

***The Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs
Part II: Regional State of Infrastructure Pipelines: What Now, What Next?***

Webinar Summary

July 29th, 2020

OVERVIEW SUMMARY

On July 29th, 2020, the Global Infrastructure Facility (GIF) continued its webinar series on ***The Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs*** on July 29th, with its second webinar called the ***Regional State of Infrastructure Pipelines: What Now, What Next?*** The webinar looked at the regional disruptions on PPPs caused by COVID-19 in the Latin America & the Caribbean (LAC) and Europe & Central Asia (ECA) regions.

Jason Lu, Head of the GIF, opened the webinar by welcoming all participants and acknowledged that despite the challenges caused by COVID-19, there are some bright spots—for example, two GIF-supported projects recently achieved commercial close. The first, a concession agreement was signed on June 26th for [Port Kherson](#), a project in Ukraine supported by IFC, EBRD and the GIF and the second, the [Sophia Airport](#) concession was signed on July 22nd, which was also a partnership among the IFC, EBRD, and the GIF. Jason also mentioned the closing of the [PiPA Road concession](#) in Brazil that was advised by IFC and recently awarded to GIC. Finally, he referenced the **GIF’s COVID-19 Response Facility, a \$1 million facility, which provides fast-track funding and expertise to governments and MDB partners to support projects that have been under preparation but are stalled because of COVID-19.**

Imad Fakhoury, Co-chair of the GIF Governing Council and Director of the Infrastructure Finance, PPPs & Guarantees Global Practice of the World Bank, served as Moderator. Before starting the session, he noted widespread disruption of infrastructure PPPs in both regions by contextualizing it with the recent release of the [Private Participation in Infrastructure \(PPI\) Database](#), that revealed total investment for LAC in 2019 was \$30.7 billion, the second-highest investment level globally, while ECA had \$8.4 billion in the same year. He acknowledged that given COVID-19, an even lower volume of total PPI is expected in 2020. In this context, DFIs can play an important role to catalyze PPP projects.

SESSION SUMMARY

PART 1: State of Infrastructure in Latin America and Caribbean (LAC) and Investor Perspectives

- **Gastón Astesiano**, Public Private Partnerships, Team Leader, IDB
- **Richard Cabello**, Manager, Infrastructure Advisory, Latin America, IFC
- **Guilherme Caixeta**, Senior Vice President, Infrastructure, GIC

Key takeaways:

- Despite having the highest regional private investment levels over the last decade, IDB forecasts a drop in regional GDP over the next two years—between 6.3 percent - 14.4 percent.
- IDB Invest has approved \$2 billion in private sector infrastructure deals, making 2020 the second-year private levels were higher than public approvals.
- A “flight to quality” is taking place, making project preparation activities a priority.

Over the past decade LAC has attracted the most private infrastructure investment in the developing world, however, due to COVID-19, IDB now forecasts a drop in regional GDP over the next two years— between 6.3 percent - 14.4 percent, impacting economic activity, private infrastructure investment, and reflecting the largest regional decrease on record.

During periods of fiscal consolidation, it was noted that LAC tends to restrict capital investments by moving toward spending on social transfer payments that cut greenfield and new infrastructure investments and reduce the maintenance of current stocks of capital assets. Furthermore, infrastructure pipelines are currently delayed by up to two years, which could affect infrastructure investment for mobilizing capital.

Recent trends observed in LAC include a short-term focus on the maintenance of existing infrastructure, lighter PPPs,¹ performance indicators for infrastructure maintenance, and water and sanitation sector performance-based contracts with public utilities. And, for the second year in a row, private investment approvals by IDB Invest, the IDB's private sector arm, have surpassed the IDB's public investment approval levels.

A slowdown in government decision-making processes observed by IFC has had an effect on the approval process for preparatory studies and PPP transactions. On the upside, however, IFC's work is ongoing, with projects going to market in Brazil and Peru, where water, roads, and public planning projects are still moving forward.

To best illustrate the impacts of the crisis, the investment phases were taken in order. During the structuring phase, although site visits are now difficult, technical, legal, and financial preparations and studies are increasingly important, marking a “flight to quality”. For example, the transport sector needs road traffic CAPEX estimates to understand the effects of the crisis and close discussions with investors are important. As for the prequalification and closing phases, little or no disruptions have been observed. IFC recently closed two projects in LAC—a hospital in Colombia and a roads project in Brazil, demonstrating a strong appetite for investors in the region.

