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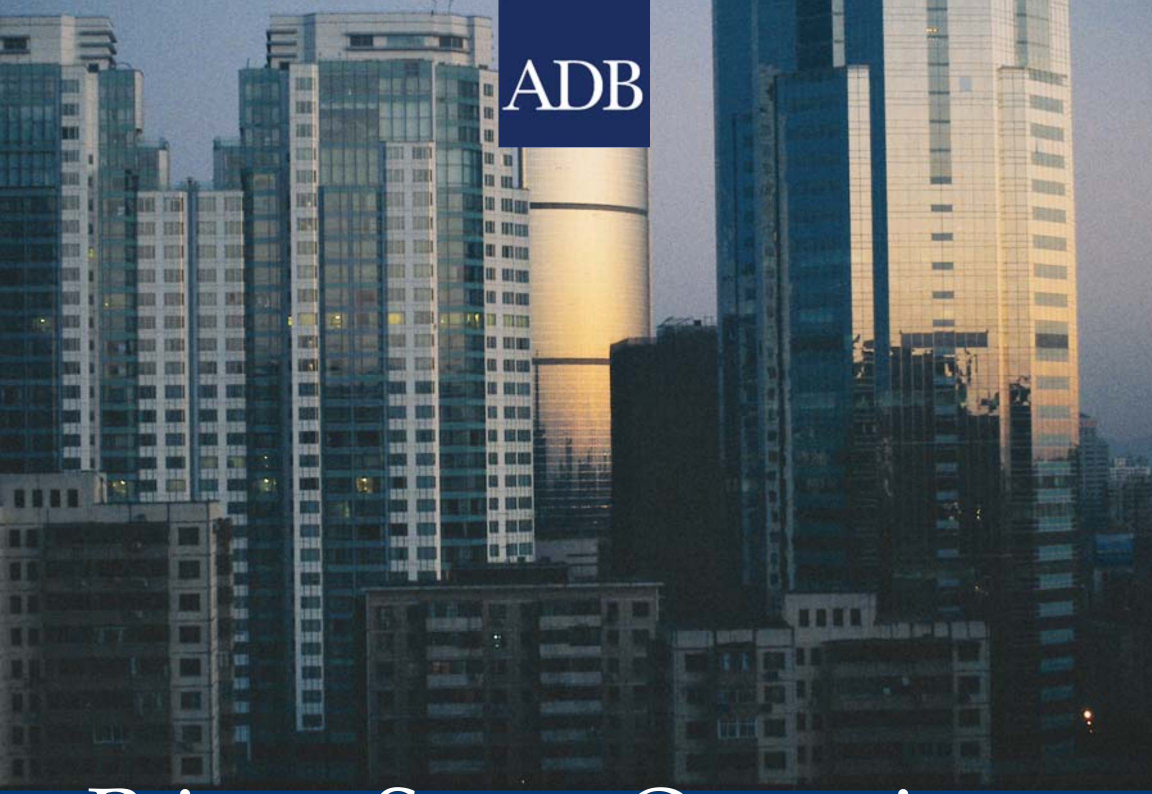

Private Sector Operations

Catalyzing Private Investments Across Asia and the Pacific

Asian Development Bank

ADB

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2006

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In this publication, $ refers to US dollars.

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The Asian Development Bank

The work of the Asian Development Bank (ADB) is aimed at improving the welfare of the people in Asia and the Pacific, particularly the 1.9 billion who live on less than $2 a day. Despite many success stories, Asia and the Pacific remains home to two thirds of the world's poor. ADB is a multilateral development finance institution owned by 64 members, 46 from the region and 18 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their citizens.

ADB's main instruments for providing help to its developing member countries are policy dialogue, loans, technical assistance, grants, guarantees, and equity investments. ADB's annual lending volume is typically about $6 billion, with technical assistance usually totaling about $180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world and has more than 2,000 employees from over 50 countries.

Assistance to Private Enterprises

Private enterprise plays an important role in the economic development of many ADB developing member countries (DMCs), which are increasingly adopting policies to create an environment more conducive to private business.

Through its Private Sector Operations Department (PSOD), ADB provides direct assistance to the private sector in undertaking financially viable projects with significant development impact. Through the Department, ADB makes more private sector projects happen—projects that promote the efficient use of resources, accelerate economic development, reduce poverty, and raise the standards of business.

Since 1983, ADB has directly supported private sector projects through its nonsovereign window. PSOD gives sharper focus to ADB's catalytic role in mobilizing private capital for its DMCs. It is ADB's arm in responding to new opportunities and challenges involving the private sector particularly in light of the increasing role of this sector in economic development as actively promoted by DMCs.

We at PSOD realize that a mixture of private and official funding is often needed for commercial lenders and equity investors to better manage the risks associated with investing in developing countries. We therefore advocate innovative financial solutions and continue to develop such to better meet our DMCs' needs. The following sections will give you a better understanding of these solutions and of our other products and services involving private capital.

ADB: Meeting the Region's Growing Capital Needs

The financing needs of large infrastructure projects and the capitalization needs of financial institutions are feeding the current high demand for private capital. Experience has shown that official development aid—which continues to be an important element in the development strategies of ADB and its DMCs—is inadequate to meet current needs. Many DMC governments therefore have resorted to attracting private capital as a strategic objective.

Backed by decades of considerable regional experience, ADB is in a unique position to assist its DMCs mobilize international private capital for their development needs. Through dialogues with member governments, it helps formulate policies that encourage private initiatives. What's more, ADB's presence—that of a multilateral bank investing alongside private partners—helps provide comfort to private investors and attract additional long-term capital.

Our Focus: Finance and Infrastructure

ADB operations for the private sector focus primarily on two sectors: (i) finance and capital markets, and (ii) infrastructure.

In the financial and capital markets sector, we assist private financial intermediaries in banking, leasing, venture capital financing, merchant banking, micro credit, small and medium enterprises (SMEs), housing finance, private equity funds, mutual funds, insurance, securitization, credit enhancement, and credit rating.

In the infrastructure sector, our focus is on telecommunications, power and energy, water supply and sanitation, ports, airports, and toll roads. Projects may involve various forms of risk-sharing and ownership arrangements including build-own-operate and build-operate-transfer (BOT) structures. Our assistance in the sector extends to social services such as health care, education, and support services to government agencies. ADB has been increasing its support for human capital development since such investments are frequently the most effective way of breaking the cycle of intergenerational poverty. By supporting efforts to improve policy and institutional arrangements, ADB helps ensure that the poor have access to essential social services.

While we do not focus on private industrial or agribusiness projects, we may still consider them if they have links to core capital markets or infrastructure sectors and have special economic merit.

New Initiatives

We continue to pursue new initiatives in response to the emerging needs of the private sector in our DMCs. Currently these initiatives are:

- *Local currency financing* – to provide additional risk-taking capacity in local currency, which commercial lenders are unable to provide;
- *Trade Finance Facilitation Program* – to encourage trade to, from, and between DMCs;
- *Housing finance* - to promote affordable housing for low- and middle-income families; and
- *Resolution of nonperforming assets* (NPAs) – to deal with disposal of NPAs, which have placed a strain on the resources of the banking sector in many DMCs.

Local Currency Financing

Currency exposure that remains unhedged can potentially be detrimental to the interest of an infrastructure project or company, project beneficiaries, end-users, lenders, and sponsors in the event of a drastic movement in exchange rates. This was particularly evident following the Asian financial crisis in the late 1990s.

ADB can play a vital role in selected DMCs to ensure the sustainability of companies and/or projects by extending long-term local currency loans particularly to those that generate revenues only in local currency.

Our assistance in such projects or companies is intended to supplement the requirements of borrowers by providing additional risk-taking capacity in local currency, which commercial lenders are unable to provide. ADB will not compete with commercial sources nor substitute for them.

