

Private Sector Operations at the Asian Development Bank

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Presented to:

U.S. Business Opportunities Seminar, Honolulu, HI

28-29 April 2008

Private Sector Operations Dept. (PSOD)

- What we do
- Our target sectors, core products
- What is our niche in the market
- Some example transactions

ADB Windows of Operations

1. Sovereign operations (i.e., public sector)

- Financial assistance directly to governments or government agencies
- 90% of ADB's existing business

2. Non-sovereign and private sector operations

- Financial assistance to private enterprises and SOEs without government guarantees
- 10% of ADB's existing business but growing rapidly (20% of ADB approvals in 2007, \$1.5 - 1.7 billion last 3 years)

ADB's Advantage Positioning

- Sovereign loan operations and private sector operations are under one roof.
- Synergy is possible between policy work and private sector investments:
 - ADB conducts dialogue with government on the enabling environment for private sector investment
 - ADB catalyzes private sector resources for specific projects or target sectors (frontier investments, demonstration projects)

PSOD – What We Do

Infrastructure (PSIF1&2)

Power

Gas

Renewables

Water / Wastewater

Urban Infrastructure

Telecom

Ports / Airports

Roads

Capital Markets (PSCM)

Bank lending

Intermediation / SMEs

Private Equity Funds

Securitization

Trade Finance

Housing Finance

Target Infrastructure Segments

- **Power:** generation, transmission, distribution, renewables
- **Oil and natural gas:** LNG terminals, pipelines, gas distributions systems
- **Transport:** roads, bridges, ports, airports, rail transport systems
- **Telecom:** backbone networks, rural telephone systems
- **Water:** bulk water supply, water distribution, sewerage treatment
- **Urban services:** waste management, mass rapid transit and other transport systems

Types of Infrastructure Projects

- **Greenfield:** new, start-up projects, including BOOs, BOOTs, BOTs and other similar contractual structures.
- **Brownfield:** acquisition, expansion, rehabilitation, modernization.
- **Pre-privatization and privatization** financing.
- **Restructuring/Refinancing:** long term debt, foreign to local currency debt, to achieve or ensure long term viability.
- **Multi-project facilities or holding company** vehicles for financing smaller infrastructure projects.

