



Financing Mechanisms



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for multi-partner
development projects



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ACRONYMS

ADB	Asian Development Bank
AP3F	Asia Pacific Project Preparation Facility
ASEAN	Association of Southeast Asian Nations
AT	Government of Austria
CA	Canada
CDIA	Cities Development Initiative for Asia
CEFPF	Clean Energy Financing Partnership Facility
CER	Certified Emissions Reduction
CH	Switzerland
CN	China
DE	Germany
DFAT	Department of Foreign Affairs and Trade (Australia)
DFI	Development Finance Institution
DfID	Department for International Development (United Kingdom)
EC	European Commission
EIB	European Investment Bank
EU	European Union
EUR	Euro (the currency of the Eurozone)
FPF	Financing Partnership Facility
FR	France
GB	Great Britain
GBP	Pound Sterling, the currency of the United Kingdom
GCCI	Global Climate Change Initiative
GCF	Green Climate Fund
GIF	Global Infrastructure Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HDFC	Housing Development and Finance Corporation (India)
IAD	InfraCo Asia Development Pte. Ltd. (Singapore)
IAI	InfraCo Asia Investments Pte. Ltd. (Singapore)
ICF	International Climate Fund
iDECK	Infrastructure Development Corporation (Karnataka) Limited (India)
IDFC	Infrastructure Development Finance Company (India)
IFC	International Finance Corporation (World Bank Group)
IFCL	Infrastructure Finance Corporation Ltd.
IHO	International Hydrographic Organization
IKI	Internationale Klimaschutzinitiative
IMO	International Maritime Organization
INR	Rupee (the currency of India)
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (Germany)
KR	South Korea
LGU	Local Government Unit
MoAs	Memoranda of Agreement
NGO	Non-Government Organisation
NO	Norway
NZAID	New Zealand Aid Programme
NZMFAT	New Zealand Ministry for Foreign Affairs and Trade
O&M	Operations and Maintenance
OPEC	Organization of the Petroleum Exporting Countries

ACRONYMS (Cont.)

PCO	PRIF Coordination Office
PDE	Project Development Entity
PDF	Project Development Facility
PICs	Pacific Island Countries
PIDG	Private Infrastructure Development Group
PIFS	Pacific Island Forum Secretariat
PMU	Project Management Unit
PPE	Project Preparation Entity
PPF	Project Preparation Facility
PPP	Public Private Partnership
PRC	Program Review Committee (of CDIA)
PRIF	Pacific Region Infrastructure Facility
Pte. Ltd.	Private Limited Company
RETA	Regional Technical Assistance
SE	Sweden
SECO	State Secretariat for Economic Affairs (Switzerland)
SHA	Shanghai
SG	Singapore
SIDA	Swedish International Development Agency
SOE	State-Owned Enterprise
SPC	Secretariat of the Pacific Community
SPREP	South Pacific Regional Environmental Program (part of SPC)
TA	Technical Assistance
UCCRTF	Urban Climate Change Resilience Trust Fund
UEIF	Urban Environmental Infrastructure Fund
UK	United Kingdom
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
US	United States (of America)
USAID	United States Agency for International Development
USD	United States Dollar
VER	Voluntary Emissions Reduction
WBG	World Bank Group

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INTRODUCTION

This study has identified and examined options for mechanisms Pacific Region Infrastructure Facility (PRIF) Partners could use for joint funding of infrastructure and infrastructure-related projects in the Pacific.

It proposes that a viable model for the Pacific could be based on a three-level ‘donor – trust – programs’ framework, similar to that established by the Private Infrastructure Development Group (PIDG), but with modifications including the strengthening of project preparation and structuring functions, based on other project preparation facilities and entities currently operating in Asia Pacific.

In essence, there would be one or more trusts and subsidiary programs funded through those trusts. The trusts and projects could be overseen by grantor committees comprising the partners to each project. It could be managed by the PRIF Coordination Office (PCO) or another group established to do so. Given the size of the projects being considered (i.e. could be less than USD200,000), the usual co-financing arrangements would not be feasible.

The report does not present all the details about how such a mechanism would operate, but instead provides a basic framework/structure that can be used in discussions about developing this further in the future, if required.

BACKGROUND

Currently, each of the seven Partners in the Pacific Region Infrastructure Facility (PRIF) retains all responsibility for planning and administering its own program and modalities for financing infrastructure projects in Pacific Island Countries (PICs). PRIF, as an organisation, has no mechanism through which partners can channel financing for projects they wish to undertake jointly, or which do not fall into one or another Partner's regular processes. The exception is the projects managed by the PRIF Coordination Office (PCO).

Although individual Partners do have co-financing mechanisms in place, these can be difficult to coordinate among financing partners, due to differences in funding cycles and lengthy internal processes for project definition, documentation and approvals. Additionally, existing co-financing processes are not conducive to blending financial and in-kind support from sources such as private or corporate contributors, foundations, non-governmental organisations (NGOs) or local government units (LGUs).

OBJECTIVE OF STUDY

This study aimed to provide an informed basis for PRIF Partners to determine whether to establish a mechanism that could be used for jointly-funded initiatives involving the PRIF Partners and these sorts of non-traditional sources. The mechanism would be one that can:

- mobilise support for projects which cannot be structured or financed by any single PRIF Partner, including through their existing co-financing mechanisms
- blend public and commercial financing approaches with 'de-risking'¹ to attract private participants and/or commercial finance as well as public agencies, and
- work with projects at national, sub-regional and regional levels.

The study examined several existing multi-partner facilities and mechanisms for structural elements which could meet PRIF's needs. These are described below. The report also then provides a synthesis of these features into a proposal for a mechanism, and illustrates how it could be applied in a pilot project.

The proposed mechanism is meant to supplement rather than overlap with or replicate financing mechanisms currently available to the PRIF Partners. It also needs to be appropriate for single-donor and multi-donor situations operating at single-country, multi-country or regional levels. While the mechanism may be trialed with a limited group, eventually it could involve a broad range of participants including PRIF Partners, host country national and local governments, development finance institutions (DFIs), NGOs, international or domestic corporations, family and corporate foundations, philanthropists and others.

METHODOLOGY

The study used the following methodology:

- review of existing mechanisms, facilities and other modalities currently used in Asia Pacific by DFIs, bilateral agencies and host governments to fund infrastructure similar to PRIF's sectors of interest (including both financing for project preparation and construction of infrastructure assets)
- analysis of financial flows and institutional, hosting, governance and decision-making arrangements within those mechanisms, and between them and their donors, as well as their internal organisational and management arrangements and processes (including project sourcing and preparation and funding)

¹ The 'de-risking' of an infrastructure project entails the identification of political risk, market / demand risk, and other risks, and mitigating them through mechanisms such as guarantees or insurance in order to make the project viable for commercial participation.

- review of respective national infrastructure plans in PICs to gain an overview of the type of projects which a PRIF mechanism could support, and evaluation of the suitability of various existing models and mechanisms and their applicability to PIC project types
- identification of key features of the most relevant existing mechanisms, and synthesis and adaptation of these features into a PRIF mechanism design proposal, and
- elaboration of how this mechanism could be applied to a demonstration project.

