

INNOVATION & EFFICIENCY INITIATIVE

September 2006



Outline of Presentation

□ Objectives and Background

□ IEI Action Areas

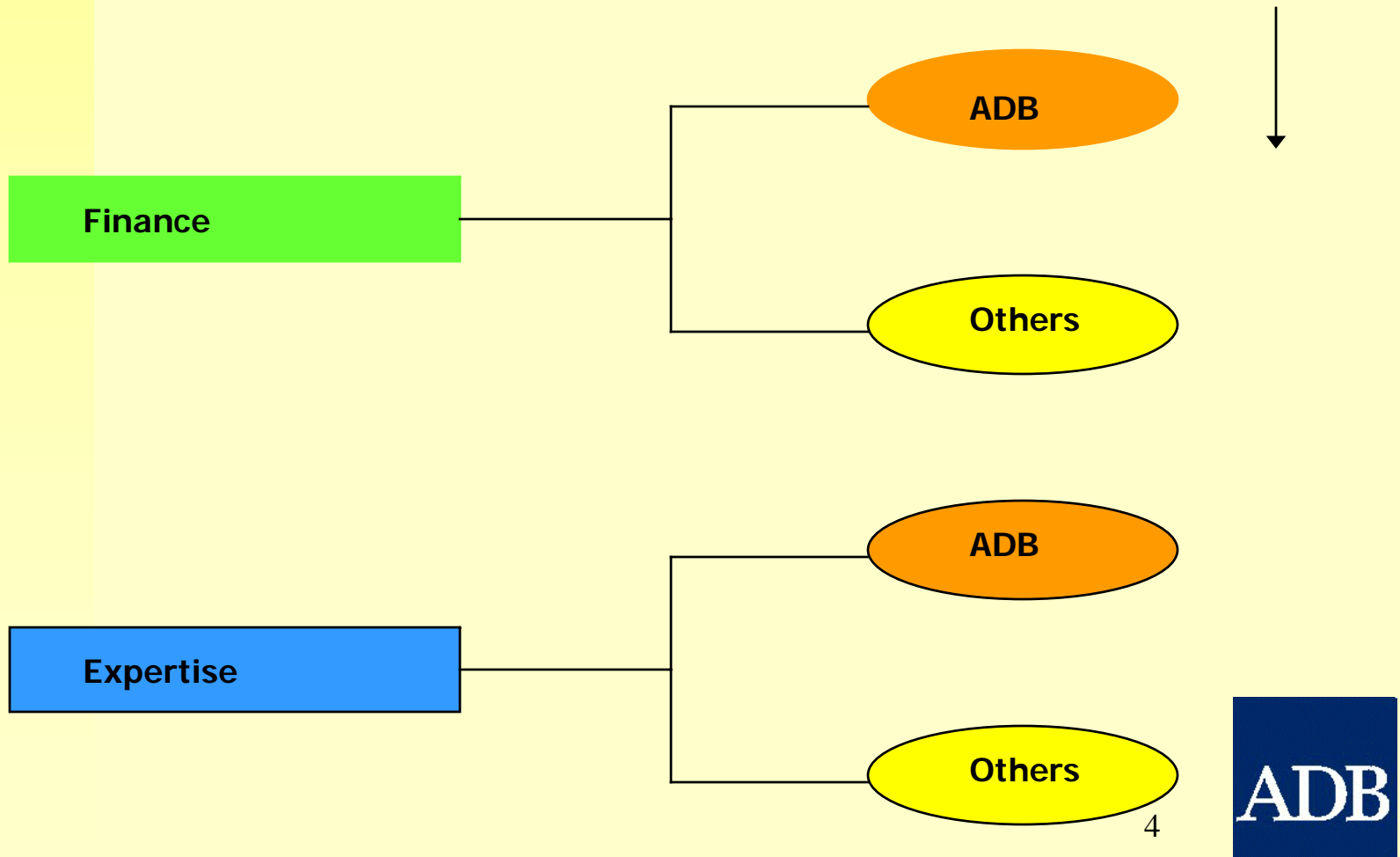
- IEI Financial Instruments and Modalities
 - Multitranche Financing Facility
 - Subsovereign Financing
 - Refinancing Facility
- Cost Sharing
- Local Currency Loan Product

Objectives

- ❑ Update on key changes under IEI
- ❑ Exchange notes with DMC Officials
- ❑ Seek ideas for improvement