In the Philippines, India, and People's Republic of China (PRC), we have launched a local currency financing facility, an innovative solution that could also be introduced in other countries.

Trade Finance Facilitation Program

Our Trade Finance Facilitation Program (TFFP) aims to develop the capability of local banks in more than 15 Asian countries to provide trade finance products to private sector importers and exporters as a means to facilitate international trade to, from, and between our DMCs. The Program seeks to achieve this goal by providing support to local issuing banks through the provision of partial credit guarantees and revolving credits that will enable issuing banks to offer importers and exporters access to reliable and reasonable terms and conditions for trade finance, as well as provide liquidity and stability to the trade finance system. The Program has three main components:

- A revolving partial credit guarantee (PCG) facility, without sovereign counterguarantee, under which ADB will guarantee payment to participating regional and international confirming banks if an issuing bank fails to pay under a letter of credit or other trade finance instrument for commercial and/or political reasons;
- A second revolving PCG facility in the form of a risk-sharing arrangement with the European Bank for Reconstruction and Development in the Central Asian Republics; and
- A revolving credit facility, without sovereign guarantee, under which ADB will provide short-term loans to each issuing bank that receives guarantee support under the PCG facility or the risk-sharing agreement for on-lending to private sector exporters and importers for trade-related purposes.

As structured, the TFFP will assist not only the local banks in those Asian countries that have been slow to integrate with the global trading system, but also address the issue of reestablishing and enhancing trade finance lines for those local banks adversely affected by political or systemic crises.

The Program's implementation began in 2004 on a rolling basis and has continued throughout 2005. During the first phase of implementation, the Program targeted local banks in Sri Lanka, Viet Nam, Bangladesh, Cambodia, Philippines, Uzbekistan, and Tajikistan. The next round of program implementation focused on local banks in Kazakhstan, Mongolia, and Papua New Guinea. Thus far, over 20 local banks have been invited to participate as issuing banks.

Housing Finance

We recognize that providing opportunities for low- and middle-income families to obtain housing is an important component of our poverty reduction strategy.

Aside from addressing the housing needs of these families, our housing finance program will have a multiplier effect on the economy as it will drive growth in home construction, thus benefiting SMEs that generally supply labor and materials to construct, improve, and maintain homes. House construction and related industries are labor intensive and thus provide significant employment opportunities.

ADB will (i) extend financial support to specialized housing finance institutions to service low- and middle-income families in semi-urban areas; (ii) support the creation of securitization agencies, which will provide guarantees to residential mortgage-backed securities to match the long-term funding requirements of the housing markets; and (iii) assist in developing the fixed income segment of the capital markets by providing a trading window for the securitized mortgages.

Resolution of Nonperforming Assets

At present, local banks are saddled with managing non- or subperforming loans (NPLs), real estate properties, and other fixed assets (NPAs) for which they do not have the management time nor the resources for proper resolution.

As a result, they are reluctant to make new loans to industrial or commercial enterprises as both the NPLs and NPAs have put a strain on their resources. The unavailability of new loans has therefore hindered economic growth and development.

We intend to assist local banks resolve their problems with NPLs/NPAs by facilitating the financing of special purpose vehicles and other mechanisms designed to acquire and service such assets. This will enable the local banking system to focus on its core operations and provide financing to productive sectors of the economy.

In addition, we will assist distressed companies in their restructuring and rehabilitation efforts. The economic fundamentals of the assisted country will also significantly improve as the NPLs/NPAs are transformed into productive uses by organizations or professionals with the expertise and the systems to manage such distressed assets.

What We Offer

ADB directly supports private enterprises, private equity funds, and financial institutions. Its traditional modes of financing are *equity investments* and *hard currency loans*. Equity may include preferred stock, convertible loans, and other forms of mezzanine financing. Loans may be cofinanced by commercial banks and other financial institutions.

We have three credit enhancement products to facilitate cofinancing: complementary financing scheme, PCG, and political risk guarantee (PRG). These are discussed later in this booklet.

We are also accustomed to working closely with export credit agencies (ECAs) and other official sources of parallel financing. More recently, we have begun to explore various ways of more effectively mobilizing local currency debt financing on terms suitable for financing long-term projects, thus reducing the risk for projects that are dependent on domestic sources of revenue.

Are You Eligibile for ADB Assistance?

Is your proposed investment project in the private sector (i.e. owned by local or foreign private sector entities) of a DMC? If it is, then you are eligible for ADB assistance.

Is your project or institution jointly owned by private and public entities? If yes, you may be eligible provided that the majority equity in the project or institution is privately owned; also, if the activities proposed for assistance would strengthen the private sector of the economy, and that the project or institution is run on a commercial basis and satisfies criteria on autonomy and managerial freedom. In cases where majority of the equity is state-owned, ADB may still make equity investments if circumstances justify such intervention—for example, in financial institutions in DMCs in transition—to facilitate the dilution of state ownership and/or broaden the ownership base.

Apart from private sector projects and institutions, "mixed" (i.e. jointly owned) or public sector projects and institutions would also be eligible for loans without government guarantee, provided they satisfy the criteria of autonomy and managerial freedom in running the enterprise concerned.

In addition, we also consider extending loans or guarantees without government guarantee to majority state-owned enterprises if and to the extent that the purpose of such a proposed loan or guarantee were for establishing, expanding, diversifying, modernizing, or improving high-priority medium- and large-scale development projects that form part of the national development plan and program of the DMC.

When selecting projects to support, ADB favors those with strong, long-term economic benefits within its financial and infrastructure sector focus. This would include (i) projects that cost-effectively supply basic needs and services to a wide segment of the population, (ii) projects that encourage the transfer of technology and know-how to DMCs, (iii) projects that expand the role of the private sector or improve the quality of private sector participation, and (iv) projects that play a key role in improving financial sector intermediation.

We give priority to projects aimed at improving the environment for private sector development. This favors projects that constitute an important step toward more effective privatization, e.g., those that pioneer new contractual structures and promote better risk sharing. Infrastructure projects that are part of a well-conceived privatization strategy are clearly favored. We also favor projects that promote a better financial environment for the private sector by providing new sources of debt and equity financing and building institutions that promote more stable and liquid capital markets.

Asian economies exhibit great diversity of circumstances and needs. Accordingly, ADB's strategy varies by country, depending on each country's size, stage of development, and economic profile. We give priority to sectors in which the country has a comparative advantage, and sectors and companies starved of capital due to market imperfections and relatively high levels of perceived risk. Developing more integrated methods to encourage, support, and finance SMEs is a priority in many DMCs. In some countries, small infrastructure projects may be more feasible and appropriate than larger ones. With new developments in private sector microfinance, we are extending our reach to even smaller companies and the financial institutions that serve them.

When evaluating projects, ADB ensures that the cost of the project is reasonable and the sharing of risks and rewards between stakeholders is fair for both the country and the sponsors. For projects where private sponsors are granted an exclusive concession or license to operate facilities or supply specific services, ADB prioritizes projects awarded on a competitive and transparent basis, with a framework for regulating tariffs based on sound economic principles.

Why Partner with ADB?

Project sponsors approach ADB for various reasons, among which are:

- ADB has been operating in the region for over 35 years and has a 20-year record of private financial sector operations.
- As an established, multilateral development finance institution with a reputation for objectivity, ADB support for a project is a stamp of approval that governments and other private sponsors or investors value.
- As part of its policy dialogue with DMC governments, ADB is actively engaged in financial sector reform and can assist in promoting a more favorable environment and removing barriers that prevent sound projects from moving forward.
- ADB maintains long-term relationships with institutional investors, banks, export credit agencies, and other official institutions and can help bring sponsors and investors together,

in support of a proposed project.

