

Catalyzing Private Investment in Infrastructure in Emerging Markets and Developing Economies

Joaquim Levy

Managing Director and World Bank Group CFO

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WORLD BANK GROUP

In the next few decades, the world will face enormous pressures

Demographic pressures will increase needs for jobs, and physical and natural infrastructure; technology improvements will help, but increased fragility/natural resource degradation will hinder progress

- The world economy is expected to grow 2-3x by 2050
- This will imply need for:
 - 40% more food, 55% more water, 80% more electricity
 - 2x increase in infrastructure spending

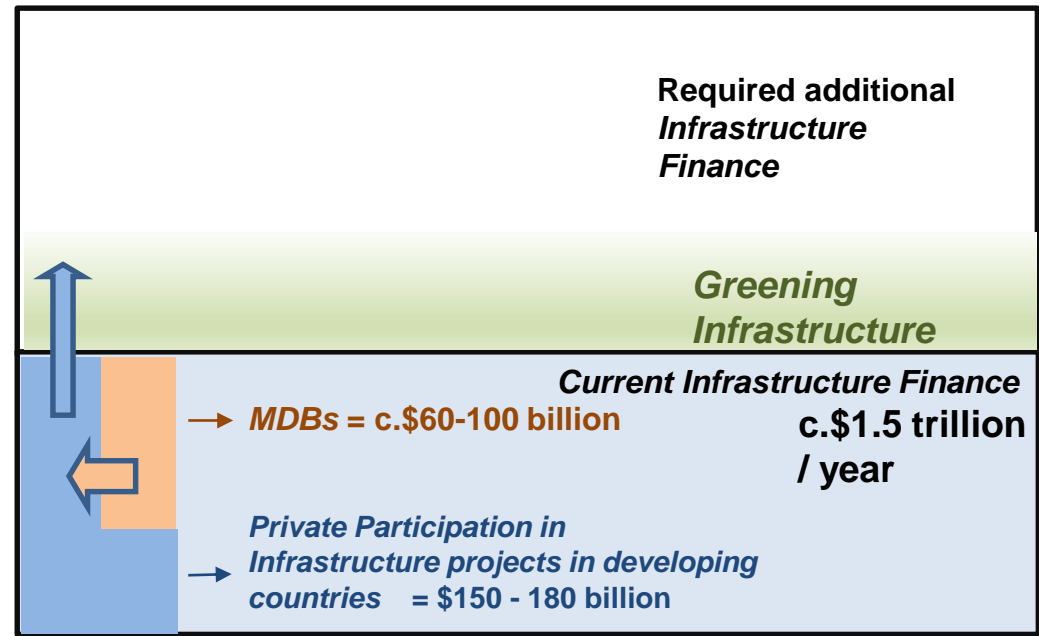


The private sector can play a larger role in infrastructure

Private and public provision, financing and cost recovery are important in the infrastructure space. Finding the right balance is the key to ensure affordable, accessible, reliable and climate friendly new infrastructure

Private participation in infrastructure in developing countries is significant, but the room for private/commercial financing expansion is very large

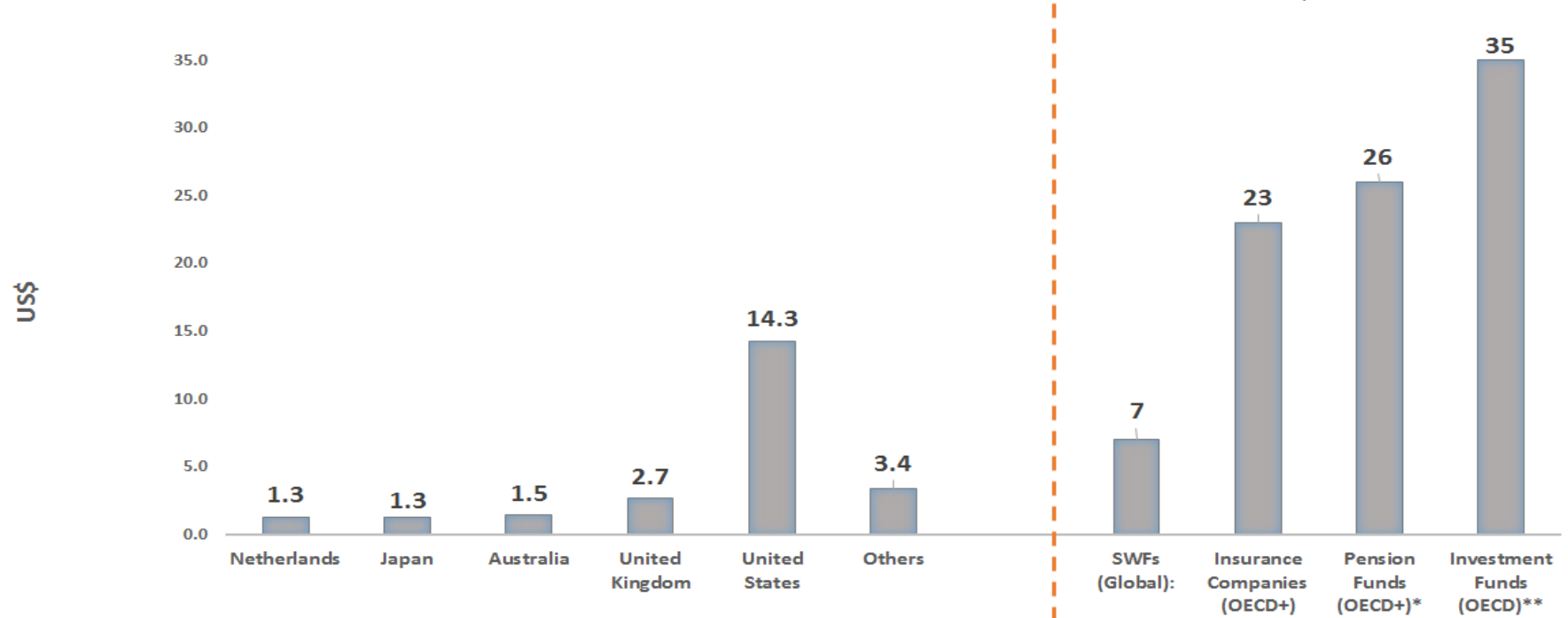
MDBs are a small part (less than 10%) of total infrastructure spending today—helping the expansion of private investment is more effective than just providing loans to government



Institutional Investors have roughly \$70 trillion assets under management

As large sums of funds in advanced economies look for better long-term investment opportunities, only a small share of these funds is being channeled towards EM Infrastructure investments.

