SUMMARY OF MEETING

The ninth Advisory Council meeting (AC) of the Global Infrastructure Facility (GIF) was held in Washington, DC, on April 10, 2019. It was attended by 110 participants, including representatives of Advisory Partners (APs), Technical Partners (TPs), Funding Partners and a number of observers and speakers. The meeting was chaired by Rajeev Kannan, Executive Officer, Head of Investment Banking Asia, Sumitomo Mitsui Banking Corporation (SMBC) with special remarks from Jingdong Hua, Vice President and Treasurer, World Bank and Makhtar Diop, Vice President for Infrastructure, World Bank. The meeting featured updates on the GIF, panel discussions on disruptive technology and credit enhancements for low carbon infrastructure, a conversation on the Amundi Planet Emerging Green One (EGO), the world's largest targeted green bond fund focused on emerging markets, Country Spotlights sessions on Uzbekistan and Brazil, and a presentation on ESG and sustainable standards by S&P Global.

Opening Remarks

Jordan Schwartz, Director of the World Bank's Infrastructure Finance, PPPs & Guarantees Group, in his welcome and introductory remarks, introduced Rajeev Kannan and Jindong Hua, and appreciated all they had done to support the GIF. Mr. Schwartz presented a summary of the course of activities for the day highlighting the following panel discussions and country spotlights.

Rajeev Kannan, in his capacity as co-chair, summarized the topics discussed at the last AC meeting in Singapore and highlighted the important topics that were discussed such as project and loan document standardization and the country focus on Indonesia and Vietnam. Mr. Kannan acknowledged the importance of the GIF and stated the meetings provide an opportunity for partners to discuss stimulating discussions on key issues facing the infrastructure sector. Rajeev summarized the panel discussions for the day and stated the importance of understanding the impact of disruptive technology in infrastructure development. He also called on the GIF Advisory Council to contribute to this development as it will ultimately lead to increase in the development of infrastructure.

In his remarks, **Jingdong Hua, Vice President and Treasurer, World Bank** discussed the macro considerations that make projects appealing to investors. He touched on perceived and actual risks and highlighted that while pension funds seem to prefer projects in OECD countries, properly structured projects in EMDEs are not too different in terms of risk. He placed emphasis on the fact that perceived risk of emerging market is quite different from the actual risk. He stressed the importance of programs, rather than individual projects, to provide a globally diversified portfolio and highlighted the role of the WB Treasury in working with capital markets as a risk transformation vehicle. Mr. Hua described the GIF as a pioneer in the field, using standardized products through data and evidence to demonstrate that infrastructure investment in EMDEs can be done on a global scale, and offered the support of the WB Treasury to help the connection to capital markets.

GIF Updates

Jason Lu, Head, GIF, updated the participants of the progress the GIF has made to date, discussing the scale and results of the facility as it approaches the end of its pilot phase. Mr. Lu noted that GIF committed $49.4 million in funding for 61 activities in 31 countries, contributing to a total of $60 billion of expected investment. Following this discussion, Mr. Lu provided an update on the standardization work that the GIF has been supporting following the *Standardization of Projects / Loan Agreements* panel session during the Advisory Council meeting in October 2018. Mr. Lu also mentioned the GIF's support in developing the 2019 version of the Guidance on PPP Contractual Provisions. He pointed out that consultation on the draft document was shared with GIF partners. The GIF also partnered with SMBC to organize a consultation workshop on the draft Guidance in New York City in March 2019.

Philippe Neves, Senior Infrastructure Specialist, World Bank provided an update on the recently-launched Sustainable Infrastructure Initiative, co-sponsored by GIF, PPIAF and GIB. Mr. Neves said the initiative seeks to bring together key providers of sustainable infrastructure ratings and develop and aligned set of indicators. Mr. Neves emphasized that sustainability starts early on at the design stage, and said he hopes to tap into the knowledge and expertise of the GIF's APs to share the proposed set of indicators and have their feedback.

Panel Session - Disruptive Technologies: Risky Business?

Geno Armstrong, Partner, KPMG moderated the session, which focused on how technology disruption in infrastructure is challenging long-term capital that seeks stable returns and how that is being viewed in capital allocation decisions for infrastructure. He highlighted ten big trends in infrastructure and technology, including the rise of big data and how it is used, the public sectors' growing role in disruptive tech for infrastructure, how data will drive operational efficiency, a shift of focus toward emerging markets, and the opportunities created by interdependent and integrated environments. He set off the discussion by asking how technology disruption in infrastructure challenges the long-term capital that seeks stable returns, and how investors need to balance their risk and rewards.