- ADB has experience in helping structure and supervise financial sector projects, and can provide useful insights on project design based on lessons learned from experience.
- ADB continues to contribute in developing best practices in the financial sector, particularly in the areas of corporate governance and risk management of banks, and investment funds.
- ADB's goals as a development bank fit well with their own long-term objectives, and this contributes to a successful and more profitable project and a productive long-term relationship between them and ADB. Such developmental goals include
  - building stronger local financial institutions;
  - transferring sector knowledge and training local staff
  - improving corporate governance;
  - increasing local capital market efficiency, liquidity, and scope;
  - improving compliance with laws and regulations; and
  - supporting environmentally sound projects.

As a development bank, our objective is to add value to projects and not merely substitute for private capital in projects that the private sector could do equally well or better on its own. We therefore look for projects that maximize our catalytic role and leverage of capital. We also look for projects that fit well with the policy reforms that we recommend.

Financial Intermediaries and Capital Market Institutions

We support financial sector projects because they are key to the economic development of our DMCs. Capital markets projects have a significant catalytic impact in channeling foreign and domestic capital to productive sectors of the economy. Sponsors of financial sector projects approach ADB because they know they can significantly benefit from the presence of a multilateral bank.

We can participate in offshore, country, and regional funds as well as in domestic mutual funds. We prefer private equity funds over funds that invest in listed securities, but we will consider both nonetheless. We assess the fund's investment focus and catalytic or developmental role, and require that the fund be managed according to best governance, environment, social, and risk management practices. We can also help you design suitable fund structures.

We give priority support to SMEs. While they represent the future of the private sector in many countries, the shortage of capital and other impediments often constrain their development. Investment funds are an important tool for us to support these enterprises—businesses that are too small for direct investment. Increasingly, it is recognized that funding alone is not the answer. It should be accompanied by advice and assistance in managing the enterprise. Fund managers can supply such advice by taking an active role in supervising the investments and improving corporate governance. In selective cases, complementary advisory units, funded separately through grants, may provide additional support and develop deal flow for the fund.

Infrastructure Projects

Since the private sector is already active in telecommunications and power generation, we give priority to projects in water supply, waste treatment, toll roads, ports, airports, and light rail systems, which are more challenging to finance using purely commercial sources. As earlier stated, we also support projects in social sector infrastructure, for example, hospitals and schools, which until recently have seen little private sector involvement. ADB has significant experience in these subsectors and can bring to bear the expertise of its sector and country specialists.

We assist in analyzing the feasibility and developing the structure of proposed infrastructure projects. To qualified projects, we provide financial support through equity investments, loans, and credit enhancement products, including guarantees. Our loan maturities are tailored to the needs of your project, up to a maximum of 15 years. When blended with medium-term commercial financing, our loans can result in a better-balanced financial structure that meets the long-term funding requirements of infrastructure projects.

We continue to develop ways to help mobilize local currency financing for infrastructure projects on suitable terms to better manage the foreign exchange exposure of projects that are dependent on local currency revenues. This may involve an ADB guarantee of a local currency loan or bond issue.

When appraising projects, we pay particular attention to the process of selecting the developers and suppliers. We also give due attention to the environmental and social aspects, particularly poverty reduction.

We prefer projects and sponsors that are selected through a fair and transparent competitive bidding process—often the best way to ensure that the terms of the project are reasonable for all stakeholders. But we will also consider negotiated transactions if the circumstances of the project so justify this approach. This may, however, require additional due diligence before we approve the project cost and structure. Also, we will participate in a project only if the regulatory framework for the project is sufficient, and if there is proper provision for recommending and approving tariff adjustments.

How Much Assistance Do We Give?

Our total support for a project for its own account—including loan, equity investment, PCG, PRG, and underwriting commitment—is limited by ADB policy to 25% of the total cost of the project or $75 million, whichever is lower.

Our participation is meant to catalyze or bring about financing from other sources—both local and foreign—and not to compete with these sources. ADB policy is to limit equity investments to less than 25% of the total share capital. Also, ADB cannot be the largest single investor in an enterprise. If needed, ADB may assist in mobilizing additional debt from commercial banks and other financial institutions. This may be through parallel financing, separate from the ADB package, or through cofinancing, in which ADB acts as lender of record and the commercial banks take participations in the ADB loan, or through the use of guarantees.

Our PRG is designed to facilitate commercial cofinancing by covering specifically defined sovereign or political risks.

Coverage is available against any combination of these risks:

- currency inconvertibility and/or nontransferability;
- confiscation, expropriation, nationalization, or deprivation of project assets;
- political violence; and
- breach of contract.

Our PRG cannot be issued on a stand-alone basis and is provided only for projects where we have direct participation.

We can issue a PRG without a counter-guarantee from the host government for a maximum amount of $150 million or 50% of the project cost, whichever is lower. Under certain circumstances, the government's counter-guarantee may be required, however.

Fees are market-based and consist of a guarantee fee, a front-end fee, and a standby fee. These fees must always be paid in advance.

How Do We Appraise Proposed Projects?

We undertake a comprehensive appraisal of proposed enterprises and projects. In addition to evaluating their technical feasibility, market prospects, financial and economic viability, commitment to best practices of corporate governance, and environmental soundness of the project, we attach considerable importance to the integrity, experience, success record, financial resources, and competence of the project sponsors and management. We do not support projects whose financial viability is dependent on tariff or nontariff protection and/or government subsidy.

Our Loan Terms

Our interest rate and other terms for nonsovereign loans vary, depending on the needs and risks of the project concerned (see Appendix 1). In determining interest rates, we consider the market rates prevailing in the relevant country and sector, and factor in the country and project risks.

Typically, we provide floating rate loans at a spread above the London interbank offered rate or Euro interbank rate, depending on the currency. We also offer fixed rate loans at the fixed rate swap equivalent of floating rate loans. Their final maturity and amortization schedule are determined on the basis of the applied project's cash flow profile. Typically, loans have level amortization with a grace period of 2–3 years.

We also charge fees. Typically, on floating rate loans, we charge a once-only front-end fee of about 1.0–1.5% of the loan amount, and a commitment fee of about 0.5–0.75% per year on the undisbursed balance. Depending on the circumstances, we may also charge an appraisal fee to cover its up-front costs associated with due diligence. Project sponsors reimburse us for out-of-pocket expenses such as for travel and external advisory services, e.g., legal counsel, technical consultants, and insurance advisors.

Securing Loans

We require loans to be secured, the nature and extent of which security is determined on a case-by-case basis. This usually entails a charge on the borrower's assets, including concession and operating agreements, and may take the form of a guarantee by a financial institution, project sponsors, or third parties.

Policy on Procuring Goods and Services

We require that goods and services required for applied projects be procured only from ADB member countries (see Appendix 2). We encourage international competitive bidding for procuring these goods and services. However, we will permit flexibility to expedite procurement and allow you latitude in the choice of plant, machinery, and services, provided that procurement is done transparently and with due regard to suitability and price considerations.

Accounting and Auditing Requirements

The applicant enterprise must agree to have its accounts and financial statements audited at least annually by an independent auditor acceptable to ADB. It must submit its audited financial statements, together with the auditor's reports, to ADB management, directors, and shareholders. We encourage project entities to adopt best practices for audit committees and adhere to internationally accepted accounting principles to ensure adequate financial control during project implementation and operation.

Good Corporate Governance

We encourage borrowers and investees to adopt and implement corporate governance practices consistent with international best practice, for example, the standards issued by the Organisation for Economic Co-operation and Development. Such standards must be tailored to the country and project in question.

Environmental Considerations

We require our assisted projects to comply with the environmental regulations of the country where they operate as well as with applicable ADB guidelines and to submit, when necessary, an environmental impact assessment report. For projects that have significant environmental impact, a summary of the project's environmental impact assessment report is circulated to ADB's Board of Directors 120 days before the Board considers the project. The report should describe, among others, the environmental mitigation measures needed to address any significant environmental impact. The report should also be made available to affected groups and nongovernment organizations (NGOs), where applicable.