5 OECD COUNTRIES W/ LARGEST PRIVATE PENSION INVESTMENTS (US\$ TRILLIONS), 2015



Source: OECD Pensions Database

* *OECD pension funds account for more than 95% of AUM

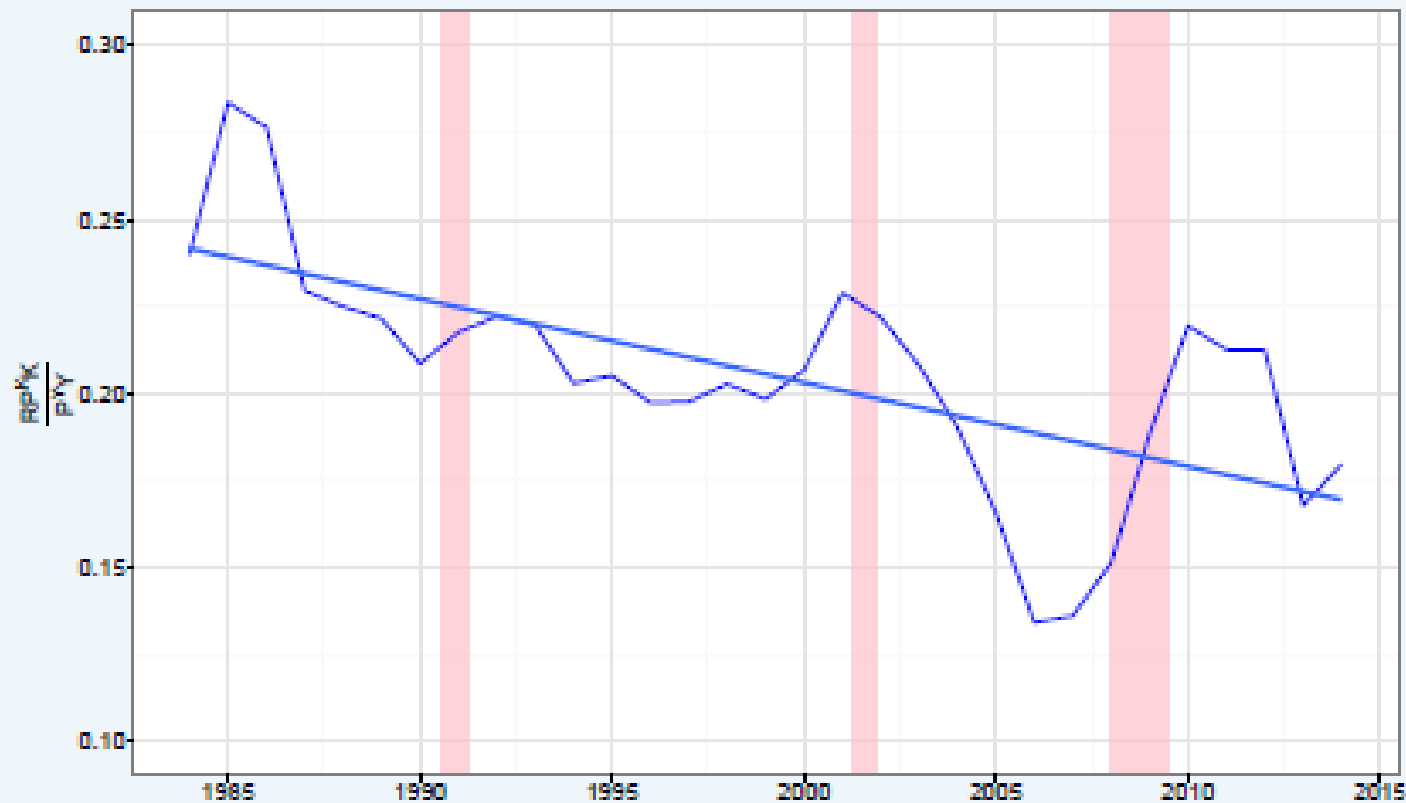
** Since pension funds and insurance companies invest through investment funds, double counting should be eliminated, resulting in a wallet that amount to around US\$ 70 trillion.

The share of capital is declining in advanced economies

Recent research ^{1/} shows that the share of capital in the US output has declined significantly

Figure 2. The Capital Share of Gross Value Added

The figure shows the capital share of gross value added for the U.S. non-financial corporate sector over the period 1984–2014. Capital payments are the product of the required rate of return on capital and the value of the capital stock. The capital share is the ratio of capital payments to gross value added. The required rate of return on capital is calculated as $R = (i - E[\pi] + \delta)$. Capital includes both physical capital and intangible capital. The cost of borrowing is set to Moody's Aaa and expected inflation is calculated as a three-year moving average. See Section 1 for further details.



