

FINANCING PARTNERSHIPS

- Mobilizing Resources for Development –
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 Strategy 2020
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

“Advancing Partnerships

Increased partnership-based cofinance and operations.

ADB’s cofinanced lending will increase at a faster rate than ADB’s stand-alone financing operations, with a long-term objective of having total annual direct cofinancing exceed the value of ADB’s stand-alone project financing.”

ADB Strategy 2020

WHY ? – What ADB Says

“ADB’s Transformation to 2020
Advancing Partnerships

ADB will make partnerships a core element of its business model. These partnerships will mobilize financial resources, leverage the power of knowledge, put ADB’s unique abilities to wider and better, meet special needs for highly specialized development projects, and help raise aid effectiveness throughout the region.”

ADB Strategy 2020

ADB

WHY ? – What ADB Says

“ADB’s Transformation to 2020
Advancing Partnerships

The partnership agenda under Strategy 2020 will increase resource flows, assist with trade facilitation, disseminate new technology, and enrich networking expertise.”

ADB Strategy 2020

ADB

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

DVA: Syndicated/Contractual Cofinancing	<ul style="list-style-type: none">•Joint or Parallel (untied)•Processing coordinated closely with cofinancier.•Full or partial administrative services provided by [ADB] for implementation under [ADB] procurement and disbursement rules/procedures.
DVA: Collaborative Cofinancing	<ul style="list-style-type: none">•Parallel only•Processing coordinated closely with cofinancier (In case of tied cofinancing, borrower financing request is required).•No administrative services by ADB for implementation, each partner follows own rules/procedures.
Non-DVA: Discrete Cofinancing	<ul style="list-style-type: none">•Joint (commercial procedure) or Parallel•Independent processing by financing parties with little or no cofinancing coordination. (EA/project sponsor deals separately with each financing party).•No administrative services by ADB for implementation, partners follow own rules/procedures.

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

Programmatic Cofinancing Initiatives

Cofinancier	Program
Islamic Development Bank	2008-2010 (three years) \$1.0 billion for sovereign projects
Government of Korea (through EDCF/KEXIM/KDB)	2008-2010 (three years) \$0.5 billion for sovereign operations \$3.0 billion for nonsovereign operations
European Investment Bank	Annually \$300-\$800 million for sovereign operations
JBIC/Accelerated Cofinancing Scheme with ADB (ACFA)	2008-2013 (five years) \$2.0 billion
KfW	Annually \$400 million

Innovative Financing Partnership with ADB

Bangladesh Education Sector – Sectorwide
Approach

- **Project objective:** to bring quality primary education to children through a holistic approach to education, while harmonizing assistance and achieving greater efficiencies in administration, with combined funding in grants and concessional loans.

Innovative Financing Partnership with ADB

Bangladesh Education Sector

Sectorwide Approach brought together:

- Gov't of Bangladesh and 11 development partners
- Arranged cofinancing of:

ADB loan : \$100.0 million

Syndication of untied grants : \$389.0

> ADB as lead arranger and administrator for a syndicate of six development partners who contributed \$389 million in untied grants namely Canada, European Commission, the Netherlands, Norway, Sweden and United Kingdom

Parallel contributions: WB-IDA - \$150 million; JICA - \$3 million grant; UNICEF and Australia - \$12 million grant

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

- B loan
- Guarantor of Record (GOR)

GUARANTEES

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

Syndications

Through syndications such as B loan or lender of record cofinancing, commercial lenders benefit from ADB's:

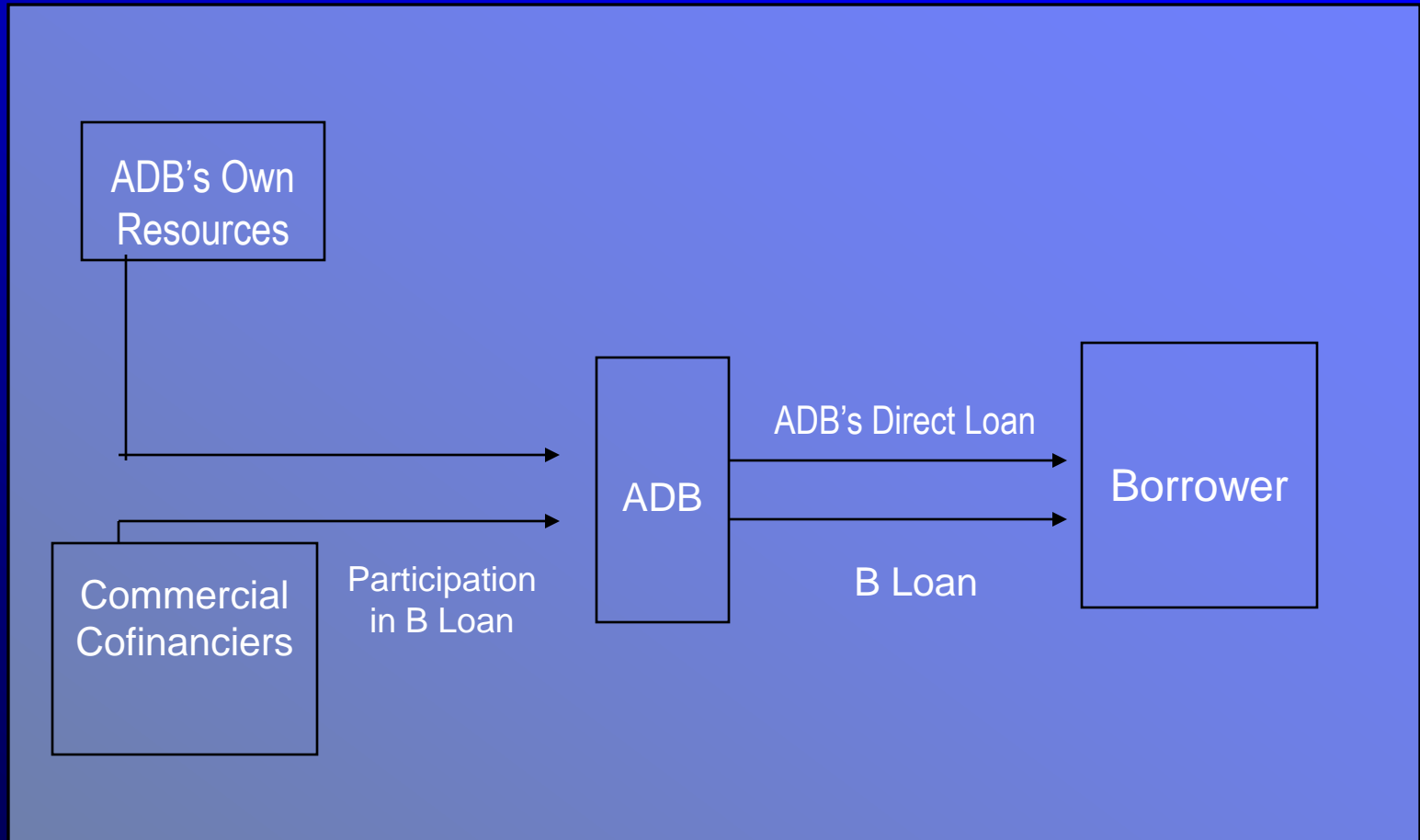
Privileges and Immunities:

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

Preferred Creditor Status:

- Least chance of debt rescheduling

B Loan Structure

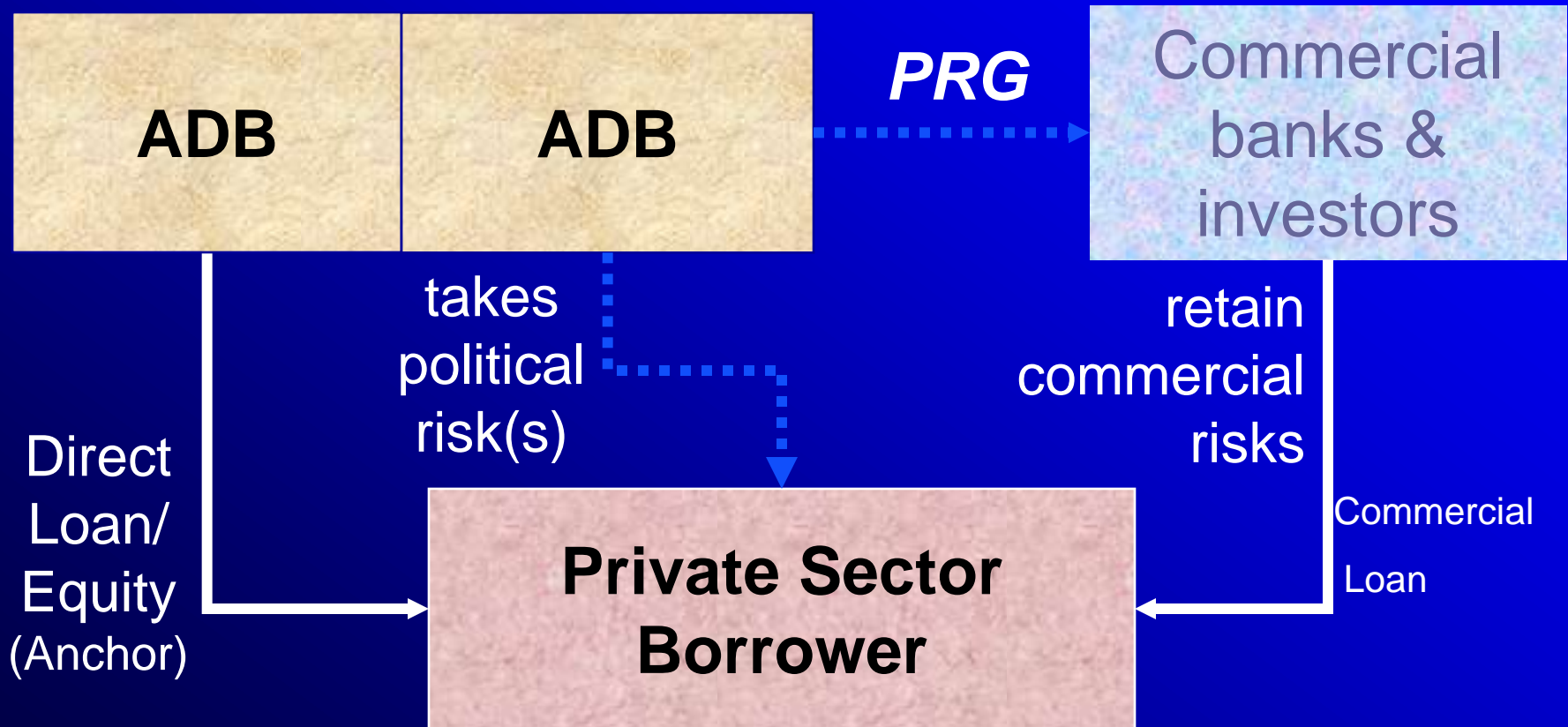


Political Risk Guarantees (PRGs)

Coverage of up to 100% of loss due to:

- **Transfer Restriction**
- **Expropriation**
- **Political Violence**
- **Contract Disputes**
- **Non-honoring of Sovereign Obligation or Guarantee**

Political Risk Guarantees



Partial Credit Guarantees (PCGs)