Our Role in Supervising Investments

We do not seek a controlling interest in an investee company, and will not assume any management responsibilities. We, however, reserve the right to appoint a nominee to its board of directors and will exercise voting rights as a shareholder. We will maintain regular contact with company management and require periodic reports on the progress of capital projects, operating performance, financial condition of the enterprise, and economic value added.

Risk Principles for Investment Funds

ADB requires its investee funds to adopt best practices in risk management. A list of "Risk Principles for Investment Funds" is given in Appendix 3.

Sale of ADB Equity Investment

We will divest our shareholdings at a fair market price once the objective of our investment is considered achieved. To facilitate divestment, we may require eventual listing of the shares of the investee enterprises on one or more stock exchanges or enter into a suitable buy-back agreement with the project sponsors. In general, we will prefer to sell our shares to nationals of the host country to broaden local ownership and further develop local capital markets. When disposing of our shares, we will, as far as practicable, consult with our major investment partners and give due consideration to their views; however, we shall dispose of our investments at our sole discretion.

Mobilizing Additional Financing

We may mobilize additional resources, in the form of commercial cofinancing, for the projects in which we participate. Please note that *direct* ADB participation in a project (e.g., a loan or equity investment from ADB's resources) is a precondition for ADB-supported commercial cofinancing.

ADB mobilizes commercial cofinancing by means of the following modalities:

- *Uncovered Parallel Loans*, typically sourced from international or domestic financial institutions or bilateral agencies;
- *Complementary Financing Scheme* loans, in which ADB is the "lender of record" on behalf of commercial cofinanciers;
- *Partial Credit Guarantees*, which provide comprehensive cover for a designated portion of the commercial debt provided by cofinanciers;
- *Political Risk Guarantees*, which cover specified sovereign risks; and
- *Export Credit Agency Cofinancing*.

The salient features of some of the above modalities, as applied to ADB-assisted private sector projects, are summarized in the following sections.

Complementary Financing Scheme (CFS)

CFS loans, in which ADB acts as "lender of record" and provides loan administration services, are funded by commercial lenders, such as banks and insurance companies. We provide CFS loans to private sector projects where ADB is a direct participant. Although CFS loans do not provide cofinanciers with recourse to ADB for debt service, such loans do enjoy the same privileges and immunities given to ADB direct loans, including exemption from withholding taxes and from restrictions on remittance of principal and interest. In addition, CFS loans share in ADB's *preferred creditor status*, and thus enjoy enhanced cover against sovereign risk.

Commercial cofinanciers of ADB-assisted projects are given access to ADB's project appraisal and loan documentation, thus facilitating their credit analysis and due diligence. In most cases, bank regulatory authorities in the cofinancier's home country reduce the provisioning requirements on lender-of-record loans. Taken together, these benefits allow us to mobilize CFS cofinancing on better terms than would otherwise be possible.

Documentation Requirements. For CFS cofinancing, a single loan agreement covering both ADB's main loan and the CFS loan may be used. This is in line with the principle that all senior lenders to a project, including cofinanciers, are in the same position and should receive debt service on a pari passu basis. Cofinanciers of a CFS loan are allowed to accelerate the loan, if it is in default due to nonpayment of principal or interest. ADB reserves the right to accelerate its direct loan, based on an optional cross-default clause that is a standard feature of ADB CFS loan documents.

Fees. Because we incur costs for arranging and administering CFS loans, we charge fees for these services as follows:

Arrangement Fee	75–100 basis point on the amount of (payable on arrangement) the CFS loan (minimum of $20,000)
Administration Fee	$5,000 per participating CFS lender per annum, with a maximum fee of $20,000 per annum

Guarantees

Our guarantees are credit enhancements that cover risks that the private sector cannot easily absorb or manage on its own. Mitigating these risks can make a crucial difference in mobilizing debt funding for private sector projects. Such guarantees have been used successfully to mobilize commercial cofinancing for both financial and infrastructure sector projects.

We offer two guarantee products. The first is the partial credit guarantee (PCG), which provides *comprehensive* cover for both commercial and political risks. The second is the political risk guarantee (PRG), which covers *sovereign* (or political) risks, thus leaving commercial risks with private sector sponsors or lenders. The key features of these products are summarized below.

Partial Credit Guarantees. PCGs are designed to cover that portion of the debt service that falls due beyond the normal tenure of loans from commercial lenders. They are generally used for projects that need long-term funds to be financially viable. PCGs cover all events of nonpayment of the guaranteed obligation. In that sense, PCGs are comprehensive guarantees of principal and/or interest for those maturities that cannot be obtained from commercial lenders without credit enhancement. PCG cover is particularly useful for projects in DMCs with restricted access to the financial markets, but which we consider fundamentally creditworthy and sound.

With lessons learned from the Asian financial crisis, host governments, project sponsors, and cofinanciers are placing increased emphasis on matching the currency of project revenue and debt service cash flows. To address this concern, ADB PCGs can be designed to cover *local currency debt*, including domestic bond issues or long-term loans from local financial institutions.

Political Risk Guarantee (PRG). PRGs are designed to facilitate commercial cofinancing by covering specifically defined sovereign or political risks, which may include any combination of the following:

- breach of contract, which refers to losses arising from a host government's breach or repudiation of a contract with an insured project (for a power project, such breach may result from failure by a government-owned entity to make payments in accordance with the power purchase agreement between the independent power producer and the user or distributor);
- expropriation and nationalization;
- currency inconvertibility and nontransfer; and
- political violence.

Fees. Fees for both PCGs and PRGs for private sector transactions are market-determined. Depending on administrative considerations and prevailing commercial practice, guarantee fees can be charged either to the borrower or to the lender.

Export Credit Agency (ECA) Cofinancing
As a result of the Asian financial crisis in the late 1990s, financing for private sector projects have become more expensive, shorter in term, and in some cases simply not available. While our CFS, PCG, and PRG provide valuable "cover" to commercial cofinanciers, support from ECAs can provide an additional and significant source of cover to such cofinanciers.

Export credit is usually provided by means of (i) commercial bank loans that are *insured* or *guaranteed* by ECAs or (ii) *direct loans* from ECAs. Export credit is often part of an export credit package put together by a structured trade or project finance unit of a commercial bank. The mandate of most ECAs is to fill a "gap" and cover the risks that the commercial market will not.

To tap this very important source of cover and to assist our borrowers in obtaining affordable and realistically priced commercial cofinancing, we are implementing an *ECA Collaboration Strategy*. The key features of this strategy as it applies to private sector transactions are

- intensified communication and coordination with ECAs, and
- willingness on ADB's part to act as *coordinator* between the project sponsor or arranging bank and the various ECAs and international financial institutions participating in a transaction.

How to Apply for ADB Assistance

If you have a proposed private sector project that is eligible for ADB assistance, we invite you to submit to us an application with the following:

- description of the project;
- backgrounder on the sponsors, including financial and managerial background;
- project cost estimates, including foreign exchange requirements;
- implementation plan, including status of government approvals;
- market prospects, including proposed marketing or off-take arrangements;
- financing plan, indicating the type and amount of ADB assistance requested;
- corporate governance system; and

- disclosure and analysis of key risks.

Please see Appendix 4 for the detailed requirements. Rest assured that we strictly observe confidentiality in regard to submitted information.

After we assess the information, we will convey our preliminary views to you and may ask you for additional details and documents necessary for further processing.

Please note that ADB may not be able to assist every project applied for assistance even if it meets eligibility criteria. Reasons for this may be (i) staff or other resource limitations, (ii) need for industry and country risk diversification, or (iii) simple difference of opinion on the quality of the project and/or of its sponsors.

