

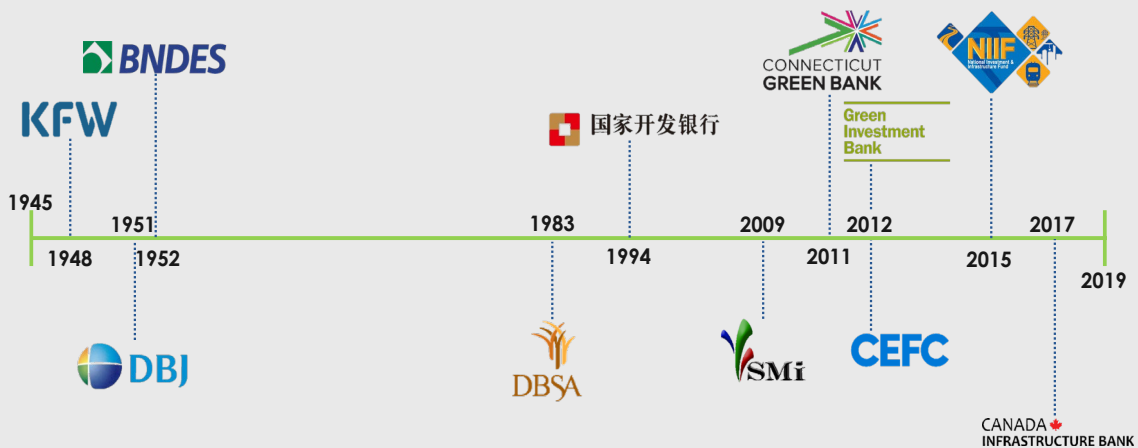


I. EXECUTIVE SUMMARY

OVERVIEW

This Guidance Note has been designed to assist governments interested in establishing, or reforming, a National Infrastructure Bank or a similar financing facility (NIB).¹

It brings together lessons learned from **an examination of a wide variety of existing NIBs in both emerging markets and high-income countries**, including institutions with an extensive history and those that have been established more recently. With an overall aim of helping to accelerate the flow of quality infrastructure projects, including through mobilising private capital and supporting project preparation, the analysis has sought to **identify some of the unique niches and roles that such institutions can occupy and play in support of government objectives and policies in these areas**. The building blocks for the analysis are a number of stand-alone case studies that explore different NIBs which have been established since 1945:



This Guidance Note synthesises the key observations and learnings based on the case studies, plus more limited reviews of other NIBs, in terms of their evolving role, approaches to capital raising, financial products offered and other activities. This summary provides an overview of the key findings.

¹ For the purposes of this report, the acronym NIB refers to institutions with a primary focus on infrastructure, national development banks, and financing facilities with a significant proportion of their portfolio focused on infrastructure financing.



EVOLVING NATURE OF NATIONAL INFRASTRUCTURE BANK MANDATES

NIBs have evolved to address the financing challenges faced in different policy contexts.

Noting the differing country and sector contexts in which NIBs have operated, their role has evolved considerably:

- **Long-term finance providers for public infrastructure:** The original mandate for NIBs was to raise capital efficiently to support the provision of public infrastructure, initially in the context of post-war reconstruction and subsequently, to support wider economic development. Key examples of such entities include Kreditanstalt für Wiederaufbau (KfW), which was established in 1948 with funds from the Marshall Plan, as well as the Development Bank of Japan (DBJ).
- **Mobilising private finance for infrastructure:** In later years, particularly in the 1990s, mobilising private finance became a key policy goal of many governments, and NIBs helped to facilitate this, with some governments adapting the mandate of existing institutions while others established new entities.
- **Support for renewables and the green economy:** In recent years, a number of institutions have been established with a more specific focus. For example, institutions such as the UK's Green Investment Bank (GIB) and the Clean Energy Finance Corporation (CEFC) in Australia were established post-2010 to support infrastructure projects in the areas of renewable energy and energy efficiency.





NATIONAL INFRASTRUCTURE BANKS AND CAPITAL RAISING

NIBs have raised capital efficiently as a result of government backing, but riskier portfolios of private financings require different structures and approaches.

