

The Role of Private Sector Operations in Poverty Reduction

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ADB and the Private Sector

- How private sector development is related to ADB's fundamental mission of poverty reduction
- How PSOD adds value to transactions
- Use of Public-Private Partnerships (PPPs)
- Some PPP Examples
- Outlook for ADB's private sector operations

Private Sector Development

ADB's 2000 Private Sector Development Strategy

"The Asian experience shows that growth is the most powerful weapon in the fight against poverty."

- Jobs
- Increases the tax base
- frees the government to do social spending

"The Private Sector cannot be expected to undertake extensive poverty reductions on its own."

Private Sector Development

ADB's 2000 Private Sector Development Strategy

- Create enabling conditions for investment (legal, regulatory)
- Generate private sector business opportunities in sovereign loan operations
- PSOD to do discrete transactions

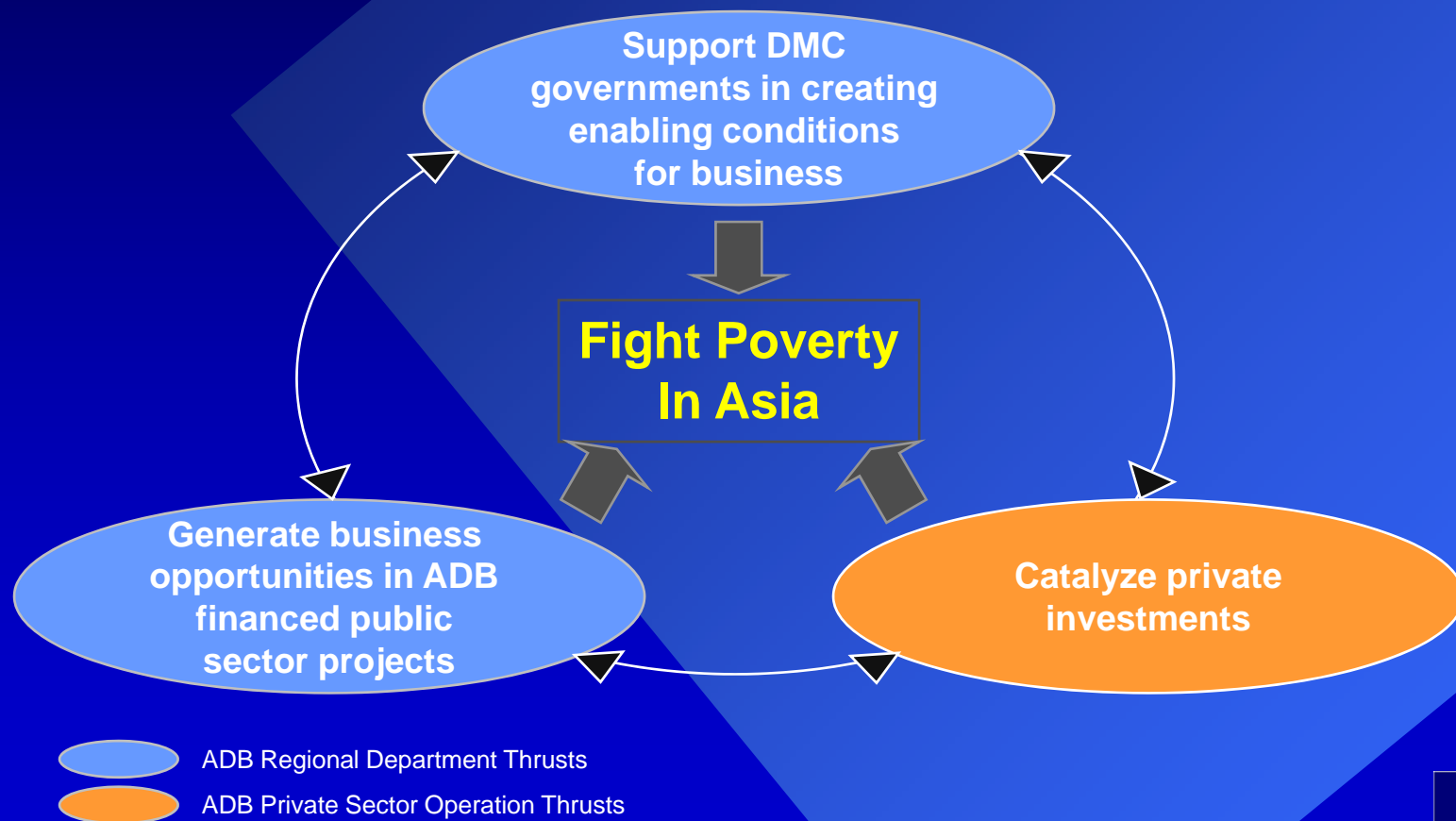
Private Sector Development

ADB's 2000 Private Sector Development Strategy

- RDs ➤ Create enabling conditions for investment (legal, regulatory)
- RDs ➤ Generate private sector business opportunities in sovereign loan operations
- PSOD to do discrete transactions

Private Sector Development

ADB Strategic Thrusts - 2000 PSD Strategy



Why Does the Private Sector Come To ADB?

