

***The Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs
Part I: State of Global Markets, World Bank Response and Impact on Infrastructure PPPs***

Webinar Summary

May 4th, 2020

OVERVIEW SUMMARY

On May 4th, 2020, the Global Infrastructure Facility (GIF) launched the first part of its webinar series focused on the *Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs*. The series looks at how the COVID-19 crisis will impact emerging market infrastructure portfolios and pipelines, particularly PPPs, and how multilateral development banks (MDBs) and the private sector can best respond.

The series kicked off on May 4th and explored the *State of Global Markets, World Bank Response and Impact on Infrastructure PPPs* with over 80 Advisory Council members connecting from around the world. Speakers included Jerome Jean Haegeli, Co-Chair of the GIF Advisory Council, Group and Chief Economist, Swiss Re, Managing Director, Swiss Re Institute, and Makhtar Diop, Co-Chair of the GIF Advisory Council and Vice President, Infrastructure, World Bank. Jerome set the scene on the impact of the crisis on global markets, while Makhtar provided context on the social and economic impact on developing countries and the World Bank's response.

The discussion was then rounded out by Imad Fakhoury, Co-Chair, GIF Governing Council and Director of Infrastructure Finance, Guarantees and PPPs and Riccardo Puliti, Global Director, Energy and Extractive Industries and Regional Director, Infrastructure, Africa, World Bank. Imad provided insight on the impact on infrastructure PPPs and Riccardo on the energy sector, respectively. The discussion was moderated by Fatouma Toure Ibrahima, Manager, Infrastructure Programs and Analytics, World Bank, with introductory remarks by Jason Lu, Head, Global Infrastructure Facility.

Speakers conveyed the challenges of these unprecedented times. Global markets are reeling from market volatility and developing countries are facing a health, social and economic crisis that threatens to erase decades of economic progress and poverty reduction. Some infrastructure services have come to a halt and energy prices have crashed. While the road is uncertain, one common thread the speakers conveyed is that this crisis presents an opportunity to build resilience and build back better. Post crisis, governments are expected to use infrastructure investment as an economic stimulus, posing new opportunities for the private sector. However, as governments will be more fiscally constrained, project preparation will be more critical than ever to help developing countries design and structure projects that are sustainable, of quality and bankable to attract private investment.

SESSION SUMMARY

PART 1: State of Global Markets, World Bank Response

Jerome Jean Haegeli, Co-Chair of the GIF Advisory Council and Group Chief Economist, Swiss Re, Managing Director, Swiss Re Institute, presented his views on the unprecedented economic times—a global economic crash. **Makhtar Diop, Co-Chair of the GIF Advisory Council and Vice President, Infrastructure, World Bank**, spoke on the impact on developing countries and the World Bank’s response to the crisis.

Key takeaways:

- The current global recession is the deepest since the 2007 Great Recession, but will also be one of the shortest, with a slow, protracted recovery process.
- Global economic recovery will follow a path of recession, recovery and resilience.
- Investment in infrastructure is currently less than 50 percent of 2008 investments levels.
- China it is predicted to see about \$10-12 billion of lost economic output in 2020.
- Extreme poverty is expected to rise in 2020, reversing many gains made over the past decade.
- Africa is expected to see a sharp decline in economic growth in 2020, leading to a significant recession—the region’s first recession in 25 years.
- The World Bank Group is mobilizing all available resources and reallocating its portfolio to support the recovery of countries—on both the health side and economic side.

According to **Jerome Jean Haegeli**, the economic recovery will likely depend on financial market recovery and flows, particularly if interest rates are as low as they are today— US 10-year interest rates are well below one percent while Europe is still in negative interest rate territory. Jerome added, this represents the “power of gravity”, which helps the flow of financial markets and in turn the flow of long-term investors back into infrastructure investment.

New perspectives and opportunities for infrastructure investment are identified as paradigms shift in areas that include central bank innovations, fiscal and monetary coordination and debt monetization, global and parallel supply chains, and accelerated digital transformation. It was noted however, the public sector must still do more to create enabling environments for investment flows and take extraordinary measures in financial markets, where the creation of infrastructure as a tradable asset class would be important. Also suggested was how a “new normal” would provide opportunities to address externalities, such as climate change and “greening” transport and energy systems and agreements to increase infrastructure investments in the context of public goods.

