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ADB

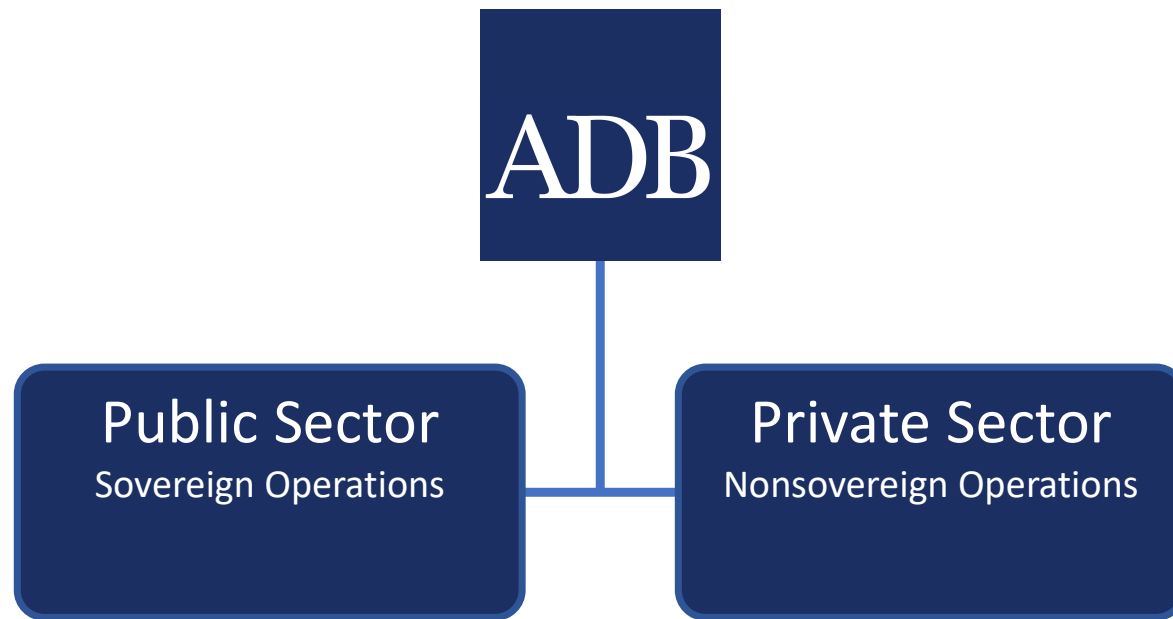
Overview of ADB's Private Sector Operations

Private Sector Operations Department (PSOD)

24 September 2023



Private Sector Operations Department (PSOD)



