

ADB Operations

Promoting Bilateral Mechanisms in Asia and the Pacific

A Workshop on the Joint Crediting Mechanism

Jakarta, 21 May 2015



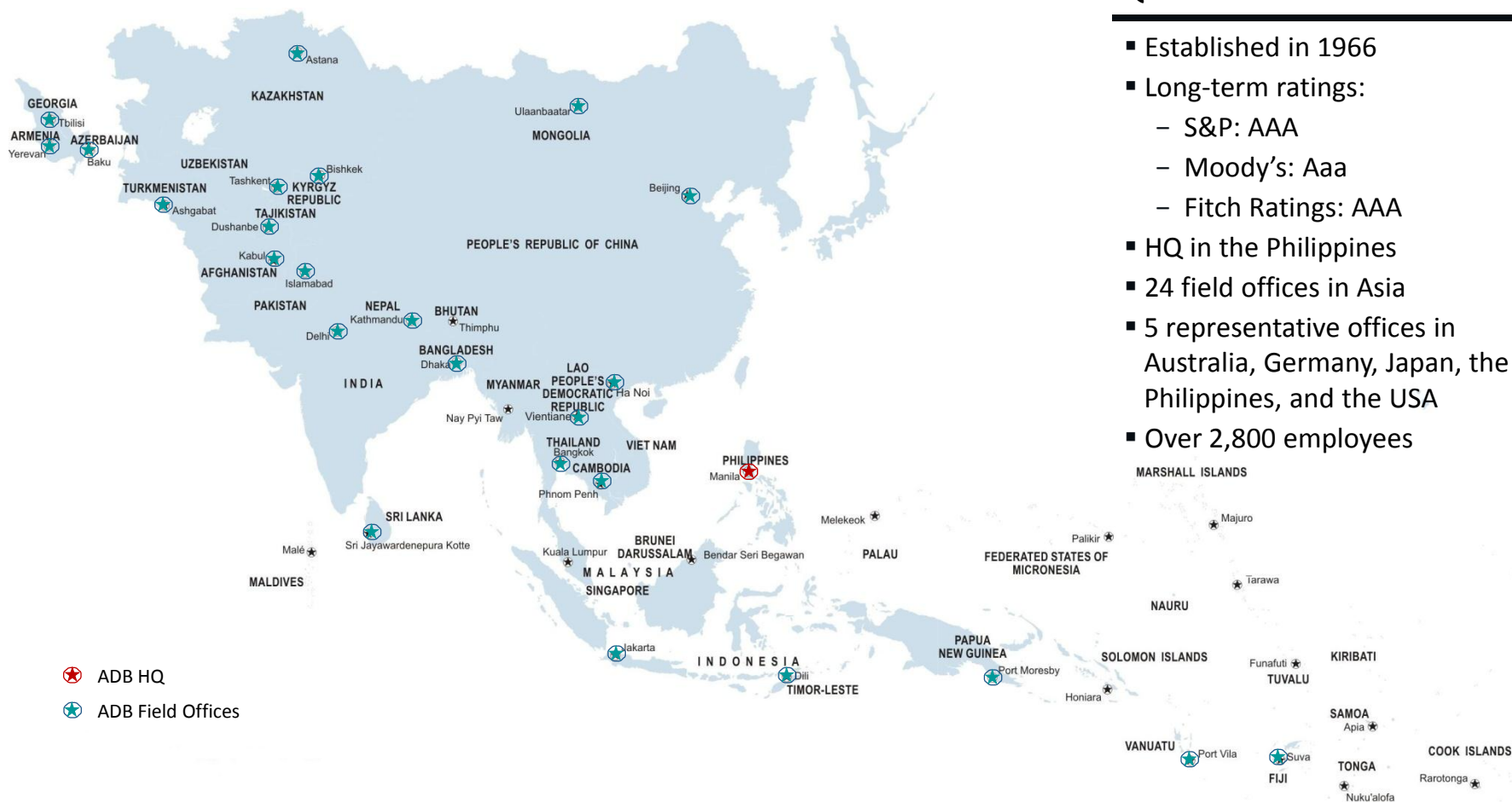
Coordinating Ministry
for Economic Affairs
Republic of Indonesia

The Asian Development Bank

ADB was established by agreement of its member countries to foster economic growth and co-operation in the Asia and Pacific region, and to contribute to economic development of its developing member countries in the region, collectively and individually.

Quick Facts

- Established in 1966
- Long-term ratings:
 - S&P: AAA
 - Moody's: Aaa
 - Fitch Ratings: AAA
- HQ in the Philippines
- 24 field offices in Asia
- 5 representative offices in Australia, Germany, Japan, the Philippines, and the USA
- Over 2,800 employees