Key findings with regards to capital raising include:

- Historically, **NIBs have been able to raise capital at low cost for on-lending to infrastructure**, because of significant government backing in terms of paid-in and callable capital, as well as explicit or implicit credit guarantees.
- While many governments still provide explicit guarantees on bond issuances, **some institutions have issued uncovered bonds, relying on their own credit ratings**. For example, the DBJ has done so as part of a move towards privatisation.
- **The China Development Bank (CDB) has engaged in secondary financing approaches by securitising some of its assets**, a key example of the market-making role that NIBs can play in capital markets.
- While **government-backed capital raising** allows NIBs to benefit from efficient financing costs, **such approaches are restricted by the host governments' own fiscal space – and can put taxpayers at risk**. Accordingly, NIBs have also sought to mobilise private finance for infrastructure, so as to reduce reliance on government support.
- **NIBs are in a unique position to offer local institutional investors a conduit through which to take investment risk on infrastructure assets**, either through investment in NIB bonds, or through equity funds managed by NIBs. In countries where capital markets are less developed, NIBs can play a key role in mobilising local currency financing for infrastructure.
- Raising funds through separate vehicles is a way in which **NIBs could raise more “at risk” capital**, which may be needed if NIBs are to take on more risk in order to catalyse private investment.
- In cases where **debt has not been explicitly guaranteed, ratings agencies often assume an implicit guarantee** from the host government. However, in such instances, it is unclear whether **bondholders or taxpayers are at risk in the event of a NIB default**.



FINANCING PRODUCTS

Financing products offered by NIBs have grown in sophistication, where, in addition to senior loans, subordinated debt and equity are also being offered, allowing NIBs to play a more catalytic role.

The extent to which NIBs have provided catalytic products has grown over time:

- Traditionally, NIBs provided long-term loans to central governments, municipalities and public utilities.
- While senior loans have been the principal product offered by NIBs in private financings, more recently, **emphasis has been placed on NIBs taking more risk by offering equity and subordinated loans.**
- **Subordinated loans can create strong incentives for both debt and equity providers**, as they provide an additional layer of protection to senior lenders while not diluting equity returns. Such products are attractive if the additional risk is not fully priced (that is, subsidised through dedicated public resources).

Other areas for catalysing finance that could be considered further by NIBs include:

- Rather than provide senior debt directly, **partial credit guarantees** can enable risks to be shared.
- Where subsidies are being deployed, **ensure that they are targeted at where they are most required.**
- Limit financial interventions to the phase of the project development cycle where it is most needed. Where all finance is being provided on a market, rather than concessional basis, this is typically during the **project development and construction phases**, with private capital (particularly institutional) being more widely available for operational assets.
- When it comes to mobilising private capital, NIBs **are uniquely positioned to offer long-term, local currency products.** This niche should be built on by NIBs in emerging markets, tapping into local capital markets.





NATIONAL INFRASTRUCTURE BANKS AND PIPELINE DEVELOPMENT

While financing has been the primary area of intervention for NIBs, governments are increasingly tasking them with a greater role in project pipeline development.

Although financing of infrastructure at financial close has been and remains the main focus area, NIBs have begun to play an increasingly important role in providing other support to infrastructure through their assistance in project preparation and development. Examples from the NIB case studies include:

- **The CDB has worked closely with sub-sovereign entities in China** where, in addition to financing, it has offered support to project development, including structuring and tendering projects.
- The recently-established **Canada Infrastructure Bank (CIB)** has been set up with a **specific mandate of building an inventory of infrastructure projects** for the Government of Canada.
- In Indonesia, **PT Sarana Multi Infrastruktur (PT SMI)** has provided both **upstream and downstream support to projects and is able to draw on ring-fenced resources** to support these activities.
- In most markets, a lack of finance is often less of a binding constraint than the lack of well-structured, bankable projects. As such, given their positioning as a public sector institution, as well as being a centre of expertise on infrastructure finance, **NIBs are potentially well-placed to alleviate project development bottlenecks.**



GOVERNANCE ARRANGEMENTS

Sound governance is important in ensuring NIBs do not crowd out private investment, are operated independently, and exercise due care when providing subsidies.

