



COFINANCING OPERATIONS

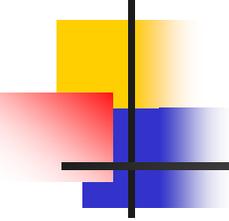
Commercial Cofinancing Credit Enhancement Products

Manila, 16 November, 2009

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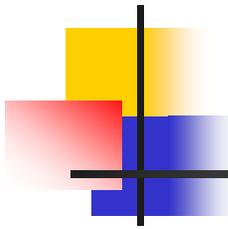


Agenda

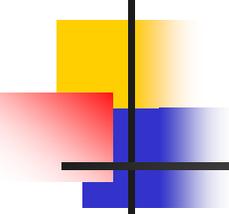
- Overview of Credit Enhancements Products (CEPs)
- Eligibility Criteria for Using Guarantees
- Case Study
 - ADB Guarantee as a “buyer credit” guarantee

ADB Financing Instruments

Review

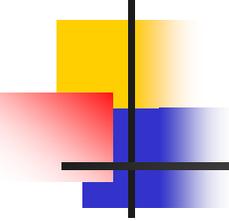


- Loans for sovereign (with GOV indemnity to ADB) and non-sovereign operations
- Equity investments
- Grants and technical assistance
- ✓ **Credit enhancement products**



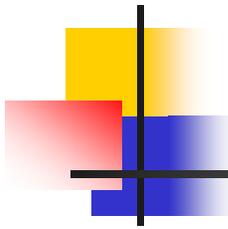
What are Credit Enhancements Products (CEPs) in ADB?

- CEPs are products that mitigate or lessen risks
- Include various types of guarantees covering:
 - Political risks and credit risks (commercial and political)
- Loans and guarantee syndications
 - “B” loan; guarantee-of-record, unfunded risk participations, reinsurance
 - Mobilize additional financing and guarantees and insurance



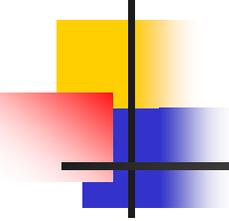
Who uses CEPs?

- CEPs are used by lenders, investors, and exporters:
 - An indemnity (insurance)
 - Credit enhancement (lower financing costs)



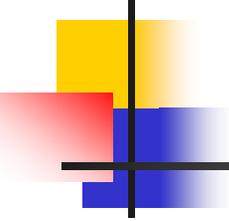
Who Offers CEPs?

- Offered by public and private institutions
 - IFIs (ADB, World Bank Group, AFDB, IADB, IDB)
 - Export credit agencies (SACE, COFACE, OND, NEXI, Sinosure...)
 - Asian EXIM Banks
 - Private political risk insurers (Lloyds of London, AIG, Sovereign, Zurich, Unistrat, etc...)
 - AID agencies (AFD, SIDA, USAID...)
 - Financial institutions in the form of credit default swaps (\$25 trillion market)



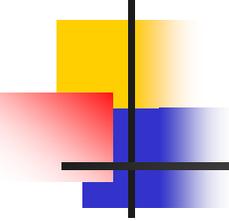
Why are CEPs Necessary?

- Investment requirements for the Asia-Pacific region are enormous:
 - Region requires \$800 billion of investment in infrastructure each year over the next 10 years



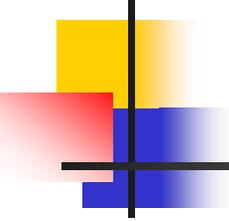
Why are Credit Enhancements Necessary?

- Governments, ADB, and other development partners can finance only a portion of the amount of investment required
- The financing gap will have to be filled by commercial banks and investors



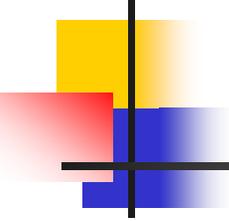
Constraints Affecting Commercial Lenders in DMCs

- Political risks continue to be ranked as a main constraint to the flow of FDI in DMCs
- Private investment in infrastructure is also perceived as high risk, especially when it comes to regulatory and contractual risks
- New banking regulations under Basel II make lending in some DMCs prohibitively expensive
 - Loan provisions for sovereigns (BBB-C) can range from 50%-150% depending on rating, but potentially "0%" with an ADB guarantee



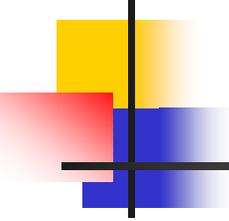
Constraints Affecting Commercial Lenders in DMCs

- In the current global economic and financial crisis, commercial lenders may be hesitant to lend, especially to infrastructure projects in some DMCs
- For many lenders, some form of credit enhancement will be required



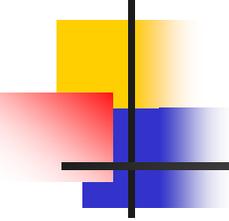
Benefits of ADB CEPs

- Encourages lenders and investors to finance projects in DMCs that they may otherwise consider too risky to undertake
- Longer maturities (e.g. 13-15 years)
- Lower financing costs



