GIF ADVISORY COUNCIL MEETING

Sustainable Infrastructure in the New Development Era

April 17, 2023 | 8:00 AM – 1:00 PM EDT | Hybrid

EVENT SUMMARY

On April 17, 2023, the Global Infrastructure Facility (GIF) held its 15th Advisory Council Meeting, "**Sustainable Infrastructure in the New Development Era**." The meeting had strong global participation from private sector investors, multilateral development banks (MDBs), funding partners, infrastructure leaders, and observers. The speakers discussed the latest innovation and pathways aligned with achieving climate commitments. In addition, the GIF, its MDB Technical Partners, and client countries presented tangible investment opportunities in the Transport and Energy sectors, including the latest updates on Egypt's Green Hydrogen program from The Egyptian Sovereign Fund. Discussions focused on barriers and solutions to mobilize private capital more effectively, programmatic approaches, and bringing in the private sector early. ***Please see a high-level summary of the event below:***

Introductory Remarks

Speakers

- **Guangzhe Chen,** Vice President for Infrastructure & GIF AC Council Co-Chair
- **Julia Prescot,** Partner, Chief Strategy Officer, Meridiam & GIF AC Council Co-Chair
- **Sebnem Erol Madan,** Acting Head, GIF

Guangzhe Chen welcomed the Advisory Council Network and opened his remarks by highlighting the fact that infrastructure is a critical driver of development and can lead to beneficial economic outcomes. Still, he said, it is essential to prioritize quality, sustainability, resilience, and inclusivity throughout the entire project lifecycle. He applauded the GIF for playing a crucial role in developing bankable pipelines of sustainable and quality infrastructure projects and unlocking private investment and innovation through public-private partnerships, aligning with the Evolution Roadmap agenda. He highlighted the key actions outlined in the Evolution Roadmap, such as reorienting towards targeted country-driven-aligning strategies, expanding the use of WB guarantees to reduce investment risks, and addressing global public goods anchored in the WBG's Twin Goals, with a focus on driving climate action and pandemic response. He shared that embracing innovative financing models to deliver cost-effective and sustainable solutions, including hybrid PPPs, is an excellent step toward achieving sustainable infrastructure development. Finally, he mentioned the WBG's plans to leverage the GIF's expertise and resources and tap into the valuable feedback from the GIF Advisory Council Network as the institution embarks on its evolution journey.

Julia Prescot mentioned that as co-chair of the GIF Advisory Council, Meridiam recognizes the importance of well-structured and bankable public-private partnerships to mobilize private investment in infrastructure. She said this is particularly relevant in the new development era, where innovative financing models and credit enhancement mechanisms are crucial for attracting private finance. She emphasized that the GIF has a track record of supporting the design of bankable infrastructure projects that have attracted significant private finance. She highlighted that this is a testament to the GIF's convening power and ability to bring together key stakeholders to develop sustainable infrastructure solutions. As co-chair of the Advisory Council, she reiterated that Meridiam is committed to further leveraging its experience and expertise to enhance the GIF's impact. Finally, she concluded that scaling up well-structured and bankable public-private partnerships is critical to sustainable infrastructure development.

Sebnem Erol Madan, the Acting Head of the GIF, presented introductory remarks and the GIF progress update, highlighting the current portfolio, pipeline, and flagship partnerships. Sebnem highlighted that the GIF has actively mobilized private capital for infrastructure projects, particularly in the transport and energy sectors, and prioritized climate-smart activities. As of February 28, 2023, 19 projects have reached a commercial close, and it is expected that private investment will reach up to $9.1 billion as all Brazil road concession projects continue to raise financing. In this fiscal year, three projects reached a commercial close, and four reached a financial close, with a total of $131.5 million in private capital mobilized. Finally, she also acknowledged that the GIF's success is attributed to its partnerships with technical and funding partners, as well as feedback from its Advisory Council network.

