

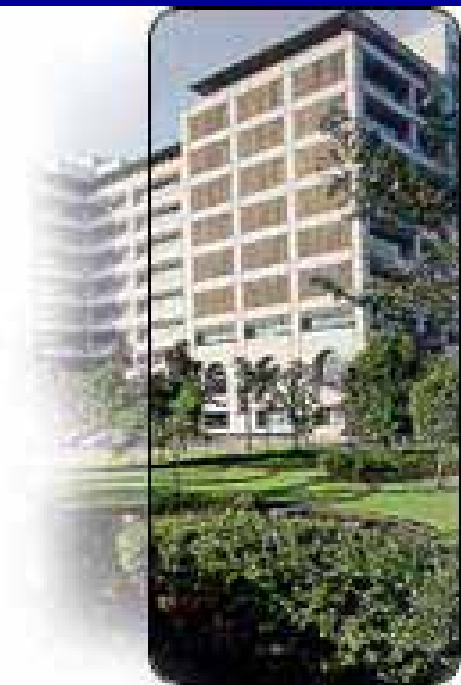
# **Introduction of ADB Assistance for Private Infrastructure**

Seminar on Global Project Finance  
Almaty, 13 – 14 April 2005

# Contents

- Asian Development Bank (ADB)
- Challenges in infrastructure financing
- ADB financial assistances
- ADB case projects in PRC and India

# Asian Development Bank (ADB)



# ADB

- Multilateral development finance institution
- Owned by 63 member governments including Singapore, PRC, and India
- Established in 1966
- Headquarters in Manila, Philippines
- Provides financing for both governments and private sector enterprises

# ADB: Public-Private Institution

- Public sector funding and private sector funding operated under one corporate umbrella and strategy
  - Public sector funding
    - Assistance to the government
  - Private sector findings
    - Assistance to private enterprises without government guarantee