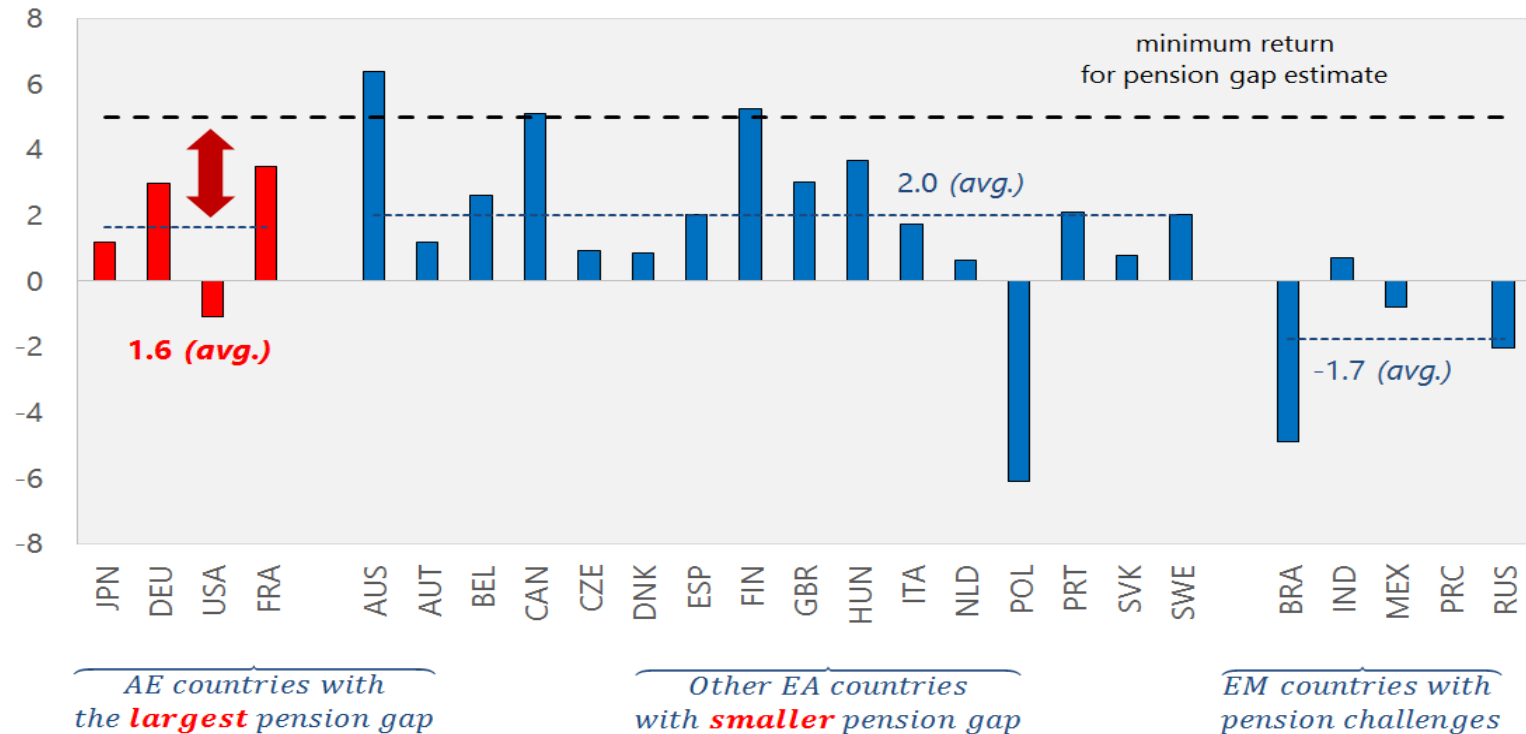
1/ Simcha Barkay, 2017 - Declining Labor and Capital Shares - PhD dissertation, University of Chicago

The investment return of most pension systems may be insufficient

Analysis suggests that many pension funds need new sources of investment returns

Pension Fund Real Net Rate of Return (2015)

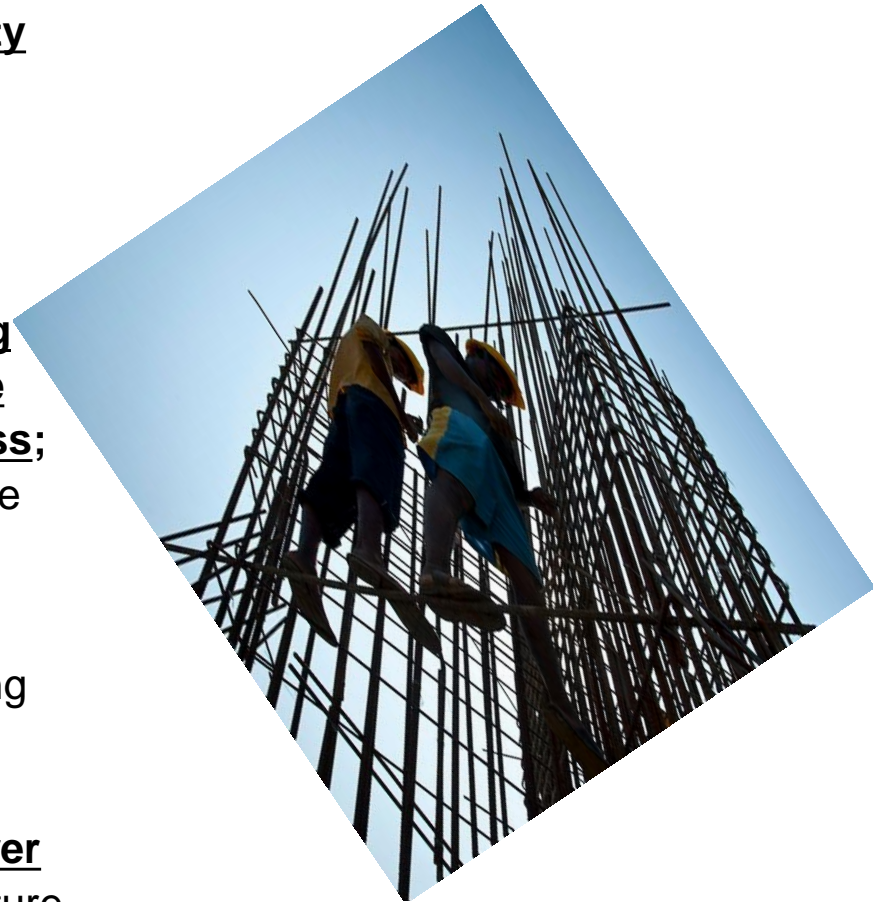
(Percent)



Source: OECD and World Bank staff calculations. Note: Data have been calculated using a common formula for the average nominal net investment return (ratio between the net investment income at the end of the year and the average level of assets during the year).