Panel: Infrastructure Finance in a New Development Era

<u>Speakers</u>

- **Alexia Latortue,** Assistant Secretary for International Trade and Development, U.S. Department of the Treasury
- **Stephanie Von Friedeburg,** Managing Director DFI Strategic Partnerships, Banking and Capital Markets Advisory, Citibank
- **Rafael Sabonge,** Minister of Public Works, Panama
- **Reynaldi Hermansjah,** President Director & Chief Executive Officer, PT Indonesia Infrastructure Finance
- **James Mnyupe,** Economic Advisor to the President, Republic of Namibia

<u>Moderator</u>

Imad Fakhoury, Global Director, Infrastructure, PPPs & Guarantees, World Bank & GIF Governing Council Co-Chair

Imad Fakhoury welcomed the Advisory Council Network to the high-level discussion and gave brief opening remarks. He shared that the current global economic conditions, compounded by the COVID-19 pandemic and other crises, require careful attention and selectivity in investments toward sustainable and high-quality infrastructure that support multiple economic and social goals. He emphasized that this new development era calls for infrastructure investments that promote green, resilient, and inclusive development to help emerging markets and developing economies reach their economic prosperity and energy transition targets. To prioritize the right investments, he reiterated the need for stronger project preparation, technical and financial support, risk mitigation, and credit enhancements for emerging low-carbon technologies.

Alexia Latortue emphasized the critical role of infrastructure in supporting economic growth and providing essential services, especially during disasters. She stressed the importance of creating high-quality, resilient, green infrastructure through public and private investment. However, Latortue also expressed concern about the decreasing private sector investment in emerging markets, which underscores the need for more blended finance solutions, such as guarantees or insurance. Furthermore, she emphasized the importance of revising or creating policy conditions that facilitate leveraging World Bank entities - IFC, MIGA, IBRD, and IDA - to attract private financing to infrastructure projects. Latortue recognized the lack of adequately prepared and feasible projects and praised the GIF for its success in that endeavor and track record of mobilizing private capital and collaborating with investors. She also stressed the need for specificity and granularity in identifying barriers to investment in the climate and infrastructure space. Lastly, she highlighted the correlation and alignment between GIF mandate and operations with the Partnership for Global Infrastructure and Investment (PGII) initiative of the G7, as well as the importance of the $40 million funding request for GIF in President Biden's FY2024 proposed budget (subject to congressional approval). Overall, Latortue's remarks underscored the critical importance of sustainable infrastructure development and the need for public and private investment to support this agenda. She also reiterated the critical role of the GIF in mobilizing private capital and supporting the development of sustainable infrastructure solutions worldwide.

Rafael Sabonge highlighted Panama's PPP program, which includes up to ten projects in the road sector. The first project, the *Panamericana Este* (East Pan-American) is at bidding stage. Sabonge emphasized that collaboration and cooperation have been essential to the program's success structuring process, with help from various organizations, including the GIF, IFC, IDB, and local authorities and entities. He suggested that other countries in the region seek the same approach to foster successful PPP programs. Sabonge focused on the first PPP highway, the Panamericana Este, and emphasized that transparency and a level playing field for all participants have also been crucial to the project's advancement. He noted that this approach comforts investors and will be refined and replicated in future transactions. Sabonge also highlighted that the project will entail carbon neutrality and emphasized that the Panamericana *Este* project, is a net-zero project that includes reforesting 13 hectares to compensate for incremental carbon dioxide emissions related to the project, highlighting the importance of sustainable infrastructure development and the need to reduce the carbon footprint of infrastructure projects to achieve climate goals.