Background

ADB at a glance

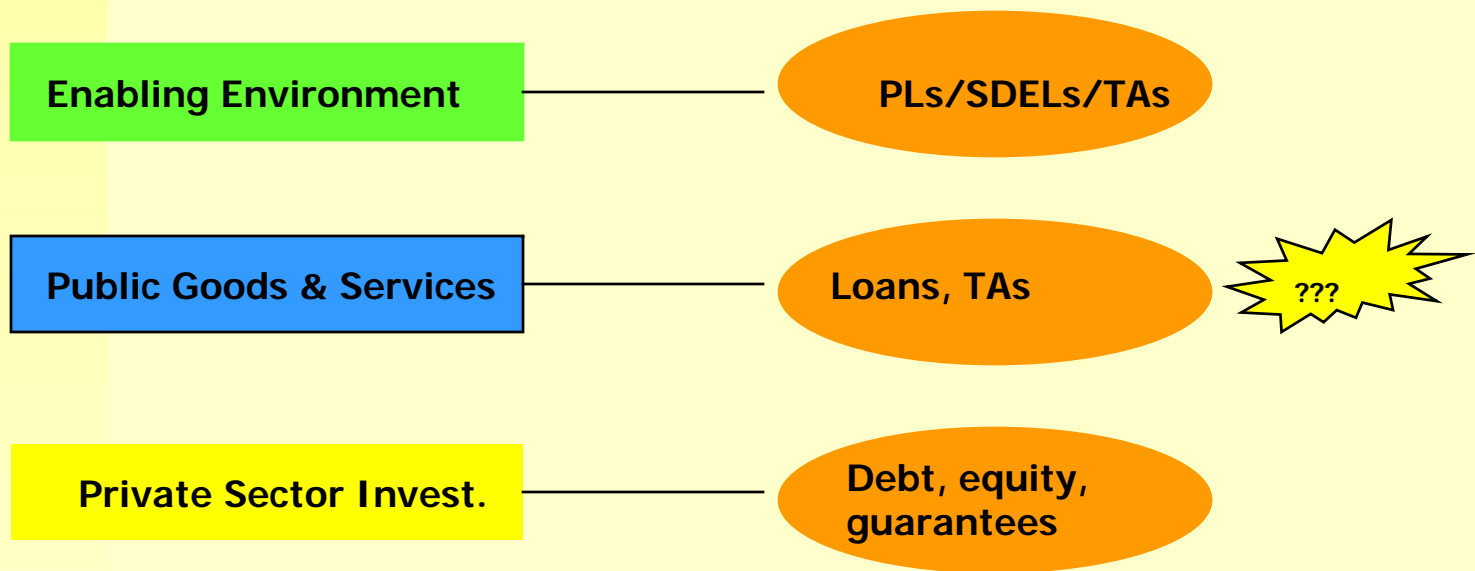


Feedback

Consultations with DMCs and others suggested:

- ❑ Too slow and cumbersome – processes related
- ❑ Non financial costs going up – processes/instruments
- ❑ Financial instruments outmoded – in relation to others
- ❑ Planning cycle out of synch with theirs – CSP, other
- ❑ Lack of continuity regarding staff – corporate memory
- ❑ Too much reliance on consultants and PPTA industry
- ❑ We provide money but are at times short on ideas

Services



Market Changing

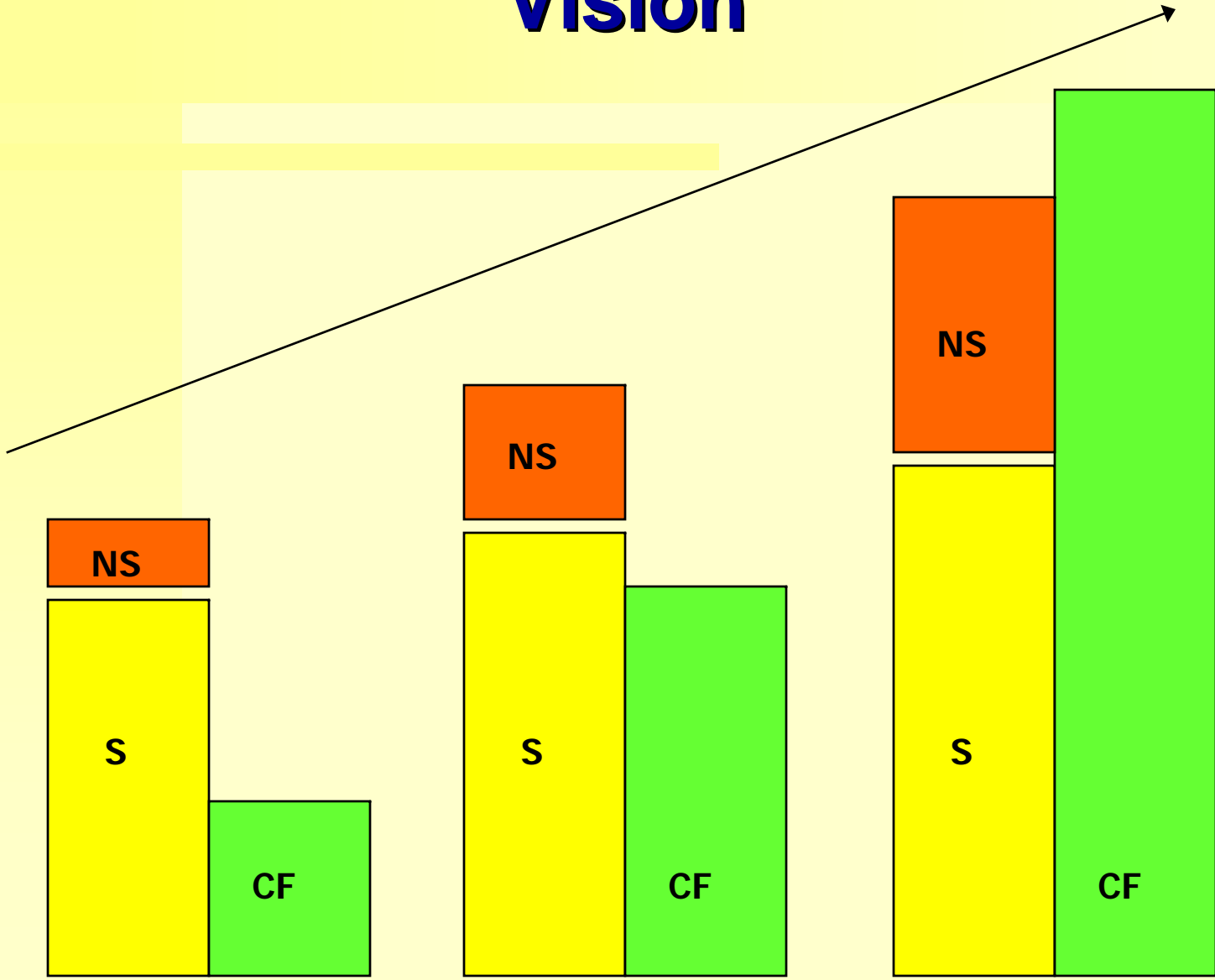
Some trends

- Financing needs are up – but MDBs are down
- Growth a reality but so are inequalities – niche areas for MDBs ?
- Private sector much more involved – but its needs risk sharing
- Domestic savings rising – but how to shift them into investment?
- Capital markets evolving fast – are new partnerships needed?
- Budget discipline will continue – are PPPs the way forward?
- New clients evolving – what can be done with SOEs & LGUs

A proposal could be to modify the business model to:

- Deliver risk reduction & risk sharing measures – a real niche
- Work with new clients – but do so differently (structured finance)
- Be faster – without compromising mission and basic principles

