Establishment of the Asia Pacific Project Preparation Facility

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB’s Public Communications Policy 2011.

Asian Development Bank
ABBREVIATIONS

ADB – Asian Development Bank
DMC – developing member country
DWG – G-20 Development Working Group
G-20 – Group of Twenty
OPPP – Office of Public–Private Partnership
PPF – project preparation facility
PPP – public–private partnership
TA – technical assistance
US – United States

NOTE

In this report, "$" refers to US dollars

<table>
<thead>
<tr>
<th>Head</th>
<th>R. Kaga, Office of Public–Private Partnership (OPPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Director</td>
<td>G.H. Kim, Sustainable Infrastructure Division, Regional and Sustainable Development Department (RSDD)</td>
</tr>
<tr>
<td>Director</td>
<td>C. Thieme, Private Sector Infrastructure Finance 2, Private Sector Operations Department</td>
</tr>
<tr>
<td>Team leader</td>
<td>T. Lewis, Senior Public–Private Partnership Specialist, OPPP</td>
</tr>
<tr>
<td>Team members</td>
<td>A. Abon, Public–Private Partnership Officer, OPPP</td>
</tr>
<tr>
<td></td>
<td>H. Brooke, Lead Counsel, Office of the General Counsel</td>
</tr>
<tr>
<td></td>
<td>K. Decker, Principal Financing Partnerships Specialist, Office of Cofinancing Operations</td>
</tr>
<tr>
<td></td>
<td>G. Hauber, Principal Public–Private Partnership Specialist, Southeast Asia Regional Department</td>
</tr>
<tr>
<td></td>
<td>S. Sampath, Principal Urban Specialist, RSDD</td>
</tr>
</tbody>
</table>

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
CONTENTS

I. INTRODUCTION.................................................................................................................. 1
II. BACKGROUND AND RATIONALE .................................................................................. 1
III. OBJECTIVES AND SCOPE .......................................................................................... 3
IV. IMPLEMENTATION ARRANGEMENTS ......................................................................... 4
V. CONTRIBUTIONS TO THE FUND .................................................................................. 5
VI. ADMINISTRATION ARRANGEMENTS ........................................................................... 6
VII. RECOMMENDATION....................................................................................................... 7

APPENDIX 1 .......................................................................................................................... 8
I. INTRODUCTION

1. This paper recommends that the Asian Development Bank (ADB) establish a multi-donor trust fund, the Asia Pacific Project Preparation Facility, and accept and administer contributions to the fund from bilateral, multilateral, and individual sources.

2. ADB will use the fund to prepare, structure, and place in the market projects structured with the objective of promoting public–private partnerships (PPPs).

II. BACKGROUND AND RATIONALE

3. Today in Asia and the Pacific, about 600 million people are not connected to electricity, more than 360 million do not have safe drinking water, and 1.7 billion are lacking basic sanitation. For those who do have access to these services, many are affected by their limited coverage, quality, and continuity.

4. A lack of a steady flow of well-prepared and well-structured projects is holding back investment in infrastructure, particularly those promoting regional connectivity and “green” investments. Governments are unable to meet the demand for infrastructure services. The annual shortfall in investment stands at $800 billion. Investment in infrastructure in the region (funded mostly through budget contributions and public debt finance) is important, and will need to average in the order of 5-6% of gross domestic product to underpin growth, competitiveness, productivity and job creation. In most countries the current spending on infrastructure needs to be augmented and public investment can be complemented with private sector investment. In more successful countries, the corresponding ratio exceeds 6%.

5. Private sector investment in infrastructure is an important economic success factor. PPPs are the most appropriate collaboration model between public and private sectors. Such collaboration can leverage additional financing and increase the delivery of infrastructure services.

6. Nearly all countries in Asia and the Pacific are putting in place initiatives to attract greater private investment in infrastructure. Private sector participation improves access to technology, markets, experience, management, and finance. By procuring infrastructure projects using PPPs, governments are also able to strengthen their overall public sector procurement processes and capacity.

7. Five major problems currently impede greater private infrastructure investment:

   (i) Inadequate deal flow. This is in part a function of the limited capacity of governments to prepare projects to the standards required by private sponsors and financial investors. Governments also lack the capacity to bring projects to the market in a professional manner. Projects are often not selected with well-informed criteria, leading to the marketing of inappropriate projects. These forced

---

approaches waste time and resources, and perpetuate misperceptions about PPPs.

(ii) **Weak enabling environment.** While considerable work has been done to improve policies, regulatory and legal frameworks, and tariff regimes, many countries still lack workable and investor-friendly PPP arrangements. Public sector projects are also affected by poor regulatory and legal conditions.