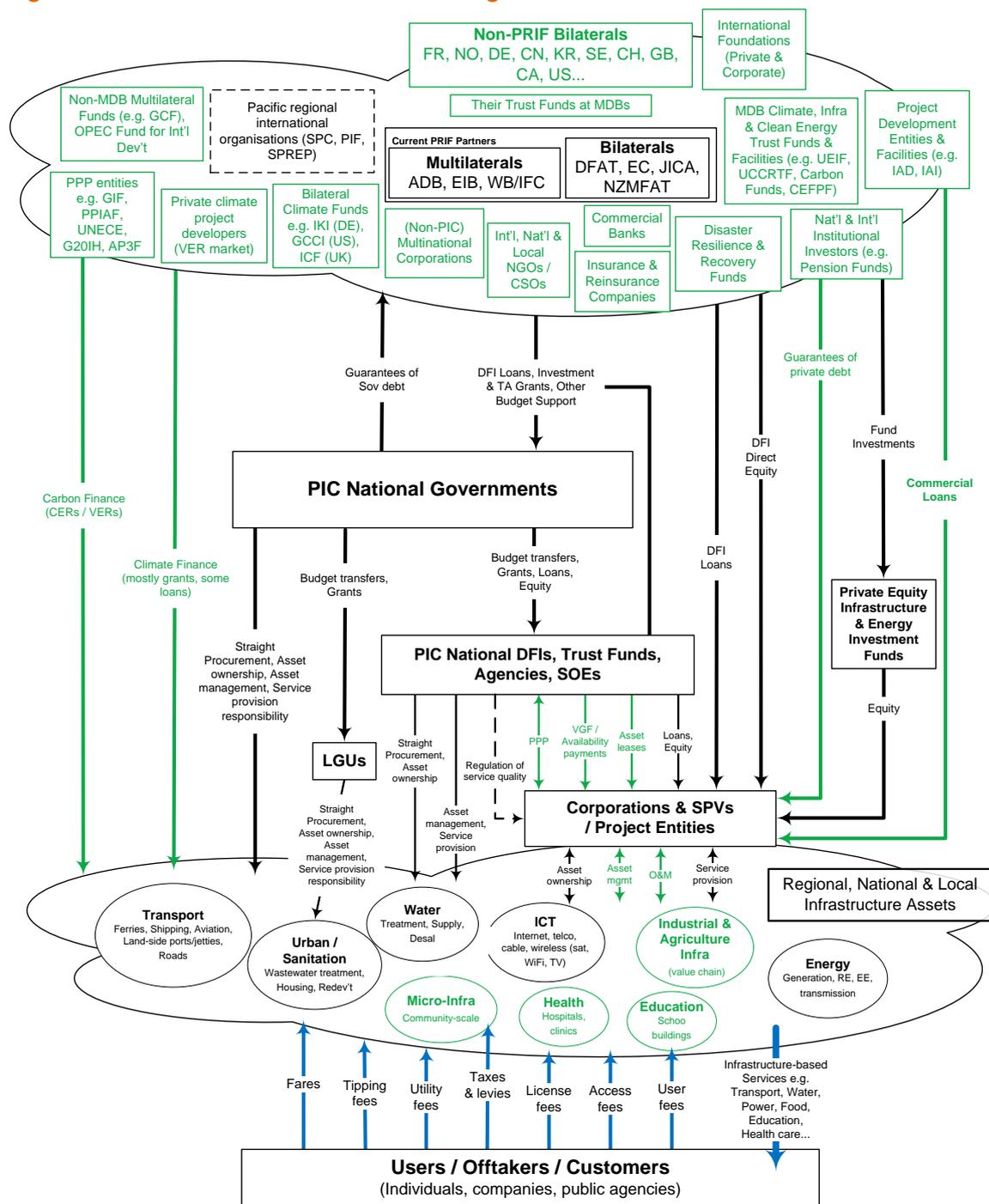
Research for the study was undertaken through desk-based reviews and interviews with staff members at most of the PRIF Partner agencies and other experts in the field of multilateral funds and facilities. In addition, in investigating the potential pilot project, discussions were held with Carnival Australia, the leading cruise ship operator in the Pacific (see Appendix A for a complete list of interviewees).

CURRENT AND POTENTIAL FUNDING UNIVERSE

Based on research for this study, Figure 1 illustrates (in black) the known *current* PRIF Partners' funding universe. It comprises loans and grants for investment and technical assistance to PICs for use in developing and managing infrastructure. PIC national government entities may also 'on-lend' to national agencies, provincial governments or local government units (LGUs), and state-owned enterprises (SOEs), therefore involving a broader group of recipients and participants.

Superimposed in green are other existing and emerging financing entities, funding flows, and project structures which comprise the *potential* universe of funding and co-finance for projects involving PRIF Partners. These sources include existing traditional sources of development finance, such as other bilaterals and international organisations that are not currently PRIF Partners, but which have an interest in the Pacific, as well as private sector and 'third sector' organisations such as foundations and NGOs, and international climate funds (whose eligibility criteria are closely aligned with some Pacific infrastructure issues such as sustainability, climate change adaptation, and disaster resilience). The multi-partner financing mechanism under discussion should look to harness these, as appropriate, in order to diversify project funding sources and the modalities of support available.

Figure 1: Current and Potential PRIF Funding Universe - Sources and Modalities



Source: Infrastructure Finance Corporation Ltd. (IFCL)

Colour Key: Black – current funding sources and mechanisms; green – potential or emerging funding entities, flows and structures

Abbreviations: CA – Canada, CEFPP – Clean Energy Financing Partnership Facility, CER - Certified Emissions Reduction, CH - Switzerland, CN – China, DE – Germany, DFAT - Department of Foreign Affairs and Trade (Australia), EC - European Commission, FR – France, GB – Great Britain, GCCI - Global Climate Change Initiative, GCF– Green Climate Fund, ICF - International Climate Fund, IKI - Internationale Klimaschutzinitiative, JICA - Japan International Cooperation Agency, KR – South Korea, NO – Norway, NZMFAT - New Zealand Ministry of Foreign Affairs and Trade, OPEC - Organization of the Petroleum Exporting Countries, PIF - Pacific Islands Forum, SE - Sweden, US – United States, SPC - Secretariat of the Pacific Community, SPREP - South Pacific Regional Environmental Program, UEIF – Urban Environmental Infrastructure Fund, UNECE - United Nations Economic Commission for Europe, VER - Voluntary Emissions Reduction

DESIRABLE FEATURES IN A PRIF FINANCING MECHANISM

This section briefly reviews those features understood as desirable for a PRIF mechanism, and examines the relative suitability of six existing multi-partner mechanism types.

The features cited as desirable for a PRIF mechanism are described below.

Overall flexibility: The mechanism needs the flexibility to accommodate a potentially wide range of funder and participants, as shown in Figure 1. These entities have very different backgrounds and many, especially those at opposite ends of the public-private continuum, may have little or no experience working or co-investing together. Therefore, it would take time to develop the arrangements and 'one-size-fits-all' arrangements will not be possible. In addition, flexibility will be needed in respect to the type of project being financed. For example, some may be completely new and others may build on previous work that has been undertaken in the region or country.

Ability to accommodate different groups of contributors for different projects: Discussions with PRIF Partners indicated the need for a mechanism able to accommodate different combinations of PRIF Partners and other participants in each project. Where entities support more than one project, their respective investments may vary in size, nature, and timing from one project to another. The ideal mechanism should therefore be able to develop optimal financing and operating structures for each individual project, depending on its financial and other characteristics and the specific funders interested in participating. Note that it is for this reason that a single regional commingled fund is not a good option for PRIF, as it would require that Partners investing in the fund take interests in the fund's portfolio or 'investee' projects pro-rata to their respective capital contributions to the fund itself. This does not afford the degree of flexibility needed for Partners to opt in or out of individual projects. The study, instead, focused on types of mechanisms which can create a series of project-specific tailored structures, each with appropriate (but different) financing.

Ability to accommodate disparate types of contributions: The mechanism should be able to structure financing to include both money, guarantees and similar risk-sharing instruments² and various types of in-kind contributions³. The mechanism should be flexible and able to accommodate, in different amounts and at different times, contributors of various types to each undertaking, and to set up appropriate banking and trust facilities as appropriate to hold, account for, and report on those contributions

Ability to manage high complexity in small projects: The ideal mechanism must be able to engage with projects with a degree of complexity disproportionately large for their financial scale, due to the presence of multiple funders and other participants from various sectors and countries, projects' coverage of multiple PICs, and the need for particular types of 'de-risking' activities (in the case of projects involving the private sector).

Ability to work with small amounts: The ideal mechanism should be able to efficiently engage with relatively small projects, perhaps less than USD200,000 in some cases. This means that individual contributions may be correspondingly small, users of infrastructure may be few in number, and the individual and total fares and tariffs paid may also be small.

