

Asia Regional Workshop on Public-Private Partnerships « Engaging the Private Sector »

Session 11 Role of Multilateral Lenders and Regional Initiatives

3 June 2015

at Asian Development Bank Institute, Tokyo, Japan

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Director

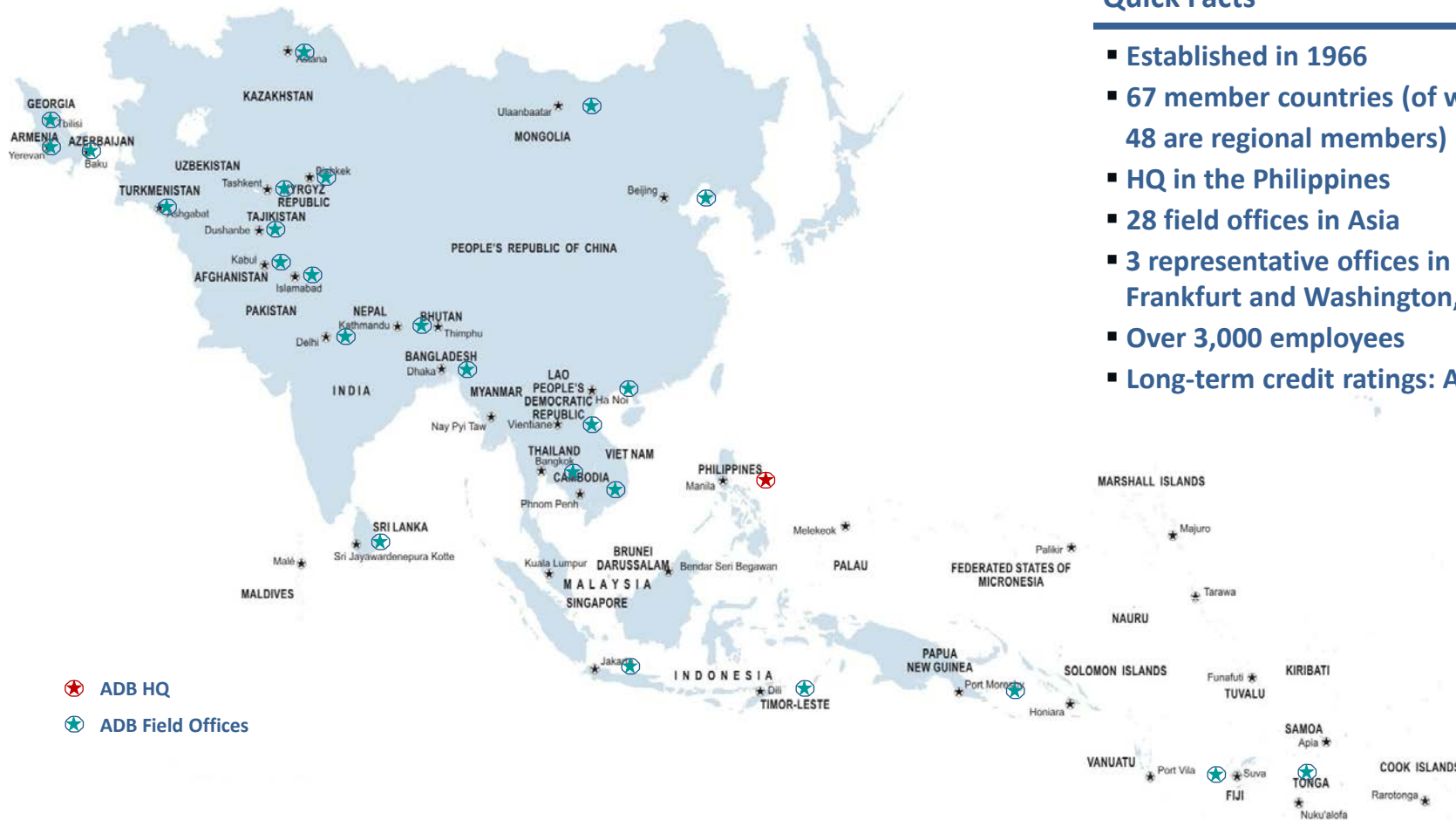
Office of Public Private Partnership

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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
- 67 member countries (of which 48 are regional members)
- HQ in the Philippines
- 28 field offices in Asia
- 3 representative offices in Tokyo, Frankfurt and Washington, DC
- Over 3,000 employees
- Long-term credit ratings: AAA

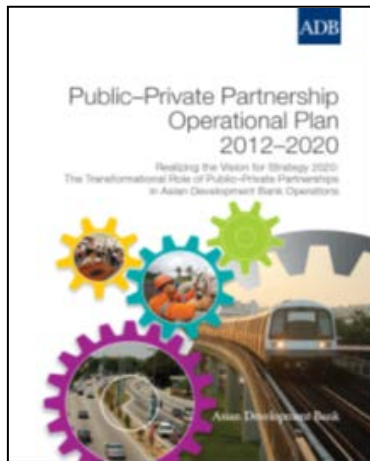
Discussion Items

- I. ADB's PPP Operations**
- II. Transaction Advisory Services
- III. Financing Operations
- IV. PPP Knowledge Management Activities

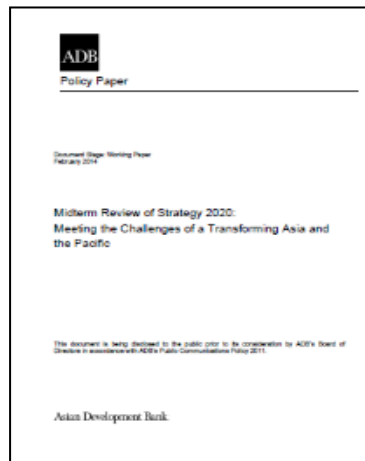
PPP is a focus area for ADB



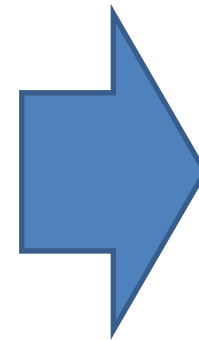
2008



2012



2014



**Establishment of
Office of Public-
Private
Partnership
(OPPP)**

2014

ADB is unique in having a **comprehensive & institutional PPP strategy** shaping all of its operations

Framing ADB's Long-Term Strategy: Strategy 2020

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

Core Objectives

- ✓ Inclusive Economic Growth
- ✓ Environmentally Sustainable Growth
- ✓ Regional Integration

Key Drivers

- Private Sector Development and Operations
- Good Governance and Capacity Development
- Gender Equity
- Knowledge Solutions
- Partnerships