Stephanie von Friedeberg emphasized the private sector's crucial role in achieving Sustainable Development Goals through the "billions to trillions" agenda. She shared examples of Citibank's involvement in green bond issuances and long-term loans for carbon capture in emerging markets, which attracted institutional investors. She suggested creating new guarantees, bond structures, and carbon credits to de-risk projects or enhance their yield to incentivize additional private capital. She noted that MDBs/DFIs could take slightly more risk without jeopardizing their AAA rating, such as doing more mini-perms or taking subordinated positions, to allow commercial banks to take shorter-term positions in developing countries. However, the interpretation of regulations such as Basel III makes it difficult for commercial banks to use MDB's risk defeasance tools. Thus, a suggestion for their interpretation of such regulations is to be revised. Lastly, she called for more private sector input and funding for the GIF and emphasized the importance of identifying specific barriers to investment in the climate and infrastructure space.

Reynaldi Hermansjah represented the Indonesian Infrastructure Finance (IIF), a non-banking financial institution mandated to finance sustainable infrastructure projects in Indonesia. IIF's portfolio is primarily in rupiah (local currency) but includes about 30% in US dollars, which led them to tap into the global capital market to issue their first sustainable global fund bonds in January 2021. The bond issuance successfully allowed them to raise $150 million, mainly from institutional investors. IIF has allocated the bond proceeds to ten projects renewable energy, energy efficiency, affordable basic housing, and other infrastructure sectors. The World Bank supports them and follows third-party audits and impact reporting to review their program. The Ministry of Finance of Indonesia, IFC, ADB, DEG, and the commercial bank SMBC own IIF. Finally, he expressed a considerable investment opportunity for infrastructure projects in Indonesia and his interest in collaborating with the GIF regarding financing, advisory services, and identifying projects across Indonesia.

James Mnyupe presented an ambitious green hydrogen program in Namibia with a Capex of $11.3 billion. The program has many elements to succeed and attract private investors, given the country's renewable energy potential, low population density, and the site's proximity to the port. However, the program also faces significant challenges in financing and securing off-take agreements. Innovative approaches, such as the SDG Namibia fund, are needed to attract private sector capital. The fund, divided into a Development Fund, a Construction Fund, and an Operation Fund, aims to attract capital from multilateral development banks, international finance institutions, and other private sources, including institutional investors. There is also a need for pricing gap support to help bridge the difference between the cost of producing green hydrogen and what local and international consumers are willing to pay. James emphasized the need for a mix of structuring and socioeconomic development agenda to support smaller, developing countries and achieve a win-win scenario for combating global carbon emissions and supporting the overall climate agenda. Lastly, he proposed that the GIF, along with the AfDB and ALSF, to draw lessons from the ongoing support for the development of the project in Namibia into a global public resource/good that can be shared as a case study with other nations facing similar challenges in green hydrogen projects.

Project Market Soundings: Transport

<u>Presenters</u>

- **Rafael Sabonge,** Minister of Public Works, Panama
- **Matthew Jordan-Tank,** Director, Sustainable Infrastructure Policy & Project Preparation, EBRD (European Bank for Reconstruction and Development)

<u>Panama Roads Project</u>

Rafael Sabonge provided an overview of the **Panama Roads Program** and shed light on the country's efforts to mobilize private investments in infrastructure. He mentioned that Panama approved a new law to regulate PPPs in 2019, which was followed by an extensive program developed by the Ministry of Public Works, which includes over 2,000 km of priority roads for rehabilitation, construction, and maintenance. Rafael emphasized that PPP projects involve a complex structuring process through partnerships with MDBs to secure bankability and a suitable risk assessment to ensure long-term financial and economic sustainability while balancing environmental and social risks. He also presented the key highlights of the transactions under the program, which received GIF support and are structured by IFC and IDB, stressing the importance of public consent and collaboration with GIF and MDBs for a successful long-term outcome for PPPs. During the Q&A session, Rafael addressed questions related to carbon footprint and different alternatives for financing the projects.