Ability to manage the balance between risk and benefits to investors: The allocation of risks and benefits (rewards) among financiers and other stakeholders is fundamental to the decisions investors take in being part of any program/project. This is case-specific and relative to specific participants. A contractual distribution of the risks and benefits accepted by all participating parties would be the subject of negotiation and legal agreement among the parties once they decided to enter into detailed discussions about participating in the program/project.

² to 'de-risk' projects where appropriate to attract financing

³ The contribution by the Government of Vanuatu of the use of a ship for in marine surveying work was part of the structure used in the NZ - Vanuatu - SPC hydrographic charting project, and a good example of an in-kind contribution to a project. Due to their limited financial resources, PIC governments may find it attractive and feasible to contribute ownership or use of assets such as land, property, machinery and equipment, intellectual property assets, rights, securities etc. to projects. In some cases, private partners may also wish to contribute assets (or use thereof) or technical services to projects.

Regional / sub-regional / single country coverage: The mechanism should be pan-Pacific and regional in scope, but should be able to develop projects which are country-specific or sub-regional (e.g. focused on Micronesia, Melanesia or Polynesia).

Procurement: The mechanism should examine the scope for offering more streamlined approaches, using procurement procedures approved by PRIF Partners, but not necessarily utilising their own internal processes.

Ability to accommodate projects at various stages of implementation, and covering infrastructure at various stages of its development: The mechanism should be able to support projects at various stages from early-stage planning and prefeasibility studies through to actual construction, and include projects both to construct entirely new assets ('greenfield' projects) and to rehabilitate or extend / upgrade existing assets ('brownfield' projects). The latter is important in the case of climate change adaptation⁴ and disaster resilience projects (e.g. to strengthen seawalls, raise coastal roads, provide more resilient ports).

Cross-cutting issues: To ensure that all appropriate emerging international financing sources and modalities are considered, and to ensure relevance to PRIF Partners' priorities, the mechanism should take into account key cross-cutting development issues affecting PICs and important to Partners and other potential funders, including gender, climate change and Public Private Partnerships (PPPs).

EXISTING TYPES OF MULTI-PARTNER MECHANISMS

Multi-partner financing mechanisms can take a range of forms, depending upon a number of considerations, including:

- presence or absence of a distinct legal personality apart from its members
- need for international privileges and immunities or tax treatment of officers or staff
- need to establish an independent governance structure
- need to 'ring-fence' liabilities or assets for establishment of credit, and
- desire on the part of contributor states for an intermediary or buffer entity between themselves and beneficiary states.

In practice, the range of applicable structuring options for multi-partner financing mechanisms includes six principal types. Table 1 describes their respective pros and cons in the context of PRIF's requirements.

⁴ Climate change adaptation-related 'greenfield' (new-building) and upgrade of existing ('brownfield') infrastructure is a project category specifically supported by the USD10 billion+ Green Climate Fund and highly applicable to PICs.

Table 1: Principal Types of Multi-Partner Financing Mechanisms

No.	Type	Advantages and Disadvantages in PRIF Context
1.	<p>Incorporated vehicles or legal partnerships which make or finance equity or debt capital investments in private sector entities' projects – examples include institutional investment vehicles such as private equity funds, debt funds, mezzanine funds e.g. the Asian Infrastructure Fund, the Association of Southeast Asian Nations (ASEAN) Infrastructure Fund, and the Islamic Infrastructure Fund. These are generally managed by external professional fund management companies in exchange for management fees and share of gain on exited investments.</p>	<p>Advantages: Familiar, industry-standard structural, agreement forms well-established and understood by multilateral and bilateral investors, easy to accommodate public and private participants in a unitary structure.</p> <p>Disadvantages: Rigidity of participation. Each participant shares in funded projects or investments according to its pro-rata share of funds. Funds usually have a finite life of 8-10 years, precluding longer-term investments or forcing exits without regard to project situation.</p>
2.	<p>Foundations, trusts or non-profit corporations through which one or more donors can channel funds ultimately to be used for grants but which, before being distributed, will be invested – an example is the Global Fund to Fight AIDS, Tuberculosis and Malaria (established as a Swiss foundation). Management is usually through a permanent secretariat structure.</p>	<p>Advantages: These can have a longer life than Type 1, allowing longer term investments, semi-permanent secretariats allow for continuity of programs; commercial banks offer highly flexible corporate trustee services - often highly experienced in infrastructure project financings – as used by the Private Infrastructure Development Group (PIDG) for the PIDG Trust (see below).</p> <p>Disadvantages: Legislation enabling foundations and non-profit entities (e.g. Swiss Civil Code or Monetary Authority of Singapore regulations) generally prohibit all but purely charitable (and sometime only local) charitable activities. This can preclude financing of infrastructure projects, especially those with a private sector dimension.</p>
3.	<p>ADB and World Bank trust funds and financing partnership facilities (FPFs) which channel investment grants, technical assistance grants, guarantees to support public infrastructure projects. Contributors have included both corporations and foundations in addition to bilaterals. Management is by bank staff and consultants recruited through the trust fund.</p>	<p>Advantages: This structure is familiar to all PRIF Partners, and such trust funds are relatively easy to establish and replenish. FPFs are highly flexible as unincorporated thematic 'envelopes' encompassing trust funds, guarantee facilities, and various sorts of framework agreement between partners.</p> <p>Disadvantages: Multi-donor trust funds are commingled, making it practically impossible for contributors to select which underlying projects will receive their support, or to vary their support from project to project. Trust funds are also seen as less important than processing sovereign loans, so they may receive low priority by staff. Also, internal bank processes to actually disburse the money committed by donors and allocated by trust funds can be very lengthy, leading to very low disbursement rates even after years, and slow project implementation. Cumbersome Internal processes regarding contributions, also, may render it practically impossible to accept contributions of less than USD 5 million.</p>

No.	Type	Advantages and Disadvantages in PRIF Context
4.	Treaty funds and other international intergovernmental or quasi-governmental organisations established to assist members to deliver various public goods, through which member states can contribute funds for the organisations programs. Examples include organisations within the United Nations system, e.g. the United Nations Development Programme (UNDP).	<p>Advantages: Most permanent of mechanism structures, allowing for long-term planning horizon and long-term programs.</p> <p>Disadvantages: Extremely lengthy establishment process, involving extensive multilateral negotiations (e.g. regarding privileges and immunities, location of headquarters).</p>
5.	Entities and facilities, including risk-sharing agreements, by which more highly-rated entities (e.g. developed country sovereign governments or insurance companies) provide credit enhancement to enable borrowing by less-highly-rated entities in the public, private, or third sectors. This is accomplished by issuing guarantees in the name of the single guarantor (in the case of an unincorporated facility), or of the entity (if incorporated, as in the case of specialty insurers).	<p>Advantages: These facilities can work very well and guarantees should be included as a support modality in a PRIF mechanism.</p> <p>Disadvantages: Lack of centralised decision-making in unincorporated facilities makes it necessary for each guarantor to review and decide upon participation in individual transactions.</p>
6.	Unincorporated groupings which have no legal personality themselves, but through which members may act in a coordinated manner through trusts and/or incorporated entities to create and fund a variety of project finance programs. Examples include PRIF itself, and the PIDG.	<p>Advantages: Familiarity to PRIF members; relative ease of adding funding mechanisms for discretionary use by group members.</p> <p>Disadvantages: The inherent lack of a common funding mechanism (hence this study). This can be easily resolved through the addition of one or more Type 2 mechanisms. Trusts with commercial bank trustees, which can be flexibly funded and instructed by members in the group, as discussed in detail below.</p>

POTENTIAL FINANCING MECHANISM FOR PRIF

Given PRIF's current status as a Type 6 unincorporated grouping (see Table 1 above), this study found that the addition of one or more Type 2 trusts and subsidiary programs funded through those trusts (as has been developed at PIDG⁵) would provide a suitable framework for the mechanism sought under this study – provided that project preparation functions are enhanced to reflect the needs of PICs. The mechanism could be managed by the current PCO or another group established to do so. Each project could then have its own 'steering committee' or 'board' consisting of the partners to that project.

