

Introduction to ADB's New Financial Products & Services

Werner Liepach

Principal Director

Office of Cofinancing Operations

Asian Development Bank

September 27 2006

Overview

- Context: Innovation and Efficiency Initiative
- New Financing Instruments and Services
- Applications

Results

- Increased resource transfer in high priority investment areas
- Increased relevance and responsiveness of ADB (scaled-up operations with diversified portfolio and clients)
- ADB delivers... more than just money!
 - ❑ Expanded client base – private sector, local government, state firms
 - ❑ Client solutions rather than 'products' – meet market needs through greater differentiation between countries, sector and clients
 - ❑ Money with new ideas
 - ❑ Channel Asian savings for Asian investment projects - capital & financial markets
 - ❑ More business through public/private partnership (PPP) initiatives
 - ❑ Cut cost of doing business – financial & hidden

Innovation & Efficiency Initiative (IEI)

Respond to Infrastructure Challenge

- Procurement Policies (Goods & Services)
- Safeguards
- Financing Eligibility
- Quality at Entry & Processing Cycle
- **Financial Products and Modalities**

New Financial Products

❑ Need to amplify and improve instruments/modalities

❑ Instruments and Applications

- ✓ *Multitranche Financing Facility (MFF) – standby credit line*
- ✓ *Subsovereign lending – municipalities and SOEs,*
- ✓ *Local currency lending – private and public sector*
- ✓ *Refinancing facility – to sustain good projects*
- ✓ *Credit Enhancement Products (CEPs) – risks sharing*

Multitranche Financing Facility (MFF)

ADB may provide larger amounts in slices ('cluster project')

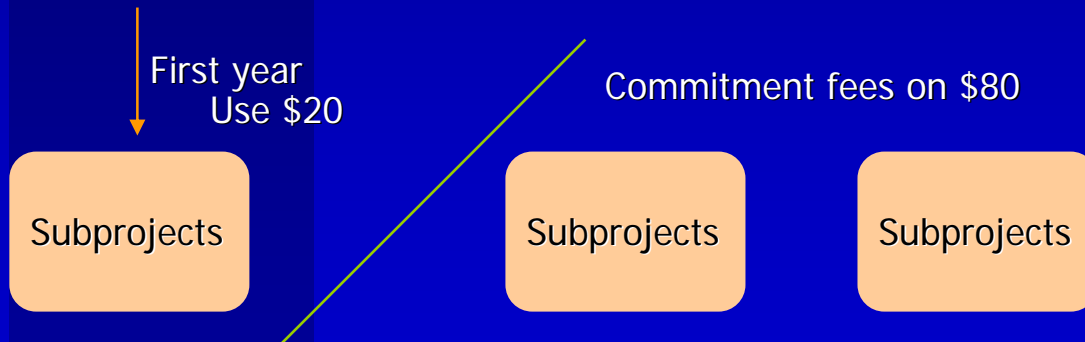
- Standby facility, non contingent
- No commitment fees
- Flexible draw down - "Finance as you go"
- Quick approvals of tranches
- Sector roadmap driven