How We Process Your Application

Processing your application involves five major steps. First, we clear the concept, next we do the due diligence, then we submit the project to the credit committee, next ADB's Board of Directors deliberates on your project's merit, and lastly we have the financial closing.

Concept Clearance

First we screen your application to determine if your proposed project: (i) is prima facie technically, economically, socially, and financially viable; (ii) needs ADB to play a catalytic role in developing and financing the project; and (iii) supports ADB's strategy in the country or region where your project is to be located. Based on an internal review, we will then finalize a concept clearance paper for ADB management's approval. At this point, you must agree to pay ADB out-of-pocket expenses for processing the project.

Due Diligence

Shortly after clearing the concept, a project team from ADB will visit the (i) project site, (ii) offices of the sponsors, and (iii) other locations, if necessary. The Mission will meet with the sponsors, government agencies concerned, and local and international financial agencies to review the feasibility and environmental impact studies, including any resettlement of project-affected persons, and the overall viability of the project. It will also review project costs and financing and implementation plans. In addition, it will assess cofinancing under ADB's CFS as well as examine alternatives.

Proponents of projects that appear to have a significant environmental and/or social impact are then asked to submit a summary of their project's environmental impact assessment (including resettlement aspects) report. This summary report, which should be prepared in accordance with ADB's guidelines, is circulated at least 120 days prior to consideration by ADB's Board of Directors.

For large and complex projects, the project team will coordinate with the sponsors and other senior lenders about appointing an independent counsel as well as engineering and other technical advisers to represent the lenders on a collective basis. In the case of smaller projects, lower level outside assistance will be required but, in all cases, the sponsors will be required to pay for these services.

Credit Committee Review

The project team undertakes an in-depth examination of the project, the sponsors behind the project, and the issues identified at the fact-finding stage. It then submits its report to the credit committee.

Negotiation and Board Consideration

The terms and conditions of ADB's investment are then negotiated with the sponsor(s) and the internal documentation for the project is finalized and circulated to ADB's Board of Directors for consideration.

Financial Closing

Once the Board gives its approval, the project proceeds to financial closing. ADB then disburses its loan and/or equity investment subject to compliance by the sponsor(s) with the conditions agreed upon.

Quick Reference Guide

How does ADB help the private sector?
What are the advantages of working with ADB?
How does ADB mobilize capital for private enterprise?
What sectors of the economy does ADB focus on?
How much assistance does ADB give?
What criteria does ADB use to evaluate projects?

Quick Reference Guide

1. How does ADB help the private sector?

ADB supports private sector development:

- directly by funding and supporting approved private enterprises, private equity funds, and financial institutions. ADB also mobilizes international capital for private enterprise.
- indirectly by advising governments on policies that create a business-friendly climate. For example, we encourage tariff rationalization, fair tax systems, and protection of contractual and property rights.

2. What are the advantages of working with ADB?

Getting finance from ADB gives your project instant credibility with private investors and/or lenders. We have over 35 years of experience in the region, and we maintain positive relationships with a wide network of government agencies and financial institutions.

We are more than a bank: we are a development institution. So we add value to your project. You'll find our involvement helps you to achieve broader goals, for example, to:

- gain sector knowledge,
- improve corporate governance and risk management,
- improve compliance with laws and regulations, and
- support environmentally sound projects.

Our presence alongside private partners helps provide comfort to private investors, thus enabling us to mobilize financing for private sector projects or enterprises. Our loan maturity can be as long as 15 years.

3. How does ADB mobilize capital for private enterprise?

We produce financial solutions to manage the risks of investing in developing countries. Solutions may include a mixture of private and official funding sources.

In providing assistance to the private sector, we use equity investments, loans, guarantees, or ADB's complementary financing scheme (CFS) to mobilize private investments.

Equity may include preferred stock, convertible loans, and other mezzanine financing.

We generally provide loans denominated in the major international currencies, but will increasingly use local currency financing in selected countries such as India, Philippines, People's Republic of China, and Thailand.

Our guarantees for private sector projects cover risks that the private sector cannot easily absorb or manage on its own. Reducing these risks can make a crucial difference to funding.

CFS loans are available for private sector projects in which ADB is a direct participant. We act as "lender of record" and provide loan administration services. CFS loans are funded by commercial lenders, such as banks and insurance companies. While cofinanciers cannot use ADB for debt service, such loans enjoy the same privileges and immunities given to our direct loans.

4. What sectors of the economy does ADB focus on?

We are currently focused primarily on two areas: the financial sector and infrastructure.

In the financial sector, we assist private financial intermediaries such as banks, nonbank financial institutions, and funds so that these institutions can, in turn, finance SMEs, micro enterprises, local infrastructure facilities, housing mortgages, trade, and other underserved areas.

In infrastructure, we help build physical facilities in such fields as energy (power and hydrocarbons), water supply, waste management and treatment, telecommunication, toll roads, ports, airports, and light rail systems. We also finance existing infrastructure projects for upgrading or expansion to enhance their operating efficiencies.

We recently began to extend assistance to private sector ventures in the social sector, particularly in health care, education, housing, and environment protection systems. These investments can often break the cycle of poverty, and help the poor get essential social services.

5. How much assistance does ADB give?

Our total support for any one project may not exceed the lesser of

25% of the total cost of the project, or $75 million.

Our aim is to catalyze financing from local or foreign sources, not to compete with them, thus:

- our equity investments must not exceed 25% of the total share capital,
- we cannot be the largest single investor in an enterprise, and
- we will not assume responsibility for managing an enterprise.

If necessary, we mobilize additional debt from other banks, through parallel financing, cofinancing, or guarantees. In such cases, our total assistance may exceed 25% of the project cost, but should still be below 50%.

We require security, which will be different in every case.

We also sell our shareholdings at a fair market price once the objective of the investment is achieved. We may require shares to be listed on one or more stock exchanges, or we may enter into a buy-back agreement. In general, we prefer to sell our shares to nationals of the host country at an appropriate time for the company.

6. What criteria does ADB use to evaluate projects?

A project must be financially viable, with significant economic and social merit, and a positive development impact. We look for projects that reduce poverty, protect the environment, and improve the lives of the poor.

The project's cost must be reasonable. The sharing of risks and rewards must be fair for both country and sponsors.

We prefer to assist infrastructure projects that have been awarded through a competitive bidding process.

We evaluate your project's technical feasibility, market prospects, financial and economic viability, environmental soundness, and commitment to best practices of corporate governance. We also consider the integrity, success record, financial resources, and competence of the project's sponsors and management.

Examples of ADB-Financed Private Sector Projects

ShoreCap International, Ltd.
Mekong Enterprise Fund
Afghanistan International Fund
FEGACE Asian Subfund
BLC Power Project
Afghanistan Cellular Phone Network
Colombo Port Development
Phu My Power Projects

Examples of ADB-Financed Private Sector Projects

Capital Markets

SHORECAP INTERNATIONAL, LTD.

Micro and small enterprises represent a major driver of business and economic progress in developing countries. However, some 180 million poor households, as well as countless small-scale entrepreneurs, in the Asia and Pacific region still have little access to formal financial services.

For this reason, the Asian Development Bank (ADB) has invested $2.5 million in ShoreCap International Ltd., a private equity fund targeting regulated microfinance institutions (MFIs) and small business banks in developing Asian markets where demand for financial services is high but remains underserved.

The ShoreCap fund, with current capitalization at exceeding $28 million, will invest in financial intermediaries serving micro and small enterprises in the developing economies of Africa, Asia, and Eastern Europe. The fund expects to allocate up to half of its investment portfolio to Asia, with ADB's investment targeted exclusively to that part of the portfolio.