50% of annual operations targeted by 2020

Core Areas of Operation

- Infrastructure
- Environment (including climate change)
- Regional Cooperation and Integration
- Financial Sector Development
- Education

80% of annual operations targeted by 2020



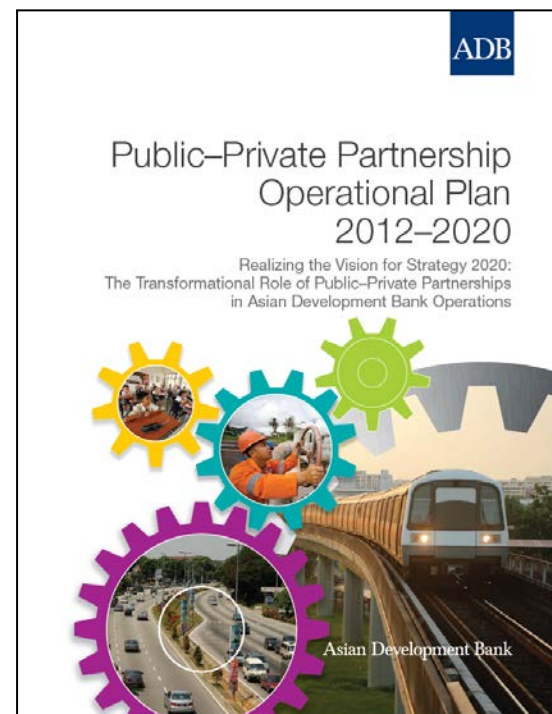
Strategic Principles: PPP Operational Plan 2012-2020

PPP is an important modality to achieve the objective of generating greater economic growth in the region by expanding work with the private sector.

Strategy 2020 emphasizes the promotion of PPPs in all of ADB's core operations.

Applying PPP principles holistically to ADB operations will improve the quality of design and outputs of PPP projects in support of Strategy 2020 targets.

PPP Operational Plan 2012-2022 establishes strategic principles to ensure consistency in ADB PPP operations across regions.

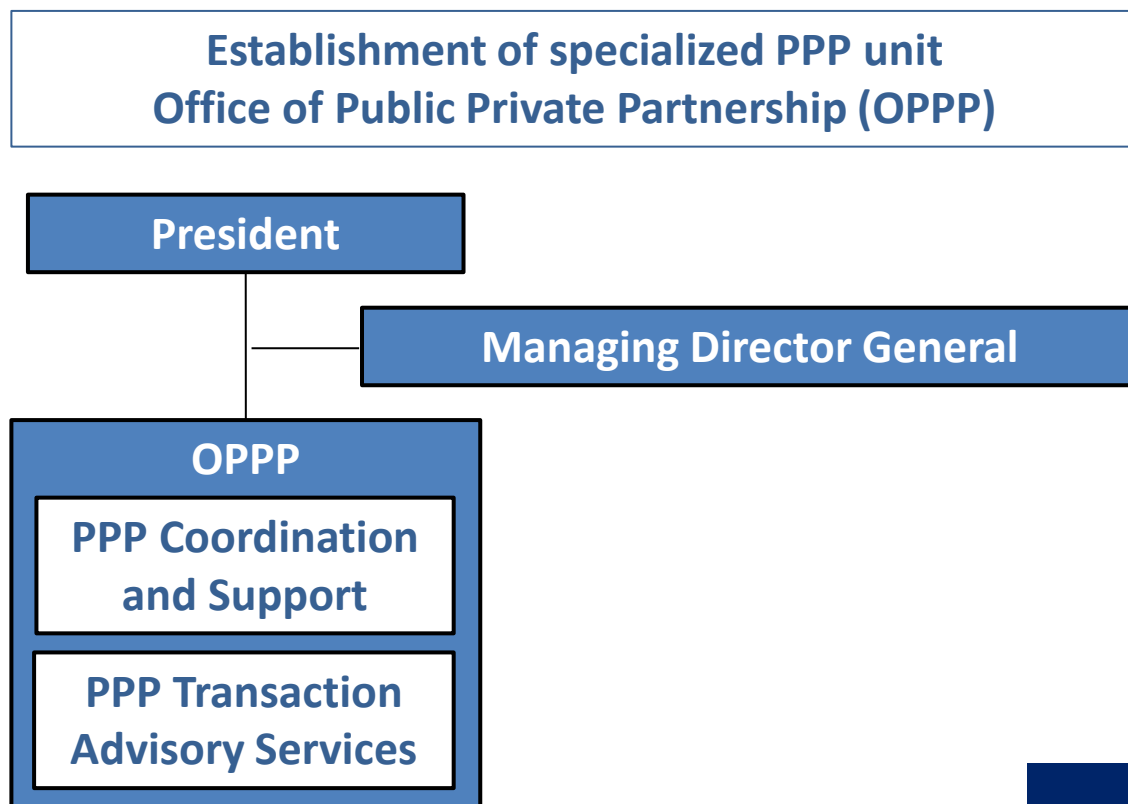
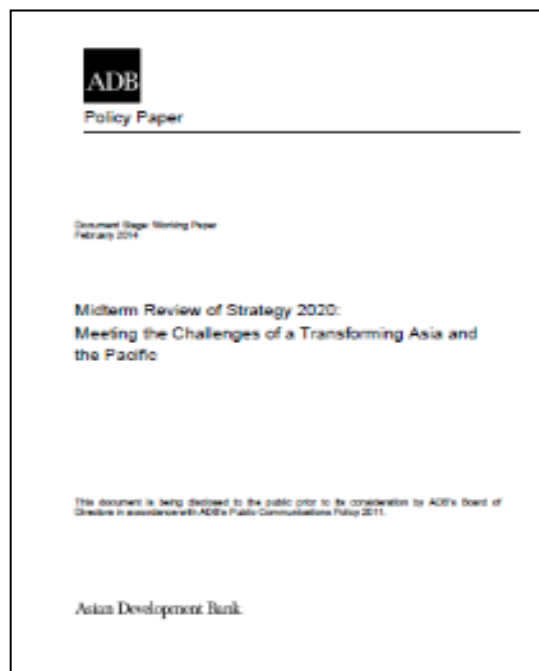


PPP Operational Framework

Pillar 1	Pillar 2	Pillar 3	Pillar 4
Advocacy and capacity development	Enabling environment	Project development	Project financing
<ul style="list-style-type: none">• Create awareness• Invoke leadership• Identify PPP potential in sector planning and the private sector development agenda• Develop capacity of Government and ADB staff• Enhance external knowledge management links	<ul style="list-style-type: none">• Develop policy, legal, regulatory and institutional framework to facilitate, guide and manage the development of PPPs (country and sector specific)	<ul style="list-style-type: none">• Align ADB project cycle to the PPP development process• Assist in the development of pathfinder projects• Provide support (including advisory support) throughout the process up to contract award/financial close which can come as expert support, toolkits, funding costs of transaction advisors, procurement support.	<ul style="list-style-type: none">• Provide credit enhancement products e.g. equity, long term debt, refinancing subordinate debt, cofinancing, guarantees, etc.• Establish credit guarantee facility• Provide public sector financial support through schemes such as viability gap funding, etc.