Standard ADB Financing - Without IEI



Investment Program

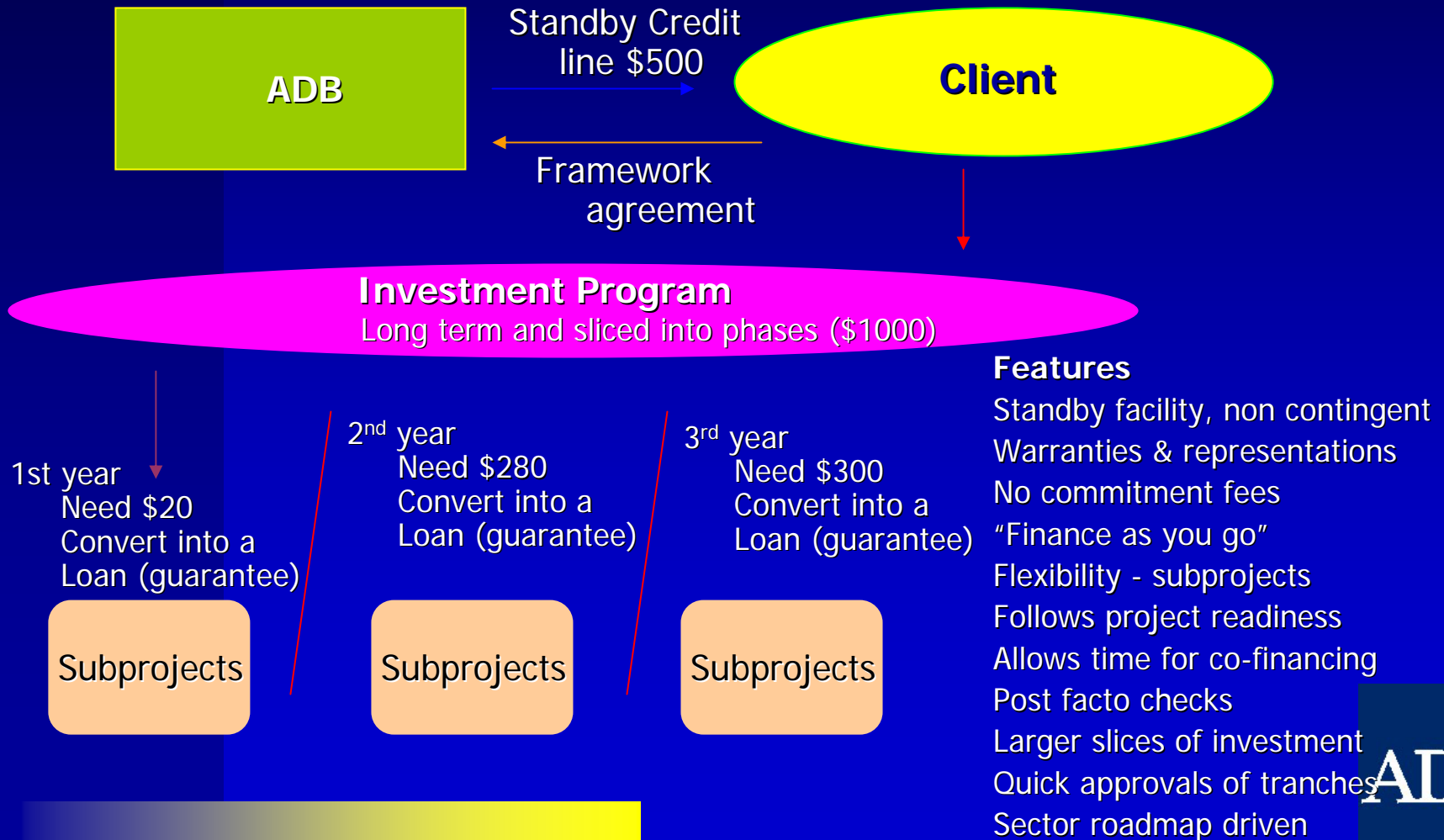
Long term and sliced into phases (\$1000)



Issues

- One loan - signed today
- Contingent liability
- Utilization phased – slow
- Commitment fees - accrue
- Terms and conditions - fixed
- Approvals – ex ante
- No delegation of authority