- Not cheaper financing/money – market rates and terms
- Not less rigorous credit standards – not the “Lender of Last Resort”
- Not an easier/shorter approval process

In short - no preferred terms

Why Does the Private Sector Come To ADB?

Important Factors

- ADB is an Asian institution – strong relationship with most DMCs, focus on certain sectors
- “One stop shopping” – loans, guarantees, TAs, equity
- Decision making in region – closer to clients

These Are Not Unique Advantages

What Our Clients Say

ADB is an attractive partner in transactions:

- “If ADB is in, we are in; if ADB is out we are out”
- “The first dollar is the hardest to get; ADB is often the needed catalyst”
- “ADB brings its flag to deals which in turn enhances credibility in the international markets.”

Money Is Not Our Core Product

- \$167 to \$190 trillion in surplus capital looking for a home
 - sovereign wealth funds
 - institutional investors / pension funds
 - private equity
- Advent of the capital markets

What is ADB's Real "Product"?

- Risk Mitigation (through structuring, enhance credibility of borrowers/projects)
- Leveraging sector / regulatory dialogue with the Government
- Technical Expertise (synergy with RDs, PPPs)

**ADB is uniquely positioned
in these products**

ADB's Role

1. Catalyzing and Mobilizing Resources

- Provide comfort to co-investors by taking the same risks through direct participation in projects.
- Lead private capital to development projects in countries or sectors with perceived high risks (e.g. transition economies, small countries, frontier sectors).
- Mitigate perceived risks through credit enhancement instruments such as guarantees and B-loans.
- Assure financial closure in critical infrastructure projects requiring large financing.

ADB's Role (Cont).

2. Adding Value to Transactions

- Assist in the design of the project's financial structure to improve project viability (leads to lower risks, lower prices for consumers)
- "Certification" of projects on environmental and social protection, good corporate governance, etc.
- Improve concession contracts
- Provide sector expertise to ensure project fits with long-term sector strategy
- Introduce unique benefits to the project (e.g. "social responsibility components", clean technology, etc.).

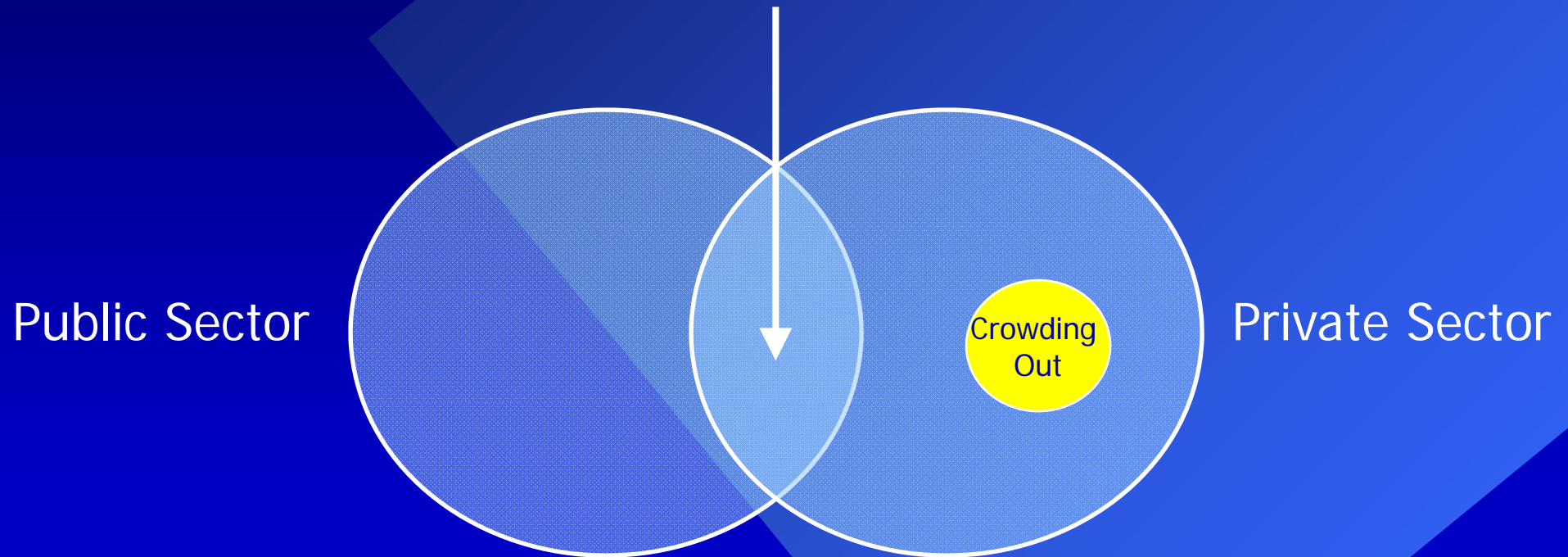
ADB's Role (cont.)