Comprehensive cover

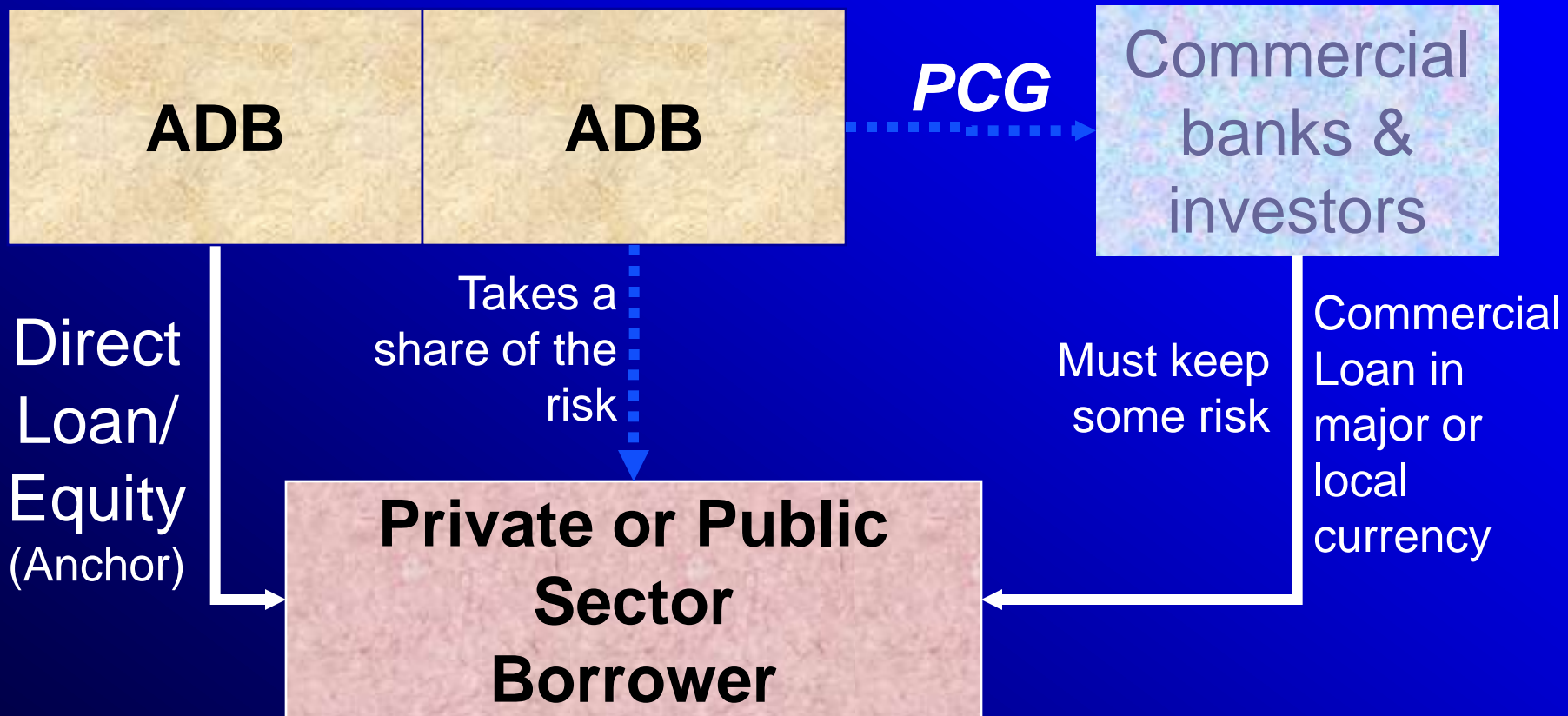
- Political risks, and
- Commercial (credit) risks.