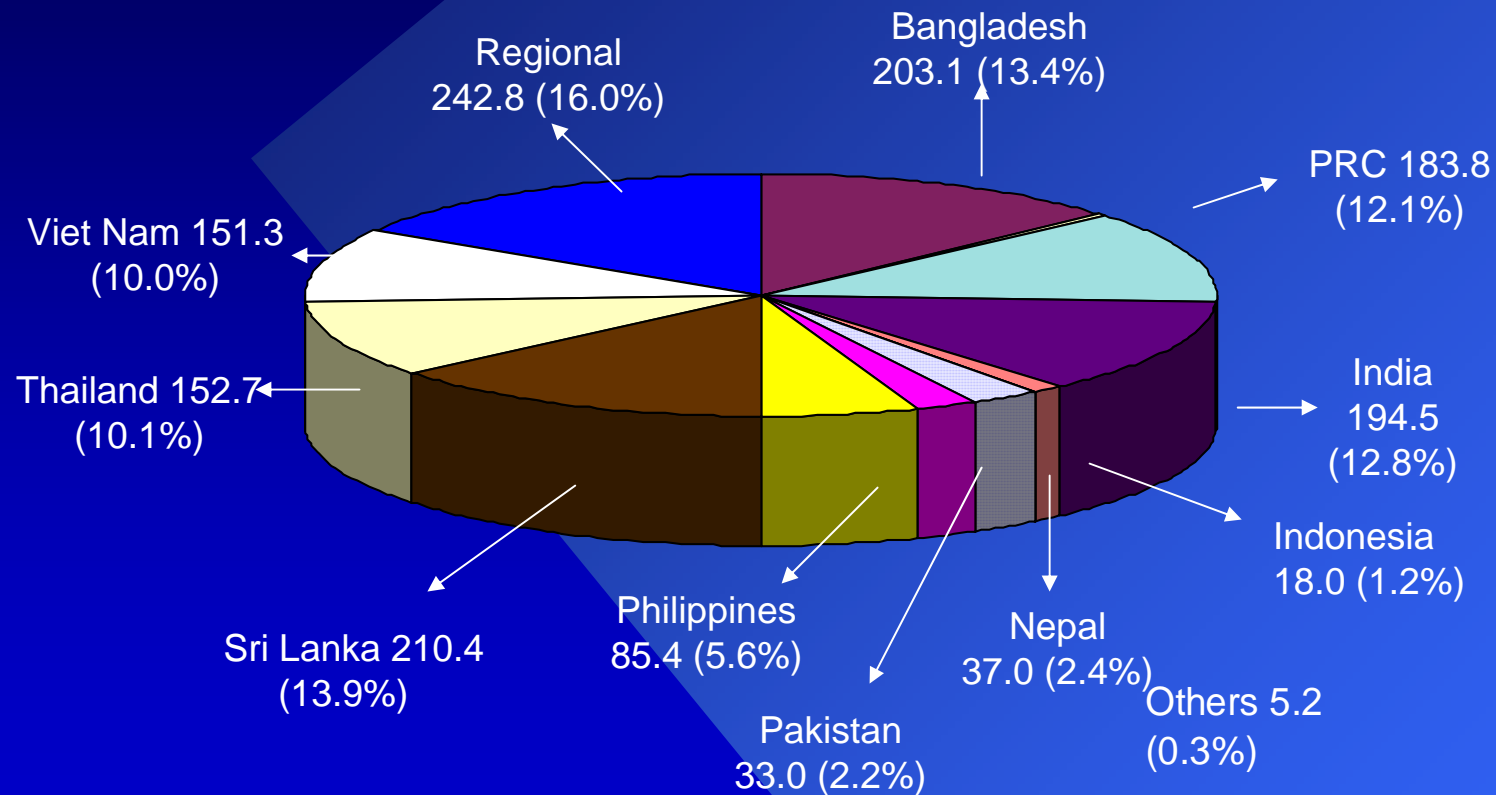
# ADB Public Sector Departments

- Responsible for ADB funding and technical assistance for public sector with government guarantee.
  - East and Central Asia Department
  - Southeast Asia Department
  - Mekong Department
  - South Asia Department
  - Pacific Department