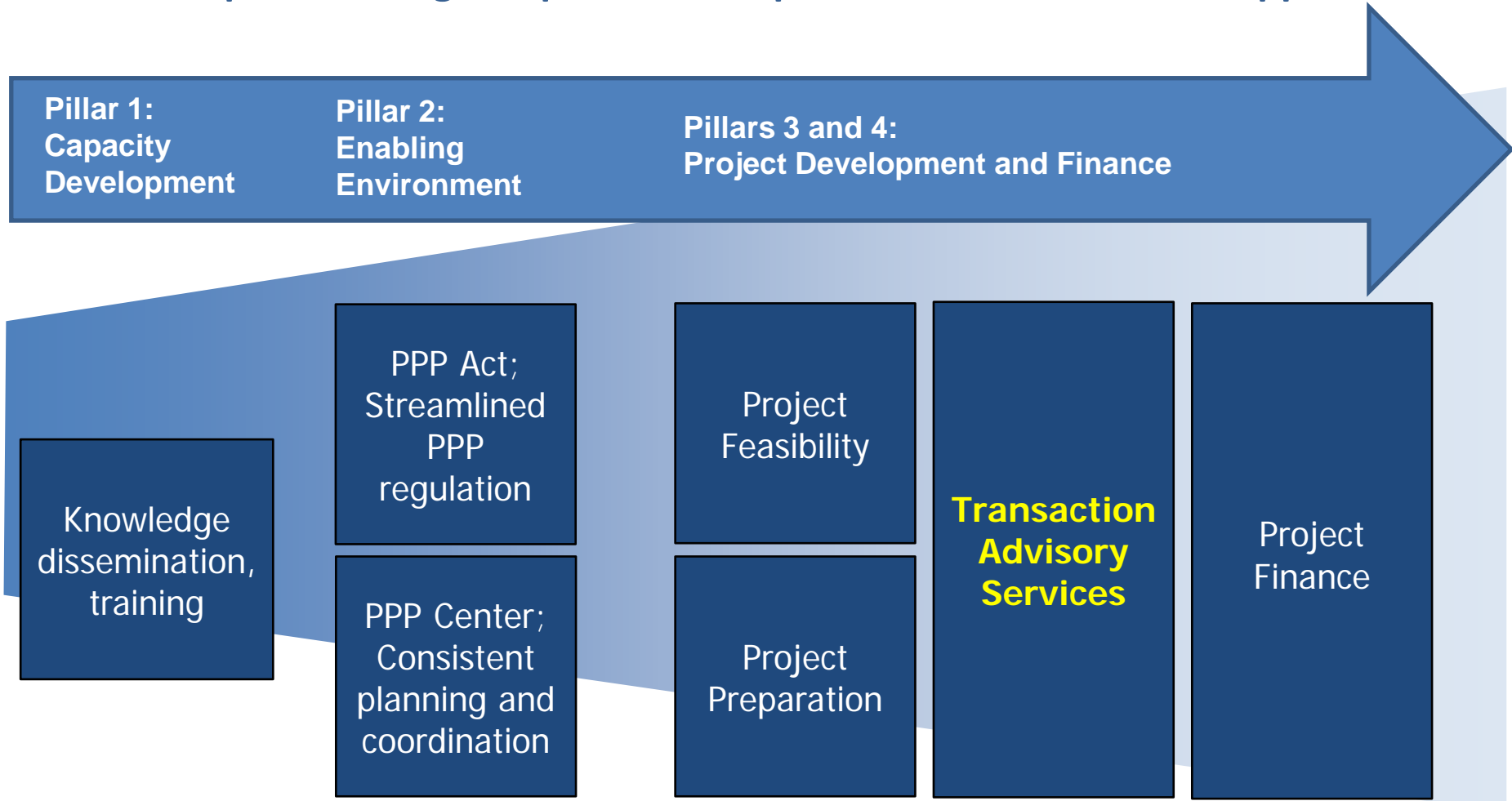
Actions: Midterm Review of Strategy 2020

ADB is targeted to become a more active project developer and a resource mobilizer. In particular, ADB undertook to provide active support to PPPs by undertaking PPP transaction advisory services, with the ultimate objective of delivering bankable PPP projects to government clients.



