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Global Infrastructure Hub Perspectives on Long-Term Infrastructure Investment

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M. Moseley
Senior Director

Global Infrastructure Hub
A G20 Initiative

Outline

1. Introduction to the GIH and its Products and Services
2. The Infrastructure Challenge and the Need for Long-Term Financing
3. Unlocking Capital Market-Based Financing

Introduction to the GIH and its Products and Services

About the Global Infrastructure Hub

- the GIH was established by the G20 to increase the flow and the quality of opportunities for public and private infrastructure investment
- for the first time in 30 years, the G20, the G24, the World Bank Group and the IMF all advocate scaling up of infrastructure investment
- the mandate of the GIH is to address gaps in data, lower barriers to investment, connect investors to bankable projects and improve project delivery and project environment
- the GIH is a not-for-profit company acting as an impartial adviser to governments, and offering a bridge between the those governments and the private sector

GIH products and services

Creating a global **Knowledge Network** of infrastructure leaders and practitioners

Building Capacity within public sector and other stakeholders

Identifying and addressing **Data Gaps** that matter to investors

Promoting **Leading Practices** that can be replicated at scale for transformational impact

Building a global **Project Pipeline** of government infrastructure projects

New GIH products and services

Knowledge Network

Building Capacity

Data Gaps

Leading Practices

Project Pipeline

Field Guide

- A free, interactive, and searchable online database of existing infrastructure knowledge resources

Capability Framework

- A tool that ranks a country's infrastructure environment compared with best practice at each stage of infrastructure planning and delivery

New Sources of Information

- A survey of institutional investors to reveal the performance of infrastructure as an asset class, plus the auditing of global infrastructure needs to highlight countries and regions where infrastructure opportunities are greatest

Risk Allocation

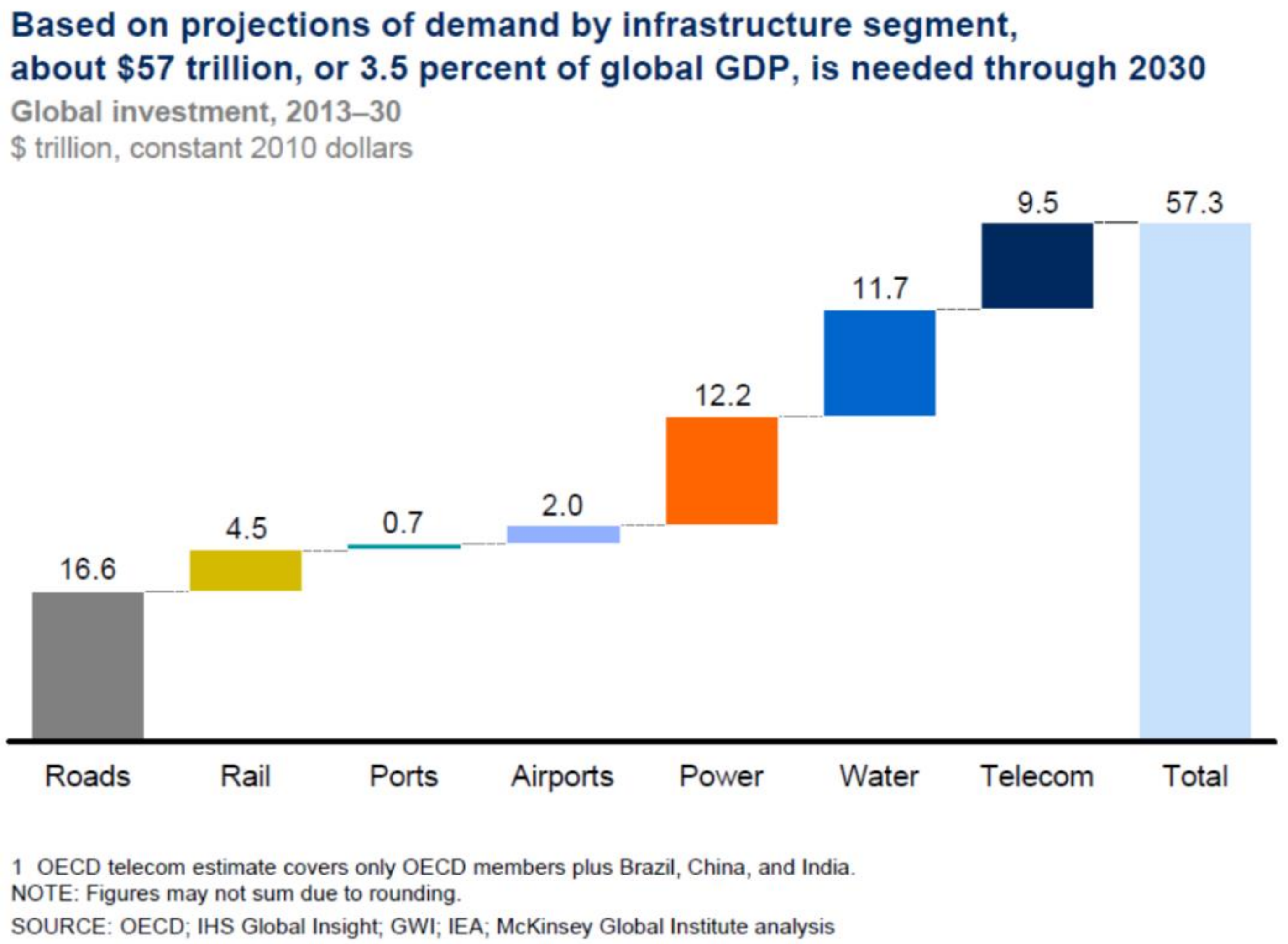
- An interactive toolkit for countries, with sample PPP risk matrices

