

GIF UPDATE

ADVISORY COUNCIL MEETING

PROPOSED GIF DOWNSTREAM FINANCING WINDOW

BY

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OVERVIEW

Work on designing the GIF Downstream Financing Window (“DFW”) started in FY2016 and continued throughout FY2017 with a focus on gap analysis and instrument design. This work included an in-depth gap analysis of existing risk mitigation instruments and concluded with a proposal on instruments that could be offered by the DFW. Interviews with more than 30 bankers, institutional investors, rating agencies and project sponsors confirmed that the DFW’s proposed instruments would fill gaps in the existing suite of available risk mitigation instruments. The proposed instruments were presented to the Advisory Partners at the last Advisory Council meeting in October 2016.

STATUS UPDATE

The recommended instruments (described in the box below) are considered as indicative and an example of the instruments that would deploy the core principles of the DFW. Since the last Advisory Council meeting, the GIF Management Unit has continued to work on the improvement of the instrument design by taking into account the feedback from our Advisory Partners. A new instrument, the Foreign Exchange Liquidity Facility has been added to address foreign exchange risk facing many infrastructure projects in EMDEs (see below and Annex for more detailed description). These indicative instruments are mostly based on a first-loss approach and backstopping the provision of financial products or risk taken by one of the DFW Technical Partners. Each instrument would be flexible or creative in its form of provision, in accordance with the needs of a specific project. In particular, the instruments will address the risks identified in the gap analysis, including the payment risk of state-owned enterprises, regulatory risk, foreign exchange risk and construction risk as well as the constraints faced by commercial banks in providing long-term finance.

Due diligence on, and a comparative analysis of, possible legal structures for the DFW were also conducted. It is planned that the DFW will initially be set up as a facility supported by a trust fund established at the World Bank in the form of a financial intermediary fund (FIF) and managed by the WB as a trustee in order to effectively utilize the capacity and expertise of the WBG. The DFW trust fund will seek financial contributions from sovereign entities and other types of contributors, such as DFIs, acceptable to the World Bank.

A FIF is a well- established structure with a clear operating model. It is envisaged that the DFW will work through the DFW Technical Partners for the initial start-up period which will front the DFW instruments on its behalf. The DFW Technical Partners could be a different partnership with one or more selected institutions that currently provide credit enhancement instruments for EMDE infrastructure projects. The selection and accreditation process of the DFW Technical Partners will be articulated during the consultation.

BOX: SUMMARY OF THE DFW PROPOSED INSTRUMENTS

- 1. The Capital Market Catalytic Facility** aims to bring in more investable opportunities to international and local institutional investors by addressing various bottleneck risks for institutional investors such as construction risks, regulatory risk, and foreign exchange risk. It will provide first loss cover for TPs that provide contingent subordinated guarantees for capital markets issues denominated in local currency, US dollars or other hard currency. Interviews with investors and rating agencies indicated that institutional investors will require local currency issues generally to have an "AA-" national scale rating and US dollar issues to have an investment-grade foreign currency rating. The EIB Project Bond Initiative provides a successful example of a similar type of guarantee being used to enhance the ratings of the securities issued by infrastructure projects to a level that is attractive to institutional investors. The average guarantee provided by a TP is expected to be up to 40% of the amount of the issue, with GIF in a first loss position for 50% of the amount of the guarantee (i.e. GIF exposure will typically be up to 20% of the issue). Target countries will be limited to countries with sovereign debt ratings in the "BB" range. The Facility will be exposed to all project risks and is therefore intended to be comprehensive in nature; however, due diligence by the TP, GIF's staff, and, potentially, the rating agencies can help mitigate the risks.
- 2. The Counterparty Risk Cover Facility** will help make more SOEs (utilities and off-takers) in EMDEs become bankable for investors and lenders. It will provide first loss cover for TPs that guarantee project debt service against the risk of non-payment or late payment by SOEs (typically through a liquidity facility plus a portion of termination payment cover) without an explicit sovereign counter guarantee. Counterparty credit risk was identified as the greatest impediment to financing EMDE infrastructure projects, with lenders indicating that concern regarding the ability of SOEs to make payments on a timely basis is a problem in most below investment-grade countries. This facility could also be used to complement MIGA's breach of contract or non-honoring coverage. The guarantee is intended as a two-year liquidity facility that will be repaid by the project, if it continues to operate, or from a termination payment, if it does not. The amount to be repaid will be the US dollar value of the amount advanced by GIF and its TP.
- 3. The Contingent Refinancing Facility** intends to address regulatory constraints and heavy capital charges facing many commercial banks that limit their ability to provide long term loans to infrastructure projects. It will provide a conditional refinancing option for short-term bank loans that provide construction and mini-perm financing for infrastructure projects. Private lenders that wish GIF and its TP to acquire their project loan may do so only if the loan is not in default and has an adequate debt service coverage ratio. If required to purchase a project loan, the GIF would acquire a good asset that finances a project with no construction risk and a proven track-record. The Contingent Refinancing Facility is likely to be required to purchase a project loan only if the local bank market experiences a disruption that leads banks to seek greater liquidity by avoiding medium-term assets, such as the five-year loan that initially funded the project. If the GIF and its TP purchase a loan, the project will be responsible for repaying the US dollar value of the amount advanced by the Contingent Refinancing Facility. Repayment will come from refinancing the loan in the local bank or capital market and/or from debt service payments made by the project during the period when the loan is held by the Facility.
- 4. The Foreign Exchange Liquidity Facility** provides a contingent loan facility that may be drawn upon to prevent a project from defaulting on US dollar-denominated debt because the US dollar value of its local currency revenues has been reduced as a result of a devaluation of the host country's currency. The facility is based on assuming that the economic concept of purchasing power parity is reasonably accurate if taken on an average basis over the medium-to-long run, which implies that real exchange rates exhibit substantially less volatility than nominal exchange rates. This volatility can be managed by an appropriately sized liquidity facility, which can be drawn upon to cover temporary cash flow shortfalls resulting from exchange rate movements. Application of this structure to mitigate exchange rate risk in a project financing requires the project's revenues to be indexed to inflation in the project's host country. With project revenues and cash flow available for debt service denominated in local currency and converted into US dollars on a regularly-scheduled basis at the then-current nominal exchange rate, the resulting stream of US dollars will track changes in the real (bilateral) exchange rate. If devaluation should reduce the value of the host-country's currency to a level at which the project is unable to meet its scheduled debt service payments, the foreign exchange liquidity facility may be drawn upon to provide the cash necessary to cover the shortfall. Repayments to the foreign exchange liquidity facility will be made whenever the project has surplus cash after paying its operating expenses and debt service.