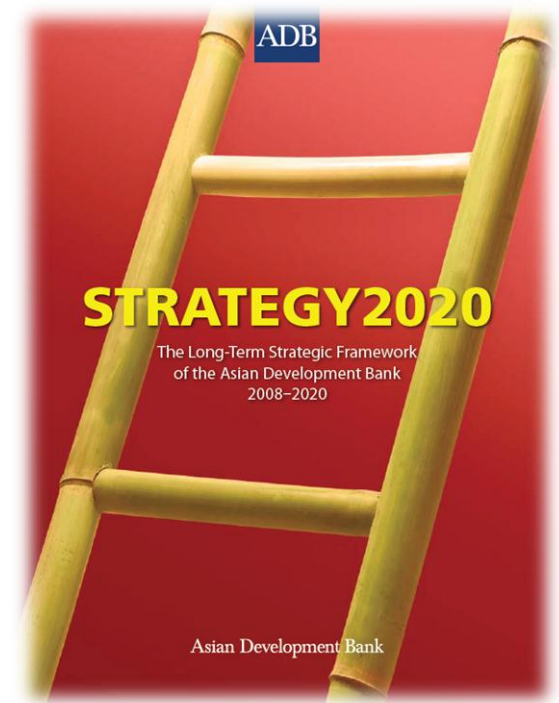
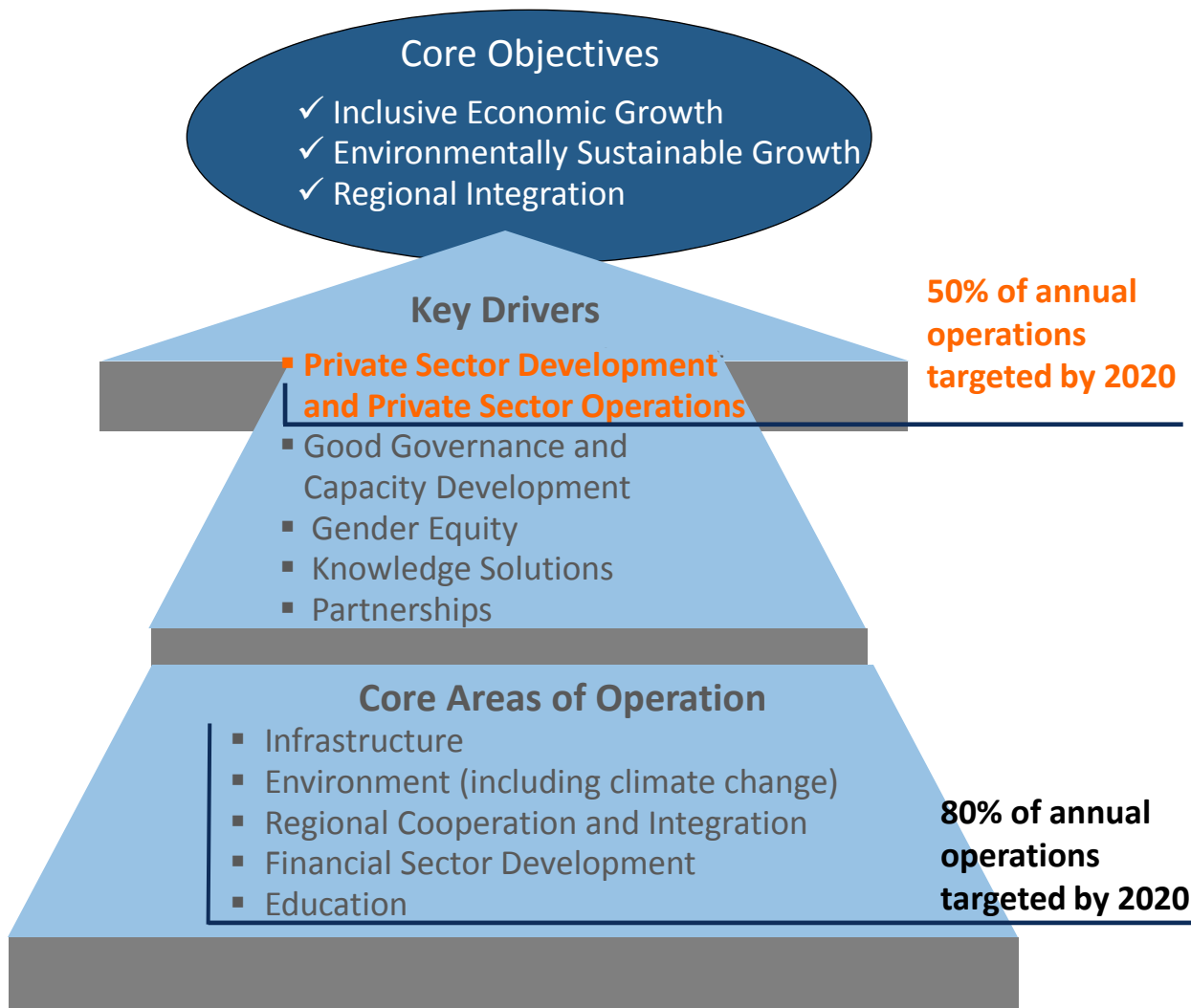


ADB's LONG TERM STRATEGY



Framing ADB's Long-Term Strategy: Strategy 2020

Since 2008, ADB's operations have been guided by a comprehensive, long-term strategy

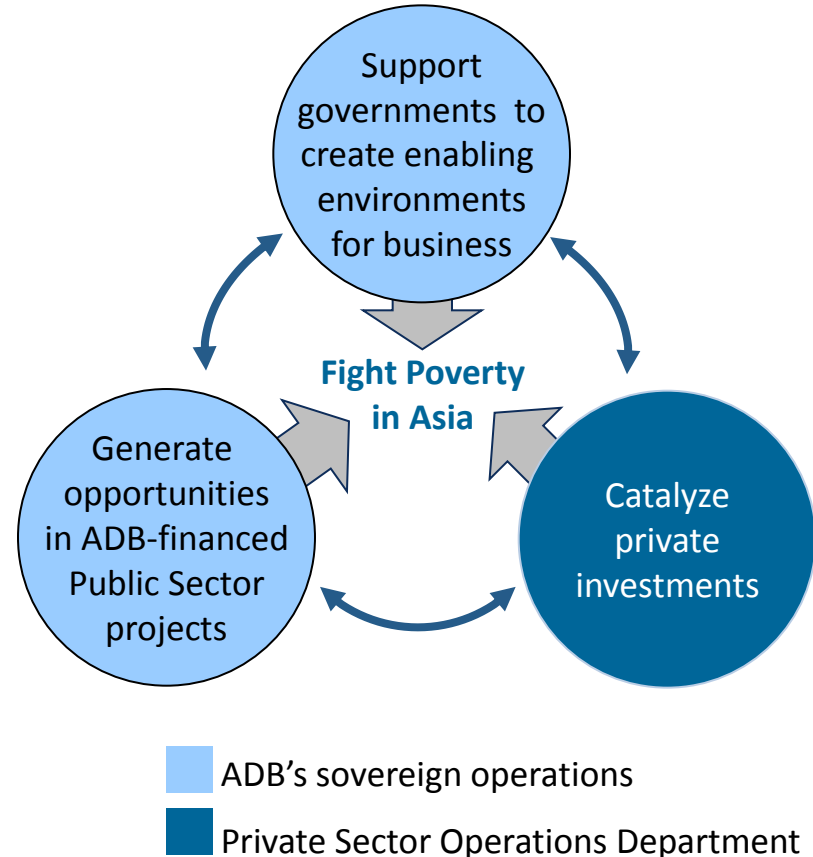


Strategy for Private Sector Development

A multi-pronged approach to private sector development:

- ADB believes that a vibrant private sector
 - is essential to long-term economic growth,
 - advances employment , productivity and new technologies,
 - through payment of taxes, enables governments to invest in public goods and services, including basic social services
- ADB supports private sector development through complementary assistance to both
 - governments, through its sovereign operations departments
 - the private sector, through the Private Sector Operations Department

ADB's Private Sector Thrusts



PRIVATE SECTOR OPERATIONS

The Private Sector Operations Department (PSOD) is ADB's only department responsible for assistance to private sector projects.

Our Mandate

- formulate and implement ADB strategies for direct assistance to the private sector
- provide financial assistance to private companies and government-owned firms on a non-sovereign basis
- mobilize funds for private sector activities, including loan syndications, partial risk guarantees, and partial credit guarantees
- invest in private equity funds for small and medium-sized enterprises (SMEs), microfinance, infrastructure, and clean energy and water
- monitor ADB's private sector portfolio and manage risk



Infrastructure

- Energy (incl. Power)
- Transport
- Telecommunications
- Water
- Urban Infrastructure



Capital Markets & Financial Sector

- Banks
- Nonbank Financial Institutions
- Private Equity Funds

How We Operate

ADB's private sector interventions are selected to maximize development impact.

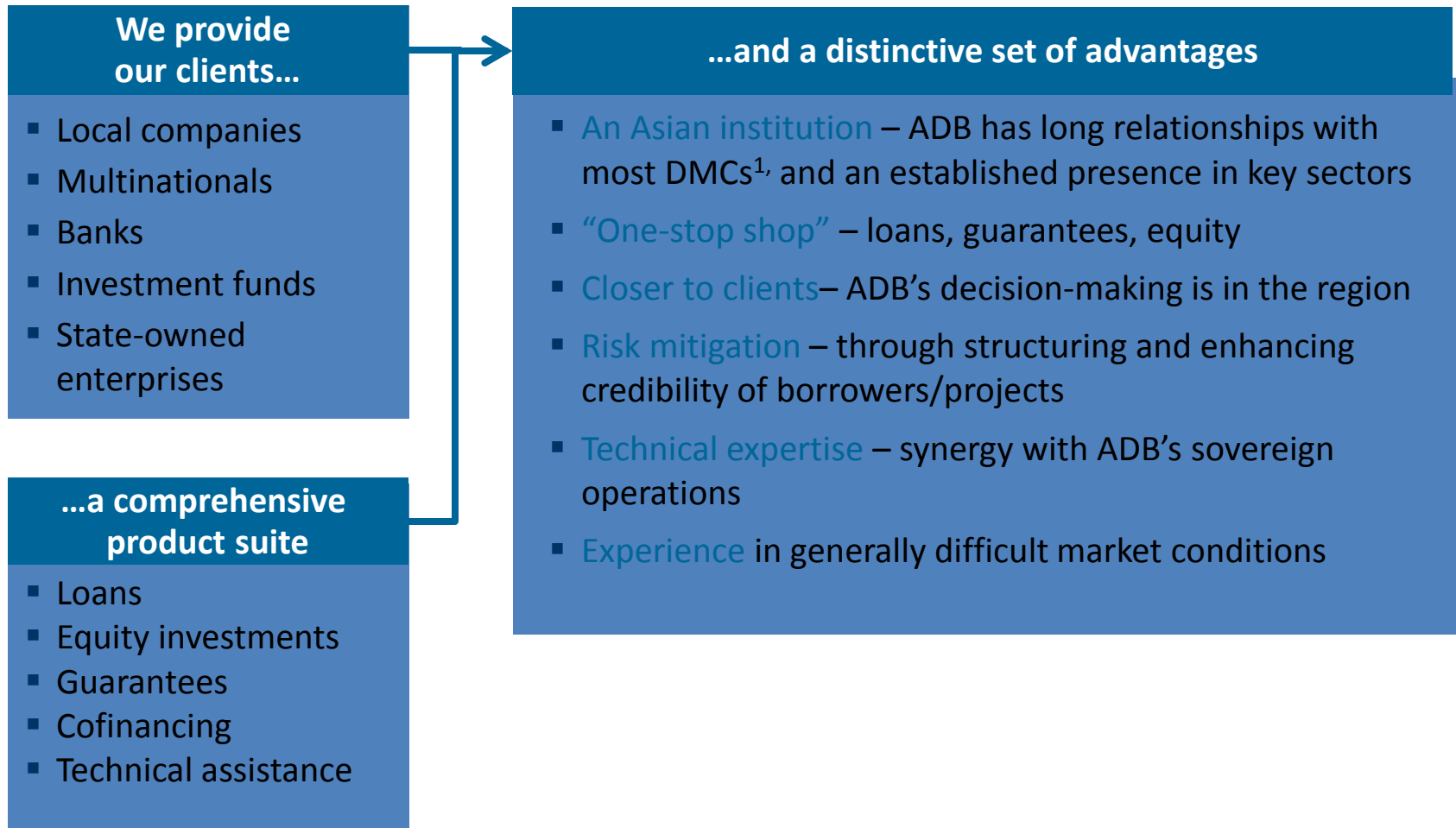


PSOD selects projects which

- are aligned with ADB's country strategy
- pioneer innovative, replicable solutions
- have wider sectoral / economic impacts
- have strong poverty reduction elements
- promote good governance
- crowd others in ("catalytic") private sector investors
- deepen financial and capital markets
- bring private sector rigor and management skills into public sector services
- are bankable

Our Value Proposition

Private sector partners benefit from ADB's unique set of advantages.