Vision



Status of IEI Action Areas

Finalized

Cost Sharing and Eligibility of Expenditures (R193-05)	25 Aug 05
Financing Instruments and Modalities (R194-05)	25 Aug 05
Local Currency Loan Product (R195-05)	25 Aug 05
Procurement (R11-06)	06 Feb 06
Consulting Services (R12-06)	06 Feb 06
CSP and Business Processes	Aug. 2006

Pending Finalization

Safeguards	Q2 2007
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Areas for Today's Presentation

- ❑ Financing Instruments & Modalities
- ❑ Cost Sharing

Financing Instruments - Rationale

- ❑ Improve service to clients –wider range of options
- ❑ Investment programs – cut repetitive/costly tasks
- ❑ Cut transaction costs – financial and non financial
- ❑ Minimize currency mismatches – local currency
- ❑ Mobilize resources more efficiently – co-financing
- ❑ Piloting – viability & introduce corrective measures
- ❑ Demand driven & easy to use

Financing Instruments - Uses

- ❑ Multi-tranche Facility
 - “Finance as you go” - flexible structures

- ❑ Subsovereign Lending
 - Target state owned enterprises & LGUs

- ❑ Refinancing
 - Salvage good projects with bad financing plans

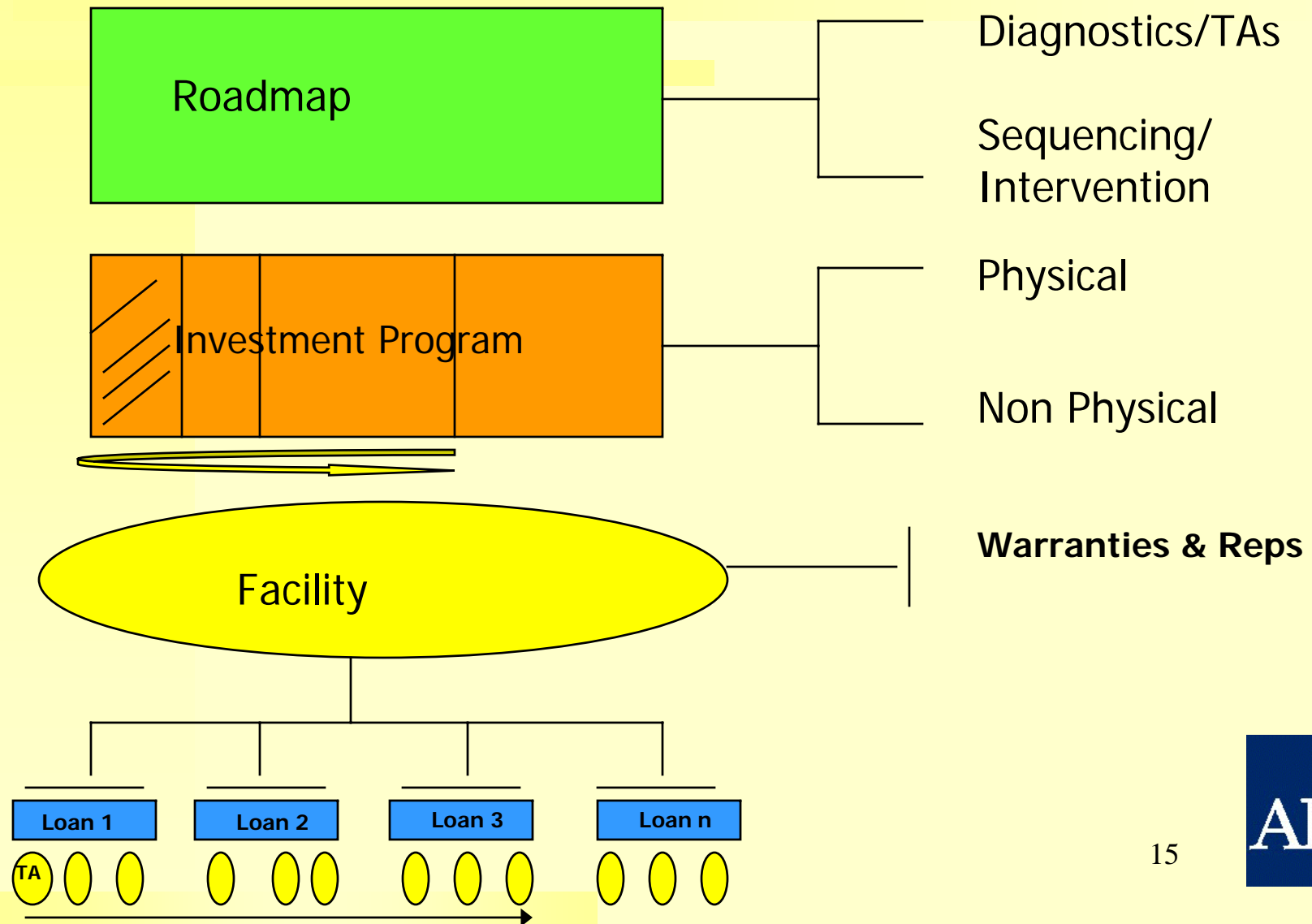
Multitranche Financing Facility - Features

- Investment programs - clear sector roadmaps
- Large projects - discrete & sequential components
- Financial intermediary credit lines and guarantees
- Standby non contingent financing
- No commitment fees on total facility amount
- Financing against warranties and representations