(iii) **Inappropriate predetermined approach.** Flexibility with regard to financing is paramount when preparing and placing projects with investors. Successful project placement often depends on the robustness of the transaction structure, including the financing plan.

(iv) **Poor quality advice.** This has affected market uptake and credibility.

(v) **Complexity of regional agenda.** Regional projects are more difficult to structure and place than national projects. Cross-border structures help meet the regional agenda but can be difficult for local currency amounts and tenor.

8. The Group of Twenty (G-20) and the Asia Pacific Economic Cooperation forum recognize that the private sector can play an important role in supplementing government spending in infrastructure and utilities to achieve growth, expand trade, and create jobs. Leaders from both forums also understand the importance of regional cooperation and integration as a means to foster development in the region. Most regional cooperation programs in Asia and the Pacific target transport and logistics, energy, and trade facilitation. These are all areas where the private and the public sectors can easily join up, especially through transaction structures with varying degrees of private sector participation, such as management contracts, joint ventures, concessions, and build-operate-transfer contracts.

9. The G-20 advocates increasing project preparation resources to create a greater number of viable infrastructure investment opportunities. The G-20 has called on multilateral development banks to support private sector participation in infrastructure, especially where partial or full cost recovery is possible. The G-20’s Development Working Group recently presented its assessment of project preparation facilities (PPFs) in Asia and the Pacific.4

10. ADB’s Public–Private Partnership Operational Plan addressed PPP development holistically across four pillars: (i) advocacy, (ii) enabling environment, (iii) project development, and (iv) project financing.5 ADB is in the unique position to expand the number of PPP projects in the region. The recent establishment of a centralized transaction advisory services capacity will help move the PPP Operational Plan forward.

11. ADB collaborates with other platforms, including bilateral and multilateral initiatives.

---

4 Assessment of the Effectiveness of Project Preparatory Facilities in Asia, G-20 Development Working Group, September 2014.
III. OBJECTIVES AND SCOPE

12. The fund will provide financial assistance to DMC governments and their public sector agencies to support the financial, legal, and technical advisory services required to prepare and structure transactions. The fund will also offer support for enabling reforms and capacity building that can be linked to potential or current transactions, including the following:

(i) upstream sector reform work linked to potential projects that are being prepared or soon will be, including advising client countries on enabling reforms (such as legislation and regulation frameworks, and possible use of guarantees or incentive schemes), appropriate PPP project selection criteria, staff training, and market and/or stakeholder awareness;

(ii) due diligence covering technical, financial, economic, social, legal, regulatory, safeguards, institutional, governance, transaction structuring, and management matters;

(iii) preparation of information memoranda and marketing to place each of the transactions with investors—the latter includes (a) managing road shows; (c) creating and overseeing data rooms and other channels for dissemination of project information for investor due diligence; (d) preparing bid documents and draft contracts; (e) managing the bidding process; and (f) assisting with evaluations, awards, and negotiations; and

(iv) attracting high-quality sponsors that rely on limited recourse debt markets by preparing strong project documentation and robust financial models, and capitalizing on ADB’s strong knowledge of infrastructure markets in Asia to inform potential investors and their lenders of opportunities.

13. Financial assistance will be provided in the form of untied grants for (i) technical assistance (TA), including policy and advisory, capacity development, project preparatory, and regional TAs; and (ii) advisory and preparatory components of investment projects and (iii) other any other activities that may be agreed upon between the fund contributors and ADB.

14. The establishment of the fund will encourage private sector participation in infrastructure by adopting a more consistent and higher-quality approach to PPP project preparation development and transaction advice across the region, reflecting the recommendations of the G-20 Development Working Group report. Where feasible, input from private sector contributors in the global infrastructure market will be solicited to better inform the preparation of projects as well as knowledge sharing and capacity development activities under the fund.

15. In keeping with the fund’s primary objective of providing assistance to government entities in preparing infrastructure projects that can attract private investment, ADB will not be committed to financing the capital investment in projects prepared with assistance from the fund. However, subject to separate credit appraisals and management approvals, ADB may consider financing projects that have received assistance from the fund for project preparation. Any conflict of interest situations will be addressed through separate operational guidelines.

16. The fund represents an ADB-wide project preparation capacity that is to be managed by the new advisory-based Office of Public–Private Partnership (OPPP).
17. ADB Management has approved the PPP Operational Plan, and the regional departments are working to help develop a pipeline of infrastructure PPP transactions, many which will have high regional cooperation content. In addition, ADB clients’ have their own infrastructure projects, many of which could, with the support of the fund, be structured into PPPs.

