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Capacity Sharing Marketplace

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BR7 Sustainable Infrastructure

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BR7

Investment in sustainable Infrastructure in less developed and high-risk markets

Group Composition

Total number of participants:

- Initially registered: 27
- Actual participation: 19 of which: 10 ECA/EXIM, 2 Multilateral Insurers, 1 private insurer, 3 bilateral development banks, 3 other.

Country background of participating organisations:

- Various EU countries: Austria, France, Netherlands, Slovakia, Romania
- UK
- Switzerland
- USA
- Australia
- India
- South Africa
- Bermuda

Investment in sustainable Infrastructure in less developed and high-risk markets

This breakout looked at developing recommendations to improve the bankability of sustainable infrastructure projects in challenging markets, and how project sponsors can work with public and private financiers to achieve this.

I. Some definitions and concepts (see annex I)
II. MIGA / WB Sustainability and Cooperation with IDA under IDA's Private Sector Window (IDA PSW)
III. Key challenges for bankability of sustainable infrastructure (public / private sector projects) in high-risk markets.
IV. 1st loss guarantees (public and private sector projects)
V. Experience with public sector projects in IMF/WB DSF countries for which concessional finance is required?
VI. Regulatory challenges and organisational incentives
VII. Other ideas/ suggestions?

II. MIGA / WB Group Sustainability and Cooperation with IDA under IDA's Private Sector Window (IDA PSW)

- Introduction from Merli Baroudi (MIGA director economics and sustainability).
- MIGA/IDA PSW cooperation is a form of "**Blended Finance**" whereby IDA concessional capital is combined with MIGA's political risk insurance (PRI).
- IDA/MIGA Guarantee Facility was introduced in 2018.
- Overall IDA PSW blended finance facility involves U$ 2.5 billion, of which $ 500 million is allocated to the MIGA Guarantee Facility (MGF)
- Key Purpose of IDA MGF: to increase private sector investments in IDA countries, in particular fragile states.
- How?: Shared 1st loss for IDA and MIGA to allow MIGA to provide PRI in relatively high-risk markets, where MIGA usually has no or very limited risk capacity. Furthermore, MIGA reinsures part of its own risk (beyond shared 1st loss) with private (re)-insurers and mobilise their (re-)insurance capital.
- The IDA and MIGA shares in joint 1st loss are determined on case-by-case basis and based on a mutual IDA/MIGA understanding.
- PRI can be provided for (1) equity investments, (2) shareholder loans and (3) 3rd party investment loans.
- Majority of IDA MGF transactions concerns PRI for equity investments.
- Leverage factor: each $ 1 of IDA PSW support triggers/ mobilises $ 4 of MIGA's insurance capacity.
- Concrete transactions were a.o. done in: Afghanistan, Djibouti, Ethiopia, Liberia, Sierra Leone, Myanmar (see further annex II)
- IDA PSW funds of $ 500 million have not yet been fully utilised, but demand for PRI-business in these IDA PSW countries is growing.
- IDA PSW concessional funds are currently only available for IFC and MIGA. There are strict criteria to get access to IDA concessional funds.

III. Key challenges for bankability of sustainable infrastructure (public / private sector projects) in high-risk markets?

- Distinction between (1) infrastructure projects that have to meet international ESG criteria (**ESG Projects**) and (2) sustainable impact infrastructure projects **(Sustainable Infrastructure projects**).
- Challenge in **ESG projects**: Imperfect ESG assessment reports. Who pays for the ESG gaps in ESG assessments?

Potential solution: standardisation of ESG assessment reports: See also Sustainable Infrastructure Foundation https://public.sif-source.org/source/

- **Sustainable Impact infrastructure projects** are very much “supply-driven” (a.o. by official finance agencies) and not “demand-driven”

There are not enough bankable SII-projects. Increase of project preparation facilities is key. Involve also private sector in project development.

- Some ECAs do not have an (explicit) specific mandate to contribute to “sustainability”.
- Some ECAs have no or hardly any exporters that are key players in sustainable infrastructure projects (e.g. solar, wind).
- For some ECAs it is much easier to exit fossil than others because they hardly have any business in fossil sector. Exiting fossil may require different transition periods for different ECAs.