A detailed discussion of three relevant existing mechanisms follows for illustrative purposes, together with an explanation of the features that could be derived from each of them into a PRIF mechanism. These are:

- PIDG
- Cities Development Initiative for Asia (CDIA), and
- Infrastructure Development Corporation (Karnataka) Ltd. (iDeck).

These are described below.

⁵ even though it is a more highly evolved Type 6 unincorporated grouping

Private Infrastructure Development Group and InfraCo Asia

PIDG is a United Kingdom (UK)-founded and London-based unincorporated grouping of multilateral and bilateral donors (including *inter alia* PRIF Partners DFAT⁶ and IFC⁷), which operates through a trust and various incorporated and unincorporated project financing and investment vehicles to promote privately-developed infrastructure in developing countries. Most relevant to PRIF is the PIDG vehicle based in Singapore to cover Asia Pacific, InfraCo Asia.

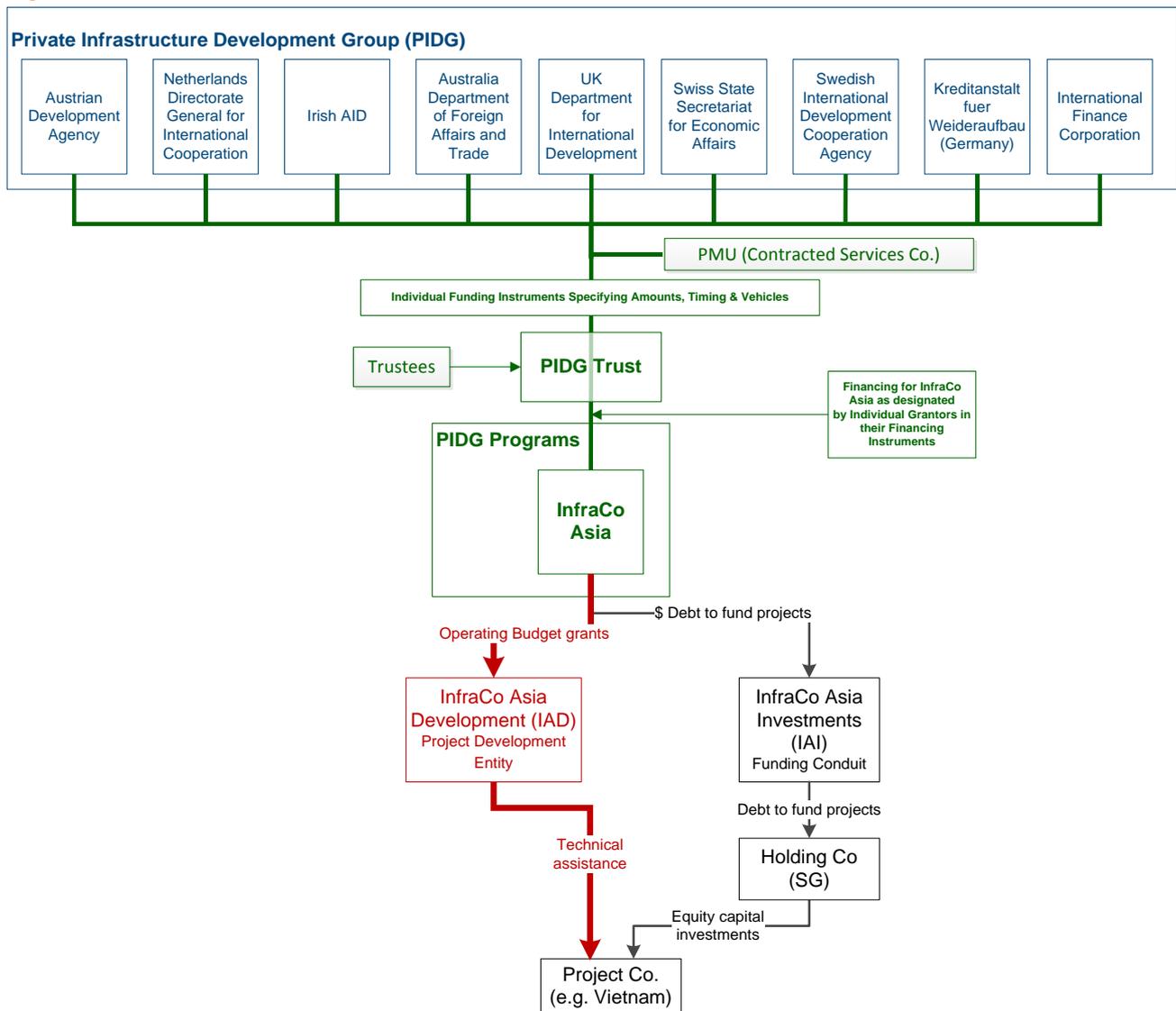
PIDG has a three-tier structure, illustrated in Figure 2. At the top, where donors are gathered (shown in blue), PIDG resembles PRIF in that both are unincorporated groupings of bilateral and multilateral development agencies interested in financing infrastructure in developing countries⁸. The middle tier (shown in green) comprises the PIDG Trust and the various programs and financing vehicles which the donors fund through the Trust. PRIF can adapt this layer of the PIDG structure for its mechanism. The bottom tier comprises the PIDG vehicles and programs, including the ones for infrastructure in Asia Pacific, InfraCo Asia. The project preparation functions of this layer, shown in red, should also be incorporated into the PRIF mechanism. Provision of capital investment, shown in black, is specific to funding private infrastructure companies, but could be adapted to a PRIF mechanism.

⁶ Department of Foreign Affairs and Trade (Australia)

⁷ International Finance Corporation

⁸ Although PIDG was organised specifically to promote private participation in infrastructure, its structure can be used equally well for many public and public-private partnership infrastructure projects in PICs.

Figure 2: PIDG and InfraCo Asia - Overview



Source: PIDG, IFCL

PIDG (Group): This uppermost tier corresponds to the Type 6 unincorporated grouping (similar to PRIF) described in Table 1 above. Here, individual donors (see Figure 2 above) make financial commitments to fund PIDG activities, each on its respective budget cycle. Currently, the UK Department for International Development (DfID), DFAT, and the Swiss State Secretariat for Economic Affairs (SECO) have jointly committed approximately USD100 million to InfraCo Asia Investments Pte. Ltd.⁹ (IAI), and DfID has committed approximately GBP50 million to fund the operations of InfraCo Asia Development Pte. Ltd. (IAD).

PIDG Trust: This middle tier corresponds to a Type 2 trust as described in Table 1 above, with corporate trustees. PIDG partners can elect to support any of the PIDG financing vehicles, and, to do so, make grants to the PIDG Trust. These grants are made through individual financing instruments. The PIDG trust is domiciled in Mauritius and has three corporate trustees, two local and one in London, together with a contracted Program Management Unit (PMU), also based in London. The PIDG Trust makes investments on behalf of the partners in the selected PIDG vehicles further to the terms of the respective grants received from donors. DFAT, for example, supports only InfraCo Asia, and not the other PIDG vehicles operating in Africa or other programs.

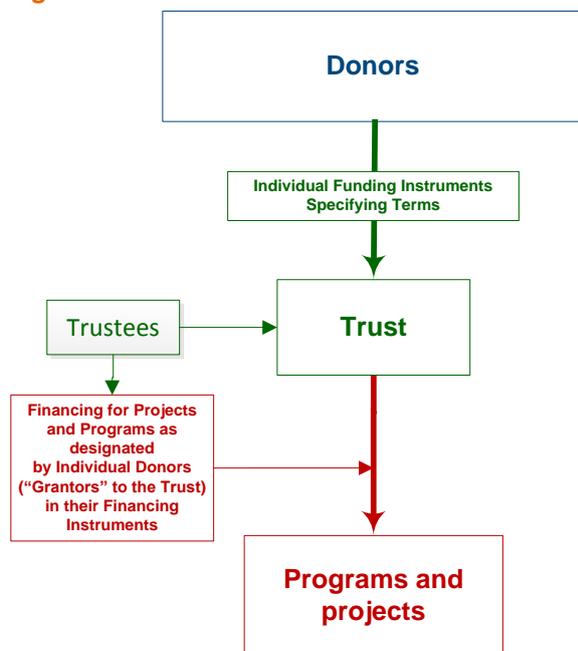
⁹ Pte. Ltd. = Private Limited Company

InfraCo Asia: This third-tier PIDG vehicle, one of several vehicles and programs operating in various geographic regions, targets Asia Pacific. It comprises two Singapore-incorporated companies, IAD and IAI. Established in 2010 to replicate PIDG's successful InfraCo Africa, their mandate is to stimulate private sector infrastructure development in lower-income countries in South and Southeast Asia. IAD acts as principal project developer and financing arranger and IAI is the conduit through which PIDG partners provide co-financing to projects. This is accomplished operationally through IAD-arranged PIDG Trust loans to IAI¹⁰, the proceeds of which are used by IAI to fund equity investments in project companies. To allow for easier transfer of IAI shares to an acquirer upon exit, a Singapore limited company is incorporated as a holding company for each project company investment.