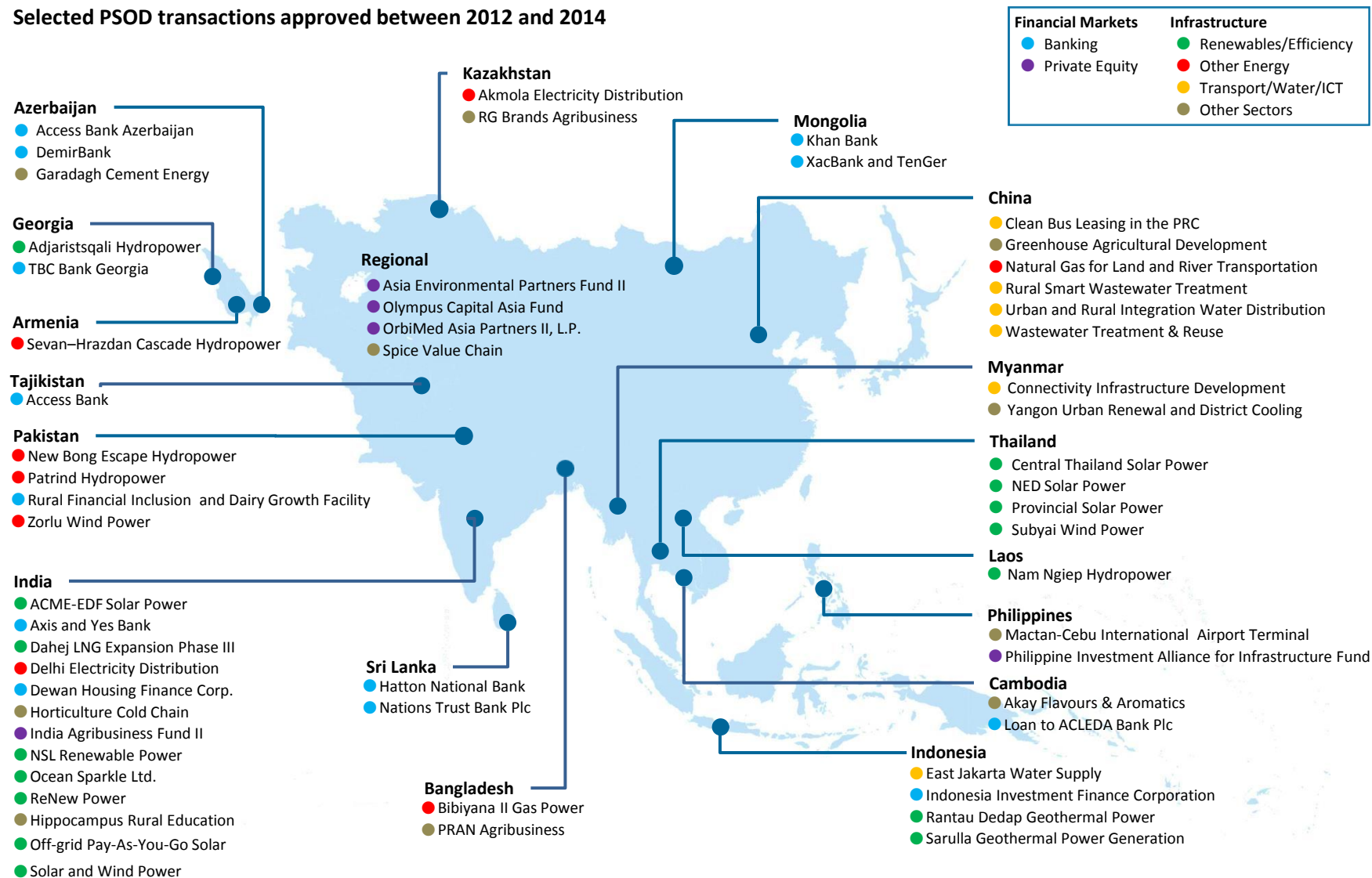
Notes: (1) DMCs = Developing Member Countries

Overview of Private Sector Operations Department (PSOD)

- ▶ **PSOD undertakes private-sector, commercially-oriented investments across a wide range of industry sectors throughout developing Asia**
- ▶ **We have a diverse financing toolkit to catalyze transactions that generate attractive financial returns and high developmental impact, including:**
 - Debt
 - Equity
 - Guarantees
 - Concessional Capital
 - Technical Assistance
- ▶ **We invest across a variety of different modalities, including:**
 - Project Finance
 - Corporate Finance
 - Private Equity Funds
 - Funding Programs (e.g., Trade Finance, Microfinance, Supply Chain Finance, etc.)
- ▶ **Our team includes approximately 160 professionals across 7 locations:**
 - Manila (HQ)
 - Jakarta
 - Bangkok
 - Hanoi
 - New Delhi
 - Beijing
 - Almaty

ADB's PSOD has a lengthy history of investing in its core sectors across emerging Asia

Selected PSOD transactions approved between 2012 and 2014



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Infrastructure

Catalyzing economic growth and social equity via energy, waste, water, transport, and telecommunications facilities



Environmental protection

Developing sources of renewable energy and encouraging energy efficiency



Finance & capital markets

Providing better access to higher-quality financial services across Asia's developing markets



Sustainable agribusiness

Promoting environmentally friendly food production, processing, and distribution



Education

Building human capital through the expansion of basic and higher education services



Health

Supporting private providers of high-quality and affordable health care

PSOD provides a range of financing solutions to meet its clients' needs

Debt

- Direct loans: market-based pricing in major international and/or local currencies
- B-loans: ADB acts as Lender of Record and administers the loan, but it is funded by 3rd-party financing
- Unfunded risk participations: fronting arrangement with IFIs and/or commercial banks / insurers

Equity

- Direct investments in enterprises and financial institutions through common shares, preferred stock, and/or convertibles
- Investments in private equity funds as a general partner (GP) or limited partner (LP)

Guarantees

- Political Risk Guarantee (PRG): protection against political risks, including foreign exchange restrictions, expropriation, political violence and contract dispute
- Partial Credit Guarantee (PCG): protection against credit risks, including non-payment by the borrower of the principal and interest due

Concessional Capital

- Attractively priced and structured capital via 3rd-party concessional sources for targeted industries / geographies

Technical Assistance

- Technical assistance funding for project preparation, capacity development, R&D, etc.