Project pipeline

- A global database on the pipeline of infrastructure projects, to provide greater accessibility and transparency of project information to investors

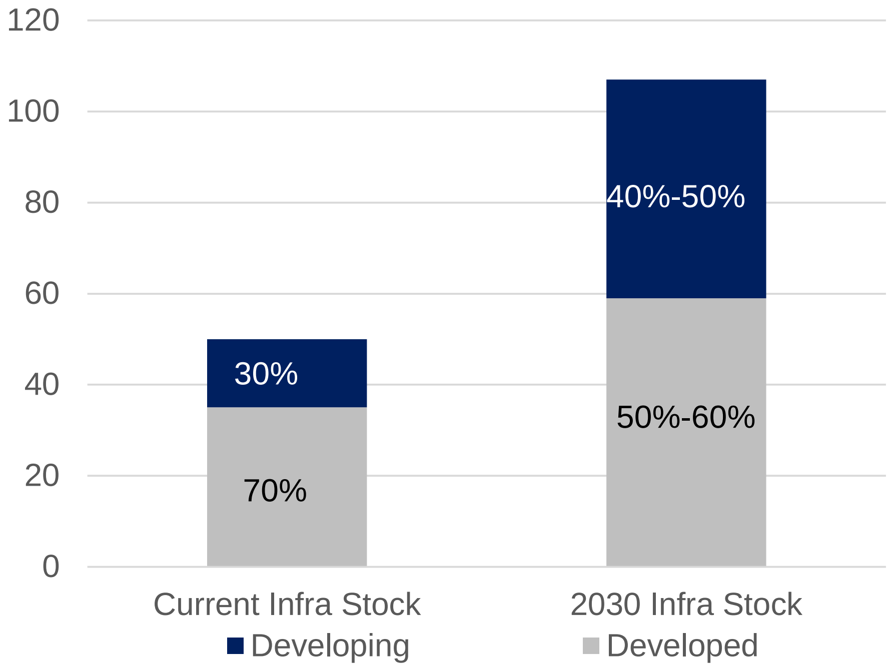
The Infrastructure Challenge and the Need for Long-Term Financing

