



# 2018 GIF

## ADVISORY COUNCIL MEETING

SUMMARY OF PROCEEDINGS



The eighth Advisory Council (AC) Meeting of the Global Infrastructure Facility (GIF) was held in Singapore, on October 16, 2018. It was attended by 112 participants, including representatives of Advisory Partners (APs), Technical Partners (TPs), Funding Partners and a number of observers and speakers. **Joaquim Levy, Managing Director and World Bank Group Chief Financial Officer**, co-chaired the meeting with **Rajeev Kannan, Executive Officer, Head of Investment Banking Asia, Sumitomo Mitsui Banking Corporation (SMBC)**. The meeting featured updates on the GIF, a panel discussion on the Standardization of Projects / Loan Agreements and country presentations by Vietnam and Indonesia. The luncheon featured a talk by Mr. Chee Hong Tat, Senior Minister of State for Trade & Industry and Education, Singapore. The meeting was followed by two Deep Dive sessions on Indonesia and State of Andhra Pradesh, India, and a presentation by Clifford Chance on the Infrastructure Take-out Facility. The GIF AC Meeting ended with a reception hosted by SMBC. Ahead of the meeting, Joaquim Levy and Rajeev Kannan were interviewed on CNBC Asia's Squawk Box where they discussed the status and impact of infrastructure and the role of GIF.

## Opening Remarks

In his opening remarks, Mr. Levy welcomed all participants and appreciated the guidance and support received from the APs on the development of GIF initiatives. Reflecting on the recent events in Asia – the earthquake and tsunami in Indonesia that resulted in widespread devastation and the typhoons in Japan that triggered floods and landslides – Mr. Levy stated that while boosting financing for infrastructure services is a priority, there is a need to build quality and resilience from the start. He then discussed the World Bank Group's efforts in redefining the approach to development finance to optimize the use of scarce public resources. Mr. Levy further talked about how the GIF, as a collaborative platform, serves as a catalyst to stimulate such investment.

Mr. Kannan, in his opening remarks, noted the significant progress the GIF has made since the initial meeting in 2015 and welcomed the positive engagement of the AC members in further developing the GIF's activities. He further stated that the GIF as a collaborative platform has created the opportunity for different organizations and countries to share ideas, think differently, collaborate and discuss best practices to enable the private financing of infrastructure at lower costs.

## GIF Updates

**Jason Lu, Head, Global Infrastructure Facility**, updated the participants of the progress the GIF has made to date. Mr. Lu discussed the role that the GIF has taken to address a niche market with massive potential, and focusing on scaling up, standardization and Multilateral Development Bank (MDB) support. Mr. Lu talked about how the GIF adds value to its MDB TPs by providing operational, financing, technical and collaborative support. Following Mr. Lu's sharing, three GIF TPs spoke about their experiences in working with the GIF. **Isabel Chatterton, Manager, Asia Pacific PPP Transaction Advisory Services, IFC**, discussed how they have collaborated with the GIF. In this regard, Ms. Chatterton expressed IFC's appreciation for the speed at which the GIF has worked with IFC as well as the technical expertise within the GIF team, referencing the Malawi water treatment project as an example. **Jyoti Shukla, Director, World Bank**, shared the World Bank's increasing focus on issues related to climate change, the Maximizing Finance for Development initiative and underlined the value in leveraging the GIF to transform the way in which the World Bank works to address these issues. Ms. Shukla highlighted examples of the EVN Credit Rating and the Tunisia-Italy Interconnector Project to showcase the collaboration. Last, **Matthew Jordan-Tank, Head of Infrastructure Policy, EBRD**, talked about the Port Olvia & Port Kherson projects in Ukraine. Mr. Tank reiterated that the key lies in collaboration, which the GIF platform is providing.