NEXT STEPS

A draft business plan of the DFW based on its preparatory work was completed and internal and external consultations began in early 2017. It is expected that the business plan will be completed by the end of FY2017. Going forward in FY2018, the MU will embark on wider donor consultations, and the operationalization of the DFW. Creating a new window under the GIF would likely require modification of the current partnership agreement and results framework, and a new set of operating guidelines and agreements with the DFW Technical Partners, in accordance with the DFW's own policy, strategy and governance structure, will be needed. Operationalization of a new window and fund-raising target is to be completed by the end of FY2018, and it is envisioned that the facility will become operational in FY2019.

ANNEX: FOREIGN EXCHANGE LIQUIDITY FACILITY

A foreign exchange liquidity facility is based on the idea that the economic concept of purchasing power parity is reasonably accurate if taken on an average basis over the medium-to-long run. (Purchasing power parity holds when the exchange rate between local currency and the US dollar adjusts so as to compensate exactly for the difference between the rate of inflation in the host country and in the United States.) This implies that real exchange rates (i.e., where inflation and the nominal exchange rate are both taken into account in determining the relative value of two currencies) exhibit substantially less volatility than nominal exchange rates. This volatility can be managed by an appropriately sized liquidity facility, which can be drawn upon to cover temporary cash flow shortfalls resulting from exchange rate movements.

Application of this structure to mitigate exchange rate risk in a project financing requires the project's revenues to be indexed to inflation in the project's host country. With project revenues (and cash flow available for debt service) denominated in local currency and converted into US dollars on a regularly-scheduled basis at the then-current nominal exchange rate, the resulting stream of US dollars will track changes in the real (bilateral) exchange rate. The project's foreign exchange risk can be quantified based on (1) the historical volatility of the host country's real exchange rate and (2) the project's debt service coverage ratio (calculated based on the assumption that purchasing power parity holds throughout the term of the project's debt financing).

If devaluation should reduce the value of the host-country's currency to a level at which the project is unable to meet its scheduled debt service payments, the foreign exchange liquidity facility may be drawn upon to provide the cash necessary to cover the shortfall. Repayments to the foreign exchange liquidity facility will be made whenever the project has surplus cash after paying its operating expenses and debt service. Historical evidence for most countries indicates that in the short to medium term, the real exchange rate will recover, either as a result of increases in inflation that are not reflected in a corresponding devaluation of the host-country's currency or as a result of a recovery of the host-country's nominal exchange rate.

In power projects for example, indexation of power prices to the inflation rate of the host country also dramatically reduces the motivation for default or renegotiation by the power purchaser. Although devaluation typically raises the local inflation rate, electric power price increases will not exceed this rate and should be able to be passed through to consumers because they will rise at a rate no faster than the other items in the consumer's budget.