Demographics (savings) + Lower demand for capital

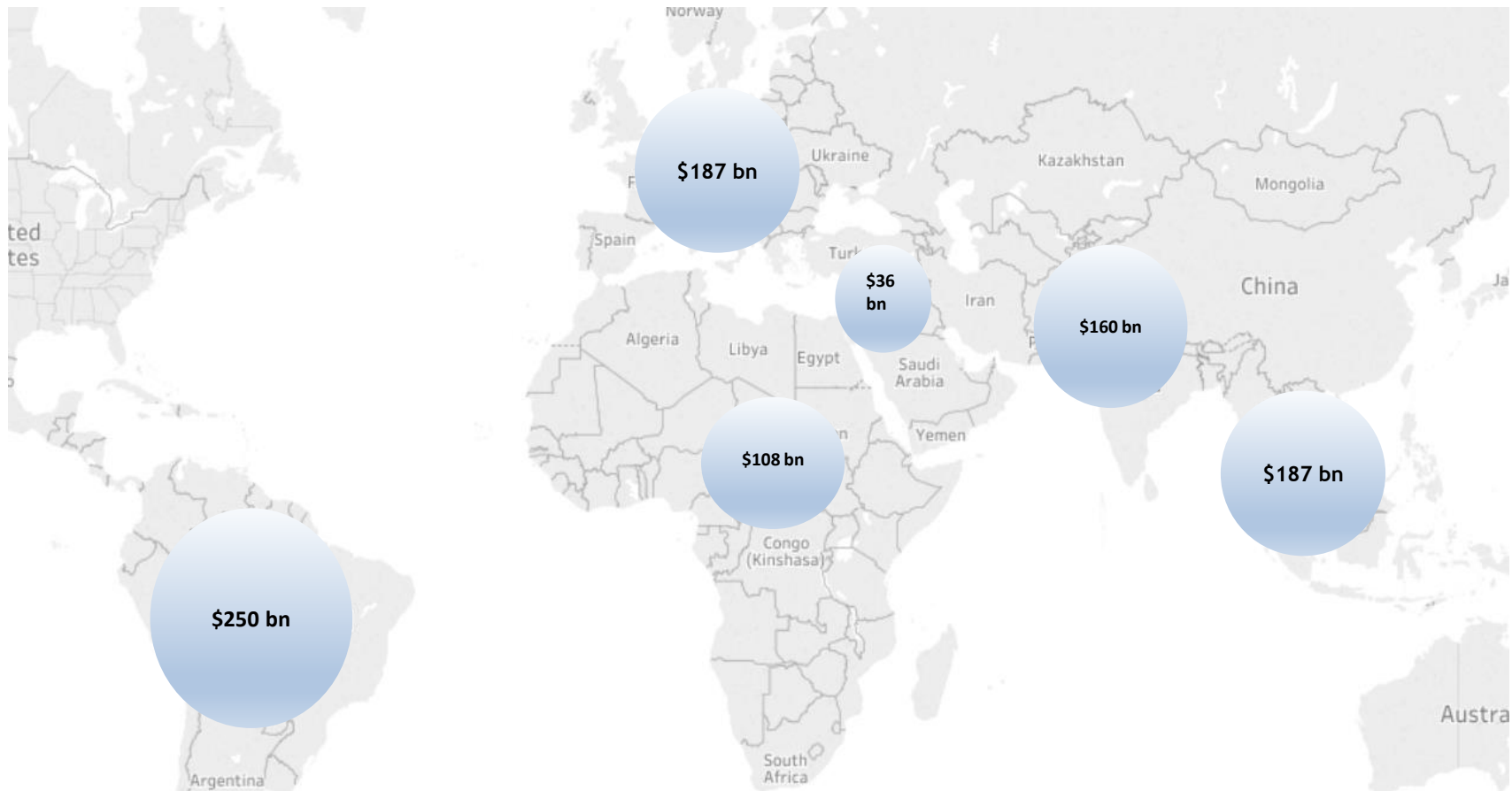
- Fostering investment in emerging markets with **young demographics offers high productivity gains** if investment responds to well-identified demand.
- Since 55 percent of emissions are directly or indirectly attributable to infrastructure, **boosting investment in “climate-smart” infrastructure also reduces the carbon footprint of progress;** it also reinforces the climate commitments made by countries in Paris last year.
- By improving the economic outlook and reducing the risks of climate change, such investments could **also lift confidence and increase aggregate demand in investing countries over the near term,** even if building these infrastructure assets were to take some time.



The Infrastructure Pipeline in Emerging Markets and Developing Economies (\$ billion)

A total of nearly \$1 trillion worth of investment projects exists in EMDEs.

Infrastructure Pipeline in Emerging Markets and Developing Economies, by Total Project Value

