Global Infrastructure Facility

GIF 2017

ADVISORY COUNCIL MEETING

Summary of Proceedings

October 11, 2017

WORLD BANK GROUP

The Sixth Advisory Council (AC) Meeting of the Global Infrastructure Facility (GIF) was held in Washington, DC, on October 11, 2017. It was attended by representatives of 31 Advisory Partners (APs), nine Technical Partners, six Funding Partners and two Beneficiary Partners, in addition to a number of observers and speakers. **Joaquim Levy**, **Managing Director and World Bank Group Chief Financial Officer**, co-chaired the meeting with **Macky Tall**, **EVP, Infrastructure & President/CEO, CDPQ Infra, Caisse de dépôt et placement du Québec**. The meeting featured updates on the GIF, panel discussions on Innovations in Credit Enhancement and Managing ESG Risk, and country presentations by Brazil and Nigeria. The meeting was followed by two breakout sessions on project preparation solutions offered by the World Bank and GIF, and innovative approaches to mitigating foreign exchange risk in emerging markets.

Opening Remarks

In his opening remarks, Mr. Levy welcomed all participants and expressed appreciation for the guidance and support received from the APs on the development of GIF initiatives. He updated AC participants on the World Bank's "Maximizing Finance for Development" approach which involved leveraging private sector financing. Mr. Levy noted that the global economy was in a period of strengthening growth and stressed the importance of scaling up efforts. He referred to ongoing work to estimate the size of the overall infrastructure pipeline and acknowledged both the size and diversity of the GIF's growing portfolio. Mr. Levy also pointed out the relevance of the topics for discussion at the meeting: credit enhancements that are necessary to mitigate risk and safeguards that are a value-add for institutional investors.

Mr. Tall, in his opening remarks, welcomed the positive engagement of the AC members in developing the GIF's activities, noting the significant progress the GIF had made since the initial meeting in 2015. He further stated that the GIF was a combination of expertise and opportunity for different organizations and countries to share ideas, think differently, collaborate and discuss best practices to get infrastructure financed in the capital markets at lower cost. He pointed out that at CDPQ, the focus in the past few years had been on thinking differently, creating new models and investing in new markets. He highlighted, as an example, CDPQ's role in creating a platform with leading Mexican institutional investors, including some of the largest pension funds in the country.

A. GIF: THE STORY SO FAR

Jordan Schwartz, Director, Infrastructure, PPPs and Guarantees, World Bank, updated the participants on the progress the GIF had made to date. Mr. Schwartz highlighted the existing infrastructure challenges and pointed to the need for collective action among a wide range of partners to address these problems. He described how the GIF had addressed a small market with massive potential, focusing on quality endorsement, standardization and MDB support. Talking about the GIF portfolio, Mr. Schwartz mentioned that the GIF had approved 32 approved activities and support opportunities worldwide as of October 2017. He explained that of all 32 GIF-supported projects reached financial close, up to $19 billion in additional financing could be mobilized, including about $10 billion from the private sector.

B. INNOVATIONS IN CREDIT ENHANCEMENT

A panel session entitled *Innovations in Credit Enhancement* was moderated by **Macky Tall, EVP, Infrastructure & President/CEO, CDPQ Infra, Caisse de dépôt et placement du Québec**. In introducing the topic of the panel discussion, Mr. Tall reiterated the G20 Investment and Infrastructure Working

Group's direction to encourage Multilateral Development Banks (MDBs) to advance infrastructure investment and crowd in private finance in infrastructure.

Andrew Davison, Senior Vice President, Infrastructure Finance Group, Moody's Investor Services, highlighted the macroeconomic themes in infrastructure investment, noting that low interest rates, the attractiveness of infrastructure to institutional investors, combined with competitive pressure and the lack of investment opportunities had reduced the returns for investors. He then discussed the key risks constraining investor appetite in emerging markets. Mr. Davison discussed projects that had recently benefited from MDB credit enhancements, such as the Turkey Elazig Hospital with MIGA and EBRD, and the Campos Palomas Wind Farm in Uruguay with IADB and IIC, among others. Mr. Davison also highlighted trends in the next 12-18 months, which focused on expanding political risk insurance and portfolio securitization techniques for MDBs to recycle their capital and sell exposures to the private sector. **Gian Franco Carassale, Lead Investment Office, Inter-American Investment Corporation**, described the financial structure of the Campo Palomas Wind project in Uruguay to reach institutional investors in the US and Canada through the A/B loan program from IIC and IADB to help pierce the credit rating of the sovereign country. The IADB had similar success with rating improvement in the Reventazon Hydropower project in Costa Rica. **Olivier Eweck, Manager, Financial and Technical Services Division, African Development Bank**, discussed the experience with assisting Cameroon, a non-investment grade country, to access international capital markets. Mr. Eweck explained the African Development Bank's role in providing a partial credit guarantee on Cameroon's obligations under a cross currency swap with commercial banks, which lowered the cost of borrowing for the country.