The private sector too will have new opportunities due to liquidity in the markets. This will lead to questions on how to secure investments in this new environment, particularly in frontier markets and low-income countries. The GIF should also play a role by looking at sectors that can scale-up investment

quickly. And the IFC and WB are also discussing how to develop a new approach to investing in urban mobility infrastructure such as bus rapid transit systems.

The World Bank response to the crisis was discussed by **Makhtar Diop**, who noted the institution is taking measures to mobilizing all available resources and reallocate its portfolio to support the recovery of countries—on both the health side and economic side. The World Bank also has called for debt relief to defer government loan repayments, a measure discussed at the April 2020 Spring Meetings. Currently, it is working with MDBs to find solutions that will create more fiscal space for countries.

Measures across the World Bank Group institutions include:

- **WB:** *\$160 billion in financial assistance over the next 15 months for economic recovery, in health, and social operations that will cover 100 countries or 70 percent of world's population.*
- **IFC:** *\$8.9 billion to support financial institutions to address the challenges due to a lack of deepening of capital markets, with resources provided specifically for trade financing, and to help companies with working capital and medium-term financing challenges. SMEs in developing countries will be supported to face supply chain disruptions while critical sectors such as tourism and manufacturing will be supported. Overall, IFC measures will impact growth rebound and job creation.*
- **MIGA:** *\$6.5 billion facility to support private sector investors and lenders and also look at its role in supporting transactions in PPPs and infrastructure (e.g. energy sector).*

Finally, when considering COVID-19's direct impacts on the infrastructure sector, Makhtar Diop suggested four factors to keep in mind:

- A lack of public capital expenditure on infrastructure due to governments seeing the level of revenue decrease and expenditures increase, rendering the fiscal space created no longer sufficient to sustain the level of infrastructure spending we have seen in the past.
- The importance of maintenance (e.g. road sector) and how it will be very useful for sustaining SMEs and job creation--stimulus packages will be crucial for this.
- Digital technology as a growth area in the current environment and referred to the WB's work to accelerate connectivity in Africa through for example the Digital Economy for All initiative and a call for action by partners to require regulators to take action to free up unused spectrum to increase supply.

PART 2: IMPACT ON INFRASTRUCTURE PPPS AND THE ENERGY SECTOR

Imad Fakhoury, Co-Chair, GIF Governing Council, Director, Infrastructure Finance, PPPs and Guarantees (IPG), World Bank framed the World Bank's strategic response to COVID-19 around three pillars: to protect lives, livelihoods and the future. The focus for IPG will be on safeguarding the delivery of essential infrastructure services and supporting economic recovery beyond the stabilization phase of the crisis.

Riccardo Puliti, Global Director, Energy and Extractive Industries and Regional Director, Infrastructure, Africa, World Bank looked at the impact on infrastructure PPPs with a particular focus of COVID-19 in the energy sector and acknowledged how the sector is being significantly impacted.

Key takeaways:

- As countries emerge from the crisis more fiscally constrained, the private sector will be more important than ever.
- PPPs play an important role in bringing private participation into infrastructure and recovery efforts.
- Private Participation in Infrastructure (PPI) database identified 62 developing countries engaging in private sector activity in infrastructure in 2019, up from 46 in 2018.
- A reduction in electricity usage for 2020 of six to seven percent is expected.
- Reduction of electricity demand and collection rates, especially in emerging markets, will have lasting negative impacts for public utilities and private companies in the energy sector

Both presenters reaffirmed the global economic uncertainties, disruptions, and the sectoral cases of declining demand for transport services and energy demand that threaten supply chains while also highlighting the upswing and new opportunities in digital development. Other areas identified for short-term infrastructure investment demand included upgrades to infrastructure in healthcare, Infratech, telecoms and internet networks, access to water and sanitation, electricity supply, logistics corridors, and access to markets. Post-crisis, it was noted that governments should be expected to emerge more fiscally constrained, placing more importance on the role of the private sector. Governments are expected to use infrastructure investment as a post-crisis economic stimulus, posing new opportunities for the private sector.

According to **Imad Fakhoury**, this creates opportunities for IPG and others to help governments form and maintain strong regulatory and enabling environments through PPPs and other forms of collaboration. Opportunity will also arise to inform governments on best practices in good governance, accountability, transparency, fiscal sustainability, and ensure their infrastructure investments (public and private) support low-carbon pathways and resilience to climate change—an opportunity that should be seized to forge greater sustainability and resilience in infrastructure development programs against future shocks.