Multitranche Financing Facility - Features

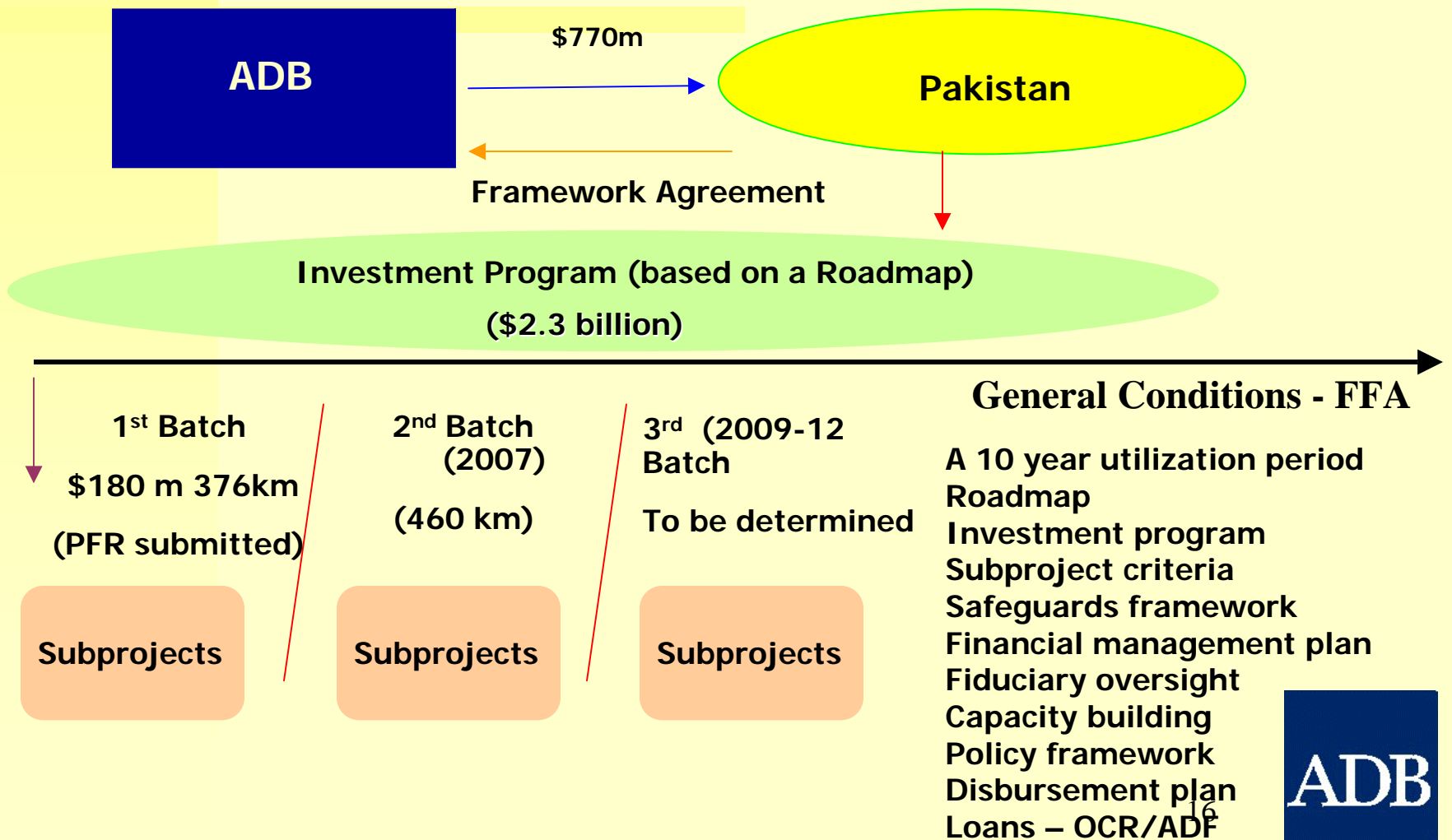
- ❑ Flexible sequencing of subprojects –readiness
- ❑ Diversity of structures – public, private & public/private
- ❑ Ability to work with debt, equity and guarantees
- ❑ Ability to apply local currency finance
- ❑ Focus implementation – procurement/safeguards

Multitranche Financing Facility - Steps



Multitranche Financing Facility

Pakistan National Highway Network



MFF Processing & Execution

- Standard due diligence (if program then similar to sector loans)

Roadmap – diagnostics of problems and sequencing of solutions

Investment program – investment and non-investment

Financing Plan – domestic and international

Other due diligence

Technical, legal, financial, governance, social, safeguards

- Preparation and negotiation of a Framework Financing Agreement

Key warranties and representations - risk mitigation

Negotiation of FFA – submission to Board

Features: policy, capacity, fiduciary, FM, safeguards, etc.

MFF Processing & Execution

- First set of subprojects submitted with first PFR

 - Type of subprojects – investment program and readiness
 - Loan agreement corresponding to first PFR - negotiated
 - First PFR submitted with main proposal to Board

- Subsequent PFRs

 - Preparation of subprojects for next batch –assistance given
 - Ensure adherence to approval procedures in country
 - Consultations with ADB on specific issues – avoid mistakes
 - Receive regular feedback from ADB’s implementation team
 - Submission of reports by ADB team to Board
 - Formal submission to ADB of PFR for second loan

MFF Processing & Execution

- ❑ Turnaround of PFR by ADB

 - Fixed time schedule for approval (max 30 days)

 - Decisions based on post facto evaluations of past loans

 - Regular reports to Board on performance of past loans

 - Approval at Management level – no new Board submission

- ❑ Role of RM

 - Greater involvement in procurement and safeguards

Nature of FFA

- Documents intent of parties regarding the financing

 - Maximum amount of financing requested from ADB

 - What is to be financed

 - Period of utilization

 - Development objectives

 - Key warranties and representations – assurances

- Parties to FFA

 - Member country and ADB – IEI provides a clearance note

 - Other parties (local governments, SOEs or banks) can be added

 - Signed by authorized representatives of the parties

- ADB agrees to provide financing

 - Only in the relevant Loan Agreement, not the FFA

Subsovereign Lending- SOEs & LGUs

- ❑ Direct lending - no guarantee from Government
- ❑ 3 different client classifications
- ❑ Strict financial and reform agenda/criteria
- ❑ Pricing and terms determined on basis of risk profile
- ❑ Focus on reform, developmental impact & additionality

Subsovereign Client Categories



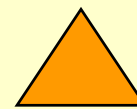
	Green Entities	Amber Entities	Red Entities
Financial/ Budget			
Governance/ Reforms			
Private Sector Participation*			
Instrument	Direct lending or "ring fenced"	Sovereign Guarantee or "ring fenced"	Sovereign Guarantee



Meets criteria



Partially meets criteria



does not meet criteria

* Participation may range from operation and management contracts to privatization

Subsovereign Lending - SOEs

❑ Rationale for direct financing

Bring about significant reforms of sector wide issues – including PSP

Improve corporate governance

Enhanced regulatory framework

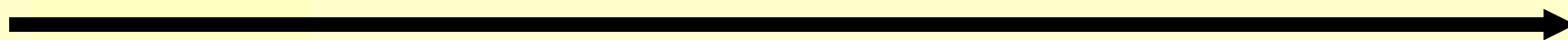
Improved tariff regime

Oversee smooth concessions, JVCs, privatization, IPOs, spin offs

Help with public and private placements in local/international markets

Support cofinancing – commercial

Pricing line



Public
Sector
Gov't gtd.