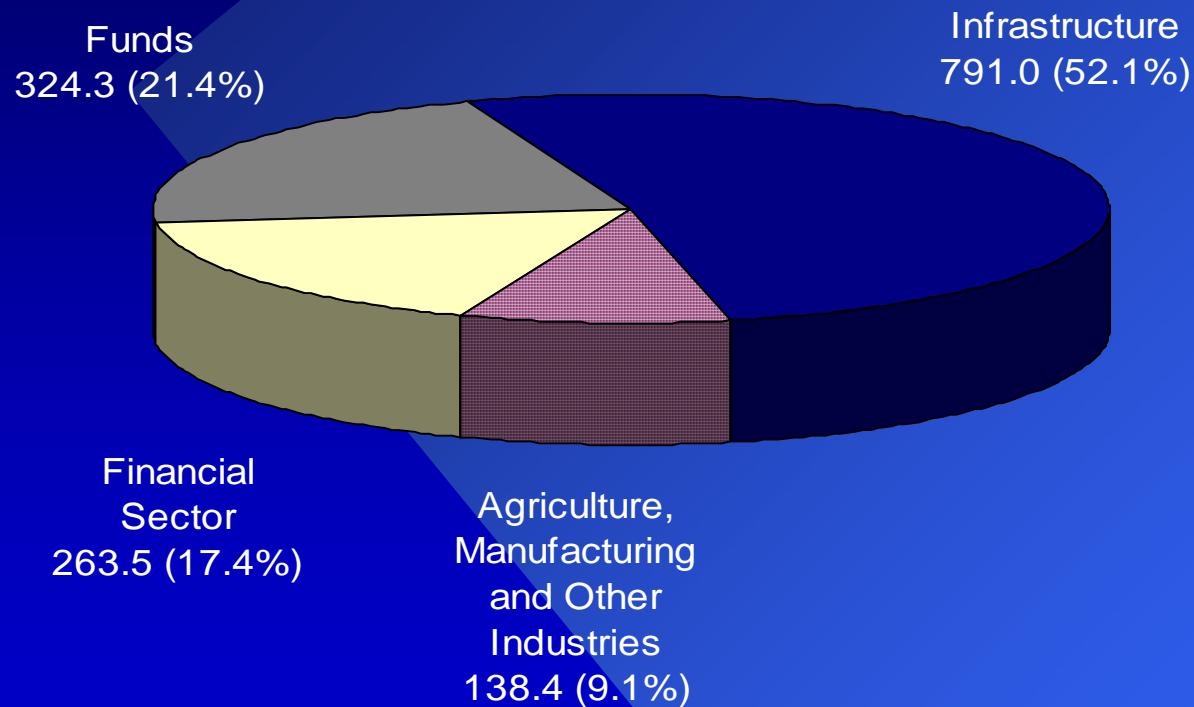
# ADB Private Sector Department

- Responsible for ADB funding and investments for private sector projects without government guarantee.
  - Infrastructure Finance Division  
Power, Water, Transportations, Communications
  - Private Sector Operations Divisions  
Commercial banks, Investment Funds, Financial Intermediaries and Services

# ADB Private Sector Portfolio - Countries



# ADB Private Sector Portfolio - Sectors



# Challenges in Infrastructure Finance

# Debt Financing

- Offshore funding - International commercial banks
  - Concerns about political risks
  - Limited country exposure
  - Foreign exchange fluctuation risks
- Onshore funding - Local commercial banks
  - Unavailability of long term funds
  - Preference to local clients
  - Ongoing banking sector reform

# Investment

- Foreign Investors
  - Concerns about political risks
  - Ongoing sector reform
- Local Investors
  - Concerns about government's commitments
  - Limited investment / financial capacity
  - Unproven corporate governance

# **ADB Financial Assistances**

# Debt Financing

- Offshore Funding
  - Long term direct loan in foreign currency
  - Provision of political risk guarantee (PRG)\*
  - Loan syndication under ADB Complementary financing scheme
- Onshore Funding
  - Long term loan in local currency (India and soon in PRC)
  - Provision of partial credit guarantee (PCG)\*\*

## ADB PRG\*

To protect commercial financiers from specifically identified political risks such as,

- expropriation
- currency inconvertibility
- political violence
- breach of contract

Could be structured together with commercial political risk insurances

## **ADB PCG\*\***

To cover commercial financiers and/or bond holders against all risks both commercial and political for a portion of debt service.

Designed to extend the tenor of debt instruments or improve credit ratings

Could be structured as a hybrid together with ADB PRG

# Investments

- Private Sector Operations
  - Equity investment
  - Mezzanine Loan
  - Board participation
- Public Sector Operations
  - Continuous involvement / monitoring of the sector development
  - Regular dialogue with host government

# ADB Exposure Limit

- Project total exposure
  - < \$75 million or <25% of total project cost
- Equity exposure
  - < 25% of total equity
- Weighted exposure calculation
  - Direct Loan and investment: 100%
  - PRG: 50% of guaranteed loan amount
  - PCG: PV of guaranteed total amount
  - CFS: excluded from the exposure