Should a draw under a foreign exchange liquidity facility be necessary to pay debt service, the project's debt service reserve would initially be utilized to make this payment, with the draw upon the foreign exchange liquidity facility being used to replenish the debt service reserve account. The foreign exchange liquidity facility will be structured as a revolver, with repayment based on a cash sweep rather than an amortization schedule. Draws from the liquidity facility will be repaid with cash which would otherwise be available for distribution to the project's sponsor(s). Payments of interest and principal will be subordinated to payment of the project's senior debt service; however, amounts owed to the foreign exchange liquidity facility may rank *pari passu* with senior debt in liquidation.

The foreign exchange liquidity facility is designed to cover only debt service shortfalls resulting from adverse exchange rate movements and not from counterparty defaults or project operational problems. Cash available for debt service is determined by a pro forma calculation which insulates the provider of the foreign exchange liquidity facility from project operating risk by virtue of its assumption that the project's revenues and expenses meet their original projections.

The foreign exchange liquidity facility should be priced as a standby facility. Draws upon the facility should be priced as subordinated debt, with a spread equal to the spread on the project's senior debt, plus an appropriate increment to reflect the fact of subordination.



PROPOSED GIF PROJECT ASSESSMENT TOOL

BY
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OVERVIEW

The Global Infrastructure Facility (GIF) is currently developing a Project Assessment Tool (working title – Project Readiness Scorecard) for governments in EMDEs. Specifically, the aim of the tool is to provide a rapid third-party assessment, using a standard methodology, on the quality and completeness of a project's preparation and recommend a subsequent set of actions to improve the preparation so that it meets the expectations of investors and bidders. The set of actions, could in turn form the basis of a work program to be funded by GIF and one of its Technical Partners (the MDBs) which consequently will help the project ultimately reach financial closure. The assessment itself could also be made available to prospective bidders and financiers for a project to provide an important signal to the market that the project has undergone third-party scrutiny and review using a recognized assessment methodology.

This new tool, once operationalized would effectively become a new access-point for GIF for EMDE governments. Currently governments typically access GIF alongside one of the GIF's MDB Technical Partners at the early stages of project preparation. However, the project assessment tool will increase access to governments who have hitherto not involved the MDBs in the preparation of the project. In this sense, the tool will not only encourage third party quality control and scrutiny but will also act as an enabler for greater ongoing MDB participation in the preparation of the project, which the market consistently sees as a positive.

The tool will be managed by the GIF Management Unit and once launched will be requested by EMDE governments on the GIF website. The assessments themselves will be overseen either by the GIF's MDB Technical Partners or by the Management Unit itself, with a preference for the former. In order to qualify for the assessment, a project will need to be loaded onto the SOURCE global project preparation software. Using algorithms (currently being developed with GIF), SOURCE will be able to screen the project to assess whether it is sufficiently advanced in its preparation to warrant an assessment and will establish what kind of assessment will be required (i.e. Stage 1: Early Stage assessment or Stage 2: Advanced Stage Assessment). This interface with SOURCE will also ensure that project data can be generated for the assessments in a consistent way.

PROGRESS AND DEVELOPMENT TIMELINE

The following bullet points summarize the development timeline for the tool:

- Development of Concept Paper (The Case for a GIF Project Assessment Tool): **Completed October 2016**
- Tool Process Statement (see annex): **Completed March 2017**
- Draft Assessment Methodology and Handbook: **May 2017**
- Draft Business Plan and Risk Management Strategy: **June 2017**
- WBG Internal Consultation and Approval Process: **July 2017**
- Piloting of tool in 3-4 projects and continuous improvement: **July-October 2017**
- Operationalization of tool (GIF website development, hiring of framework consultants): **October-December 2017**
- Full launch of tool: **January 2018**

ANNEX: PROJECT ASSESSMENT TOOL: PROCESS STATEMENT

Note: This paper refers to the following documents:

1. *Initial Request Form* – to request an assessment. See draft in Annex A;
2. *Screening Questionnaire* – to screen initial project submissions;
3. *PRS Assessment Questionnaire* – full set of questions covering the six Project Components;
4. *PRS Assessment Pack*, comprising
 - *the Handbook* – guidance to Assessors on consistently applying the scoring system to the information received through the PRS Assessment Questionnaire;
 - *Report* – template for presenting results of PRS Assessment; and
 - *Action Plan* – template for setting out areas for further work based on the PRS Assessment.

Introduction

The GIF Management Unit (MU) is currently considering initiatives aimed at deepening and increasing the all-around quality and level of project preparedness in Emerging Markets and Developing Countries (EMDEs). The development of a 'Project Readiness Scorecard' (PRS) tool is an important initiative in this regard. The proposed PRS tool will independently assess the adequacy and quality of preparation of individual projects. By doing so it will support government decision-makers in attracting private sector financing for infrastructure projects by identifying and highlighting projects that have been prepared in a robust manner from an investor's view point; in addition it will encourage governments to pursue continuous improvement in their preparation of projects.