Hoda Moustafa, Africa Regional Head, Multilateral Investment Guarantee Agency, highlighted the potential for the IDA Private Sector Window (PSW) to expand and provide innovative instruments to address political, country, and credit risk. She noted that IDA had created a $2.5 billion facility, of which $500 million had been allocated to MIGA to expand guarantees into countries beyond MIGA's risk appetite or where there is a lack of reinsurance services. Ms. Moustafa explained that the concept of the IDA PSW was taking the concept of blended finance into the insurance and guarantees market, and allowed for further collaboration within the World Bank Group to provide comprehensive solutions. **Robert Schlotterer, Lead Infrastructure Finance Specialist, Financial Solutions, World Bank**, highlighted the World Bank's approach to blended financing with the Dansu Hydropower project in Pakistan, in which a combination of IDA loans and guarantees helped to attract international and local currency financing. Mr. Scholetterer explained that the World Bank's ability to engage countries with sector dialogue could help develop projects that were too large for the private or public sectors alone. Lastly, **Jason Lu, Head of the Global Infrastructure Facility** explained that the proposed GIF Downstream Financing Window (DFW) would complement the MDB credit enhancement offerings by providing risk-taking patient capital to support more innovative projects. He noted that the products of the DFW would address counterparty risk in countries not eligible for IDA Private Sector Window support, (including Fragility, Conflict and Violence (FCV) countries in the Middle East and North Africa) as well as currency mismatch under certain conditions. The DFW would also address regulatory issues facing investors such as tenor and refinancing through contingent guarantees.

C. BIG MOVERS: LARGE INFRASTRUCTURE INVESTMENT PROGRAMS

As 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 some of the largest infrastructure investment programs in the emerging market context, including current challenges and opportunities.

Nena Stoiljkovic, Vice President for Blended Finance and Partnerships, IFC, moderated the session named Big Movers, looking at the large infrastructure investment programs that are coming to market in Brazil and Nigeria.

Henrique Pinto, **Secretary of Brazil's Public Investment Program (PPI)** office, reminded the audience of the importance of a sufficiently strong project development pipeline, and thanked the GIF for its support to date in Brazil. Henrique moved on to highlight the importance of providing stable political and regulatory contexts to attract investors, and linked this to the need to understand and work with political decision-making dynamics and timelines.

Over the past 15 months, PPI has delivered 46 projects to market, and currently holds 92 in the preparation phase. Henrique highlighted two where the GIF, through the World Bank and IFC, is providing support:

- **Highway sector:** PPI is using GIF support to recast the concession model in order to learn from the lessons of the first 30 years of road concession experience in Brazil, coordinating work by BNDES and EPL into a new set of four major transactions.
- **Street lighting sector:** GIF is supporting CAIXA to develop standardized project preparation and bidding processes to allow Brazilian municipalities to access market capital through a federally administered debt fund.

Mr. Pinto highlighted the importance of both initiatives in terms of building capacity within PPI and the wider Brazilian government to ensure their long-term sustainability as programs rather than one- off transactions. In terms of wider sector dynamics, Henrique noted the reduction in lending capacity of BNDES in the infrastructure sector along with the retrenchment of the leading construction companies due to ongoing investigations as factors that are promoting the involvement of a new generation of bidders and financiers in Brazilian concessions and PPPs.

Chidi Izuwah, **Acting Director General for Nigeria's Infrastructure Concession Regulatory Commission** explained how increasing the involvement of the private sector in infrastructure investment in Nigeria is critical to ensuring economic recovery and providing economic opportunities for marginalized communities in some of the country's more troubled regions. Mr. Izuwah highlighted the commitment within the Nigerian government to introduce a new Nigeria to the world's investors, as per the country's Economic and Recovery Plan.