The future demand for infrastructure is massive



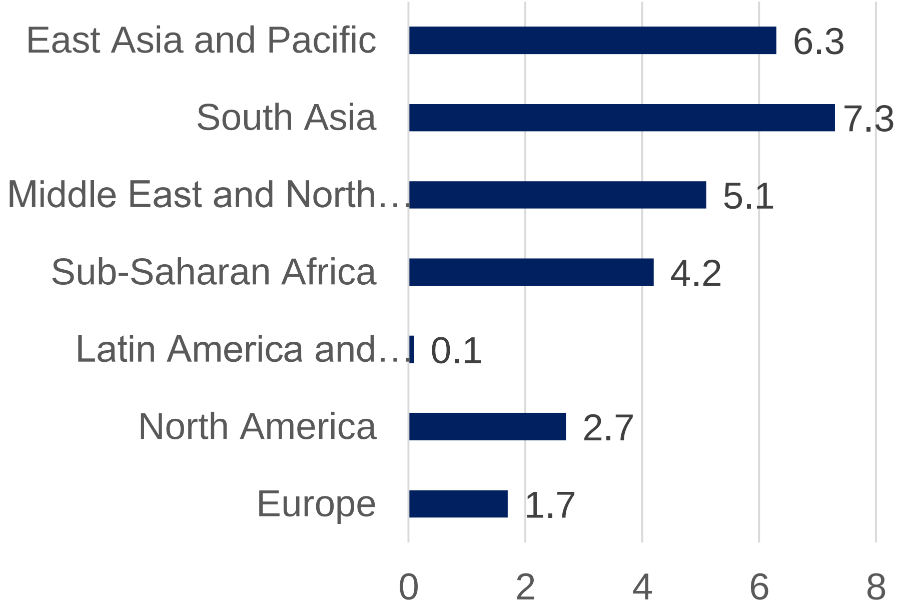
Future infrastructure markets will focus on emerging economies

70% of future global need expected in emerging economies



Source: McKinsey Global Institute 2012

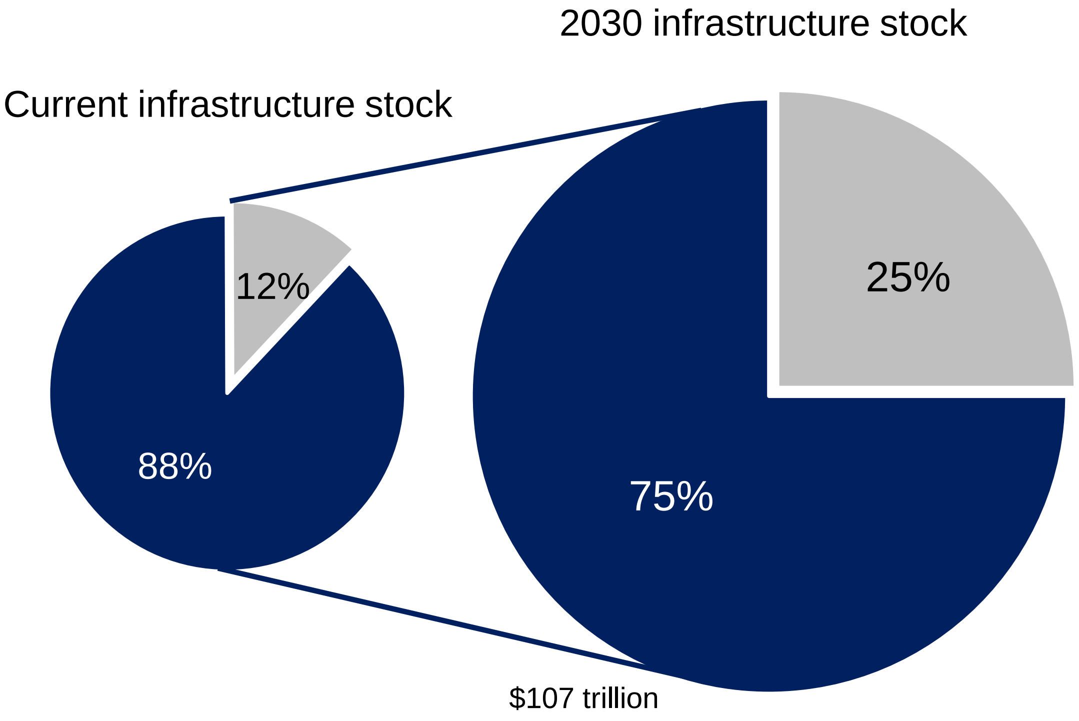
Economic Forecasts for 2016
(% change GDP)