More



Security Package
incl.Reforms

Less



Commercial



Subsovereign Lending - SOEs

□ Due Diligence

Technical – investment plan and operating cost structure

Commercial – tariff, competition and competitors

Legal – framework

Regulatory

Governance/Capacity

Financial – audits and proforma statements

Economic

Social

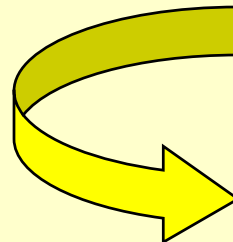
Safeguards

Reforms

Management

□ Structuring – Debt/Equity

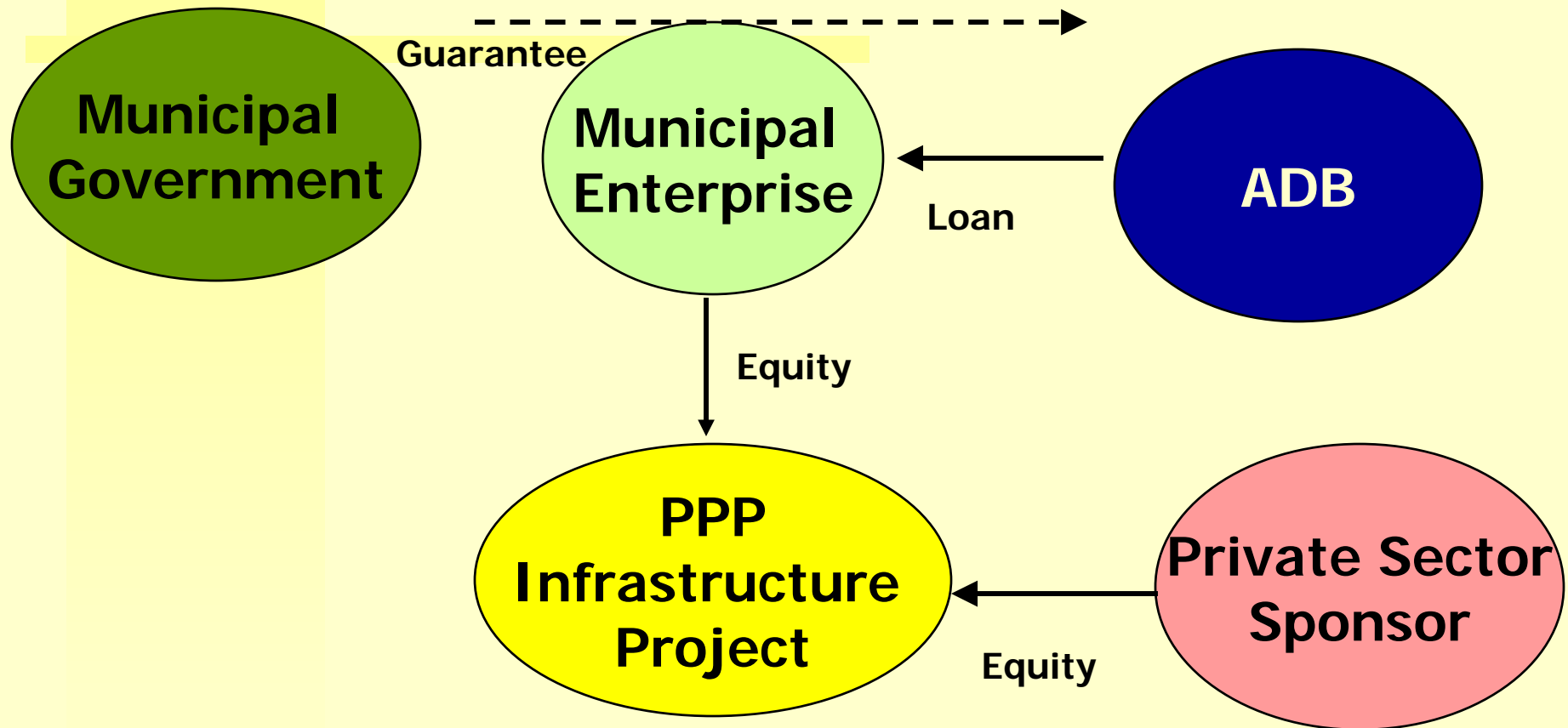
□ Collateral/Security Package



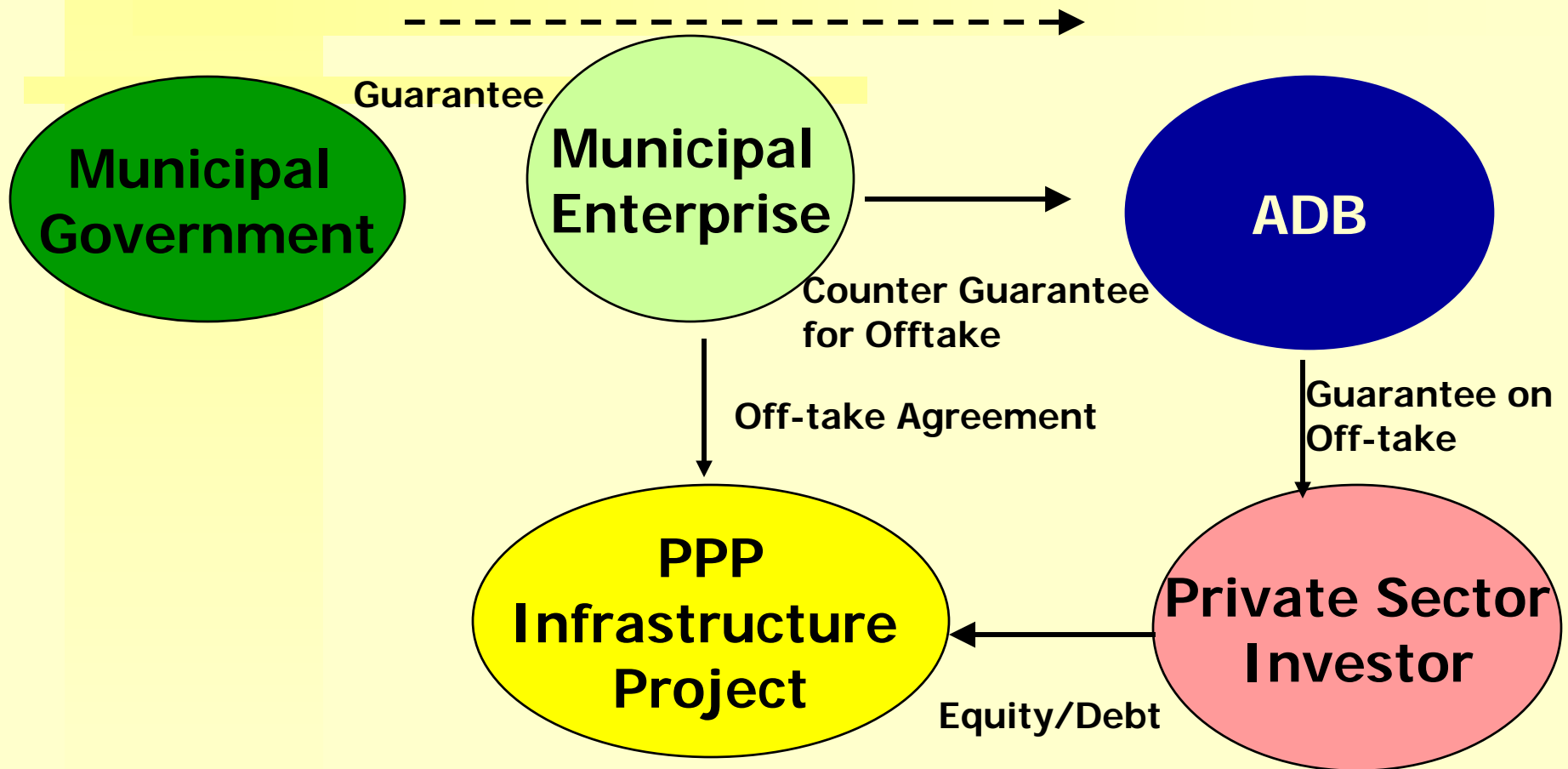
Risk Management Unit



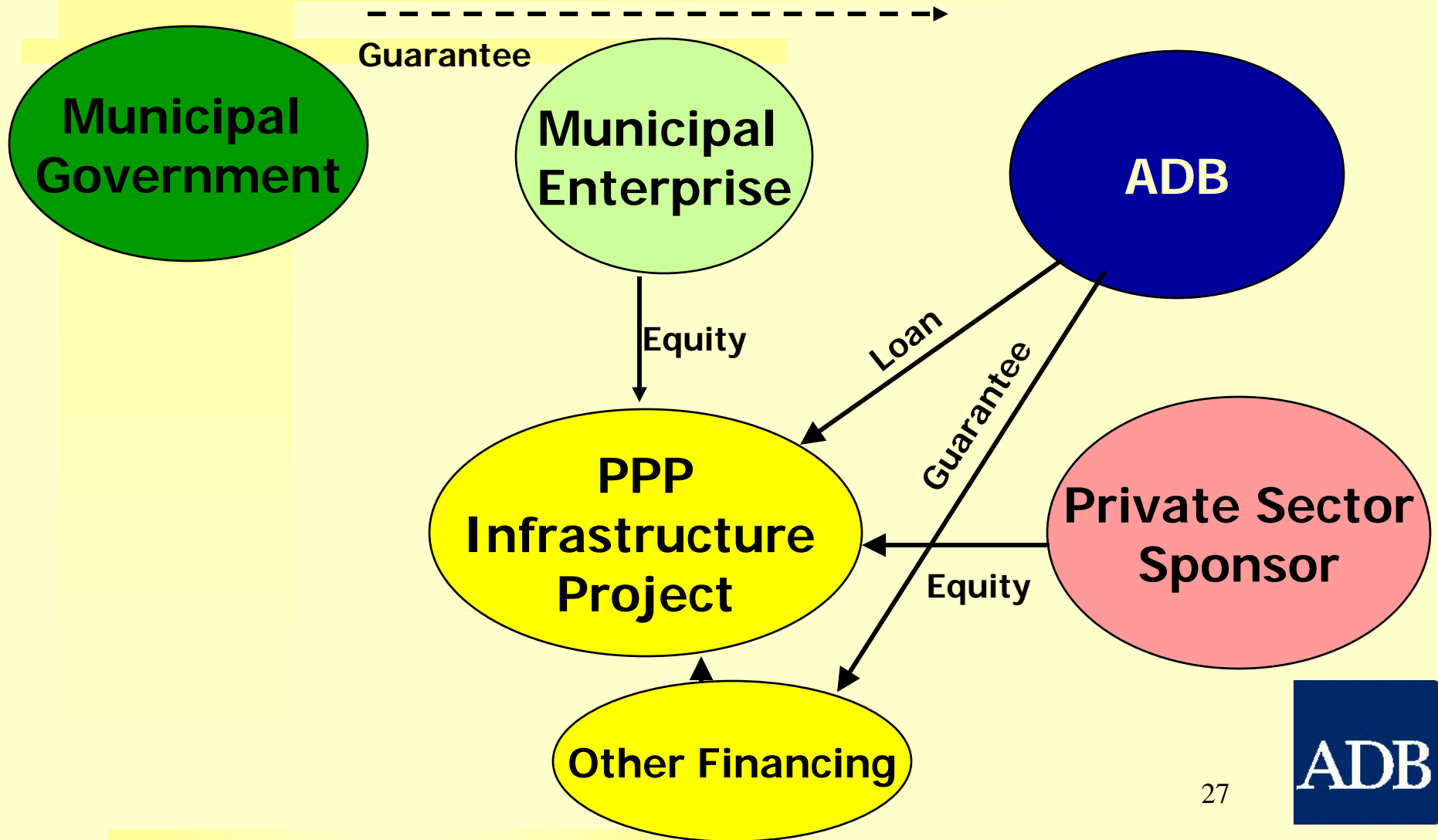
Municipal Financing – Example 1 (Direct)



