LOCAL CURRENCY FINANCE FOR PRIVATELY FINANCED INFRASTRUCTURE: THE POTENTIAL ROLE OF GOVERNMENT AND STATE OWNED ENTERPRISES

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Money is a handmaiden, if thou knowest how to use it; a mistress, if thou knowest not.

Horace, Roman poet, d. 8AD

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2 This paper is drawn from Delmon, Jeffrey, Public Private Partnership Programs: Creating a framework for private sector investment in infrastructure (Kluwer International 2014).

The views expressed in this paper are the author’s, not those of the World Bank, its Board of Directors, or the countries they represent.
Abstract

This paper discusses Government efforts to mobilize long-term local currency finance for PPP, in particular through the use of “intermediaries”, such as state owned enterprises (SOEs). It also summarizes the sources of long term private capital. The paper discusses different types of Government intervention to help mobilize long term capital, while an analysis on the use of intermediaries (e.g. state owned enterprises) to mobilize long-term private capital is also provided.
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1. **Introduction**

1. Infrastructure is normally financed by tax-payers and/or rate-payers, in either case using current funds or by financing against future income. The financing may come from public or private financiers and investors. For private financiers, infrastructure promises long lifecycle assets which are sensitive to significant variations in demand or tariffs, but in many cases provide a relatively secure and consistent revenue stream.

2. Financing for infrastructure ideally involves long tenor debt, at fixed rates. This allows the high upfront cost of infrastructure to be spread out over its long lifecycle (as much as 30 – 50 years), and therefore makes the infrastructure more affordable; the fixed rates help avoid sudden changes in financing costs and therefore user tariffs. Long-term financing (12 – 18 years tenor), either with fixed interest rates or with variable interest rates that are supported by interest rate swaps to become fixed, are generally available in the global currencies, e.g. US Dollar, Euro, Yen and Pound Sterling (with notable exceptions during the credit crunches in 2008/9 and 2011/12), but is more difficult to access in developing financial markets.

3. Long-term infrastructure investments can provide opportunities to debt capital markets, help to increase the depth and breadth of the markets, establish robust yield curves, and provide long-term placement opportunities in local markets that are often starved of such opportunities. Long-term capital for infrastructure can provide a platform for reforms and market dynamism.³

4. Accessing long term financing for infrastructure in local currency is not so simple. Commercial banks in many countries do not have access to long-term liquidity. They fund themselves primarily through short term deposits. The debt capital markets may offer only short to medium term positions (e.g. 3-5 years), depriving banks of the opportunity to lay off long-term loans against long term bond issuances. These banks will face a “liability mismatch” to the extent they lend long-term (long-term loans funded with (the volatility of) short term deposits).

5. Governments can do much to mobilize long-term local currency debt. Governments regulate financial markets, setting rules for banking and capital markets, to protect different market

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³ For further discussion of PPP frameworks and opportunities, see Delmon, Public Private Partnership Programs: Creating a framework for private sector investment in infrastructure (Kluwer International 2014).
actors and encourage activity in those markets. They also enable and provide market information, clearing functions, rating of credit risk, exchanges for different instruments, etc. One of the key sources of long term local currency financing is institutional investors, such as pension and insurance funds. Government reform programs can do much to protect institutional investors, and thereby enable them to invest in good projects.

6. While not a focus of this paper, it should be highlighted that, in PPP one of the most important efforts a Government can make to mobilize local currency financing is to prepare projects well, ensuring financially viable projects with bankable\(^4\) risk allocation. Government reforms of financial markets can help address these challenges and release the capacity of financial markets to support PPP development.

7. This paper discusses Government efforts to mobilize long-term local currency finance for PPP, in particular through the use of “intermediaries”, such as state owned enterprises (SOEs). Section 2 summarizes the sources of long term private capital. Section 3 discusses different types of Government intervention to help mobilize long term capital. Section 4 analyses the use of intermediaries (e.g. state owned enterprises) to mobilize long-term private capital, and Section 5 concludes.

2. **Sources of Long-Term, Local Currency Funding**

This section discusses sources of long-term local capital and how to attract such resources to infrastructure.

8. **Local commercial banks** - Local banks (public and private) may provide a very convenient source of long-term financing. While often less sophisticated than their global brethren, local banks have more access to local currency. Local banks also tend to be less risk averse when assessing projects in their own country, taking a more pragmatic view of Government and political risk, and having the confidence that local bureaucratic and technocratic challenges can be resolved in a satisfactory manner.

