

Phase 2 of Transformative Infrastructure for COVID-19 Recovery

Extract of Final Report for the
G20 Infrastructure Working Group (IWG)



4 The Compendium of Emerging Funding and Financing Case Studies

To complement InfraTracker and align with experience outlined above of the way infrastructure needs to be managed differently to achieve a transformative recovery, a *Compendium of Emerging Funding and Financing Case Studies* (EF&F Compendium) was developed (Appendix C and [on the GI Hub website](#)). This compendium demonstrates how governments have effectively funded and financed infrastructure stimulus programs during ‘exceptional times’ in the past. Included are case studies on emerging approaches adopted during exceptional times by central and – in some instances – regional and local governments, to:

- Fund infrastructure
- Minimise the cost of financing infrastructure
- Accelerate time to market
- Leverage private capital, including foreign investment.

Activating private capital is key to closing the global infrastructure investment gap. The industry currently has an opportunity to explore investment options and create stronger partnerships between the public and private sectors, helping drive economic recovery in the short term while also driving longer-term economic and social outcomes.

4.1 Approach

The EF&F Compendium addresses two common challenges faced by governments in financing large-scale infrastructure programs during exceptional times. These include:

- The fiscal constraints being faced by governments as a result of COVID-19
- The need to attract more private investment into infrastructure to finance infrastructure needs.

To address these challenges, there is a need to activate policy levers that achieve outcomes that are scalable and replicable, and that incentivise greater private sector and foreign investment. To support governments in designing these levers, the EF&F Compendium includes a range of examples implemented by G20 members, including, where possible, linkages with the InfraTracker trends highlighted above. The case studies exemplify:

- Strategies implemented after the Global Financial Crisis (GFC) to finance infrastructure stimulus, excluding conventional methods of raising finance such as the issuance of treasury securities and quantitative easing
- Programs covering greenfield and upgrade initiatives as well as transformative infrastructure categories, to link with the InfraTracker trends
- Above- and below-the-line financing solutions
- Innovative government guarantees and credit enhancement mechanisms.

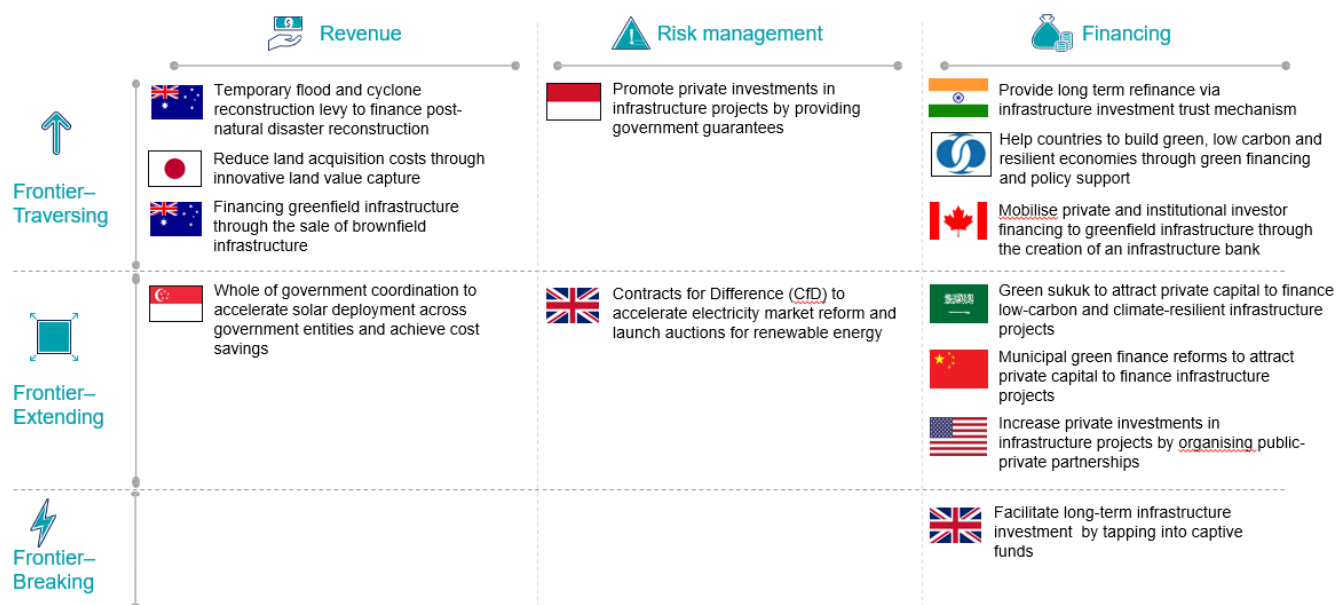
As such, the EF&F Compendium examples represent a ‘best fit’ with the socioeconomic conditions faced by many economies after COVID-19. Further details about the methodology for this compendium are provided in Appendix C.



4.2 Key findings

The GI Hub's research uncovered 13 leading emerging funding and financing case studies for infrastructure. An overview of these case studies is shown in Figure 8, which also maps each case study in accordance with whether it applied a revenue, risk management, or financing lever and the level of innovation it demonstrates. Innovation was considered on a scale from best practice (most innovative, referred to as frontier-traversing) through to disruptive (least innovative, but still innovative, referred to as frontier-breaking). Further detail on the case studies is provided in Table 4.