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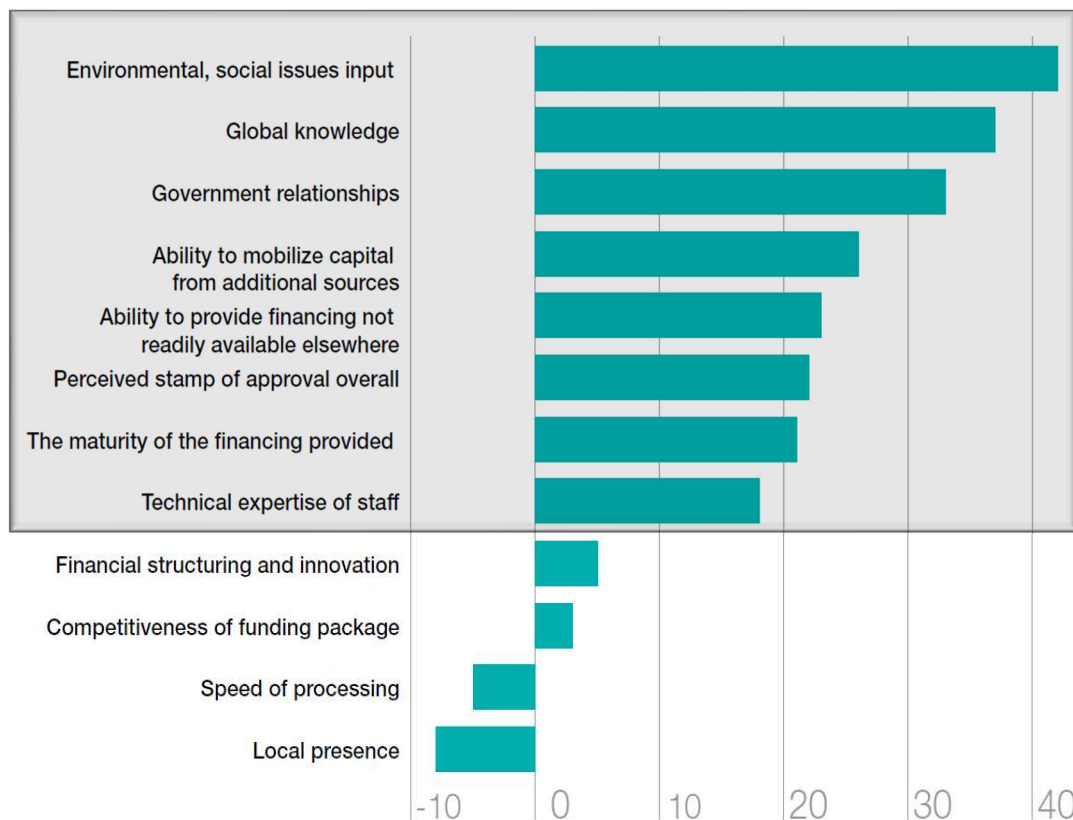
Why Do We Work with the Private Sector?

Why the Private Sector is Important



- The private sector is the source of **90% of all jobs** in developing countries and helps drive innovation
- “The investment role of the private sector will be enhanced under the 8FYP based on an expanding role of FDI, with **private investment accounting for 75% of the total investment**”
- “The 8FYP will focus utmost attention to **improving the investment climate for domestic and foreign private investment** with a view to offsetting the **lack-lustre private sector investment performance in the 7FYP**”

Why Private Sector Clients Work with ADB



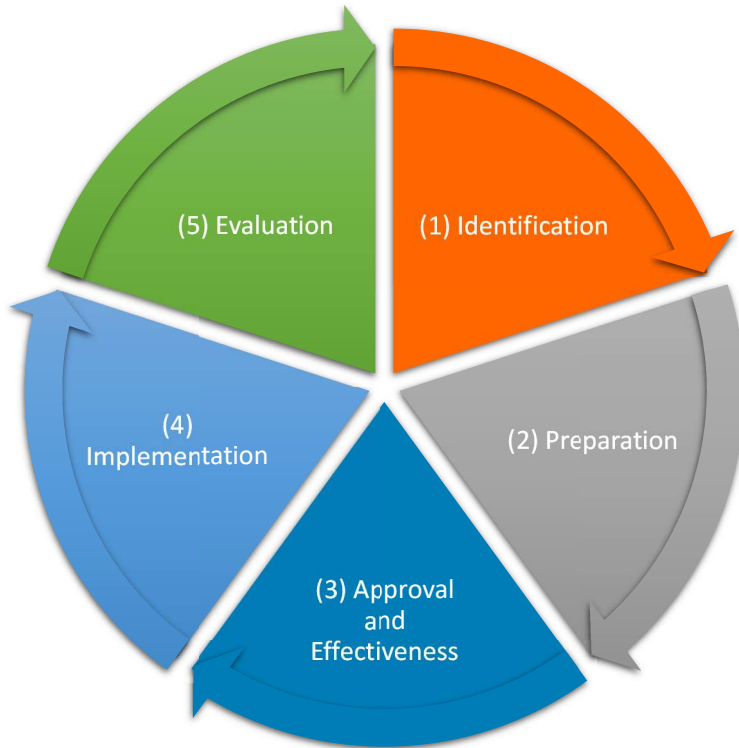
Percent of clients rating **DFI performance** above average or high versus commercial banks

Clients work with ADB and other DFIs to benefit from **both financial and non-financial forms of additionality** that they are unable to obtain elsewhere