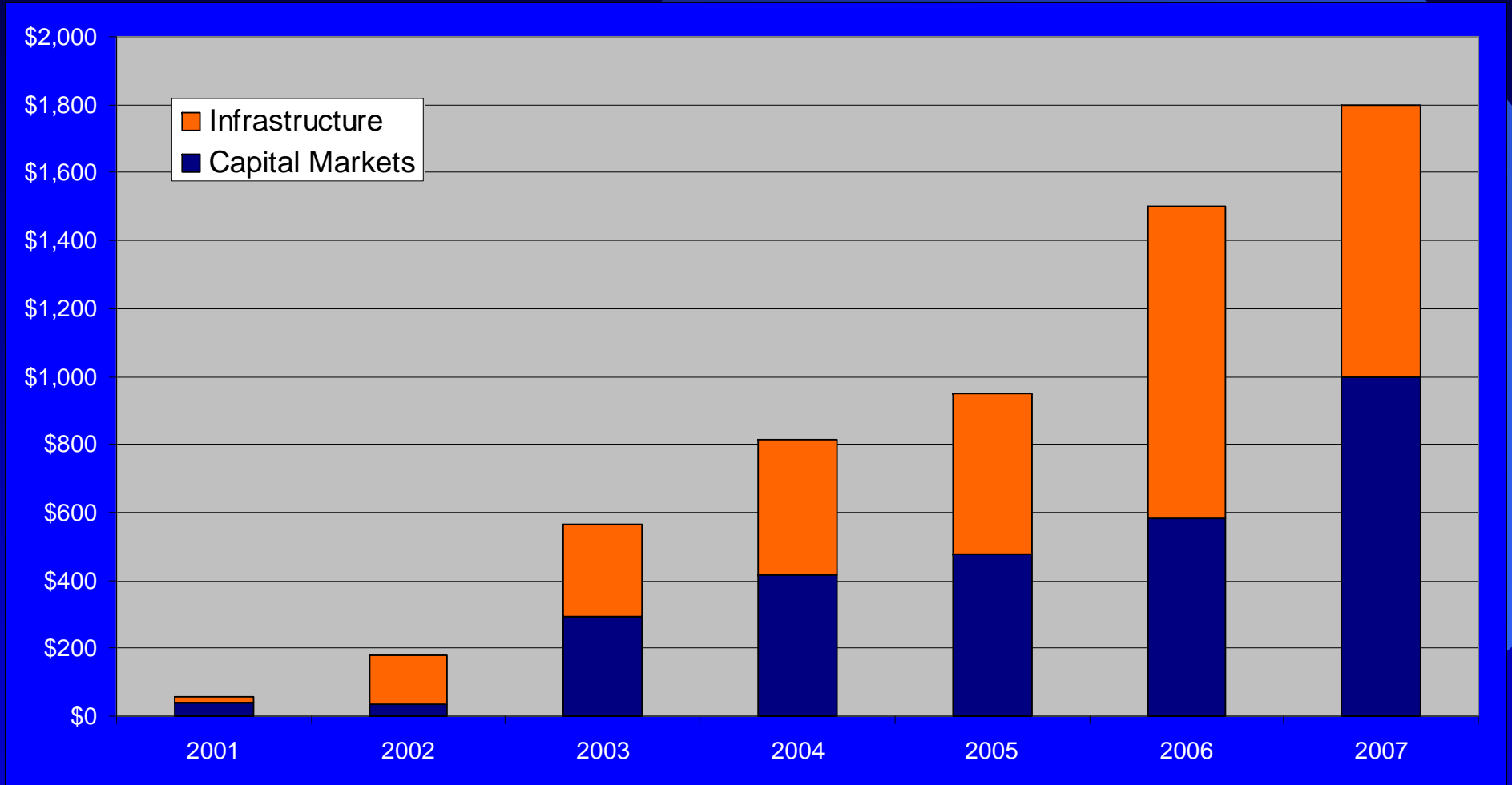
Target Financial Intermediaries

- **Funds:** private equity funds, thematic funds (e.g., environment funds, energy efficiency, infrastructure funds, and distressed asset funds).
- **Banks:** equity investment, tier II capital, credit line for SME financing, guarantee facility.
- **Leasing companies:** equity or debt financing.
- **Insurance companies:** new or existing life or general insurance, equity or debt.
- **Capital market institutions:** central depositories, rating agencies.

Focus Areas in the Financial Sector

- **SME financing:** through local banks and other financial institutions.
- **Housing finance:** lending for mortgage financing, securitization of mortgages, secondary mortgage institutions, mortgage guarantee companies.
- **Trade finance facilitation:** credit guarantee for letters of credit issued by local banks to facilitate confirmation or discounting by foreign banks.
- **Resolution of bank non-performing loans (NPLs):** equity and debt financing of NPL disposal, securitization of NPLs.
- **Municipal finance:** access to private finance and capital markets.

PSOD FINANCING 2001 - 2007 (in \$ million)



Key Financial Instruments

- Long-term debt
- Equity (minority stake)
- Mezzanine financing / sub-debt
- Political risk and credit guarantees
- Local currency financing
- Loan and risk syndications (B-loans)

Loans Without Sovereign Guarantee

Foreign Currency Loans

Currencies	US Dollar, Yen, Euro
Lending Base Rate	LIBOR, EURIBOR
Lending Spread	Market-based (fixed or floating)
Commitment Fee	0.25% p.a.
Front-end Fee	0.75 - 1.50% of loan amount
Maturity	8-17 years, reasonable grace period