PPP Support Modalities by ADB

ADB is unique in having comprehensive operational modalities to support PPP

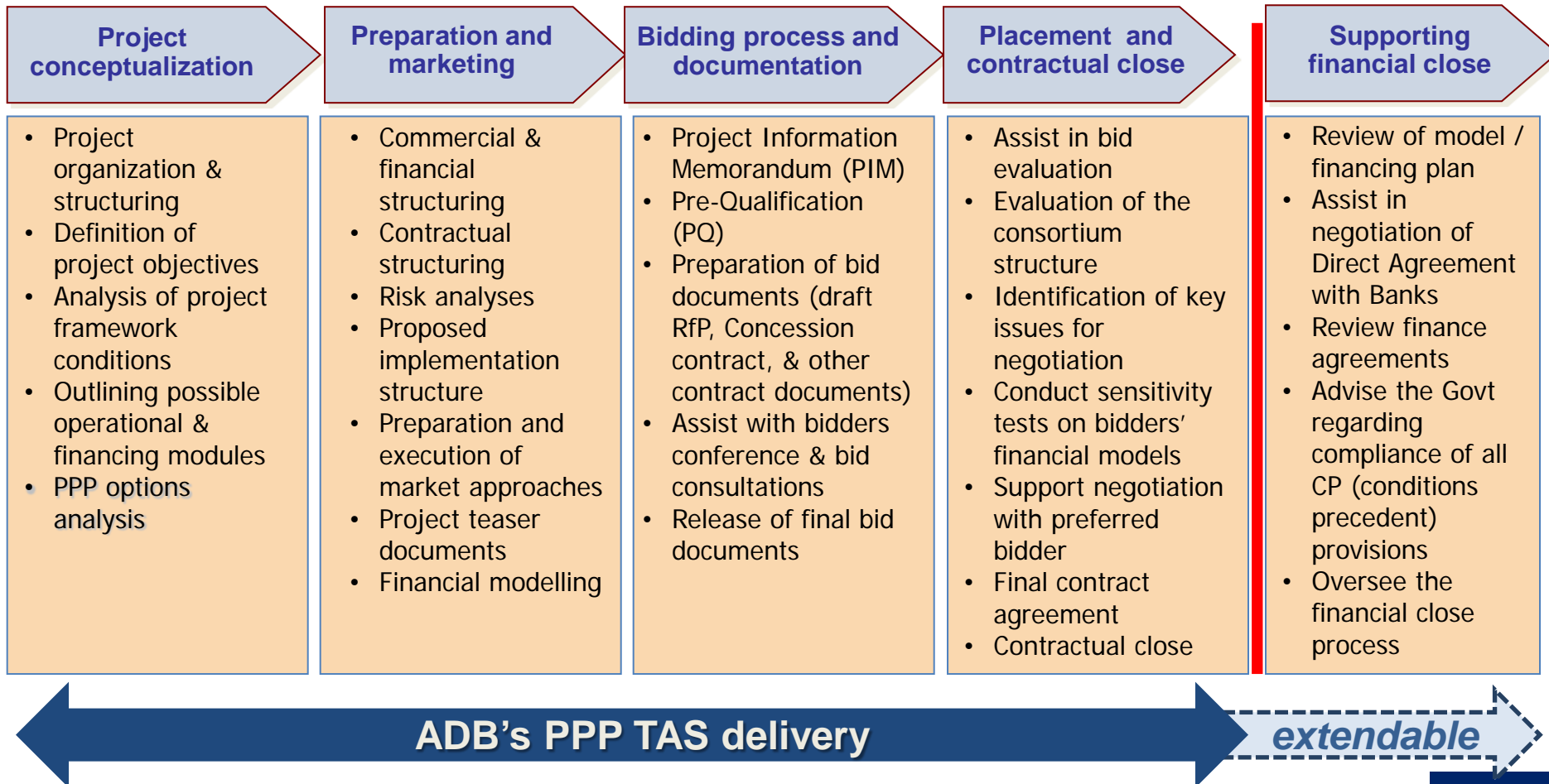


Discussion Items

- I. ADB's PPP Operations
- II. Transaction Advisory Services**
- III. Financing Operations
- IV. PPP Knowledge Management Activities

What do we mean by PPP TAS?

- **PPP transaction advisory service (TAS)** is **independent advice** provided by a **specialist** to a government agency to ensure delivery of **bankable transactions** via PPP



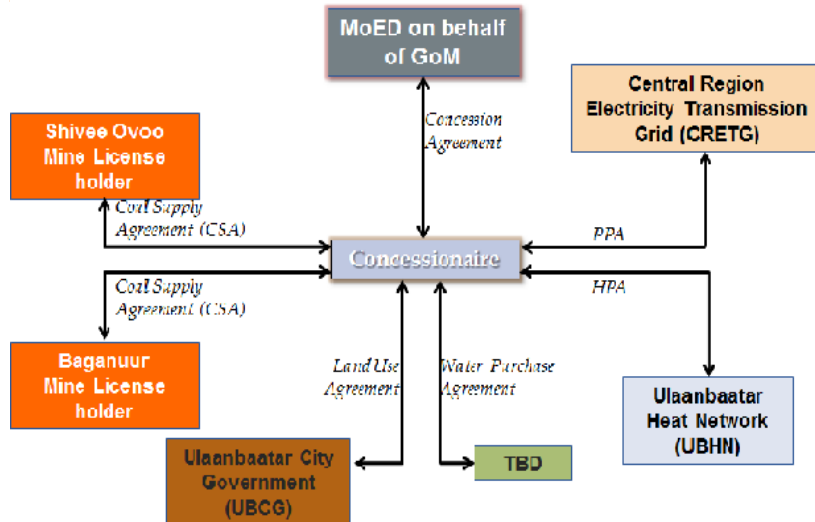
Why ADB for Transaction Advisory?

- ADB's PPP advisory is particularly suited for:
 - **Pathfinder, difficult, or high profile** transactions
 - Transactions that involve **significant policy or regulatory changes**
 - Transactions that require **significant upfront project preparatory costs**
 - Transactions that are complex from a **financial, legal, or risk structuring perspective**
- **ADB's brand** is associated with **transparency, fairness, and governance**. As these are important characteristics of a well run bidding process, ADB's brand may give some comfort to potential bidders.
- ADB's **international network and role as a multilateral development bank** can bring together diverse funding streams to a project, including loans from multilaterals (ADB, World Bank, etc.) and international operators and investors

Bankability and **development** are at the core of what we do in PPP TAS

ADB TAS Case Study

Ulanbataar Combined Heat and Power Plant 5, Mongolia



Project cost – \$1.3 billion

- Jun 2011: ADB appointed as PPP Advisor
- Sept'11: Formal PQ launched
- Sept-Nov'11: 34 International Expressions of Interest received.
- Nov'11: Project contract documentation prepared
- Dec'11: Shortlist of four consortia announced by GoM
- Feb'12: GoM issued RfP
- Feb-May'12: Significant commercial banks and MDB interest due to project structure
- May'12: Two substantially compliant bids received
- Jul'12: Preferred bidder announced
- Dec'12: *New Govt* announces site change for the project
- Feb'13: Govt calls for Best & Final Offer (BAFOs)
- Aug'13: Preferred bidder from BAFO announced
- Sept'13: Negotiations commenced
- Jun 2014: Concession Agreement signed

ADB Unique Value Added

- Drafted Cabinet Resolution 44 to secure commitment of government agencies providing supporting infrastructure for project
- Worked with multilaterals (WB, EBRD, etc.) for financing of support infrastructure

Mongolia's first PPP

ADB TAS Case Study

Greater Lae Port, Papua New Guinea



- The vision is for the Lae port to become a regional hub port and provide more competitive services to port users
- In September 2013, IPBC appointed ADB as an advisor to identify appropriate PPP structures for the Lae Tidal Basin.
- In July 2014, ADB delivered:
 - PPP options analysis that included commercial due diligence and preliminary market sounding; bankability, risk and benefits of each of the options; PPP project structure and procurement plan; and
 - Recommended most appropriate PPP option for Lae Port
- The project would be implemented in two phases: Phase I: the Government will procure an experienced port operator and Phase II (expansion) may be the procured as a PPP