GIC described the COVID-19 crisis as a “stress test” for assets, countries, regulators and fund managers. Notwithstanding, as a long-term investor, GIC remains active in the LAC region. For example, GIC was awarded the concessionaire for the [PiPa project](#), the largest public roads concession ever put up for auction in Brazil. Flexibility, ingenuity, and IFC's well-planned and executed support as well as the government's openness are credited for the PiPa success.

GIC noted that the crisis highlighted the importance of staying disciplined when underwriting deals. For example, assets with strong long-term contracts generally suffer less during economic downturns while others may require a more careful pricing, given their intrinsic risks. Being prepared for multiple scenarios is also important, so as to enable businesses and investors to react more quickly when a crisis happens, for example, reaching out to various stakeholders and adapting their operations. At GIC, one of our key investment principles is prepare, not predict.

¹ According to the National Bureau of Asian Research, lighter PPPs refer to operations and management contracts that are often easier to enact and carry lower risks that can be more easily allocated and mitigated than build-operate-transfer PPPs.

SESSION SUMMARY

PART 2: State of Infrastructure in Europe and Central Asia (ECA) and Investor Perspectives

- **Matthew Jordan Tank**, Director, Sustainable Infrastructure Policy & Project Preparation, Sustainable Infrastructure Group, EBRD
- **Peter Jeffreys**, Deputy Head of Project Finance, EIB
- **Thierry Déau**, Founder, Chairman and Chief Executive Officer, Meridiam

Key takeaways:

- Vital Infrastructure Support Program (VISP) is EBRD's €21 billion COVID-19 response, with about €7 billion marked for sustainable infrastructure
- EBRD, with IFC and with support of the GIF closed the Sophia Airport concession in Bulgaria in July 2020
- Meridiam noted more strategic thinking about packaging projects to attract investors will be important

Due to COVID-19, there has been a dramatic fall in revenues in ECA, with public service providers being hit particularly hard as central governments grant payment moratoriums and reduce fees that have led to liquidity shortages. The EBRD acted quickly, however, to support its clients with liquidity and continuity of high-quality, low-carbon investments through the **Vital Infrastructure Support Program (VISP)**, part of the EBRD's €21 billion COVID-19 response, active through 2021. About one-third or €7 billion of VISP supports sustainable infrastructure.

VISP's three components provide needed support for infrastructure. In the short-term, **Working Capital Lines** help local banks continue their lending to municipalities and utilities. In the medium-term, the **Stabilization Facility** supports all types of clients over the next 2-5 years, including SOEs, municipalities and others, to build resiliency and ensure continuity of services. **Strategic CAPEX investments** provide investment financing for public sector clients to support vital capital expenditure that is otherwise threatened.

In the first half of 2020, EBRD had recorded a record pipeline that is still strong today. On July 26th the **Sophia Airport concession** in Bulgaria was closed. EBRD, teamed with IFC and the GIF, provided the legal, technical and financial resources that culminated in five bidders and a balanced, 35-year concession, with over €600 million in investments, annual revenue sharing and a commitment to work with existing staff. A very open dialogue was identified as an important factor in the closing.

EIB said it has seen resiliency in ECA and, despite the challenges due to COVID-19, it has continued to close transactions. Some emerging trends identified included: a slight increase in the cost of capital, but less than experienced in a financial crisis; interest in northern projects as the crisis is amplified in emerging economies; popular opinion is influencing PPP investments; a disruption of supply chains that differ by sector (road construction is not as affected by social distancing while manufacturing is, resulting in production delays); governments are enabling projects; and the infrastructure sector will see increased demand post-COVID-19.

To bring the session full circle, Meridiam said it has witnessed sound investor sentiment in the region due to stress tests that have shown portfolio resilience. Other observations included traffic related assets that have some liquidity issues but are counterbalanced by lower leverage in the region, a mix of social infrastructure, and blended finance risk mitigation; a flight to quality in PPP infrastructure; and little disruption in the closing of projects—for example, Meridiam was awarded the [Sophia Airport](#) concession in July 2020. Also suggested was how MDBs could help investors think more strategically about packaging projects to attract investors.

CLOSING

Jason Lu provided closing remarks by stating that in the post COVID-19 era, it is clear that investors will be more selective and perform more stress tests and due diligence. A flight to quality will be the new trend, and thorough studies and good project preparation will become increasingly important for understanding project risks as well as the upside potentials. In short, quality of project preparation will be critical and the role of project preparation facilities and advice to governments will be more important than ever.

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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