Multitranche Facility



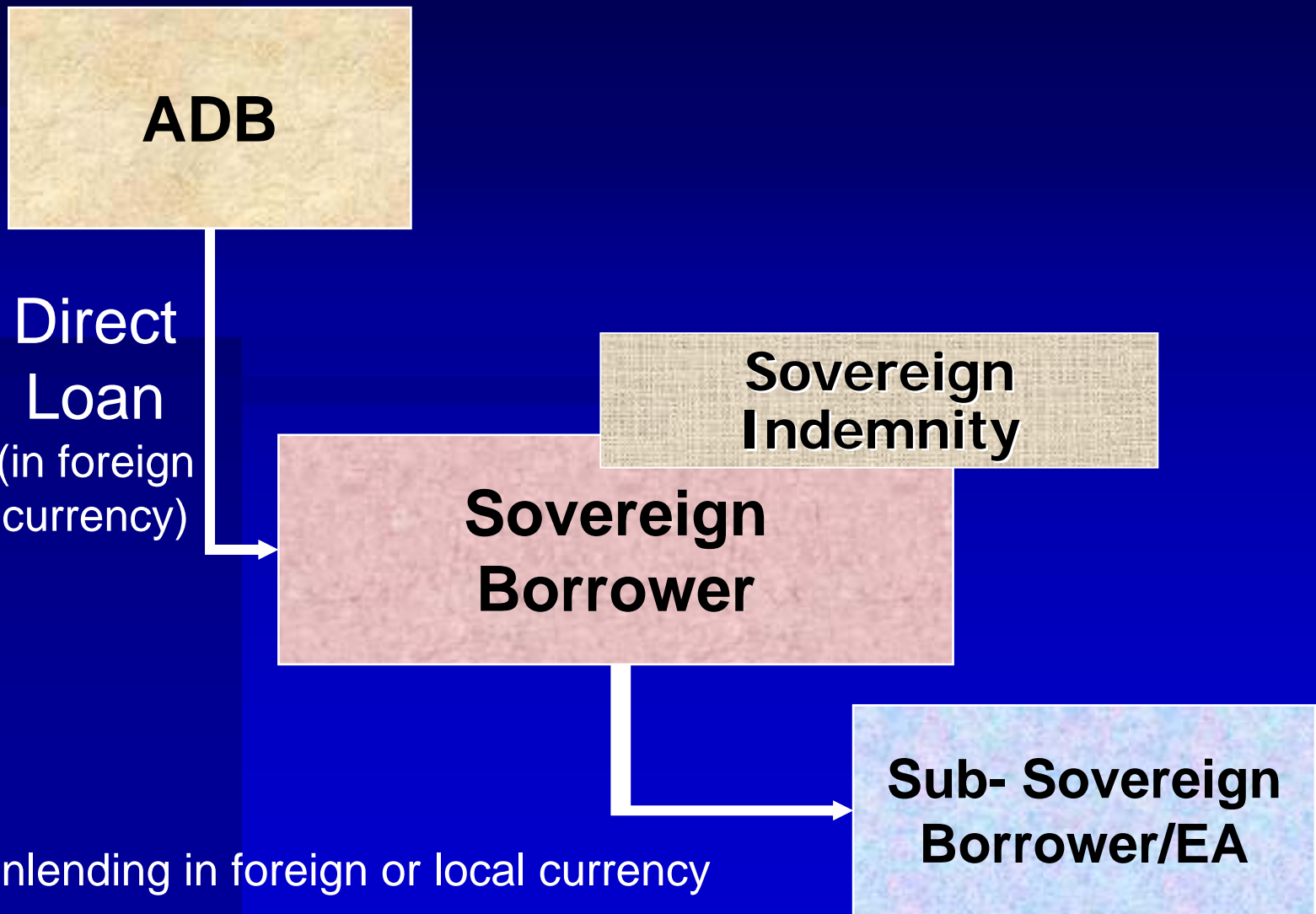
Sub-/Nonsovereign Public Sector Finance

ADB may provide finance (through loans and guarantees) directly to sub-/non-sovereign borrowers in the public sector

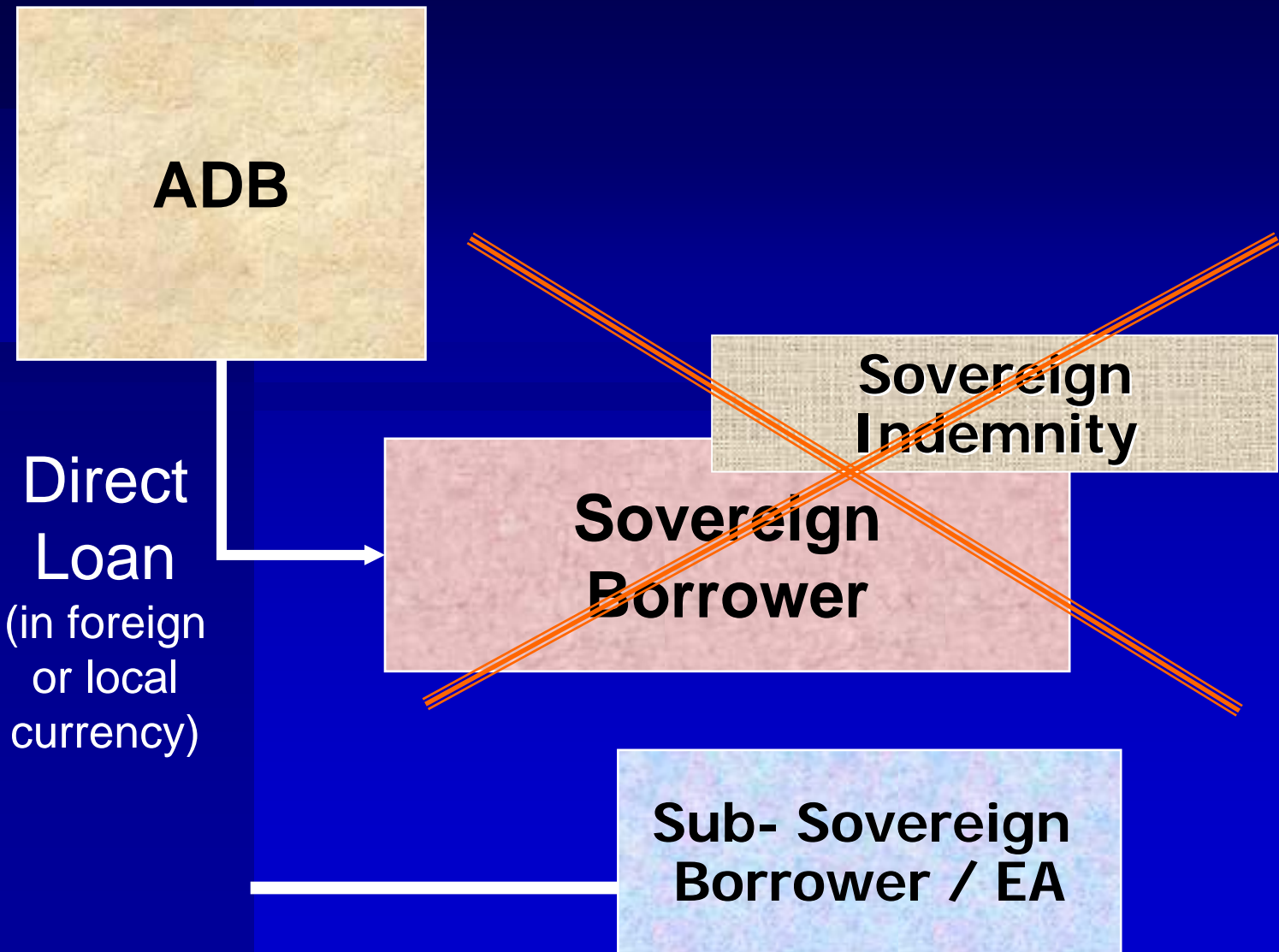
- subsovereign governments
- nonsovereign public sector entities
- SOEs

