

**ADB**  
**FINANCING PARTNERSHIPS**  
**STRATEGY AND OPERATIONS**

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# FINANCING PARTNERSHIP MISSION STATEMENT

*Promoting, facilitating, and participating  
in financing partnerships  
to create value for clients*

*An Important Element of ADB's Strategic Framework  
A Bankwide Dimension*

# OUTCOME

More Investment for  
Greater Development Impact

Repositions ADB as Financing Partner

- from Reactive to Proactive
- from Gap-filling to Genuine Partnership
- from Adding Cash to Adding Value

# AGENDA

- What is a Financing Partnership?
- Why Financing Partnerships?
- How? Partnership Modalities
- Context: Environment & Past Experience
- Strategic & Policy Framework
- OCO's Role, Organization and Functions
- Key Implications

# Definitions – What is it?

- Financing Partnership?
    - An arrangement between likeminded partners that aims at creating and undertaking shared financing opportunities
    - Looks at the broader picture beyond transaction
  - Cofinancing?
    - Multi-party financing (ex-sponsors) for a single investment  
Distinction between joint or parallel, official and commercial
  - Syndication?
    - Coordinated cofinancing arrangement
    - Pooling of financing and risk taking activity, with leadership
- ⇒ All involve the creation of a larger pool of financing by many players

# WHY ? – What Clients Say

“International institutions like the ADB can play a **catalytic role** through investments in public sector infrastructure and also through support for private sector activities .... We believe ADB needs to **re-adjust its strategy from focusing a largely on public sector lending to becoming a more fleet-footed financial intermediary** and knowledge bank that helps DMCs attract more private sector investment. The **multiplier effect of ADB’s assistance through a public-private partnership model** would be much higher”

*P. Chidambaram, Governor for India (2006)*

# WHY ? – What Clients Say

“ADB should vigorously **mobilize financing for development** and expand the scale of its assistance. In order to help developing countries in the region to fulfill the MDGs as scheduled, ADB should **work more closely with the rest of the international community and other development organizations**, and **mobilize considerable funds** for development.”

*Jin Renqing, Governor for PRC (2006)*

# WHY ? – What Markets Say

“The **weight of DFI activities** should shift over time from direct lending **to facilitating the mobilization of resources** from the world’s large private savings pools for development oriented investments through **wider use of risk mitigation instruments** to alleviate part of the risk faced by investors. DFIs should **adapt their services, culture and capital allocation** to the imperative of **crowding in domestic and foreign private investment** by placing more emphasis on such risk mitigation instruments as partial (risk) **guarantees**”

*World Economic Forum*

*- Building on the Monterrey Consensus (2006)*

# WHY ? – What ADB Says

**“ADB’s relevance** is not only defined by the level of financing that it provides from its own balance sheet but also the benefits it creates **by forging partnerships with official and commercial financing partners** in support of sustainable development impact”

*ADB, MTS II (2006)*

## WHY ? – What ADB's Founders Say

“to **co-operate** .... with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to **interest such institutions and entities in new opportunities for investment and assistance**”.

*Agreement on Establishing the ADB (The Charter),  
Article 2(v) (1966)*

# WHY ? – Benefits of Partnering

- Benefits for Clients
  - ✓ Better financing structures
  - ✓ Increased investment (additionality)
  - ✓ Reduction in transaction cost
- Benefits for Partners
  - ✓ Use of ADB's design and implementation capacity
  - ✓ Use of ADB's strong capital base and risk mitigation capacity
- For ADB
  - ✓ Leveraging of Capital
  - ✓ Benefit from partner experience and capacity

# CONTEXT – Market Trends & Opportunities

- Domestic savings are likely to play a bigger role in financing projects
- Competition for international finance
- Increasing importance of PPP
- Emergence of regional players
- Harmonization for ODA (Paris declaration)
- Selectivity of official donors
- Emergence of new financing sources

# CONTEXT – Internal Strength

- Wide **product range** and ability to offer integrated **solutions**
- Implementation systems and expertise
- Risk bearing capacity
- Regionally-based with strong relations and credibility

# HOW ? –Partnership Modalities

## COFINANCING TYPE

- Parallel vs Joint ?
- Tied vs Untied ?
- ABB administered/supported (DVA)

## COFINANCING SOURCES

- Official
  - Bilateral
  - Multilateral
- Export Credit
- Commercial (Public and Private)

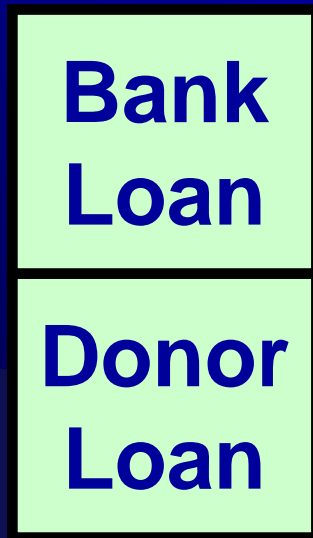
# HOW ? –Partnership Modalities

## MODALITIES (Terms)

- Concessional Cofinancing
  - Grants
    - Investment Grants (Project Specific)
    - TA (Trust Funds or Project Specific)
  - Loans
- Commercial Cofinancing
  - Guarantees
  - Syndications

# Official Cofinancing Modalities

**Loan  
Cofinancing**



**Stand-Alone  
Technical Assistance  
Cofinancing**



or



# Loan Project Cofinancing

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## A. Joint Cofinancing

- Cofinanciers do not tie their assistance
- Follow Bank procurement guidelines

Bank and Cofinanciers generally pool their funds to finance a common list of goods and services for the projects.

## B. Parallel Cofinancing

Both tied and untied funds can be used.

# Financing Stand-Alone Technical Assistance

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## A. Joint and Exclusive Cofinancing

- Cofinanciers do not tie their assistance
- Follow Bank procurement guidelines

## B. Parallel Cofinancing

- Not normally applicable. (Regulations prevent the Bank from accepting tied funds to finance stand-alone technical assistance).

# Financing Stand-Alone Technical Assistance (continued)

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## I. Channel Financing Agreements:

- With Australia, Belgium, Canada, Denmark, Finland, France, Italy, Netherlands, New Zealand, Norway, People's Republic of China, Spain, Sweden, Switzerland and United Kingdom
- 'Trust funds' administered by the Bank to support the Bank's stand-alone technical assistance program
- "Umbrella" type agreements
- Single donor or Multidonor
- Untied grants
- Accept Bank guidelines and procedures
- Administration Fee

# Financing Stand-Alone Technical Assistance (continued)

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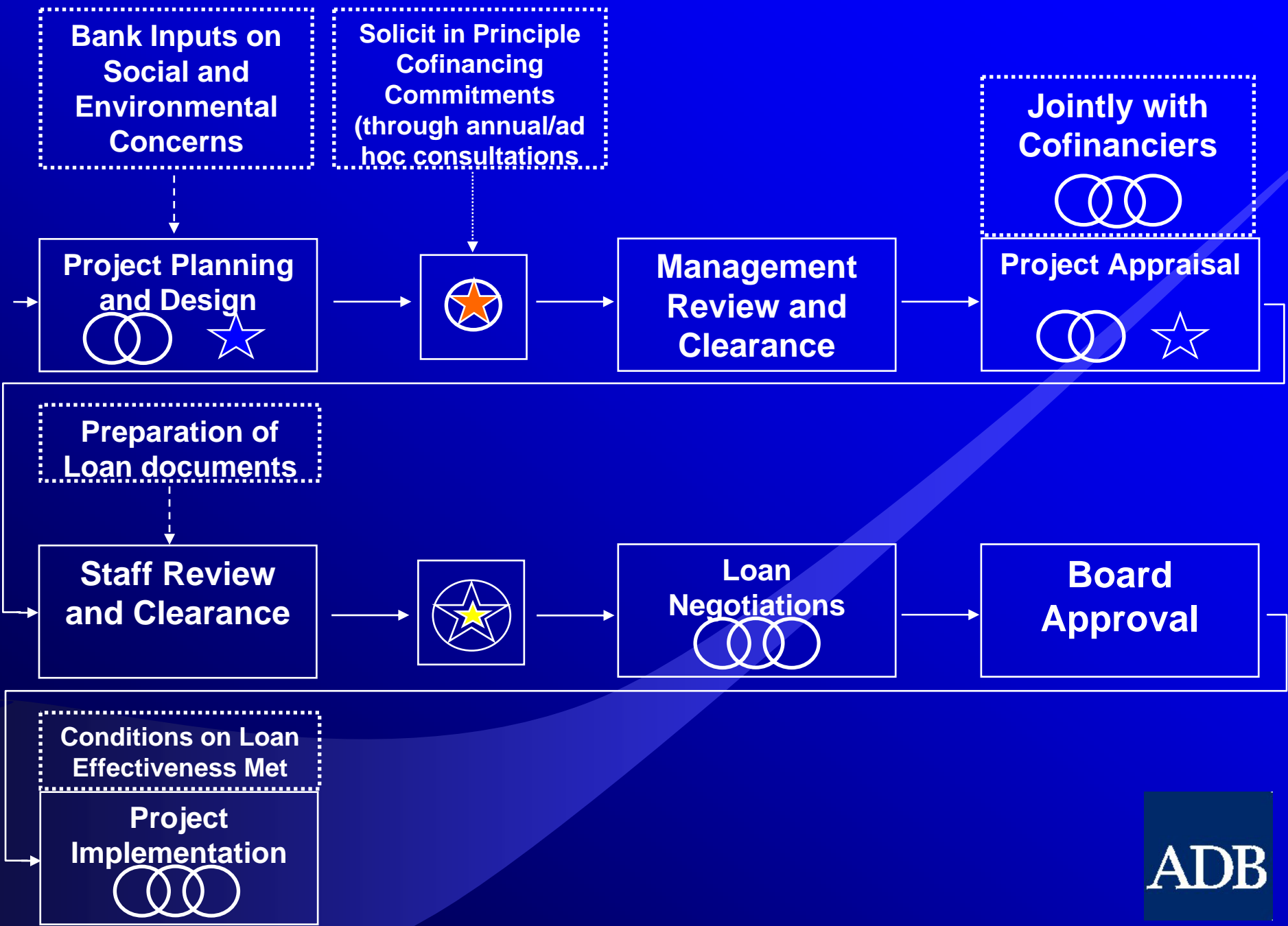
## II. Project Specific Agreements:

- One project-one agreement basis
- Support to Bank's TA Program and/or soft components of Bank-assisted loan projects (e.g. capacity building, strengthening the participatory process)
- Untied grants
- Administration Fee

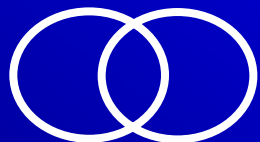
# Seeking Donor Support

Efforts through DONOR COORDINATION  
Ample scope in Bank's Program / Project  
processing

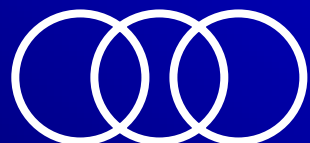




## Legend:



**Donor coordination**



**Cofinancier's participation**



**Cofinancing exploration**



**In principle cofinancing commitment**



**Commitment by cofinancier**

# Commercial Cofinancing and Credit Enhancement Operations

## ADB Arranges Cofinancing from:

- Official Sources (Bilateral and Multilateral)
- Export Credit Agencies
- Market Institutions (such as Commercial Banks, Life Insurance Companies, or Pension Funds)

## Risk Sharing and Mitigation Products:

### SYNDICATIONS

- Complimentary Financing Scheme (CFS/B-loan)
- Guarantor of Record (GOR)

### GUARANTEES

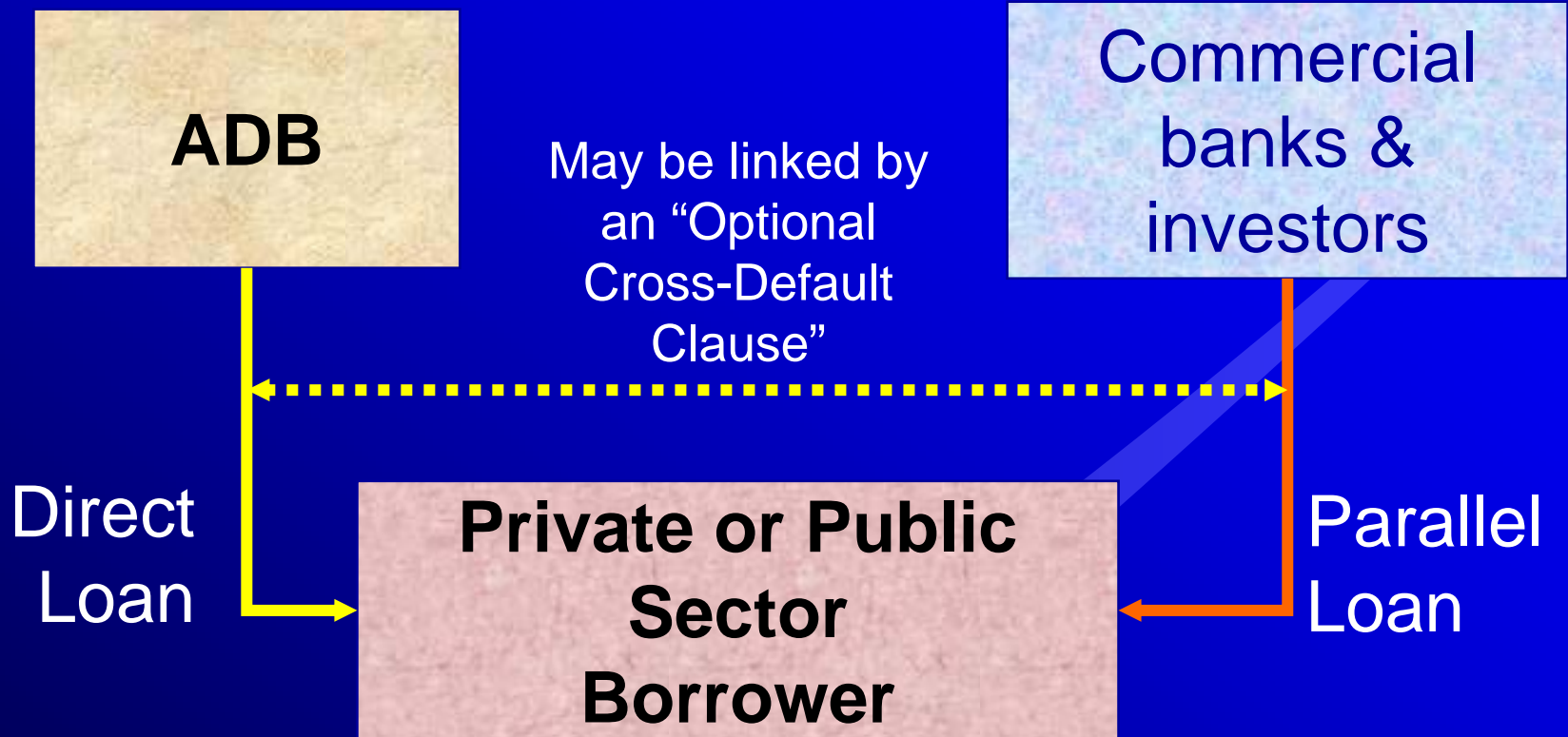
- Partial Credit Guarantee (PCG)
- Political Risk Guarantee (PRG)

# “Uncovered” parallel loans

Popular before Asian Financial Crisis &  
Russian Debt Moratorium

But now primarily available from local banks  
in countries with stronger domestic banking  
sectors (India, PRC & Thailand)

# “Uncovered” parallel loans



# Syndication (CFS / 'B' Loan)

Through CFS ("B" loan, or "lender of record")  
cofinancing, commercial lenders benefit from ADB's:

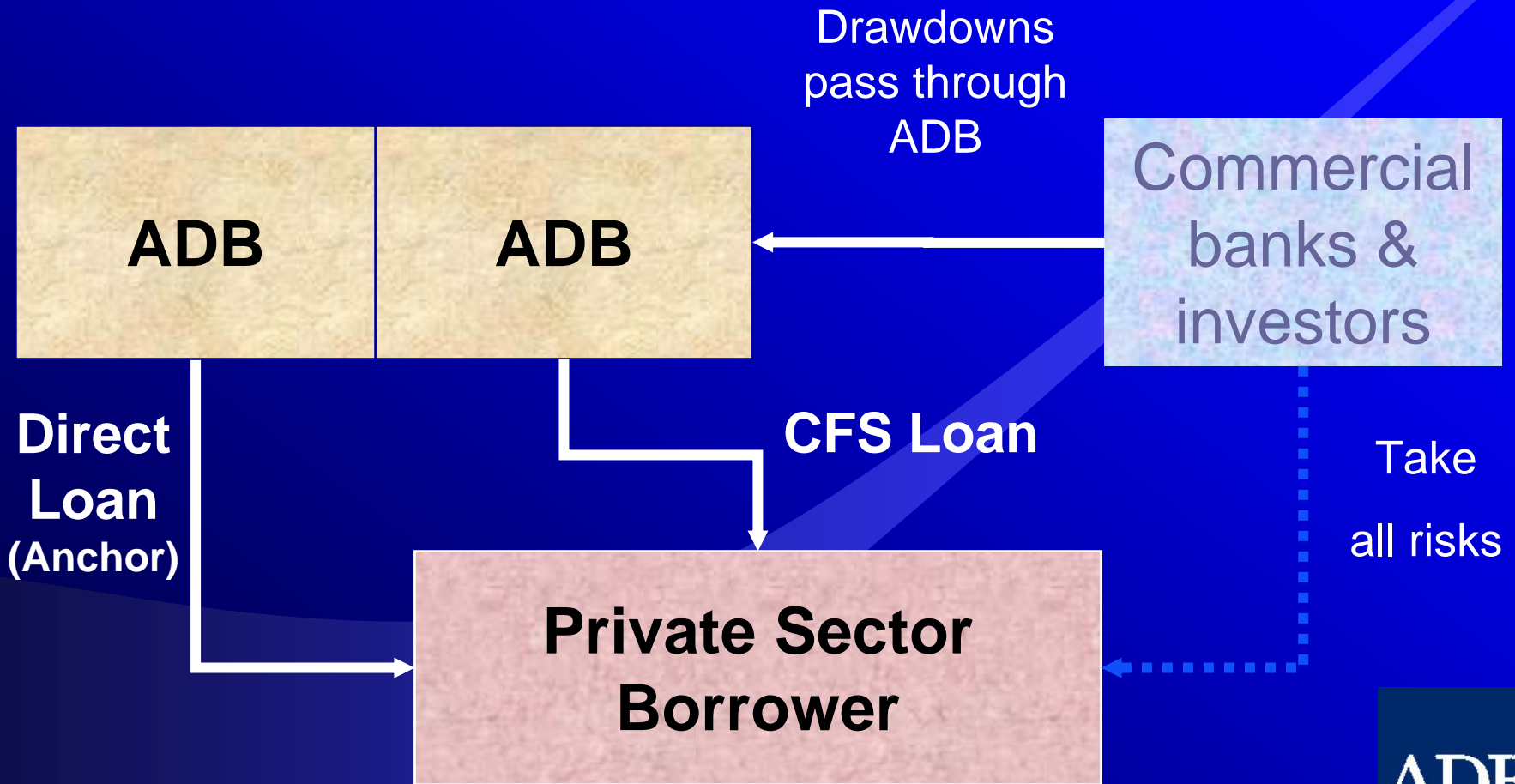
## Privileges and Immunities:

- No restriction on currency conversion/transfer and Expropriation
- Exemption from withholding taxes

## Preferred Creditor Status:

- Least chance of debt rescheduling

# CFS ('B' Loan / Syndication)



# Political Risk Guarantees (PRGs)

Coverage of up to 100% of loss due to:

## Currency inconvertibility/non-transfer (CI)

- 'Passive' and 'Active' Blockage

## Expropriation

- Discriminatory government action.
- Adverse change in the regulatory environment or tax regime.

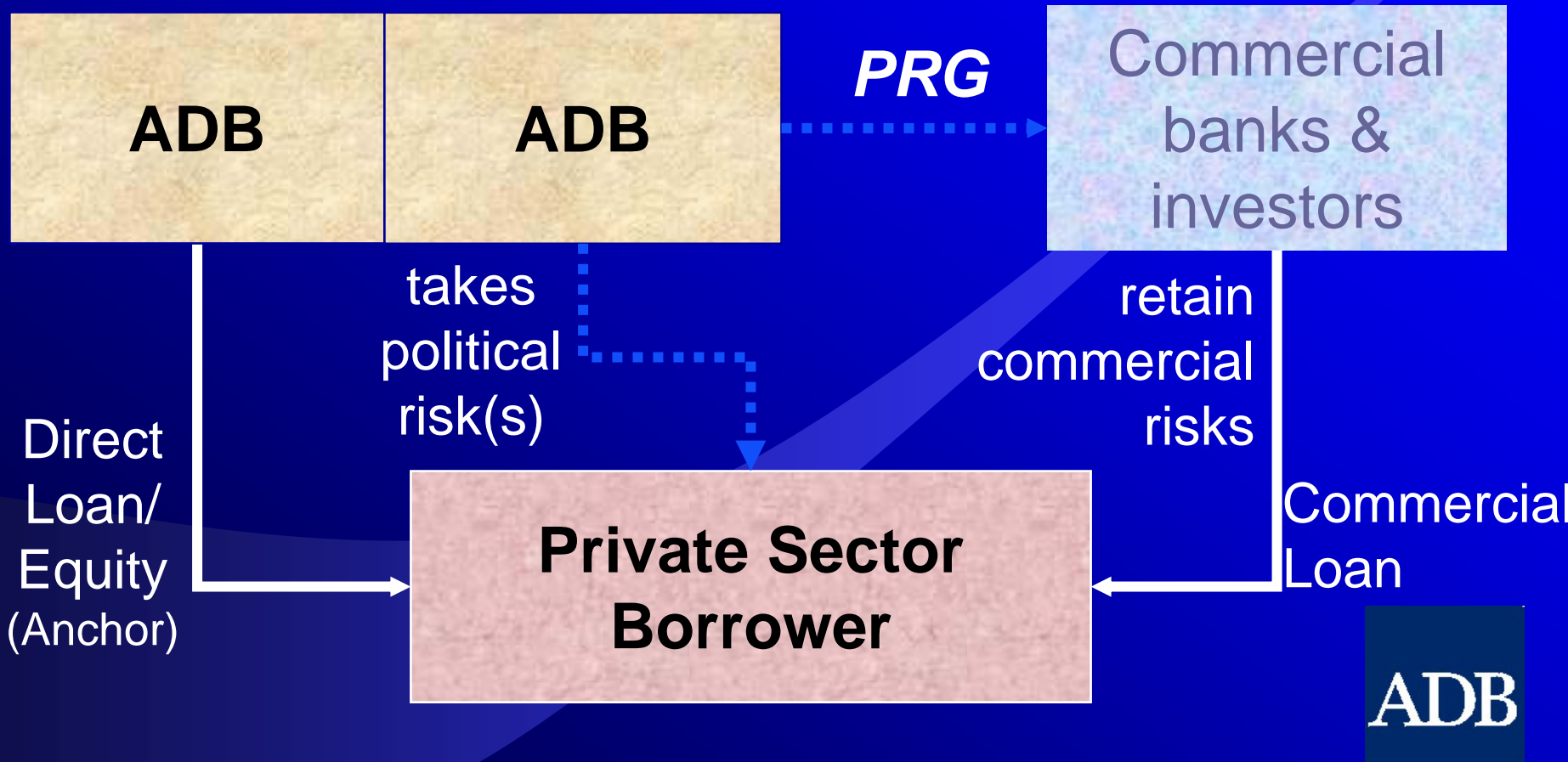
## Political Violence (PV)

- Physical Damage due to strikes, riots, civil commotion, sabotage, terrorism, war/civil war.

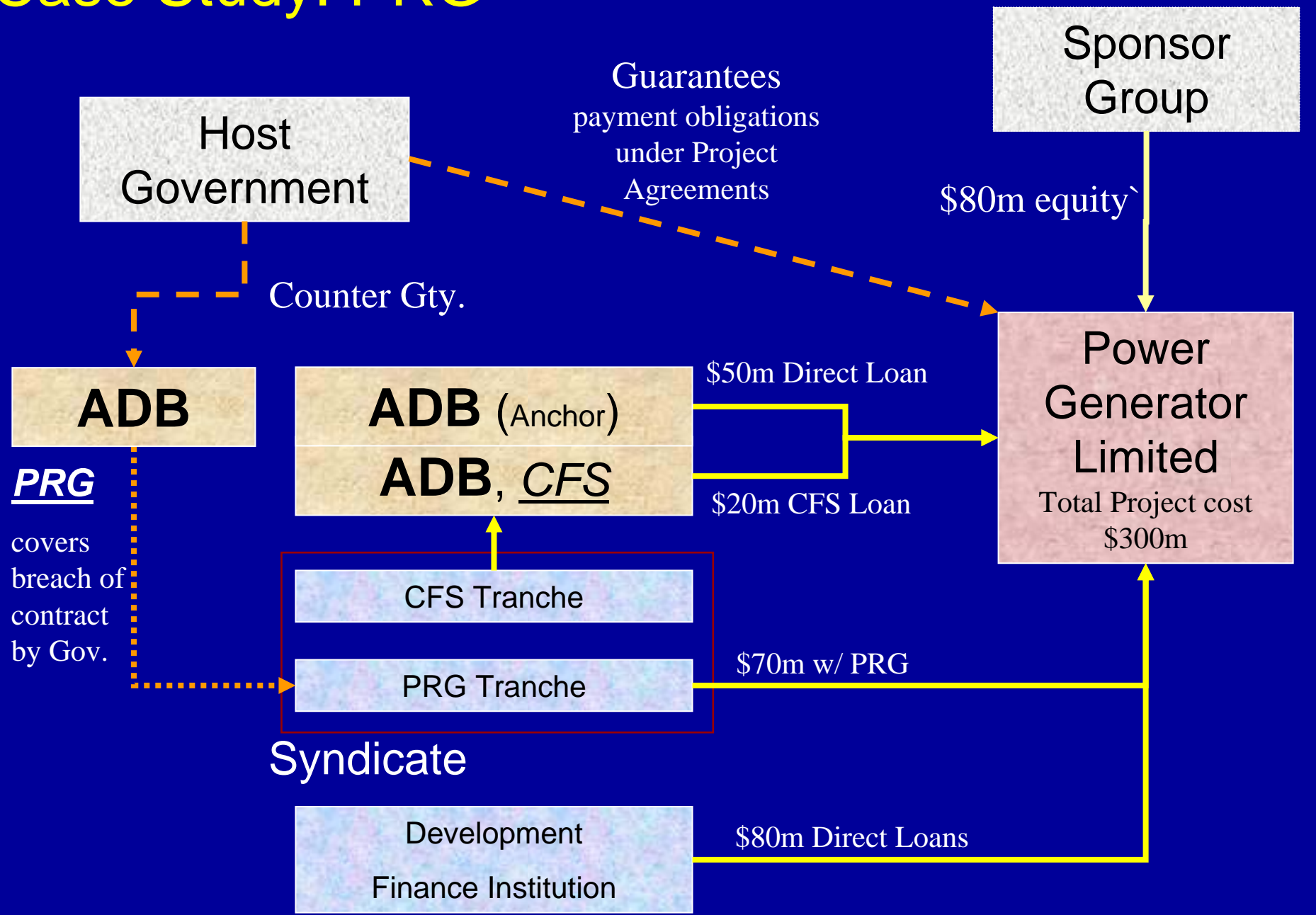
## Arbitration Award Default / Disputes Coverage