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

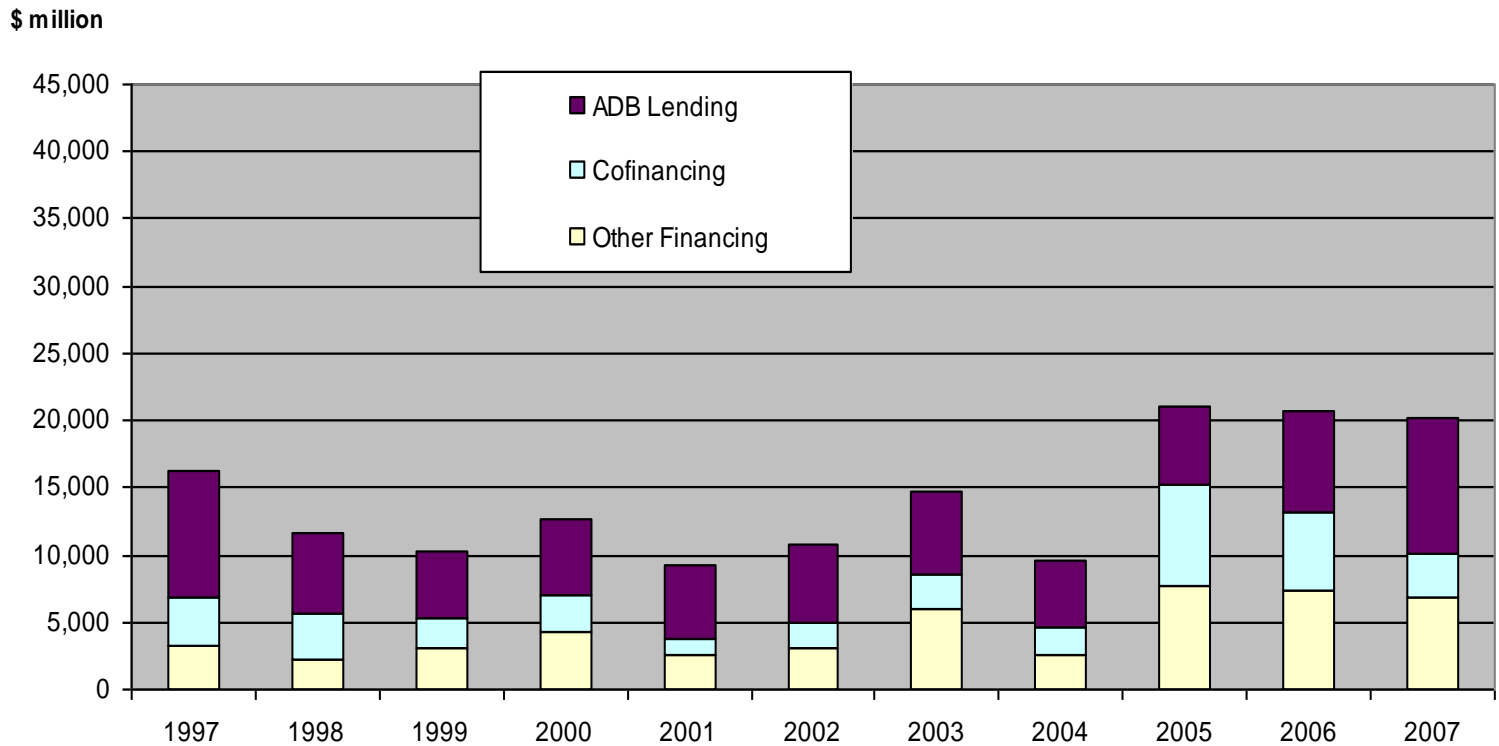


CONTEXT – Past Experience

Cofinancing as a Share of Total Financing

CONTEXT - Past Experience

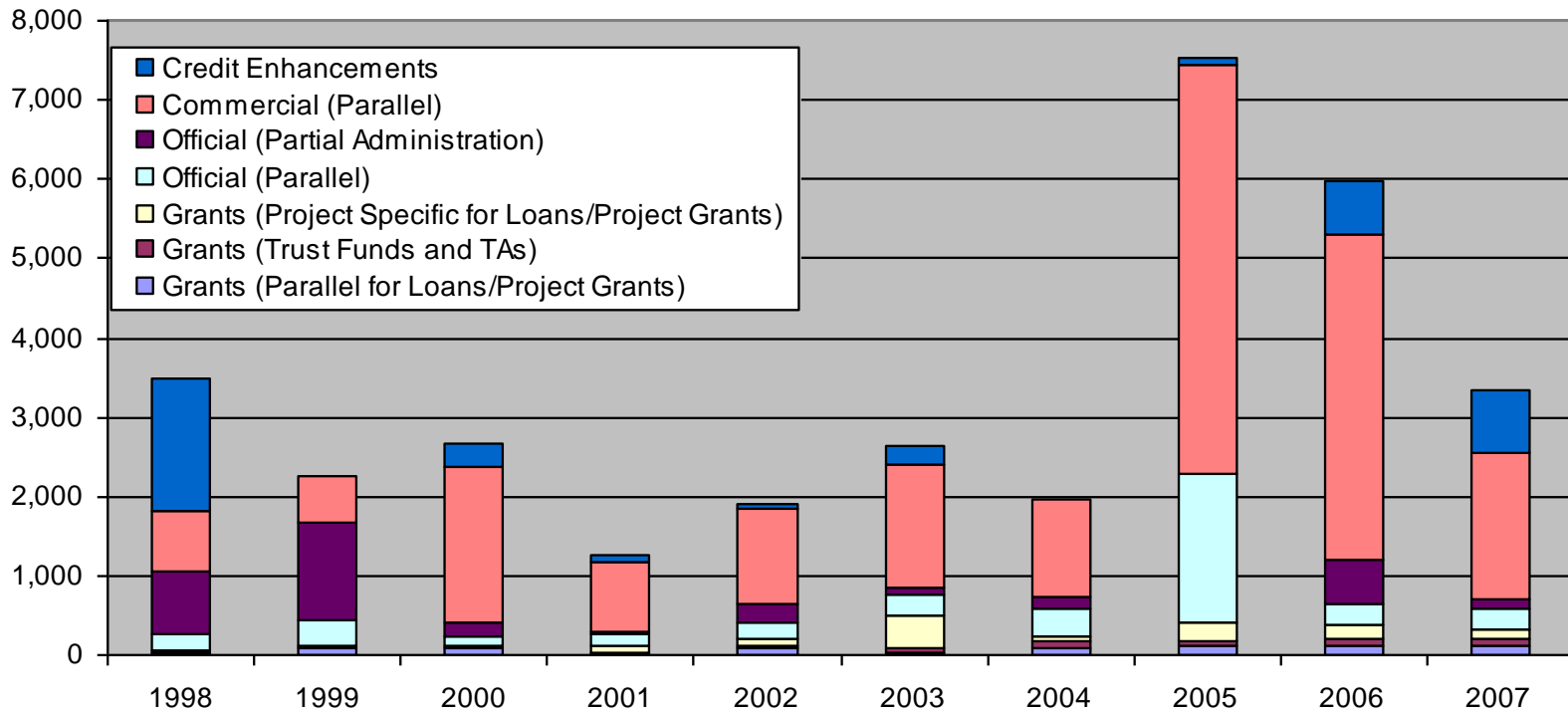
Cofinancing as a Share of Total Financing