Municipal Financing – Example 2



Municipal Financing – Example 3

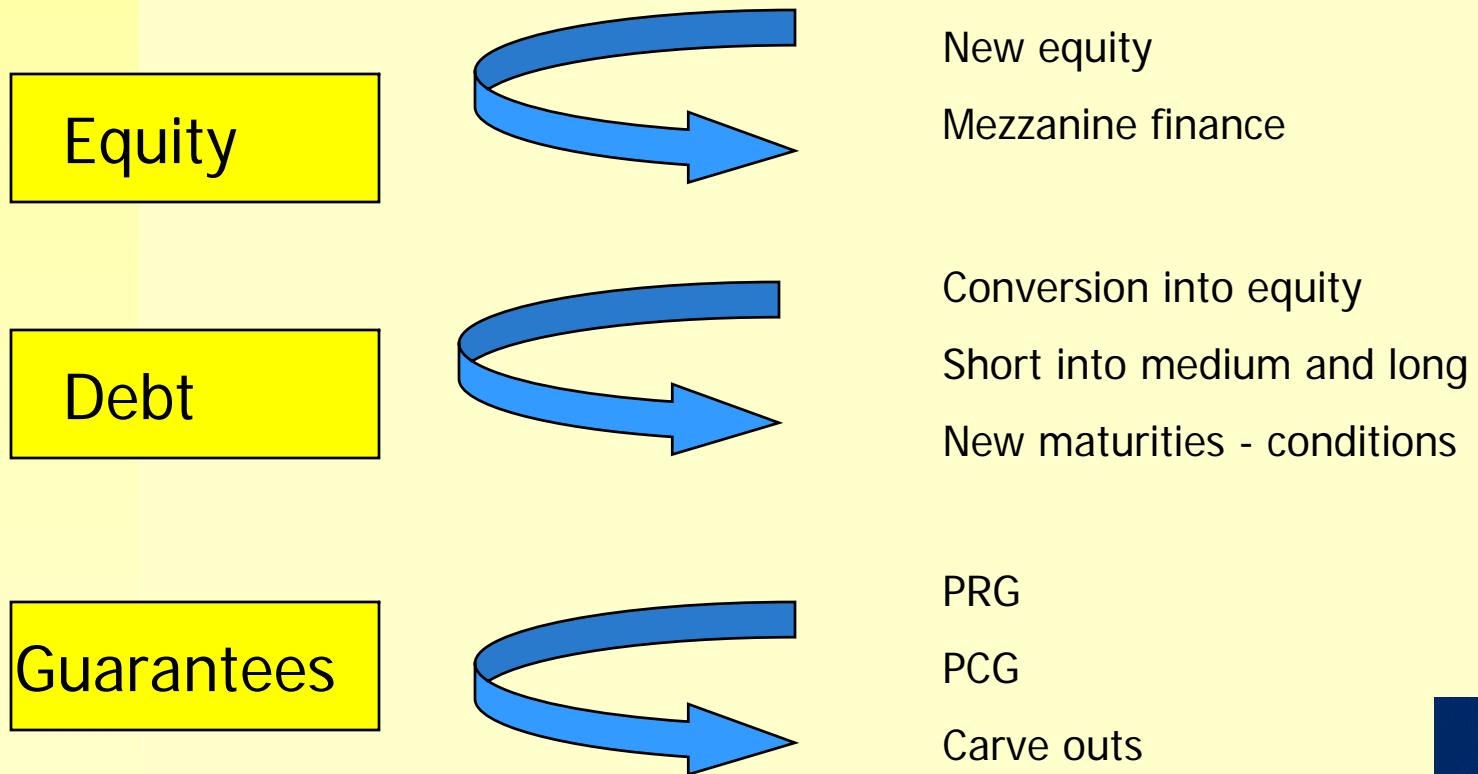


Refinancing Facility

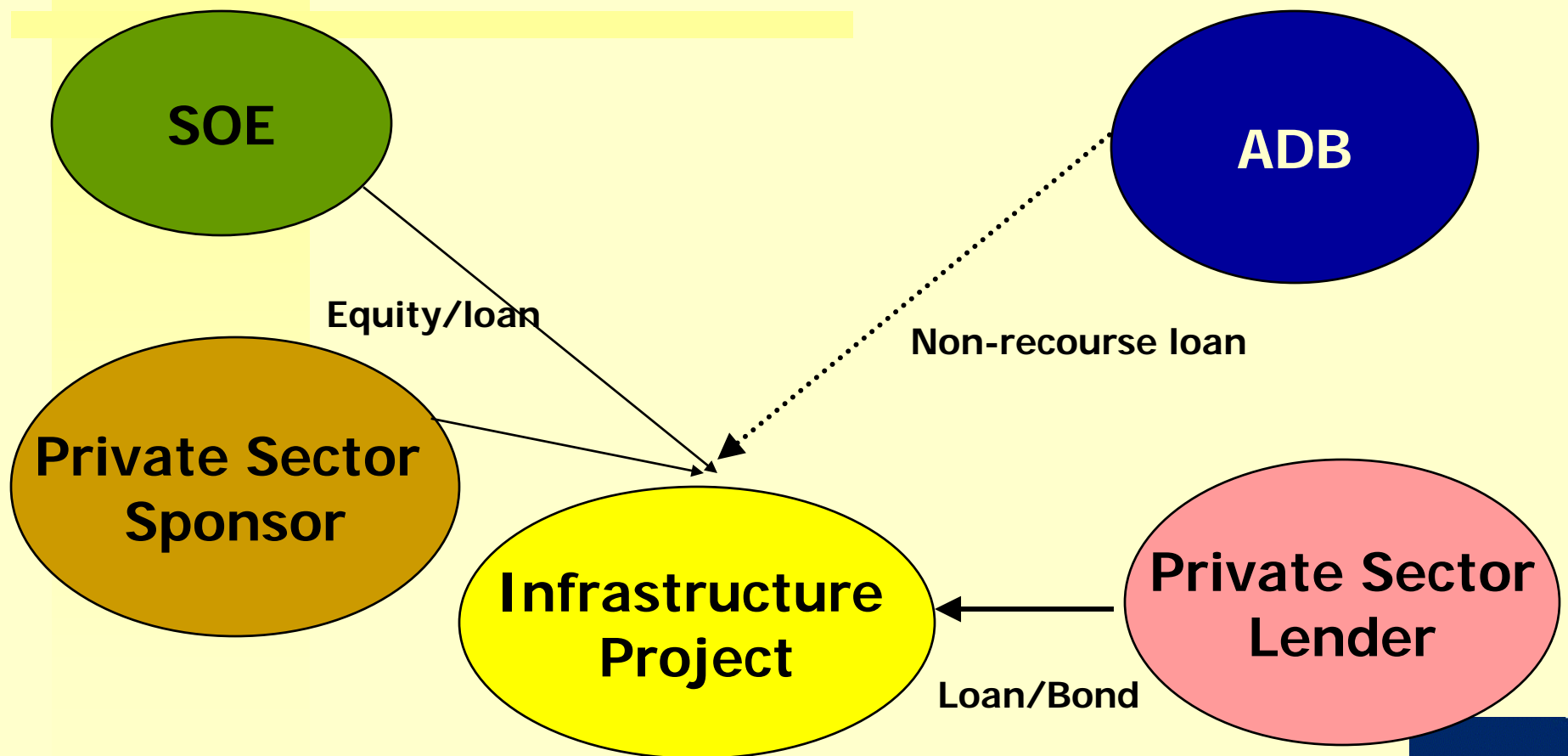
- ❑ Public, private or JV assets – refinancing
- ❑ Preference - projects with new investments/reforms
- ❑ Technically, socially and financially viable projects