PSOD's Sector Focus

Key Industry Sectors

► Infrastructure

- Conventional Energy
- Transportation
- Water Supply / Treatment
- Telecommunications

► Finance

- Banks, Insurance Companies
- Trade Finance, Supply Chain Finance
- Private Equity

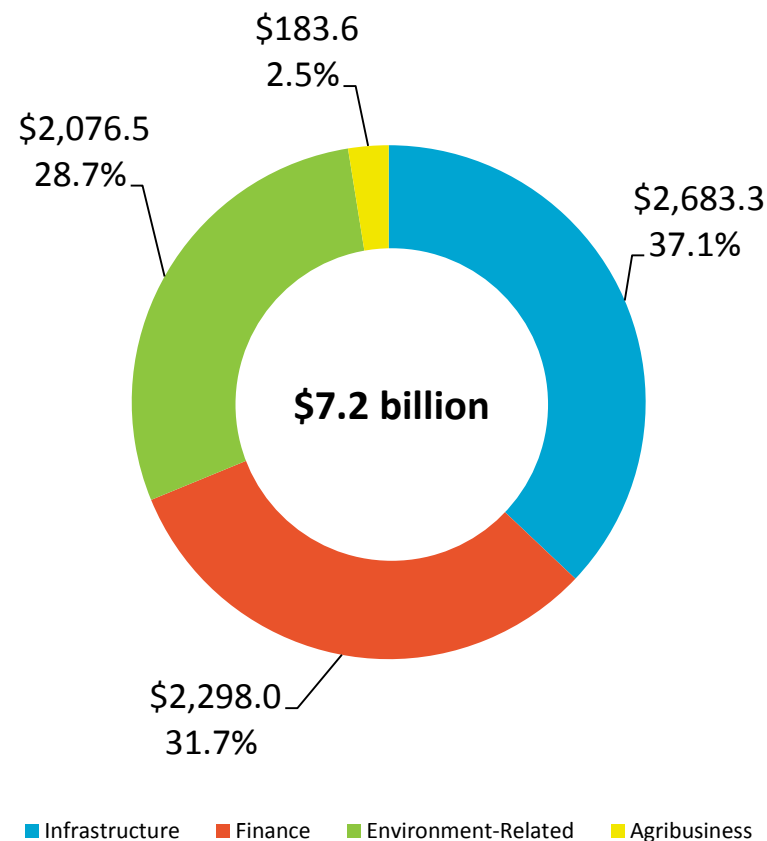
► Environment-Related

- Clean Energy
- Energy Efficiency
- Clean Technology

► Agribusiness

PSOD's Current Portfolio⁽¹⁾, by Industry Sector

\$ million



Note:

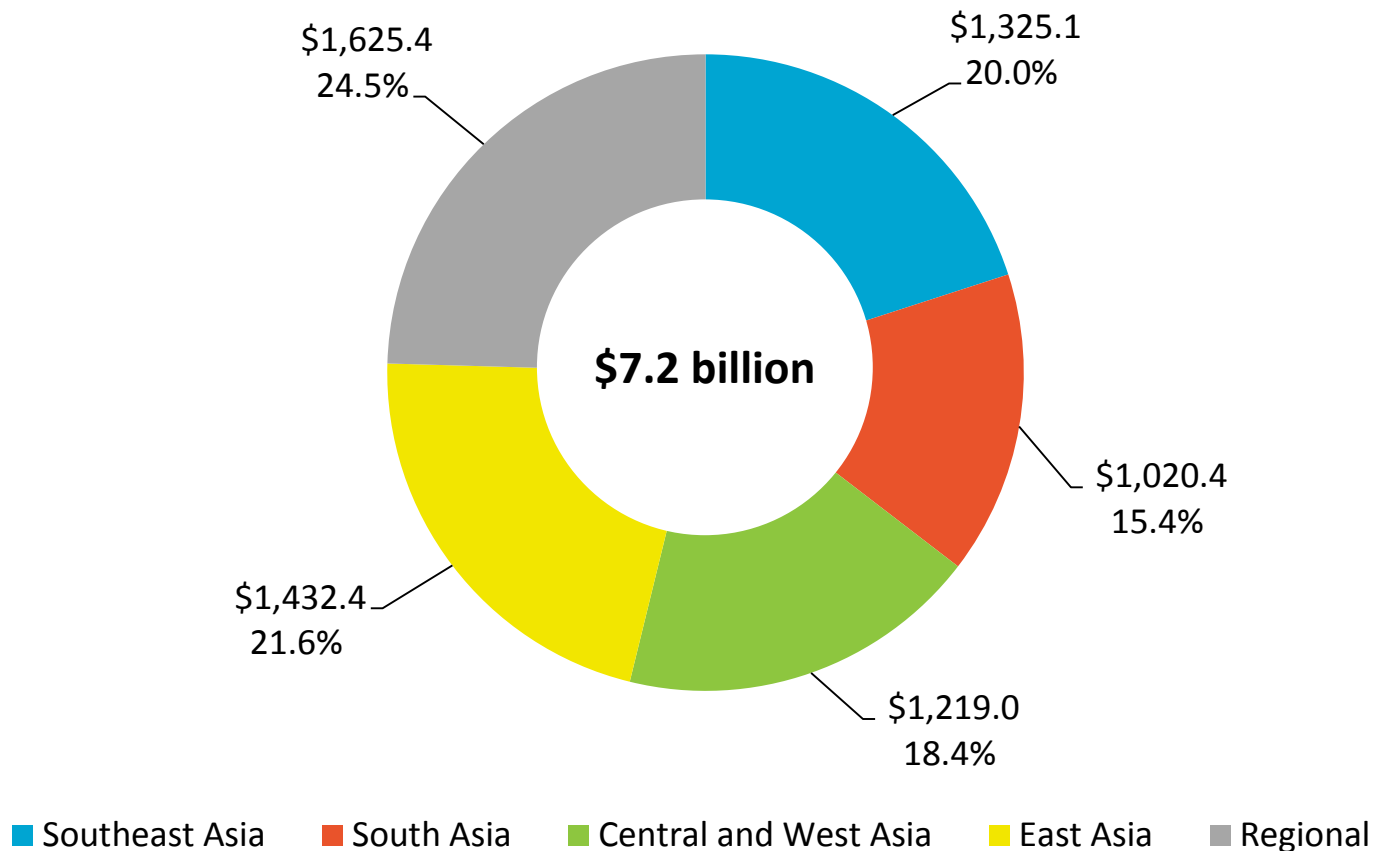
(1) Includes loans, equity investments and guarantees. As at 31 December 2014

