

Outline

- IDB and Infrastructure Department
- Financing Instruments
- Public–Private Partnership
 - Criteria of Infrastructure Financing through PPP
 - Due Diligence and Enabling Environment,
- Risk Management in Infrastructure Financing: Process, Supervision, and Project Risks Snapshot
- Potential Collaboration on Infrastructure Projects in Indonesia



ABOUT IDB



Est. 1975
Authorized Capt.
of \$150 B &
Subscribed Capt.
of \$75 B

1,128 staff
distributed
across entities &
regional/
Gateways offices

A Unique Model
of South-South
Cooperation

Membership
56 Countries
Spreading over
4 Continents

4
Regional
offices

LATIN AMERICA

EUROPE

Rabat, Morocco
(1993)

Almaty, Kazakhstan
(1997)

ASIA

Dakar, Senegal
(2006)

Kuala Lumpur, Malaysia
(1993)

AFRICA

AAA rating by
all three rating
agencies

5 new Country Gateway offices starting with Indonesia &
Turkey

ABOUT IDB



- End of year 1435H (2014-2015)
 - Balance sheet size was ID 14.79 billion (approx. USD 20.72 billion)
 - Equity was ID 7.44 billion (approx. USD 10.42 billion)
 - Net Income was ID 141.70 million (approx. USD 198.38 million)

Infrastructure Department



Mandate

The Infrastructure Department is Responsible for Developing and Implementing the Bank's Strategy in the Infrastructure Sector and PPP Projects Related to Energy, Transport, Urban Development and ICT