- ❑ ADB minimum criteria – policies and procedures
- ❑ Focus on financing plan – wide array of situations

Refinancing Facility

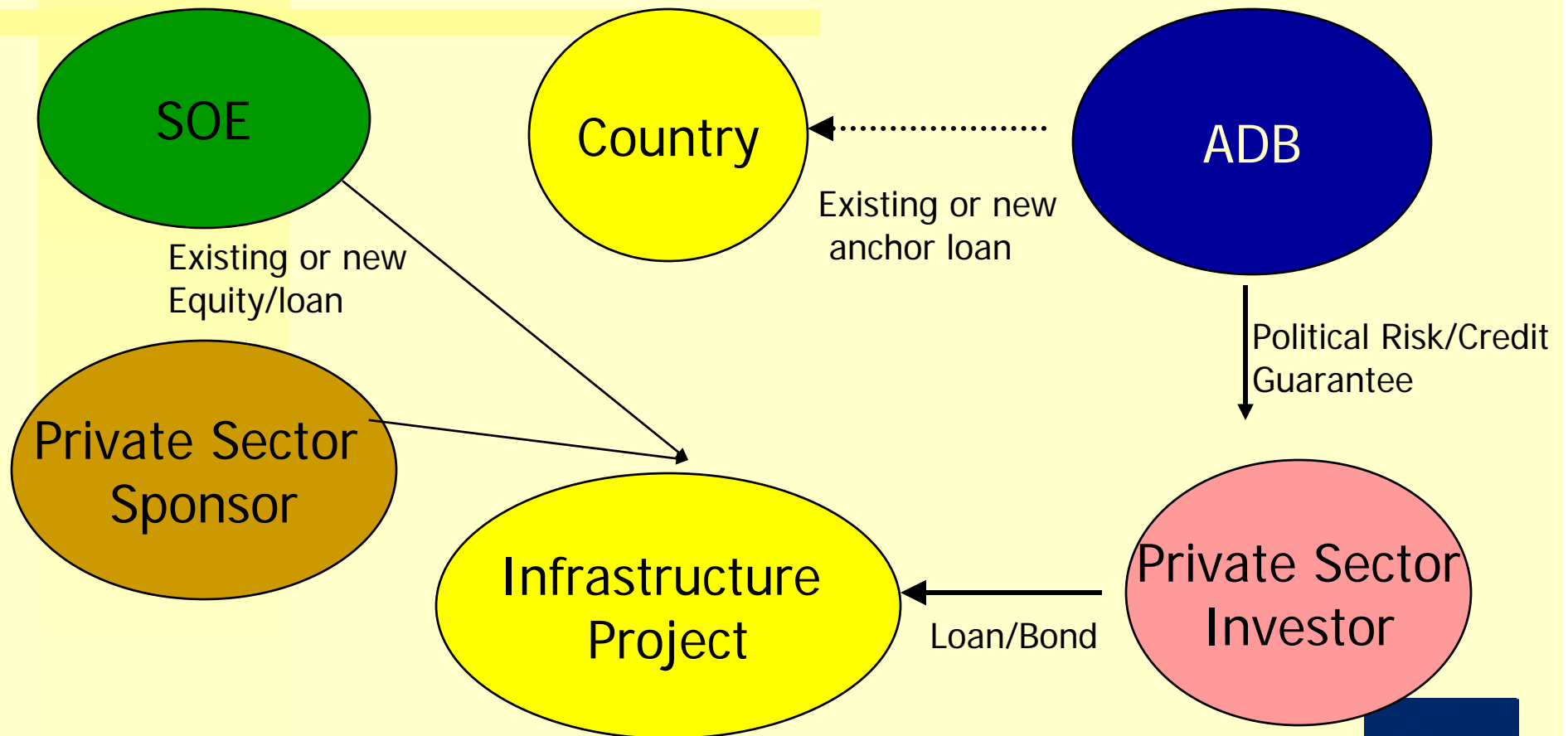
Options



Refinancing - JVC Loan 1



Refinancing –JV Direct Guarantee



Cost Sharing and Eligibility of Expenditures. . .