



Long-term
Infrastructure
Investors
Association

Workshop on Project Financing in Emerging Countries

Creating a momentum of on-going dialogue between private sector, Multilateral Development banks (MDBs) and Development Finance Institutions (DFIs) to expand bankable projects in Emerging markets & Developing economies (EMDEs)

November 21, 2018

Main Takeaways

- **Participation:** Event well-attended with around 40 Attendees (cf List in Annex) representing the different categories of the infrastructure value chain, from project developers and engineering companies, to builders/contractors, operators, institutional investors and lenders, as well as rating agencies and Development Finance Institutions (DFI) and Multilateral Development banks (MDBs). Overall a representative cross-section hailing from different jurisdictions.
- **Agenda:** revolved around ways and means to improve private sector involvement and deal flow of bankable projects in emerging markets & developing economies (EMDEs) by furthering momentum of on-going dialogue between private sector, MDBs and DFIs. Recommendations formulated below are to be conveyed and discussed at upcoming Davos annual meeting of the World Economic Forum (WEF) in January.
- **Questions & Case presentation:** All participants were asked to answer specific questions about their expectations, and whenever feasible illustrate their concerns or suggestions through some of their recent investment cases. Prior to the meeting, we gathered half a dozen sets of answers and a corresponding number of project illustrations¹, which we shared at the outset of the meeting to foster further debate in the 2 round-tables.
- **Stocktaking:** Consensus among participants on key role of MDB, and maybe even more, DFI (as these provide 5 times more financing support to projects than MDBs) to unlock deal flow of well structured, bankable projects in EMDE. By themselves, market players won't be able to successfully address all obstacles.
Corresponding high expectations in terms of coverage, scope and depth of intervention/support ("far more proactive engagement by MDB/DFI needed").
Lot seems to be going on, but no sufficient awareness or knowledge by investors (one big sponsor was unaware of PIDG guarantee products available on the market) of what resources/toolboxes/platforms are already on the table: a perceived need for more dissemination/outreach by MDB & DFI .

¹ See link to attachments in cover mail



Recommendations

They cover the following main dimensions:

1 - Technical assistance

Recognition that most governments (and not just in EMDEs) still have a limited understanding and mastery of what's needed to select, prepare and conduct successful projects to attract private sector investors: MDBs are deemed by participants to best placed to inform and educate them, both at country, sector and project levels and inform them in an objective way (even though bilateral DFI may have their own national agendas) about Investors' generic operating mode, perspectives and constraints.

1.1 Capacity building is key, and must be designed as a long term endeavour:

Project preparation is critical but not sufficient to advise a Procuring authority on a particular project: there should be a more upstream groundwork, preferably through on-the-field, embedded advisors (and/or by exposing senior public officials to the operating mode of their private counterparts-cf African Infrastructure Fellowship program-AIFP)

1.2 Policy guidance MDB/DFI have a role to play to foster user-pay schemes, thus creating opportunity space for commercial finance (even if needs to be complemented by public financial support). More generally MDB/DFI can support governments in identifying sustainable funding sources for projects before mobilizing private financing for these projects.

1.3 Information: Infrastructure-relevant data for investors (and rating agencies) have to be collated/curated and disseminated in a much more systematic way to create a level-playing field and decrease biased risk perception. Current initiatives (Global Emerging Markets ("GEMs") Risk Database...) not sufficient. Infrastructure Data Initiative (IDI) type approach welcome, but reckoning this may be a long, time consuming process

2-De-risking

Key dimension to make projects bankable and unlock private investments. Investment risks, actual and perceived, remain too high for most players, and the corresponding required returns are hence also too high for countries to bear (affordability issue for end-users, whether public or private consumers). Regulations still penalize investment in EMDE below investment grade rating due to high capital charge. Many governments still hold unrealistic expectations of risks that can be transferred to the private partner (ex: Public order,...). MDB/DFI have a unique ability to help reduce and manage risk

2.1 Risk mitigation: MDB/DFI should take full advantage of their collective clout over governments to address sensitive country risk issues impeding Foreign Direct Investment (FDI) in Infra (cf Case of Turkey for EBRD). Requires further coordination.

2.2 Assessing risks: rating agencies could do more to inform market an-bout: How they rate pre-default instruments (like Liquidity Support Facilities), or factor in transaction assessment



of A vs B loans the MDB-
default/loss given default

creditor treatment (same applies to regulators-cf Solvency II).

2.3 Need for more **risk-mitigation tools**: platforms (like IFC Managed Co-Lending Portfolio Program -MCP with a first loss absorption layer to offer investment grade diversified loan portfolio to lenders) or guarantees. There is room for creating pre-default funded or unfunded guarantee instruments within the MDB/DFI by pooling resources.

2.4 **Replicability/standardization** is also viewed as a key way to decrease risk perception: need to scale up approaches like IFC Scaling solar but without creating a new lending monopoly for MDB; this could be done through specific performance assessment (accounting for private sector mobilization etc.) for the MDB who supported the efficient procurement.

3-Mobilizing financing

Financing is another critical dimension as a large chunk of debt provision in Project Finance, PPP-type deals has to be provided by MDB/DFI (particularly in Low income countries- LIC), and serves to crowd in (and de-risk, through the “halo” effect) private money (“blended finance”). MDB/DFI intervention on same project both as advisors and financiers is seen positively and not as a Conflict of interest concern, to the extent that they do not intend to create a « forced » exclusivity around the deal)

3.1 **Red tape**: MDB processes seen as cumbersome, costly and time-consuming; can delay or derail some project closing, by not being synchronic to other critical steps. Explore way to reduce such requirements for smaller projects (or better bundle projects-financing). Increase ability to rely on other MDB due diligence (already amongst EU DFIs). Increase communication towards private sector on Standards and requirements / Education.