Adopting good practice in governance arrangements is crucial to ensuring the effective implementation of NIB activities. This also guards against negative behaviours such as institutional capture, cronyism, and corruption.

Specific elements of good governance include:

- **Focusing on additionality.** Only operate where the intervention is strictly required and avoid placing institutional self-perpetuation above this.
- **Operating within an agreed strategy and mandate.** The over-riding aim of maintaining additionality needs to be supported by clear corporate and policy objectives, together with operating policies which set out the parameters within which the NIB will operate.
- **Independent objective operational management.** Whilst government should set the organisation's objectives and mission, it should not be involved directly in day-to-day operations.
- **Exercising due care when providing subsidies.** In some contexts (e.g. the European Union (EU)), there are strict rules on the use of subsidies to avoid market distortions, while in others, there are not. As such, NIBs need to ensure any subsidies are used in a catalytic and impactful way.
- **Maintaining public confidence through transparency.** There will always be public interest in ensuring institutions operate transparently and are accountable. However, this can create tensions when NIBs need to keep commercially sensitive information confidential.





NATIONAL INFRASTRUCTURE BANKS AND GREEN FINANCE

NIBs have helped mobilise finance for green infrastructure, including issuing green bonds, establishing in-house expertise, and setting up investment funds.

Many governments have sought to support the development of the green economy, particularly in terms of support to renewable energy generation and energy efficiency.

Several of the case study NIBs have developed skills in renewables financing, with activities focusing on both taking a lead in greenfield financing as well as the refinancing of existing green portfolios through the issuance of green bonds. For example:

- **BNDES, the Brazilian Development Bank, has issued a USD 1 billion green bond**, and alternative technologies are one of its fastest growing infrastructure segments.
- The China Development Bank (CDB) recently issued a **CNY 25 billion (USD 3.7 billion) retail green bond** through commercial lenders, and **two quasi-sovereign green bonds** for its Belt and Road Initiative (BRI) projects.
- The **National Investment and Infrastructure Fund (NIIF)** in India has invested in the **Green Growth Equity Fund through its Fund of Funds** activities.

NIBs, particularly following the Paris Agreement, have been major contributors to the development of the **green bond market, which, as of 2018, amounted to USD 377 billion.**

In some countries, wholly new institutions, with a specific focus on green finance, have also been established, including the **GIB² in the UK** and the **CEFC in Australia**. Both institutions have been able to invest in a large portfolio of clean energy projects, to demonstrate the viability of such ventures and thereby crowd in private capital.

Common **success factors** have included **ensuring expertise can be built up in-house**; a clear **focus on emerging technologies** to demonstrate viability; flexibility to invest across the capital spectrum; and the **'halo effect'** that comes with NIB participation, due to market perceptions of accordance with government policy.

² In 2017, GIB was sold to Australia's Macquarie Group.



KEY LEARNINGS

Key learnings can be grouped according to country income level and whether they refer to new or existing institutions.

Although specific contexts can differ considerably, it is possible to identify high level groupings, within which key learnings can be drawn.

	High Income Countries	Emerging Markets
Existing Institutions	<ul style="list-style-type: none">• Exit sectors/areas where evidence of value-added is limited, including divestiture• Increase use of catalytic products such as subordinated loans• Internationalisation of activities	<ul style="list-style-type: none">• Focus on areas with greatest levels of additionality, including project development• Explore raising unguaranteed capital to support catalytic activities
New Institutions	<ul style="list-style-type: none">• Identify market gaps i.e. projects where attracting finance is most difficult• Provide funding from budget allocations to maximise risk-taking potential, including through products offered• Adopt market exit clauses in mandate	<ul style="list-style-type: none">• Look at potential to provide long-term local currency financing to projects• Increase support to project development

At the centre of these good practices is ensuring that **NIBs remain additional, with good governance and appropriate mandates to enable institutions to adapt to market needs.**

Areas to explore going forward include how **NIBs can support long-term, local currency financing in emerging markets, without the need for guarantees, in order to free up fiscal space for other uses.**