3. Financing Demonstration Projects:

- Model projects ("replicable" projects)
- Pioneering projects ("a first")
- Projects that influence policy, from the bottom up
- Projects that have poverty reduction elements
- Projects that promote good governance

Private Sector Development

Our core niche – Public Private Partnerships
(infrastructure, financial sectors)



Public Private Partnerships (PPPs)

- PPP is a focus within many developing member countries
- Different templates to choose from based on parameters
- Budgetary, efficiency, political rationale for spread of PPP
- ADB is itself a PPP and ideally placed to help promote PPP across the region
- ADB geographical spread gives wide knowledge base from which to draw

Many member countries are looking
to ADB for PPP expertise

PPPs (cont.)

- Asia is somewhat of a black hole for PPP development
- Worldwide, PPP development is very concentrated:
 - Since 1994: \$260 B invested by private sector in PPPs (mainly Europe, Canada and Australia)
 - In 2004-2005: 206 PPPs worldwide (\$52 B), 152 PPPs in Europe (\$26 B)
 - Even in Europe, enormous potential remains (UK has 85% of public assets still under traditional procurement)
- Asia hardly a blip (Japan / Singapore) ... but this is changing (India, Pakistan, China, Indonesia, Vietnam)

PSOD and PPPs

- PSOD traditional role in private sector financing including PPPs (especially BOT projects)
- PSOD composition and skills set
- History of cooperation between PSOD and the regional dept. (e.g., Mekong, South Asia), advising both sides of a transaction
- Many new PPP joint initiatives being pursued

PSOD and RDs Working Together

- Mongolia - Trade and Development Bank
- India – Dahej Liquefied Natural Gas Terminal
- India – Powerlinks (Tala Delhi Transmission) Project
- Pakistan – SME Guarantee Facility
- Bangladesh – Meghnaghat (AES) Thermal Power Project
- Laos – Nam Theun 2 Hydroelectric Power Project
- Various mass transit (Hanoi, HCMC)