\(^4\) See also Chapters 3 – 5 of Delmon, Private Sector Investment in infrastructure, Project finance, PPP projects and risk (2009).
9. *Global commercial banks* - Global commercial banks are often more sophisticated, with experience in construction risk, operation of infrastructure and structured finance that will give them a clear competitive edge (though this capacity may be located in other offices and not in the local office). Global banks may also have superior access to the global financial markets, with its deep pools of liquidity and long tenors, well suited to infrastructure finance. Global banks may have local activities, giving them access to local currency liquidity, but generally in limited volumes. There are exceptions where the global bank has a strong local subsidiary or branch, but the local offices of global banks may have competing interests and are unlikely to have serious capacity on infrastructure in the local office, as they will be staffed for local operations. For these reasons, global banks tend to focus on foreign currency finance for infrastructure and are less competitive in local currency finance for infrastructure.

10. *Development financial institutions* - External development financial institutions (DFIs), including multilateral institutions like the World Bank and the IFC, and bilateral institutions like Agence Francaise de Developpement (AFD) of France, are ideally placed to support infrastructure finance and are increasingly critical to PPP in developing countries. They tend to have relatively low interest rates, long tenors, and grace periods. In addition to debt, they can also provide guarantees and insurance that may address specific financing risks faced by the project. However, DFI financing tends to be in foreign currencies and can involve additional costs, related to the conditions imposed (such as procurement, safeguards, financial management), complying with DFI practices and the time it takes to access finance.

“For a [development bank] not to take enough risk is as bad as it taking too much risk.”

*Source: Gutierrez, Rudolph, Homa and Beneit, “Development Banks: Role and mechanisms to increase efficiency” (World Bank Policy Research Working Paper July 2011)*

11. *Institutional and retail investors* - Long term liquidity may be available in local currency, in particular from institutional investors like pension and insurance funds. Institutional investors
like pension funds would seem to offer an ideal opportunity for infrastructure finance. Pension funds hold large volumes of long-term capital; in most countries they have difficulty finding long-term placements outside of Government bonds and real estate. Long term liquidity may also be available from retail investors, such as high wealth individuals otherwise tempted to move capital off-shore, retirees looking for long term security, etc., in particular where other long-term investment opportunities are not available in local currency. Access to these investors is often facilitated through capital markets.

12. Debt capital markets - Capital markets often hold depth of liquidity in addition to, and often in excess of, that available from commercial banks. Debt capital markets (through the issuance of debt securities often called “bonds”) may provide access to credit at lower interest rates and longer tenors than commercial banks by providing access to retail investors and to institutional investors. However, the financing available through capital markets is often less flexible than the financial instruments available from commercial banks. E.g. they are not designed to provide grace periods (where the lenders agree not to defer payment of debt service during an initial period and instead to capitalise these payments) nor to provide debt in tranches (where the borrower must pay a commitment fee from financial close, but only pays interest once it has drawn down the amount needed), instead under a bond issuance, the project company must borrow the full amount of debt needed at financial close, and pay interest on that full amount until repayment (the extra interest charged for funds not yet needed is called “carry cost”). Also, the most active purchasers of debt securities (i.e. pension funds, insurance and other institutional investors) do not generally have the expert staff and processes of commercial banks, designed to assess and manage risk, and respond to changes and requirements of dynamic investments like infrastructure; and must hire investment banks and other intermediaries to provide such expertise.

13. Global capital markets - The global capital markets have access to deep and long-term capital, from sophisticated investors likely to be more interested in infrastructure investments. However, these investors are likely to have limited appetite for local currency placements. Even in foreign currency, these investors will be subject to certain limitations on the credit rating of the securities they purchase, in particular the prominence of pension, insurance and other prudential funds in the global markets may limit appetite for anything less than
investment grade, or even higher international credit ratings. Global capital markets are unlikely to be a significant source of local currency debt. There have been local currency bonds issued in the global markets (e.g. diaspora bonds), with some success, but usually not in large volumes. These efforts often focus on currencies from countries with large emigrant communities with close contact with their home country and desiring investments in local currency.

**Box 1: Prudential rules for pension funds**

In general, Anglo-Saxon countries adopt the prudent person rule (PPR) in pension fund investment which requires only that funds be invested “prudently” rather than limited according to category. Furthermore, there are few restrictions on investment in specific assets. Such a system in fact requires an efficient court system with well-trained and informed judges, capable of establishing clear jurisprudence on prudent investor behaviour and of guaranteeing its swift enforcement for market participants. In many other countries, different quantitative restrictions have traditionally been applied, normally stipulating upper limits on investment in specific asset classes, including equity.