# **ADB Case Projects in PRC and India**

# PRC: Chengdu Water Treatment Project

Public-private partnership project

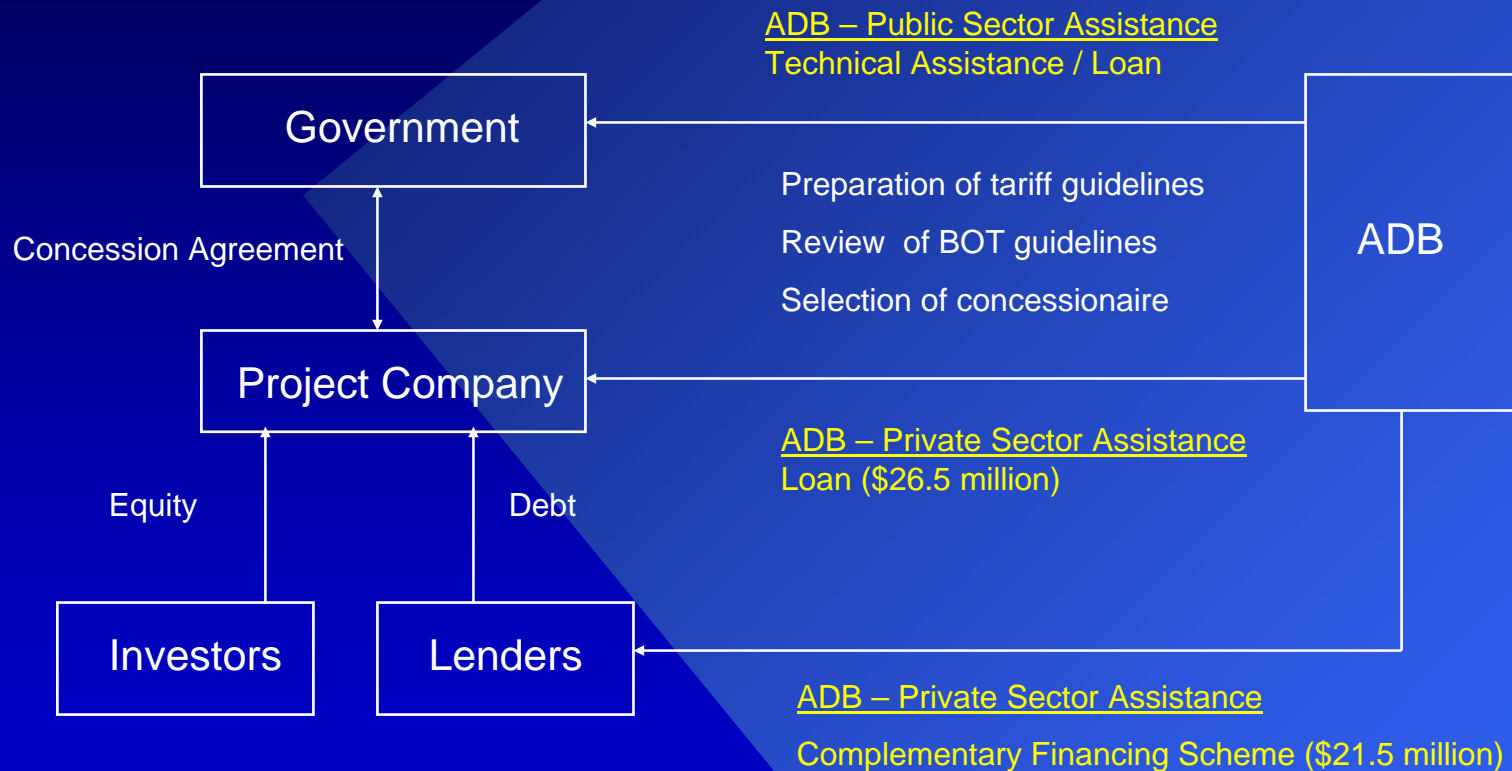
Municipal government risks

1999 Infrastructure Deal of Year

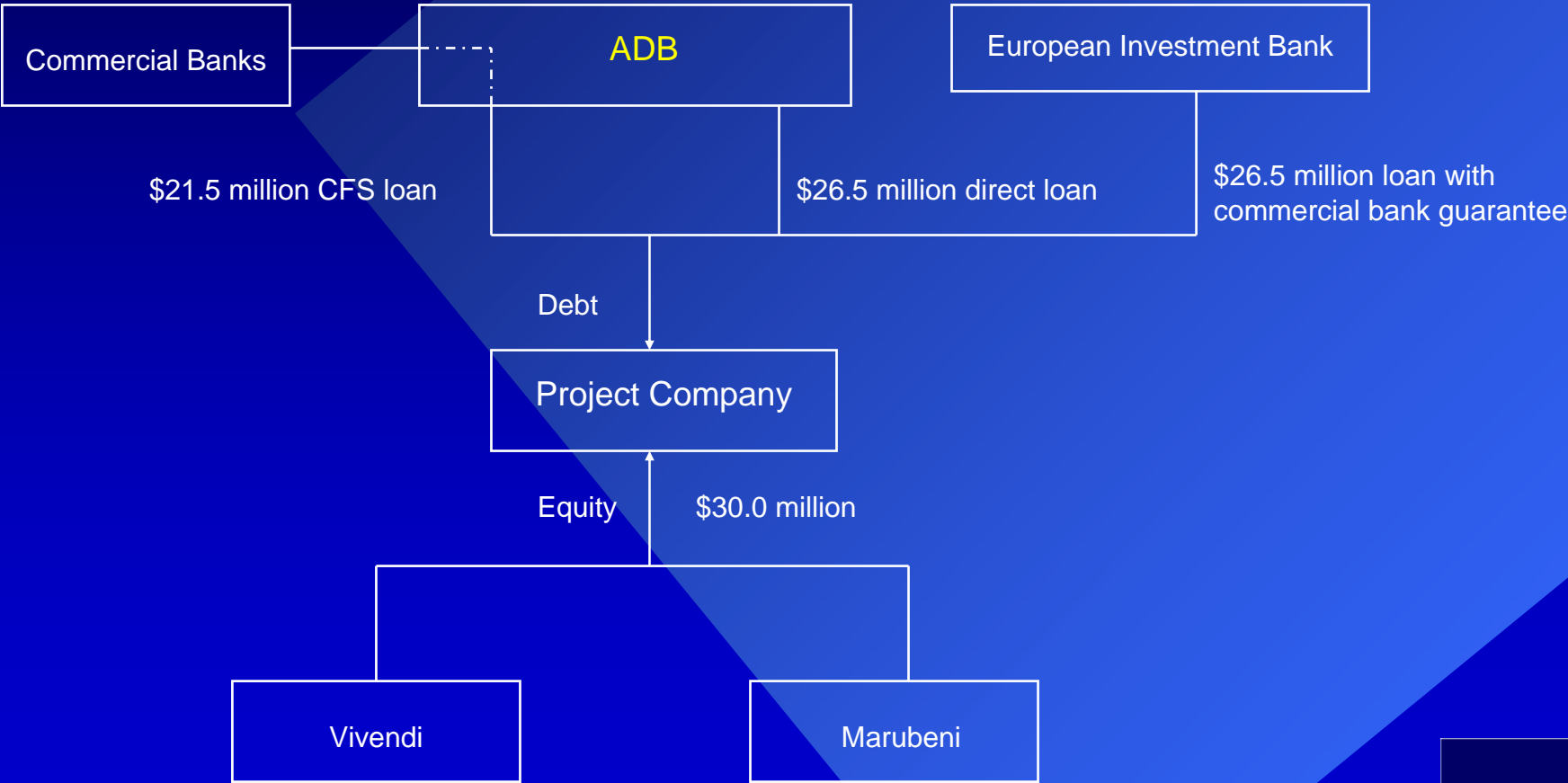
# The Project

- 400,000 m<sup>3</sup>/day water treatment plant
- Project cost of \$106.5 million
- First BOT project in the PRC water sector
- First wholly foreign owned entity in the PRC water sector
- Project assumes municipal government risks
- ADB provided assistances for both government and project company