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PSOD's Portfolio, by Geography

PSOD's Portfolio⁽¹⁾, by Geography

\$ million



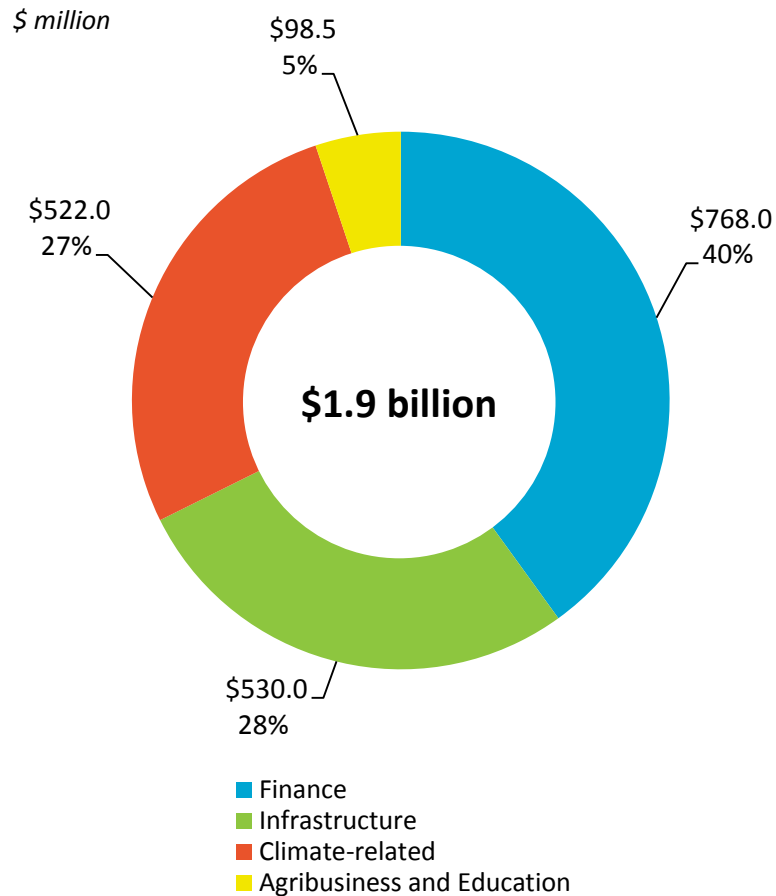
Note:

(1) Outstanding balances and undisbursed/unissued commitment for loans, equity investments and guarantees. As at 31 December 2014

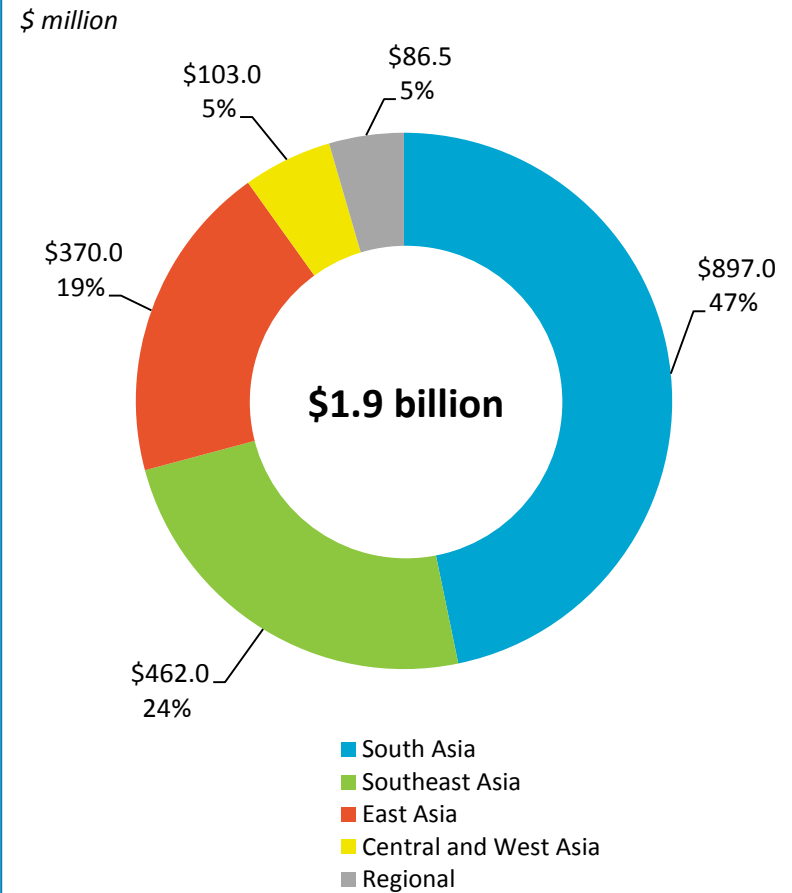
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PSOD 2014 Operations at a Glance

