
Infrastructure Finance and Private Sector Participation: View from a Bilateral Financial Institution

Yasushi Sunouchi

Chief Representative in Washington, DC

Japan Bank for International Cooperation (JBIC)

Contents

1. Issue of Risk Allocation
2. Issue of Long-term Infrastructure Finance
3. Possible Roles of Multilateral & Bilateral Institutions

1. Issue of Risk Allocation

Private Sector Participation / PPP in Infrastructure Projects

- Strong demand for infrastructure investment
⇒ Growing trend of **private sector participations / public-private partnerships (PPPs)** in infrastructure projects.
- Debt Finance: active use of **Project Finance**.

< Definition of Project finance > (Basel Committee)

- ✓ Project finance (PF) is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure.

Issue of Risk Allocation: Recent Experiences

- Fitch Report (Y2013): **“Proper Risk Allocation Is Key.”**

⇒ But, excessive transfer of government-related risks to private sector was observed in recent cases.

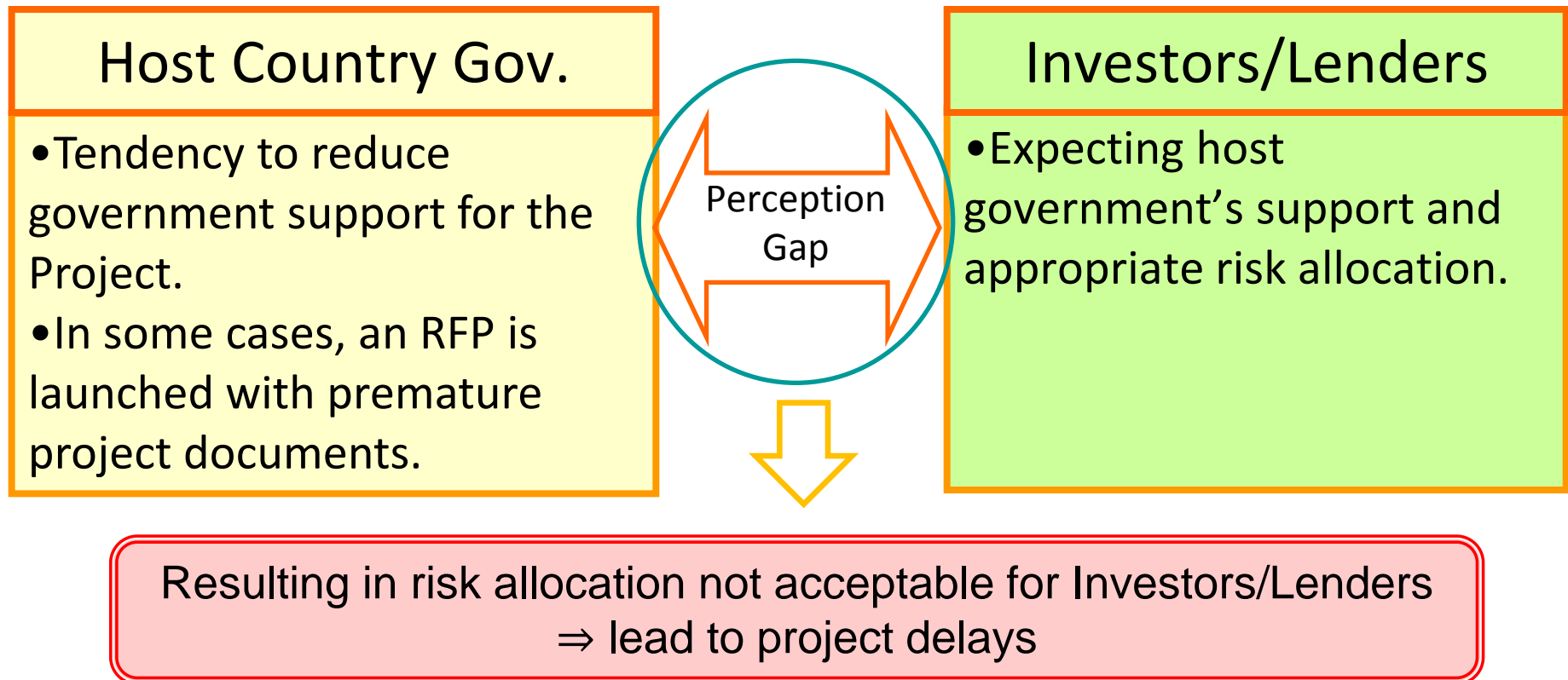
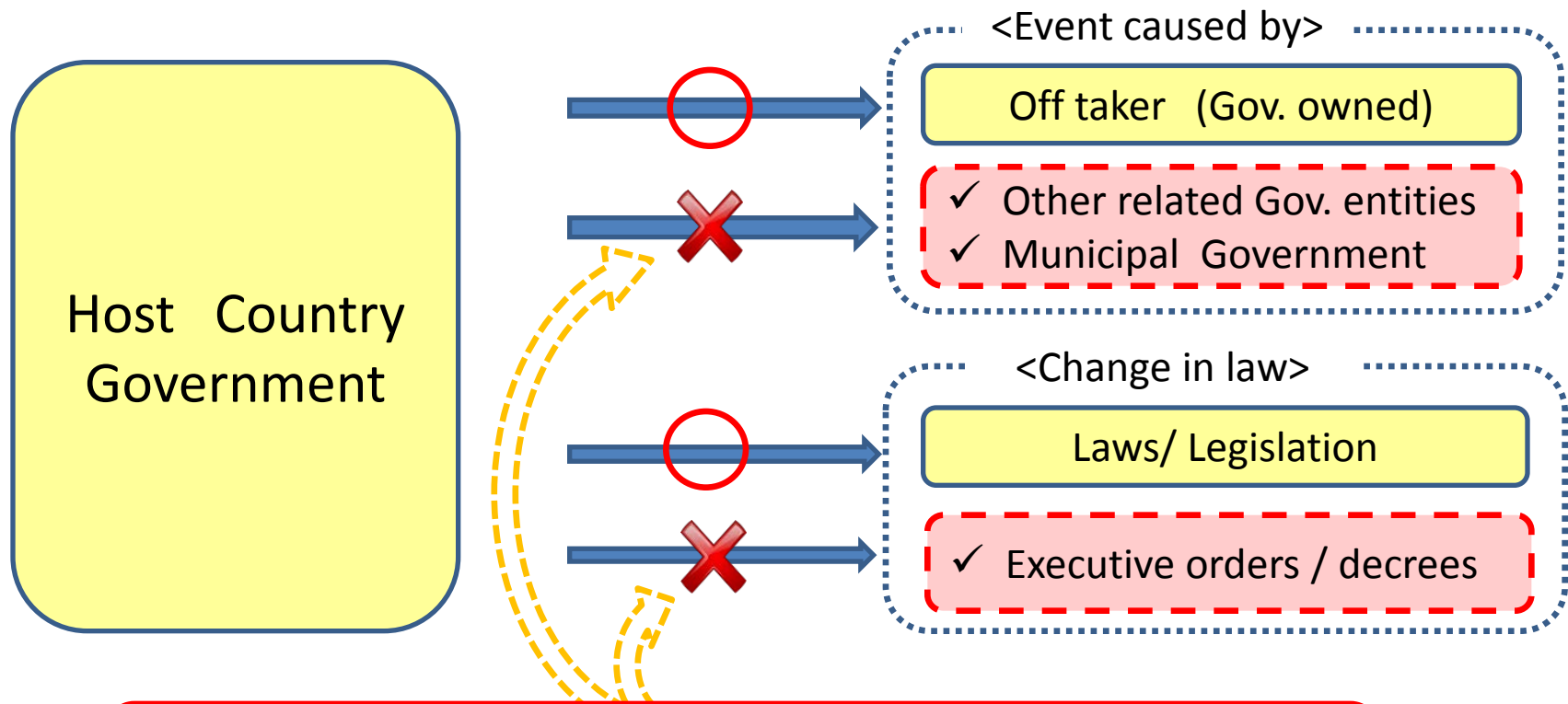


Illustration of risk allocation issue

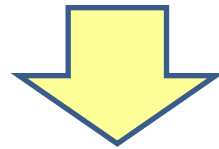
Limited scope of Government covered event



Investors/Lenders are not able to manage
= risk allocation not acceptable for Investors/Lenders

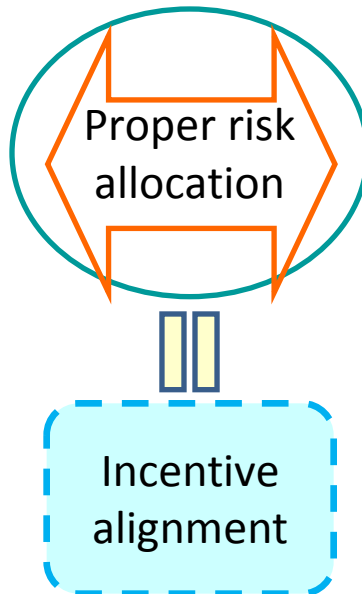
Proper Risk Allocation is Key

Risks should be allocated to the party that is in the best position to manage them.