- Payment or performance obligations on the part of the host government.
- In ability to access a forum of arbitration.

# Political Risk Guarantees



# Case Study: PRG



# Partial Credit Guarantees (PCGs)

## Comprehensive cover

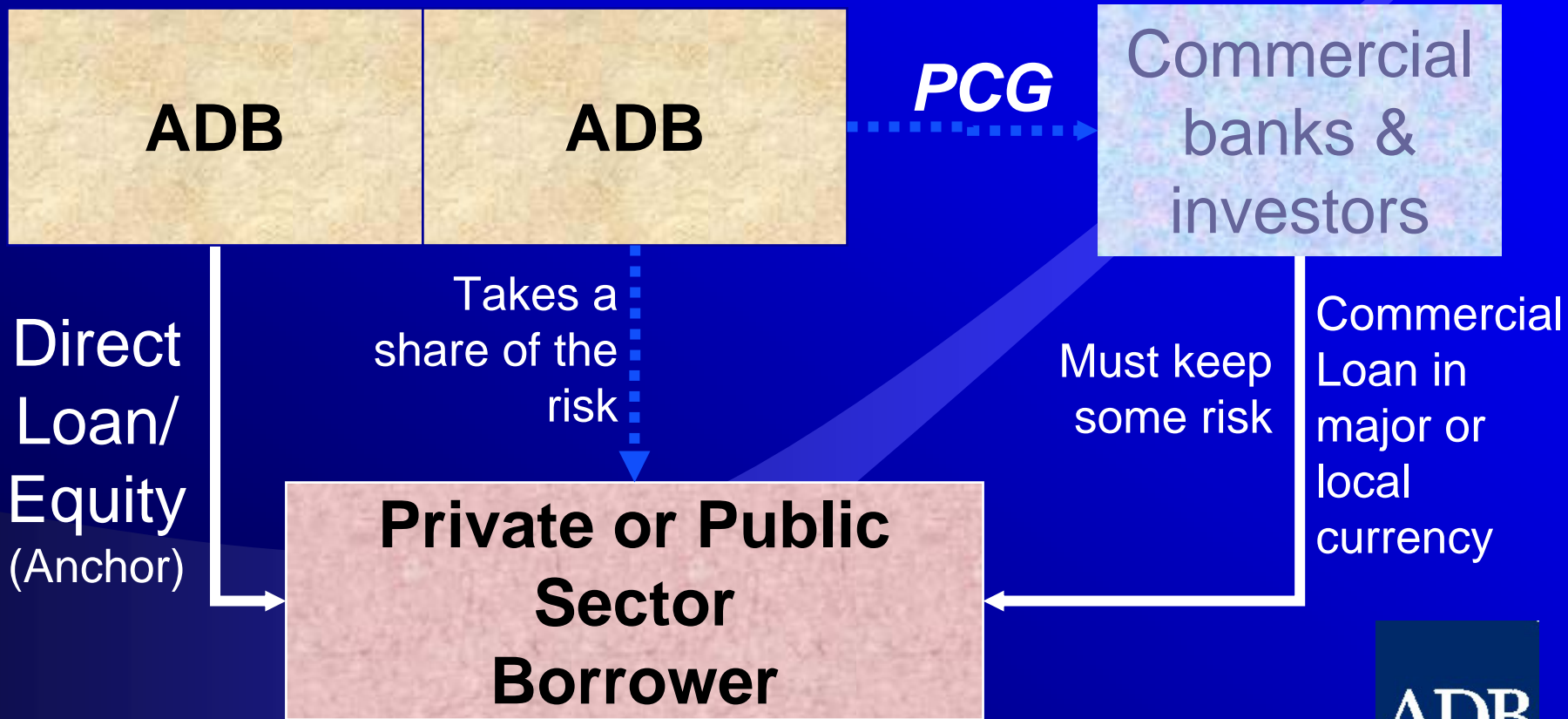
- Political risks, and
- Commercial (credit) risks.

Covers **part of debt service** under term loans, notes or bonds

Denominated in major convertible currencies, but

- Can also support local currency debt to:
  - Mitigate FX risk.
  - Help develop local capital markets.