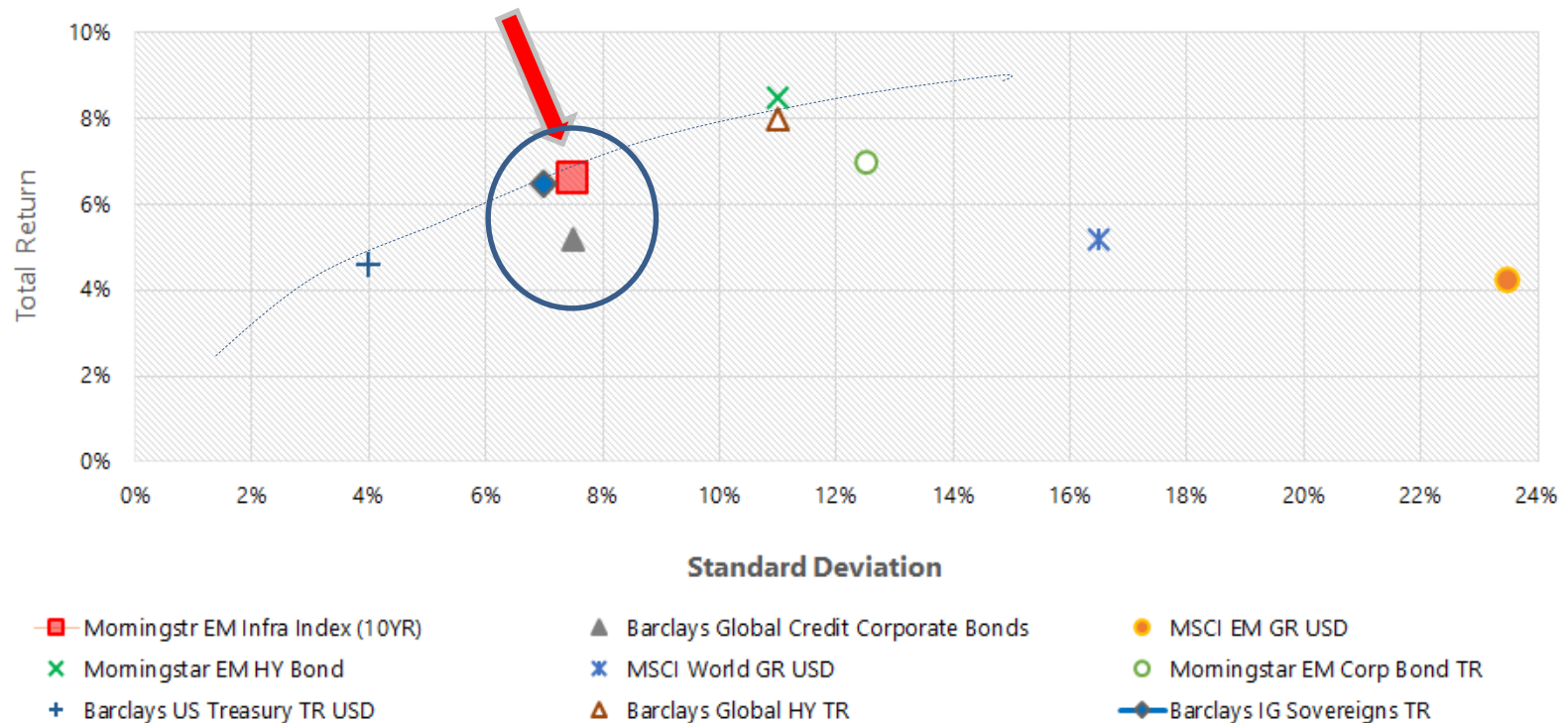


Source: WBG Discussion Paper: "The Country Infrastructure Investment Pipeline: Size, Scope, and Opportunities"

A Benchmark for Investors to Analyze and Compare EM Infrastructure Investments

WBG is working with the Morningstar to develop an Emerging Market Infrastructure Bond Index

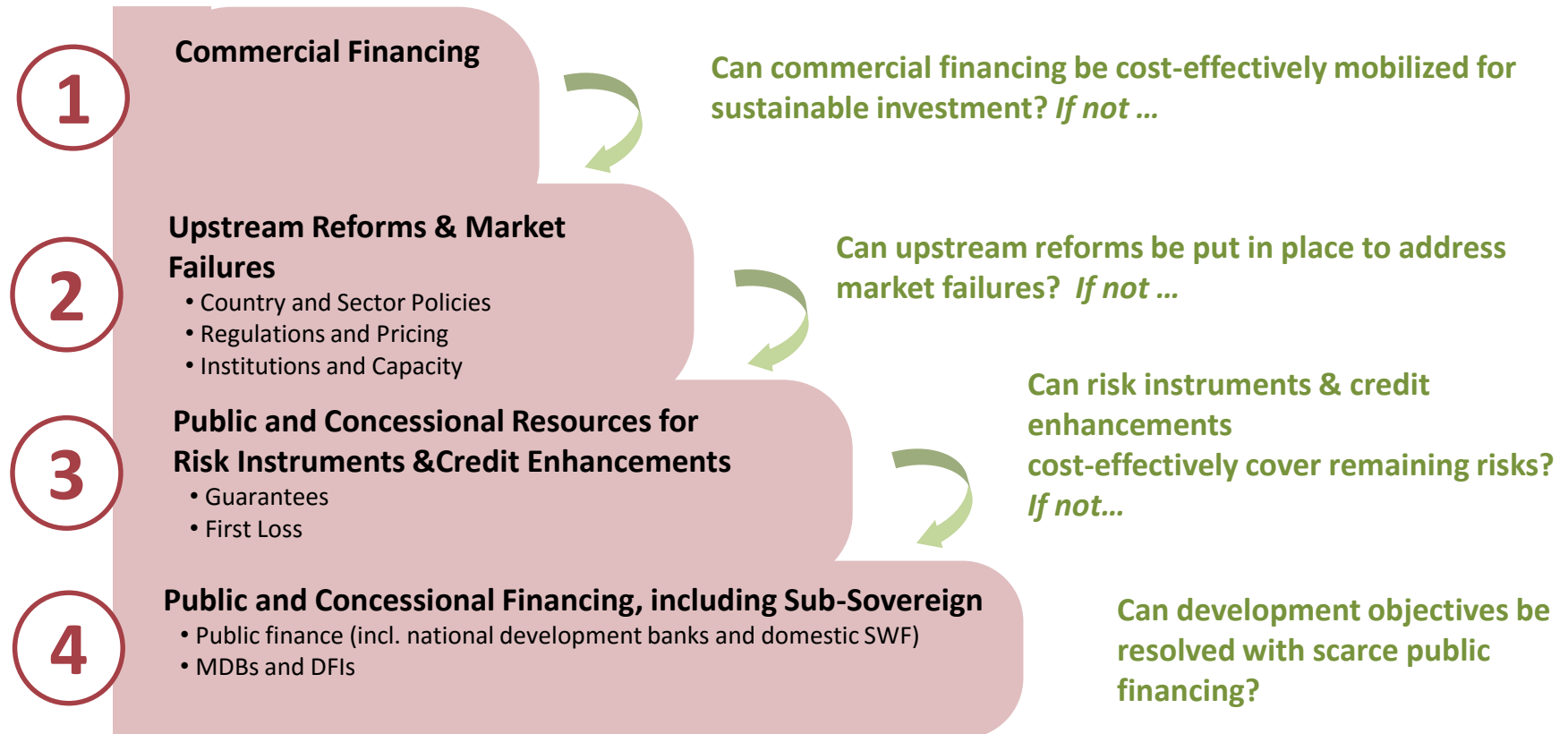
Morningstar EM Infrastructure Bond Index Index Risk Return (Percent)



Source: Morningstar. Note: TR=Total Return

Sustainable Infrastructure Finance through the “Cascade Approach”

A systematic and scalable approach for infrastructure investment to ensure that scarce and precious public and concessional finance is used when and where it is most needed



Global Infrastructure Facility

Increasing Mobilization through upstream and downstream approaches

- Helping governments prepare and bring to market complex privately-financed infrastructure projects
- Global partnership of donor & client governments; MDBs; and EMDE infra finance market players
- Several MDBs are technical partners and there is 44-member Advisory Council, representing broad representation from the private sector
- Support for 17 projects globally and helped develop a healthy project pipeline.