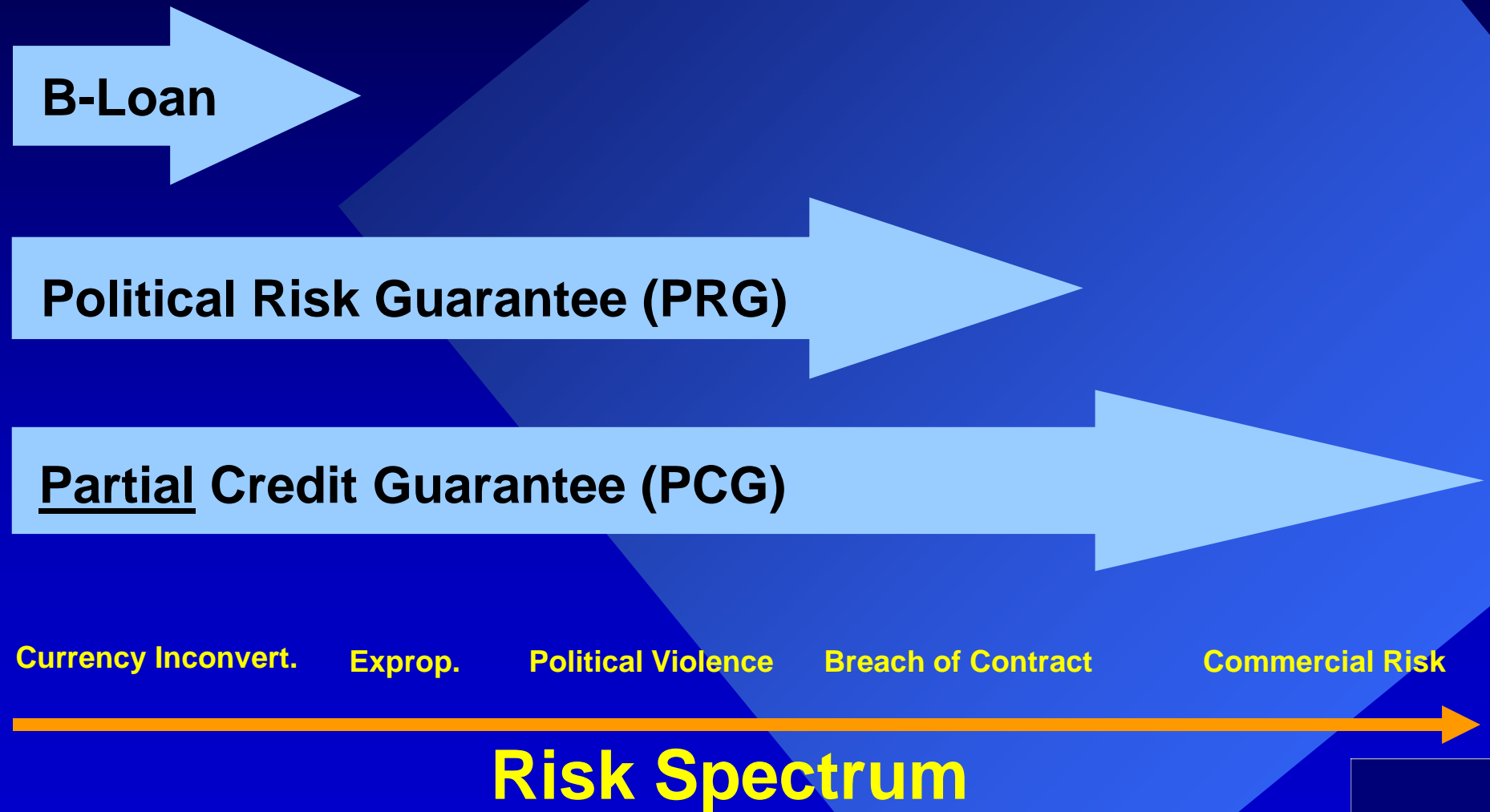
Local Currency Loans

Currencies	Rupee, Yuan, Rupiah, Baht, Peso
Lending Base Rate	Cost of funds (bond or CC swap)
(Rest same as above)	

Credit Enhancement Instruments

- Provide different levels of ADB “cover” or risk mitigation for commercial lenders/investors
- Based on the unique risks of a project
- Any or a combination of the following:
 - Loan Syndications (B-Loans)
 - Political Risk Guarantee
 - Partial Credit Guarantee

Extent of Risk Mitigation



Exposure Limits

Single project exposure limit: the lesser of \$250 million or 25% of total project cost:

- applies to the aggregate of loans, equity investment and comprehensive guarantees
- Partial guarantees (PRG, PCG) are weighted based on type of risks covered
- For small projects (<\$50 million), limit is 50% of project costs

Equity Investments

- The lesser of \$75 million or 25% of project costs
- ADB cannot be the largest shareholder (generally 5-20% stake)

Example

- for a \$500 million project, ADB could invest \$30 million of equity + \$95 million of long-term loans

PSOD – what are we looking for

- Financially sustainable projects and acceptable credit quality (not the lender of last resort)
- A good development story
- Catalytic impact – will ADB’s participation “crowding in” other lenders and investors?
- Using the full range of our products (risk mitigation)
- First-of-a-kind, replication potential – setting the benchmark

PSOD – what are we looking for (cont.)

- Good corporate governance
- Environmentally and socially responsible practices
- Reinvestment / expansion
- Flow-down projects from ADB's sovereign operations and TAs
- Sub-sovereign / municipal / pre-privatization

Recent Transactions



Examples of PSOD Impact

ADB's participation affords a measure of support from governmental interference

- ✓ **Phu My 2.2 and 3 power project in Viet Nam**
- ✓ **Roshan telecom project in Afghanistan**

Value system "certifies" projects on issues of environmental and social protection, corporate governance, etc.

- ✓ **Nam Theun 2 Hydro in Lao PDR**
- ✓ **Tanggung LNG in Papua, Indonesia**

Thanks – Questions?

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