18. Assistance by the fund for project preparation activities may be provided on a revolving basis with funds recovered through reimbursement, subject to the applicable ADB policies and procedures. Where reimbursement is required, the recipients of the relevant grant funds (DMC governments or agency) will have ultimate responsibility for reimbursing the grant amount upon specified events, which may include successful placement of the PPP transaction. However, the funding for such reimbursement may be secured through compensation from the successful private bidder in various forms including a development fee. The final criteria for the reimbursement approach, including the criteria for dispensing with reimbursement, will be determined in consultation with fund contributors and outlined in the fund’s implementation guidelines.

IV. IMPLEMENTATION ARRANGEMENTS

19. ADB’s OPPP will manage the fund in consultation with the PPP community of practice. OPPP will be the focal point for fund contributors. An interdepartmental steering committee, comprising operations departments and chaired by the head of OPPP will (i) approve activities to be financed through the fund, (ii) approve implementation guidelines, and (iii) give strategic guidance to the fund. A fund working group, made up of representatives from the operations departments and chaired by the head of OPPP, will review and make recommendations on proposals for the fund. The working group will also make and review policy and procedural recommendations to the steering committee regarding fund operations. An OPPP designate will act as the fund manager, overseeing the fund, supporting the steering committee and working group, and reporting on the fund. The fund manager will prioritize proposals to be submitted to the steering committee for selection.

20. Proposals can be initiated by DMC agencies and/or ADB. Selection of proposals for funding will be approved by the steering committee and undertaken by ADB, in its capacity as trustee, based on selection criteria the contributors and ADB have agreed upon. The steering committee will convene as often as needed to ensure a rapid approval process.

21. Further to discussions with contributors, the steering committee may establish a fund program council to meet annually and review progress, administrative matters, and the fund’s work program and strategic directions.

22. ADB’s Office of Cofinancing Operations will facilitate and help raise contributions to the fund, and will act as the official channel of communication for financial issues between contributors, ADB, and the fund. The Office of Cofinancing Operations will also lead negotiations and discussions with such contributors on procedural agreements for contributions and framework agreements, where applicable.

23. ADB will work with a range of partners at one or all stages of the preparation and placement cycle for any given proposal. Assistance from the fund may be made available to central and local governments, government agencies (including sub-sovereign and government-owned entities), and other entities eligible to receive assistance from ADB.
A.  Fund Operations

24.  Activities to be supported by the fund will be identified, designed, processed, approved, and implemented in accordance with applicable ADB policies, procedures, and guidelines, including those on procurement, social and environmental safeguards, financial management, disbursement and reporting, governance, and anticorruption with consideration of the funds’ specific eligibility of expenditures. In accordance with ADB practices and guidelines, required arrangements for accounting, auditing monitoring, and reporting will be in place for the activities supported by the fund.  

25.  The first full year of operation of the fund will start in 2015. Prospective projects are expected to focus on regional cooperation. The number of projects to be undertaken will depend on the total capital raised from the fund contributors. At least 10 large, complex PPP projects are targeted to be prepared and the cycle for any given project is expected to average 2–3 years.

B.  Guiding Principles

26.  The fund will mainly support new investments because these are normally the most costly to prepare and government capacity tends to be weakest in securing private investment for such projects. Preparation for existing projects (operational assets) may qualify for support based on the merit of their incremental development impacts. The selection of proposals to be supported by the fund will prioritize projects in sectors identified by DMCs that contribute to climate resilience and sustainable development and regional economic integration.

27.  The fund will also provide assistance for proposals that enhance enabling reforms, as well as government capacity development, where such activities are associated with potential projects to be prepared by the fund.

28.  ADB has extensive experience with PPFs and national PPP units in Asia. In its concurrent role to oversee PPP activities across ADB’s operations, the fund manager will coordinate with the regional departments’ national PPFs, as well as special purpose vehicles and TA programs already being used to prepare PPP projects in DMCs. The fund will work alongside existing PPFs and, where appropriate, collaborate with them on specific projects.

V.  CONTRIBUTIONS TO THE FUND

29.  ADB will accept untied grant contributions from multiple sources. Fund contributors can include bilateral agencies, national government agencies, and foundations, including corporate foundations. ADB will consider other types of contributions from fund contributors. Integrity due diligence will be conducted for cofinanciers other than bilateral and multilateral agencies, in accordance with the applicable ADB guidelines on conducting integrity due diligence.

30.  Contributions to the fund will be made through instruments of contribution to be executed by the contributors, substantially in the form contained in Appendix 1. The contributors will agree to contribute to the fund substantially in accordance with the terms of this paper. Contributions

---

6 The auditing requirement excludes ADB-administered TA projects.
7 This may include secondees and other nonfinancial contributions.
may also be made through the signing of a separate contribution agreement, in order to accommodate special circumstances.

31. By depositing an instrument of contribution or signing an agreement substantially in accordance with the terms and conditions set forth in this paper, the participant will be deemed to have accepted the objectives of the fund as outlined in this paper, and the terms and conditions set forth in this paper.