IAD and IAI can support any privately-developed infrastructure project in eligible countries. Investee projects are expected to be viable financially and to allow investments by IAI to be ultimately exited through a share sale, and the IAI borrowings from the PRIF Trust to be repaid. Investment decisions are made by the InfraCo Asia Board. Eligible sectors include agriculture, irrigation, mining, power, social infrastructure, solid waste management and water supply and sanitation. Prior to realising any of its investments, IAD receives grant funding through the PIDG Trust for its operational budget.

Therefore, reduced to its essential framework, the three-tier 'donor – trust – programs' structure of PIDG can be seen in Figure 3.

Figure 3: PIDG - Essential Structure



Source: IFCL

It is proposed that this basic framework be used for the PRIF mechanism, giving PRIF Partners the option – as members of an unincorporated group – to fund projects jointly in various combinations (and with other contributors as appropriate), flexibly through one or more trusts and subsidiary programs.

Project Preparation Functions

Due to the lack of concrete pipeline of developed PIC infrastructure-related projects seeking financing, this study identified a need for project preparation and structuring such as performed by IAD in the PIDG organisation. These functions are generally performed by project *preparation* entities (PPEs) and facilities (PPFs) or project *development* entities

¹⁰ up to USD10 million principal amount and up to a 10 year term

(PDEs) or facilities (PDFs)¹¹. These can be actively involved in a project anywhere from concept stage prefeasibility and feasibility studies, financial structuring and arrangement through to financial close. Both Asian Development Bank (ADB) and the World Bank have experience with these e.g. Asia Pacific Project Preparation Facility (AP3F) and the Global Infrastructure Facility (GIF), but these PPFs concentrate on larger projects than are likely to occur in the Pacific. DFAT is a contributor to several PPFs and PDFs, including InfraCo Asia, AP3F, and the Philippines Project Development and Monitoring Facility.

Cities Development Initiative for Asia

CDIA was established in 2007 by ADB, Sweden and Germany as a multi-partner mechanism to support urban infrastructure projects in ADB developing member countries, by providing early-stage project structuring and prefeasibility studies. Since 2013, CDIA has had an increasing focus on urban infrastructure and climate change resilience, receiving USD5 million from ADB's Urban Climate Change Resilience Trust Fund (UCCRTF), the donors to which are DfID, the Rockefeller Foundation, and the United States Agency for International Development (USAID).

CDIA is governed by a Program Review Committee (PRC) comprising all donors who have committed USD1 million or more annually to CDIA; it is supported by an advisory panel and a Stakeholders' Forum, and it is managed day-to-day by ADB and the Germany through a split management structure. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) manages procurement using German funding, ADB manages procurement using Swedish, Austrian and Swiss funding in donor trust funds. The Shanghai Municipal Government manages procurement locally for projects in PRC only (using its contributed funds) and Singapore's contributions are 'in kind'.

CDIA works with other PPFs¹², as well as with bilateral agencies' project development efforts¹³. Its multi-donor structure provides CDIA with a minor degree of flexibility in matching funders with projects. CDIA is currently only involved in the early stage of projects, well before financial close, and thus not involved in project financing in the market sense. Projects are in a variety of sectors/areas including urban redevelopment, solid waste, transport, water and sanitation. To date, CDIA has completed 70+ projects in 50+ cities in 16 countries.

The key features of CDIA applicable to PRIF are:

- small scale: CDIA makes a modest but catalytic financial commitment per project (USD 200,000 – USD700,000), aiming to prepare them for capital investment of e.g. USD 250 million or more by other institutions
- CDIA is open to multiple sources of projects including both LGUs in eligible countries and also its donor partners, and
- CDIA's donor members may also provide capital investment or co-financing to projects prepared by CDIA.

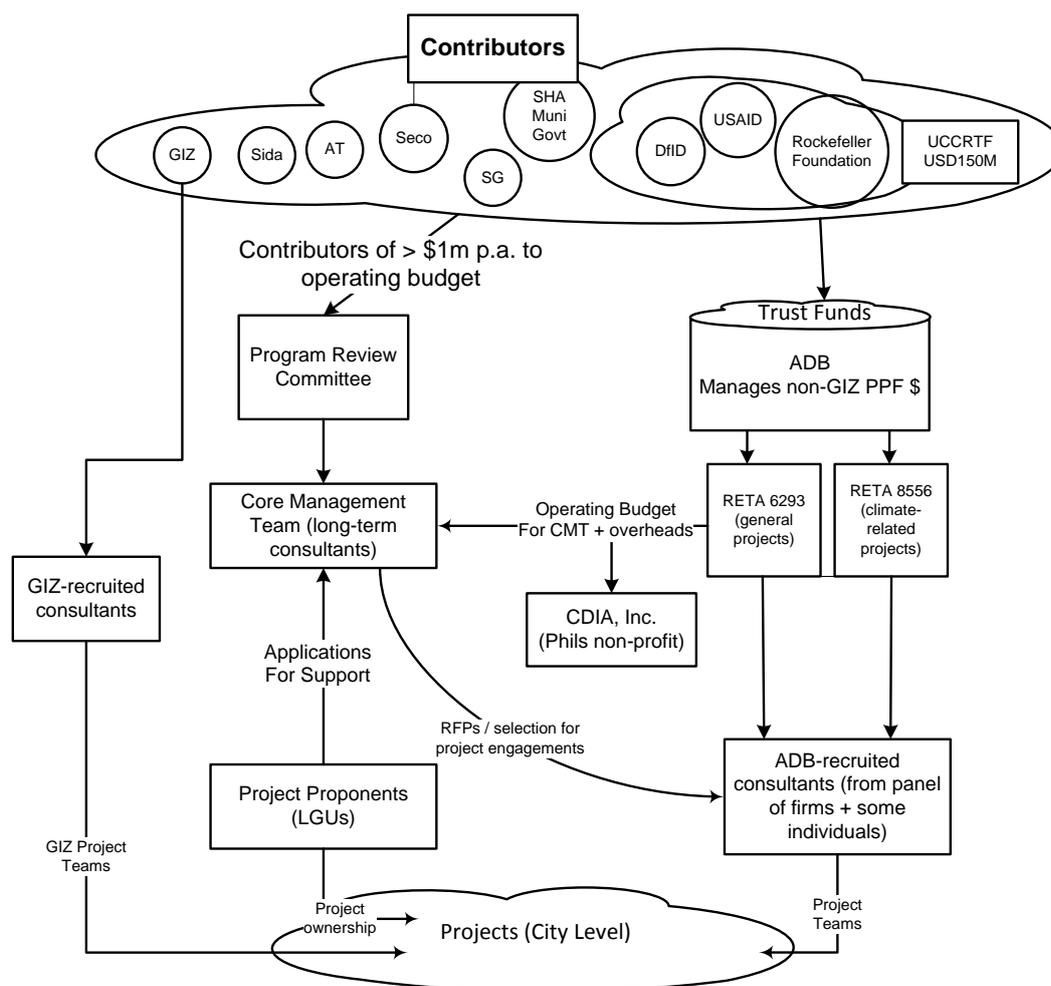
A diagrammatic representation of CDIA is in Figure 4.