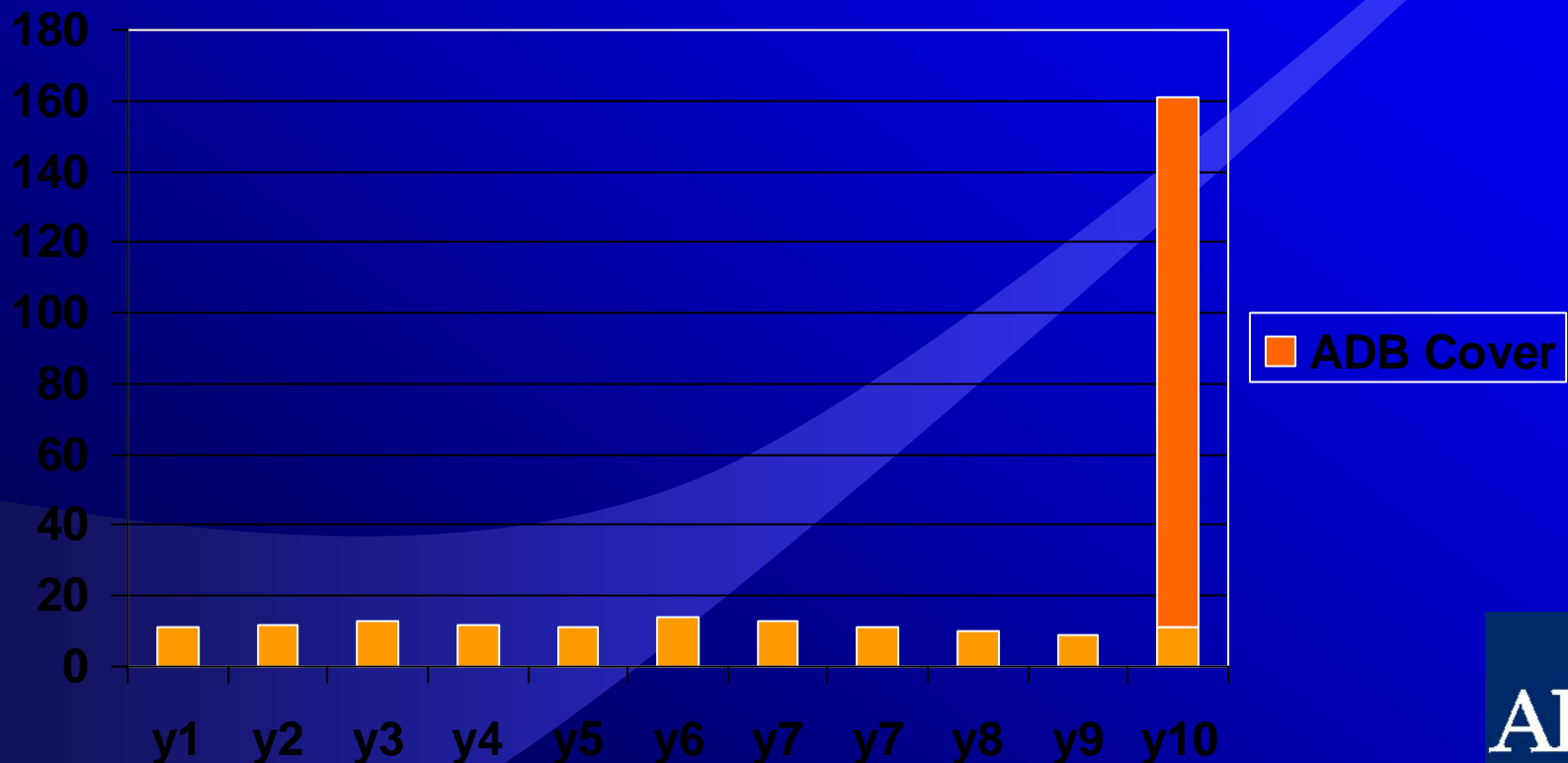
# Partial Credit Guarantees



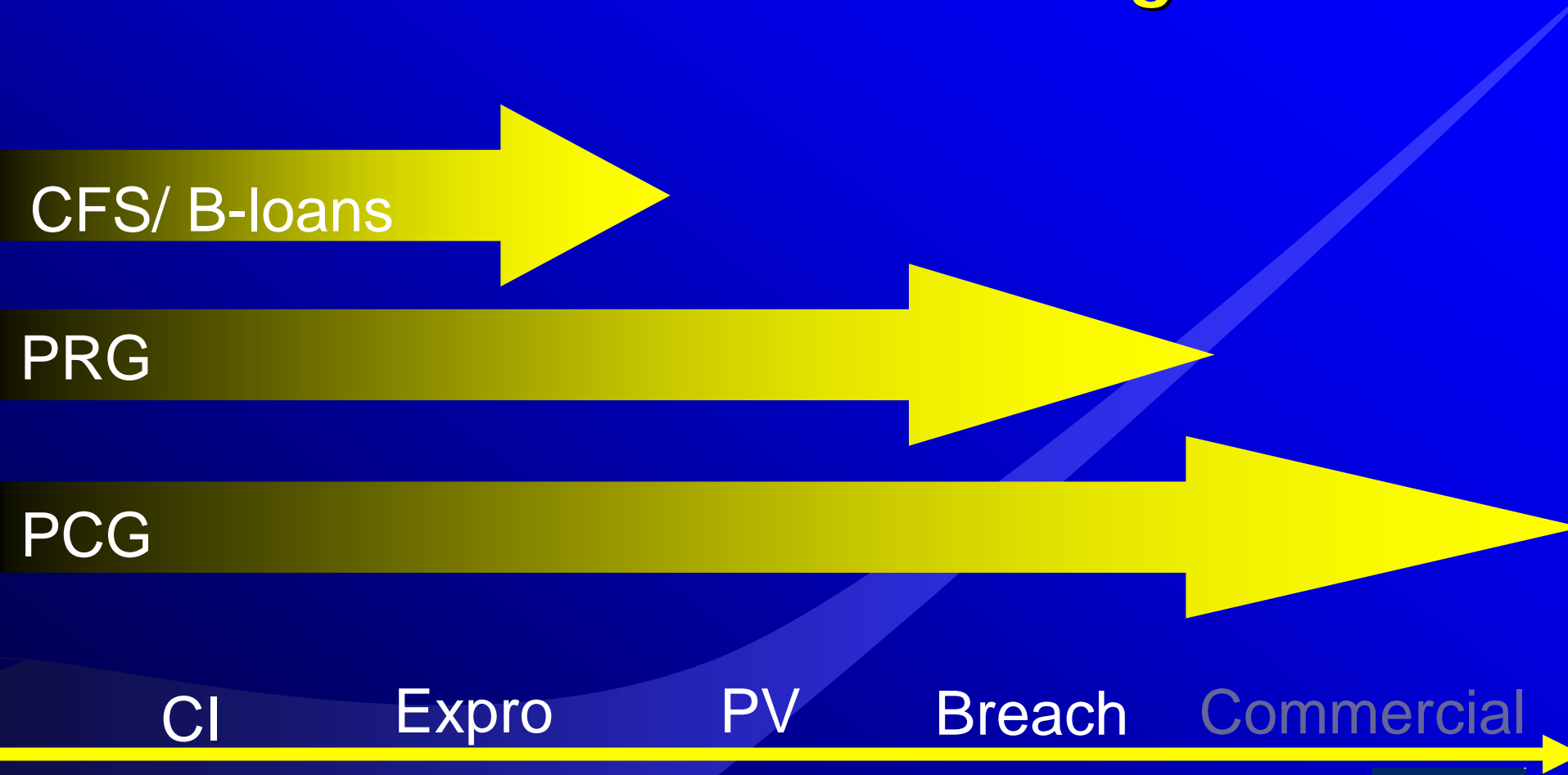
# Different Amounts Covered by PCG

Bullet Loan, FRN or Bond with  
ADB taking principal payment risk at maturity

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# Extent of Risk Coverage



CI      Expro      PV      Breach      Commercial

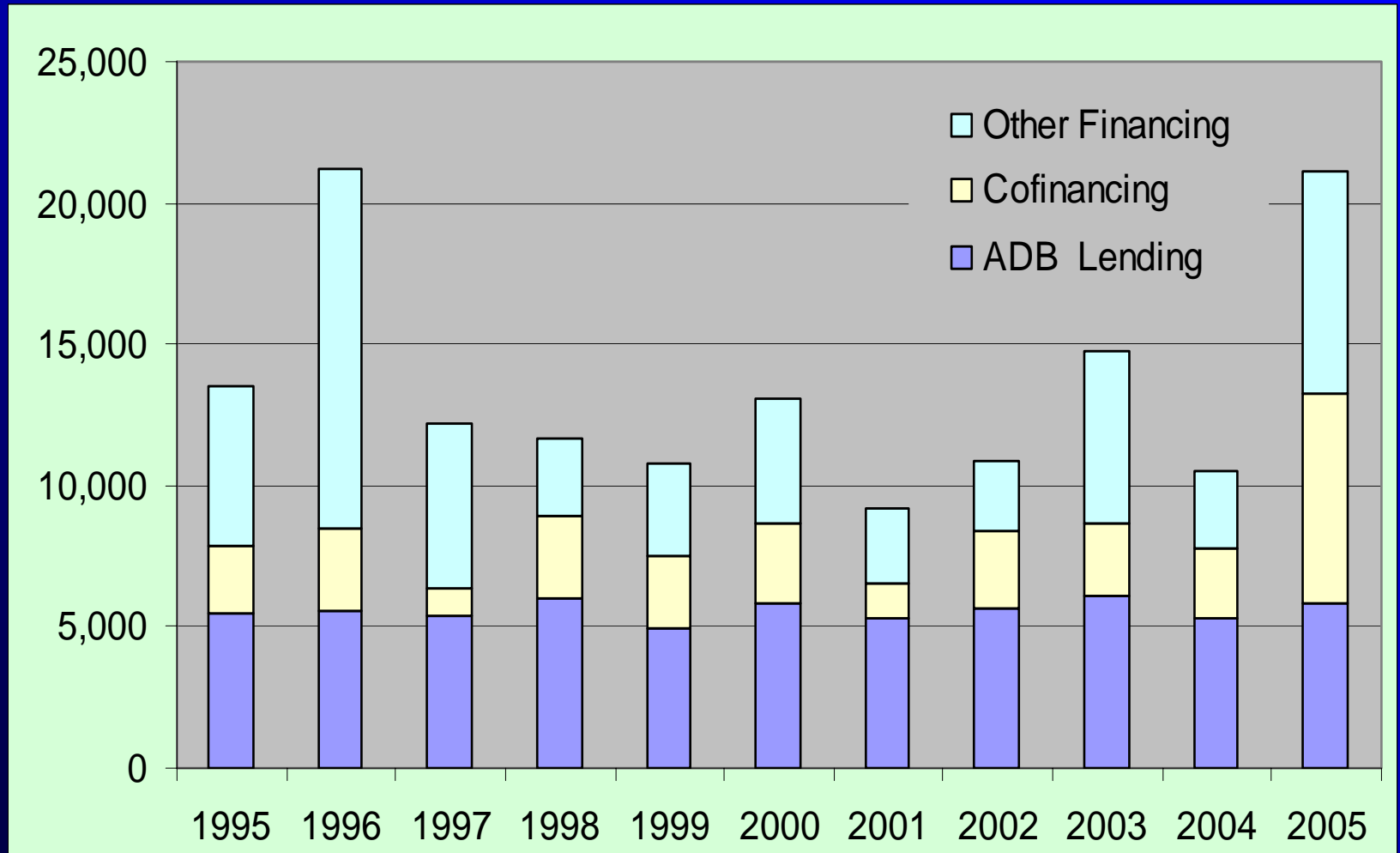
Risk Spectrum

## CONTEXT – Past Experience

- No clear trend overall, difficult to gauge impact
- Commercial cofinancing increased, mostly parallel without syndication
- Official cofinancing declined, mainly due to a shift in project opportunities
- Very encouraging trend for grants and TA
- Successful innovations, but not mainstreamed