# Public Private Partnership



# Funding Structure



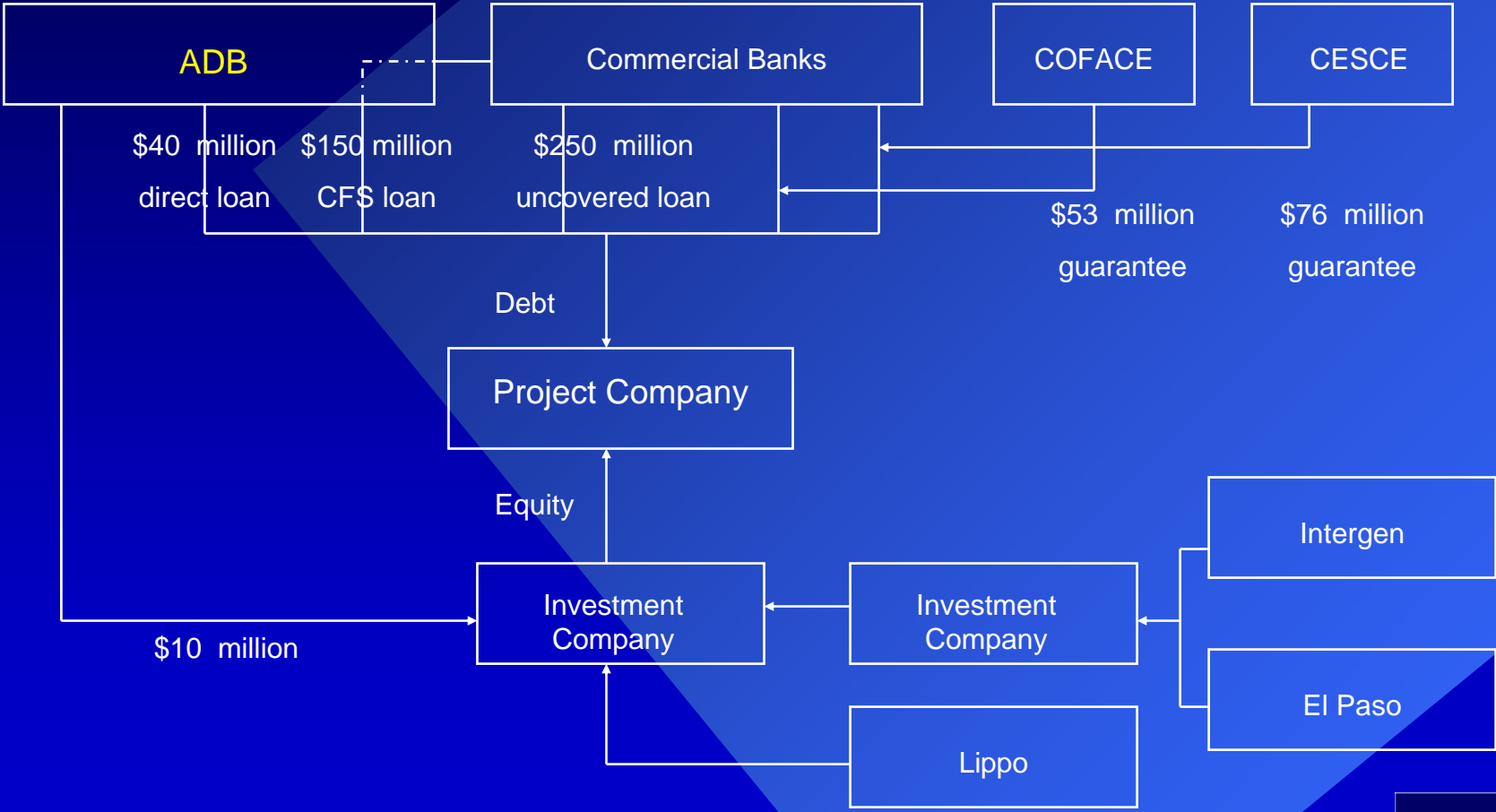
# PRC: Meizhouwan Power Project

ADB role in political risk mitigation  
1998 Power Deal of Year

# The Project

- 720MW coal-fired power plant
- Project cost of \$830 million
- First wholly foreign owned entity in the PRC power sector
- ADB provided both equity and loans
- Project completed in the middle of power oversupply and sector reform
- 3 years for tariff renegotiation and project restructuring

# Funding Structure



## Disputes with the Government

- Project completed in the middle of power oversupply and sector reform
- Provincial government disagreed to the project's completion
- The project agreed to restructure the costs and lower the tariff
- ADB assisted the project to implement the restructuring
- Project is now competitive and commercially viable