¹¹ The distinctions are that project *preparation* entails arrangement, but not provision, of financing (as in IAD), whereas *development* includes provision of financing and assumption of project risk as principal (as in IAI). An *entity* provides preparation or development services but has no donor funding, while a *facility* is a donor-funded entity. InfraCo Asia, as a whole, is a PDF as it provides project development services and is donor-funded through DfID's contribution through the PIDG Trust.

¹² e.g. with the Pakistan Infrastructure Project Development Facility on the Islamabad Bus Rapid Transit project

¹³ e.g. with Kreditanstalt für Wiederaufbau (KfW) in Vietnam and Mongolia

Figure 4: CDIA – Overview



Source: ADB, CDIA, IFCL

AT - Government of Austria, SG - Singapore, SHA - Shanghai, DfID - UK Department for International Development, RETA - Regional Technical Assistance, GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit, Sida - Swedish International Development Agency, SECO - Swiss State Secretariat for Economic Affairs, UCCRTF - Urban Climate Change Resilience Trust Fund (ADB), LGU - Local Government Unit

Infrastructure Development Corporation (Karnataka) Limited

iDeck was incorporated in India in 2000 as a limited company with governmental and quasi-governmental shareholders¹⁴.

iDeck has, since launch, been self-sufficient financially, operating on a fee basis, including regular work for ADB and World Bank. Its rate of cost recovery to date is reported at 100%.

As a private company, iDeck remains flexible and responsive to market shifts in infrastructure and funding possibilities. iDeck supports private, public, and PPP types of projects at feasibility, structuring, and financing stages. iDeck has broadened its geographical range from Karnataka State, and now more than 65% of its revenues derive from projects in other Indian states and internationally in Maldives, Nigeria, and Bangladesh.

¹⁴ iDeck shareholders: 49.5%: the IDFC (Infrastructure Development Finance Company) Foundation. This is a 100% subsidiary of IDFC. IDFC itself was created in 1997 as the Infrastructure Development and Finance Corporation and originally owned by the Government of India, ADB, and IFC; it is now a publicly-traded listed company); 49%: the State Government of Karnataka; and 1.5%: HDFC (Housing Development and Finance Corporation, originally a government-owned institution, now a publicly-listed company). This structure was designed so that iDeck itself would not be a majority-owned subsidiary of either IDFC or the state of Karnataka.

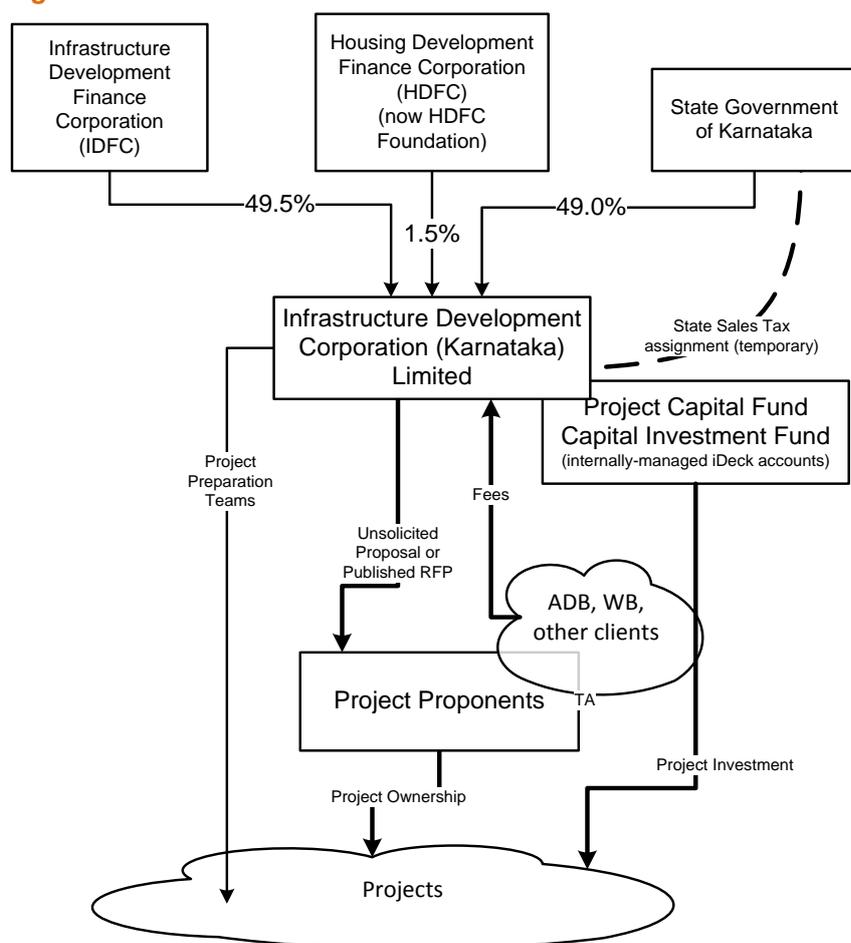
iDeck is involved in the environmental, information and communications technology (ICT), irrigation, mining, power, social, transport, and water supply and sanitation sectors.

The key features of iDeck applicable to a PRIF mechanism are:

- small scale – iDeck makes a modest but catalytic financial commitment per project (USD 75,000 – USD150,000) aiming to prepare them for capital investment by others – however, it can also provide limited capital investment through a dedicated parallel fund
- iDeck has multiple sources of projects including governmental and private, and
- iDeck has, since launch 15 years ago, been financially self-sustaining, and does not draw upon any donor's budget or other public financing.

A diagrammatic overview of iDeck is in Figure 5 below.

Figure 5: iDeck - Overview



Source: iDeck, IFCL
WBG - World Bank Group

Integration of Key Features into PRIF Mechanism

Table 2 summarises the key features of the above model mechanisms which are most relevant to PRIF. The right-most column shows how these may be integrated into a PRIF mechanism.

Table 2: Integration of Key Relevant Features into PRIF Mechanism

PIDG / InfraCo Asia	CDIA	iDeck	Proposed PRIF Mechanism
<p>Members' contributions can vary from program to program¹⁵</p> <p>Use of trust and trustees to flexibly channel programmed funding;</p> <p>Multiple sources of projects (commercial proponents, bilaterals, multilaterals)</p> <p>Focus on project development and capital co-financing with other parties</p> <p>Donor members may also provide co-financing to supported projects</p>	<p>Modest financial commitment per project</p> <p>Multiple sources of projects (LGUs, bilaterals, ADB)</p> <p>Focus on project preparation for capital financing by other parties</p> <p>Donor members may also provide co-financing to supported projects</p>	<p>Modest financial commitment per project</p> <p>Multiple sources of projects (LGUs, bilaterals, multilaterals)</p> <p>Focus on project preparation for capital financing by other parties</p> <p>Financially self-sustaining through cost recovery</p>	<p>Members' contributions and level of participation can vary from program to program¹⁶</p> <p>Modest financial commitment per project</p> <p>Use of trust and trustees to flexibly channel programmed funding</p> <p>Multiple sources of projects (private sector, PICs, bilaterals, NGOs, multilaterals, international organisations, funds, and others)</p> <p>Inclusion of a project preparation / co-financing arrangement function as needed¹⁷</p> <p>Financially self-sustaining through cost recovery</p> <p>Donor members may also provide co-financing to supported projects</p>

Source: IFCL

Constraints to Establishing a Financing Mechanism

As with many financing mechanisms, the constraints to the establishment and management of the kind of arrangement being proposed would be those inherent to or imposed by the

¹⁵ PIDG takes contributions to programs after they are developed. It is a trust structure through which parties can fund different programs in different combinations at different times involving different amounts of funding, depending on their policies and interests. It is *not* a commingled fund with commitments and drawdowns, which does not have the flexibility to accommodate funding in all the arrangements being proposed.