Infrastructure Scorecard

Total Financing : US\$ 30 bn

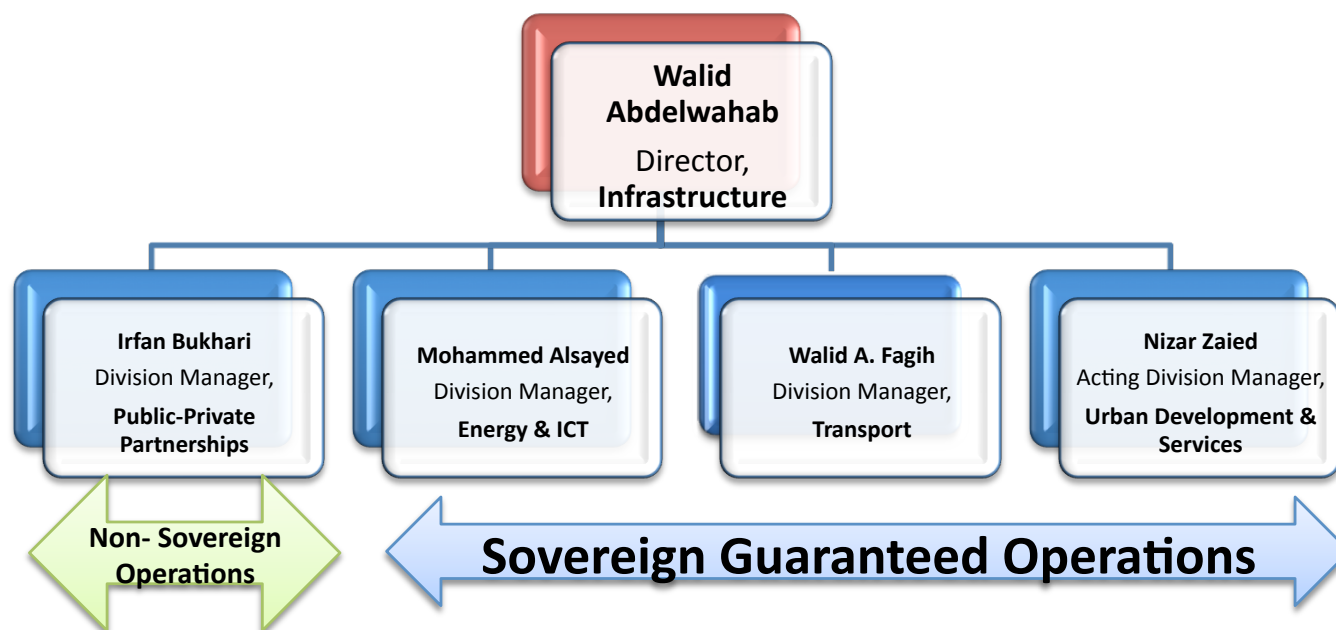
Total Operations : 1,130

Active Projects : US\$ 15 bn

Active Operations : 230

Department Staff : 47

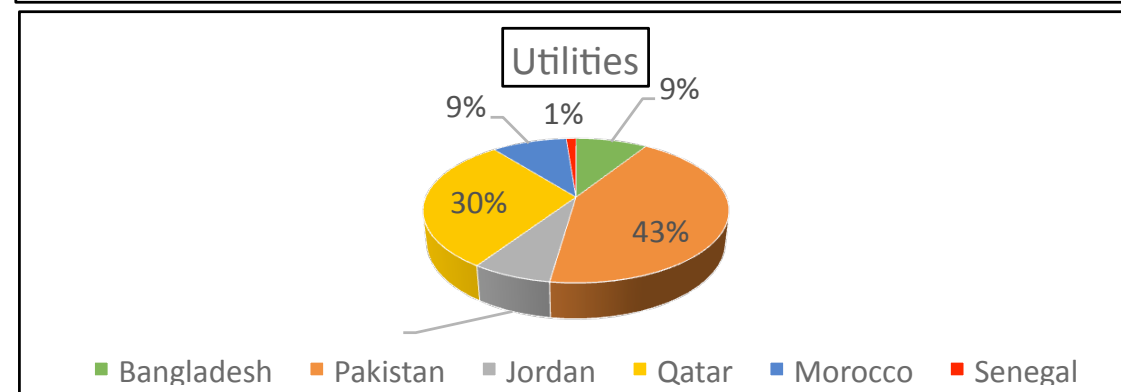
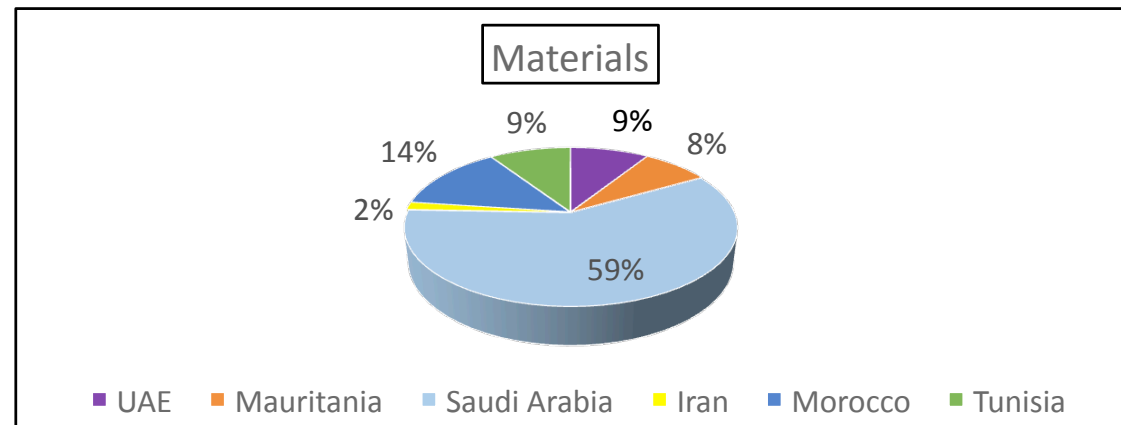
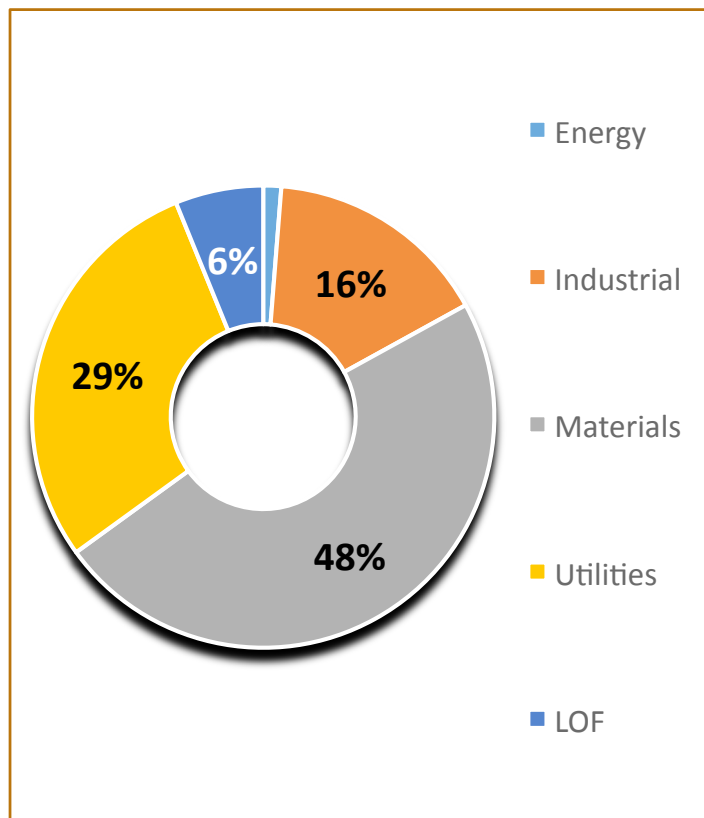
Organizational Structure



