GLOBAL INFRASTRUCTURE FACILITY ADVISORY COUNCIL MEETING, APRIL 16, 2015

Summary of Proceedings

The first Advisory Council Meeting of the GIF was held in Washington DC on April 16, 2015 at the World Bank Group-IMF Spring Meetings. It was attended by representatives of 22 Advisory Partners, 5 technical Partners and 6 Funding Partners, in addition to several observers. The meeting was co-chaired by **Bertrand Badre,** Managing Director and Chief Financial Officer, World Bank Group, and **Christopher Leslie**, Chief Executive Officer, Macquarie Infrastructure Partners.

In his opening remarks, Badre stressed the important roles of both the private and public sectors in addressing the "infrastructure paradox:" more than $80 trillion in available financing but inadequate infrastructure investment in the world's fastest growing economies. With current investment of $1 trillion a year, these developing economies need another $1.5 trillion a year to reach their development targets. An important objective for the GIF is to help make infrastructure an asset class for investors: however, the long term goal is the development outcome—where infrastructure is a driver of improvement of the well-being of individuals and a driver of national, regional and global growth. Badre added that the Facility now has 26 advisory partners with assets under management of more than $10 trillion. This unique collaboration of investors, donor countries and implementers together have an extraordinary opportunity to define a sustainable future.

In a status update of the GIF, **Jordan Schwartz**, Head of the GIF informed the Council that the project preparation and transaction support window had been launched with $100 million in seed funding, having received World Bank Group board approval on March 19. He explained that the GIF was looking into the feasibility of opening a downstream window that could take a more direct role in project support. Following its first meeting, the Advisory Council would meet semi-annually, with the next meeting planned tentatively for October 21, 2015 in Singapore, to coincide with the Global Infrastructure Finance Summit.

Session 1: Infrastructure as an Asset Class:

Walter Winrow, Group MD, Global Project and Infrastructure Finance and **Andrew Davison**, Sr. VP, Infrastructure Finance Group, both of Moody's Investors Service, led a technical discussion on Infrastructure as an Asset Class. They described the results of studies from Moody's project finance database of 5,300 projects, worth about $1.6 trillion, drawn from 40 banks, going back 30 years, which accounts for about 60% of all project finance transactions concluded in that period. These studies show that cumulative default rates for the infrastructure sector are lower than all other sectors, and that PPP default rates (i.e., a subset of the infrastructure sector) are even lower. The Moody's research shows that cumulative annual default rates for non-OECD countries, at 7.9%, do not differ significantly from those of OECD countries (6.1%), and that the average ultimate recovery rates of OECD and non-OECD countries are roughly the same – about 80%. When projects have defaulted, it has taken about two years for OECD countries to emerge from default and about 2.9 years for non-OECD countries. Further, PPPs appear to be a discrete sub-sector which lies at the low-risk end of the project finance spectrum.

Bernie Sheahan, director for Global Infrastructure and Natural Resources at IFC found the key findings of the Moody's study to be consistent with IFC's experience, which confirms that there is only a limited incremental risk for non-OECD assets compared to OECD assets. Sheahan added, however, that assessing the risks remains significantly more expensive in emerging markets than it does in OECD countries, especially for investors without existing large in-country networks. Fortunately, he noted, the levels of total infrastructure spending today and the share of private investment are exceeding historical rates, and the GIF and other infrastructure agencies could make a difference in the data and in pipeline development by collectively supporting emerging market governments in infrastructure. **Macky Tall**, Senior VP, Private Equity and Infrastructure at La Caisse, confirmed that his Corporation's experience over the last 15 years of representing over four million clients with investments in infrastructure projects worth more than $90 billion had been positive. He announced that La Caisse was embarking on an effort to deploy significantly more capital in emerging markets and found Moody's data showing similar ultimate recovery rates for OECD and non-OECD countries reassuring. **Michael Roth**, Senior Manager, Public Sector Business Development at Munich Re Group saw the GIF as an important opportunity for the insurance business. Munich Re has a $5 billion window to provide equity investments for energy projects around the world, but has had difficulty identifying attractive infrastructure investment opportunities. He was encouraged by the results of Moody's research which may prompt more Munich Re investment in non-OECD countries.