III. 1st loss guarantees for public and private sector projects in high-risk markets.

Experience with 1st loss guarantees.

- Among participants there were only 2 organisations that have experience with 1st loss guarantees (MIGA and FMO).
- Participating ECAs, EXIMs and private insurers had no experience.

FMO NASIRA Facility (signed in Dec. 2018).

- FMO NASIRA facility is a **"Blended Finance"** facility that combines concessional funds from EU and NL Government with FMO development finance funds to provide partial credit guarantees for local banks in certain high-risk markets.
- Beneficiary of the guarantees: local banks within EU neighborhood and SSA. The goal of NASIRA guarantees is to allow local banks to provide loans to groups they normally perceive as too risky. Program has many similarities with official national guarantee schemes to support the national business community.
- Target groups: It targets bank loan portfolios consisting of loans to young, female and migrant entrepreneurs (including refugees, returnees and internally displaced people).
- Maximum % of cover for loan portfolios: 95%.

Potential of 1st loss guarantees to mobilise additional public / private capital for development for high-risk markets.

- YES ! , see G20 EPG report *"Making the Global Financial System Work for All"* (2018) and G20 *"Building Bridges"* report (IsDB/ICIEC 2020)
- 1st loss guarantees can mobilise more capital and lead to better terms and conditions (e.g. lower insurance premium / interest rates, more insurance/finance capacity, longer tenors and even capital for high-risk markets, where the market is usually "off cover").

Potential providers of 1st loss guarantees for high-risk markets.

- ODA Aid Agencies, Concessional windows of MDBs (e.g. IDA, EU Commission).

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III. Experience with public sector projects in IMF/WB DSF countries for which concessional finance is required?

- Among participants there was one EXIM-Bank that has experience with concessional tied aid credits to IMF/WB DSF countries.
- None of the participants had experience in providing cover for concessional loans.

IV. Regulatory challenges and organisational incentives

- Should we further modernise the OECD Arrangement given global geopolitical developments and the financial challenges for LICs (COVID/ UN SDGs).
- (Temporarily) reduction of 15% down payment requirement and longer maximum tenors to overcome financial constraints of LICs caused by COVID?
- Alignment of official finance terms and conditions among MDBs, BDBs and ECA?
- More favourable OECD minimum premiums for **sustainable** infrastructure projects to support UN SDGs among which the climate / green transition ?
- More favourable terms and conditions when an ECA benefits from a 1st loss guarantee?
- Include mobilisation of capital from ECAs in mobilization measurement systems.
- No discussion on internal organisational incentives to encourage cooperation among different official finance organisations.
- USDFC (former OPIC) got a broader mandate, more capital and more risk appetite, also for PRI in high risk markets (“BUILD-Act”).

V. Other ideas/ suggestions?

- Concessional finance for MICs to support the green transition in these countries.
- Importance of MDB policy work to improve business climate in developing countries and increase no. of bankable projects and private sector investments.

Convergence / Divergence

Break out session was mainly an exchange of experiences, ideas and views.

Unfortunately, not enough time for a lively debate.

Next Steps

- Involve ODA Aid Agencies in a dialogue about 1st loss guarantees for high-risk markets.
- Make sure that these 1st loss guarantees are untied, so that a discussion about "tied aid" can be avoided.

ECAs to consider:

- Relaxation of certain OECD Arrangement terms for LICs to support UN SDGs and overcome the financial challenges caused by COVID-19.
- More favourable Arrangement terms for projects that clearly contribute to UN SDGs (incl. climate).
- Specific recognition in Arrangement for premium reduction for ECA loans that benefit from 1st loss guarantees.
- Specific more favourable Arrangement terms and conditions when cover is provided to a MDB or SMI.

MDBs/ BDBs to consider:

- Use of ECA guarantees for their investment loans, balance sheet optimisation and economic capital relief.

Other:

- Standardisation / harmonisation of Infrastructure feasibility studies and ESG assessment reports (SIF)
- Consider a joined database for ECAs, MDBs, BDBs and ODA Aid Agencies to share information with one another that is of mutual interest.
- Improve transparency about terms and conditions of finance / guarantees from different "official Finance organisations", which can help in a better alignment of operations and a 1+1=3 for the UN SDGs.