Host Country Gov.

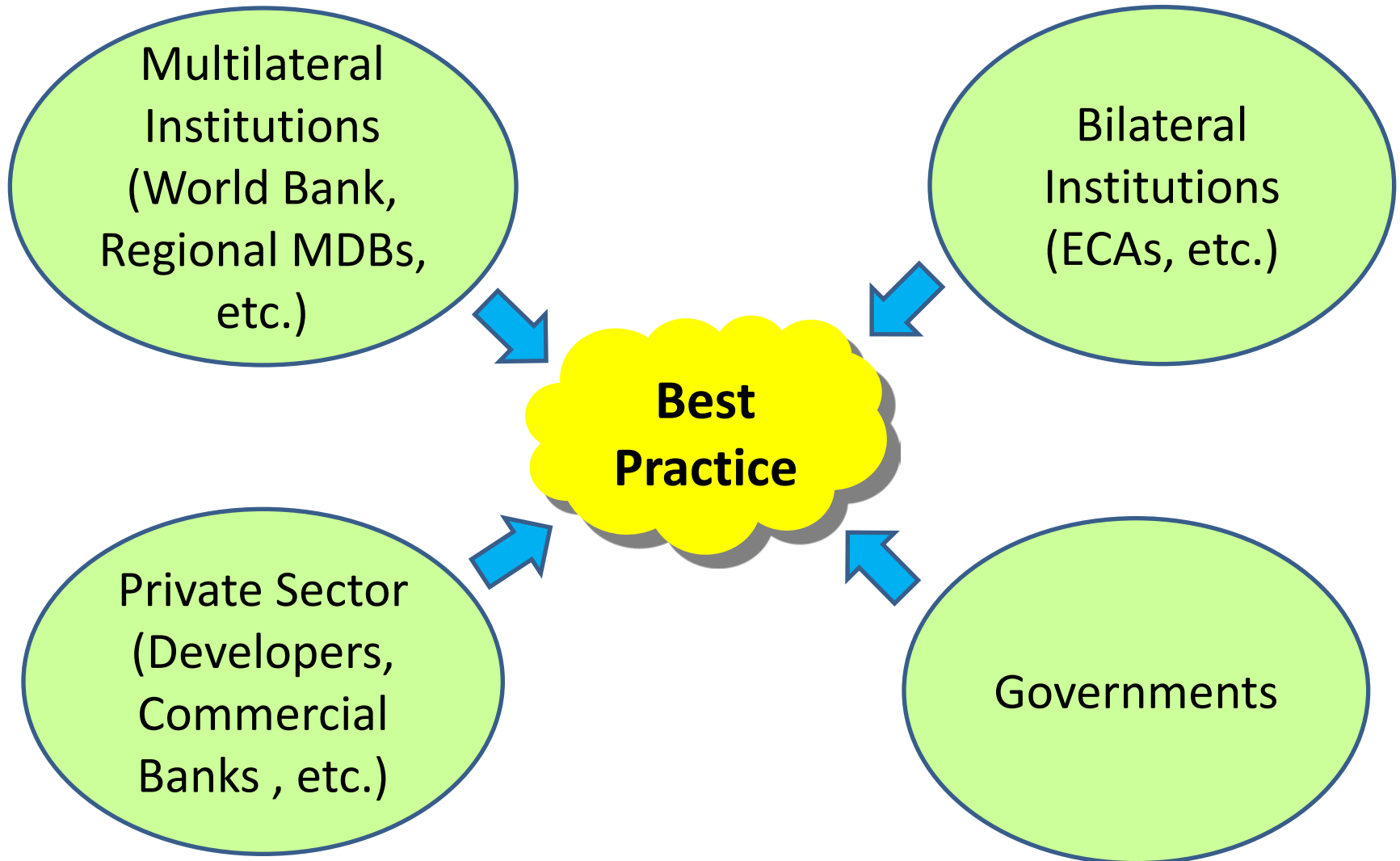
Risks related to country, political or government (incl. government owned entities) actions/events



Investors/Lenders

Risks related to construction, operation and maintenance of the project

Looking forward: Sharing Best Practice



2. Issue of Long-term Infrastructure Finance

Infrastructure: Need for Source of Long-term Finance

Strong demand for infrastructure investment
(A study estimates \$57trillion by 2030.)