This paper outlines the process for application of the PRS tool. It is structured to cover:

- Section 2 provides a process overview, outlining the key steps and the roles of the various parties in undertaking the PRS Assessment;
- Section 3 describes the staged approach to implementing the PRS tool reflecting the level of information likely to be available; and
- Section 3 sets out key elements of the scoring system which will underpin the assessment.

The names of various pro-forma documents have been underlined when first used for ease of reference.

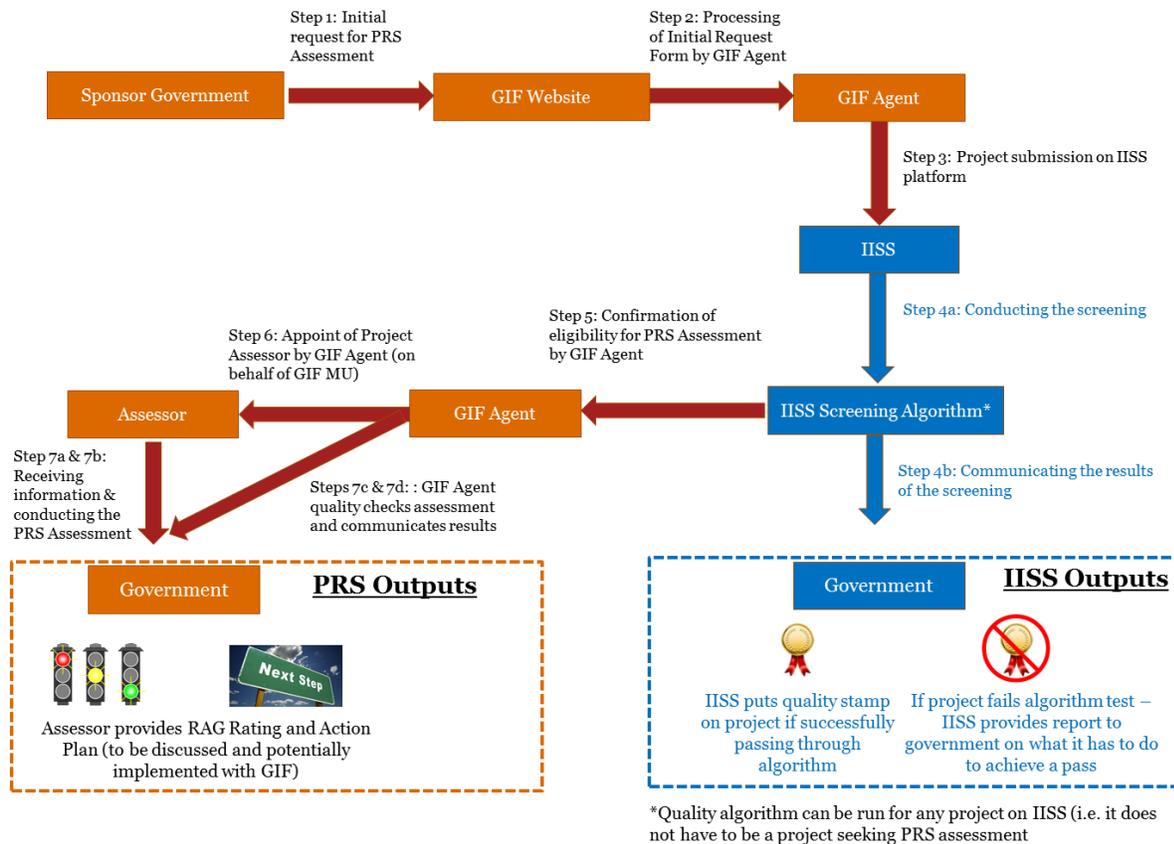
Process Overview

The PRS Assessment process will comprise of the following steps:

1. **Initial Request for PRS Assessment (Step 1):** Sponsor Governments (SG) will directly request GIF for the PRS assessment, either through the GIF website or through other communications with the GIF MU. They will be asked to complete an Initial Request Form covering
 - a. The nature and status of the project;
 - b. The SG's rationale for requesting the assessment;
 - c. If applicable, the SG's views on whether a Stage 1 or Stage 2 assessment is required; and
 - d. Confirmation that they are comfortable submitting Project information on the SOURCE platform for assessment.

A sample form is included in Annex A of this paper.