IDB'S PPP INVESTMENT OPERATION



- More than USD 3.3 Billion approved so far
- A total of 48 projects, including 13 lines of finance
- Current commitment is more than USD 2.82 Billion*



* Including projects that are currently under documentation process

ISLAMIC FINANCING INSTRUMENTS FOR INFRASTRUCTURE PROJECTS



❑ **Islamic Debt Finance:**

- Ijara, Leasing (equipment, plant, machinery)
- Istisna'a, Construction finance (civil works)
- Installment Sale



About 55% of IDB debt financing is through Istisna'a, 30% through I.S and 15% through Leasing

❑ **Sukuk (Islamic bonds):**

- Sovereign *Sukuk* (by Governments, MDB's for general budget use)
- Corporate *Sukuk* (by corporates using their balance sheets)
- Project *Sukuk* (by project companies, SPV, to finance specific projects)

IDB issued its first local currency Sukuk (Ringitt) to finance toll road in Malaysia.

❑ **Equity Finance:**

- Direct equity participation (*Musharaka*, profit sharing)
- Infrastructure Equity Funds
 - Global, e.g., IDB Infrastructure Funds I and II
 - Regional, e.g., IDB-ADB Islamic Infrastructure Fund

IDB sponsors and invests in infrastructure funds managed by external Fund Managers.

Public-Private Partnership (PPP)



A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance

Benefits of PPP



- Improve public sector capacity in terms of developing integrated efficient solutions for the society;
- Introduce creativeness and innovation to infrastructure projects;
- Introduce both time and cost savings in project implementation;
- Create equitable risk sharing between the public sector and the private sector;
- Bring in large and highly experienced bidders to the projects;
- Create transfer of skills, experience and technology to the public sector.

IDB'S INFRASTRUCTURE FINANCING CRITERIA - PPP



- Limited/non-recourse long term finance in infrastructure projects
- Risk due diligence is in line with the global Project Finance industry practice
- IDB takes senior and pari passu role
- Financing in compliance with Sharia' based principles
- Financing is generally extended in USD or Euro and for long term with maximum tenor 18 years
- Untied financing to projects in all IDB member countries
- Sponsors can be from either member or non-member countries
- Co-finance with other Islamic and/or conventional lenders
- IDB participation is maximum 25% of the project cost

DUE DILIGENCE FOCUS



- IDB's Risk Assessment Tool – The Risk Matrix
- Sponsors
- Governance (Standards)
- Project completion (Sponsor, EPC, EHS, Finance etc.)
- Structure of the project contracts
- Demand & Supply Dynamics
- Environment, Health, and Social Aspects
- Financial viability
- Country & regulatory regime

What We Look For (ENABLING ENVIRONMENT)



- **Capacity in the Public Sector:**
 - Clear rules / precedence for Infrastructure concessions;
 - Ability to select bankable projects;
 - Well prepared projects with credible & adequate data;
 - Transparent and competitive procurement process; and
 - Oversight regime and procedure.
- **Legal and Regulatory Framework:**
 - Rights of the investors and lenders;
 - Sector Policies;
 - Fiscal and forex regime; and
 - Islamic Finance.