Source: World Bank Global Economic Prospects 2015

There will be an increasing need for private capital

- Limits to public financing of infrastructure
- Need to tap longer tenor private capital



Source: McKinsey Global Institute 2012

Fortunately, the supply of private capital is also growing

- 5% annual growth in key capital markets, to $106 trillion:

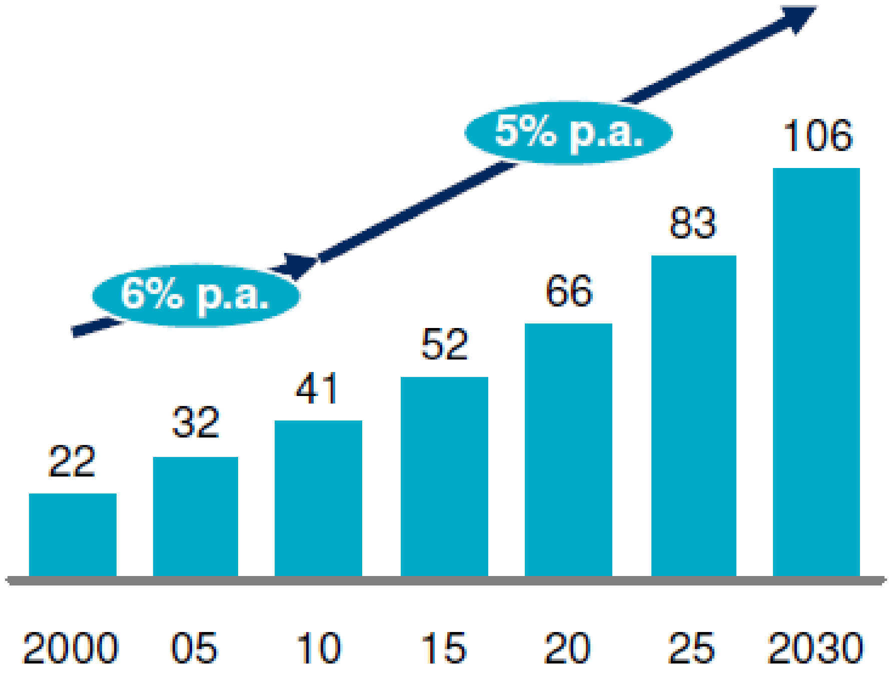
- an increasing preference by investors for infrastructure:

www.kpmg.com

Competition for investments heats up

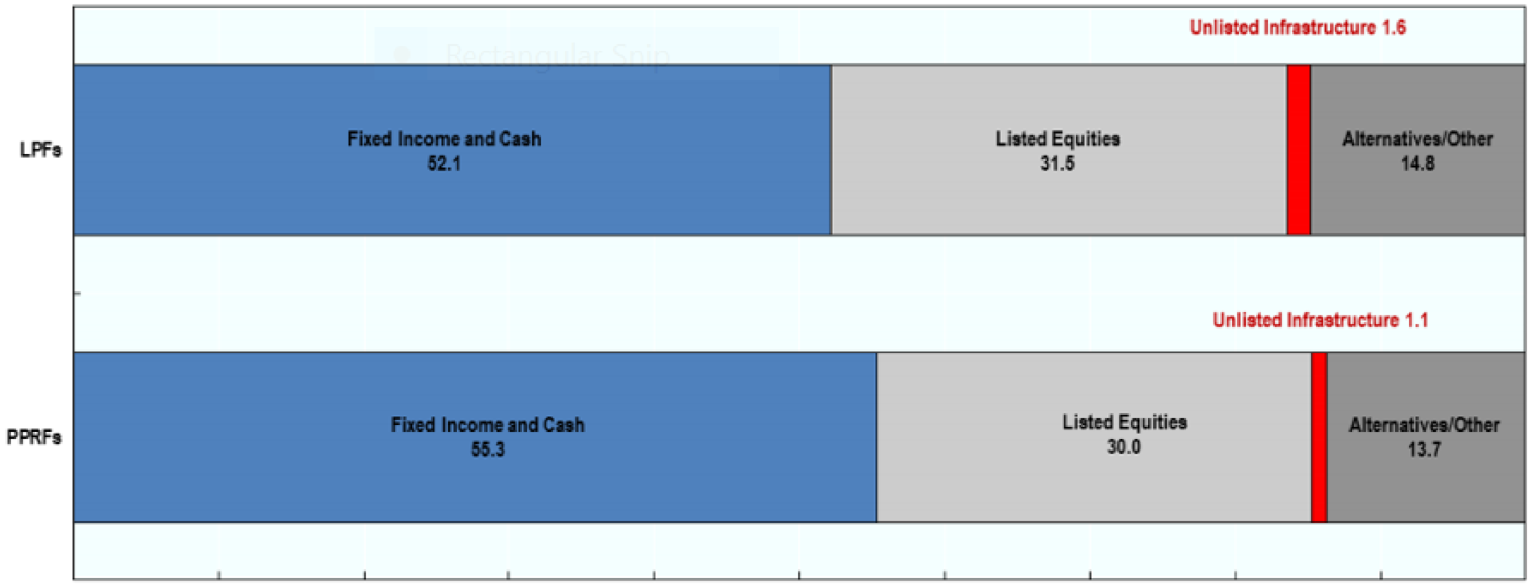
With more and more equity entering the market, competition for 'investable' infrastructure projects has reached fever-pitch.

Global pension, life insurance and SWF assets under management
US$ trillions



However, capital markets – especially pension funds – are still an untapped resource

Average Asset Allocation of Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs), 2013, as a Percentage of Total Assets



Source: OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, 2014

Unlocking Capital Market-Based Financing

The potential attractiveness of infrastructure for institutional investors

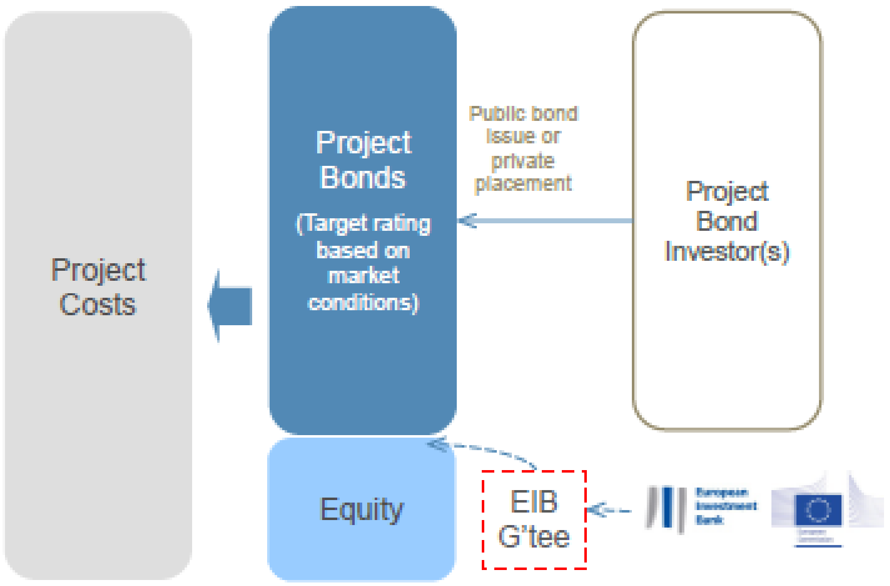
- the ability to match long-term assets and liabilities
- yields are higher than those on government bonds and similarly rated corporate bonds
- infrastructure assets have comparatively low default rates
- the assets normally operate in an environment of limited competition - natural monopolies, regulation or concessions
- low correlation of risk with other asset classes