Following this discussion, questions from the participants included how quality standards are incorporated into project preparation and development, and whether the GIF works with national development banks. Mr. Lu shared with the participants that the GIF incorporates such quality standards based on both existing tools developed by the World Bank and other MDBs and will continue doing so. He also highlighted a street lighting project that the GIF is working with a national development bank. The GIF was also asked to share an example of a potential project that was rejected for GIF funding and the rationale behind the decision. Mr. Lu explained that projects are typically rejected if they are incompatible with the GIF or MDB standards – including lacking transparency, being developed for domestic constituents, or not economically viable. For instance, a road project in Africa was rejected due to weak project economics and commercial viability.

## Panel Session on Standardization of Projects / Loan Agreements

**Isabel Chatterton**, who moderated this panel session, provided an overview on the standardization of contracts and the challenges associated with developing a set of common clauses and introduced the panel. **Christina Paul, PPP Lawyer, World Bank Group**, set off the discussion by presenting key trends and stakeholder perception on contractual standardization. Ms. Paul also asked polling questions to the participants related to the benefits from additional standardization and the merits on supporting/focusing on national standardization initiatives.

Next, the panelists shared their views on the benefits of having standardized documents, lessons learnt from standard documents already produced, and the merits in further advancing such initiatives. **Mark Moseley, Chief Operating Officer, Global Infrastructure Hub (GIH)**, discussed the numerous initiatives and fleet of standard documents already produced by either governments or international bodies and MDBs. Mr. Moseley further shared his views on whether the current ‘body of knowledge’ on standardization is sufficient for countries interested in pursuing their own initiatives. **Fuat Savas, Executive Director, Infrastructure Finance and Advisory, JP Morgan** shared the private sector perspective and highlighted the merits in further advancing and expanding standardization initiatives as have been undertaken by international bodies and MDBs. He also talked about what would be important to the private sector if such initiatives by international bodies were further expanded.

**Nelson Ogunshakin, Chief Executive Officer, International Federation of Consulting Engineers (FIDIC)**, elaborated on FIDIC’s experience in promoting standardization and the feedback they have received from client members. Mr. Ogunshakin also discussed whether the perceived benefits of standardization have been measured and efforts made to date. **Adam Stapledon, Partner, Allen & Overy**, discussed the various approaches to standardization that have and have not been successful using examples, he further delved into developing a model contract for one sector versus a full fleet of standardized documents. Mr. Stapledon also discussed whether standardization should only be pursued by countries with established PPP programs, which are assured about their preferred risk exposure.

Additional comments included that standardized contract yielded real benefits at national level, such as India and South Africa, however, showed challenges at international level; standardized contracts need to be understood along with underlying risk allocation; MDBs’ collaboration is a key; and standardized documents can provide international market expectation. Suggestions included creating a database or benchmark for the comparison of international experience on PPAs, and regional or quasi-standardization.

After the panelists' discussion, the meeting broke out into four table discussions, where the following questions were discussed: (a). What are trends that both private sector and public-sector representatives observe that will have an impact on current or existing standardization initiatives? (b). What is the advice that may be given to emerging PPP markets? What role can/should MDBs play in this respect? (c). Does standardization make a difference? To what extent can project agreements be standardized? What parts cannot or should not be standardized; and (d). Against the backdrop of existing standardization initiatives of project agreements, can these be meaningfully expanded to cover financial documents? Is there merit in doing so?

Following the table discussions, Ms. Chatterton made concluding comments. She highlighted that the gap identified during the panel was lack of data on measurable benefits of standardized contracts. She further said that assessing real value of standardization would help creating infrastructure as a new asset class.

## Panel Session on Country Presentations: Vietnam and Indonesia

As a part of the GIF's mandate to support the mobilization of private investment in infrastructure markets around the world, the AC meeting included discussions on Vietnam and Indonesia's infrastructure programs, including current challenges and opportunities.

### Vietnam

**Madhu Raghunath, Program Leader, World Bank**, introduced the session and panelists and presented an overview of infrastructure financing in Vietnam including key opportunities and challenges.

**Anushka Shah, Vice President – Senior Analyst, Sovereign Risk Group, Moody's**, presented an overall macroeconomic outlook of Vietnam, whose economy has transitioned from a largely agrarian one to a modern economy within a short span of time. She stated that the government's funding profile has improved, with lower reliance on foreign currency and deepening of onshore capital markets. Ms. Shah highlighted that despite the rapid credit growth, gaps continued to persist. She also added that Vietnam is a highly open economy from a trade perspective, with close trade linkages with both China and the United States.