Central to this drive for increased investment is a major effort by Nigeria to increase transparency. To this end, Nigeria has been working with the World Bank on disclosure, and within the next two months will become one of the first countries in the world to publish its PPP contracts (www.ppp.icroc.gov.ng). Secondly, the government has been investing in increasing the capacity of civil servants, including through the World Bank's CP3P training. In addition, Nigeria has established the Nigerian Sovereign Investment Authority along with local guarantee funds, and continues to work with MDBs to offer projects the finance they require. Investments are expected to focus on airport, ports and roads. Nigeria seeks to deliver these projects in a way that provides positive spillover effects to its West African neighbors. Mr. Izuwah concluded by reminding the audience of the benefits for first movers in countries such as Nigeria, as shown by the experience in sectors such as mobile telephony.

D. MANAGING ESG RISK: COLLABORATING WITH MDBs TO MANAGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

A panel session entitled *Managing Environmental, Social and Corporate Governance (ESG) Risk* was moderated by **Hart Schafer, Vice President Global Themes at the World Bank**. The panel was comprised of experts with diverse perspectives and identified three key issues in ESG: i) perceptions of ESG shifting from managing risk to creating value; ii) standardizing definitions and collecting project-level data; and iii) increased sharing of information and coordination among different stakeholders. **Katharina Schneider-Roos, CEO of Global Infrastructure Basel (GIB)** explained that GIB had identified the lack of a common definition of sustainable infrastructure as a barrier for investors. She noted that the lack of definition had impeded data collection and analysis and, thus, there was uncertainty about the relationship between sustainability and financial performance. Ms. Schneider-Roos identified the development of an agreed definition and a database of projects as key actions that would help investors to measure risk-adjusted expected returns and to assess investment opportunities.

Harald Francke Lund, Senior Adviser, Center for International Climate Research (CICERO) pointed out that a long lead time was needed for companies to plan and adjust to climate shocks, and standards needed to account for this transition period. In addition, complex methodologies can distort investment incentives and investor project selection. Mr. Lund also noted that there was an increasing fiscal cost for climate impacts, and climate change would have broad impacts on physical assets, markets and supply chains without further action. **Jérôme Jean Haegeli, Head of Investment Strategy and Managing Director Group Asset Management at Swiss Re**, providing an insurer's perspective, explained that ESG criteria and benchmarks were fully integrated into Swiss Re's investment portfolio. He noted that ESG issues, particularly related to climate change, were systematic risks and incorporating ESG frameworks was necessary for long-term investors to limit their downside exposure to these risks. **Morgan Landy, Director ES&G Sustainability Advice and Solutions at the International Finance Corporation (IFC)** highlighted the potential role for MDBs in creating a common set of standards and demonstrate the financial benefits of ESG standards. IFC reviewed its own portfolio and found a clear link between the clients with good ESG performance and financial performance. Mr. Landy noted that creating a common standard would require identifying the types of information needed by different audiences and understanding how companies and markets would react to demand for this information.

Closing Remarks

In his closing remarks Mr. Levy thanked speakers and participants for their useful contributions and helpful guidance on topics of great importance to the GIF's mission. Mr. Levy also highlighted the relevance of the topics discussed in the meeting, in particular, the role of safeguards. He welcomed from all the participants feedback on the topics discussed in this meeting and suggestions for topics to be discussed in future Advisory Council meetings.

GIF Advisory Council Luncheon

At the GIF Luncheon, the Co-Chair of the GIF Governing Council, **Mr. John Larkin, Assistant Secretary, Department of Foreign Affairs and Trade of Australia**, welcomed all the participants and invited them to share their feedback on the GIF as it prepared its independent mid-term evaluation.

Breakout Mini-Sessions
Following lunch, breakout mini-sessions were held for more in-depth discussions on topics relating to the GIF's objective of promoting investment in infrastructure in emerging countries.

1. FROM CONCEPT TO CONSTRUCTION: TOOLS FOR IMPROVING PROJECT PRIORITIZATION AND PREPARATION

This mini-session was chaired and moderated by **Matthew Jordan-Tank**, **Head of Infrastructure Policy and Project Preparation** at the **European Bank for Reconstruction and Development (EBRD). Aijaz Ahmad**, **Senior PPP Specialist**, **World Bank**, and **Matt Bull**, **Senior Infrastructure Finance Specialist**, **GIF**, presented several tools that have been developed to assist governments to identify, assess, prioritize, and prepare well-structured infrastructure projects.