The fund is ADB's first private sector investment targeting MFIs. Besides small banks and regulated MFIs, the fund will support strong microfinance NGOs that are in an advanced stage of becoming regulated and commercial entities.

ShoreCap's financial investments will be accompanied by capacity building from a parallel technical assistance facility, ShoreCap Exchange, and transfer of valuable knowledge and experience from the fund sponsor, ShoreBank, a US-based community-development bank with global advisory outreach.

Providing formal banking and financial services in underserved areas promotes development as it allows small firms and individuals to gain familiarity with using formal banking products and services. This helps create a virtuous cycle where more banks recognize increasing opportunities within these sectors and become more comfortable in dealing with this previously ignored segment of the economy.

Capital Markets
MEKONG ENTERPRISE FUND

The Mekong Enterprise Fund, Ltd. (MEF) is the first and only fund focusing on equity investments in private companies in Viet Nam. It is managed by Mekong Capital Ltd under a long-term management agreement.

The Fund aims to obtain the highest possible internal rate of return (IRR) while making a positive impact on the development of the private sector in Vietnam. Its investee companies serve as models for other local private companies in terms of best practices in management systems, transparency, and corporate governance. Many of these companies are expected to be among the first private companies to list on Viet Nam's stock exchange, which is currently dominated by formerly state-owned companies. MEF also sets an example for other investors that it is possible to make successful investments in private companies in developing countries.

MEF was launched in 2002 as a result of close collaboration between ADB, the Mekong Private Sector Development Facility, and the founders of Mekong Capital. ADB was the lead investor and also played a key role in coordinating with other future shareholders.

Since the MEF's launch, the Fund has invested a total of $12.8 million in nine companies. It typically holds 20–30% of a company's shares after it makes an investment.

Mekong Capital aims for its investee companies to grow at 30% per year, on a per share basis, and believes that this will translate into an attractive net IRR for the Fund's shareholders.

Post-investment assistance to investee companies is provided through Mekong Capital, the investment manager, and focuses on helping them improve their management systems while increasing their level of awareness of best practices.

Capital Markets
AFGHANISTAN INTERNATIONAL BANK

ADB's equity investment in the Afghanistan International Bank (AIB) has helped reestablish and create greater confidence in

Afghanistan's banking sector as well as encourage more investment in its financial and manufacturing sectors.

Officially launched in July 2004, AIB is be managed by ING Institutional and Government Advisory (ING IGA), a wholly owned subsidiary of ING Group and one of the largest financial services companies in Europe, headquartered in Amsterdam, Netherlands. ADB's investment will support the development of AIB as it establishes and expands its operational capabilities within and outside of Kabul, and internationally. Under ING IGA's management, AIB will operate according to international best practices.

ADB is investing up to \$2.6 million in exchange for up to a 25% share in AIB. Afghan Investment Partners Corporation, Crest Enterprises, and the Ramat Group will collectively own 75%. AIB will apply separately to ADB's Trade Finance Facilitation Program for an allocation of \$5 million.

Through its investment, ADB gains the opportunity to affect tangible development in Afghanistan's banking sector. As a shareholder, it will be able to keep abreast of major issues facing the country's private sector as banking regulations and tax and bankruptcy laws evolve.

Moreover, ADB's investment will help (i) catalyze further investments and produce a demonstration effect, (ii) provide impetus for further financial reforms and increased foreign direct investment, (iii) promote competitiveness in the banking sector, (iv) increase the provision of trade finance, and (v) advance internationally recognized best practices in corporate governance and commercial banking.

Environment

FEGACE ASIAN SUBFUND

Efficient use and conservation of energy is critical to sustainable development. As Asia continues to experience robust growth, rising energy costs, price volatility, and clean air regulation increase pressure on industries, particularly small and medium enterprises (SMEs).

The situation has given rise to energy service companies (ESCOs) that implement energy-efficiency options quickly, efficiently, and cost-effectively to client firms and help them realize savings through better energy technologies. As industrial intermediaries, ESCOs guarantee energy savings to customers. If minimum savings targets are not met, ESCOs pay the customer lost revenue; if targets are exceeded, ESCOs share in their customer's additional savings. In effect, ESCOs ensure SMEs' medium- and long-term profitability. Despite demand for their services, however, ESCOs in Asia are severely undercapitalized.

The FE Global/Asia Clean Energy (FEGACE) Services Fund is one such fund mobilized to provide financial and technical resources to ESCOs. FEGACE's Asian Subfund, in which ADB is investing up to $20 million, will initially fund initiatives in India, Malaysia, Philippines, and Thailand. The fund's focus on these countries is driven by their local industries' (i) high energy costs due in part to reduced energy subsidies, (ii) poorly designed or oversized equipment that result in inefficiencies, (iii) potential to optimize facilities to their business needs, and (iii) shortage of capital to implement such technologies, among other factors.

Since 2002, ADB has been promoting clean and renewable energy by administering projects under its Renewable Energy, Energy Efficiency, and Climate Change (REACH) Program. In addition, ADB gives country-specific support, for example, in India where energy demand is one of the fastest growing in the world today, and in the People's Republic of China in support of its quest for cleaner and renewable energy sources.

Infrastructure

BLC POWER PROJECT (2004)

ADB is supporting a $1.4 billion power project in Rayong Province, Thailand to help meet the country's long-term need for reliable energy. The project will also promote fuel diversification in the country's power sector.

The Rayong plant is the first private power generation project in Thailand approached by the international financial market since the region's financial crisis in 1997. It is also the first independent power producer in Thailand to be financed by both local currency and foreign exchange loans of this magnitude.

ADB's commitment to the project includes loans amounting up to $140 million, and a political risk guarantee of up to $70 million for offshore cofinancing. Its assistance is crucial in supplementing private political risk insurance and catalyzing offshore commercial loans.

The project entails the construction of a 1,434-megawatt (MW) coal-fired power station 60 kilometers (km) southeast of Bangkok. It will be developed under a 25-year power purchase agreement between the Electricity Generation Authority of Thailand (EGAT) and BLCP Power Limited, a private limited liability company owned by CLP Power of Hong Kong and Banpu of Thailand.

EGAT will purchase the plant's output during the term of the power purchase agreement. To meet strict international and local environment guidelines, high-quality coal will be shipped to the plant from Australian Coal Holdings Pty Ltd. under a 25-year supply agreement.

The plant is expected to begin commercial operation in February 2007 to help meet projected demand for electricity. About 11,000 MW of additional capacity will be needed by 2013.

Infrastructure

AFGHANISTAN CELLULAR PHONE NETWORK

After more than decades of conflict, Afghanistan was left with no functioning national fixed line telecommunications service, a barely functioning postal service, and poor roads. Cellular networks in the country, whilst growing fast, are still basic, limited in reach, and require significant additional investment if they are to extend coverage beyond the major cities.

Telecommunications is an essential element of a country's infrastructure, alongside transport, water supply, and energy. In mountainous and landlocked Afghanistan, cellular telephony is seen as the only viable method of providing reliable, countrywide communications coverage. National demand for this service will continue to increase rapidly but development is constrained by the limited availability of funds.

ADB is helping improve telecommunications in Afghanistan through a $35 million loan to finance the nationwide expansion and upgrading of the country's leading cellular network, Roshan. Recipient of the first significant loan of its kind to a privately owned enterprise in Afghanistan in almost 30 years, the project will support Afghanistan's reconstruction and economic development.

The cellular network project will use global system for mobile communication, cellular, satellite, and radio wave transmission technologies. The new capital infusion will help Roshan—a private limited liability company providing cellular telephone, public call office, international gateway, and nternet services—to expand coverage countrywide and deploy public call offices that provide access to communications for less affluent users.

Through its involvement in this financing, ADB hopes to serve as a positive example to international aid agencies and commercial lenders, encouraging them to support private sector development in Afghanistan.