Tonci Bakovic, Chief Energy Specialist, IFC discussed how technological disruption in the energy sector is good for the consumer, but challenging for the financiers due to first mover disadvantage, balancing risks for renewables, etc. He argued that the focus will increasingly be on the individual, its power to make choices, and the expectations and social change that will drive technological disruptions.

Julia Prescot, Partner and Chief Strategy Officer, Meridiam said that to address the short-term time horizon associated with technological disruption, investors cannot just think about cash flows but also about the essentiality of the asset, but this requires more delicate structuring than classing financing. In energy, for example, communities can now take advantage of the benefits and the lower costs thanks to microfinance and distributed energy solutions – a more fluid type of financing that requires the adaptability that investors need to have going forward.

Fuat Savas, Executive Director, JP Morgan Securities LLC stressed that for investors, data is essential to optimize investments. The panel also discussed how data and analytics help governments and investors, pointing out that data helps governments to take stronger, evidence-based decisions, providing comfort for projects. However, many projects are still assessed on emotional rather than data-driven decisions, and this is why data on PPPs is critical.

The discussion concluded with remarks on future exciting developments for disruptive technologies, which Mr. Bakovic believe to include hydrogen, and the combination of storage and batteries. Ms. Prescot said that cities will be a major area to witness disruption, and that investors will be required to think about financing holistic infrastructure systems in cities rather than individual projects. The panelists concluded that social change and expectations will be key drivers of disruptive technology.

Panel Session – Give Us Some Credit: Enhancements to Catalyze Low-Carbon Private Investment

Don Purka, Senior Infrastructure Finance Specialist, World Bank, acted as the moderator for this session, which examined how credit enhancements have been used in recent transactions in Brazil and Indonesia to mobilize private investment into lower carbon infrastructure. He kicked off the discussion by saying that there is an opportunity to bring alternative capital from pensions funds and insurance companies in infrastructure finance in EMDEs and asked how these institutional investors can be brought in the infrastructure market.

Richard Abizaid, Head of the Americas, Global Political Risk, Credit and Bond, AXA XL, argued that one of the challenges is that interests do not align, so we need to tweak project structures. He discussed what banks can do to leverage pension funds and institutional investors, saying that commercial banks and MDBs can play a role in originating and structuring transactions - putting all the pieces together and ensuring projects are sustainable. Commercial banks financing might be shrinking, but their role remains critical.

Anne Marie Thurber, Executive Director, Group Head of Export and Agency Finance, Americas, SMBC, showcased a wind farm in Indonesia, the first utility scale project in the country to attract long-term financing in this sector for consequent projects. Ms. Thurber talked about addressing the risk to take out refinancing, saying that DFIs play an essential role in taking credit risk.

Andrew Dete, Vice President of Project Finance, Goldman Sachs, discussed an LNG-to-power project in Brazil which crowded in local currency financing. He discussed Goldman Sachs role in financing and structuring the transaction, their challenges and the innovation they came up with. He highlighted the point of investors preferring to invest in deals guaranteed by multilateral development banks as opposed to non-guaranteed deals.

Lynne Bradley, Director, North American Head, Export Agency Finance Group, Citibank, showcased an offshore windfarm in the United Kingdom as an example of a large project with multiple sources of financing from capital markets. While discussing the challenge of providing local currency financing, she said that solutions include involving local pension funds, and sharing of currency financing between international and local currency.

Jason Lu, Head, GIF commented that there are increasing trends of local currency financing, such as the Clark Airport in the Philippines. Instruments like the ones proposed by the GIF Downstream Financing Window (DFW) can provide solutions to local currency, counter-party, and FX risks. However, is important to have room for flexibility and work on a deal-specific basis.

The panelists concluded that bringing these transactions to scale will be critical. From the private markets' perspective, there is a greater appetite to take more risk in infrastructure projects in emerging markets if DFIs are involved to de-risk projects. There is a lot of additional capacity available for investment specially if transactions can be brought out on a larger scale.

Partner's Showcase

Amundi, GIF's Advisory Partner, showcased the Amundi Planet Emerging Green One (EGO), the world's largest targeted green bond fund focused on emerging markets. **Frederic Samama, Deputy Global Head of Institutional & Sovereign Clients, Amundi** said that by taking the risks of the banks, Amundi channels the money in the infrastructure market, becoming a model to unlock investment capabilities in EMDEs and providing a new way of thinking about banks.