Egypt 10th of Ramadan Project

Matthew Jordan-Tank presented the **10th of Ramadan Dry Port and Logistics Centre PPP project** in Egypt, which involves the development of a dry port for containerized cargo and a logistics center. The project is part of a Nationwide Transport System Masterplan for Egypt and is the second of eight dry ports identified in the master plan. EBRD is the lead transaction advisor for the project, with the GIF funding US$ 1.1 million out of the total preparation cost of USD$ 1.5 million. The contractual structure for the project is a standard build-own-operate model, designed to ensure strong commercial viability with private operators responsible for the project's design, construction, financing, operation, maintenance, and bear demand, pricing, and collection risks. Matthew expressed confidence in the project's success, with a strong group of pre-qualified bidders expected to make the bidding process highly competitive. However, compensation events may need to be discussed if a rail link to the site to be built by the government experiences delays.

Project Market Soundings: Energy

Presenters

- **James Mnyupe,** Economic Advisor to the President, Republic of Namibia
- **Gadi Taj Ndahumba,** Chief Legal Counsel, Energy & Sovereign Debt, African Legal Support Facility
- **Karim Badr,** CEO (Chief Executive Officer), Infrastructure and Utilities Subfund, The Sovereign Fund of Egypt (TSFE)

Namibia Green Hydrogen Project

James Mnyupe presented further details on the Namibia Green Hydrogen Project and emphasized the broader economic and sustainable development objectives behind the project. He quoted the President's speech at the UNGA in September 2020 to explain that the project aims to change Namibia's economic structure and develop innovative financial tools. Mnyupe also discussed the project's role in the broader Southern Corridor Development initiatives (SCDI) and the government's Harambe Prosperity Plan II. He provided vital project facts and figures, including the 5GW renewables, 3GW electrolysis, and US$9.4bn total investment requirement. He also highlighted that the project would create jobs and unlock "common user infrastructure" for future projects.

Gadi Taj Ndahumba spoke about the critical features of a green hydrogen project and provided some insights on what is driving the negotiations and the innovative contracting structure with the project’s sponsors. Gadi highlighted the key government objectives, which are (i) effective risk mitigation mechanisms, (ii) effective communication & monitoring framework, (iii) limited infrastructure burden, and (iv) practical social & economic development framework.

Egypt Green Hydrogen Program

Karim Badr discussed the potential of Egypt to become a key player in the green hydrogen industry, with its strategic location, strong industrial base, high accessibility, and renewable capacity. He mentioned that Egypt had signed nine binding framework agreements for green hydrogen projects, which are expected to bring various economic benefits, such as establishing renewable energy projects with a total capacity of 44 GW, attracting foreign direct investments, reducing greenhouse gas emissions, and creating jobs. The projects will involve developing several green fuel manufacturing facilities in the Suez Canal Economic Zone (SCZONE) fueled by green hydrogen facilities from desalinated seawater and dedicated renewable power. The country is also developing a Green Hydrogen strategy with the support of The Sovereign Fund of Egypt and the EBRD.

Unlocking Bankable Infrastructure Pipelines for Climate Transition: Parallel Breakout Sessions

Session 1: Pipeline Development Cycle: From Identification to Procurement

Moderator

- **Towfiqua Hoque,** Senior Infrastructure Finance Specialist, GIF

The breakout session focused on how Technical Partners could help accelerate infrastructure project development with the help of the private sector and how the GIF can contribute to promoting bankable projects that align with market needs. The GIF team highlighted that the average time it takes for infrastructure projects to move from pre-feasibility to financial close is quite long. Reducing this timeline while maintaining project quality is a crucial challenge. The session attendees reflected on several key areas to address this, including building government capacity in developing countries, addressing enabling environment gaps and needed sector reforms, and, in parallel, project-specific support from the early design stage to implementation They also discussed the importance of Technical Partners and governments deploying programmatic approaches, which can bundle several smaller projects under a more extensive program to reach bankability quickly. While programmatic approaches require more patience at the outset, they can be rolled out and replicated quickly at national, subnational levels. The session also identified the need to support government clients during the commercial and financial close phase, where many projects experience a “development delay” between bidders and government counterparts. Additionally, the prompt and timely deployment of consultants and advisors by Technical Advisors and government clients was seen as an important way to reduce project timelines while ensuring quality. Finally, the session emphasized the importance of engaging the private sector early in the project development process to gather market feedback and ensure that projects are structured to meet market needs. Politically "selling" the importance of proper preparation of well-structured projects to government counterparts, even when they operate on shorter timeframes, was also seen as a critical area for support.