ADB Unique Value-Add

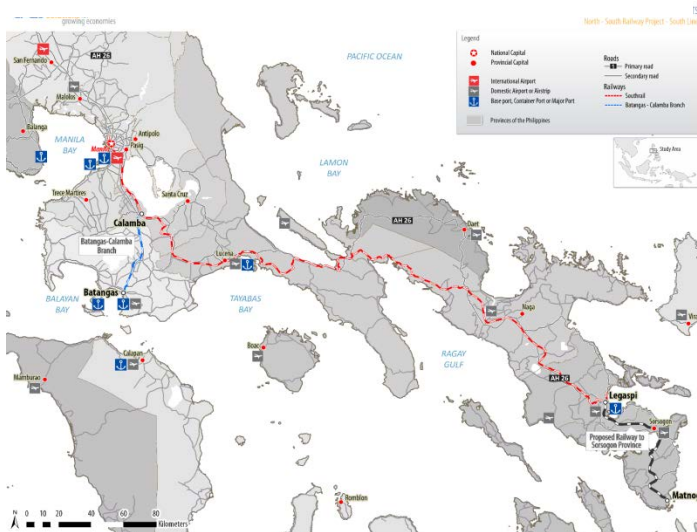
- Having helped develop PNG's PPP Law, ADB can use Lae to provide feedback and make improvements to PPP Law
- Demonstrated that the port can attract significant private sector interest thereby GoPNG could use funds earmarked for port expansion for other development needs of the country

Transaction Advisory Service Case Study

North South Railway Project (South Line), Philippines



- The Project is comprised of two components:
 1. Long-Haul Rail Operations from Manila to Legaspi City in the Bicol Region, with extensions to Batangas City and Matnog in Sorsogon (478km main line, with 175km for extensions)
 2. Commuter Rail Operations from Manila to Calamba City in Laguna (56km)
- Estimated project cost of \$3.8 billion
- 34 year concession (4 year construction and 30 year O&M)
- Construction milestone payment by the Govt.
- Revenues: Combination of farebox and availability payment (for 11 years)
- Schedule
 - May 2015: Mandate signed
 - Q2 2015: PQ process starts
 - Q1 2016: Concession award



Details of Engagement

- **Independence from lending**
 - While ADB's TAS can help create projects which will be bankable by ADB sovereign or nonsovereign lending operations, ADB TAS team **does not guarantee any downstream financing from ADB**
 - ADB's lending, if any, would be subject to the usual credit and management approval processes
 - In order to maintain neutrality and independence of the PPP advisory team, strict protocols have been put in place to protect advisory clients' interests
- **Remuneration**
 - ADB's PPP TAS team is **remunerated through a combination of retainer and a success fee** (payable by the selected sponsor at the contractual close stage)
 - Retainers can be clawed back by the client from the project sponsor at contractual close
- **Co-Advisory (optional)**
 - To enhance the TAS and avoid crowding out private sector advisors, **ADB has developed a co-advisory arrangement** wherein it will partner with one of 8 leading global project finance banks to provide joint TAS

ADB's New Arrangements for Structuring PPP Projects

Co-advisory Arrangements

- Expertise for international financial market
- Syndication / Placement capacity

International Project Finance Banks

- Network with public/private stakeholders as a neutral agency
- PPP expertise through assistance to governments' policies and frameworks, and country/sector expertise
- Coordination with other multilateral development agencies and bilateral official agencies

Asian Development Bank

- Expertise in local financial market
- Network with local firms and banks

Local Financial Institutions for Infrastructure

Public Sector Clients

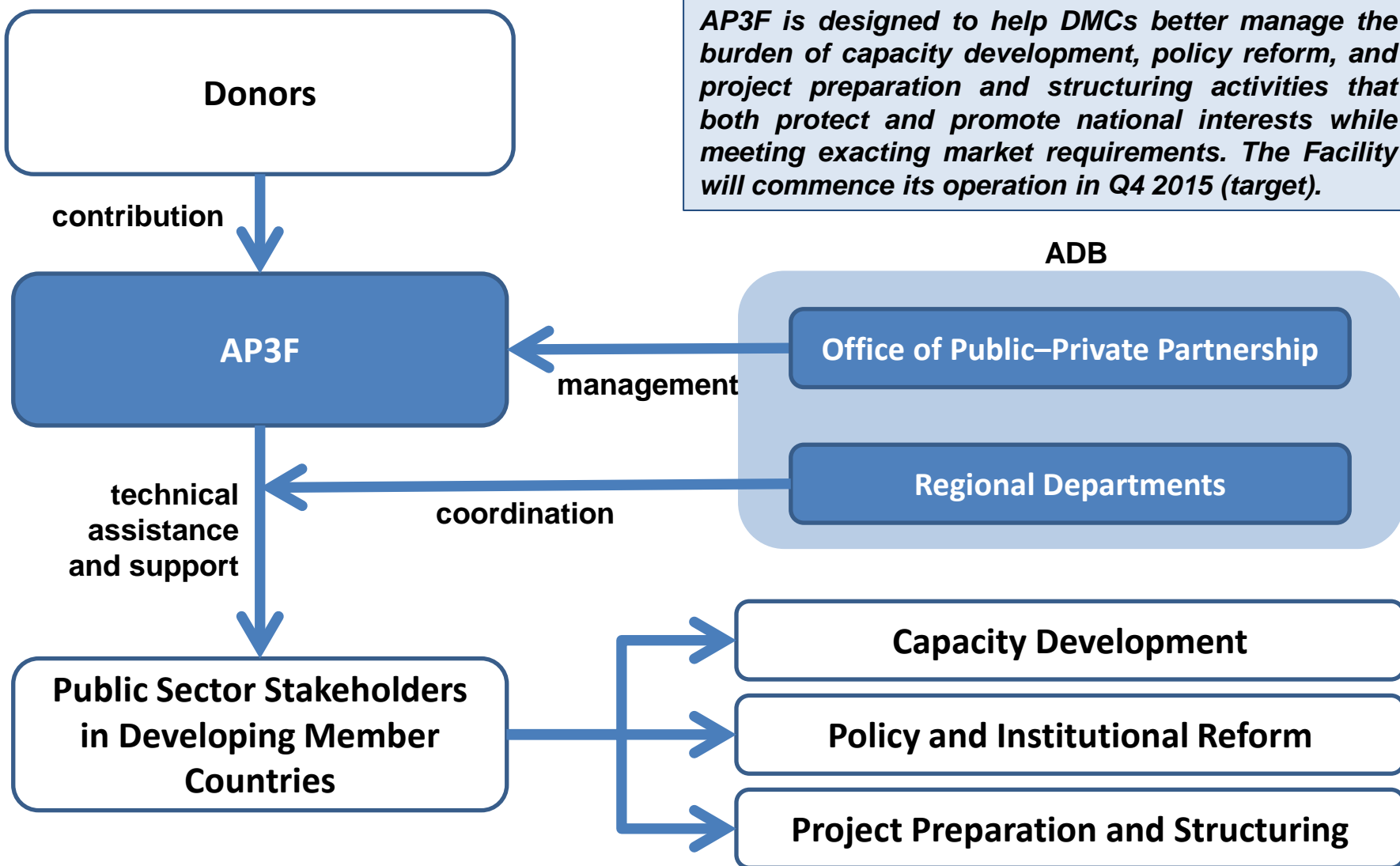
Co-advisory

- Conducting feasibility studies
- Developing PPP schemes
- Processing bidding for concessions
- Supporting financial close