RISKS IN INFRASTRUCTURE FINANCING: EQUITABLE RISK ALLOCATION



■ Project Risk

- Construction
- Operations
- Financial-Market
- Technological
- Force Majeure

■ Country

- Regulatory, Political
- Macro Economics

A risk should be allocated to the entity which is best positioned and has the most influence in managing it.

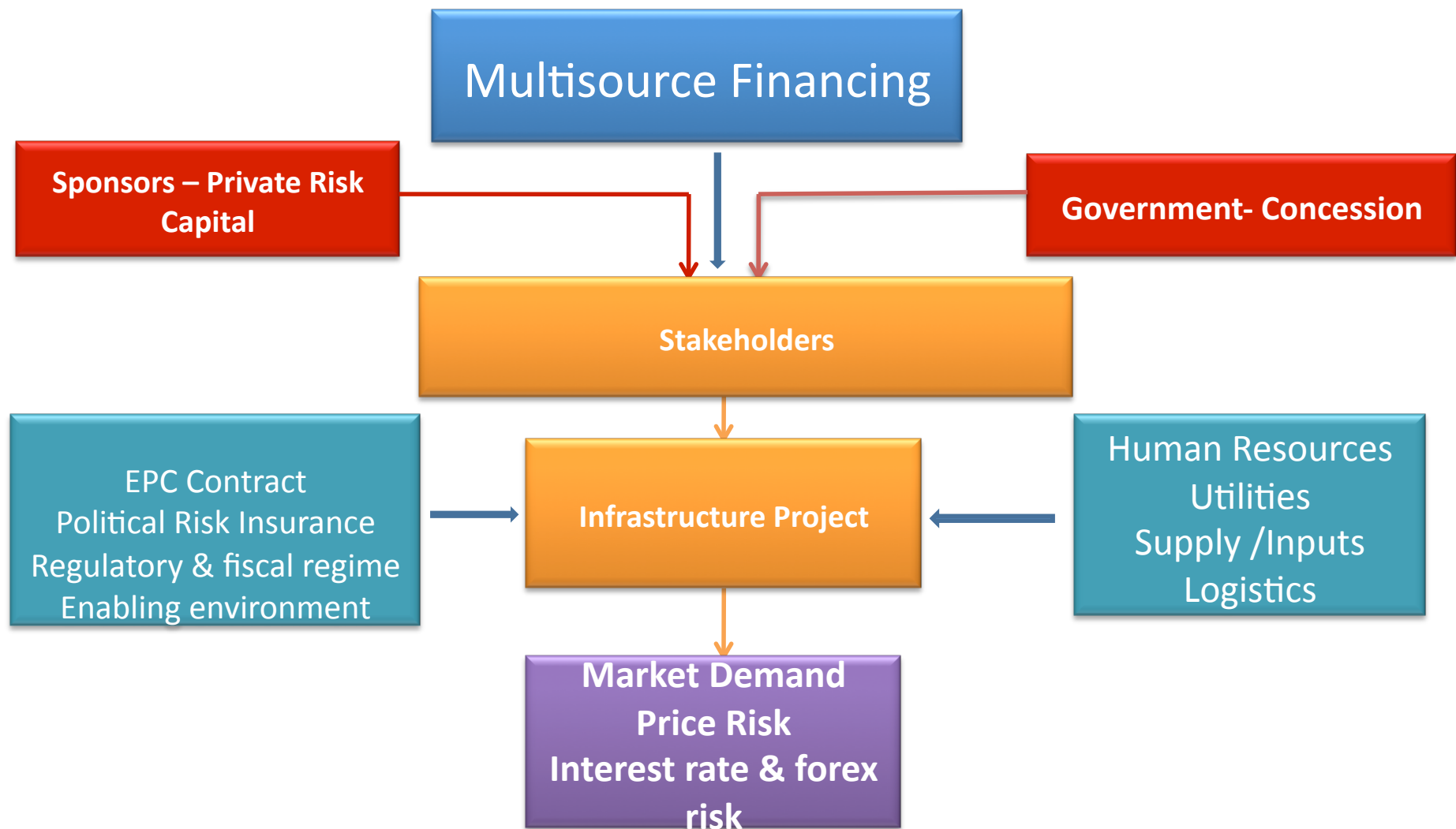
Risk Rigor: A Comparison

Sovereign vs. Non-Sovereign

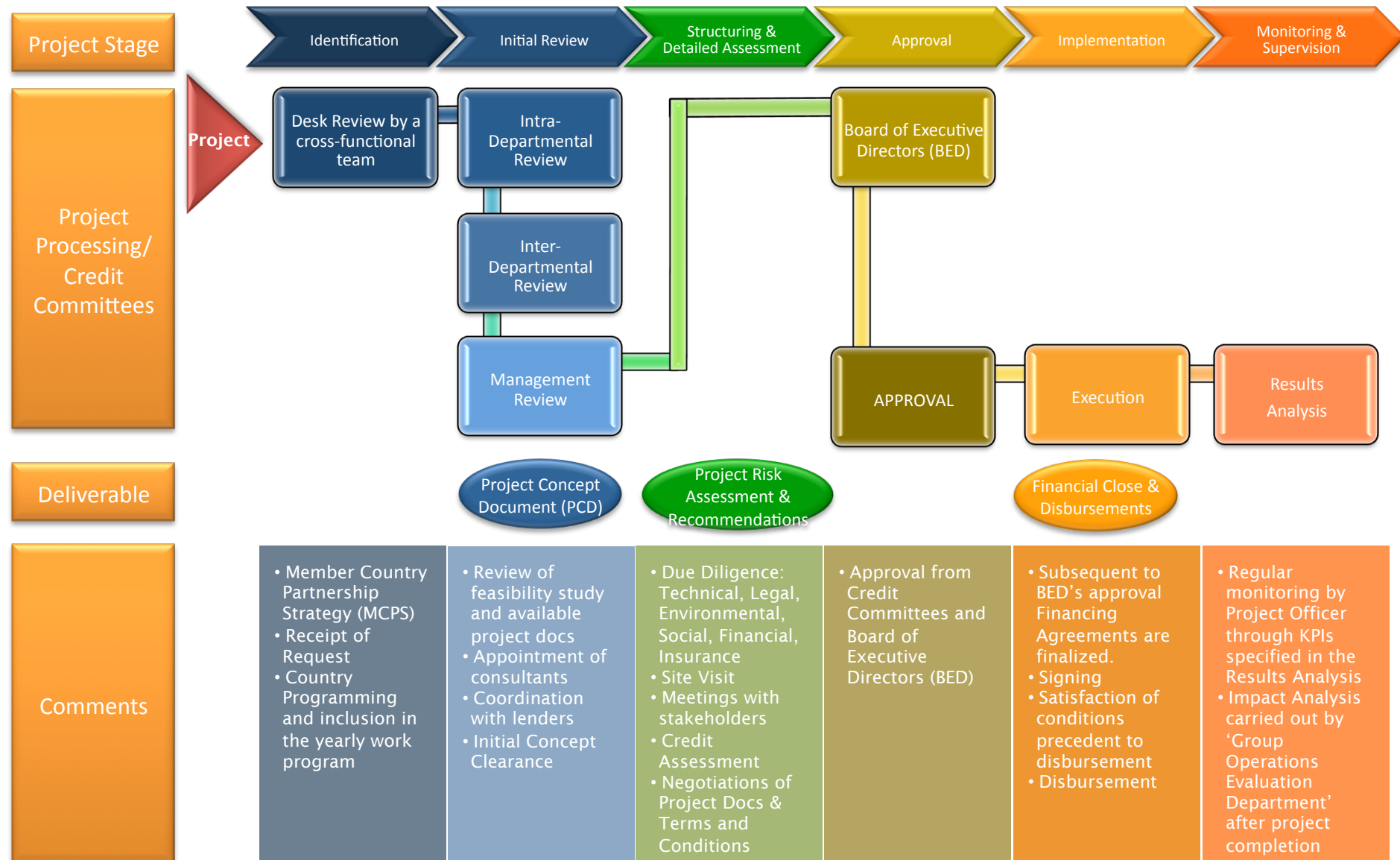


Project Risks	Risk Mitigation Tools	