Session 2: Towards Financial Close

Moderator

- **Julia Prescot** Partner, Chief Strategy Officer, Meridiam & GIF AC Council Co-Chair

In this breakout session, the attendees discussed their views on the challenges and opportunities involved in transitioning from commercial close to financial close. The conversations focused on identifying key market constraints preventing infrastructure projects from reaching financial close, exploring innovative financial structures that can be used to address these challenges, and discussing credit enhancement mechanisms and other practical ideas that can help foster private capital mobilization.

By bringing together representatives from the private sector sponsors and financiers, as well as multilateral development banks and government officials from EMDEs, the moderator facilitated a dynamic discussion focused on advancing private sector investment in EMDEs. The key topics involved currency risk, construction risk, credit enhancement instruments (project-related, political insurance, refinancing, etc), development of local capital markets, and the need for standardization among providers of credit solutions.

On local currency, the need to develop affordable long-term foreign exchange products to mitigate FX risk was a consensus. The Currency Exchange Fund (TCX) was highlighted as an example of a DFI-led platform offering currency and interest rate solutions, which can be particularly relevant for investments in emerging markets. By mitigating these risks, such instruments can help to enable and scale private investment in emerging markets. It was highlighted that this could be particularly important in regions and markets where local sources of financing and access to global capital markets are limited or there is not enough depth in the derivatives market to address the needs of long-term infrastructure projects.

The discussion also noted that traditional FX instruments could support projects in the short term before transitioning to local and global capital markets. This approach can be suitable for mini-perms and bridge loans needed in projects that may face challenges in accessing traditional long-term sources of financing. Given the current market conditions, there are merits in promoting a follow-up discussion on the roles of different parties (commercial banks, MDBs, etc.) providing short-term financing alternatives.

Attendees pointed out the high costs associated with long-term derivatives to support investments in emerging markets, due to current market conditions. To address this issue, there was a suggestion to use MDBs funding and hedging desks as "intermediaries," obtaining better conditions for individual projects and improving the affordability of cross-currency financing.

Another aspect of the discussion involved the development of local capital markets, which can increase investor participation in infrastructure investments. The importance of local bond markets as a complement to international (USD/EUR) sources was mentioned as a key element. Issuing project or corporate bonds denominated in local currencies can encourage institutional investors to more active participation in the infrastructure finance space by providing long-term financing options that match their liabilities.

It was noted that one of the main issues related to bankability is sovereign risk and utilities' creditworthiness, as many renewable projects rely on PPAs with off-takers lacking the financial, institutional, or technical capacity to be acceptable credit counterparts for lenders and investors. There is a consensus around the need for additional MDB support to build capacity and provide credit solutions for commercial and institutional lenders to finance such projects.

Investors may seek MDBs engagement with the government to ensure the necessary conditions for renewable energy projects to succeed.

Expanding MIGA's offering beyond the current countries where it offers its guarantees was suggested, highlighting the need to better communicate to the market the wider offering of MDB products across geographies. It was also noted that MDB guarantees are not only seen as a financial backstop; investors seek their institutional engagement with the government to projects are bankable under commercially reasonable terms, and that government remains committed to the project and the sector over the life of the investment.