Public Sector Clients

ADB's New Arrangements for Structuring PPP Projects

The Asia-Pacific Project Preparation Facility (AP3F)



The Asia-Pacific Project Preparation Facility (AP3F)

- To help DMCs better manage the burden of project preparation activities that both protects and promotes national interests while meeting exacting market requirements, ADB developed AP3F
- The facility was approved by ADB's Board in November 2014 and will support DMCs through financial assistance for project preparation

AP3F Overview

Focus	Provide financial assistance to government clients in order to catalyze greater private sector financing for infrastructure projects through: <ul style="list-style-type: none">• Enabling environment, sector reform and strategic planning• Project preparation and structuring, and• Transaction preparation, advisory, placement and support
Donor Base	<ul style="list-style-type: none">• Main donors for establishment or shortly thereafter: Japan, Canada, Australia, and other countries in discussion
Governance	<ul style="list-style-type: none">• ADB's Office of Public-Private Partnership (OPPP) to manage• ADB-based interdepartmental steering committee to approve
Sustainability	<ul style="list-style-type: none">• Cost recovery charged to DMCs based on successful PPP projects; no premium over cost
Safeguards	<ul style="list-style-type: none">• ADB safeguards where applicable
Timeframe	<ul style="list-style-type: none">• Facility operations to start by 2Q 2015; operational review after 3 years

Discussion Items

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Mode of Assistance to PPP Projects

Debt

- Sovereign loans: concessional loans which requires sovereign guarantee
- 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)

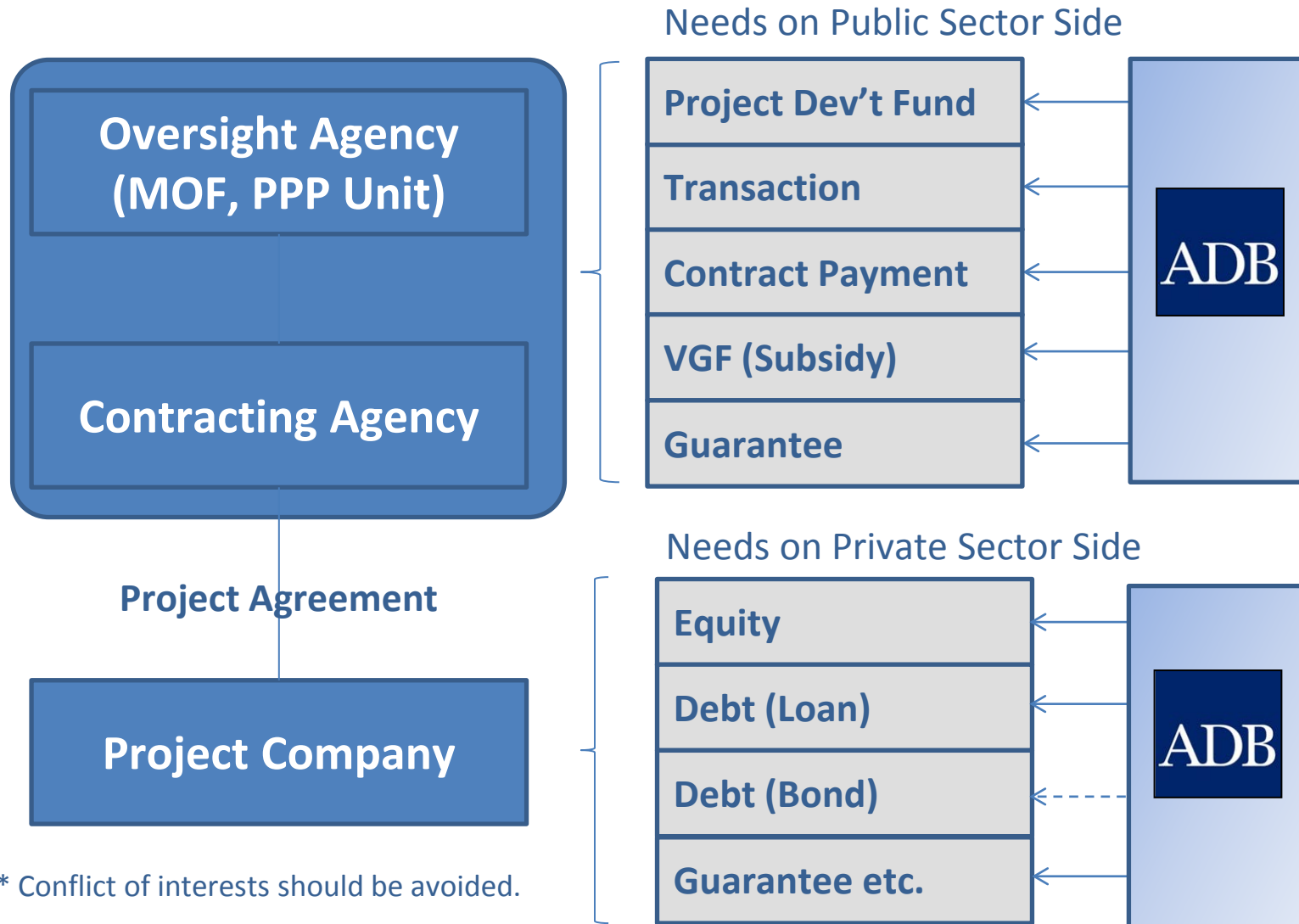
Guarantees

- 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

Technical Assistance & Concessional Capital

- Technical assistance funding for project preparation, capacity development, R&D, etc.
- Attractively priced and structured capital via 3rd-party concessional sources for targeted industries / geographies