2. **Processing of Initial Request Form (Step 2):** The Initial Request Form will be processed by the GIF Agent ('the Agent'). It will issue clarification questions if the information provided is inadequate. Based on the information provided it will determine whether the project requires a Stage 1 or Stage 2 assessment.
3. **Project submission on the SOURCE platform (Step 3):** The Agent will request SG to submit their Projects on the SOURCE platform by responding to the Screening Questionnaire. In case a SG expresses reservations about the use of the SOURCE platform (e.g., for data security or other reasons), GIF may offer them the alternative of submitting responses to the Screening Questionnaire using an alternative platform / via e-mail.
4. **Screening (Step 4):**
 - a. **Conducting the screening (Step 4a):** SG responses to the Screening Questionnaire will be screened by SOURCE to assess whether there is likely to be enough information available to conduct the PRS Assessment. If GIF offers an SG the alternative route, then the screening will then be undertaken the Agent using the same methodology as SOURCE.



PRS Assessment: A staged approach

While there is considerable divergence between the nature of PPP projects in different geographies and sectors, the lifecycle of an infrastructure project can broadly be broken down into six phases. The table below sets out these phases, key elements that characterize the phase and the type/level of information that can realistically be provided by SG.

In the table below shading indicates the project phases where the assessment may be carried out¹.

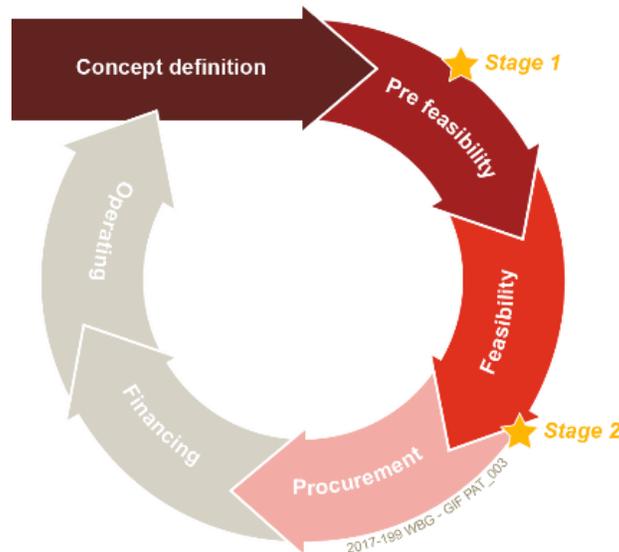
Project Phase	Characteristics	Considerations on data availability
1. Concept Definition	<ul style="list-style-type: none"> Typically where a problem has been clearly identified and articulated. The SG is clear that investment is needed to fix a particular problem and has identified and considered conceptual solutions to the problem. 	<ul style="list-style-type: none"> At this stage, there should be clear evidence of the issue and some initial filtering of options, consideration of constraints – regulatory, economic, financial, political etc. It is unlikely that many in-depth studies would have been carried out, though some initial costing estimates should be available as well as potential site identification. Ideally, there should also be some clear supply/demand studies which demonstrate a clear need for the project.

¹ In some cases projects may stall at procurement stage and approach GIF for assistance before returning to the market. By doing so they would effectively be returning to the pre-procurement phase.

Project Phase	Characteristics	Considerations on data availability
2. Pre-feasibility	<ul style="list-style-type: none"> Typically where governments have started looking more seriously at the solutions available to address the problem identified. 	<ul style="list-style-type: none"> At this stage there should be some information to determine the technical and economic viability of the project.
3. Feasibility	<ul style="list-style-type: none"> Typically where a number of options to deliver the project are being assessed in detail. 	<ul style="list-style-type: none"> At this stage there should be technical studies (engineering, design, geological, cost) available to support a comparative assessment of the merits of various options. In addition, the various procurement options available to government should have been considered in some detail and a preferred procurement route identified.
4. Procurement	<ul style="list-style-type: none"> Should only be considered when (a) the steps above have been completed and a preferred option/solution to deliver the expected benefits has been identified; and (b) a clear and transparent procurement methodology exists and appropriate procurement documents have been drafted. 	<ul style="list-style-type: none"> Depending on the procurement route selected, pre-qualification (if appropriate) and competitive bidding documentation should be available prior to launching the process. The Request for Proposals (RFP) should typically include the following: <ul style="list-style-type: none"> Description of the key features of the project and the commercial terms of the PPP; Draft project contract; Copies of any permits or approvals; A description of the detailed technical information amassed during the project preparation stage provided to bidders in a data room; Detailed bid rules and instructions, including a timetable and how and to what extent bidders can interact with government; Evaluation criteria; and Bid bond requirements (if any).
5. Financing	<ul style="list-style-type: none"> The financing structure of a PPP would typically comprise senior debt and equity, and perhaps grant funding in some cases. In many cases, projects in EMDEs are financed after a procurement process has been completed and a contract has been signed. This is not good practice necessarily and GIF may wish to steer SG towards including financing in the procurement stage. 	<ul style="list-style-type: none"> n/a as tool applied pre-procurement
6. Operating	<ul style="list-style-type: none"> The point at which the construction of the project has been successfully completed, acceptance tests have been carried out to the satisfaction of the government and services 	<ul style="list-style-type: none"> n/a as tool applied pre-procurement

Project Phase	Characteristics	Considerations on data availability
	have started to be delivered in accordance with the contract.	