Eligibility Criteria

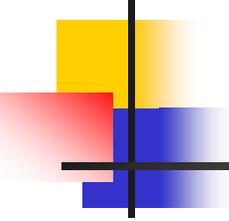
- Priority sectors: Infrastructure and Finance
- Loans by commercial banks and shareholders, and bonds
- Foreign and local financial institutions and investors
- Guarantees in foreign exchange or local currency
- Long term guarantees (15 years +)
- Up to 100% guaranteed percentage



Guarantees

Sovereign vs Nonsovereign Operations

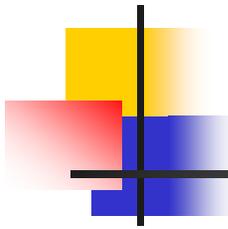
- ADB can provide guarantees with or without a sovereign counter-guarantee
 - Note: Different terms will apply to the guarantee if there is no sovereign counter-guarantee (e.g. higher guarantee fees, and lower guarantee amount
 - E.g. 20 bps with counter-guarantee; market-based without counter-guarantee



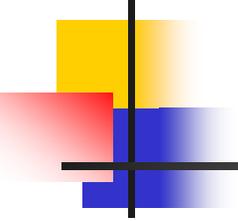
Procurement Guidelines for Guarantees

- Proceeds can be used only for procurement of goods and works supplied from ADB member countries
- Need for economy and efficiency in implementation
- Transparency in the procurement process

ADB Guarantees Complement Insurance Provided by ECAS and Insurers



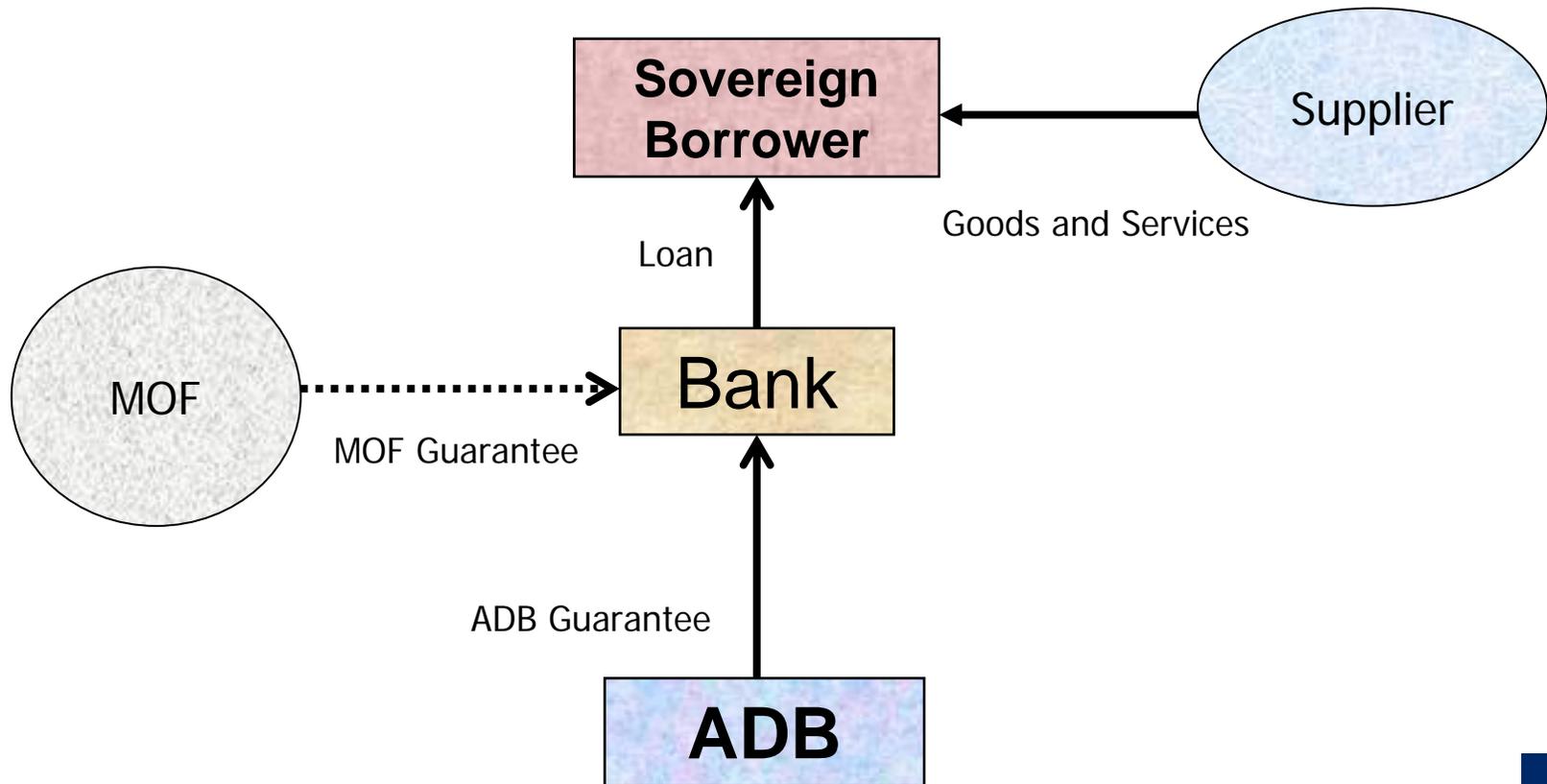
- Can be used to guarantee financing not eligible by an ECA
- Can be used to guarantee down payment financing
- Cooperation with ECAs and PRI providers through sharing of risks