**Vu Quynh Le, Deputy Director General, Ministry of Planning and Investment (MPI), Vietnam**, shared Vietnam's pipeline of projects and listed the key challenges. Ms. Le shared priority projects, including the North-South Expressway, the Long Thanh International Airport, and the North-South High-Speed Railway. She further highlighted key challenges to PPP projects in Vietnam, which include limitations in existing legislations, lack of long-term loans in domestic capital markets, inadequate risk allocation in international capital markets, and limited PPP experience and capacity to develop and implement such projects.

Next, **Rohit Dhir, Deputy General Manager, Investment Banking Asia, SMBC**, presented SMBC's experience in infrastructure financing in Vietnam, including its projects in the power and toll road sectors. Mr. Dhir identified key drivers for success of power projects: well-established procurement processes, robust project structures and strong government support. The key challenges identified include the constraints around increasing government debt which would in turn limit the quantum and nature of government support moving forward, as well as the limiting of the level of forex support, which would impact the bankability of PPAs. In terms of key infrastructure opportunities, the renewable energy and gas pipeline sectors were highlighted as sectors with high potential.

Following SMBC, **Alexander Jett, Senior PPP Specialist, ADB**, shared the MDB's experience and activities in Vietnam so far, and shared recommendations on what could be done better, including the need for more government support and greater multilateral and donor coordination. Mr. Jett shared examples of the World Bank-ADB's collaborative efforts on the development of PPP law and GIF-ADB work on road projects in Vietnam.

Last, **Ted Low, Director, Origination and Structuring, Clifford Capital**, presented a broad overview of activities and shared suggestions on what Singapore-based investment entities could do more of in Vietnam. The value of Infrastructure Asia was highlighted as an entity that could facilitate linkages and facilitate the development of the infrastructure ecosystem in Singapore. Mr. Low pointed out that opportunities existed in the road and rail space and integrated townships. In terms of what MDBs could do more of, Mr. Low reinforced that greater MDB coordination was key to ensure alignment of activities and highlighted the GIF as an excellent platform to enable this. There was value in MDBs continuing to provide feedback on the bankability of the PPA framework.

**Ms. Raghunath** made concluding remarks, where she stated that Vietnam was a highly attractive market for private investors, and the government had a strong interest in private sector financing. However, more needed to be done in terms of the policy agenda to facilitate this given the overlap of existing regulations and laws. Also, clarification is needed on the risk allocation and credit worthiness remains key, particularly for subnational entities.

## Indonesia

**Jeff Delmon, Senior Infrastructure Finance Specialist, World Bank**, introduced the session and panelists and presented an overview of infrastructure financing in Indonesia.

**Luky Alfirman, Director General of Budget Finance and Risk Management, Ministry of Finance, Indonesia**, Ministry of Finance (MOF) shared an overview of Indonesia's PPP efforts and activities in Indonesia. Mr. Alfirman highlighted that Indonesia has been striving to close the infrastructure gap and is looking to mobilize private sector capital. He further stated that the government has made significant efforts to improve PPP implementation including both institutional set up and fiscal facilities to provide comprehensive support in terms of regulation and funding to attract private participation. Mr. Alfirman informed the participants that Indonesia's upcoming PPP day will most likely be held in Singapore in December 2018.

**Richard Langberg, Senior Director, Analytical Manager, Infrastructure Ratings for Asia Pacific, S&P's Global**, presented on the infrastructure credit outlook in Indonesia. Mr. Langberg also elaborated that slower growth and stable margins may mean stable credit profiles, however, when coupled with high capital expenditures, deleveraging becomes difficult. He also highlighted that financial discipline and government support are key to being able to adjust capital expenditure spending to protect credit quality. Mr. Langberg concluded that although Indonesia has an investment grade sovereign rating, it faces issues with strong rule of law, payment culture, etc.