*Source: OECD, Pension fund investment in infrastructure: A survey (September 2011)*

14. **Domestic capital markets** - Local capital markets have more appetite for local currency positions, and will be less sensitive to political and other country specific risk. However, for the purposes of financing PPP, local debt capital markets often elicit a number of challenges:

- liquidity – local capital markets, in particular in developing countries, often suffer from a lack of liquidity.
- tenor – infrastructure is best financed with long term debt. Local capital markets will need a robust yield curve, covering the different tenors up through long tenors.
- familiarity with infrastructure – local investors may not be familiar with the risk profile of infrastructure, and therefore may be particularly risk averse.
• lack of a yield curve – in sum, there are no comparable financial instruments freely traded in the local market, so no way to set a price.

### Box 2: Securitization of Infrastructure Revenues

Dubai hired local and international banks to raise $800 million by securitizing road toll receipts and will use the proceeds to fund infrastructure projects in the Gulf emirate. Securitization requires a reliable revenue stream; careful structuring from experienced and well respected advisers and possibly credit enhancement to ensure the placement is sufficiently credit worthy to attract debt at the cost and tenor desired.

### 3. Government Interventions that can Facilitate Access to Long-term Local Capital

15. A variety of instruments are available where Government seeks to help mobilize long-term local currency financing for infrastructure, including:

• **Advisory services** bring the assistance of experienced transaction advisers to the aid of contracting agencies or private investors, depending on the need. Mobilizing debt for infrastructure projects requires particular skills, for example packaging debt efficiently and managing lender groups and their due diligence requirements. One of the key advisory roles is the “arranger” of debt. An arranger needs to know the market and be known by the market to facilitate arranging and negotiation with other lenders.

• **Equity and “equity-like” instruments** for infrastructure projects can be large in value and risky, with long periods before equity distributions are realized. Sponsors are often the construction companies, infrastructure operators or other service providers whose principal focus is the provision of services to the project. The Government can provide equity investment and supply an intermediary to act as an equity investor. Equity investment in infrastructure is a difficult function to fulfil well; it requires a level of sophistication different than most equity investment. It is not just a question of funding, but rather the governance, the ability to make critical decisions in times of need, and to
provide technical and commercial support, given the complexity of an infrastructure transaction.

### Box 3: Arguments for Government Equity Holdings in Infrastructure

Some argue that Government should be an equity holder in infrastructure transactions. The argument usually runs that Government needs:

- **A share in the upside of very profitable projects, to ensure that Government gets a piece of the action.** *Counter-argument:* But equity distributions in infrastructure are hard to control and harder to forecast. If Government wants to share in the upside, it should require a share of revenues or a fixed lease payment instead.

- **Control of the sector – to maintain Government influence over the project and the sector.** *Counter-argument:* But private partners are likely to limit real Government control over the project as equity holders to mitigate conflict of interest and ensure that decisions are made on a commercial rather than political basis. Government would do better maintaining control through regulations and regulatory powers.

- **Access to information – Government may see equity as a mechanism for accessing company information.** *Counter-argument:* However, private partners will inevitably establish a governance structure that isolates sensitive information. The Government may find that regulatory powers and data gathering of its own will provide a more practical solution to information access.

- **Long-term liquidity for equity investors** - Equity investors also need access to large amounts of capital. Project sponsors will normally have less robust balance sheets and will not be able to leverage like lenders. In many countries, the lack of equity investment is a major challenge for infrastructure programs, reducing competition and making projects expensive.

- **Debt** - The Government may want to, or through an intermediary, help provide or mobilize debt for infrastructure projects themselves. Acting as lender is a difficult
function for many Governments who do not have the due diligence, oversight, implementation and other key governance functions of financiers.

- Long-term liquidity for commercial banks - Commercial banks may have staff and capacity to finance projects, but may not have access to sufficient long term local currency capital. Often, their deposit base will be short term in nature, creating a liability mismatch if they create long-term assets. Also, commercial banks may be nervous about using what long-term capital they have on infrastructure (where competing opportunities are more profitable). The Government can help by providing financial institutions (in particular commercial banks) access to long term liquidity which they can then on-lend to infrastructure projects, for example helping commercial banks access local capital markets or supplying/lending long-term funds directly to commercial banks.