on a non recourse or limited recourse basis to the central government

without IEI Tools ...



without IEI Tools ...



Local Currency Finance

- ADB may provide finance (through loans and guarantees) directly to sub-/non-sovereign borrowers
- denominated in local currency

Refinancing / Restructuring

ADB may provide refinancing selectively to help restructure projects that:

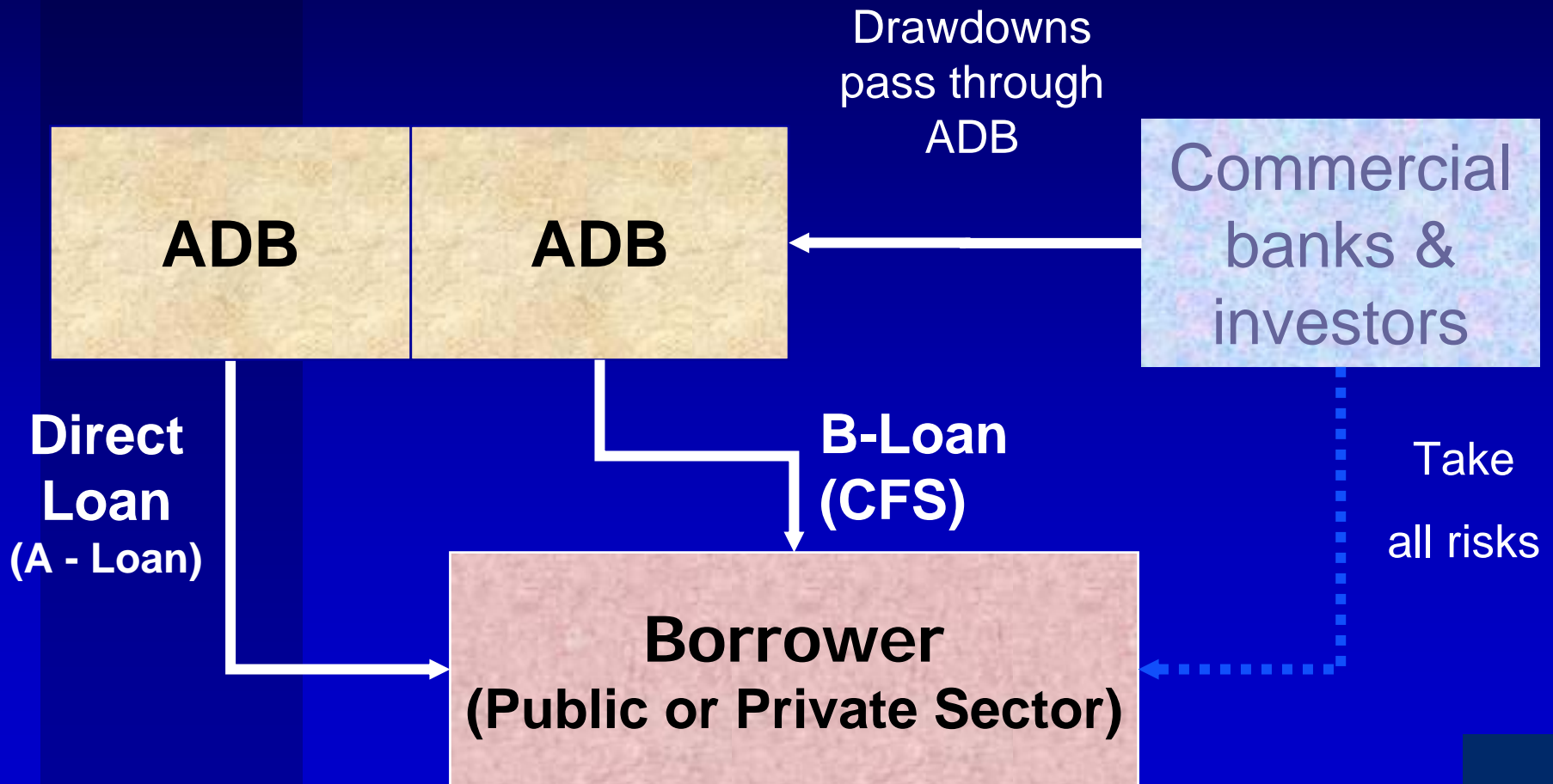
- Involve public or private sector assets, or assets under public-private partnerships
- Have high and demonstrable development impact
- Are accompanied by measures that ensure the project's long-term viability