¹⁶ PRIF Partners would constitute the core group of financiers for the program. They would each be offered the opportunity to participate in each project or trust, but could decline if that project was not a priority for them. If participating, they could approve their respective funding individually or through the PRIF governance mechanism. The opportunity would also be offered to non-PRIF organisations (e.g. private companies, foundations, climate adaptation funds etc), as appropriate.

¹⁷ Although project preparation is an integral part of PIDG and it could be incorporated in the proposed PRIF mechanism, it is basically a mechanism to finance projects once they are prepared.

participating organisations. It is, therefore, difficult to detail these in this report. However, it would be an important issue in the detailed preparation of any pilot/initial projects. A key issue concerns the roles of each participating group e.g. donors, trustees and those on 'steering committees' or 'boards'.

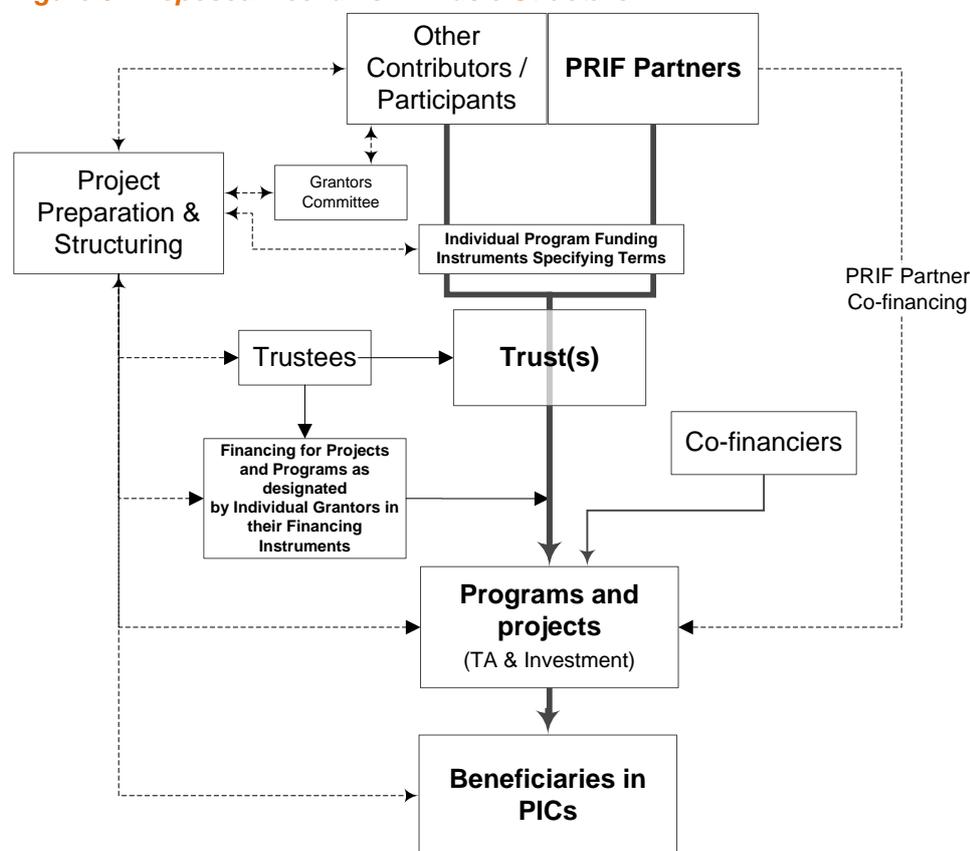
RECOMMENDATIONS FOR PRIF MECHANISM

Overall Design

Integrating a project preparation and structuring function with the three-tier structure described above, a flexible framework for a PRIF mechanism is shown in Figure 6 below. This can be used for any sort of project, of any size.

In its initial trialing / demonstration project phase¹⁸, project preparation and structuring in the PRIF mechanism would likely need to support the structuring of the mechanism itself, not only the initial individual projects to be financed through the mechanism. It is shown in Figure 6, therefore, interacting with most of the participants. Over time, as various program vehicles emerge and mature, project preparation will be engrained into each of them and cease to be a distinct function.

Figure 6: Proposed Mechanism - Basic Structure¹⁹



Source: IFCL

Piloting the Mechanism

Upon agreement in principle by interested PRIF Partners to consider participation in one or more initial pilot projects, implementation of this mechanism could occur through an initial demonstration project or set of projects. There are a number of areas where this might be useful, including in the energy and transport sectors where PRIF Partners currently have a number of 'parallel' investments or where a partner has undertaken a review identifying a

¹⁸ in the absence of entities comparable to PIDG's established program vehicles such as InfraCo Asia, which has its own PDF functions in IAD

¹⁹ grantors = donors

range of investments in a sector or sub-sector. Although it is not proposed to pursue this under Phase 2 of PRIF, it can be considered for the future.

One option which was considered for such a project is described in the section below. Certain elements of this pilot, such as the overall architecture and trust, could be replicated for future programs / projects using similar documentation, or be retained and expanded in scope to support additional programs / projects (as PIDG itself did with the PIDG Trust when the original Trust was expanded in scope in 2003)²⁰.

POTENTIAL PILOT PROJECT/S

Selection

In the course of discussions with PRIF Partners during the research phase of this study, suggestions were sought as to pilot projects on which new approaches and mechanisms could be tested. The study then tried to identify situations where projects had been implemented successfully on a small scale and could be expanded because of their clear potential to generate value for PICs, but where this could not be done through any single Partner's existing procedures²¹, or where existing approaches have not achieved planned outcomes at the scale sought (e.g. in the case of 'pooled' services²²).

The Vanuatu Hydrographic Surveying and Navigation Charting Project (funded in 2014 by NZMFAT and the SPC) was selected as an example. The work was important in ensuring that the country would be compliant with applicable International Maritime Organization (IMO) regulations regarding issuance of the digital navigation charts now required by all vessels of over 500 tonnes²³. An original project had been undertaken as a partnership involving funding from NZMFAT and in-kind contributions from SPC and the Government of Vanuatu. However, to expand the program to other countries in the region, additional funding would be required and early discussions had considered involving shipping and cruise ship liners, governments and other development partners. This would need a financing mechanism of the sort being developed in this project. In the time since this current project commenced, the need for such a pilot in respect to hydrographic charting has been superseded by a separate funding stream. Even so, it is included here as an example for illustrative purposes.

Hydrographic Charting for Vessel Maintenance and Tourism in PICs

Basic Design

The hydrographic charting project would have the dual benefit of allowing current critical 'lifeline' shipping routes for passengers, cargo and oil to remain usable under tightened IMO navigation rules, and also of opening up new routes and destinations to the cruise industry, and to bring the financial benefits of international tourism to more island communities in the Pacific²⁴.

A structure organised along the mechanism framework described above could fund and operate such a program as (for example) the 'Pacific Navigation, Shipping and Marine Tourism Consortium'. This consortium would raise and program scaled-up funding for

²⁰ v. Amended and Restated Declaration of Trust dated 14th March 2003

²¹ e.g. in the case of hydrographic charting in Vanuatu

²² e.g. in the case of the various initiatives to "pool" assets or services across countries such as Pacific Forum Line. This topic has been widely discussed, including in the ongoing Pacific Plan Review (see. e. Dornan, Matthew and Newton Cain, Tess, Regional Service Delivery among Small Island Developing States of the Pacific: An Assessment, October 2013). A PRIF mechanism could undertake a new, more private-sector-based approach to pooling, which might focus on the regional pooling of infrastructure asset *operations and management* (O&M) through the private sector, rather than the cross-border pooling of asset *ownership* through the public sector.

²³ This weight class includes all major cruise ships, as well as tankers, container ships, and the larger interisland ferries operating in the Pacific.