ADB's loan is without government guarantee and comes from ADB's ordinary capital resources. Interest is determined in accordance with ADB's LIBOR-based loan facility.

Infrastructure

COLOMBO PORT DEVELOPMENT

The Colombo Port Development Project is Sri Lanka's first transport initiative packaged under a build-operate-transfer (BOT) scheme. It is designed to support the country's growing export industry and establish Colombo as a premier transshipment hub in Asia. The Project called for the expansion of the Queen Elizabeth Quay facilities from a designed capacity of only 285,000 twenty-foot equivalent units (TEUs) to 1.1 million TEUs. The Project represents the initial stage of the government's plan to establish the Port as a regional hub. And given the tremendous rise in trade volumes from Asia to Europe and the United States, it is considered a critical project in the country's development strategy.

Colombo Port is situated along the main shipping highway between Europe and Southeast Asia. Sri Lanka's largest and one of South Asia's most active, it is one of only a few deep-sea ports in the Indian subcontinent.

The Project is ADB's first investment in a private sector infrastructure project in the country. The investment is in line with ADB's country development strategy for Sri Lanka, which is to promote economic growth and reduce poverty through policy and institutional reforms designed to encourage private sector investment particularly in vital infrastructure projects.

ADB approved a financial assistance package in 1999 consisting of an equity investment of $7.4 million and a loan, without government guarantee of up to $7.4 million. In addition, ADB assisted in structuring a bankable transaction that can be replicated in future private sector-led port projects in Sri Lanka.

The Project is expected to result in a windfall of benefits not only for Sri Lanka but also for the entire South Asia. Foremost is the expected increase in jobs and economic activity in Sri Lanka, not to mention additional substantial revenues for the Government of Sri Lanka to spend on social services. For importers and exporters in the entire region, the improved port facilities will result in reduced overall transport and logistics costs as timely and more reliable operations are achieved.

Infrastructure
PHU MY POWER PROJECTS

Viet Nam is rich in natural resources yet its energy production is among the lowest in Asia. To meet expected growth in power demand and reduce dependence on seasonal hydropower generation and imported fuel, Viet Nam is on a major drive to develop its natural gas reserves for power generation.

ADB is financing two of the five natural gas-fired power plants located in the Phu My Power Generation Complex, about 75 km from Ho Chi Minh City. These are Phu My 2.2 and Phu My 3 power plants international developers operate on a BOT basis. The Phu My projects represent environmentally friendly solutions to the power supply problem in Viet Nam and make competitively priced power available within a short period of time.

The scheme includes a take-or-pay Power Purchase Agreement, whereby Electricity of Vietnam will purchase the output of the projects during the term of the contract. The supply of natural gas is assured under a gas sales agreement signed with Vietnam Oil and Gas Corporation. The projects will be handed over to the Government of Viet Nam at no cost at the end of the contract period.

Phu My 2.2 Power Project. The 715-MW gas-fired combined cycle power plant constructed as part of a larger power generation complex in Va Ria Vung Tau Province in southern Viet Nam started commercial operations in February 2005. It is Viet Nam's first privately sponsored power project awarded on a transparent international competitive bidding basis. Completed in an exceptionally short time frame, this project's multi-tranche financing structure creatively and effectively used credit enhancements to achieve the volume and tenors that the Project needed. The structure included a $140 million equity investment provided by the sponsors and $240 million of loans from multilateral and bilateral institutions and commercial lenders including ADB's direct loan of $50 million, a political risk guarantee (PRG) of $25 million, and a Japan Bank for International Cooperation (JBIC) loan and export credit facility of up to $150 million. The Project is operated by Mekong Energy Company Limited, a joint venture between international developers with strong and proven track records.

Phu My 3 Power Project. The 717-MW capacity power plant project is being undertaken by the Phu My 3 BOT Power Company Ltd., a joint-venture between three parties with equal interest. The project was financed with debt of about $289 million and equity of about $96 million. ADB provided a direct loan, without government guarantee, of $37 million and a PRG of $30 million of commercial lending. JBIC provided a loan of $93 million. Additional commercial cofinancing of $129 million was mobilized from international banks benefitting from PRGs provided by two guarantee agencies. The project started commercial operations on 1 March 2004.

Appendixes

Appendix 1

Private Sector Loan Terms

	LIBOR-BASED LOAN PRODUCT
CURRENCIES	• Euros, US dollars, or Japanese yen
LENDING RATE	• All London interbank offered rate (LIBOR)- based loans will initially have a floating rate until borrower requests for a fixed rate. The lending rate will consist of a base rate plus a fixed spread. • *Cost Base Rate*: 6-month LIBOR for the US dollar and Japanese yen and 6-month euro interbank offered rate (EURIBOR) for the euro. At any time during the life of the loan, the borrower may request ADB to implement a series of interest rate fixing either by period or by amount. • *Fixed Spread*: To be determined on a case-to-case basis based on assessment of credit and project risks and set about 1 month prior to loan signing.
COMMITMENT FEE	• 0.5–0.75% per annum on progressive amount of undisbursed loan balance.
FRONT-END FEE	• 1.0–1.5% flat of the loan amount
MATURITY	• As may be determined based on project needs and could comprise a grace period and a repayment period with final maturity.
LOAN CONVERSION OPTIONS	Following conversion options would be available subject to ADB conversion procedures as may be applicable at the time of conversion. a) **Currency Conversion:** *Undisbursed Amounts*: The whole or part of the undisbursed balance of the loan may be converted into the three offered currencies. *Disbursed Amounts*: The whole or part of the disbursed balance may be converted into the three offered currencies for the whole or part of the loan's residual life.Maximum maturity will depend on market conditions, currently 10 years. Conversions will be executed at the then prevailing market rates. b) **Interest Rate Conversion:** The floating lending rate on the whole or part of the disbursed balance may be converted into a fixed-rate or vice versa for whole or part of the loan's residual maturity. Conversions will be executed at the prevailing market rates. Borrower may exercise these options any time during the life of the loan subject to a minimum amount of the higher of $3 million or 10% of the loan amount. In the case of floating-to-fixed rate conversion, the maximum maturity is 10 years, although longer maturities may be available on a case-by-case basis. c) **Interest Rate Caps and Collars:** A cap or collar on the floating lending rate may be purchased for up to the entire disbursed amount, for the whole or part of the residual maturity.

Appendix 1

Private Sector Loan Terms (contd.)

TRANSACTION FEES	• *Currency Conversion*: 0.125% of the transacted amount for the disbursed loan amounts and 0.0625% of the transacted amount for the undisbursed loan amounts. • *Interest Rate Conversion*: No fee for first series of conversion from floating rate to a fixed rate for up to full amount and maturity of the loan. 0.0625% of the transacted amount on the subsequent interest rate swaps. • *Interest Rate Caps and Collars*: 0.0625% of the transacted amount.
PREPAYMENT	• All or part of the disbursed and outstanding loans may be prepaid. Floating rate loans could be prepaid on an interest payment due date without a prepayment premium. Prepayment of floating rate loans on a date other than the interest payment due date will attract payment of a premium based on the difference, if any, between the rate at which the proceeds from the prepayment could be reinvested and ADB's funding cost for the prepaid amount. Prepayment of fixed rate loans or floating rate loans that involve conversion and a corresponding hedge requiring termination will attract payment of hedge unwinding costs, if any.
CANCELLATION	Borrower may cancel all or a part of the undisbursed balance at any time.
REPAYMENT	• Equal principal or annuity repayments.
LENDING RATE RESET/PAYMENT DATES	• Lending rate for floating rate loans will be reset every 6 months on an interest payment date. • Interest payments are due either on the 1st or 15th day of a calendar month and semiannually thereafter.