CONTEXT – Past Experience

Cofinancing Composition

\$ million



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

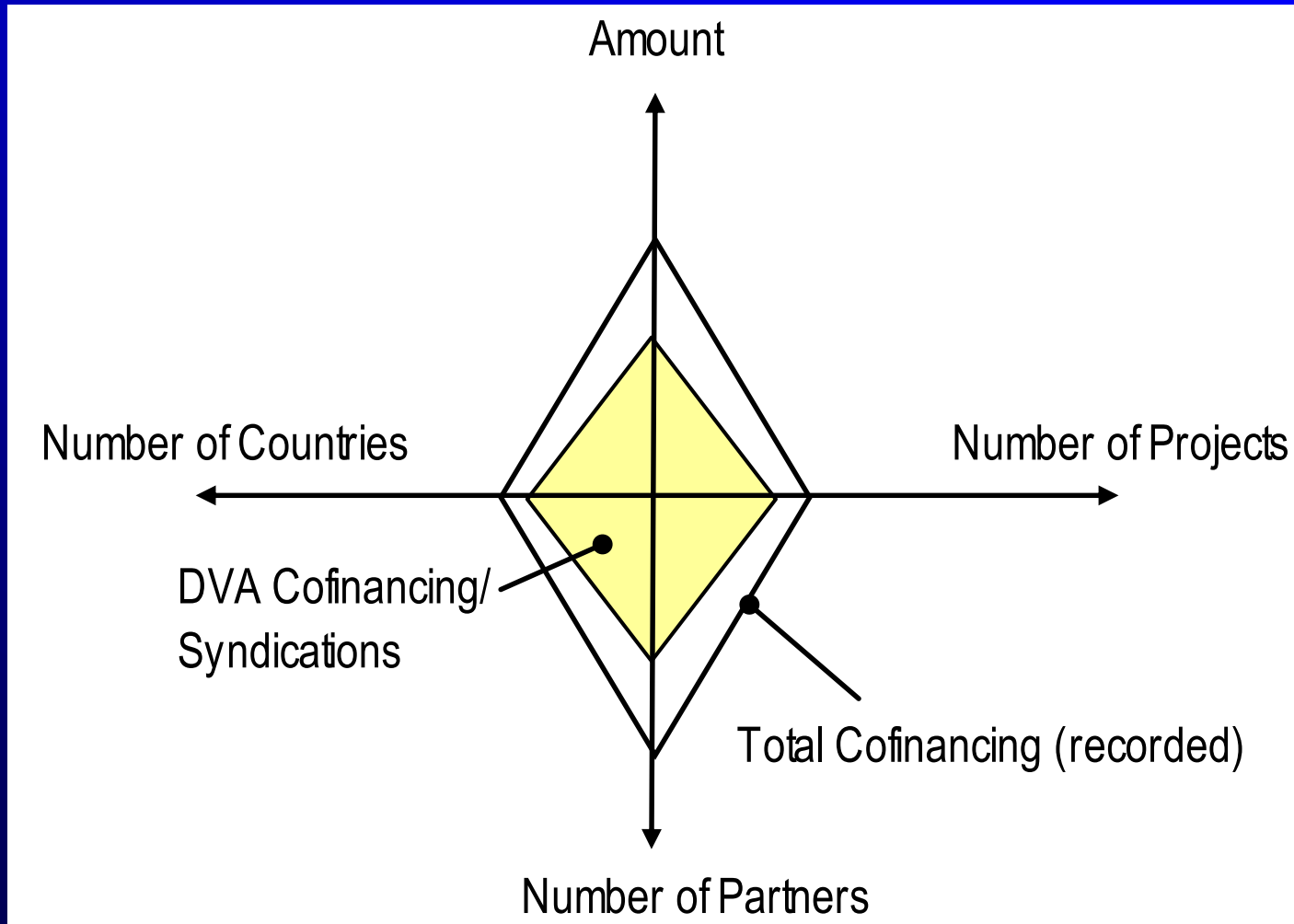
✓ - lower priority, but actively pursued as appropriate