Limitation on traditional banks' lending – especially long-term finance

Need for another source of long-term finance

Potential of Institutional Investors

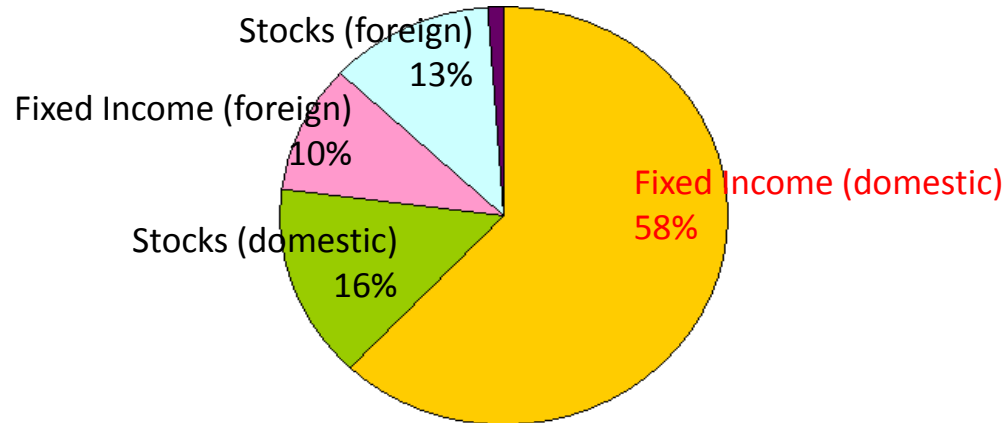
Institutional Investors in Japan

• Japanese Institutional Investors :

- Overweight in domestic fixed income, low allocation to alternative investments

< GPIF >

Total Asset :
JPY 124trillion
(as of Sep.2013)

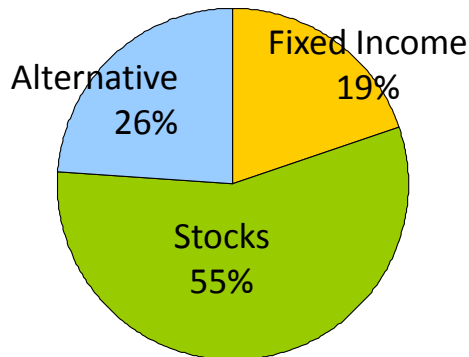


■ Overseas Institutional Investors :

- Stocks as main investments, positive attitude toward alternative investments

< CalPERS >

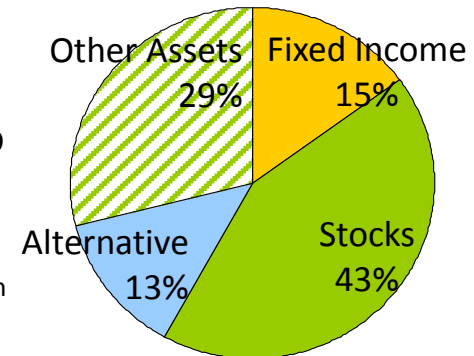
Total Asset :
USD 277billion
(as of Oct.2013)



< ADIA >

Total Asset : USD
627 billion
(as of Dec.2012)

※ Minimum allocation
percentage for each
investment



Institutional Investors in Japan
: Overseas Infrastructure Investment (New Program)

Pension Fund Association
(PFA: Total Assets JPY
11trillion, as of Mar.2013)

**infrastructure investment
alliances with OMERS (in
2012)**

**Government Pension
Investment Fund (GPIF:
Total Assets JPY 124 trillion,
as of Sep.2013)**

**Co-investment framework
with OMERS to jointly
invest in infrastructure
assets. (in 2014)**

Latest policy by the Japanese Government

“Economic Measures for Realization of Virtuous Cycles (Dec. 2013)”

- ◆ Strengthening financial functions, and reviewing the management of public and semi-public funds
 - enhancement of financial functions, particularly through actively providing funds for growth areas
 - Promptly and steadily review the management of public and semi-public funds depending on each fund’s scale and nature
 - Strengthen financial functions of JBIC and NEXI and consider measures including securitization of loan assets in infrastructure projects in bearing investments by GPIF and other institutions in mind.