The PRS Assessment will be undertaken at two stages – (a) during pre-feasibility and (b) prior to launch of procurement as set out in the diagram overleaf. SG may submit their projects at any stage in the lifecycle using the Initial Request Form and the GIF Agent will use the information provided to determine whether the Project is appropriate for a Stage 1 or Stage 2 assessment.



Based on the data availability considerations outlined above, the PRS Assessment Questionnaire will contain specific questions tailored to the range of studies that should be available at each stage of the lifecycle. Specifically, while the Questionnaire for both stages will be structured to cover the same key Project Components, the PRS Questionnaire for Stage 1 will be more high-level than Stage 2 due to the limited information available at pre-feasibility stage. Relatedly, the Stage 1 assessment methodology in the Handbook will focus on determining whether a number of steps have been completed through a combination of interviews as well as review of the adequacy of documents. In comparison, a Stage 2 assessment will place more emphasis on technical assessment of project materials, including face to face interviews with key project champions/sponsors and stakeholders.

Scoring system

The Handbook will set out the detailed methodology, including the scoring system, for conducting the assessment at both stages. The key elements of the scoring system are as below:

- The scoring system will be clear and transparent with appropriate guidance to ensure consistency in application across projects and by different Project Assessors;
- Both Stage 1 and 2 assessments will be structured to cover the agreed Project Components. The Project Components will have a common weighting. The weighting of each Project Component is set out in the table below:

Project Component	Weighting (%)
Technical Solution	[15]
Affordability	[25]
Governance	[25]
Commercial Structure	[15]
Regulatory Environment	[15]
Social Environmental	[5]
Total	100

- Each Component will contain criteria and sub-criteria. While the criteria will be common across Stage 1 and 2, the sub-criteria [may] vary.
- The score for each criteria will be calculated using the formula: $C1 = (SC1 * x) + (SC2 * y) + \dots (SCn * z)$, where $SC1 + SC2 + \dots + SCn = 100\%$ (C: Criteria, SC: Sub-criteria, x/y.../n: Assessor score)
- The score for each Project Component will be calculated using the formula: $PC1 = C1 + C2 + \dots + Cn$, where $C1 + C2 + \dots + Cn = 100\%$ (PC: Project Component, C: Criteria,)

CONCLUSION

This draft process statement and scoring system paper has outlined the process for application of the PRS Tool. While it aims to create a standardised approach and tool, it is likely that a degree of judgement from experienced Assessors will always be required in its application.



Annex A: Draft Initial Request Form

[DN. Form below to be accompanied by guidance on key terms – namely, Stage 1, Stage 2 and SOURCE]

GIF PRS Assessment

Form 1: Initial Request Form

Name of Sponsor Government (SG): []

Name of Project: []

Sector: []

Location: []

Outline description of Project (maximum 250 words): []

Section A: Project status

1. Has the strategic rationale for the project been identified and is this available for assessment: Yes/No/ Not sure

Details (max 250 words): _____

2. Is a national infrastructure plan in place? If so, is this project included within it? Yes/No/ Not sure

Details (max 250 words): _____

3. Are the indicative costs of the project known and available for assessment: Yes / No/ Not sure

Details (max 250 words): _____

4. Has the project been discussed with providers of private finance? Yes / No / Not sure

Details (max 250 words): _____

5. Has the project been discussed with any multi-lateral development banks: Yes / No / Not sure

Details (max 250 words): _____

6. Does the SG have a view on whether a Stage 1 or Stage 2 assessment is required at this stage? Stage 1/ Stage 2/ Not sure

Details (max 250 words): _____

Section B: Rationale for assessment

7. Why has the SG chosen to request a PRS assessment through GIF?

Details (max 250 words): _____

Section C: Confirmation

8. Please confirm that you are comfortable submitting Project information on the SOURCE platform for assessment? Yes /No / Not sure

Details (max 250 words): _____

PROPOSED EMERGING MARKETS INFRASTRUCTURE DEBT INDEX

BY
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OVERVIEW

Since June, 2016, the World Bank Treasury has been working with Morningstar (a Chicago-based investment research, financial information and index company) to establish an Emerging Markets (EM) Infrastructure Debt index. The goal for the index is to mobilize funds from institutional investors to meet the growing infrastructure financing needs in EM countries by providing investors with a tool to benchmark their infrastructure investments. While there are a few existing indices of this type, they are composed of a very small number of bonds, many of which are not sufficiently liquid for the Index to be fully investable. Therefore, we believe there is a market need and opportunity for a new index.