Upstream Window

“Upstream” project preparation and structuring advisory window operational for flexible, comprehensive project preparation



Downstream Window

“Downstream” financing window under development for credit enhancement and mobilization of private capital

These potential facilities and mechanisms will require further due diligence and evaluation.

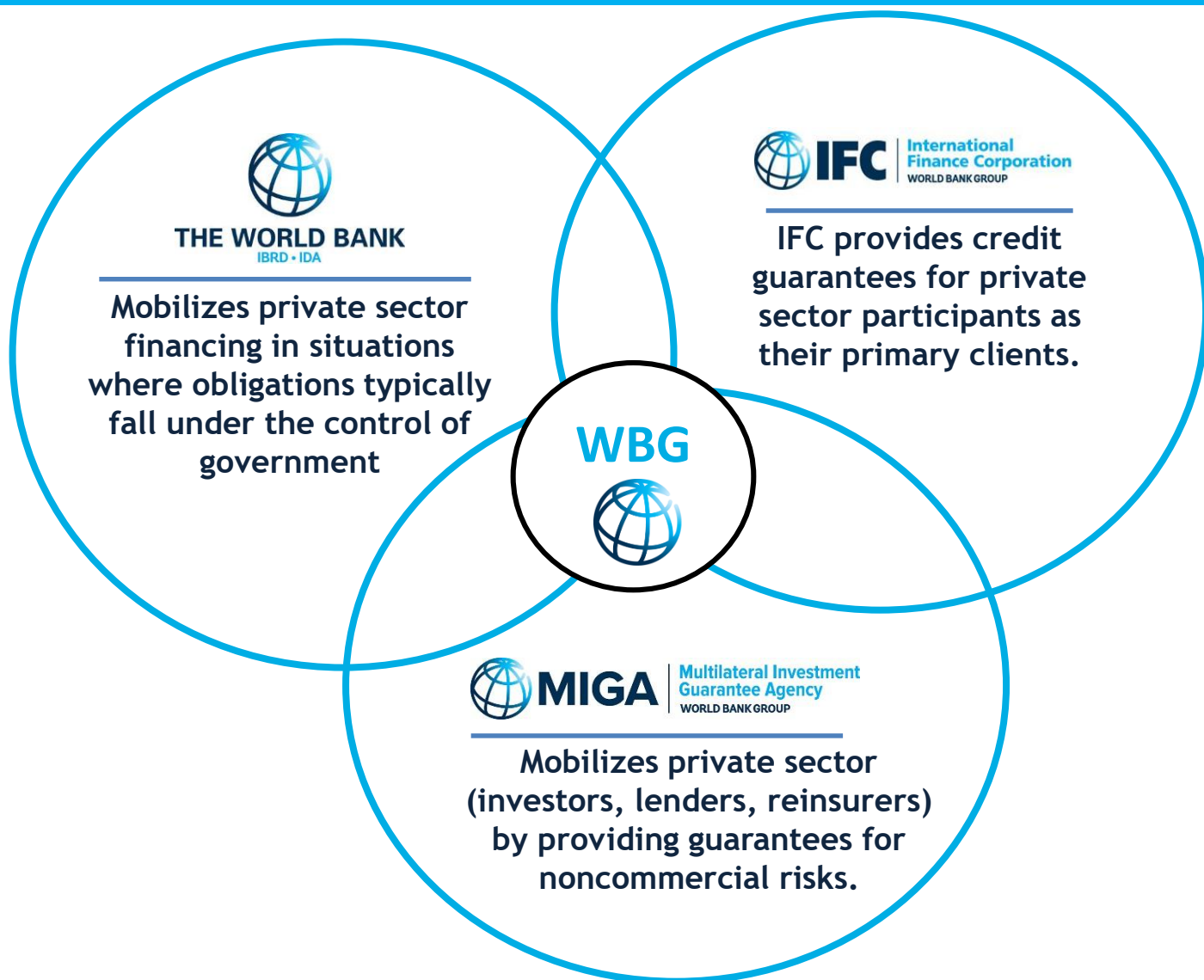
Global Infrastructure Facility

Upstream Project Preparation Window focuses on project structuring and preparation to expand the pipeline of well-structured projects

Argentina	Providing programmatic support to the Government which is in the process of re-engaging the market for private investment in infrastructure under the new government. The objective is to attract international private investors and financiers back to Argentina infrastructure.
Egypt	Supporting a greenfield dry port and connecting rail bypass intended to facilitate trade and reduce congestion, as part of a modal shift from road to rail for freight transport. Both sub-projects are expected to facilitate trade between Egypt and its trading partners as well as decrease the carbon intensity of the transport sector by induced modal shift of freight from road to rail.
Indonesia	Supporting a toll roads program. The Indonesia Infrastructure Guarantee Fund (IIGF) has expressed interest in working with GIF and BPJT (the Indonesian Toll Roads regulator) on a toll road program. The GIF is providing funding for project preparation to complement funds from the World Bank and the Asian Development Bank. It is also providing access to the GIF Advisory Council as a sounding board.

WBG aims to double the amount of its guarantees in the next three years

Overview of WBG Guarantee Products



\$2.5B

Under IDA18, PSW seeks to expand private investment in IDA-only countries, with a focus on IDA-eligible FCS

4

Objectives

- Scale-up IFC/MIGA engagements in IDA-only/FCS
- Focus on FCS markets
- Crowd in private investment and create markets
- Support IDA18 Objectives and Special Themes

4

Facilities...