Following the presentations, **James Cameron, Managing Director, Co-Head of Infrastructure and Real Estate Group, Asia Pacific, HSBC** and **Luca Tonello, Head of Project Finance Asia, SMBC**, reacted to the presentations and asked questions. One concern discussed was attracting sufficient private capital into the Indonesian market despite the 51% ownership structure set forth by the Government of Indonesia. A suggestion was made to unlock local capital and identify ways to increase rupiah liquidity such that

international players could fund in rupiah. During this discussion, it was highlighted that there was significant untapped capital in pension and sovereign funds in Indonesia that could be better leveraged. However, more needed to be done regarding on regulations and incentive structures to facilitate the involvement of local insurance and pension funds. Also, another point was raised that while the appetite for coal has diminished, there is potential in the gas sector. However, many international banks are subject to regulation changes and a clear direction was required moving forward.

Mr. Delmon made concluding remarks and stated that the afternoon breakout session would further delve into Indonesian projects.

## Closing Remarks

In his closing remarks Mr. Levy thanked speakers and participants for their useful contributions and helpful guidance on topics of great importance to the GIF's mission. He welcomed from all the participants feedback on the topics discussed in this meeting and suggestions for topics to be discussed in future Advisory Council meetings.

## GIF Advisory Council Luncheon

At the GIF Luncheon, Mr. Chee Hong Tat, Senior Minister of State for Trade & Industry and Education, Singapore, was the lunch speaker. He talked about Asia's rapid development and corresponding demand for growth. Mr. Chee stated that Singapore is in a good position to contribute in this field, given its strong connectivity to the region, having built up significant capabilities project development, urban solutions, and the financial and professional services. He further said that as a neutral hub, Singapore had the relevant experience and capabilities in infrastructure solutions, accumulated through its years of development. Mr. Chee also shared with the participants that Infrastructure Asia, led by Enterprise Singapore and Monetary Authority of Singapore, would be launched at the 8th Asia-Singapore Infrastructure Roundtable on October 23, 2018. Infrastructure Asia will be a platform to help enable good-fit solutions, including bankable structures, for projects in Asia, thereby bridging the gap between infrastructure demand and the supply of capital.

## GIF Deep Dive

Following lunch, breakout sessions were held for more in-depth discussions on projects in Indonesia and opportunities in the State of Andhra Pradesh, India

### GIF Deep Dive: Indonesia

In this breakout session, **Edwin Hin Lung Yuen, Senior Infrastructure Finance Specialist, GIF**, introduced the panelists and stated the objective of the breakout session was to obtain private sector feedback on Indonesia's select projects. The panelists **Freddy Saragih, Director of Government Support and Infrastructure Financing/Ministry of Finance, Indonesia**, **Herry T. Zuna, Head of Toll Road Authority Board (BPJT), Ministry of Public Works and Housing** and **Pradana Murti, Head of Project Development, PT Sarana Multi Infrastruktur** presented four projects to the participants: the Yogya-Bawen Toll Road; Medan Municipal Transport; National Cancer Centre Dharmais Hospital; and the Hang Nadim Airport projects. The panelists began by presenting a broad overview of project preparation in Indonesia and highlighted their pipeline, which comprised of projects in advanced stages.

For the Yogya-Bawen Toll Road and Medan Municipal Transport projects, BPJT extended an invitation to the private sector to invest in its toll road projects. The panelists further stated that the Yogya-Bawen Toll Road project would potentially be structured under an Availability Payment (AP) scheme. While the participants expressed openness to different types of land acquisition options, they reinforced their key considerations: (i) the private sector would be paid back if they make the initial payment for the land; and (ii) the land would be made available when needed.

Next, for the National Cancer Centre Dharmais Hospital project, it was noted that reference will be made to international best practices rather than benchmarking to a specific country. The participants raised concerns over the revenue level that would be received through an Availability Payment (AP) scheme. The panelists were also asked about the demand for healthcare services and whether the project was needed given that historical data showed most cancer patients were going abroad to receive treatments.