Before beginning work with Morningstar, Treasury consulted with a wide range of market counterparts, including other index providers (such as S&P Dow Jones and FTSE Russell), banks (such as JP Morgan and Citibank) and infrastructure investors (such as Macquarie Asset Management) to understand the type of index that would be most valuable for the market, as well as the right partner to work with on this initiative. Morningstar was ultimately selected because of its strong desire to develop such an index as well as its experience with related indices focused on EM corporate bonds and EM infrastructure equities.

The World Bank Treasury has no formal, legal relationship with Morningstar, which is developing the index at its own expense as a new addition to its existing suite of indices. The Bank's role, since giving Morningstar the idea to launch the Index, has been to highlight the index to investors.

STATUS UPDATE

After various rounds of discussion with Morningstar and some investor feedback, Morningstar's proposed criteria for the Index include the following:

- (1) The Index constructed from a daily portfolio history and daily pricing. The constituents are rebalanced monthly.
- (2) It is a sub-index and sub-portfolio of the multi-currency Morningstar Global Bond Infrastructure Index.
- (3) Corporate and quasi-sovereign bonds of issuers domiciled in EM countries (countries on Morningstar List of Eligible Emerging Market Countries).
- (4) Issuers involved in the following sectors or industries – energy, utilities, transportation, engineering and construction, communications and social infrastructure (education and medical care).
- (5) Fixed-rate bond denominated in AUD, CAD, CHF, GBP, EUR and USD only. Currently in the bonds fitting the criteria are denominated in only AUD, CHF, EUR and USD.
- (6) Minimum 300 million face amount outstanding of the issue for EUR and USD, and 250 million for AUD, CAD, CHF and GBP in local currency; and remaining term of at least 13 months.
- (7) Must have at least one rating from Moody's or S&P equal to Baa3/BBB- or better.
- (8) Senior debt only – no subordinated issues.

Morningstar is currently selecting a new calculation agent through a Request for Proposals for all of its indices. The EM Infrastructure Debt Index is on its priority list, being one of the first that will be transferred to the new agent. **Expected time of the launching: 3rd quarter 2017.**

NEXT STEPS

In the coming months Treasury will continue consultations with potential investors and dealers about the index, while also keeping an eye on the performance of the index *vis a vis* other comparable indices. Treasury will also support Morningstar's efforts to fine-tune the launching of the index.



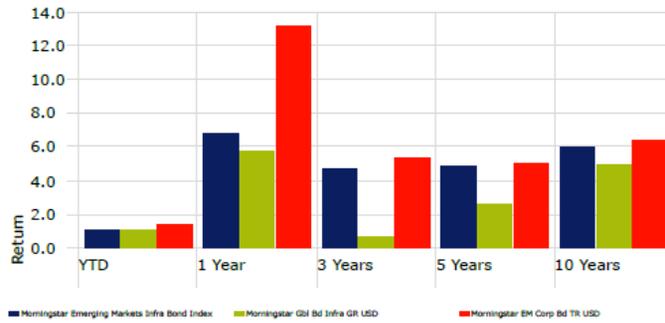
MORNINGSTAR EMERGING MARKET INFRASTRUCTURE BOND INDEX Index Performance

Return-Risk

Time Period: 1/1/2004 to 1/31/2017 Calculation Benchmark: Morningstar EM Corp Bd TR USD

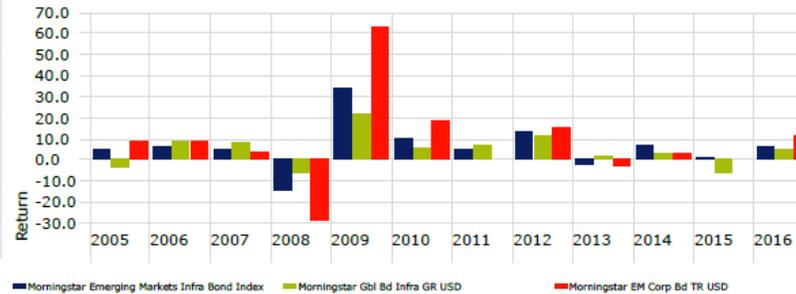
	Return	Std Dev	Excess Return	Information Ratio (arith)	Sharpe Ratio	Alpha	Max Drawdown	Tracking Error
Morningstar Emerging Markets Infra Bond Index	5.91	6.79	-1.33	-0.24	0.69	1.12	-21.07	5.63
Morningstar Gbl Bd Infra GR USD	5.09	7.17	-2.14	-0.29	0.55	0.89	-17.27	7.52
Morningstar EM Corp Bd TR USD	7.24	10.96	0.00		0.58	0.00	-35.21	0.00

