, under the Bank's 2023 Sustainable Bond Framework and will be leveraged through new green or social bonds. As a new component of the African Development Bank's capital base, the Sustainable Hybrid capital will allow additional lending capacity to fund environmental and/or social projects.

In 2013 the African Development Bank issued its inaugural green bond, listed on the Luxembourg Stock Exchange (LuxSE). It has been issuing social bonds since 2017.

The new Sustainable Bond Program, established in 2023, combines and updates the previous Green Bond Program and Social Bond Program, enabling the issuance of green bonds, social bonds, and sustainability bonds. These ESG bonds contribute to the fight against climate change and reinforce socio-economic development in the bank's regional member countries.

On Monday, 22 January, the African Development Bank launched and priced a $2bn three-year Social Global Benchmark due 25 February 2027, its first global benchmark of the year.

The three-year social bond, issued under its new Sustainable Bond Framework established in September 2023, further consolidates and enhances the bank's existing Green and Social Bond programmes.