PSOD Approvals⁽¹⁾, by Industry Sector



PSOD Approvals⁽¹⁾, by Geography



Note:





(1) Approvals refer to Board Approval of ADB's Ordinary Capital Resources

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ADB consistently delivers projects with high development outputs

Each of ADB's projects across its sovereign and private sector portfolio is measured on its ability to address key development challenges that constrain sustainable growth in Asia

A Decade of Development Impact Results (2004–2013)

Sustainable Growth	Financial Inclusion	Access to Energy	Social Impact
			
32.9M tons CO ₂ /year reduction in greenhouse gas emissions	7.2M microfinance accounts opened / borrowers reached	4.9M households connected to electricity	2.1M teachers trained with quality of competency standards

A snapshot of PSOD results (2013)⁽¹⁾

70K+ households connected to new or improved piped water supply	\$4.0B+ in trade supported via trade finance	4.7GW of installed energy capacity	2,520 direct local jobs created (not including indirect jobs)
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Note:

(1) These results reflect the impacts that were recorded in project completion reports that were submitted in 2013 and not the totality of PSOD operations in that same year.

PSOD Organizational Structure

Industry / Sector Teams				
Infrastructure Finance Division 1	Infrastructure Finance Division 2	Financial Institutions Division	Investment Funds & Special Initiatives Division	Agribusiness Investment Team
<p>Develops, structures, and executes infrastructure financings in:</p> <ul style="list-style-type: none"> ▪ Central & West Asia ▪ South Asia 	<p>Develops, structures, and executes infrastructure financings in:</p> <ul style="list-style-type: none"> ▪ East Asia ▪ Southeast Asia ▪ The Pacific 	<p>Develops, structures, and executes financial intermediary financings for:</p> <ul style="list-style-type: none"> ▪ Banks ▪ Non-bank financial institutions ▪ Insurance ▪ Trade & Supply Chain Finance ▪ Microfinance 	<p>Develops, structures, and executes:</p> <ul style="list-style-type: none"> ▪ Private equity fund investments ▪ Co-investments ▪ Other special investment initiatives 	<p>Develops, structures, and executes agribusiness-related financings</p>
Transactions Support Division Provides transaction support to new and existing transactions, including Cofinancing, Development Effectiveness, Environmental / Social Safeguards, and Integrity standards				
Portfolio Management Division Manages deals & connected relationships once transactions are funded; reports on and manages PSOD's overall portfolio and capital position				

Cross-Department Teams

Safeguard Requirements

ADB adds value to private sector transactions by applying rigorous standards to mitigate adverse environmental and social impacts.

Environmental Impact

- Ensure the environmental soundness and sustainability of projects
- Support the integration of environmental considerations into project decision-making

Involuntary Resettlement

- Avoid involuntary resettlement wherever possible
- Minimize involuntary resettlement by exploring project & design alternatives
- Enhance, or at least restore, the livelihoods of all displaced persons in real terms relative to pre-project levels

Indigenous People

- Ensure that the design and implementation of projects foster full respect for Indigenous Peoples' identity, dignity, human rights, livelihood systems, and cultural uniqueness

Key Policy Features

- Integrated 3-in-1 approach (Environment, Involuntary Resettlement, Indigenous Peoples)
- Consistent with WB and IFC approaches
- Requirements tailored appropriately to different financing modalities
- Strengthened monitoring and supervision
- Country Safeguard Systems (CSS)
- Emphasis on capacity development in developing member countries

ADB Value Addition

Long term, competitive finance to support infrastructure and financial institutions

- Tailored financial solutions to meet client needs (e.g. repayment schedule, local currency facilities, concessional finance, grant assistance for capacity development)
- Support to achieve the highest environmental, social and governance standards



Investment Limits

Debt instruments to support both project finance and corporate finance*

- For project finance, ADB direct loan cannot not exceed the lower of 25% of project costs and \$250 million.
- For corporate finance, ADB's direct loan cannot not exceed the lower of 25% of total assets and \$250 million.
- For smaller projects, with project costs/ total assets below \$250 million, ADB's exposure can be higher (i.e. up to 50% of project cost/ total assets for projects with costs/assets of less than \$50 million)

Debt instruments to support funding gaps for financial institutions

- ADB's direct loan cannot not exceed the lower of 50% of tangible net worth and \$250 million.

Equity instruments to support projects or growth stage companies with proven business model

- ADB direct investment cannot exceed the lower of 25% the net worth of the investee (including ADB's investment) and \$75 million.

*Total exposure limits are increased when debt instruments are combined with guarantee products.

Case Studies

Case Studies: Infrastructure

Sarulla 320MW Geothermal Power⁽¹⁾



Description:

- Geothermal Independent Power Producer (IPP) with approx. 320 MW of installed capacity in N. Sumatra and 30-year power offtake with state-owned utility PLN.
- Sponsors: Itochu Corporation, Kyushu Electric Power Company, Ormat International, Medco Power Indonesia.

Total project cost of \$1.6 billion; Total ADB assistance:

- \$250 million ADB direct loan; \$80 million loan via ADB-managed Clean Technology Fund⁽²⁾; \$20 million loan via ADB-managed Canadian Climate Fund.⁽²⁾⁽³⁾
- 20 year tenor with 4 year grace period.

Key features:

- Accelerating development of the Indonesia geothermal sector via the financing, implementation, and commissioning of the first geothermal IPP in Indonesia in over 10 years.
- Avoiding the emission of 1.3 million tons of greenhouse gases (CO₂ equivalent) per annum.

Rantau Dedap 240MW Geothermal Power (Phase 1)



Description:

- Given the high barriers to entry and capped returns facing geothermal projects, the relative absence of risk sharing solutions during the resource discovery phase has limited geothermal power expansion across the globe.
- Approx. 240 MW geothermal IPP development in S. Sumatra requiring early stage financing to support drilling exploration program.
- Sponsors: Supreme Energy, GDF Suez and Marubeni Corporation.