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

-

Resource Mobilization and Transaction Support

-

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

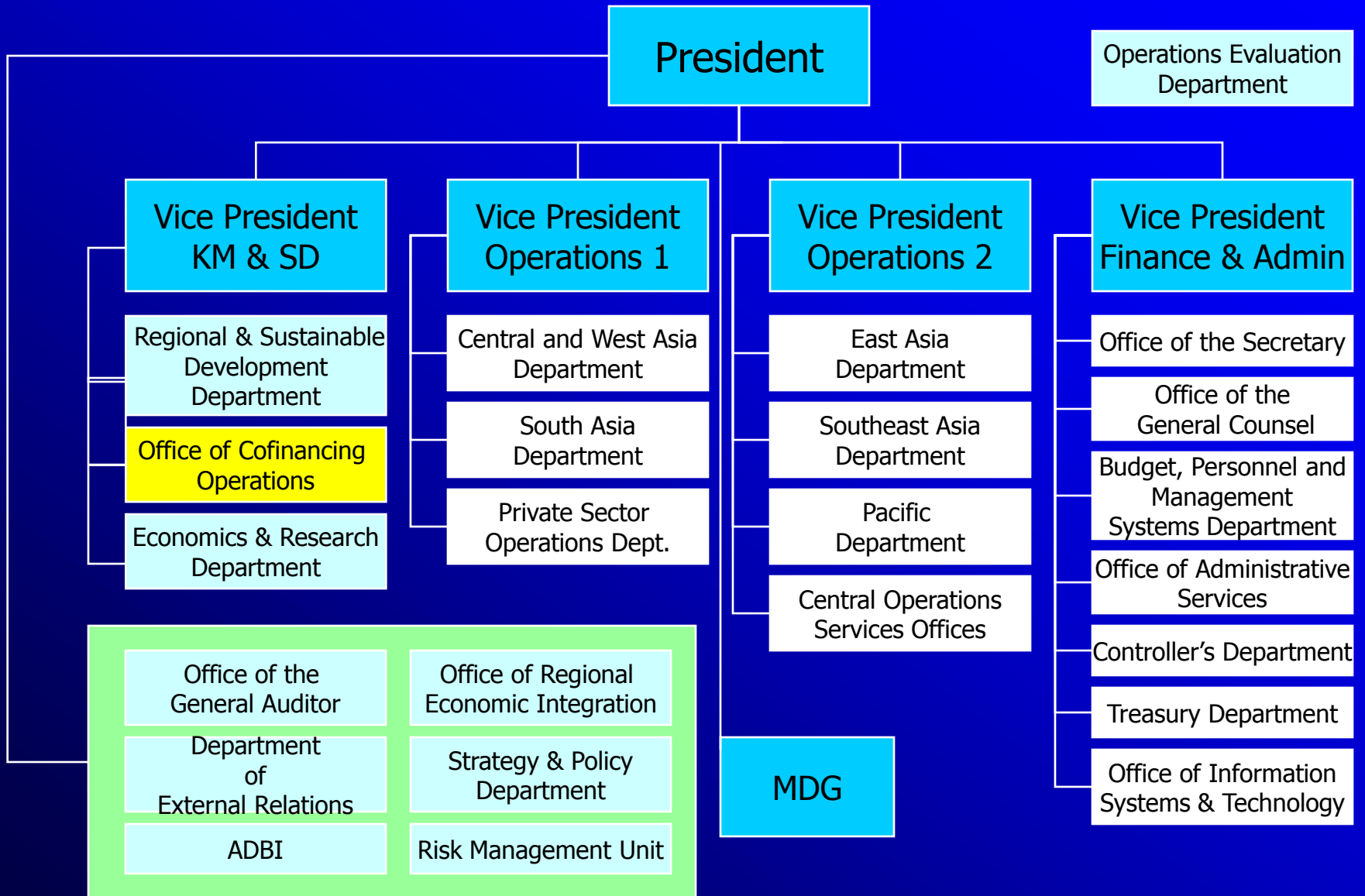
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Relationship Management

