

OPIC Support for Innovative Financial Intermediaries in Emerging Markets

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By Adil Kabani

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OPIC is the U.S. Government's Development Finance Institution and mobilizes private capital to help solve critical development challenges around the world while catalyzing revenues, jobs and growth opportunities both at home and abroad. One of the key ways OPIC supports this mission is by providing financing to investment funds in emerging markets.

At the 2014 Association of Asian American Investment Managers Conference, I participated in the private equity and venture capital panel and discussed OPIC's Investment Funds program and opportunities across emerging markets for Asian American Pacific Islander ("AAPI") fund managers. One of the programs I highlighted was OPIC's Innovative Financial Intermediaries Program ("IFIP") which is a two year \$500 million pilot program launched in November 2013 in response to increased demand from fund managers for OPIC financing to financial intermediaries which focus on investing in small and medium enterprises. The program supports small equity funds, debt funds, funds combining debt and equity, and greenfield non-bank financial institutions.

Since 2008 \$160 Billion has been invested by private equity investors across emerging markets, the majority of which has been concentrated in 25 countries that constitute a number of prominent emerging markets. Frontier markets which are a subset of emerging markets and have characteristics of being underdeveloped are growing rapidly and attracting significant investment as well.

AAPI fund managers have strong ties across emerging markets specifically in Asia and are in a prime position to source investment opportunities in a range of industries and help companies through various operational hurdles to become market leaders in their respective countries. AAPI Fund managers who invest across Asia also support the Administration's rebalancing efforts across the region by fostering economic linkages from the U.S. to these fast growing markets which ultimately lead to enhanced exports and job creation on both sides. They may also be catalysts in solving complex development challenges through investing in various impact sectors which increase access to healthcare, education, finance, and reduce energy poverty.

Most notably, the IFIP program is open to emerging managers with limited track records which are entrepreneurial and have developed a solid investment thesis and strategy to deploy capital to SME's in emerging markets. Fund managers interested in applying to the IFIP program must make certain that 1/4 of the L.P. capital is from the U.S. or the Fund is majority controlled by U.S. Citizens. Additionally, the fund must focus on deploying capital in a country which OPIC is open in.

OPIC is continuing to innovate with new financial products and services to support financial intermediaries in emerging markets and looks forward to engaging with the AAAIM community and AAPI fund managers operating in emerging markets.

ABOUT OPIC

OPIC is the U.S. Government's development finance institution. It mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.

Established as an agency of the U.S. Government in 1971, OPIC operates on a self-sustaining basis at no net cost to American taxpayers. OPIC services are available for new and expanding business enterprises in more than 150 countries worldwide. To date, OPIC has supported more than \$200 billion of investment in over 4,000 projects, generated an estimated \$76 billion in U.S. exports and supported more than 278,000 American jobs.

About Adil Kabani

Adil Kabani is a Private Equity Associate at OPIC where he has executed transactions globally in political risk insurance, project finance, and private equity. He is currently originating and underwriting private equity funds for the two year \$500 million IFIP program specializing in hybrid fund strategies targeting investments in Africa, Asia, Latin America, the Middle East as well as Central and Eastern Europe. Previously he served as an economic policy advisor with the White House Initiative on AAPI's supporting the President's economic policies across the Asia Pacific region through engaging AAPI business leaders and entrepreneurs in the U.S. Adil is a graduate of Emory University and George Mason University where he received his Masters in International Commerce & Policy.



AAAIM 2014 Conference in Palo Alto
Private Equity and Venture Capital Panel
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U.S. Overseas Private Investment Corporation



Innovative Financial Intermediary Program

OPIC enhances ability to foster innovative lending & investing structures for SME market

Over its 40+ year history, OPIC has demonstrated its ability to respond to market demands that the private sector has been unable to support entirely on its own.

Political risk insurance, extended loan maturities, private equity funds, and creative financing structures such as non-bank financial intermediaries and microfinance institutions show OPIC's leading and adaptive approach to mobilizing private investment in developing markets.

As the U.S. Government's development financing institution, OPIC has helped to expand the access to capital for those developing economies, particularly in the SME sector.

Two-year, \$500 million pilot

With regulatory environments and market conditions continually changing, OPIC is increasingly being asked to back projects with atypical structures that do not fit squarely within either our traditional financing programs or our traditional investment funds program, although they contain elements typical of each one.

Typically, these projects propose to include both pooled capital, like an investment fund, and debt financing, like OPIC loans and guarantees. Many of these hybrid projects involve initiatives by financial intermediaries to provide lending to SMEs in developing countries. This includes projects that mobilize investors who seek to promote social and economic improvements in developing countries, as well as secure financial returns from their investments (sometimes called "impact investing").

To address this market-driven demand, OPIC has introduced the Innovative Financial Intermediary Program as a two-year, \$500 million pilot with the aim of expanding sources of capital flowing into developing economies, with a focus on SMEs.

The program supports financial intermediaries who will invest in enterprises in OPIC eligible countries where the investment vehicle is smaller in size than usually found in an OPIC private equity transaction, or where the investment vehicle deploys capital using debt or equity investments.

Establishing a new process allows OPIC to respond more effectively to these new structures while relying on the expertise and best practices within the organization's finance and investment funds functions.

Eligibility

Geographic Focus

Global, based on OPIC eligible countries

Geographic Focus How Sponsors Can Apply

OPIC will accept proposals on an ongoing basis and review them quarterly, with the assistance of an external investment advisor. Applications will be submitted at OPIC.gov and will be evaluated on a range of criteria including, but not limited to, track record and experience, investment thesis, management team, fund economics, investment structure and development impact.

Submissions Should Include

- ✓ Pitch book
- ✓ Response to the IFIP questionnaire

As with all OPIC projects, investments made through this program will be required to comply with OPIC's environmental, social, worker rights, and U.S. effects standards and criteria, as well as OPIC's U.S. investment eligibility requirements.

Once the program is launched publicly, more details will be available on OPIC.gov, including the application for submission and a point of contact for all inquiries.

IFIP will consider the following structures:	OPIC's Commitment Levels
Small equity funds (total capitalization up to \$50 million)	Up to 1/3 of total capital
Funds making both debt & equity investments	Up to \$50 million
Funds make senior debt investments	Up to \$50 million
Funds making both senior & subordinated debt investments	Up to \$50 million
Debt funds affiliated with Equity Fund or Asset Manager	Up to \$50 million
Greenfield non-bank financial intermediaries	Up to \$50 million

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