Mr. Ahmad explained the Benchmarking PPP Procurement study which provides a baseline of a country's procurement processes and identifies gaps that other tools can help address. Mr. Ahmad outlined several tools including: Country Readiness Diagnostic, a tool that assesses a country's PPP practices against best practice; a prioritization tool that assists governments to focus on the projects best suited to PPPs; a tool for assessing the fiscal impacts of PPPs (PFRAM); standardizing disclosure of PPP contracts; and a tool for assessing a project's suitability to be implemented as a PPP. Mr. Bull explained that the GIF's experiences in its first two years of operations had identified the need to disseminate best practices and standard tools, such as those presented by Mr. Ahmad. Mr. Bull also explained that the GIF had identified the need for a standard project assessment to: i) inform governments at key project decision points; and ii) provide the GIF and its partners with a rapid appraisal of a project. The GIF Project Readiness Assessment responds to these needs by providing a standard methodology for due diligence that can be undertaken in a matter of weeks. Mr. Bull noted that the assessment was being piloted in Brazil, Ghana, and Namibia.

The discussants reflected on the presentation and identified further areas of potential support to complement the use of the tools. **Syed Uddin**, **CEO of the Bangladesh PPP Authority** agreed with the need for a standard World Bank approach to country PPP engagements, while noting that such an approach should be adjusted based on countries' levels of experience with PPPs and their needs. Mr. Uddin further noted the need to embed tools into country processes. **Yukiko Omura**, **Non-Executive Director, Private Infrastructure Development Group (PIDG),** pointed out that scaling upstream project preparation support was necessary to achieve development goals, and could be accomplished by using tools and increasing collaboration between development institutions. **Clemente del Valle, President**, **Financiera de Desarrollo Nacional (FDN)** observed that many governments lacked the capacity to fully apply standard tools, and capacity building was necessary to complement the tools. Mr. del Valle also highlighted the role of programs and standardization at the country level in achieving scale, and narrated Colombia's experience with the 4G road program. **Stephen Beatty**, **Head of Global Infrastructure (Americas and India), KPMG** noted that governments needed to be aware of biases and ambiguity when reviewing projects. He also reiterated the importance of building institutional capacity throughout the project lifecycle.

2. FX SOLUTIONS FOR INFRASTRUCTURE: INNOVATIVE APPROACHES TO MITIGATING CURRENCY RISK IN EMERGING MARKETS

This mini-session was moderated by **George Richardson, Director and Global Head of Capital Markets**, **World Bank Treasury** and was presented by **Valentina Antill, Managing Director-Americas Structured Solutions Co-Head of Citi**. Discussants included **Fuat Savas**, **Executive Director Infrastructure Finance and Advisory**, **JP Morgan Chase; Anderson Caputo Silva**, **Lead Financial Sector Specialist, the World Bank, Harald Hirschhofer**, Senior Advisor; **TCX Investment Management Company;** and **Bob Sheppard, Consultant, Global Infrastructure Facility**.

Ms. Antill provided an overview of several strategies for tackling FX risk to unlock off-shore capital to Emerging Markets (EM) local currency-generating infrastructure projects. The proposed solutions included:

(1) Hedging short-term forward contracts to achieve greater amounts and engage in periodic (historical rate) rollovers, with conditional liquidity facilities from Development Financial Institutions (DFI) to mitigate risks of increasing hedging cost;
(2) Hedging currency risk using a Proxy Currency Approach, via funding or hedging in more liquid correlated EM currency(s), with the aim of attaining a larger hedging amount than the one available in the single-currency swap market; for example, "Alianza del Pacifico" (Chile, Colombia, Mexico, Peru);
(3) Development Banks lending in local currency to off-shore financial institutions (FI), FIs would then on-lend the funds to local projects. This solution has been executed in Kazakhstan, with variations promoted in Colombia and Paraguay. A sub-variation of this solution includes an expanded investor base, with banks buying protection from international investors (with an off-shore trust).

Discussants agreed that all parties should continue to search for market-based FX risk solutions, and DFIs should explore playing roles as backstops to reinforce such solutions – addressing market failure, enhancing creditworthiness, and establishing risk-sharing mechanisms, potentially through the GIF Downstream Financing Window. TCX's recent project experience demonstrated that with expected de-risked cash flow, the market players could respond with lower margin pricing and equity return expectation in a competitive environment. However, they also reminded the audience that with credit guarantees not being the mainstream market, the impacts they had on lowering yield could be marginal due to structural problems.

The regulatory environment related to jurisdictions at different development levels, local banking liquidity, undeveloped swap markets and varying levels of appetite for local currency revenues, continue to be major challenges in mobilizing international investment in EMs. The GIF is developing new products through its Downstream Financing Window that address FX risk systematically and spread their impacts efficiently.