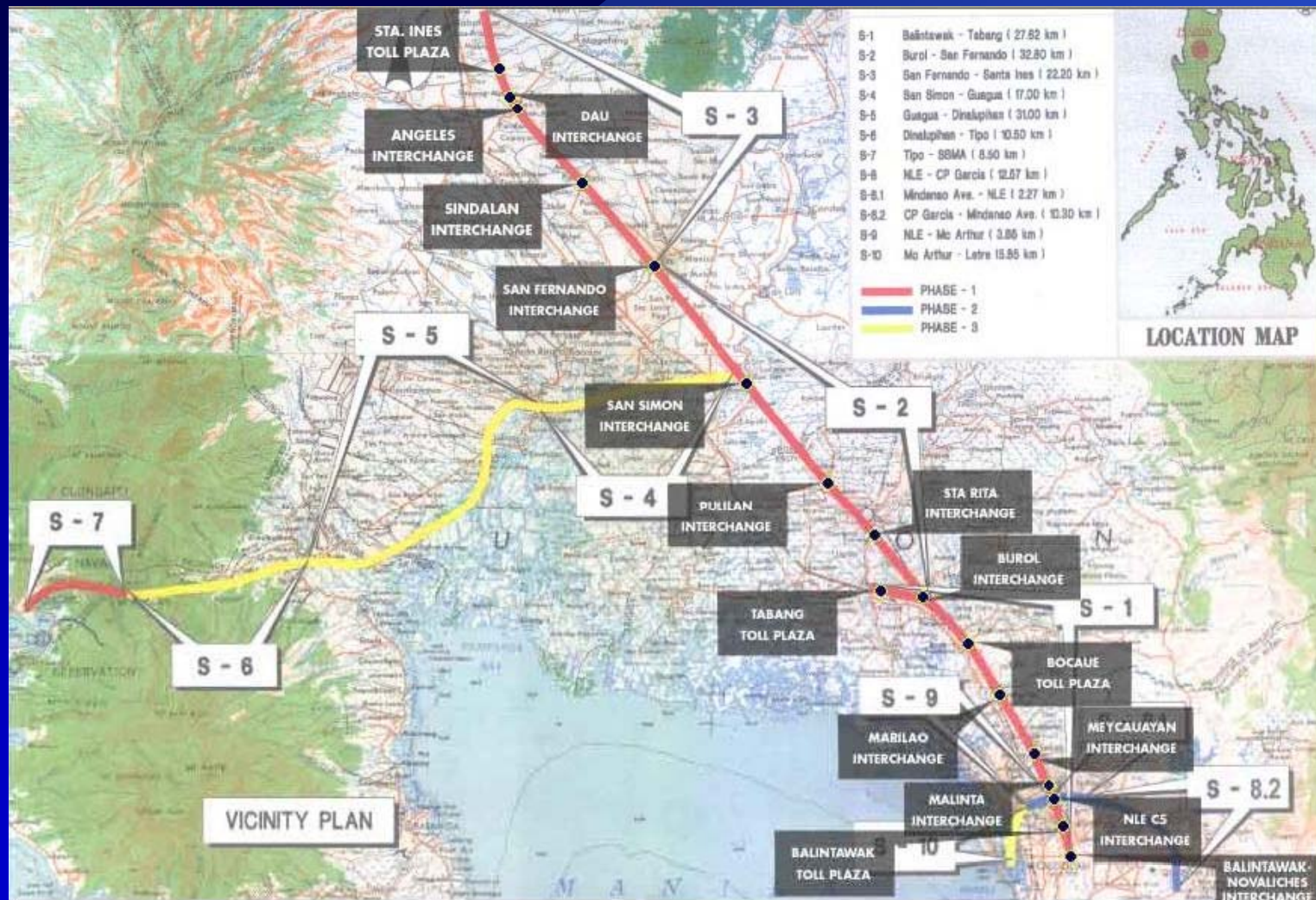
PPP Example: Manila North Tollways Corp.

- The Manila North and South Expressways were funded and implemented by the Philippines Government more than 30 years ago.
- In 1998, a Supplemental Toll Operation Agreement (STOA) was drafted between the Philippines, acting through the Toll Regulatory Board (TRB) (as Grantor) and Manila North Tollways Corporation (MNTC)
- Concession gave MNTC the right to finance, rehabilitate, expand, operate and maintain North Luzon Expressway and other related tollways until the end of 2030.