Trailing Returns



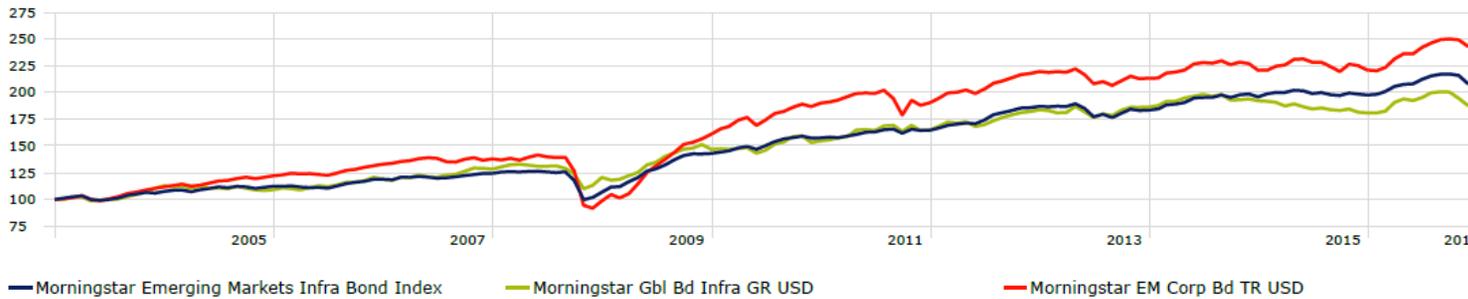
Calendar Returns

Calculation Benchmark: Morningstar EM Corp Bd TR USD



Investment Growth

Time Period: 1/1/2004 to 1/31/2017



Source: Morningstar Direct

PROPOSED INFRASTRUCTURE LOAN REFINANCING FACILITY

BY
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OVERVIEW

In the current environment of significant infrastructure needs in the emerging markets and limited financial resources at the Development Finance Institutions, including the IBRD, the World Bank is in the process of developing a platform to refinance outstanding IBRD loans, the Infrastructure Loan Refinancing Facility (ILRF), in order to create investment opportunities for private sector institutional investors as well as to free-up lending headroom for the IBRD.

STATUS UPDATE

Since the last Advisory Council meeting, internal World Bank consultations were conducted. The project team reviewed the feedback received through the consultation process and began preparing the business plan for the initial ILRF structure.

The ILRF aims to crowd-in private sector investors, such as pension funds, sovereign wealth funds and insurance companies, seeking long-term investment opportunities in emerging markets in the post-construction phase.

Set up as a special purpose vehicle, the ILRF will refinance selected outstanding IBRD loans and issue two-tranches of instruments, an **Investment Tranche** (senior tranche) that would benefit from priority access to all loan cash flows and market-clearing yields, and a **Donor Tranche** (first loss tranche) that would help de-risk and provide yield enhancement to the Investment Tranche. The Investment Tranche, which will be structured to obtain investment grade credit rating (currently envisaged at BBB) will provide a risk/return profile commensurate with USD emerging markets bonds of the same credit-rating.

In its initial iteration, the pool of assets that could be refinanced through the ILRF includes outstanding IBRD loans in USD to State Owned Enterprises in the infrastructure sector, including energy, transport and water sectors, with a notional of up to \$4 billion, and an additional pipeline of up to \$5 billion.

Subsequent iterations could include a broader range of assets, including infrastructure loans on-lent by governments to SOEs, loans structured at project preparation stage with credit enhancement features and refinancing clauses, etc., which could further facilitate such private investments on more commercial terms.

The ILRF is envisaged as the first step in a broader paradigm shift for the IBRD in how it combines World Bank, donor and private capital to finance infrastructure projects.

NEXT STEPS

In May 2017, the Bank will launch the "Proof of Concept" of the project, to engage with donors, investors, governments and their State-Owned Enterprises, by means of a non-deal roadshow, to familiarize stakeholders with the concept, and to confirm their interest. The "Proof of Concept" phase will be completed within 6 months. Launching of the facility will be based on the team findings and recommendations.



About GIF

The GIF is a partnership of governments, multilateral development banks and private sector financiers that facilitates private sector investments in complex infrastructure projects in emerging economies. We serve as a platform through which governments collaborate with international financial institutions and private sector investors to design, structure and implement these complex projects.

The comprehensive project support provided by the GIF draws on the expertise of its advisory partners. This group, which includes commercial banks and institutional investors, ensures that well-structured and bankable infrastructure projects are brought to market in a way that meets the needs of governments and service users in a sustainable way.