Total ADB assistance:

- \$50 million loan via ADB-managed Clean Technology Fund.
- Maximum 4 year loan with bullet repayment.

Key features:

- Bridging financing gap – It is the first significant non-recourse loan in which risks are shared with the private sector during the resource discovery phase of a geothermal project, setting new milestone for the Indonesian geothermal sector and the regional power market.
- Catalyzes more private investment in geothermal energy by demonstrating resource viability in Indonesia.

\$: US dollars; JBIC: Japan Bank for International Cooperation

(1) Project Name: Sarulla Geothermal Power Development Project

(2) Mezzanine Finance

(3) Canadian Climate Fund for Private Sector in Asia

Case Studies: ADB private sector investments pre-2010

Tangguh LNG (2007)



Description:

- BP Berau Ltd is the operator of Tangguh LNG, a major greenfield development to extract and liquefy natural gas from gas fields in the Berau and Bintuni bay areas of Irian for shipping to export markets.
- The project includes an offshore gas production facility, onshore liquified natural gas (LNG) facility, and gas transmission pipelines. The 2-train LNG facility produces 7.6 million tons per annum (Mtpa).
- Sponsor: British Petroleum (BP).

ADB's assistance:

- \$350 million direct loan with a 12 year tenor, including grace period.

Key features:

- Generate financial benefits to central and local governments.
- Supply and promote usage of natural gas to countries looking to reduce reliance on oil and diesel.
- Largest private sector financing in Indonesia in 2007, demonstrating resumption of private sector confidence in Indonesia and its reform initiatives in the energy sector.

PALYJA – West Jakarta Water Supply (2007)



Description:

- PT Pam Lyonnaise Jaya (PALYJA) is the the West Jakarta water concessionaire owned by Suez Environnement and Astratel.
- The water operator supplies water for 400,000 end users in West Jakarta under a 25-year concession agreement with PAM Jaya, the municipal water utility owned by DKI.

ADB's assistance:

- 455 million rupiah local currency loan (funded through cross currency swap, 2 years grace and 5 year repayment) to support the third 5-year capital expenditure program.

Key features:

- ADB remains actively involved in the Jakarta water sector, providing technical assistance for regulatory framework reform and last-mile connections to low income household.

Case Studies: Financial Sector

PT Indonesia Infrastructure Facility (IIF)



Description:

- ADB, in collaboration with other international financial institutions and the Government of Indonesia (GOI), established IIF in 2010 as a private, non-bank financial institution set up to mobilize long-term financing for creditworthy infrastructure projects in Indonesia.
- Shareholders: ADB, GOI through PT Sarana Multi Infrastruktur (Persero) (SMI), DEG, IFC, SMBC.

Total ADB assistance:

- Equity Investment: Up to \$40 million (in IDR equivalent) for a stake of up to 19.9%.
- Loan: A \$100 million loan from ADB's public sector to GOI for on-lending to SMI, a wholly government-owned entity.

Key features:

- IIF's product and services offerings include: (i) fund-based products including senior loans, refinancing, mezzanine financing, subordinated finance, and share investments; (ii) non-fund based products such as guarantees and stand-by finance; and (iii) fee-based services such as syndication and advisory.

Bank Mandiri



Description:

- ADB extended a loan facility to Bank Mandiri to: (i) support strengthening its financial position following the onset of the global financial crisis; (ii) assist in addressing its asset-liability mismatch; (iii) help meet long-term capital expenditure funding needs; (iv) support the GOI's strategy of encouraging private sector participation in infrastructure development; and (v) catalyze commercial lenders and demonstrate the viability of long-term offshore funding.

Total ADB assistance:

- Senior secured ADB-led syndicated loan to Bank Mandiri consisting of two facilities: (i) a \$75 million direct loan from ADB with a maturity of 7 years, and (ii) up to \$225 million financed by participating commercial banks under mutually agreed upon terms under ADB's B-loan facility, with ADB as the lender of record.

Key features:

- ADB support to vulnerable financial markets in the aftermath of the global financial crisis in 2008 was successfully demonstrated through the project by helping Bank Mandiri raise urgently needed long-term funding when global liquidity conditions had become fragile. In addition, the B loan was successful in helping Bank Mandiri augment its long-term foreign currency lending capabilities and foreign currency asset-liability matching.

Case Studies: Agribusiness

PAK: Rural Financial Inclusion & Dairy Growth



Description:

- Investment pool for over 400 farmers: (i) dairy company selects reliable farmers among its milk suppliers, (ii) dairy company accredits animal suppliers to ensure good quality, and (iii) local bank performs credit analysis and issues loans.

ADB's assistance:

- Donor guarantees 20% first loss: Mitigates climatic, farm management, side selling and repayment behavior risks.
- Dairy company guarantees 10% second loss: Mitigates adverse selection risk and supports its timely monitoring and debt service (on behalf of the farmer).
- ADB and Local Bank cover 70% third loss; ADB guarantees 50% of third loss; Local bank provides full local currency funding and retains 50% of third loss.

Key features:

- Structure provides affordable pricing to farmers (about 15-20% below MFI rates).
- Participants will learn from the pilot and can adjust structure and pricing based on experience.

IND & CAM: Spice Value Chain Project



Description:

- Agricultural development is a key to eradicating poverty and creating conditions for sustainable/equitable growth
- Akay Flavours & Aromatics (Akay) invests across spice value chain, from climate-resilient and inclusive farming models to processing of high-value spice products
- Akay links smallholder farmers to global markets through its contract farming model in India and Cambodia.

ADB's assistance:

- \$16.5 million direct financing (equity and debt)
- \$5 million mobilized from the Pilot Program for Climate Resilience (PPCR) under the Climate Investment Funds
- Technical assistance from Dalberg and Credit Suisse mobilized under ADB's inclusive business program

Key features:

- The project will benefit at least 5,000 low-income contract farmers
- ADB's first private sector climate adaptation project
- Socioeconomic survey on contract farmers under RSDD's inclusive business technical assistance.

Thank you – Terima Kasih

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