Jean-Marie Masse, Chief Investment Officer, IFC said the IFC helps banks issue green bonds that meet the eligibility criteria of the Amundi fund. He highlighted that emerging markets bonds offer attractive yields for develop country investors; but there is a need for institutional investors to create professionally managed fixed income investment vehicle, and Amundi is a key example providing a "proof of concept". The panelists stressed first mover advantage: the sooner insurers, investors, and fund managers enter the market, the sooner they can understand this asset class.

GIF Advisory Council Luncheon

At the GIF Luncheon, **Makhtar Diop, Vice President for Infrastructure, World Bank,** was the lunch speaker. He underscored the uniqueness of the GIF Advisory Council as the only large-scale, sustained partnership with private financiers housed at the World Bank, and, as such, a reflection of the Bank's most recent corporate priority: Maximizing Finance for Development, or "MFD," and prioritizing the private sector in the investment of infrastructure. Mr. Diop contextualized the GIF's work into the broad themes of sustainability, connectivity, and MFD, and said that to achieve growth, inclusion, and sustainability we must connect people, firms, and markets. Lastly, Mr. Diop thanked the GIF co-chair, Rajeev Kannan, of SMBC for his wisdom, boundless energy, and enthusiastic support, and welcomed Jerome Haegeli of SwissRe as his successor.

Country Spotlights: Uzbekistan and Brazil

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 Uzbekistan and Brazil's infrastructure programs, including current challenges and opportunities.

Uzbekistan

Golib Kholjigitov, Deputy Minister of Finance, Uzbekistan presented broad opportunities on mobilizing private financing for infrastructure projects in view of the recent reforms in the country. He acknowledged that IFI support is critical to reform the country and bring it to international standards and said that the priority areas of reform include e-governance, enhancing the rule of law, mobilizing trade, developing social skills, and reforming SOEs. Mr. Kholjigitov said the country is putting together the institutional settings for PPPs, including a dedicated unit, a law, and a pipeline of small projects that can act as pilot transactions for the introjection of PPPs in the country.

Lilia Burunciuc, Uzbekistan Country Director, World Bank presented a country committed to advancing structural reforms and increasing competitiveness to mobilize private capital, pointing that the World Bank has ongoing operations in energy, transport, and water to support sector reforms and advance regional integration. She mentioned that GIF is supporting several of the projects in the pipeline, with the airport project already approved and roads, solid waste and energy under discussion.

Uzbekistan: A Look at its Rapid Progress

Edwin Hin Lung (Edwin) Yuen, Senior Infrastructure Finance Specialist, GIF introduced the panelists, who discussed Uzbekistan's project pipeline and highlight key features of select projects in the energy and transport sectors.

Binyam Reja, Practice Manager, World Bank highlighted that several sectors are suitable to attract FDI in Uzbekistan. The country is unique due to its recently initiated reform program, government commitment to attracting the private sector, and a stable economy growing 6% in 2020. The strong economic backbone underpins MDBs involvement. Mr. Reja focused on the aviation sector as a key component to increase connectivity of the country, where being landlocked is not a disadvantage anymore. Aviation reform foresees the reorganization of the vertically integrated company separating airline and airport operations into independent corporations, as well as policy-making accident, and safety oversight. Total CAPEX for the airport investment program is estimated at US$ 867 million over 35 years. Traffic growth (compound annual growth rate of 3%) is underpinned by robust, growing economy (5-6% econ growth to 2024), consumer-oriented economy, positive demographic, increasing competition, favorable geography, and financial and political stability.

Georgi K. Petrov, Manager, IFC C3P and **Bernard Atlan, Principal Investment Officer, IFC** presented the opportunities and ongoing work of the IFC in the energy sector. IFC estimates that rehabilitation of aging thermal power assets and introduction of new generating capacity are estimated at US$ 4-5 billion of investments, which will require private financing. However, challenges for reform remain, such as electricity tariffs that are not cost reflective due to subsidies and depreciation. Interconnection with other countries is very limited but a critical component of energy sector reform.

Matthew Jordan-Tank, Director of Sustainable Infrastructure Policy and Project Preparation, EBRD highlighted that in the water sector, the EBRD is working directly with cities to move from sovereign-backed loans to loans for PPPs. In power, EBRD is working on investment in transmission, of which there has been little in the region. They are also supporting the approval of the PPP law.

Remir Mukumov, Adviser to The Deputy Prime Minister of The Republic of Uzbekistan stressed that the legal and regulatory framework is critical for investors, and argued that the country needs capacity, a new framework, and a pipeline. Support from IFIs here will be essential so that the country can develop the capacity to be able to prepare and launch a PPP project.