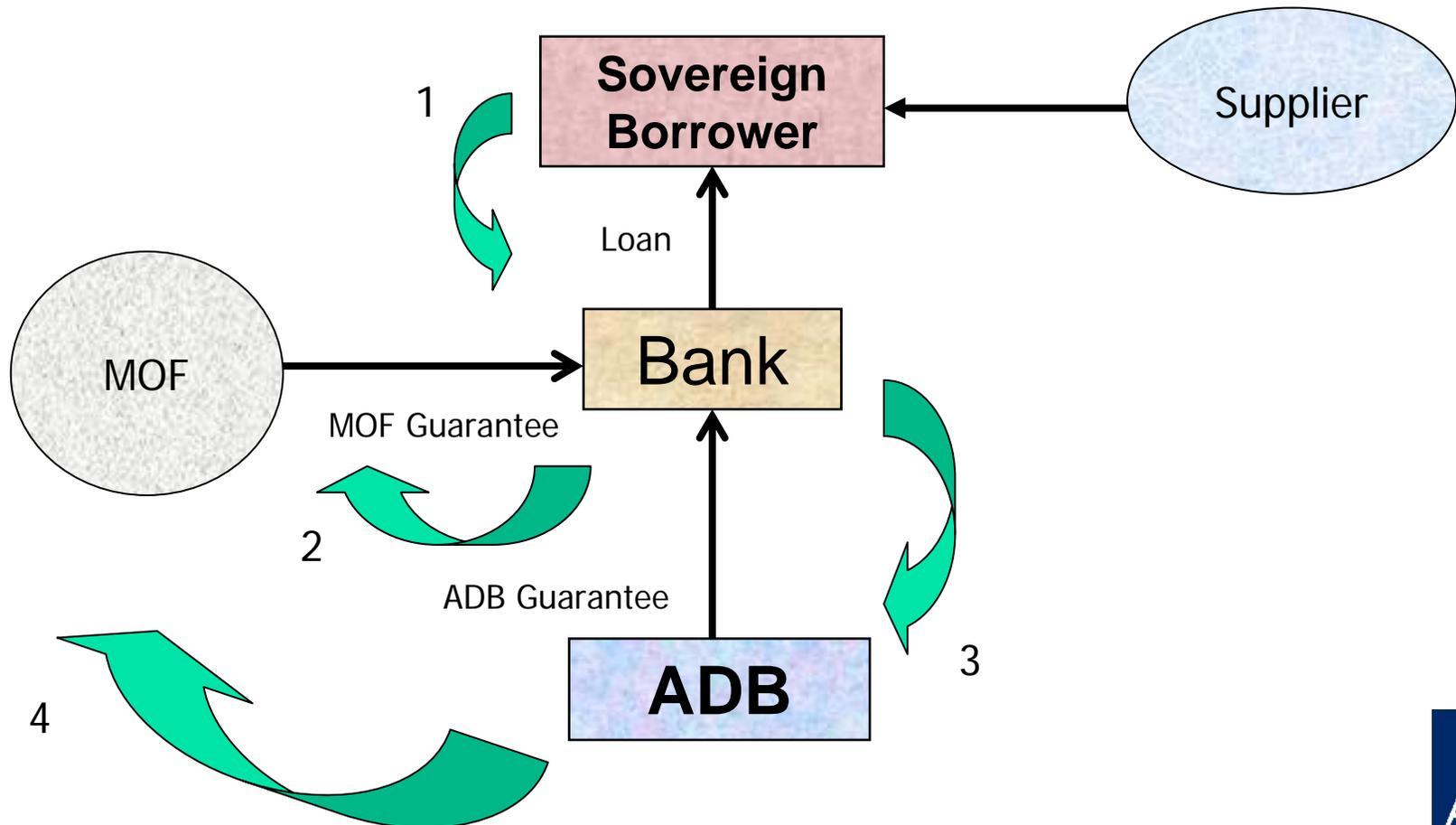
Case Study

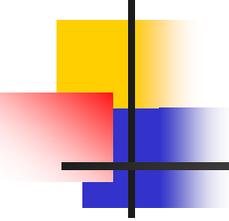
- ADB Guarantee Covering a Non-Honoring of a Sovereign Guarantee

Guarantee against Non-Honoring of a Sovereign Guarantee



Guarantee against Non-Honoring of a Sovereign Guarantee





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