Differences between Sovereign and Nonsovereign Operations

Project Cycle



Sovereign Project Cycle

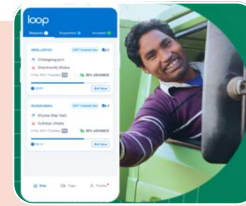
Key Differences with Nonsovereign

- ✓ Project proposals are post-feasibility study, therefore ADB is not involved in the detailed design of projects
- ✓ This means we are not involved in the selection of the sponsors' EPC contractors or advisors (technical, legal, etc.)
- ✓ Sponsors approach ADB for financing and/or investment, plus validation of commercial, safeguards, and other matters
- ✓ ADB supervises projects until the loan is repaid or the investment is sold



ADB's Private Sector Operations

Sectors



Infrastructure
 Energy, Power
 Water, Waste Mgt
 Transport
 ICT

Reliance Power
 Summit Bibiyana II

Financial Institutions
 Financial Inclusion
 Climate Mitigation
 Sector Development

Eastern Bank
 BRAC Bank

Agribusiness
 Farming
 Processing
 Logistics
 Retailing

Pran Dairy
 Sylvan Agriculture II
 Sylvan Agriculture I

Social Sectors
 Hospitals
 Diagnostics
 Medical Supplies
 Education
 Vocational

Food Security
 Facility
 Trade for medical
 supplies

ADB Ventures
 Seed capital with
 focus on gender
 equity and climate

Loop Technologies

Manufacturing
 RMG
 Textiles
 Engineering
 White products

Envoy Textiles

Products

Instrument	Typical Size	Typical terms	When is it relevant?
Debt	\$20M - \$500M	<ul style="list-style-type: none"> • 7 years (corporate) to 15+ years (project) • SOFR / ADB cost of funds + credit spread • Secured or unsecured 	<ul style="list-style-type: none"> • Established company with large balance sheet, strong cash flow • Possibility to mobilize co-financing under B-loan or risk participation
Equity	\$2M - \$100M	<ul style="list-style-type: none"> • 25% ownership maximum • Board seat • Minority protection rights • Put on the parent company 	<ul style="list-style-type: none"> • Direct: growth companies at any stage through IPO (cornerstone or anchor investment) • PEF: multi-sector and regional funds • ADB Ventures: early-stage companies focused on new technologies
Guarantees	\$20M - \$500M	<ul style="list-style-type: none"> • Partial credit guarantees (PCG): market-based, fees based off lenders' margin • Political risk guarantees (PRG): market-based, fees based off reinsurance market 	<ul style="list-style-type: none"> • Where other lenders are more efficient than ADB in mobilizing local currency, or reaching target customers (PCG) • In frontier markets (PRG)
Blended Finance	\$5M - \$10M	<ul style="list-style-type: none"> • Long term loan at concessional interest rate to be "blended" with ADB financing • First loss cover 	<ul style="list-style-type: none"> • Whenever donor funds managed by ADB are available • Applicable for climate mitigation and adaptation projects or low-income countries
Technical Assistance	\$0.5M - \$1M	<ul style="list-style-type: none"> • For project preparation TA, reimbursable at closing • For capacity development TA, non-reimbursable grant 	<ul style="list-style-type: none"> • Enhance corporate governance, environmental and social standards, risk management, gender mainstreaming, etc. • Develop new products for underserved segments



Private Sector Programs



Trade Finance Program

Fills market gaps for trade finance by providing loans and guarantees to banks



Supply Chain Finance Program

Reduces SME financing gaps by sharing corporate risk with partner financial institutions