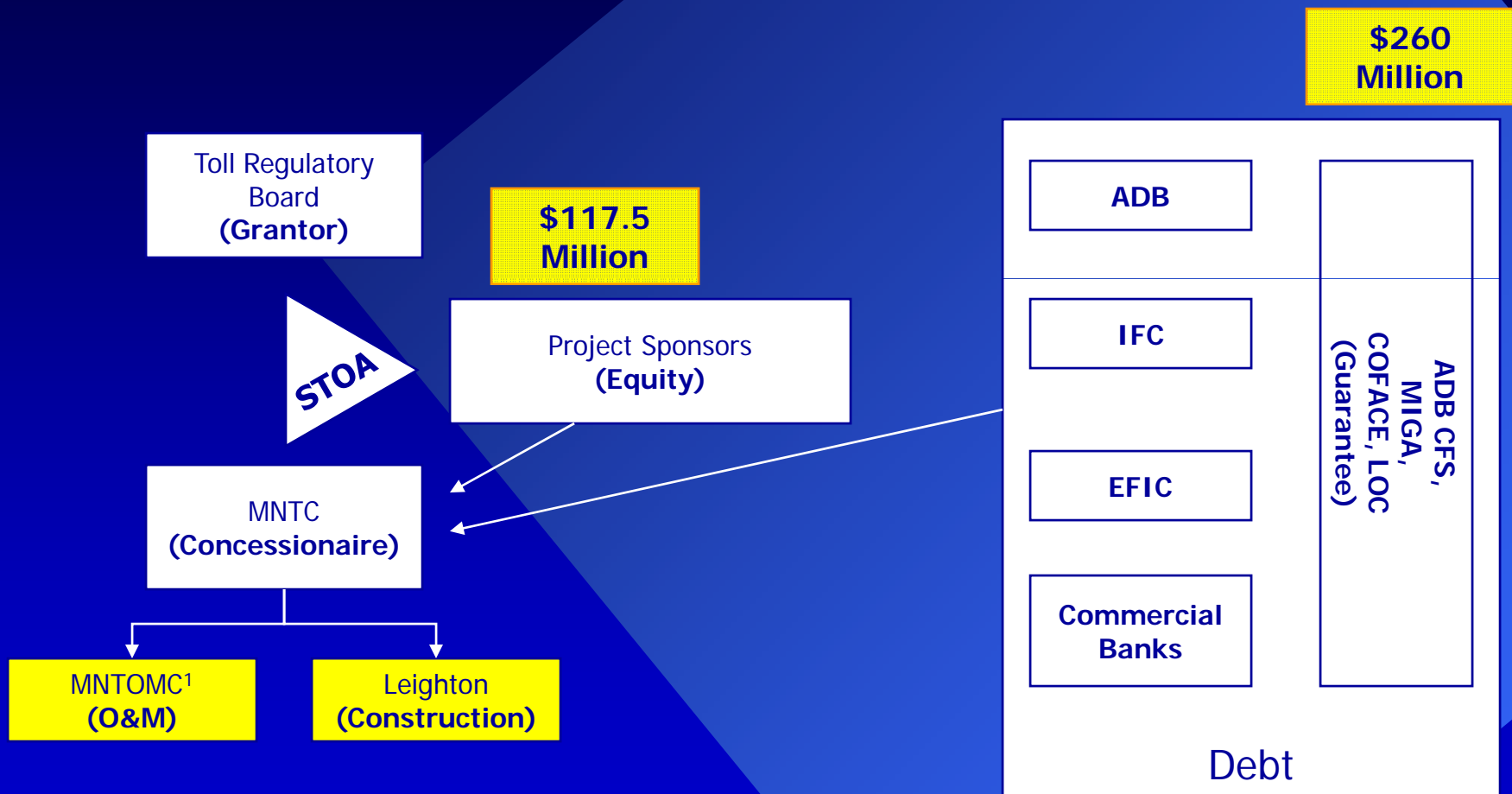
PPP Example: MNTC (cont.)

- The Project consists of the rehabilitation, expansion, and operation of 84 km of existing North Luzon Expressway, including the construction and rehabilitation of 14 interchanges, 24 bridges and 31 overpasses from Manila to Clark SEZ.
- Total Project cost is approximately \$377.5 million, \$117.5 in equity and \$260 million in debt. ADB financed US\$70 million of the total package.