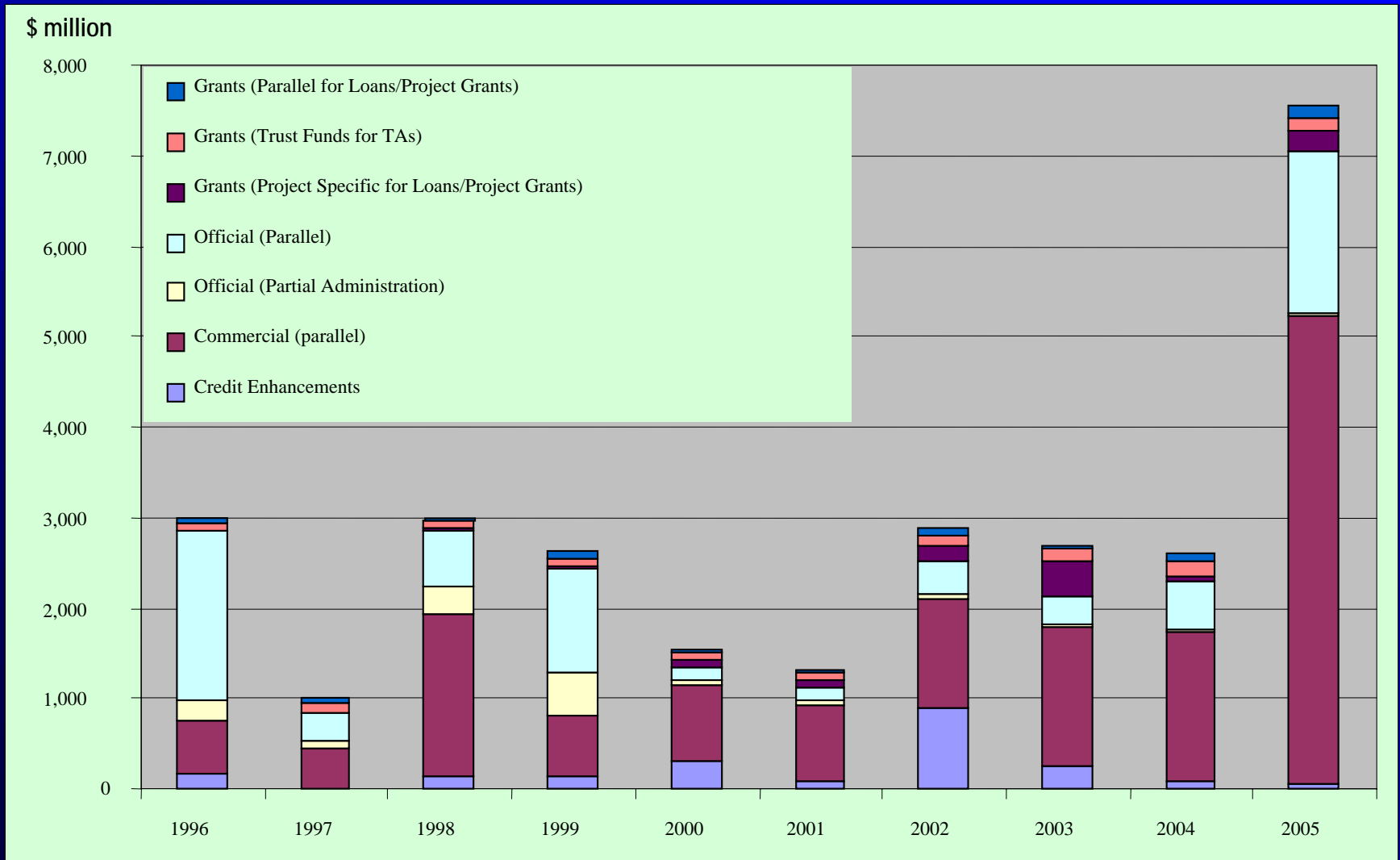
# CONTEXT – Past Experience

## Cofinancing as a Share of Total Financing



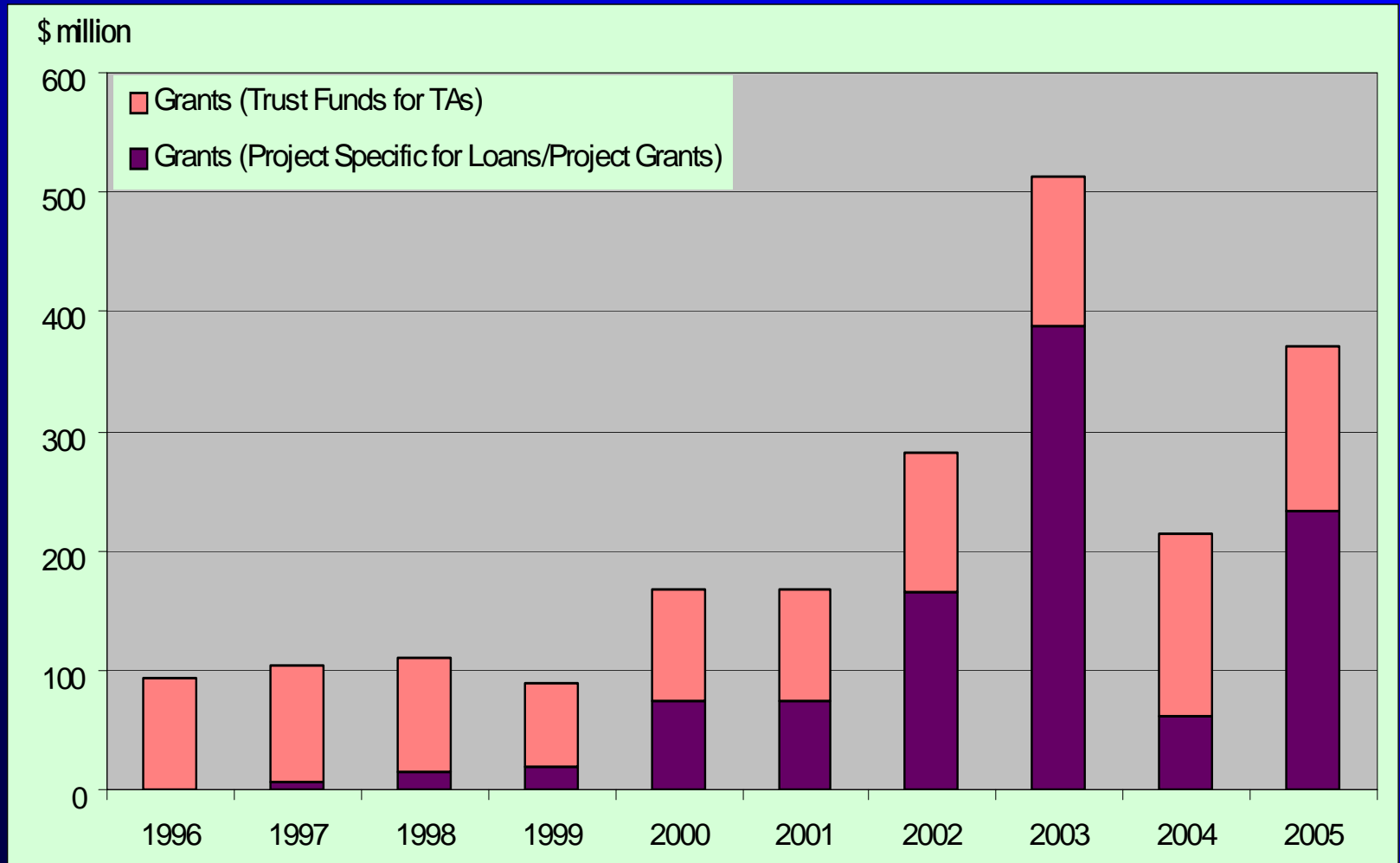
# CONTEXT – Past Experience

## Cofinancing Composition



# CONTEXT – Past Experience

## Growth of Grant Cofinancing



# CONTEXT –Lessons Learned

- Strategic integration
- Incentives and clear performance parameters
- Clear responsibilities and accountabilities
- Flexible programming and business process
- Transparent instruments
- Strategic focus in TA operations
- Attention to relationship management
- Adequate resources

# Looking Ahead

## The Strategic Framework

*Respond to Client Demands*

*Build on Opportunities and Strength*

*Learn from past experiences*

*Provide a clear sense of purpose and value proposition*

# STRATEGY – Mission Statement

Promoting, facilitating, and participating  
in financing partnerships  
to create value for clients

# STRATEGY – Objective

## WHAT?

- *Improve structures and terms and*
- *increase the flow of financing from external sources*
- *for ADB supported projects or programs*
- *for a greater number of clients*

# THE STRATEGY

## How?

Combine ADB's capital and knowledge resources with others, using ADB's intermediation product and services for

- (i) concessional financing partnership arrangements (to blend and harmonize), and
- (ii) mobilization of commercial resources through risk sharing arrangements (to leverage).