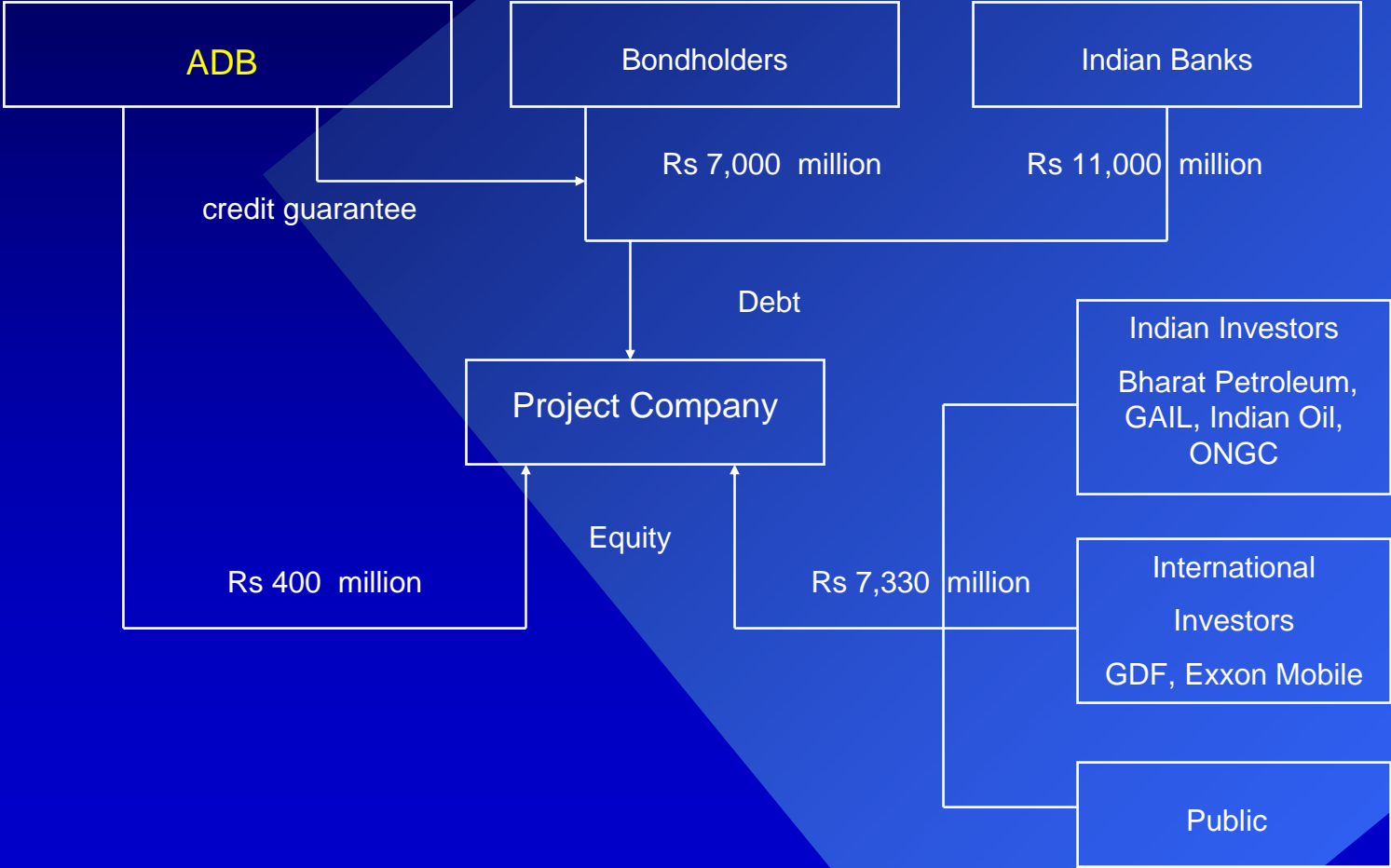
# **IND: Petronet LNG Terminal Project**

ADB PCG on project's corporate bonds

# The Project

- LNG import and regasification terminal in Gujarat
- Project cost of \$547 million
- No participation of international banks
- Debt funding only in INR
- ADB provided PCG for bonds issued by the Project

# Funding Structure



## ADB PCG

- First greenfield project's bonds in India guaranteed by multilateral institution
- Targeted leverage ratio of 1:1
- To be rated at AA+
- Structured in three tranches: 5, 8, and 12 years
- Tailor made coverage: interest only, interests + principles

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