	Sovereign Guaranteed Project	Non-Sovereign Guaranteed Project
	Sovereign Structure	PPP Structure
Country: a. War and Civil Commotion b. Transfer and Convertibility	Government Guarantee	<ul style="list-style-type: none"> • Implementation Agreement • Concession Agreement
Legal: a. Enforcement of Judgments b. Court Procedures	Government Guarantee	<ul style="list-style-type: none"> • Implementation Agreement • Concession Agreement
Construction: a. EPC/ other contracts b. Site Conditions	Government Guarantee	<ul style="list-style-type: none"> • EPC Bonds & Guarantees • Sponsor Guarantees • EPC Contract
Operation: a. Operations b. Inputs (utilities) c. Economic Environment	Government Guarantee	<ul style="list-style-type: none"> • O&M Contract • O&M Bonds
Financial: a. Repayment Capacity b. Market Risk	Government Guarantee	<ul style="list-style-type: none"> • Assignment over project cash-flows • Implementation Agreement • Concession Agreement • Off-take Agreement

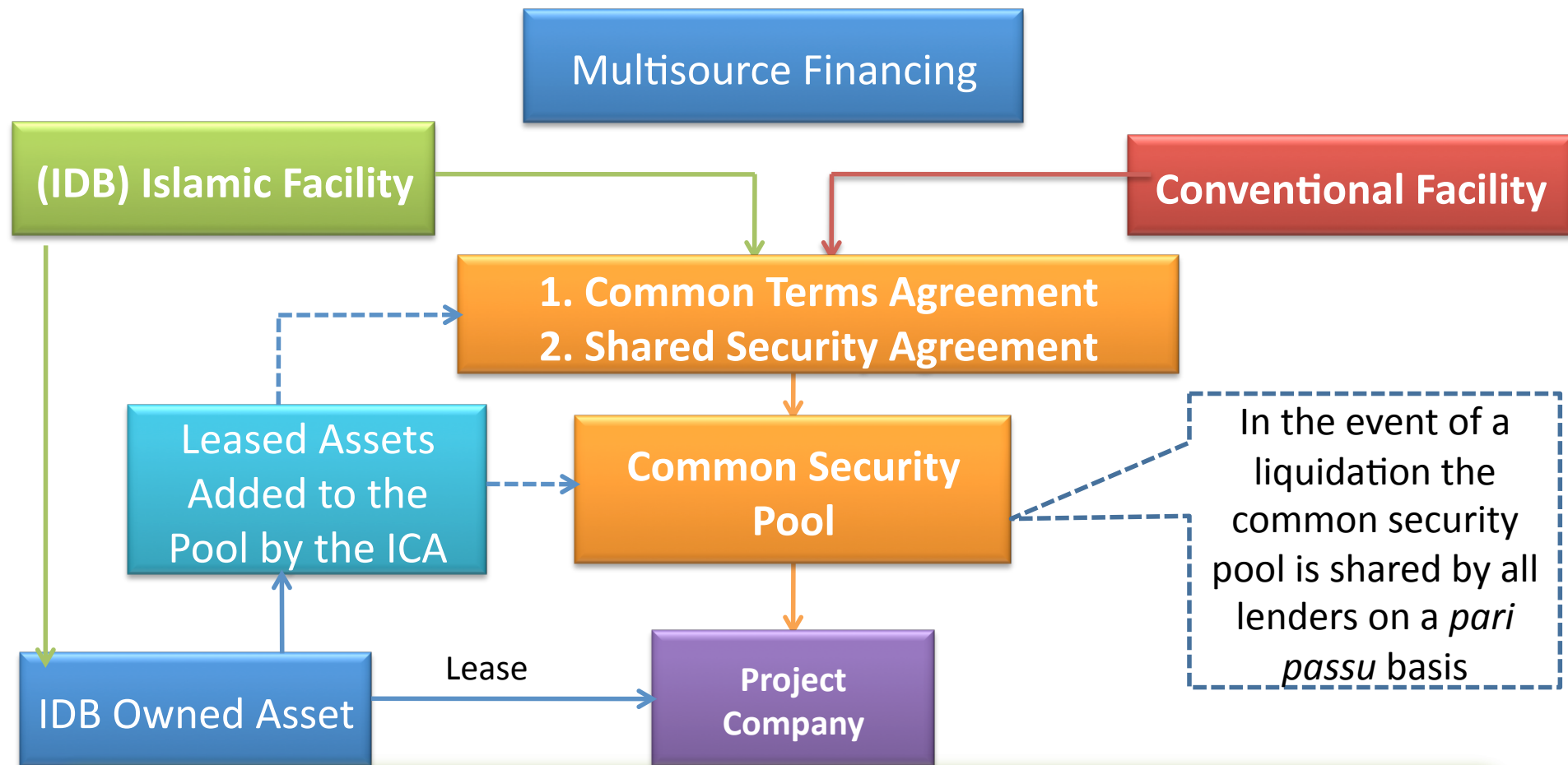
Underlying Risks in Infrastructure Finance