Risk Mitigation Facility

- Project based guarantees without sovereign indemnity (\$800m to \$1bn)
- Support infrastructure

MIGA Guarantee Facility

- Project based guarantees with shared first-loss & risk participation via MIGA reinsurance (\$500m)

Local Currency Facility

- IFC loans denominated in local currency (\$300m to \$500m)

Blended Finance Facility

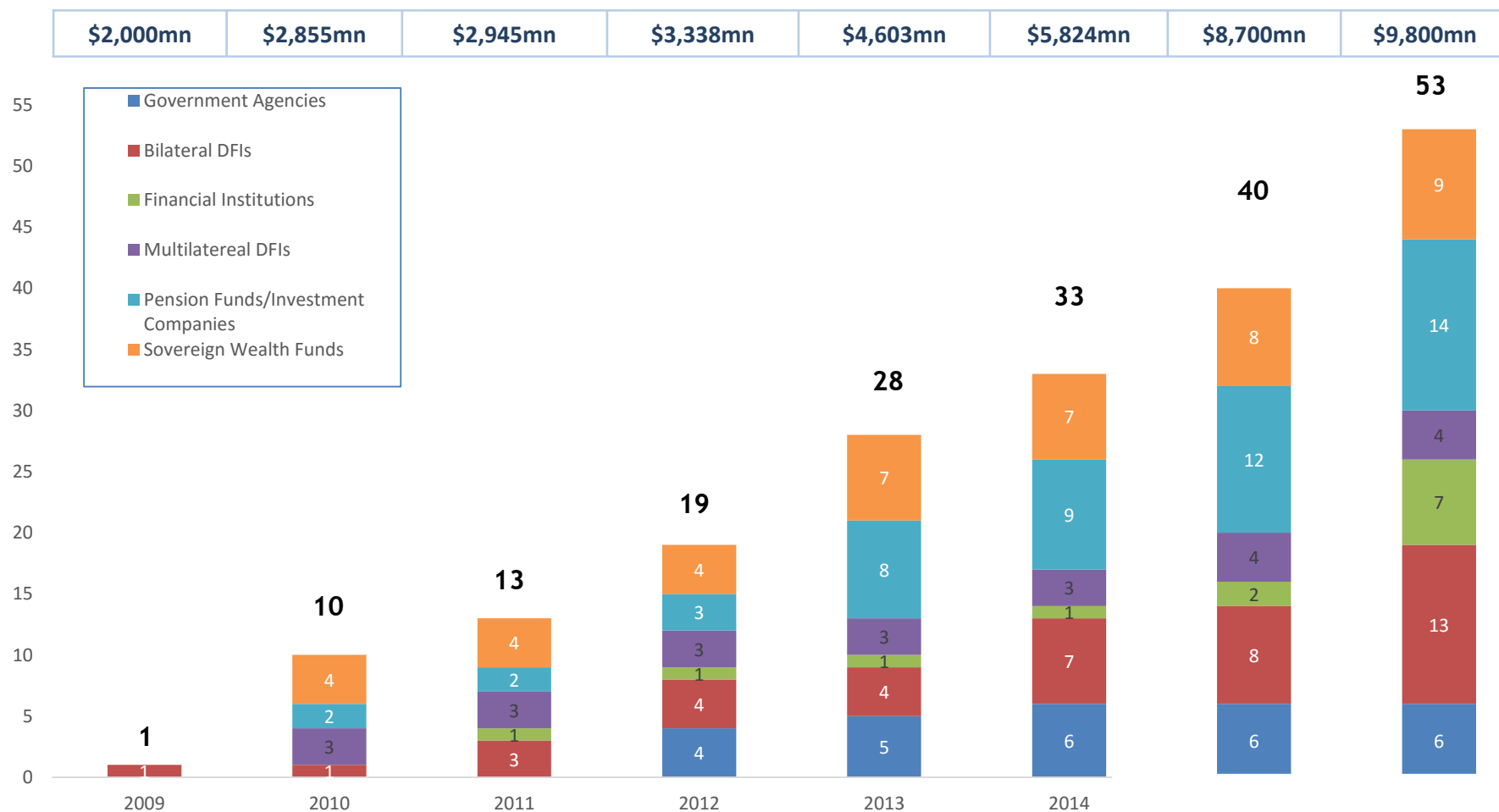
- Blending PSW funds with IFC investments (\$400m to \$800m)
- Support SME, Agribusiness, Manufacturing, etc

Crowding-in Institutional Investors

Established in 2009, AMC is IFC's fund management business, managing third-party capital across thirteen funds that invest in IFC transactions in developing countries. US\$9.8 billion has been raised from 53 investors since its inception.



Investments in AMC Funds by Type of Investors



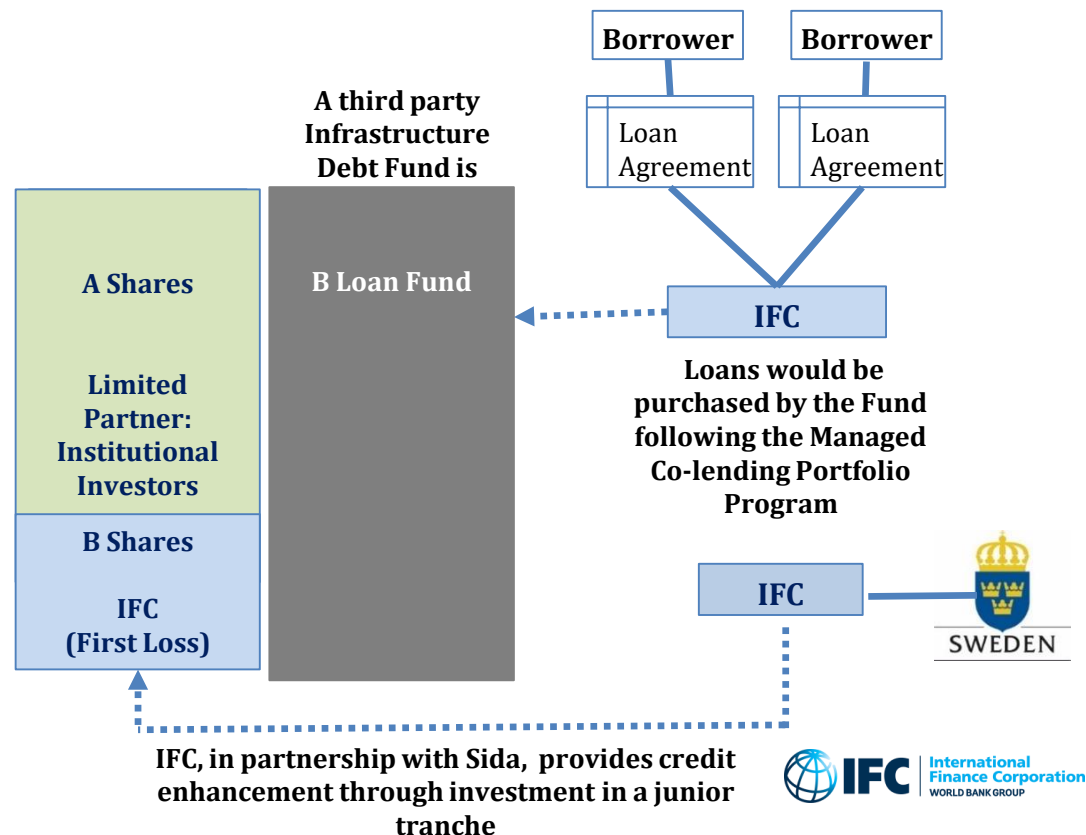
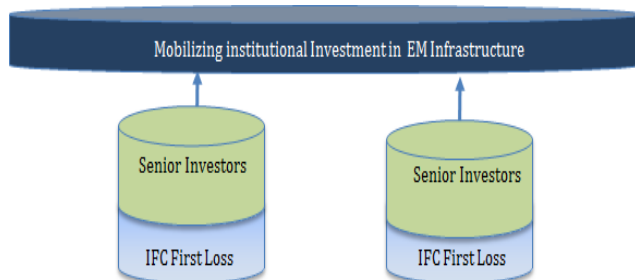
Source: IFC AMC