Microfinance Risk Participation and Guarantee Program

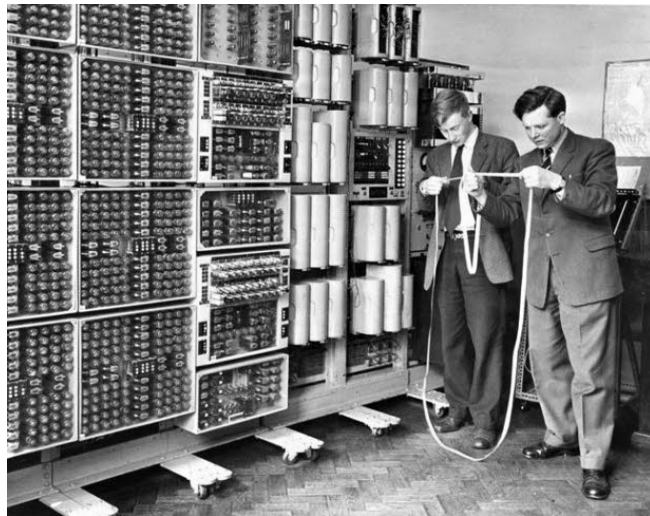
Increases MFIs/NBFIs' access to funding and addresses the needs of the bottom of the pyramid

Products

- Risk participation (funded/unfunded) - up to 85% risk cover
 - Credit guarantee - up to 100% risk cover
 - Revolving credit facility
 - Training and capacity building
-
- Risk participation (funded/unfunded) - up to 85% risk cover
 - Guarantees - up to 85% risk cover
 - Training and capacity building
-
- Risk participation (unfunded) - up to 50% risk cover*
 - Guarantee - up to 80% risk cover*
 - Training and capacity building

**Up to 80% risk coverage for COVID-19 transactions is permitted*

Pricing



= Market Pricing for
Private Sector Projects

Sovereign

ADF Grants

Concessional
OCR

Regular
OCR

Fixed tenor and
pricing depending
on country
classification

Contractual spread
plus maturity
premium

Nonsovereign

Pricing Tool

Market
Comparators

Co-Financiers
Co-Investors

Expected Loss
Admin Expenses
Capital Cost

Relevant recent
transactions

Pricing and
valuation of
potential partners

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Eligible Transactions

- ✓ Located in ADB's developing member countries
- ✓ ADB's target sectors (infrastructure, financial sector, agribusiness, etc.) and themes (climate change, inclusive business, etc.)
- ✓ Developmentally and commercially sound, with a clear business plan
- ✓ Financing not directly guaranteed by the government
- ✓ Clear financing or other need (safeguard support, risk coverage, etc.) from ADB
- ✓ Willing to employ professional advisors (legal, technical, environment and social, etc.)
- ✓ For equity investments, a board seat for ADB and clear exit strategy



High demonstrational value and replicability



Innovative (new technologies or ways of doing business)



Highest integrity and ethical standards



Crowding in commercial financing

ADB Additionalities

- ✓ Financial, including (i) various products from debt to equity, credit enhancement and risk mitigation, (ii) longer tenors and patient investor
- ✓ Non-financial, including (i) stamp of approval, (ii) country risk mitigation, neutral broker role with governments, (iii) safeguard and corporate governance expertise, and (iv) extensive knowledge of markets, sectors, and clients

Approval Process



Notes:

(*) Any nonsovereign financing ≤\$20 million for debt and ≤\$10 million for equity. Other requirements apply (e.g. safeguards categorization).



Representative Transactions Bangladesh

Meghnaghat Power



Picture: Meghnaghat Power Project

- Financed 450MW first large-scale IPP
- \$50m Direct loan
- \$20m B-Loan
- \$70m Political Risk Guarantee
- Classic multi-modal and multi-party non-resource financing deal
- Paved the way for private sector power generation in Bangladesh

Lafarge Surma Cement



- First integrated cement manufacturing facility in private sector
- \$40 million OCR Loan

Source: Bd Query (<http://www.bdquery.com/lafarge-surma-cement-plant-in-bangladesh>)

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Energypac Garments



- Provided long term loan to Eastern Bank/BRAC Bank
- RMG and Garments Sector
- Value-added product–Coats

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Solar Product



Long term loan

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Dairy Project



Provided working capital

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Challenges

Unavailability of Local Currency Funding

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Untapped Opportunities

Opportunities in state-owned corporatized companies





Way Forward