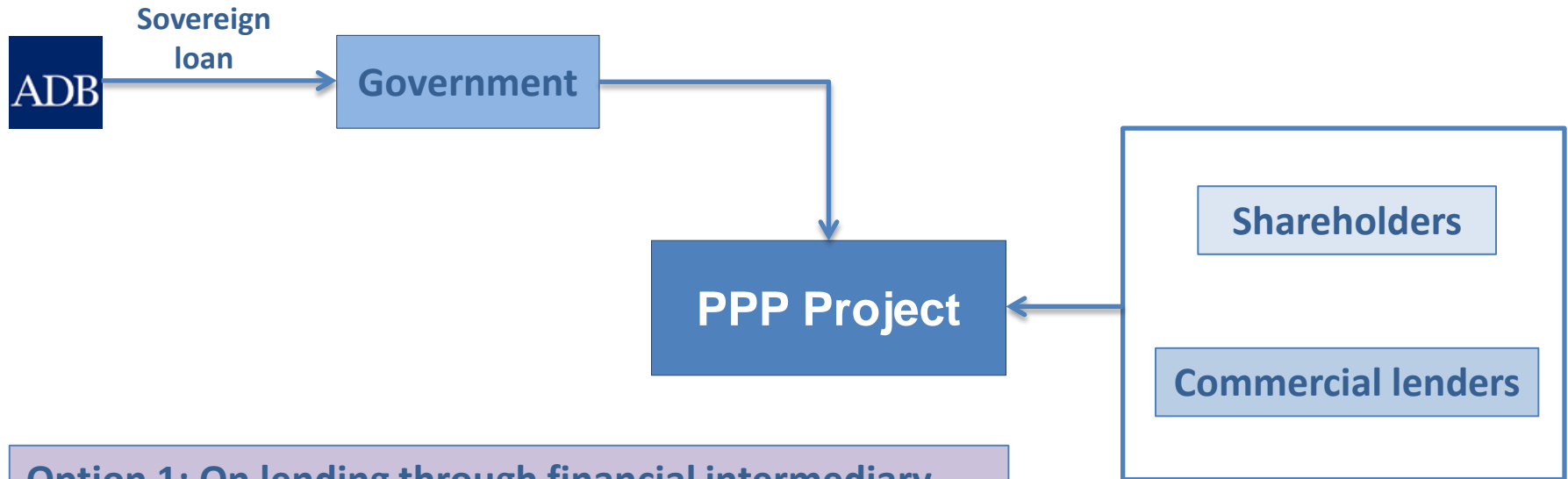
Possible Financial Assistance to PPP Projects



* Conflict of interests should be avoided.

Use of ADB Sovereign Financing in a PPP Project

Proceeds of ADB sovereign financing may be used for project debt and equity



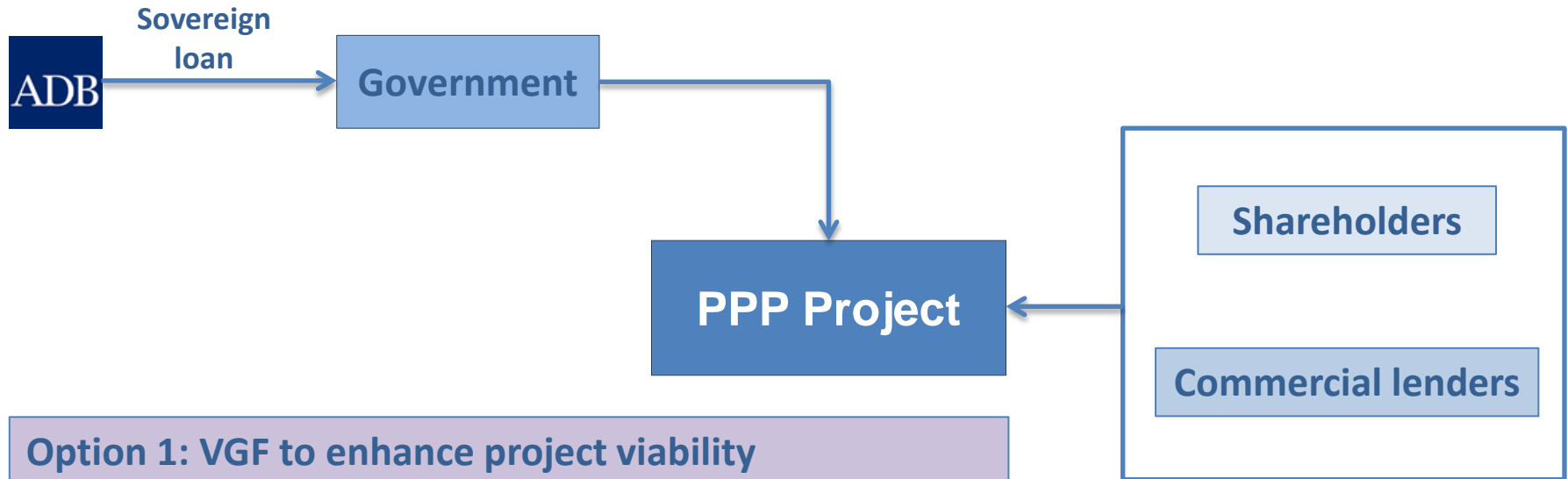
Option 1: On lending through financial intermediary

- Senior debt
- Subordinated debt

Option 2: Minority equity stake in the project

Use of ADB Sovereign Financing in a PPP Project

Proceeds of ADB sovereign financing may be used for viability gap funding (VGF) or availability payments (contracted payments)