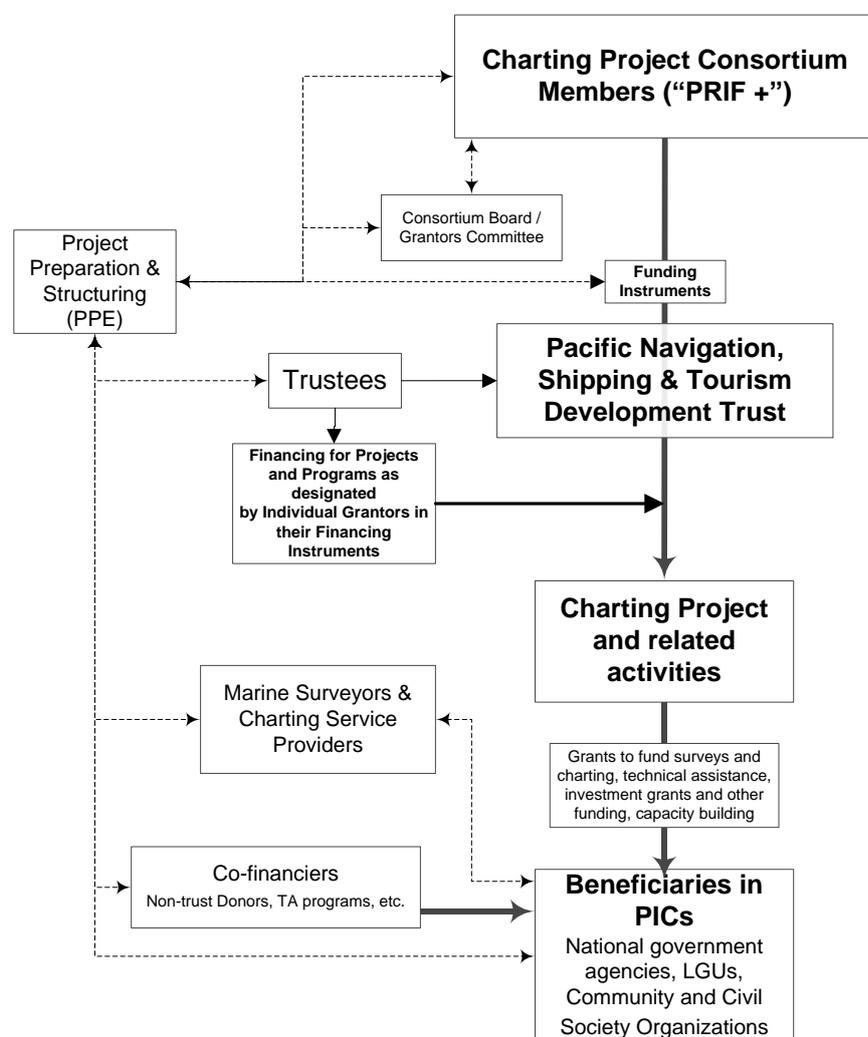
²⁴ The financial benefits of tourism and the financial benefits to PICs of investing in upgrading their navigation charts has been well documented in Assessing the Costs and Benefits of Hydrographic Survey and Charting: A Case Study of Vanuatu, SPC and New Zealand Aid Programme (NZAID) 2015.

hydrographic surveys and charting, which, in turn, would engender a number of related projects in PICs. Support would be raised from a mix of contributors anchored by interested PRIF Partners and extending as appropriate to other types of participants²⁵ including regional organisations, PIC national and local governments, private companies (e.g. in the shipping and tourism industries), and commercial banks (including as trustee) - hence the idea of 'PRIF +'.

Funding coming in to the program could be based on a blend of grants and other monies (e.g. prepayment of landing and other maritime fees to host PICs by shipping and cruise lines) as well as in-kind contributions from various stakeholders including private companies, PIC public sector entities and local community organisations. Disbursements from the trust could include payment for marine survey and charting services, investment in local infrastructure (jetties, port improvements, etc.), technical assistance and/or capacity building and training programs.

Using the mechanism framework in Figure 6, this pilot project would be organised as shown in Figure 7 below.

Figure 7: Use of Proposed Core Mechanism Structure for Charting Project



Source: IFCL

²⁵ Because NZMFAT and SPC supported the initial project in Vanuatu, this example uses them for illustrative purposes only among the prospective participants, among other potentially interested private and corporate parties.

Implementation

Implementation of this pilot project (or something similar) could follow this general scenario:

- initial scoping of project management and administration functions needed, and identification of trustee functions, including disbursements and accounting, preparation of indicative terms of reference for trustees
- selection of jurisdiction in which to establish the initial trust
- determination of procurement procedure for trustees: exploratory discussions with potential trustees, requests for proposals²⁶
- drafting of Memoranda of Agreement (MoAs) among initial contributors, empanelment of project management committee (e.g. as a 'Trust Grantors Committee' or 'Consortium Board'), obtain legal opinions as necessary
- initial drafting of trust agreement and financing instruments covering the various categories of contributor / type of contribution, based on financial modeling / budgeting / structuring of the project, obtain legal opinions as necessary
- detailed preparation of overall project and components, including coverage of PICs and transport routes, evaluation of surveying service providers, initial budgets and timetables, discussions with national charting authorities, IMO and International Hydrographic Organization (IHO), discussions with shipping companies and other potentially interested parties, detailed financial structuring, setting up of monitoring, evaluation and reporting protocols
- establishment of trust, execution of financing instruments by initial contributors, and
- project inception.

The time frame for developing each project will depend on a range of factors including the complexity of the project, the number of partners, how familiar they are with working together, what internal requirements need to be addressed for each partner, and so on.

CONCLUSION

This research study identified features for a potential mechanism for multi-party funding of smaller projects. It is not proposed at this stage to trial the mechanism, due to the lack of a ready project (or projects) and also the resourcing needed to set up such a pilot. Nevertheless, this model can be discussed among the PRIF Partners, with a potential trial in the following Phase of PRIF, if that is agreed.

²⁶ The PIDG Trust is based, for historical reasons, in Mauritius and has three trustees, two local trust companies in Port Saint-Louis, and one international bank (S. G. Hambros Bank Limited, a London-based unit of French bank Societe Generale). A PRIF trust could be based in a major Asia Pacific financial center such as Hong Kong or Singapore, in Australia or New Zealand, or in a PIC jurisdiction, such as Cook Islands, offering an international-standard trust regulatory environment. Establishing the trust in a PIC with a major international bank as co-trustee, could also provide a valuable capacity-building exercise for the local financial services sector.

Appendix A – People Interviewed for this Study

1. Mr Erik Aelbers, Consultant, Private Sector Development Initiative, ADB (Sydney)
2. Ms. Tracey Austwick, First Secretary for Development Cooperation, DFAT (Canberra)
3. Mr. Doug Bird, Manager of Marine Operations, Carnival Australia (Sydney)
4. Mr. Chris Bleakley, Senior Investment Policy Officer – Pacific, IFC (Sydney)
5. Mr. Antonio Clemente, EU Delegation for the Pacific (Suva)
6. Mr. Mike Drake, Director of Marine Operations, Carnival Australia (Sydney)
7. Mr. Gerd Drosesse, Senior Advisor to the Chairman, Green Climate Fund (Manila)
8. Mr. Pierre Graftieaux, Program Leader for Infrastructure, Environment, Disaster Risk Management, Agriculture, Rural, Urban and Social Development – Timor-Leste, Papua New Guinea and Pacific Islands, East Asia and Pacific Region, World Bank (Sydney)
9. Mr. Robert Guild, Former Director, Transport, Energy and Natural Resources Division, Pacific Area Regional Department, ADB (Manila)
10. Mr. George Hoyt, VP Special Projects, InterManager Ltd. (Cyprus)
11. Mr. Peter Kelly, Director Pacific Infrastructure Advice, Pacific Analytical and Effectiveness Branch, Pacific Division, DFAT (Canberra)
12. Mr. Trevor Lewis, Senior PPP Specialist, Office of Public Private Partnership, ADB (Manila)
13. Mr. Paul Mifsud, Director of Port Operations, Carnival Australia (Sydney)
14. Mr. Allard Nooy, Chief Executive Officer, InfraCo Asia (Singapore)
15. Mr. Sanjivi Rajasingham, Head, PRIF Coordination Office (Sydney)
16. Mr. Stan Roche, Senior Trade Advisor, Austrade (Melbourne)
17. Mr. Xianbin Yao, Director General, Pacific Area Regional Department, ADB (Manila)