Credit Enhancements

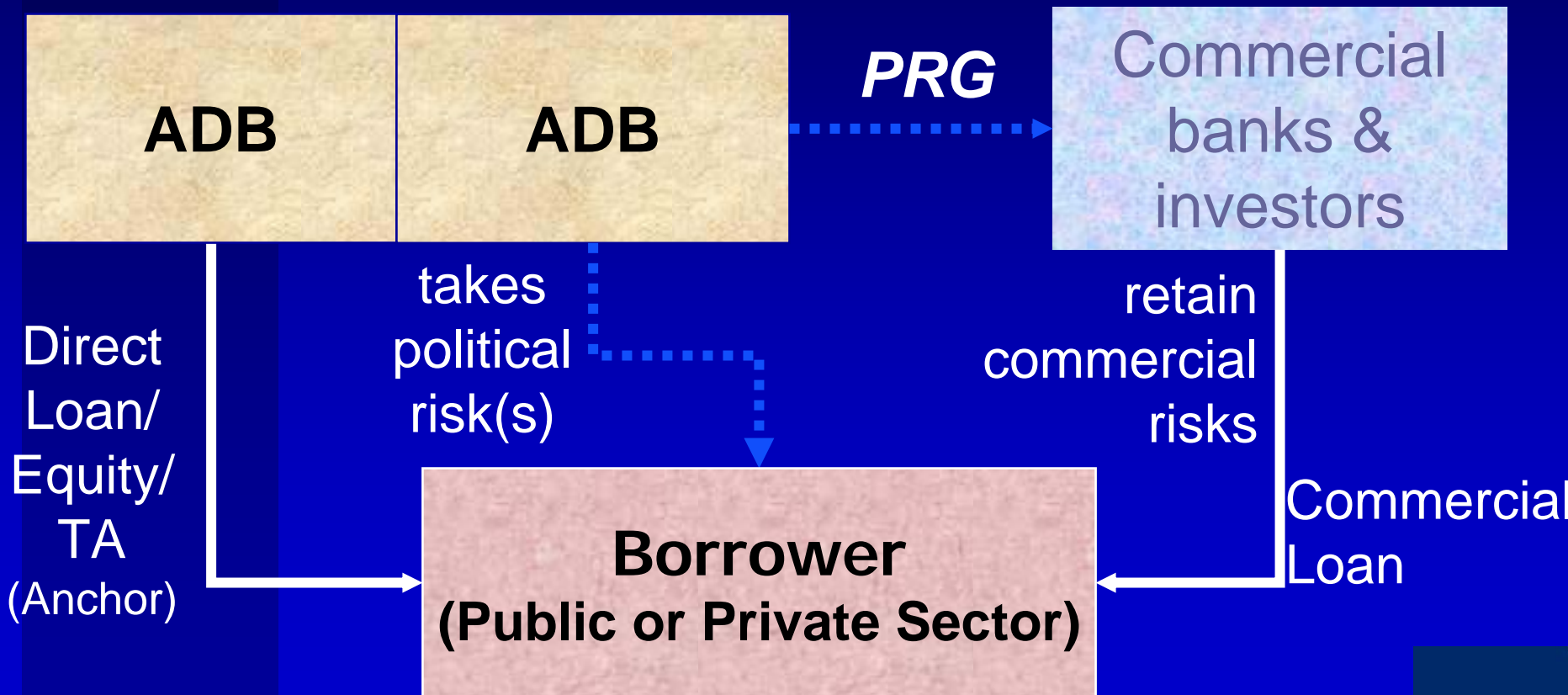
To attract financing parties to leverage ADB's own financing to sub-sovereign and non-sovereign borrowers:

- ☑ **Guarantees**: ADB support for cofinancing (financing provided by third parties) through sharing of commercial and or political risks.
- ☑ **Syndications**: ADB will partially or fully transfer risk from loans or guarantees it has provided to third parties, through fronting, reinsurance or sell down arrangements.

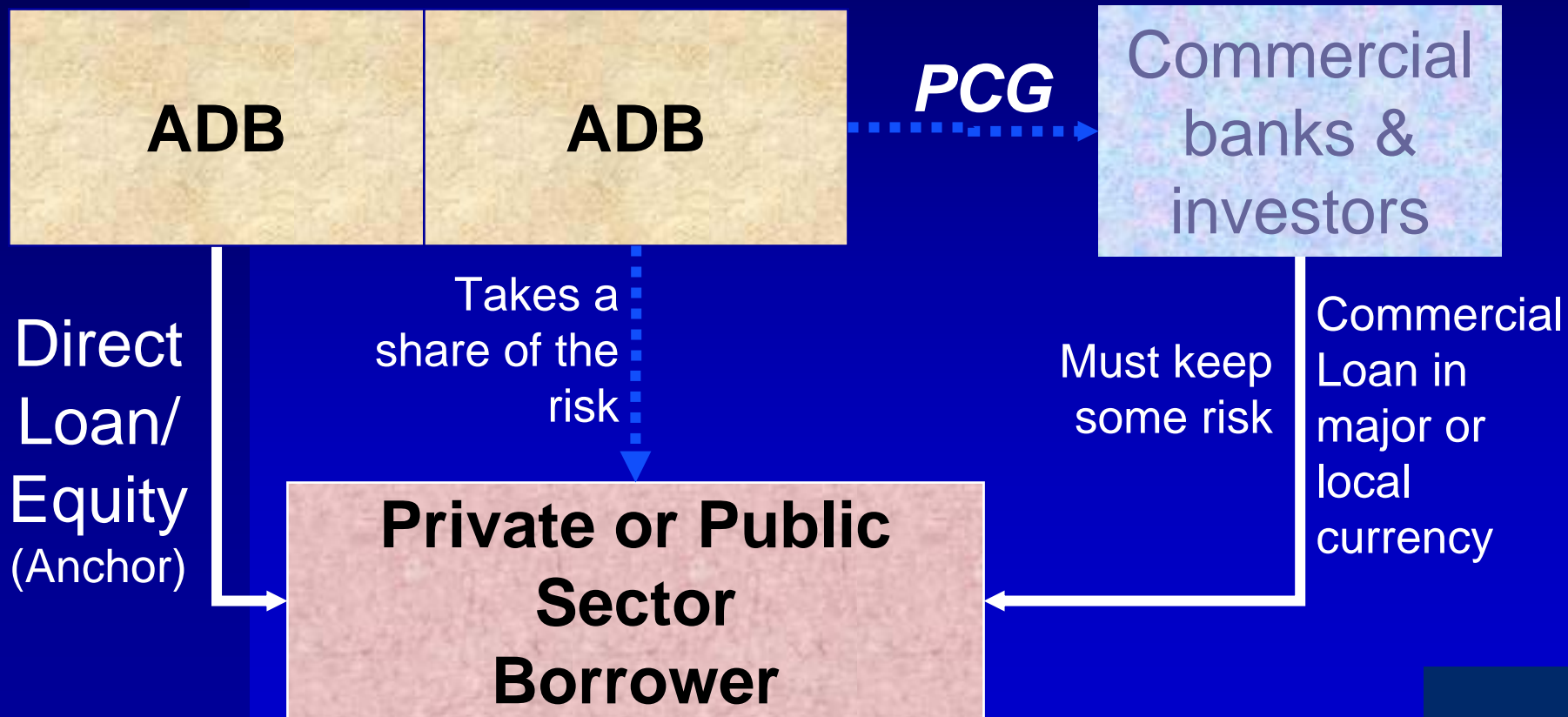
Syndication: B-Loan



Political Risk Guarantee



Partial Credit Guarantee



PCG Cover for Bond Issue

Example: Bullet Loan, FRN or Bond with ADB taking principal payment risk at maturity