Option 1: VGF to enhance project viability

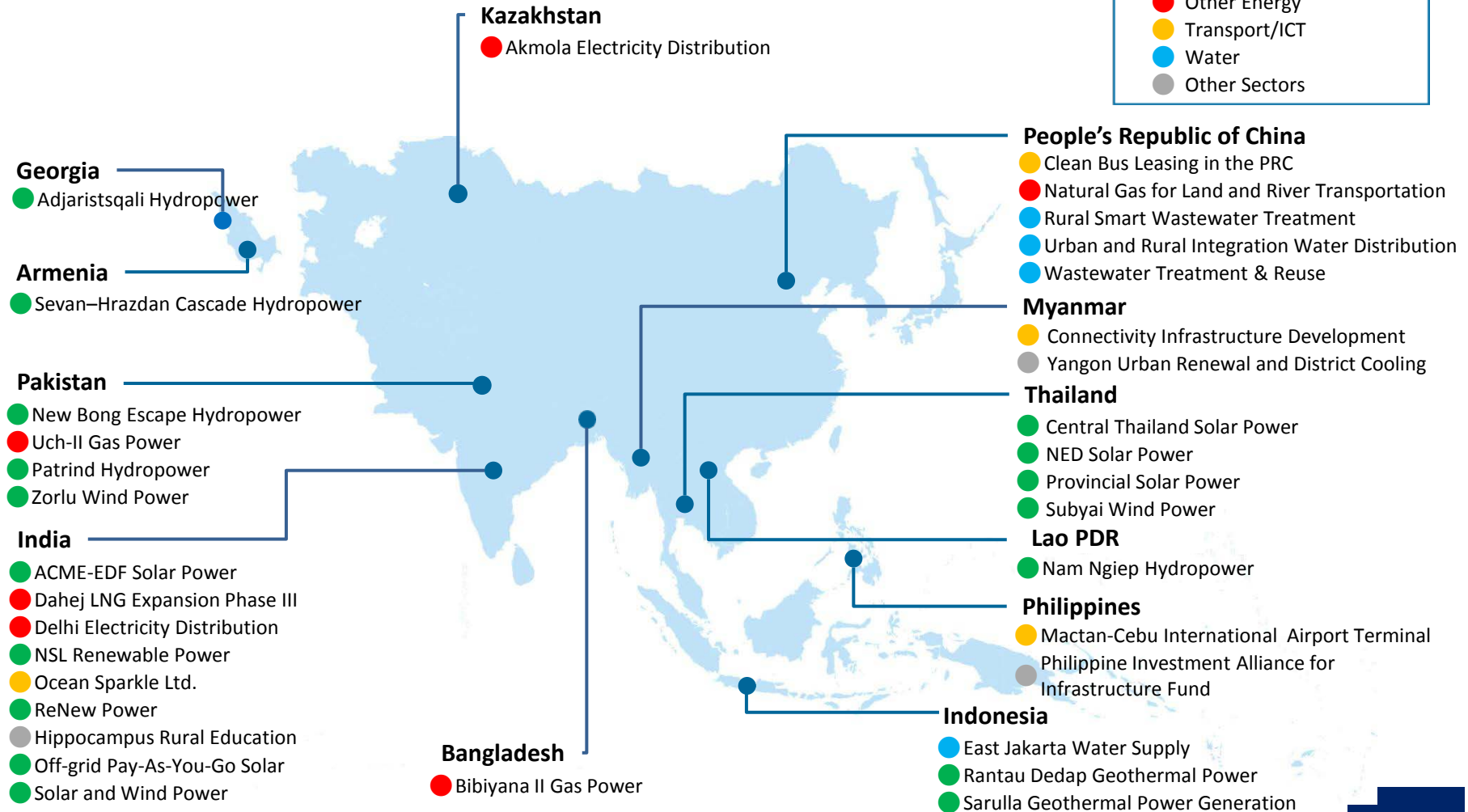
- Based on competitive bidding for quantum of subsidy

Option 2: Support availability payment obligation

- Based on competitive bidding for unitary charge (indexed)

ADB assisted a number of private sector participation in infrastructure projects in the region

Selected non-sovereign infrastructure finance transactions



Case Studies: Nonsovereign Infrastructure

ACME-EDF Solar Power Project



Total estimated project cost: \$260 million

ADB Investment: \$100 million

Estimated Cofinancing: \$95 million (IFC and local lenders)

Sponsors: ACME Solar Energy, ACME Cleantech Solution, MKU Holdings, EDF Energies Nouvelle, and EREN Renewable Energies

Development Impact: Diversify India's energy mix and strengthen the country's energy security and development of renewable energy capacity; Add 200 MW of clean solar energy power generation capacity; Attract new foreign investors into India's energy sector

Date Approved: 16 October 2014

Mactan-Cebu International Passenger Terminal



Total Project Cost: \$782.0 million (PHP34.4 billion)

Total ADB Assistance: \$75.0 million (PHP3.3 billion)

Cofinancing: P20.0 billion (\$454.5 million) from a syndicate of Philippine banks – BDO Unibank, BPI, DBP, Land Bank of the Philippines, MBTC and PNB

Borrower: GMR-Megawide Cebu Airport Corporation

Development Impact: Help to establish a sustainable transport system in the Philippines that would not only improve the mobility of the population but also significantly increase the development of the various provinces; Contribute to improved international and domestic air transport in the Philippines; Encourage greater private investments in airport public-private partnerships

Date Approved: 9 December 2014

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Multilaterals Public–Private Partnerships for Infrastructure Capacity Development (MP3IC) Program

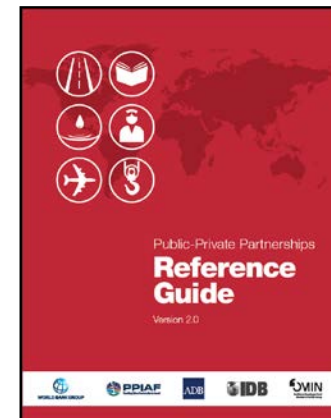
ADB, together with the WBI and IDB launched MP3IC, a capacity development initiative in 2008 to develop and implement programs that are relevant to the globally diverse group of PPP practitioners.

- **PPP Reference Guide**

- Second version was finalized in September 2014. Global overview of the diversity of approaches and experiences in the implementation of PPPs
- Entry point to the substantial body of knowledge on PPPs that has been built up by practitioners in governments, the private sector, international institutions, and academics

- **PPP Readiness Index**

- Designed to provide an independent credible assessment of business environments across countries in the region
- Scores aspects of the legal and regulatory framework and the investment environment for infrastructure projects in each country, and involves in-depth industry analysis, interviews with country and regional field experts and secondary research



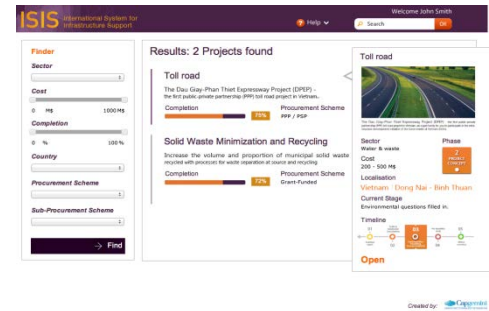
Knowledge Management

- **PPP certification programme**

- WBG-led initiative for a standard education programme for PPP skills and knowledge. WBG has recently signed an agreement with APMG Group, a leading organization in the field of credentialing in areas such as project management (PRINCE2), to develop and run a global scheme for credentialing PPP practitioners. Analogous to CFA credential but not initially as great in depth.
- ADB and IDB are participating on an Advisory Board

- **International System for Infrastructure Support**

- In collaboration with several MDBs, private sector partners and development banks. Public sector agency teams can use the platform both as a guide to their preparation activities and a project management tool.
- Provides general to sector-specific infrastructure project templates in a secure, multi-user standardized online workspace. Aims to raise quality, consistency and transparency of the public sector's project preparation and improve the interface with financiers and increase finance options, incl PPP.



What you can do to achieve successful PPP

- Create world class legal / regulatory framework + institutions
- Show strong, consistent, universal government commitment
- Stand on economic and social rationale (not political)
- Accelerate reforms to establish sustainable sector
- Provide partnership support
- Take advice and prepare projects carefully
- Show an investor friendly face
- Make the process open, consistent and smooth

ADB can help you!

Contact



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