Brazil

Karla Bertocco, Director of Government & Infrastructure, BNDES (Brazil's National Development Bank) presented BNDES' "new" vision on infrastructure and how this will create space for market participants. She opened the presentation outlining that infrastructure is the most relevant sector for BNDES, representing 40% of the bank's operations. While in the past BNDES was financing all types of infrastructure projects (approximately 45% of overall investment), Ms. Bertocco said BNDES is committed to a strategic reorientation based on three pillars: i) Developing good projects - structuring and modeling; ii) Supporting projects that have greater risks and the market are not ready to take them - financial solutions; and iii) Stimulate capital markets when projects reach maturity.

Hector Gomez Ang, Senior Country Manager, IFC said BNDES has a strong pipeline of projects and good track record of private sector involvement, especially in the energy and telecoms sectors. The presentation highlighted a success story in the transport sector, namely the Sao Paulo road concession, and pointed to upcoming opportunities for SOEs privatization.

Brazil: Testing the Concept of Aggregated Financing

Robert Pilkington, Infrastructure Finance Specialist, GIF presented the street lighting project in Brazil, which is a trying to address a major problem that municipalities are facing since 2014, when the ownership for providing this service change from the utilities to them. The street lighting market in Brazil includes

18MI lamps, responsible for 4% of the energy consumption in the country, and the second largest expense for municipalities. Replacing all lamps for LED would cost US$8bn.

Joao Reye Sabino, Investment Officer, IFC said the value of aggregated approach under FinBrazeec is the access to guarantees; robust pipeline of project (reduces transaction costs); standardized approach; blending with concession funds offers competitive terms for clients.

Silvia Martinez, Senior Energy Specialist, World Bank explained that the factors fostering private sector participation in the sector is: (i) development of LED technology; (ii) LED prices falling; (iii) earmarked tax collected; (iv) street lighting assets transferred from utilities to municipalities; (v) the macro scenario in Brazil imposes constrains for municipalities; (vi) PPP projects are the perfect alternative.
The WBG program proposes a 2-component solution: i) Develop a pipeline through technical assistance (heavily supported by GIF) and capacity building for CAIXA, and pipeline preparation; and ii) Support mobilization (through the FinBrazeec facility).

Megan Meyer, Energy Specialist, World Bank said that the objective of FinBrazeec project is to unlock private finance for urban EE projects (PSL and EE in urban settings) with CAIXA as an aggregator. This will be done through debt financing of PPP for modernizing municipal SL inventory, and debt financing to industries or aggregators for EE investments. CAIXA will receive funds in US$ and will provide locally in $Reais. This funding from multilateral banks will be blended with CAIXA's and local government funds to reach a target financing pricing of 10% - objective is to bring private commercial debt to 50%.

Antonio Barbalho, Practice Manager, World Bank underscored that to leverage private sector financing, the World Bank needs to help middle income countries to create a market- via loans/guarantees- by introducing the understanding of risks. Local capital markets will also play a role. He concluded by saying that if FinBrazeec is successful, the model can be used in other sectors and countries.

ESG and Sustainable Finance

Susan Gray, Global Head of Corporate and Infrastructure Ratings, S&P Global presented the ESG Evaluation, a forward looking qualitative and data driven assessment of an entity's ESG performance and preparedness for future risks and opportunities, leveraging company engagement and S&P analysts' expertise. Ms. Gray outlined how the group conducts the evaluation and the factors they keep into account, which include region and sector macro analysis, entity-specific analysis, and "preparedness". The evaluation starts at the macro level with Risk Atlas, an interactive tool available online that looks at sector and regional risks using data from WBG, IMF, etc., to assess impact on an industry by looking at environmental and social risk, as well as institutional effectiveness, ESG regulation, and so on. The evaluation then proceeds to develop a profile score for specific ESG factors at the entity level, assessed on a relative basis against sector peers. It then moves to assess "preparedness", which looks at fewer tangible factors and megatrends that could impact a business in the coming years, such as climate change, urbanization, food and fuel security, cybersecurity, water scarcity, etc. S&P considers a holistic suite of factors to assess entities' ability to be prepared to face one of these risks and disruptive threats, including the extent to which a company's board understands the risk and its ability to take swift action in case this materializes.

Details and methodology of the ESG Evaluation can be found here, including a link between ESG and financial performance. Ms. Gray highlighted that the evaluation is not assigned on a voluntary basis and companies have to request it.

After a day full of fruitful discussions, the meeting ended with a reception at the venue of the meeting hosted by GIF.