MNTC - Project Location



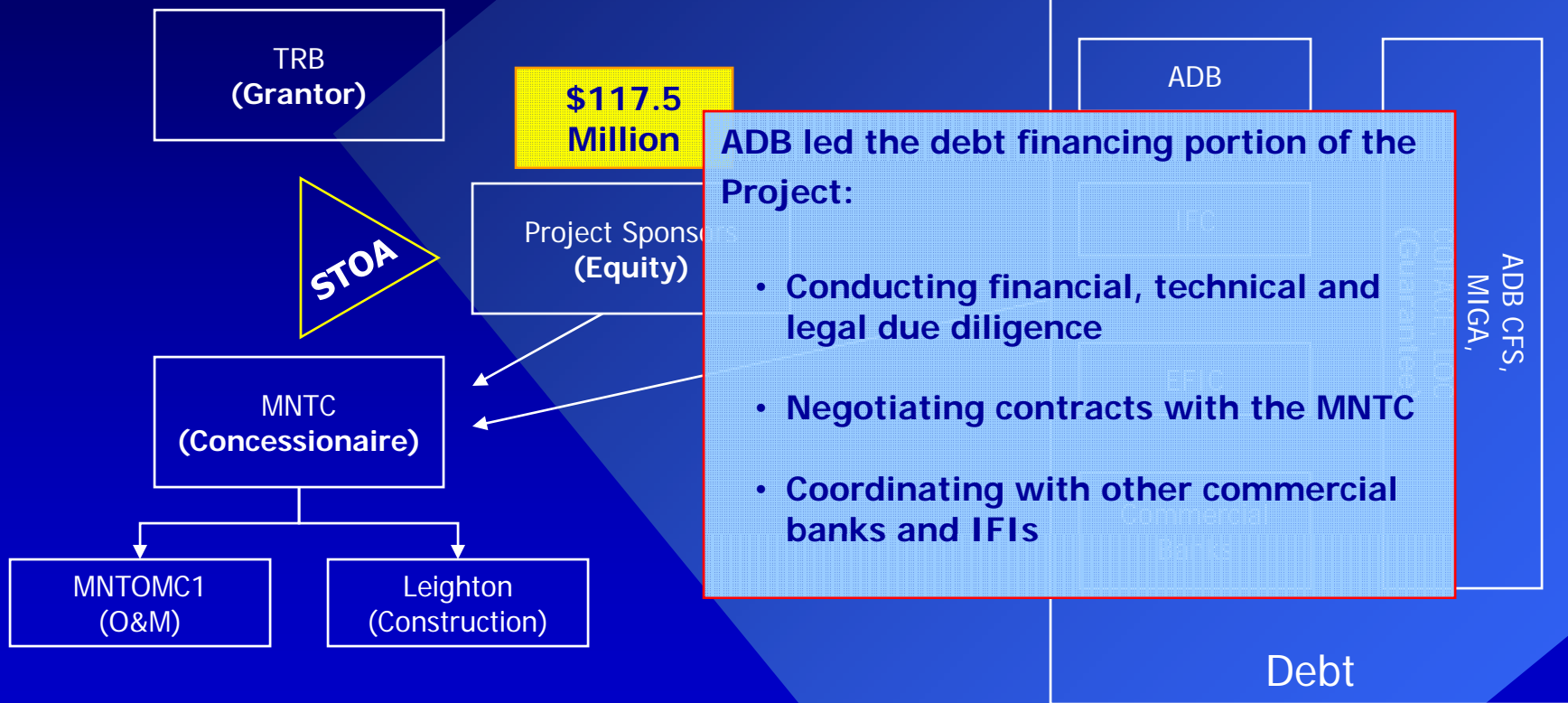
MNTC Financing Structure



Manila North Tollways Operations & Maintenance Company
(46% FPIDC, 34% Egis, 20% PNCC)

MNTC Financing Structure

\$260 Million



Manila North Tollways Operations & Maintenance Company
(46% FPIDC, 34% Egis, 20% PNCC)

The Role for ADB (Public Sector)

- ADB helped the Government prepare a national transport strategy to prioritize investment and to develop institutional capacity for transport planning.
- Emphasis on the distinction between policy making and regulatory responsibilities for the Govt and financing, construction and O&M by the private sector
- ADB supports the Govt in their effort to develop the national road network with private sector participation.

The Role for ADB (Private Sector)