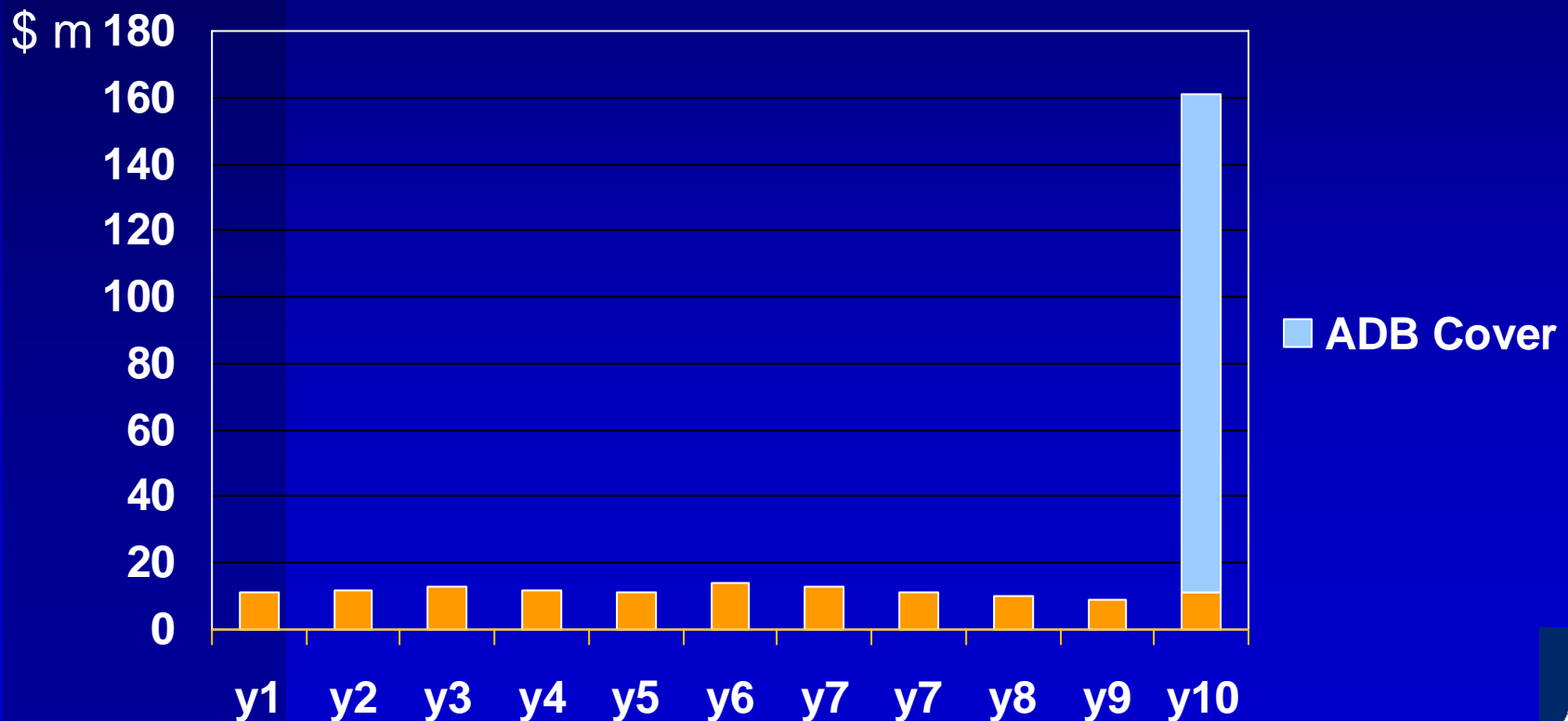
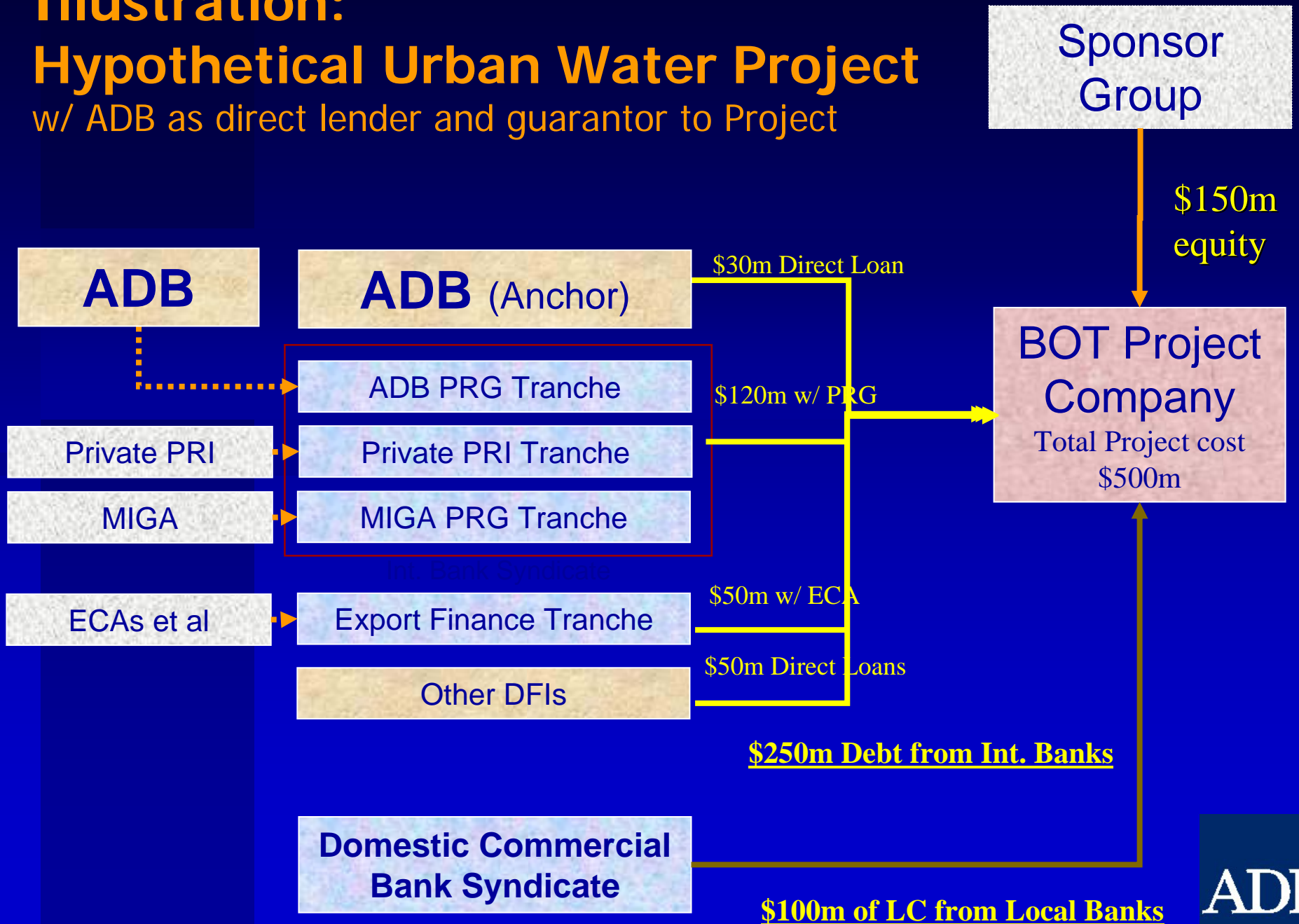


Illustration: Hypothetical Urban Water Project w/ ADB as direct lender and guarantor to Project



Implementation

Client awareness

Improved and more relevant partnerships – internal and external

Strategic integration, incentives and execution

New business entry points

Respond to increasingly complex cofinancing environment and take advantage of opportunities

- PPP
- Capital Market Development

Conclusions

- ❑ Proposals target changes to key parts of ADB's business model
- ❑ Outcome
 - ✓ *CLIENT: Increased Investment ⇒ Growth ⇒ Development and Prosperity*
 - ✓ *ADB: Better Results, Responsiveness and Relevance*

Q&A

Any questions?

- Possible applications?
- How can we help?



THANK YOU !!!