

13 PRIVATE SECTOR OPERATIONS

Descriptions

13.11 Under ADB's **private sector operations**, ADB support is provided directly to private enterprises and financial institutions by way of financing and/or risk mitigation, in most cases without requiring guarantee from the concerned DMC. The support is provided through:

- Equity investments;
- Loans;
- Complementary financing schemes;
- Guarantees;
- Technical assistance;
- Public/Private Infrastructure Advisory Facility; and
- Trade Finance Facilitation Program.

13.12 **Equity Investments** – ADB has two distinct types of equity investments that the Private Sector Operations Department (PSOD) undertakes in its normal course of business. These are:

- **Direct equity investments** – a direct investment in an investee company for its shareholdings and payment is made directly to the company. Investments may be in different types of shares, such as common (ordinary), preferred shares, as well as units of mutual fund. Equity investments can be denominated in the currency of the host country.
- **Private equity funds** – ADB may invest with a group of other investors, in a private equity fund taking a share holding through different legal structures, the most common of which is a limited partnership agreement or a limited liability company. The private equity fund, in turn, invests in investee companies that it identifies through its deal pipeline. Private equity fund investments are mostly denominated in US dollars.

13.13 **Loans** – ADB extends a loan to a project company and ADB's disbursement procedures are applicable. However, the standard

commercial business practice of payment can also be used if more than one cofinancier is involved under a joint-financing arrangement. Private sector loans may be denominated in the currency of the host country.

- 13.14 **Complementary Financing Schemes (CFS)** – In CFS, ADB acts as a “lender of record” and provides loan administration services for funds provided by commercial lenders, such as banks and insurance companies. CFS loans are available for private sector projects in which ADB is a direct participant. PSOD facilitates and administers the disbursements of complementary loans under the CFS.
- 13.15 **Guarantees:**
- Partial credit guarantee (PCG) – ADB provides comprehensive cover for both commercial and political risks.
 - Political risk guarantee (PRG) – ADB covers sovereign (or political) risks, leaving commercial risks with the private sector sponsors or lenders.
- 13.16 **Technical Assistance (TA)** – Use of TA funds for private sector activities enables ADB to pioneer in new countries and new sectors. The funded TA activities are:
- Project preparatory technical assistance (PPTA), with full or partial recovery where TA results in financial assistance from ADB;
 - Project implementation technical assistance (PITA);
 - Advisory technical assistance (ADTA); and
 - Regional technical assistance (RETA).
- 13.17 **Public/Private Infrastructure Advisory Facility (PPIAF)** – PPIAF is a multi-donor facility to help developing countries improve their infrastructure through private sector operations.
- 13.18 **Trade Finance Facilitation Program (TFFP)** – TFFP enhances the capacity of documentary credit issuing and confirming banks by providing them with a risk mitigating facility, without sovereign counter-guarantee. The program components are:
- Revolving partial credit guarantee facility with issuing banks and confirming banks;
 - Risk sharing agreement (or cooperation agreement) with other international development institutions;

- Revolving credit facility with issuing banks; and
- Risk participation agreement with confirming banks.

Disbursement Procedures

- 13.19 In all cases, the disbursement procedures should be specified in the contractual agreement with ADB – i.e., loan/investment/TA/issuing bank/revolving credit agreement.
- 13.20 PSOD will prepare the authorization for private sector disbursements together with a complete set of loan/investment documents as attachments, to initiate the disbursement process. CTL should the authorization at least 3 working days prior to the proposed disbursement date.¹
- 13.21 These disbursements may take place in predetermined tranches on specified dates, or at call. The disbursement may also be made through reimbursement to the investee company for expenditures incurred, or to confirming banks against LCs in favor of suppliers.
- 13.22 ADB’s disbursement for private sector loans, equity investment, TFFP and TAs are subject to:
- the loan, equity investment, revolving credit or TA agreement having been declared effective by ADB;
 - the borrower or recipient, as applicable, having submitted to ADB a Certificate of Incumbency sufficient evidencing the authority of the person(s) who will sign the disbursement request (substantially in the form shown in *Appendix 36*); and
 - any disbursement conditions as specified in the loan, equity investment, TFFP or TA agreement having been met.
- 13.23 Before disbursement can be made, ADB requires the following:
- **Private Sector Loans**
 - a. Form of Disbursement Request (substantially in the form shown in *Appendix 37*) signed by the authorized representative;
 - b. a signed undated Disbursement Receipt² indicating the amount received by the borrower with the date to be filled in by ADB after the

¹ The Office of the General Counsel (OGC) will endorse the initial authorizations for all private sector operations disbursements, and where required by Controllers, for subsequent equity investment disbursements.

² The OGC may decide on its applicability on a case-by-case basis.

disbursement is value-dated (substantially in the form shown in *Appendix 38*);

- c. a promissory note² in the case of complementary financing schemes or complementary loans (substantially in the form shown in *Appendix 39*);
 - d. in respect of the TFFP, a qualified commitment letter in the case of documentary credit financed by ADB (substantially in the form shown in *Appendix 40*); and
 - e. any other documents specified in the loan agreement.
- **Equity Investment**
 - a. Capital Call request signed by the authorized representative; and
 - b. any other documents specified in the equity investment agreement.
 - **Technical Assistance**
 - a. a signed official invoice; and
 - b. any other documents specified in the TA agreement.

13.24 TFFP Disbursement Procedures for Revolving Credit

- a. a Form of Disbursement Request (substantially in the form shown in *Appendix 37*) signed by the authorized representative;
- b. a signed undated Disbursement Receipt² indicating the amount received by the borrower with the date to be filled in by ADB after the disbursement is value-dated (substantially in the form shown in *Appendix 38*);
- c. Subloan Summary Report on each subloan that is proposed to be financed out of the proceeds of the Disbursement (substantially in the form shown in *Appendix 41*); and
- d. any other documents specified in the revolving credit agreement.

13.25 TFFP Disbursement Procedures for Revolving PCG

- (i) Before reimbursement of claims by confirming banks can be made under the TFFP PCG facility, ADB requires:

² The OGC may decide on its applicability on a case-by-case basis.

- Claim Disbursement Request Form;
 - Notice of Unpaid Claim (substantially in the form shown in *Appendix 42*) to be delivered by authenticated SWIFT or tested telex and followed by hard copy; and
 - any other documents specified in the issuing bank agreement.
- (ii) Before ADB makes a participation contribution to confirming banks under TFFP Risk Participation Agreement, ADB requires:
- Notice of participation contribution (substantially in the form shown in *Appendix 43*); and
 - any other documents specified in such notice.
- (iii) Before ADB makes a participation contribution under a TFFP Cooperation Agreement (risk sharing), ADB requires:
- Notice of Participation Contribution (substantially in the form shown in *Appendix 44*); and
 - any other documents specified in such notice.

Other Information

13.26 Inquiries on private sector operations not discussed in this Handbook should be addressed to ADB's Private Sector Operations Department. More information is also available in www.adb.org/PrivateSector/Finance/default.asp.