New Scheme for Collaboration with Institutional Investors (incl. pension funds)

JBIC

• Negotiation → Disbursement → Assignment after completion

“Infrastructure Project”

JBIC origination
(in early stage)



Partial participation by investors
(after project completion)



JBIC origination (next project)
(based on available funds
obtained from assignment)



3. Possible Roles of Multilateral & Bilateral Institutions

Possible Roles of Multilateral & Bilateral Institutions

Mobilizing long-term finance from private sector to infrastructure – Challenges remain

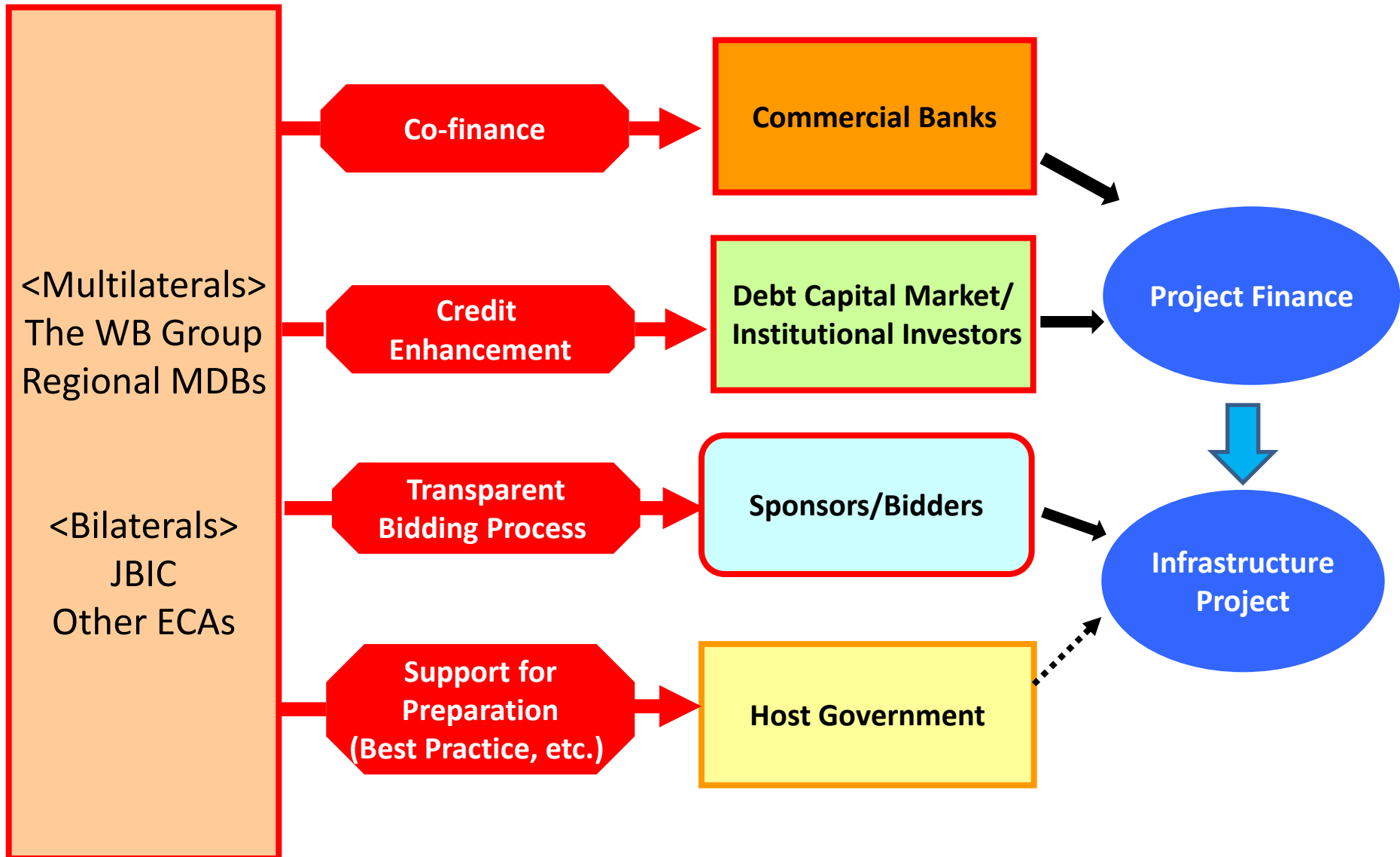
- ✓ Limitation of banks' lending capacity
- ✓ Institutional investors: still cautious about taking risks of (1) green field projects and (2) projects in emerging countries.



There are many areas where **Multilateral & Bilateral Institutions can play roles.**

- co-finance, credit enhancement, support for project preparation, etc.

Possible Roles of Multilateral & Bilateral Institutions



Thank you very much
for your attention!

The opinions shown in this presentation are solely of the presenter, and not necessarily represent JBIC's opinion.