Annex I. Definitions & Concepts

Key risk mitigation / enhancement products:

- "Classical" political risk insurance (e.g. war, expropriation, transfer and inconvertibility)
- "Extended" Political risk insurance Classical PRI + Breach of contract cover, used in PPP project finance)
- "Comprehensive credit insurance / enhancement": Covering both commercial and political risks

Potential partners for cooperation in less developed and high-risk markets:

A. Public / official partners:

- Multilateral Development Banks (e.g. IBRD/IDA, IFC, ADB, EBRD, IaDB, IsDB, AfDB)
- Bilateral Development Banks (e.g. KfW/ DEG, FMO, CDC, USDFC, Proparco, OE
- Specialised Multilateral Insurers (e.g. MIGA, ATI, ICIEC, Dhaman)
- Official ECAs / EXIM banks (e,g, USEXIM, UKEF, BPI France, SACE, EDC, NEXI, Ksure, SINOSURE)
- ODA Aid Agencies (e.g. ministries of development cooperation or their agencies: JICA, KOICA, SIDA, USAID, DANIDA
- Other?

B. Private partners:

- Commercial Banks (international and local)
- Institutional Investors (international and local)
- Private Insurers (e.g. Lloyds, Chubb, AXA XL, AIG, Zurich)
- Private Philanthropy Foundations (e.g. Rockefeller Foundation, Bill and Melinda Gates Foundation)
- Project Sponsors/ Equity Investors
- Exporters
- NGOs
- Other?

Annex I. Definitions & Concepts

Less developed and high risk markets:

- IBRD Low Income Countries (LICs)
- Countries in OECD Risk category 7
- Countries that fall under IMF/WB DSF and OECD sustainable lending guidelines

Distinction between public and private infrastructure projects:

Public:

- Sovereign projects: (Ministry of Finance / Central Bank)
- Sub-sovereign projects (e.g. Municipality, Province)
- State Owned Enterprises (e.g. public utility company owned by government)

Private:

- Corporate projects (Existing private company)
- Greenfield Project Finance Projects with Special Purpose Company as borrower).

Annex I. Definitions & Concepts

Blended Finance:
OECD Defines "Blended Finance" as the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries, where additional finance refers to commercial finance that does not primarily target development outcomes in developing countries, while development finance is public and private finance that is being deployed with a development mandate.

Examples:
- Syndicated loans (e.g. A/B loans)
- ODA guarantees (e.g. ODA 1st loss guarantees)
- IDA 1st loss guarantees for MIGA for projects in certain high-risk markets (e.g. IDA MGF for Private Sector projects)
- Interest rate subsidies for concessional loans to sovereign borrowers in IMF/WB DSF countries
- Equity investments

Annex II.

IDA Private Sector Window operations.

General information regarding MIGA's cooperation with IDA under IDA's Private Sector Window operations:

See:https://ida.worldbank.org/financing/ida18-private-sector-window/miga-guarantee-facility-mgf

On *individual Projects supported* with blended finance support under IDA's Private Sector Window operations, covering various projects of IFC and MIGA.

See: https://ida.worldbank.org/financing/ida-private-sector-window/private-sector-window-projects

FMO's NASIRA-program:

General information: https://www.fmo.nl/news-detail/0ac27a73-ed6b-436e-81e8-dfb1037bfd27/eu-selects-fmo-to-manage-a-eur-75-mln-guarantee-amount-to-back-underserved-entrepreneurs

Annex III.

G20 EPG report: “Making the Global Financial System Work for All” (2018)

https://www.globalfinancialgovernance.org/assets/pdf/G20EPG-Full Report.pdf

G20 “Building Bridges” report of IsDB and ICIEC (2020):

Main report:https://www.isdb.org/pub/reports/2020/a-technical-report-g20-international-financial-architecture-working-group-ifa-wg-stock-take

Annexes: http://: https://www.isdb.org/pub/reports/2020/a-technical-report-g20-international-financial-architecture-working-group-ifa-wg-annexes