In relation to the overall role of MDBs as credit enhancement providers, several aspects were discussed given the range of risks that need mitigating, including i) the affordability of projects while meeting the return thresholds applicable to commercial lenders and institutional investors in light of current financial environment; ii) the need to better understand the need for balance sheet optimization of these institutions versus their development mandates; iii) the significant capital consumption associated to bringing lower-rated assets into the investment grade space (1:1 in many cases); iv) the fact that there needs to be a balanced risk distribution as there is no feasible solution, at a large scale, that can only rely on MDB/DFIs absorbing large portions of risk.

Closing Remarks

Speakers

- **Towfiqua Hoque,** GIF Management Unit
- **Julia Prescot,** GIF Advisory Council Co-Chair (Incoming); Partner, and Chief Strategy Officer, Meridiam
- **Guangzhe Chen,** Vice President for Infrastructure & GIF AC Council Co-Chair
- **Imad Fakhoury,** Global Director, Infrastructure Finance, PPPs & Guarantees, World Bank & GIF Governing Council Co-Chair

Towfiqua Hoque summarized the discussion of Session 1 Pipeline Development Cycle: From Identification to Procurement which emphasized the importance of capacity building to countries on early project design and structuring, enabling environments, building programmatic pipelines, and sounding the private sector as early as possible.

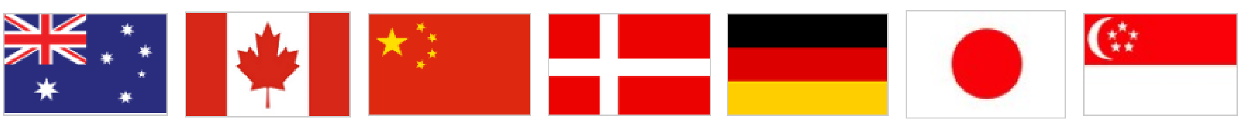
Julia Prescot thanked the breakout session attendees for their active participation and insightful contributions during the session on mobilizing private capital more effectively for infrastructure projects. Next, she summarized the key topics covered, including reducing the timeline to commercial close, the importance of programmatic approaches, supporting the "last mile" between commercial and financial close, ensuring quality while reducing timelines, and engaging the private sector early. Finally, she highlighted the main takeaways from the session, including the need to focus on sector reform at the earliest stage of project preparation, utilizing programmatic approaches to bundle smaller projects, providing support during the phase between commercial and financial close, bringing in private sector feedback early in the process, and balancing the need for shorter timelines with ensuring project quality.

Guangzhe Chen highlighted the need for infrastructure investment to confront climate change, estimating that by 2030, the investment required will be $2.4 trillion. Public finance and the contributions of the MDBs will not be enough to fill the gap, so private capital needs to be mobilized toward the infrastructure sector. Infrastructure has defined revenues, making it easier to attract private investment. However, despite discussions and efforts over the last 10 years, he mentioned that public capital is still not moving toward the infrastructure sector in low-income and emerging markets at the required scale. To mobilize finance for infrastructure, he suggests a three-pillar approach that includes enabling private capital, building pipelines of bankable projects, and developing instruments that make it easier for institutional investors to invest in infrastructure debt in low-income and emerging markets. Guang also emphasizes the need to learn from existing initiatives and scale them up, rather than constantly creating new ones. He advocated the GIF to be one such platform.

Imad Fakhoury shared that during the 15th GIF Advisory Council Meeting, there were several key discussion highlights, including the importance of sustainable infrastructure development in the new development era, the potential of green hydrogen in Egypt and Namibia, and the role of the private sector in infrastructure project development. He mentioned the other key takeaways, including the need to reduce the time to commercial close for infrastructure projects, the importance of programmatic approaches, and the role of the private sector in providing market feedback. On behalf of the GIF Management Unit, he also expressed gratitude to Julia Prescot for her contributions as the GIF Advisory Council Co-Chair and her commitment to the GIF's mission.

For more information, please contact: managementunit@globalinfrafacility.org

Visit the GIF website at https://www.globalinfrafacility.org/ and follow us on [LinkedIn](#).



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