# THE STRATEGY

ADB Assistance Modality	Cofinancing Modalities						
	Commercial Loans		Concessional Loans		Grants		
	Credit Enhancements	Parallel	ADB Administered	Parallel	Trust Funds	Project Specific	Parallel
Loans							
- ADF	✓✓		✓			✓✓	
- OCR	✓✓✓		✓✓			✓✓✓	
- OCR Non Sovereign	✓✓✓		✓			✓	
Equity							
Grants (Projects)						✓✓	
TA Grant					✓✓		
Other /a	✓✓				✓	✓	
Total	✓✓✓	o	✓✓	o	✓✓	✓✓✓	o

/a - Stand-alone components linked to ADB projects, but financing by external sources (with separate project identification)

Yellow background - indicates value adding cofinancing modality

✓✓✓ - core strategic focus, to grow business

✓✓ - medium-to-high priority, to maintain high consistent volumes

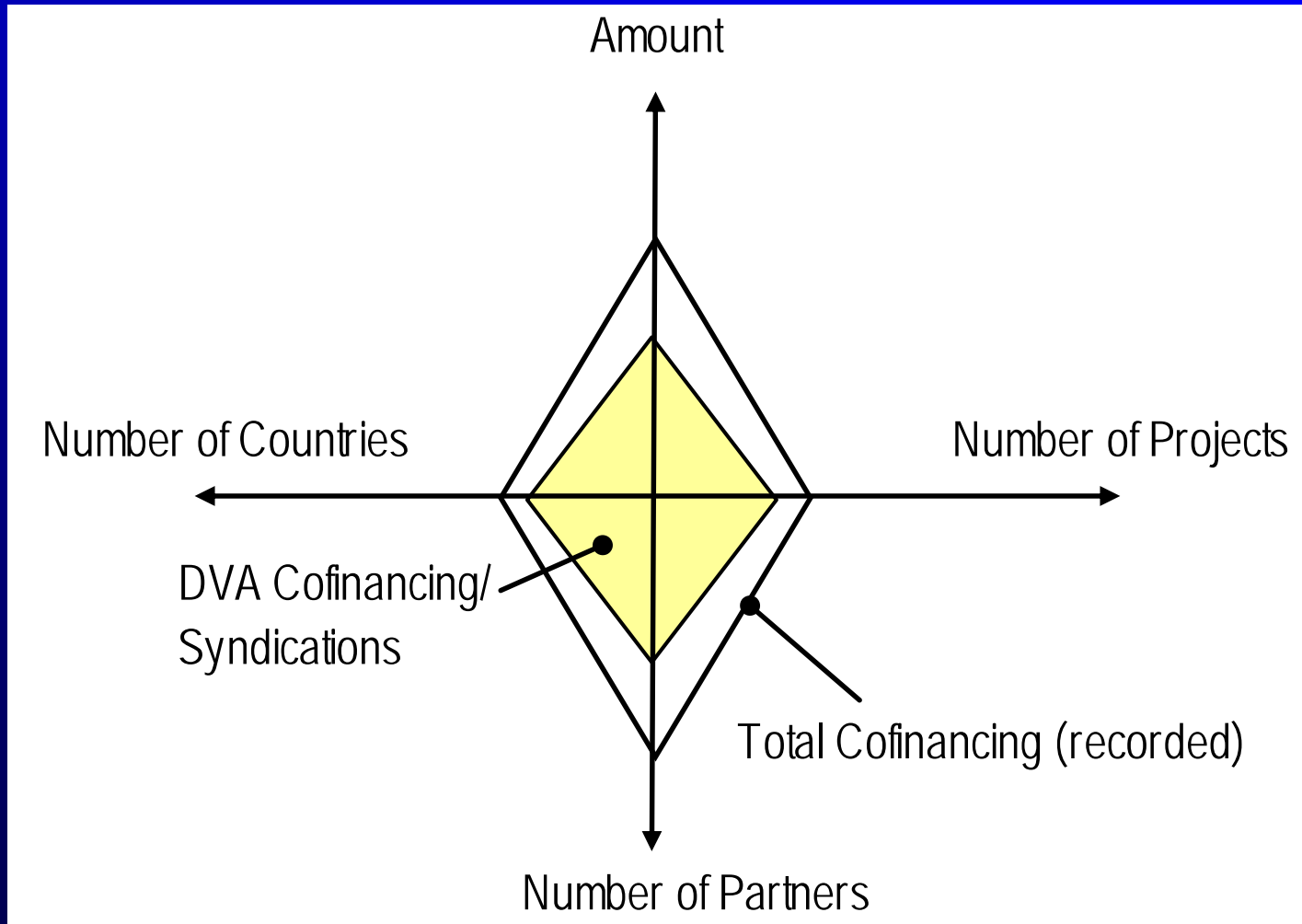
✓ - lower priority, but actively pursued as appropriate

o - opportunistic, case-by-case when offered

# STRATEGY – Success Measures & Targets

- DVA Cofinancing (Syndications)
- Quantitative Measures
- Qualitative Measures
- Strategic Targets
- Operational Indicators  
(through CSP, for resource planning)

# STRATEGY – Quantitative Measures



# STRATEGY - Approaches

- Define clear success measures - Focus on DVA cofinancing/syndications
- Proactive Partnering, Beyond Gap Filling:
  - Early identification of cofinancing opportunities
  - Expand opportunities, clarify 'entry points',,
  - Develop meaningful financing partnership agreements
- Share knowledge and improve advisory support
- Ensure relevant products and services
- Phased and gradual – don't try to all things at once, but focus on selected countries/financing partners and build success-cases to replicate.

# IMPLEMENTATION

## Critical Success Factors

- A business model focused on providing financing solutions rather than loan approvals: Appropriate Measurements, Incentive Structures and Accountabilities (RDs/PSOD, BPMSD, SPD)
- Access to Specialized Knowledge and Product Support (OCO)
- Effective and Responsive Relationship Management (RDs/PSOD, OCO, SPD)

# IMPLEMENTATION – Responsibilities

<u>Key Result Area</u>	<u>Outcome</u>	<u>Responsible Units</u>	<u>Indicators</u>
Financial Resource Mobilization, Syndication & Administration	Upward trend of DVA cofinancing with improved project structures and terms	RDs/PSOD for origination, project design (including financing structure) and processing. OCO for advisory to RDs/PSOD on DVA cofinancing, including arrangements and documentation (in close cooperation with OGC); consistent application and finalization of cofinancing agreements, including for trust funds, cofinancing frameworks and facilities, syndications, and risk transfers (in close cooperation with operational and support units); and monitoring and financial reporting to partners.	New cofinancing commitments and resource flows (value and number of projects/partners/clients) Amendments to financing agreements Financial/progress reports to cofinancing partners
Relationship Management	Financing partner satisfaction Positive name recognition	RDs/PSOD on transaction level; OCO on institutional level (with selected DER, SPD support). Close coordination among all concerned units	Partnership events; Praises and complaints
Product Development & Special Facilities	Relevant intermediation products and services	OCO, with RDs/PSOD and other support units (OGC, TD, CTL, RSDD, OREI, SPD, ...)	New innovative initiatives and products developed/piloted
Knowledge Management	Knowledgeable staff and partners	OCO, with operational and other support units (RSDD, OREI, BPMSD, ...)	Knowledge acquired and disseminated Development of web-based information tools
Policy and Strategy Alignment	Policy and strategy framework consistent with FPS	OCO, SPD with strategy originating unit	Contribution to strategy and policy initiatives
Coordination and Management Support	Management awareness	OCO	Reports and Briefs submitted to Management

# OCO's Role & KRAs

**Strategic Integration**

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**Resource Mobilization and Transaction Support**

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**Product Development, Innovation and Knowledge Management** (including in DMCs)