IFC Managed Co-Lending Portfolio Program (MCP) - Infrastructure

Scaling-up debt mobilization for infrastructure from institutional investors

- MCP infra is a first-of-its kind financial structure that allows insurance companies to invest in high-quality infrastructure projects in EMDEs with managed risk.
- It allows investors to have priority access to IFC's pipeline and co-invest in IFC's loan portfolio with a first-loss guarantee from IFC and the Swedish SIDA.
- AllianzGI is the first investor (Oct 2016), pledged to invest \$500 million.
- Eastspring Investments, the Asian asset management business of Prudential, and global insurance company AXA are expected to commit \$500 million each.
- Final portfolio is expected to comprise between 30 and 40 loans, with renewables eligible for up to 40 percent of the total investment.

IFC will support the creation of new private sector infrastructure debt vehicles. Each vehicle will be established to meet the commercial and regulatory requirements of large institutional investors.



IFC intends to scale the program and raise \$5 billion from global institutional investors over the next five years.
The approach could create the model to establish a new asset class.

Multilateral Investment Guarantees Agency (MIGA)

MIGA issued a record \$4.3 billion in guarantees in FY16, supporting total project financing of \$27.3 billion in public and private co-investments

MIGA's Guarantee Products

Political Risk Coverage

- Currency Inconvertibility and Transfer Restriction
- Breach of Contract
- Expropriation
- War, Terrorism, and Civil Disturbance

Non-Honoring of Financial Obligations (Credit Enhancement)

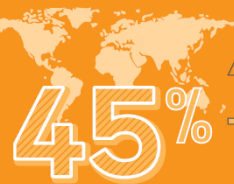
- Sovereign
- Non-Sovereign
- State-owned enterprise

GROSS OUTSTANDING EXPOSURE

in US\$ billions



Of MIGA's Active Portfolio



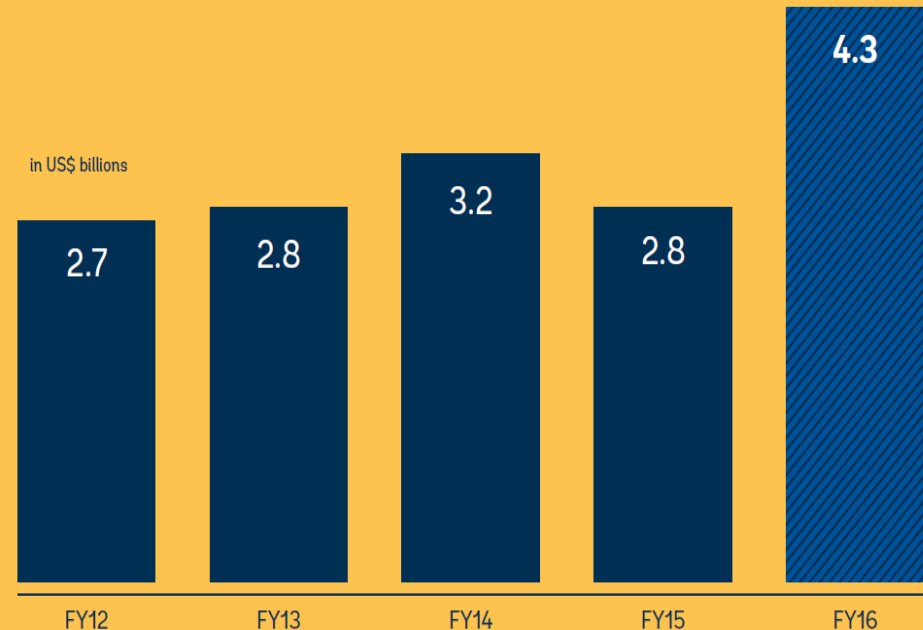
in IDA-eligible countries



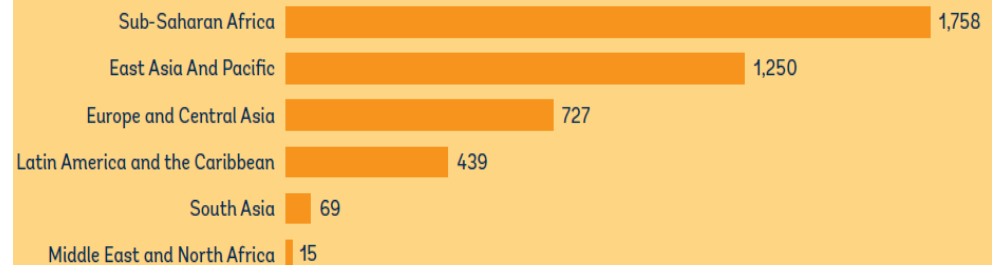
in FCS countries

GROSS ISSUANCE VOLUME

in US\$ billions



GROSS ISSUANCE (in \$US millions)





THANK YOU !

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