3.2 **Local currency financing** seen as key to decreased exposure to Forex risk + better domestic support; existing tools (such as PIDG’s Guarantco) not well known. MDBs & DFI should do more to develop and crowd in domestic financing (loans or bonds) through risk enhancement, even if on a much shorter term basis (e.g. Possibility for MDB/DFIs to guarantee refinancing of 5-7 year rolling basis from a local currency liquidity perspective)

3.3 **MDB financing Tenors** yet insufficient in some very Long Term projects (Transport infra,...), requiring refinancing during life of project

4- Need for more Co-ordination

There is a sense of too many uncoordinated initiatives among MDBs, reinventing the wheel: should rather pursue greater complementarity amongst the various product offerings. There are too many attempts at creating what are perceived to be new product solutions rather than taking stock of what is available, making use of them, and improving them if required.

4.1 Need to have an early -on, **consistent approach vis a vis governments** (in particular when those refuse to heed their advice)

4.2 **MDB club approach** for big projects may have unintended consequences in crowding out private sectors; also can lead to lack of coordination if no clear lead MDB in charge

4.3 Pooling of similar instruments (e.g. guarantee pre-default and post default)



4.4 MDBs could also convey their views (just like LTIIA) to national/regional **regulators** to facilitate mobilizing of institutional investors financing of projects.

5- Need for resetting MDB and DFI objectives through coordination of their shareholders

There is a sense of a disconnect between the official objectives announced by governments at G7/G20 on mobilization of private sector for financing the infra gap (Cf. Report from G20 Eminent Persons Group) vs mandate given to MDBs and DFIs who continue to be volume driven instead of mobilization .

5.1 Shareholders should clarify mandate of MDB towards mobilization of private sector and make this a clear performance criteria for its management (Make the « Cascade » real)

5.2 MDBs/DFIs should report publicly and transparently on their mobilization rate as well as their real impact along the lines of the UN Sustainable Development Goals (SDG)

Next stage

In the short-term: LTIIA to circulate the takeaways and convey them to multilateral forums and actors, starting with the Davos WEF end-January. The idea is to leverage further this public-private collaborative approach to push this recommendation agenda further and better contribute to achieving the UN SDG infrastructure-wise. It should be noted that Davos theme for the upcoming January 2019 edition is fully aligned with this topic .

Over longer-term: This issue is to be regularly updated and enriched through recurrent meetings consultations of the current working group. We propose to hold half-yearly meetings, open to all actors of the infrastructure ecosystem in a pragmatic approach aiming to follow up progress and remaining challenges. The first such meeting could take place in May 2019 (exact date and venue TBD).



Annex 1 - List of Attendees

Organization	First Name	Last Name	Position
Allianz GI	Claus	Fintzen	Chief Investment Officer and head of Infrastructure Debt
Axa	Emmanuelle	Nasse Bridier	Chief Credit Officer
Bouygues Construction	François	Tcheng	Director
Campbell Luytens	John	Campbell	Founder
EBRD	Karsten	Sinner	Equity Funds
EBRD	Matthieu	Jordan-Tank	Head of Infrastructure Policy
EBRD	Alain	Pilloux	Vice President, Banking
EDF	Valérie	Levkov	Senior Vice President Africa & Middle East
EDF International Division	Marianne	Laigneau	Executive Director
Egis Projects	Rik	Joosten	CEO
EIB	Svetla	Stoeva	Senior Investment Officer
ENGIE Africa	Adrien	Leone	Head of AIFA
GIHub	Katharina	Surikow	Senior Manager, Strategy & Governanve
Global Investment Holding	Jan	Fomferra	Director Corporate Finance
GuarantCo	Lasitha	Perera	CEO
Investec Asset Management	Roland	Janssens	Director
IPE Real Assets	Janet	Pearch	Publisher
LTIIA	Camille	André	Operations Manager
LTIIA	François	Bergère	Executive Director
Meridiam	Sandra	Lagumina	COO Asset Management
Meridiam	Viviane	Nardon	Chief of staff
Meridiam	Thierry	Deau	CEO
Meridiam	Julia	Prescot	Chief Strategy Officer
MIGA	Christophe	Millward	Head of EMEA
Moody's	Andrew	Davison	Senior Vice President - Infrastructure Finance Group
Moody's	Christopher	Bredholt	Vice President - Senior Credit Officer
Mott MacDonald	John	Seed	Advisory Global Sector Leader
MUFG	Darryl	D'souza	Managing Director
MUFG	Christopher	Marks	Head of Emerging Markets
Private Infrastructure Development Group	Philippe	Valahu	CEO
PWC	Richard	Abadie	Partner
S&P Global	Michela	Bariletti	Senior Director, Analytical Manager, Infrastructure Ratings
Scatec Solar	Claus-Henning	Schmidt	Senior Vice President Project Finance
Société Générale	Cathia	Lawson-Hall	Head of Coverage & Investment Banking for Africa



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Vinci concessions	Marc	Neyrand	Development Director EMEA
WEF	Philip	Moss	Head, Sustainable Development Investment Partnership (SDIP) and Blended Finance
WEF	Vangelis	Papakonstantinou	Senior Manager, Global Strategic Infrastructure Initiative
White & Case	Caroline	Miller Smith	Partner