Session 2: Infrastructure Investment in Emerging Markets and Developing Economies

Christopher Leslie chaired the session. **Jiao Xiaoping**, Deputy Director General of China's Private Partnership Centre at the Ministry of Finance presented China's infrastructure investment program. He described the acceleration of China's investment in infrastructure over the last three decades, pointing out that by 2012 the investment value of China's infrastructure had grown to over US$1 trillion – about 75 times that of the 1990s. By 2012, China had built more than four million kilometers of highway and a thousand kilometers of railroad. Today, green, low carbon infrastructure is a priority for China, and its new strategy is to emphasize quality over quantity. Green infrastructure and affordable housing are high on the government's agenda, and PPPs are considered an effective way to finance the delivery of higher quality public goods more efficiently. Private partners will play a major role in building, financing and operation of infrastructure, with the government only focusing on policymaking and supervision. China is strengthening its regulatory and institutional framework and will issue a series of comprehensive fiscal and financial policies to improve the investment climate and attract foreign investment. The response from the private sector has been very positive and China has identified 678 potential PPP projects from seven provinces valued at about US$200 billion. While some of the funding required to develop these projects will come from the government, the bulk of resources is expected to come from the private sector. China is working with the World Bank to use its financial resources and expertise to support the establishment of a PPP fund at the local level.

Vera Songwe, Country Director for Senegal at the World Bank, representing the Ministers of Finance and Infrastructure of Senegal, presented the government's investment strategy. She pointed out the government's eagerness to develop infrastructure PPPs, especially given the country's high energy costs and transportation needs. Much needs to be done in terms of project preparation, however, and the government is keen to work with its development partners through institutions such as the GIF, to complement its own efforts in this area. Domestic and regional opportunities in Senegal include bus rapid transit systems, the Dakar-Bamako Railroad project, the Banda Gas-to-Power project and several social infrastructure projects, all at the pre-development stage. A central agency has been established for coordinating PPPs in Senegal, a legal structure has been put in place and the country has a track record of successfully completing a toll road concession which continues to operate effectively today.

Comments from the Floor:

- In response to a question on *how the GIF would work with the new Asian Infrastructure Investment Bank (AIIB)*, it was pointed out that the GIF was committed to collaborating closely with the AIIB and helping it get off to a successful start. The WBG and the ADB already collaborate on such issues as establishing procedures for procurement, safeguards, governance structure and the role of the private sector. Furthermore, China is an active Funding Partner of the GIF, and several of the MDBs are Technical Partners.
- Responding to a request for the GIF to *provide professional analysis of PPP programs and regulatory frameworks in emerging markets as part of its activities*, it was explained that this information could be provided by the GIF's partners which all have knowledge groups within their institutions, leaving the GIF to focus on project implementation. The MDBs are setting up a joint platform that would provide public information about PPPs and infrastructure, including closed deals and legal framework. In addition, Infrascope, originally developed by the Inter-American Development Bank, provides a standardized set of assessments about country readiness for private infrastructure and PPPs. Finally, the PPI database keeps track of every project that has come to financial close in every infrastructure sub-sector over the last 24 years in every emerging market. All this information will be provided on one site for easier access for policymakers and investors.
- On *project selection*, it was pointed out that selection criteria had been established that would take into consideration diversity in terms of region, sectors, project size and country income level, among others. The GIF will also select projects that are replicable, climate-smart and/or trade-enabling, and that help meet one of the GIF's goals of increasing mobilization rates and helping create an infrastructure asset class. Some Council members urged the GIF to undertake a quick selection of easily implementable, investor-friendly projects during the pilot project that could then be scaled up. The GIF hopes to identify an initial set of projects within the next couple of months with the intention to fully commit the $80-$100 million currently pledged within the first two years. Funding support from the upstream window is expected to range from $2 million and $15 million per project and will be selected with a view to ensuring that at least one or two projects are brought to market during the pilot period. Council members also urged the GIF to structure projects that are investor-friendly.
- With regard to *future interactions among advisory partners*, the GIF plans to organize meetings with its Advisory Partners about twice a year and hopes to leverage the Partners' capacity to provide advice at the project level.
- In his *concluding remarks*, Badre described his vision for the Advisory Council to become a forum for discussion and exchange of ideas around real projects, taking full advantage of the government, development bank and private sector make-up of the Council.