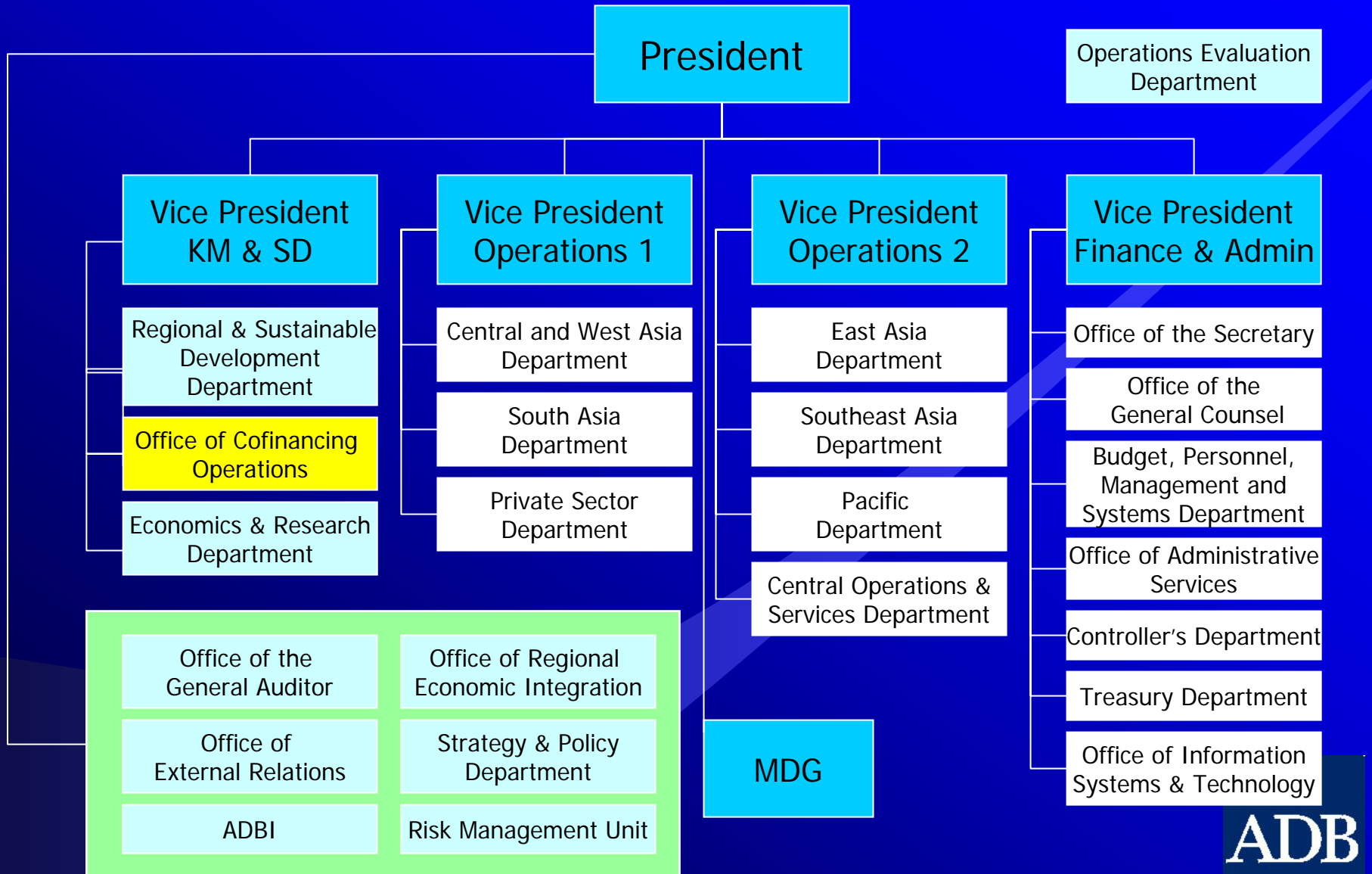
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**Relationship Management**

•

**Management Support**

# ADB Organization Chart



# Organization Structure

President  
Haruhiko Kuroda

Vice President for Knowledge Management  
and Sustainable Development  
Ursula Schaeffer-Preuss

## Office of Cofinancing Operations

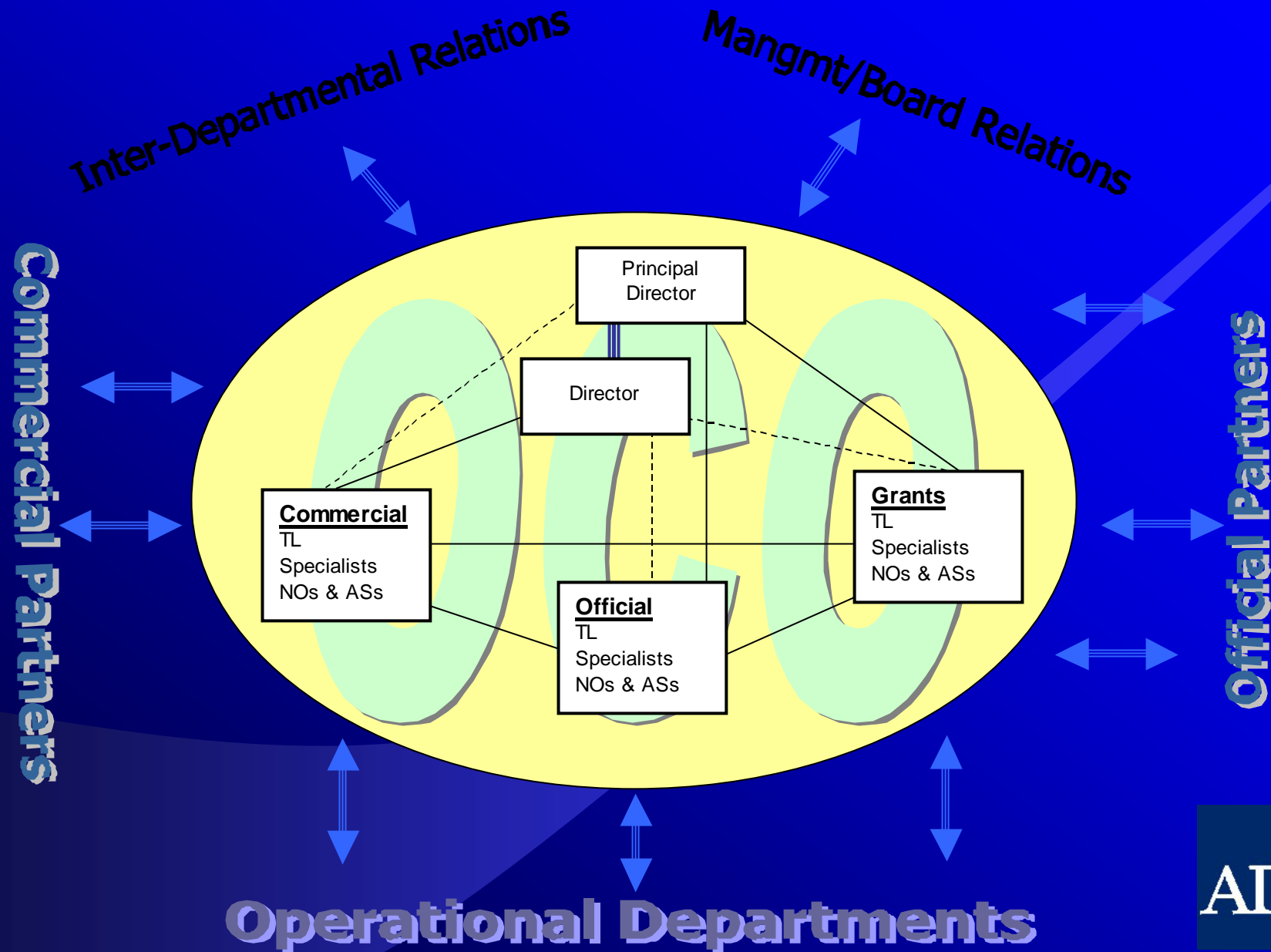
Principal Director  
Werner E. Liepach

Director  
Carmela Locsin

10 Professional Staff

18 Supporting Staff

# OCO Management Framework



# FPS IMPLEMENTATION – Activities

## PHASE 1 (2006-2007)

- Adjustments in business model to better manage (i) programming and transactions, (ii) relationships, and (iii) innovation and knowledge
  - Improve programming and business procedures
  - Strengthen communication, feedback and outreach
  - Review and adjust cofinancing instruments and procedures, as appropriate.
- Clarification of roles and responsibilities (RDs/PSOD vs OCO, Other Support Departments)
- Manage resource and skills shift requirements
- Manage Change Process
  - Pilot implementation of new approaches
  - Create Success Stories and Promote Teamwork

# KEY IMPLICATIONS

## For Stakeholders

(Clients, Shareholders, Financing Partners):

- Greater development impact and relevance of ADB assistance
- Reduction in transaction cost

## For ADB:

- More efficient utilization of ADB's capital ("more development for the buck")
- A change in the way we conduct and reward business (shift to ADB offering integrated and effective financing solutions on rather than loan approvals)

# OUTCOME

More Investment for  
Greater Development Impact

Repositions ADB as Financing Partner

- from Reactive to Proactive
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- from Adding Cash to Adding Value

**Thank you**

**Q & A**

# For further information about ADB Financing Partnerships

Principal Director

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[www.adb.org/Cofinancing/](http://www.adb.org/Cofinancing/)

The ADB logo consists of the letters 'ADB' in a white, serif font, centered within a dark blue square.