PROCESS: Typical Project Lifecycle



SECURITY RISK: PARI PASSU WITH OTHER LENDERS



- Common Security Pool
- Sharing of Proceeds: Pari Passu

SUPERVISION: RISK MANAGEMENT



- ❑ The Portfolio has been carefully structured to minimize inherent risk
 - All Projects are rated and monitored on a regular basis
 - Projects in the top 5 exposure countries (comprising about 70% of the Portfolio), collectively have an investment grade rating
 - An Early Warning System (EWS) Framework has been developed which entails analysis of:
 - Financial Performance
 - Operational issues
 - Insurance matters
 - Regulatory Compliance
 - Third Party Consultant Technical Assistance

KEY PROJECT RISKS



POWER SECTOR	TRANSPORT SECTOR
<ul style="list-style-type: none"> ▪ Key focus has been on IPP / generation projects ▪ Thermal, run-of-river hydro, wind power ▪ Minimum off-take & back to back feed stock supply ▪ FX risk mitigation ▪ Feedstock supply, hydro / wind resource risk ▪ Tariff competitiveness ▪ Government support ▪ Land and resettlement ▪ Counterparties 	<ul style="list-style-type: none"> ▪ Regulatory and legal aspects ▪ Concession, scope and local regulation ▪ Counterparty dependencies and risks ▪ Conflict of interest: Project company vs. EPCC ▪ EHS, mitigation, resettlement ▪ Existing baseline number and cashflow vs. greenfield ▪ Quality of traffic survey, WTP ▪ Traffic forecast, tariff rate & escalation ability, ramp up ▪ Substitution risk ▪ Soil tests and detailed design ▪ Exchange rate and inflation ▪ Financial model

IDB PPP POWER PROJECTS



Country	Project	Main Sponsors	IDB Commitment (equivalent USD Million)
Qatar	Ras Lafan C (IWPP)	Qatar Petroleum, QEWC, Mitsui & Suez Energy	150
Jordan	Qatrana	KEPCO Xenel	80
Pakistan	Patrind Hydro	K-Water, Daewoo	60
Pakistan	New Bong Escape Hydro	Hub Power Co.	37
Pakistan	Uch II Power	IP / GDF Suez	90
Pakistan	Foundation Wind	Fauji Foundation	140*
Bangladesh	Summit Bibiyana II Power	Summit Group	60
Uzbekistan	Khauzak-Shady Uzbekistan	Luk Oil	95
Senegal	St. Louis Rural Electrification	ONE	8.7

*including 70 million tranche guaranteed by ADB

IDB PPP TRANSPORT PROJECTS



Country	Project	Main Sponsors	IDB Commitment (equiv USD Mln)
Jordan	Queen Aalia Airport	J&P Avax, Abu Dhabi Investment Co., Noor Financials, others	100
Malaysia	KL-Selangor Expressway	Bina Puri, Arean Irama Bhd	100
Malaysia	SKV Expressway	Dato' Rahmat Abu Bakar	90
Djibouti	Doraleh Container Terminal	Port Autonome, DP World	65
KSA	Hajj Terminal, Jeddah	Saudi Binladin Group	100
Senegal	Aeroport International Blaise Diagne	Senegalese Government	91
Asia	Tintin (code name) (equity in a portfolio of four toll road assets)	n/a	PE Fund: 50 Indir. IDB: 28

Potential Collaboration on Infrastructure Projects in Indonesia



- IPPs Projects to support 35,000 MW electricity program in Indonesia
- Seaport and Airport (Transport Infrastructure) under Concession Agreement
- Toll Road Project Concessions
- Water and Urban Development Project



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