-

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

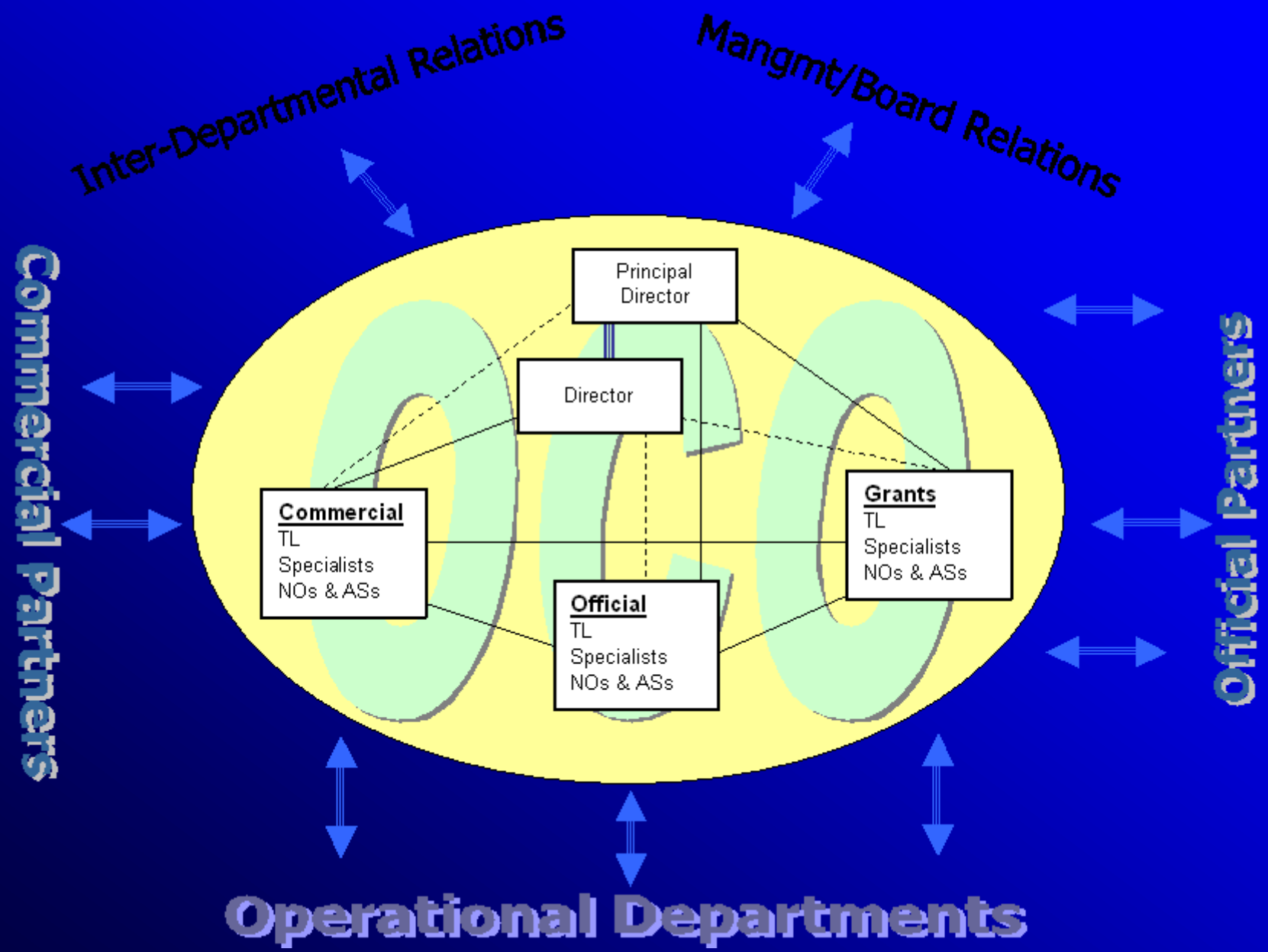
Principal Director
Werner E. Liepach

Senior Advisor
Georges Heinen

Director
M. Teresa Kho

13 Professional Staff
21 National Officers and Administrative 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
- from Gap-filling to Genuine Partnership
- from Adding Cash to Adding Value

Thank you

Q & A

For further information about ADB Financing Partnerships

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