32. Contributions to the fund will be made in the form of cash in a freely convertible currency. Contributions will be deposited into a United States (US) dollar, interest-bearing account (the fund account) to be specified by ADB under the fund. For contributions received in currencies other than US dollars, ADB will, upon receipt of the funds, convert them into US dollars and transfer them to the account. ADB estimates that funding of about $150 million will be required to establish and sustain the fund, and support the preparation of a target of at least 10 major infrastructure projects in Asia and the Pacific.

33. Contributions will be held and administered separately from other ADB administered trust fund resources and invested at the discretion of ADB. Pending disbursements, ADB may invest and reinvest contributions. Any income earned from such investment and reinvestment (the available funds net of expenses) will be credited to the fund account and used for the fund’s purposes, including related administrative expenses.

34. Australia and Japan have expressed initial interest to be potential contributors to the fund. Discussions are ongoing with them as well as other potential contributors.

VI. ADMINISTRATION ARRANGEMENTS

35. With respect to funds provided by contributors, ADB will exercise the same care in the discharge of its functions as it exercises with its own affairs. The terms of the fund will provide that ADB will have no liability in respect of the contributions (including securing reimbursement) provided that, upon termination of the fund and subsequent liquidation of the account, unless otherwise agreed with the contributors, any available funds will be returned to the individual contributors in proportion to their respective available contributions.

36. As a multi-donor fund, all available funds in the account will be commingled. ADB will make withdrawals from the fund account as necessary to meet the expenditures of projects and activities supported by the available funds. ADB will maintain records and accounts, in accordance with its standard procedures, that identify the contributions made, the commitments to be financed out of the fund, including eligible activities and administrative expenses. ADB will provide contributors with financial statements on fund records and accounts, audited annually by external auditors, with the cost of these audits to be charged to the fund.

37. In accordance with its standard procedures, ADB will charge a service fee to cover ADB’s incremental cost for the administration, management, supervision, and operation of the fund. The service charge is 5% of amounts disbursed and will be paid from available funds at the same time as disbursement.

38. ADB will submit annual progress reports to contributors on the performance of the fund. The reports will be consolidated and prepared in accordance with ADB’s normal reporting standards and annual work programs. ADB will also provide partners such reports and
information, as appropriate, concerning the progress of activities under the trust fund. Fund contributors and ADB will meet once a year after the establishment of the fund to review progress, administrative matters, and the work program and strategic directions of the fund (para 21).

39. The fund’s implementation guidelines, which will be developed in conjunction with the contributors, will require a review of the fund’s activities. Potential points for such a review could be based on the number of projects on which preparation work was started, projects reaching financial closure, financing volumes achieved, and/or the leverage ratio for public–private financing.

40. ADB will promptly inform the contributors of any condition that interferes, or threatens to interfere, with ADB’s administration of the fund. ADB may adopt additional rules for administering the fund that are substantially based upon the terms and conditions in this paper, and will inform all contributors accordingly.

41. The fund will terminate at a date agreed by the contributors and ADB. At that time, ADB’s functions in relation to the contributions will be considered terminated, except for actions necessary to wind up the fund in an orderly and expeditious manner, and subject to notifying contributors about the termination.

42. The fund is designed to be a revolving fund that will disburse and recover part or all of its assistance for project preparation activities and subsequently recycle its capital. However, in the case where the fund is terminated and there is any subsequent liquidation of the account, any available funds will be returned to the individual contributors, in proportion to their respective available contributions. Following trust fund termination, ADB will provide contributors and the Board with a final report on the projects and activities supported.

VII. RECOMMENDATION

43. The President recommends that the Board approve the following:

(i) the establishment of the Asia Pacific Project Preparation Facility substantially in accordance with the terms and conditions set forth in this paper; and

(ii) the acceptance and administration by ADB, in the capacity of trustee, of contributions to the proposed Asia Pacific Project Preparation Facility, in accordance with the provisions set forth in this paper.
APPENDIX 1
INSTRUMENT OF CONTRIBUTION

[date]

Asian Development Bank [address]

[Name and identity of partner] (hereinafter referred to as the “Partner”) hereby undertakes to contribute to the Asia Pacific Project Preparation Facility in an amount of [$ ] in accordance with the provisions of the Board Paper entitled "Establishment of Asia Pacific Project Preparation Facility" (the "Paper") and subject to the terms and conditions set forth in the Paper.

The contribution will be paid to the Asian Development Bank in the form of immediately available funds on or prior to [specify date] in accordance with the following schedule [insert disbursement schedule]:

The contribution shall be paid into [ADB to specify account details].

Dated this ____ day of ______________, 201____

For and on behalf of

________________________________________
Authorized Representative