Appendix 2
ADB Member Countries

As of December 2005

Regional
Afghanistan • Armenia • Australia • Azerbaijan • Bangladesh • Bhutan • Cambodia • People's Republic of China • Cook Islands • Fiji Islands • Hong Kong, China • India • Indonesia • Japan • Kazakhstan • Kiribati • Republic of Korea • Kyrgyz Republic • Lao People's Democratic Republic • Malaysia • Maldives • Marshall Islands • Federated States of Micronesia • Mongolia • Myanmar • Nauru • Nepal • New Zealand • Pakistan • Palau • Papua New Guinea • Philippines • Samoa • Singapore • Solomon Islands • Sri Lanka • Taipei,China • Tajikistan • Thailand • Timor-Leste • Tonga • Turkmenistan • Tuvalu • Uzbekistan • Vanuatu • Viet Nam

Nonregional
Austria • Belgium • Canada • Denmark • Finland • France • Germany • Italy • Luxembourg • The Netherlands • Norway • Portugal • Spain • Sweden • Switzerland • Turkey • United Kingdom • United States

Appendix 3
Risk Principles for Investment Funds

The following list of principles forms the basis for ADB's approach to the processing and administration of investment funds.

- Sound, Effective, and Documented Governance Systems at Fund and Portfolio Company Level

- Effective Board of Directors and Investment Committee
  - Independent
  - Accountable
  - Compliant with international standards for corporate decision making

- Transparent, Consistent, and Documented Guidelines for Managing Conflicts of Interest
  - Effectively communicated
  - Published list of disclosure requirements

- Transparent and Documented Guidelines for Fair Dealing in All Fund Business Activities
  - Commitment to adhere to internationally accepted code of ethics and conduct

- Defined and Acknowledged Fiduciary Responsibilities

- Independent Internal Audit Function

- Documented Guidelines for Fund Termination Set at Inception

- Effective Management Arrangements
  - Objective, documented, transparent, and competitive management selection process
  - Set guidelines for terminating fund management
  - Emphasis on personal selection, roles, responsibility, and relevant expertise
  - Compensation policies and incentive schemes, which encourage behavior that is consistent with the fund's objectives and shareholder value

- Defined and Documented Operations Policies and Procedures
  - Effectively communicated
  - Periodically and systematically monitored and updated
- Defined and Documented Investment Guidelines
  - Clear, consistent, detailing the degree of management discretion
  - Set at fund inception and modifiable only with unanimous consent of all shareholders
  - Defined and documented exit strategy for portfolio investments
- Effective and Documented Investment Due Diligence Process
  - Structured, consistently applied and documented
- Transparent and Documented Performance Target
  - Effectively communicated and monitored
  - Consistent use of benchmarks
- Transparent and Documented Portfolio Performance Measurement and Monitoring
  - Consistent use of internationally accepted valuation and performance measurement methods
  - Risk-adjusted performance measures
  - Mark-to-market valuation of investments, whenever possible
- Effective and Documented Risk Management Function
  - Set limits for credit, market, and settlement risks
  - Independent monitoring of fund operations and external events
  - Periodic evaluation of independence and overall effectiveness of fund’s control and risk management infrastructure
- Compliance Function Independent of Investment Process
- Effective Management Information System
  - Effective monitoring of business performance
  - Enabling informed decision making
  - Consistent application of internationally accepted accounting standards

- Effective Treasury Function Independent of Investment, Trading, and Credits

- Corporate and Regulatory Reporting
  - Documented disclosure policies
  - Compliance with regulatory reporting requirements

- Communications with Investors
  - Complete, accurate. and timely provisions of information that enables evaluation of performance
  - Decision-making "friendly"

Appendix 4

Application Requirements

The application for assistance should be accompanied by, as much as possible, the information listed below.

The Proposal

The role ADB is expected to play in the transaction, including equity, debt, and cofinancing arrangement.

Introduction

General information on the Sponsor, how the Sponsor was selected to undertake the Project, description of the project including implementation and operation philosophy, level of support for the project from the various levels of government, lending institutions and investors, and perceived difficulty to implement without ADB support. A feasibility study establishing the technical, financial, economic, and environmental viability of the project, prepared by a reputable consultant.

A Brief History of the Sponsor

Background of the Sponsor, including experience in project development in the home country and overseas, particularly in developing countries, the financial history including audited financial statements for the last 3 years, financial plans and projections, copies of any recent filings with securities commissions for issuance of debt and equity, and the ownership structure of the Sponsor.

The Project

Ownership and Management

Proposed structure of the ownership and management of the project, including legal, tax, and other advantages of such a structure, responsibilities, and accountability of the proposed management and cost and incentive structure for any contractual arrangements with any separate management company.

Project Description

Project description, including location, major components, sources, and quality of inputs for operation, and level of technology.

Implementation Arrangements

Implementation and contractual arrangements, including the construction and supervision methodology and a bar chart showing major scheduled achievements and completion for each major component of the project. Draft construction contracts and sources of possible cost increases and delays and sponsor support arrangements for such eventualities. Detailed description of liquidated damage provisions and performance bond requirements.

Project Operation
Operational arrangements for the project, including contractual agreements, availability and training of operational staff, expected efficiency levels of operation, and incentive and penalties for performance, maintenance plans, and reporting systems.

The Market
Market and marketing arrangements, including draft off-take concession and/or purchase agreements, creditworthiness of customer(s), current and projected markets (preferably from independent studies), price sensitivity, and market risks.

Environmental Aspects
A site-specific environmental impact assessment report, highlighting environmental impacts and mitigating measures, prepared by an acceptable consulting firm in accordance with ADB's guidelines.

Cost Estimates
Project cost estimates broken down by (i) major cost category; and (ii) local and foreign currency cost, setting out taxes and duties, development expenses, working capital requirements, and interest during construction.

Financing Plan
A summary of the proposed financing plan and security package including (i) source, amount, currency, and terms of the debt and equity investments; (ii) the source of finance for contingencies and cost overruns; (iii) description of escrow and retention arrangements; and (iv) information on the terms, security requirements, and status of the financing commitments of other lenders. The proposed arrangements for disposal of ADB's equity stake and dividend policy and proposed restrictions on their payment.

Expected Operational and Financial Performance
Financial projections for the project covering the period from financial closing through final maturity of the proposed ADB financing, including balance sheet, profit and loss, and cash flow statements, and detailed assumptions used to prepare the projections. These data should be included in the financial model so that sensitivities for changed assumptions can be readily calculated.

Financial and Economic Evaluation
A calculation of the economic and financial rates of return as well as return on the equity investment. These data also should be included in the financial model so that sensitivities for changed assumptions can be readily calculated.

Others
Risk Analysis
An analysis of the risks in implementing and operating the project with the accompanying mitigating measures showing which party will bear the risk and/or pay for the mitigating measures. This should be accompanied by a list of proposed insurance coverages for both implementation and operation of the project.

Financial Model
The information submission should be accompanied by a copy of the project's financial model. This should be an integrated model that can provide for sensitivity analysis of critical elements of the project. It should be provided in hard copy and on a 3.5 inch floppy disk.

Permitting and Licensing
A list of all permits and clearances required for implementing and operating the project, the issuing authority, and the date of issue or expected issue.

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About the Asian Development Bank

The work of the Asian Development Bank (ADB) is aimed at improving the welfare of the people in Asia and the Pacific, particularly the 1.9 billion who live on less than $2 a day. Despite many success stories, Asia and the Pacific remains home to two thirds of the world's poor. ADB is a multilateral development finance institution owned by 64 members, 46 from the region and 18 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their citizens.

ADB's main instruments for providing help to its developing member countries are policy dialogue, loans, technical assistance, grants, guarantees, and equity investments. ADB's annual lending volume is typically about $6 billion, with technical assistance usually totaling about $180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world and has more than 2,000 employees from over 50 countries.

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