**Box 4: Chilean Infrastructure Bonds**

Chile successfully tapped the bond market for project finance debt through infrastructure bonds amounting to an average of USD 1 billion a year during 1996-2001. This situation was aided by Government revenue guarantees and even foreign exchange guarantees in certain cases and political and regulatory risks were mostly insured by DFIs.

**4. Using an Intermediary**

16. The Government may want to provide a vehicle (an “intermediary”) to provide financing for infrastructure projects and an intermediary for institutional investors who could or would not invest directly in projects. Such an intermediary is often created through state owned enterprises, which provide a convenient nexus between public, government support and commercial, private context. Such an intermediary can help:

- use Government and donor funding, to leverage private sector funding
- reduce the transaction costs represented by Government and donor funding by creating a wholesale mechanism
increase transparency and consistency of Government support by establishing an entity with governance mechanisms and operational guidelines establishing rules of the game

allow private sector salary scale to attract suitably skilled and expert staff and create a centre of expertise based on larger volumes of transactions, with commercial selection criteria

use the leverage available through a financial institution to increase the amount of support made available from a limited capital base.

**Box 5: Tamil Nadu Urban Development Fund (TNUDF)**

TNUDF was created as a trust fund with private equity participation and without state guarantees, the first such structure in India. Its paid-in capital combined with debt raised from a World Bank loan allowed TNUDF to issue the first non-guaranteed, unsecured bond issue by a financial intermediary in India, in 2000. The issue received a LAA+ rating from ICRA due to credit enhancement and structured payment mechanism, low gearing and strong repayment record. The proceeds from bonds are deposited in the fund, and subsequently lent back to the participating local bodies as sub-loans to finance their infrastructure projects.

[www.tnudf.com](http://www.tnudf.com)

### 4.1 Functionality

17. Three key functions for the intermediary that can help mobilize local finance include: origination, liquidity and refinancing.

18. **Origination**: Intermediaries originating infrastructure finance will assess a project, influence its design and structure, and then build a book of debt either alone, with a club of other lenders, and/or through syndication.

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19. **Liquidity**: Long tenor funds can be made available to those financiers or as co-financing (senior or subordinated) to the project. Other instruments, like take-out guarantees can be used to extend tenors of debt.

**Box 6: Development Bank of Southern Africa (DBSA)**

The Development Bank of Southern Africa (DBSA) is a development finance institution wholly owned by the Government of South Africa that focuses on investments and joint ventures/partnerships in public and private sector financing. DBSA can raise money on local and international capital markets and is publicly listed on the New York Stock Exchange. Its bond ratings are the same as South African Sovereign Ratings.

DBSA offers a variety of financial products, including grants, equity, debt (senior and subordinated), underwriting guarantees and other credit enhancement.

*Source: http://www.dbsa.org*

20. **Refinancing**: Liquidity constraints, risk ratios, single borrower limits and other prudential requirements can constrain the amount of support that local financiers can provide to infrastructure markets. Refinancing involves the pre-payment of part or all of a project’s debt by borrowing from a new lender (possibly at a lower interest rate, longer tenor or on easier terms).

4.2 **A few challenges**

21. PPP financial intermediaries (FI) can be particularly difficult to implement effectively. Some of the key challenges when creating an intermediary are discussed below. The annex provides a quick snapshot of some of the global TFs.

22. **Staying demand responsive** – the FI must address identified market gaps, with access to products and instruments designed to address those gaps, but also with the flexibility to use other instruments or approaches that respond to the changing nature of such gaps and market needs. The Indonesian Infrastructure Finance Facility (IIFF) was created after much
effort at market analysis and coordination with other market actors. The Brazilian Economic Development Bank (BNDES) was a public bank that was adapted to address a growing market need. In the same way, the FI must focus on the gap, rather than squeezing out private investment, it must squeeze-in private lenders and investors, to give them new opportunities. Once FIs are created, it is often difficult to get rid of them once they have served their purpose. Provision needs to be made for the FI to be wound up, sold off, absorbed into another entity or to evolve into some other mechanism that will be responsive to other market demands, relevant at that time.

23. **Governance and management structures** – investment project selection must be based on sound commercial criteria, and not driven by purely political priorities; the risk of capture of the intermediary by political interests is high. This is generally addressed by developing the FI as a privately owned company, for example the IIFF. At the same time, purely commercial motivation may be too risk averse for the investments available. The Emerging Africa Infrastructure Fund (EAIF) faced this challenge, a partnership between development financiers wanting to take risk and commercial financiers with a more risk averse approach to project selection, creating a particular challenge in the early days searching for an appropriate incentive mechanism for the fund manager.