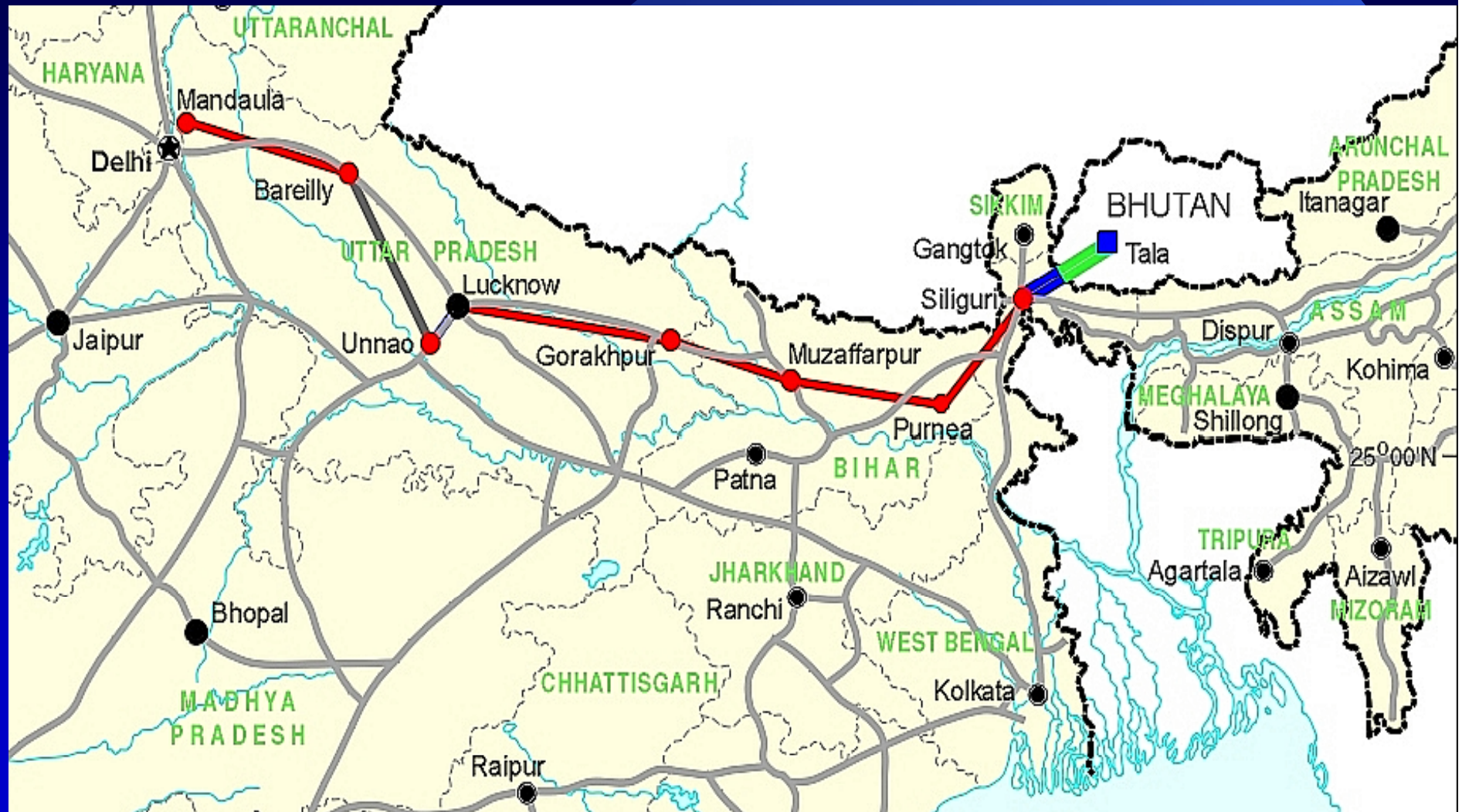
Promote a flagship road project -- many firsts:

- 1st private sector investment by ADB in the Philippines road sector
- 1st major expressway to be constructed, operated and maintained in accordance with international standards
- 1st private public partnership with majority ownership and control by the private sector
- An opportunity for ADB to play catalytic role in attracting international lenders in post-Asian financial crisis

PPP Example: India Tala-Delhi Transmission Project

- to set up and maintain appx. 1,113 km of 400-kV double circuit power transmission lines from Siliguri in West Bengal to Mandaula near Delhi, on a built-own-operate-transfer (BOOT) basis.
- Evacuate power from Tala Hydro Electric Power Project in Bhutan as well as transfer surplus power from India's Eastern region to the Northern region.
- Part of the initiative for developing a national transmission grid and facilities for intensified inter-regional cooperation and coordination in India.