Last, the Hang Nadim Airport project was assessed to be a natural good fit for PPPs, particularly user-paid PPPs. The Advisory Partners at this session welcomed the opportunity to be involved in the commercial side of this project and have a share in the revenues to be generated. Land was noted as being mostly secured. Tariff regulation was highlighted as being key to instill investor confidence.

On closing the session, Mr. Yuen informed participants that they would circulate the details of the four featured projects with targeted questions after the meeting and would appreciate feedback and/or comments from the participants.

### [Project Deep Dive: India - Andhra Pradesh](#)

**Ng Kai Scene, Director for Strategy and Partnerships, Infrastructure Asia**, moderated this breakout session and introduced the presenters: **Sreedhar Cherukuri, Commissioner, Andhra Pradesh Capital Region Development Authority, Ramamanohara Rao, Special Commissioner, Andhra Pradesh Capital Region Development Authority, Peeyush Kumar, Secretary to Government, Finance department, Govt. of Andhra Pradesh and Prakash Gaur, CEO, Andhra Pradesh Urban Infrastructure Asset Management Limited**. The presenters began with a brief introduction by the Government of Andhra Pradesh (GoAP) on the outlook of India, the state of Andhra Pradesh, a new capital city of Amaravati and institutional and the regulatory framework of development of the new city. Mr. Scene then asked live polling questions to the participants regarding the Amaravati city development project, appetite for financing sub-sovereign projects in India and views on major risks. The presenters next detailed a power distribution, smart poles and Eluru Smart City projects that are presently under development.

Following the presentation, Mr. Scene asked the discussants to react and respond to the following questions: what are the challenges associated with financing complex, multi-sector, massive infrastructure projects such as the Amaravati smart city project; what are the funding mechanisms from the state government; and what would the role of a financier be at an early stage of a project under development.

**Ken Shimamoto, Deputy Director, Planning and Coordination Division, Infrastructure and Environment Finance Group, Japan Bank for International Cooperation (JBIC)**, pointed out that JBIC has financed similar power distribution projects in Indonesia. Mr. Shimamoto stated that the Smart City project is challenging as a development finance institution financing on a commercial basis, such as JBIC, is cautious to take new technology risks as project finance is typically arranged with proven technology.

**Xie Yiqin, Product Manager of Power and Energy Division, Global Finance, Industrial and Commercial Bank of China (ICBC)**, shared their experiences of financing smart city projects in China. As China has been successful in developing smart cities, Ms. Xie outlined their lessons learnt, which included having well-designed projects with one-stop regulatory and institutional structures, sound risks and returns between the public and private sectors and lastly solid funds for the project.

**Stella Saris, Director, Project and Structured Finance Loans and Specialized Finance, Australia and New Zealand Banking Group Limited (ANZ)**, highlighted the complexities of a project like Amaravati. Ms. Saris mentioned that the scaling, hitting single lending limits and multiple revenues might be challenging for the Smart City project. Lenders would typically prefer tangible projects where revenues can be ring-fenced. To make the project more attractive for lenders, use of credit enhancement, such as Export Credit Agency (ECA), is one way. The proposed Equity Fixed Model guaranteeing equity return of 14- 16% would be attractive to the developers.

**Neeraj Gupta, Principal Investment Officer, IFC**, shared his experience having visited the Amaravati site. Mr. Gupta said that the key concerns for developing large, complex green field project, such as Amaravati city project is government capacity. Mr. Gupta further mentioned that as the Government of Andhra Pradesh is recognized as one of the state governments with strong institutional capacity, which is an opportunity for investors and financiers.

## GIF Partner Presentation

During this session, **Clive Kerner, CEO, Clifford Chance**, GIF's Advisory Partner, made a presentation on the Infrastructure Take-Out Facility (TOF). Mr. Kerner introduced the concept of the TOF, which allows banks to free up balance sheets and recycle capital to originate new project and infrastructure loans. It also enables institutional investors to invest in this asset class. Mr. Kerner further talked about the transaction structure, investment highlights and risk mitigation.

## Reception

After a day full of fruitful discussions, the meeting ended with a reception that was hosted by SMBC. Mr. Kannan welcomed all the participants to the reception.