24. **Amount and source of original capital** – any effort to make a significant impact on an infrastructure market is likely to require a large investment of capital in the FI. The Indian Infrastructure Finance Corporation Limited (IIFCL) and BNDES were allocated funding from government bond issuances, giving them access to significant amounts of capital at a low cost. The National Infrastructure Fund (FONADIN) of Mexico was allocated the revenues from a portfolio of publicly owned toll roads. The IIFF and EAIF started from a smaller capital base. Other credit enhancement can be provided by the Government.

25. **Skilled staff and resources** – newly formed FIs are a risky bet for experienced financiers, and yet an FI needs a solid, experienced management team to give comfort to the financial market and politicians. They must be able to attract funding from institutional investors and
display a keen understating of the infrastructure market. The management team also needs to be committed for a reasonable period, this is not the job for a political appointee, a retiree looking for something to keep them busy, or a short term consultant. The role of CEO is key, a politically acceptable individual but with good banking experience and the right incentives to take calculated risks. The IIFF and the African Finance Corporation both had challenges with their management teams in their early days, finding the right set of skills and personality. These skilled staff can also be sourced through secondments from shareholders as was done for the Infrastructure Development Finance Company (IDFC); or through a management contract as was done for the EAIF.

26. Identifying a solid pipeline – it is often tempting to focus on the market gap to be resolved by the FI. But, the FI’s first investments, the demonstration projects, will be critical and must be carefully prepared as the FI is being created. This creates a timing challenge as the market is unlikely to wait for the FI. The Investment Promotion and Financing Facility (IPFF) of Bangladesh addressed this challenge by focusing on a series of gas-fired power projects in its first phase, projects that were well developed, easy to market and limited to one sector. Phase two expanded to other sectors and more risky projects. The IDFC and IIFF spent their first few years providing advisory services to the infrastructure sector and thereby developing their own pipelines of investments, the former by necessity and the latter by design.

Box 7: Fondo Nacional de Infraestructura (Fonadin) of Mexico

Fonadin is housed within Banobras, Mexico’s national development bank and was created in response to the tight credit market of the financial crisis to address risks that the market was not able to handle. It began with a sum of over 40 billion pesos (US $3.3 billion) in 2008 and has its own revenue source from existing toll road assets that were rescued in a Government bailout in the late 1990’s, and therefore does not rely on Government support for its financing base.

Fonadin’s role is to finance infrastructure. It offers a variety of instruments including:
grants, subsidies, guarantees (for stock, credit, damage and political risk), subordinated lines of credit, and grants for technical assistance.

www.fonadin.gob.mx

Box 8: Brazilian Economic Development Bank (BNDES)

Formed in 1952, BNDES raises money through the issuance of Government securities in favour of BNDES. It also has access to the capital markets and can raise money through trading securities and all manner of derivatives; it also earns income from its loan portfolio and can issue debentures. With its long term financing BNDES has been fundamental in the growth of PPP in Brazil. But is also subject to criticism, in particular long wait times for approval of loans, being overly risk averse, and requiring security from sponsors more appropriate to corporate financing than PPP. BNDES is also criticised for squeezing out private lenders due to its dominant position.

Source: www.bndes.gov.br and author)

5. Conclusion

27. Infrastructure projects (in particular PPPS) provide an ideal opportunity for holders of long-term local currency. In addition to treasuries and real estate, infrastructure offers one of the better long-term placement opportunities for developing economies. It also creates economic opportunities, jobs, and growth.

28. However, most developing country financial sectors are ill-equipped to respond to the opportunities of infrastructure finance. They do not generally have lending products with the long tenors, fixed interest rates and grace periods needed by infrastructure investments. Also, the risk profile for infrastructure differs from the normal diet of local financiers.
29. Intermediaries can help. These are specially equipped entities that can provide advice, structure projects and offer specialised financial instruments to help address the challenges faced by local financiers. These intermediaries can borrow from the local markets and convert these liabilities into the kind of financial instruments sought by infrastructure projects, and/or they can co-finance with local financial institutions and financiers to achieve together the lending products sought.