One solution – enhanced project bonds

- in order to be acceptable to institutional investors such as pension funds, bonds need to be structured so as to achieve a minimum acceptable credit rating: typically, at the Standard & Poor's level of A minus (A-)
- normally, infrastructure project bonds do not meet this target credit rating level -- even a good PPP project will only be rated at BB + or BBB; therefore, some form of 'credit enhancement' is necessary
- this type of credit enhancement was previously provided by the so-called 'monoline' insurers -- however, following the financial crisis, many of the monolines, especially in Europe, curtailed their activities or went out of business (although there are recently some renewed ‘signs of life’)
- in response, a number of the MDBs are considering alternative arrangements to provide the credit enhancements required for project bonds
- one such arrangement is the EIB Project Bond Credit Initiative

EIB's Project Bond Credit Enhancement Instrument

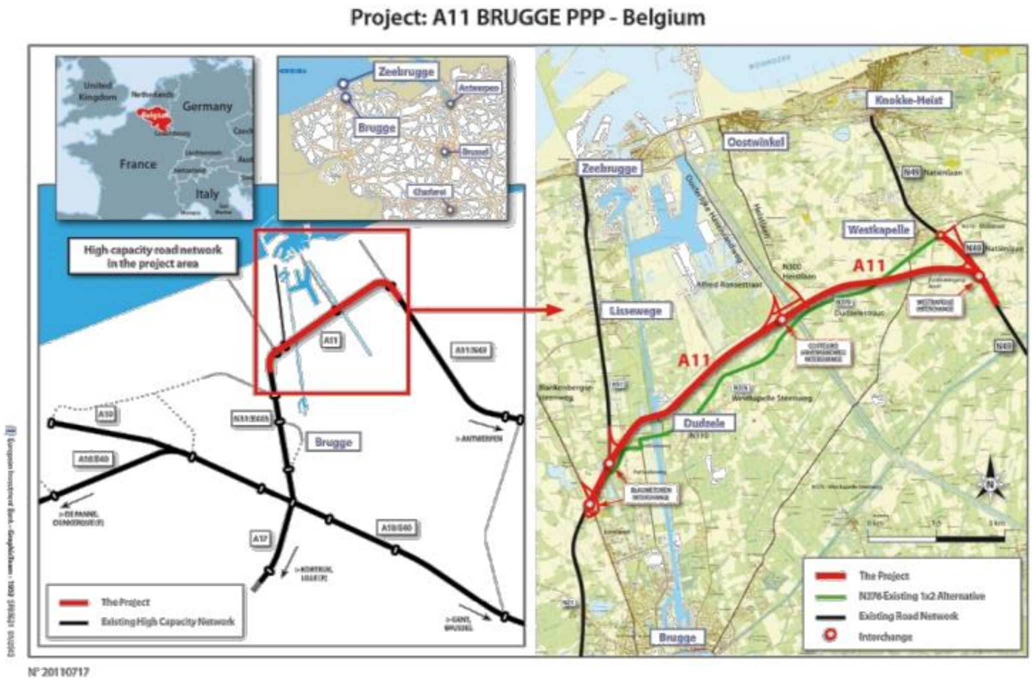
- the EIB Unfunded PBCE instrument (one of the two PCBE instruments offered by the EIB) involves the issuance of a long-term, irrevocable, revolving Letter of Credit, providing a guarantee of payments owed to bondholders, up to a maximum of 20% of the value of the bonds



- major rating agencies have determined that this instrument can elevate the credit rating of a project bond by up to three levels

EIB's A11 Motorway Project in Belgium

- first transportation project and first greenfield transaction to be financed using the EIB Project Bond Credit Enhancement Initiative
- PBCE credit enhancement from (Moody's) Baa3 to A3 (3 notches)
- deferred drawdown structure means funds are drawn as required for construction, which minimises cost of carry associated with bonds
- bonds (EUR 590 M) mature in 2045 with 4.5% coupon
- financial close March 2014
- shows investor demand for greenfield projects with support of PBCE



Source: EIB

The GIH Partners and Funders

Australian Government

MÉXICO
GOBIERNO DE LA REPÚBLICA

New Zealand Government

OECD

MOF
MINISTRY OF FINANCE
SINGAPORE

HM Government

WORLD BANK GROUP