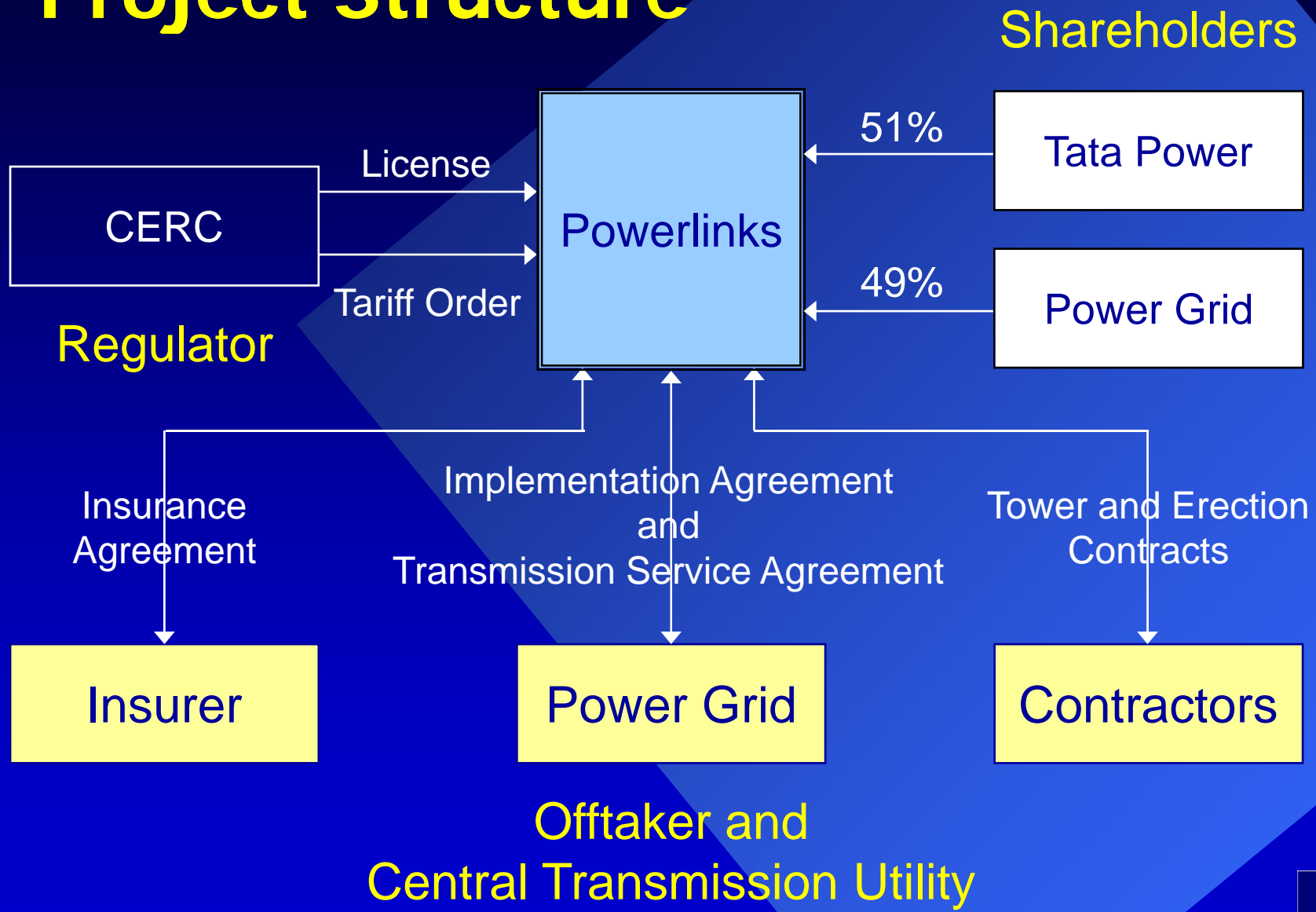
Project Location



Project Description (cont.)

- Through competitive bidding, Power Grid Corporation of India Limited selected Tata Power Company Limited to implement the Project as joint venture partner.
- Powerlinks Transmission Limited (a joint venture project company) was established by Tata Power (51%) and Power Grid (49%).
- Transmission License for 25 years was granted by Central Electricity Regulatory Commission (CERC).
- Power Grid will be responsible for establishing substations and installing transformers (also financed by ADB loan) and for operations of the grid system.
- Tariff is to be paid by Power Grid to Powerlinks based on availability of transmission lines.

Project Structure



Financing Issues

10-year tenor was the longest available from the local market:

- ADB offered 15-year tenor, and local banks followed

Limited availability of fixed interest rate financing:

- ADB offered fixed interest rate in Indian rupees.

Lack of sufficient security for the lenders:

- ADB negotiated a mandatory buy-out by Power Grid in an Event of Default

ADB Public + Private Assistance

Direct Assistance to Tala-Delhi Transmission Project

- Local currency loan of Rs. 3 billion (appx. \$66.5 million) to Powerlinks
- Financial close reached in January 2004

Continuous Policy Dialogue through Public Sector Operations

- Technical assistance of \$600,000 to Power Grid to promote private sector participation in the power transmission sector
- Sovereign loans of \$275 million and \$250 million to Power Grid for grid strengthening

Future of Private Sector Ops.

- Building on the 2000 and 2001 PSD strategies
- How to further integrate internal process between the RDs and PSOD for such opportunities
- How to “rope in” \$ trillions of private investment in Asia looking for a home
- Focus on lead arrangement role for certain projects, e.g., clean energy - unique structures (funded or unfunded risk participation)

Future of Private Sector Ops. (cont.)

- Strategy 2020: the Long Term Strategic Framework of the ADB, 2008-2020
- PSOD to become an integral (not secondary) part of ADB's operations:
 - *"ADB's support for the region's private sector will increase significantly, both in the number of ADB-financed projects and in its share of ADB annual operations with a target of 50% by 2020."*
- More cofinancing alongside operations:
 - *ADB's cofinanced lending will increase ... with a long-term objective of having total annual direct cofinancing exceed the value of ADB's stand alone project financing."*

Thanks

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Q & A