Figure 1: Overview of case studies in EF&F Compendium



The case studies reveal several themes that shape infrastructure project funding and financing practice and innovation during these exceptional times, and in other exceptional times of the past:

There is growing interest in sustainability and resilience among capital markets: To deliver on commitments related to sustainable development goals and address climate change, there has been an increase in renewable and green infrastructure projects. Some success was seen in attracting financing using definitions and standardisation through instruments such as green bonds and green sukuk, which have had a high level of interest from capital markets. However, although the concept of standardisation has a good track record of attracting private investment, there are challenges to wider adoption. In the interim, it is recommended to consider the feasibility of applying these concepts on a case-by-case basis.

Funding and financing mechanisms are extended: The funding and financing mechanisms deployed during exceptional times and captured in these case studies are not necessarily innovative in themselves, but demonstrate innovation in being applied in a new market or refined with a view to achieving a better outcome in a local context. For example, Indonesia established a statutory body to appraise infrastructure PPPs and provide guarantees that could increase the certainty of private sector participation in PPPs. The body focuses on consistency, clarity, standardised procedures, and better management of fiscal risk vis-à-vis normal government guarantees.

There are efforts to promote private investment and involvement: The GFC resulted in a weak macroeconomic and inflationary environment, which raised funding challenges and limited the relief available from governments. Given long capital cycles for infrastructure, governments are eager to create fiscal space to ramp up other priority spending by relieving capital constraints. As such, the private sector is integral for the development of infrastructure – as vendors, lenders, investors, and partners to government or as outright owners of significant categories of infrastructure like energy and toll roads. Private investment usually takes the form of financing, and such opportunities have increased in recent years. As the COVID-19 crisis



has not constrained liquidity and lending in the same way the GFC did, infrastructure has become more attractive for investors searching for yield with appropriate risk returns, such as renewables and other infrastructure with reliable revenue profiles. Programs and contracts can be better designed by both governments and multilateral development banks (MDBs) to align the incentives of all parties. In projects and sectors where the investment risks remain relatively high, the risk-absorbing capacity of public finance plays an important role to mitigate risk for private sector-led projects.

Good governance is a key success factor for program roll-out: Well-structured programs should create incentives and lead to results that match the goals that inspired them in the short and long term. Lack of clarity about government policy, poor management of programs, and concern about regulatory stability are key blockers to the acceleration of private sector investment. The confidence to continue investing can be undermined if initial projects are poorly planned, delivered, or operated.



Table 1 Details of emerging funding and financing case studies

Case study	Country	Key challenge	Innovation	Lever	Source of stimulus
Temporary flood and cyclone reconstruction levy to finance post-natural disaster reconstruction	Australia	Post-natural disaster recovery	Special levy	Revenue	Central government
Promote private investments in infrastructure projects by providing government guarantees	Indonesia	Mobilise foreign funding towards infrastructure investment amidst fiscal constraints	Guarantee Fund in collaboration with multilateral development banks.	Risk Management	Central government
Contracts for Difference (CfD) to accelerate electricity market reform and auctions for renewable energy	United Kingdom of Great Britain and Northern Ireland	Sustainability and resilience	Contracts for Difference (CfD)	Risk Management	Central government
Reduce land acquisition costs through innovative land value capture	Japan	Fiscal constraints leading to financing challenges	New law allowing for land readjustment and acquisition along future railway lines	Revenue	N/A
Green Sukuk	Saudi Arabia	Attracting foreign financing for green investments	Established a Green Sukuk Framework for USD-denominated green sukuk issuance	Financing	Central government
Green finance reforms to attract private capital at the municipal level	China	Attracting financing for municipal-level green investments	Established pilot zones for green finance reform and innovation	Financing	Local government
Provide long term refinance via infrastructure investment trust mechanism	India	Infrastructure sector needed substantial foreign investments post-GFC to fulfill the demands of the growing economy	Introduced Infrastructure Investment Trusts (InvITs) for infrastructure developers to divest operational projects and reduce their leverage	Financing	N/A



Increase private investments in infrastructure projects by organizing public-private partnerships	India	State and federal infrastructure funding had become inconsistent and unpredictable	Creating an infrastructure trust to facilitate private sector investment from institutional investors	Financing	Local government
Help countries to build green, low carbon and resilient economies through green financing and policy support	United States of America	Non-traditional private investors not investing in infrastructure due to inadequate project risk return profiles	Facilitate a wide range of the financial instruments to address green economy opportunities	Financing	N/A
Whole of government coordination to accelerate solar deployment across government entities and achieve cost savings	Singapore	Lack of interest from commercial and industrial sector players to take on the risk of investing in solar energy systems	The government coordinated efforts to aggregate rooftop PV demand from various government agencies to achieve economies of scale	Revenue	Central government
Mobilise private and institutional investor financing to greenfield infrastructure through the creation on infrastructure banks	Canada	Attract low-cost investment from private sector investors and institutional investors to infrastructure projects that will generate revenue and that will be in the public interest	Set up an infrastructure bank to pursue its public policy objectives whilst balancing commercial and financial pressures	Financing	Central government
Facilitate long-term infrastructure investment by tapping into captive funds	Canada	Needed to access captive funds to invest in national infrastructure development	PIF allowed pension schemes of all sizes to invest in national infrastructure projects by pooling resources into a single investment fund	Financing	Central government
Financing greenfield infrastructure through the sale of brownfield infrastructure	United Kingdom of Great Britain and Northern Ireland	State government faced a politically complex challenge with asset privatisations given public concern over job losses	Asset recycling requiring private sector investors to make capital improvements or expand the capacity of the leased facilities	Revenue	Central government

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