30. Creating such intermediaries (whether from existing entities or by creating new ventures) can be costly and time consuming. There is no easy or standard approach to intermediation. Each country will need to consider carefully its requirements, its legal framework, the make-up of its financial sector and the kind of infrastructure that is to be financed, before creating such an intermediary. Key lessons have been discussed above, learned from countries that have significant experience in creating intermediaries for infrastructure finance.
Annex

The following provides a snap-shot of a few of the global Financing Intermediaries.

*Investment Promotion and Financing Facility (IPFF)* of Bangladesh is a publicly held vehicle in operation since 2006 that provides long term funding through eligible financial institutions, who on-lend to qualifying PPP projects on market terms. The equity contribution of the sponsor (minimum of 30%) and the debt share of the local financial institution (minimum of 20%) ensure market-based incentives in selecting only commercially viable PPP transactions, and their successful implementation.

*FONADIN (National Infrastructure Fund–Mexico)* was established in February 2008, under the management of the national infrastructure bank Banobras. Fonadin was created in response to the tight credit market of the financial crisis to address risks that the market was not able to handle. It began with a sum of over 40 billion pesos (US $3.3 billion) in 2008 which will build up to approximately 270 billion pesos (US $22.2 billion) in 2012 through toll-road revenues. Fonadin can offer credit guarantees to project companies seeking funding from commercial banks or financial intermediaries or for bonds issued by a concessionaire. Fonadin can cover up to 50% of the loan or issuance with its guarantee. Fondo Nacional de Infraestructura (Fonadin) of Mexico Fonadin’s role is to finance infrastructure. It offers a variety of instruments including: grants, subsidies, guarantees (for stock, credit, damage and political risk), subordinated lines of credit, and grants for technical assistance.

[www.fonadin.gob.mx](http://www.fonadin.gob.mx)

*Infrastructure Development Finance Company (“IDFC”)* of India was set up in 1997 by the Government of India along with various Indian banks, financial institutions and IFIs. IDFC’s task is to connect projects and financial institutions to financial markets and by so doing develop and nurture the creation of a long-term debt market. It offers loans, equity/quasi equity, advisory, asset management and syndication services

[www.idfc.com](http://www.idfc.com)
**India Infrastructure Finance Company Limited (IIFCL)** started operations in April 2006. IIFCL accesses capital from the Government, IFIs and the financial markets (in some cases benefitting from a Government guarantee). These funds are on-lent to PPP projects. The IIFCL does not have a sophisticated risk assessment function. It follows commercial banks, providing only part of the debt requirements of the project and therefore ensuring that the incentive to assess projects and ensure successful implementation rests squarely on the commercial equity and debt providers.

**Indonesian Infrastructure Finance Facility (IIFF)** is a private, non-bank financial institution, commercially oriented with private sector governance, mandated and equipped to mobilize local currency private financing. The IIFF is capitalized through equity investments and subordinated loans from the Government, the private sector and multilaterals. It will invest in PPP projects, with debt, equity and/or guarantees, and by providing advisory services. (Infrastructure Development Finance Company (IDFC))

**Emerging Africa Infrastructure Fund (EAIF)** is a US$600 million debt fund, which aims to address the lack of available long-term foreign currency debt finance for infrastructure projects in sub-Saharan Africa. The EAIF was created through a joint venture of development institutions and commercial banks. By mixing equity from donors, subordinated debt from development partners with senior debt from commercial lenders, EAIF seeks to reduce its cost of lending and provide mid-market debt managed by commercial lenders.

**Indonesian Infrastructure Guarantee Fund (IIGF)** is a company, wholly owned by the Indonesian Government, that acts as the single window for guarantees for PPP projects. It assists the MoF in its role of monitoring and allocating Government support by assessing projects and helping to source any guarantees needed for that project, for example from the World Bank, MIGA, its own capital or the Government.

**Brazilian Economic Development Bank (BNDES)** is a publicly owned commercial bank. Formed in 1952, BNDES raises money through the issuance of Government securities in favour of BNDES. It also has access to the capital markets and can raise money through trading securities and all manner of derivatives; it also earns income from its loan portfolio and can issue debentures. With its long term financing BNDES has been fundamental in the growth of PPP in Brazil. It is a dominant force in Brazil’s infrastructure market and provides debt for most of its PPP projects. As a Government owned Bank it received funds from the Government and
uses the Government’s credit position to offer very low rates for long-term debt. BNDES is also subject to criticism, in particular for squeezing out private lenders due to its dominant position, for long wait times for approval of loans, being overly risk averse, and requiring security from sponsors more appropriate to corporate financing than PPP.

[www.bndes.gov.br]

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[www.tnudf.com]

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