Further, it was emphasized that PPPs will play an important role in bringing private participation into infrastructure and recovery efforts. To gain a better understanding of the short-term impacts on PPPs and potential future opportunities, IPG recently launched a series of “brainstorming sessions” with national PPP units and government representatives, that are helping to inform IPG on how to proactively support governments through technical assistance for PPP interventions, now and in the post- crisis phase. A permanent community of practice platform will be created to continue this knowledge sharing. Two other important platforms housed in IPG are the GIF, with its focus on mid-to downstream work, and the PPIAF, with a focus on more upstream work, that is currently using stakeholder feedback to design a program for governments and utilities in need of targeted technical assistance for assessing impacts on their portfolios.

Some exciting findings published by the Private Participation in Infrastructure (PPI) database, identified 2019 as an exceptional year for global private participation. The PPI database identified 62 developing countries engaging in private sector activity in infrastructure in 2019, up from 46 countries in 2018. Some countries saw a return on investment for the first time in a decade while others were registered in the database for the first time. This broadening of activity was attributed to Development Finance Institution (DFI) support that expands country private activity and resilience to macroeconomic uncertainties, with the GIF being an important part of this success.

Riccardo Puliti recognized the energy sector is being significantly impacted by COVID-19 and chose to examine the sector's sub-sets to best illustrate the situation. For example, oil and gas are being hit hard globally now, with production down by 24 million barrels per day. He cautioned that although an eventually recovery is expected in this sub-set, there will be structural changes due to continued reductions in for example travel by businesses and tourists. Oil and gas usage for urban commuting on the other hand should revert to pre-COVID-19 levels quickly, and the same for industrial manufacturing activity, he added. Also noted was a reversal in electricity usage patterns, with an increase in residential electricity demand and decrease in industrial electricity demand. Post-crisis, he noted this should quickly revert to pre-crisis usage levels and patterns, but what will cause a lasting impact for public utilities and private companies in the energy sector will be the reduction of electricity demand and collection rates, particularly in emerging markets, where sovereign support will be necessary.

The energy sector now has an opportunity to move toward renewable energy, with oil and gas companies accelerating investments in renewables and more sustainable sources. It was suggested that pressure should be kept on reforms to attract private activity, make energy markets sustainable, push technology further in areas such as batteries, and focus on energy access and supply. On the other side of the crisis, private companies and their products will be essential for attracting additional private activity and supporting good governance, better performance, and introducing technology. Some major companies however are already invoking force majeure to postpone large investments in emerging markets.

CLOSING

Imad Fakhoury noted IPG's initiative to issue guidance on a framework to offer advisory services to governments seeking to renegotiate PPPs—by looking at tradeoffs; making PPP frameworks and contracts more resilient to pandemics and disasters; and adjusting PPPs for pandemics natural disasters. A compilation of lessons learned is on making frameworks and contracts more resilient is also underway.

Jerome Jean Haegeli re-emphasized the opportunity at hand to “green the system” with more sustainable infrastructure investment. He also cautioned against the mistake of 2008/2009, when interest rates were low and no action was taken and encouraged more infrastructure investment, an improved economic trajectory, and making infrastructure tradable asset class.

Jason Lu thanked all GIF Partners and acknowledged the wealth of knowledge shared and the optimism for post-crisis phase opportunities in PPP investments, maintenance, and a risk appetite of long-term investors. He emphasized the need to build better in more sustainable and resilient ways and reminded how the GIF is helping governments connect with the private sector, understand new market conditions, and define project bankability.

ABOUT THE GLOBAL INFRASTRUCTURE FACILITY

The Global Infrastructure Facility (GIF) is a G20 initiative with the overarching goals of increasing private investment in infrastructure across emerging markets and developing economies and improving services in ways that contribute to poverty reduction and equitable growth aligned with the SDGs. The GIF provides funding and hands-on technical support to client governments and multilateral development bank partners to build pipelines of bankable sustainable infrastructure investments and has designed a suite of blended finance solutions to facilitate private investment. The GIF enables collective action among a wide range of partners – including donors, development finance institutions, country governments, together with inputs of private sector investors and financiers – to leverage both resources and knowledge to find solutions to sustainable infrastructure financing challenges.



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