

# PRESS RELEASE

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## **Interbank lending in Africa to receive a boost from FSD Africa's US\$7.5m investment in Frontclear**

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Financial Sector Deepening Africa (FSD Africa) is pleased to announce a US\$7.5m investment in Frontclear [www.frontclear.com](http://www.frontclear.com), a global guarantee fund which aims to improve interbank liquidity in developing markets. Frontclear offers a USD guarantee against the local currency value of assets which borrowing banks need to give lending banks as collateral for a loan.

Frontclear achieved its first financial close on 27 March 2015, securing US\$180m in commitments from the European Bank for Reconstruction and Development, Proparco, TCX and KfW. FSD Africa's investment takes the form of Subordinated Loan Notes, a "first loss" instrument, which has helped to crowd-in the other investors.

Typically, lending banks ascribe little or no value to assets denominated in local currencies. This means that a bank that wants to borrow from another bank will be excluded from doing so if the only collateral it can offer the lending bank is denominated in local currency.

Tier 2 and 3 banks often need foreign currency or longer term finance to on-lend to their own clients. These clients, often in the agricultural sector, include smaller manufacturing or trading businesses involved in import/export markets. But smaller banks in developing countries find that the interbank market is closed to them, or is very expensive, even though they may have substantial assets denominated in the local currency such as cash or T-Bills.

Frontclear's USD guarantee solves this problem of "dead capital" and allows the interbank trade to happen by removing the credit risk from the transaction. If a borrowing bank defaults, and the local currency value of the assets pledged as collateral proves insufficient to cover the outstanding loan, Frontclear's guarantee will cover the difference.

Mark Napier, Director of FSD Africa, said:

"Well-functioning interbank lending markets are essential for making banking systems more competitive and stable. Frontclear will make it easier and less expensive for smaller banks to borrow from larger banks. Clients of those smaller banks, typically SMEs, should therefore benefit from improved access to trade and investment finance. This is FSD Africa's first capital investment and we are proud to be associated with Frontclear which we believe has the potential to bring great efficiencies to African financial markets".

Apart from facilitating trades between banks, Frontclear will also strengthen financial markets by making it easier for banks to manage risks; and by increasing professionalism and



transparency by encouraging the adoption of globally accepted, standardised transaction documentation.

Frontclear will be a profit-making business. It is a market-based, demand-driven response to a clear market failure.

As well as investing in Subordinated Loan Notes, FSD Africa has committed to provide US\$1.5 million over three years in technical assistance funding for exclusive use in sub-Saharan Africa. This will be used for such activities as building market awareness of the benefits of Frontclear's guarantees and technical training within financial institutions.

Philip Buyskes, CEO of Frontclear said:

"FSD Africa's support for Frontclear has been instrumental in encouraging the other investors to commit to Frontclear in the first close. We see huge potential for Frontclear in Africa and FSD Africa's footprint and networks across the continent make them the ideal partner for us."

Nairobi. 29.4.15.

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*About Frontclear:*

*Frontclear [www.frontclear.com](http://www.frontclear.com) is a financial markets development company focused on catalysing stable and inclusive interbank markets in emerging and frontier markets. Frontclear facilitates access to financial markets for local institutions to local and global markets through the provision of credit guarantees to cover their counterparty credit risk. Frontclear provides Basel III compliant first demand irrevocable guarantees. Its guarantees are in turn counter-guaranteed by KfW, a AAA-rated financial institution.*

*In addition to the provision of guarantees to enable bilateral over-the-counter transactions, Frontclear provides risk capital to financial infrastructure providers in emerging and frontier markets. Through its technical assistance programme, Frontclear supports capacity development and the establishment of financial infrastructure in its countries of operation.*

*About FSD Africa:*

*FSD Africa [www.fsdafrica.org](http://www.fsdafrica.org) is a non-profit company, funded by the UK's Department for International Development, which promotes financial sector development across sub-Saharan Africa. We see ourselves as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. We use funding, research and technical expertise to identify market failures and strengthen the capacity of our partners to improve access to financial services and drive economic growth.*

*We believe strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.*