CICA participated in the session on “Infrastructure As an Asset Class”

❖ **Joachim VON AMSBERG, Vice President, Asian Infrastructure Investment Bank (AIIB)** was the moderator of this session.

AIIB and the International Finance Corporation (IFC) jointly organized this session. There is a big infrastructure finance paradox: huge demand and needs and potential huge funds to be invested but the two do not meet yet. How to build the bridge? Connect infrastructure finance and infrastructure demand. Move forward the agenda in terms of how to make the infrastructure more appealing as an asset class. Who needs to do what? This conversation already took place in Davos between the Multilateral Development Banks (MDBs).

❖ **Rashad KALDANY, Executive Vice-President, Caisse de dépôt et placement du Québec (CDPQ)**

CDPQ: 270 billion CAD and largest investor in Canada. Alternatives: real estate, private equity and infrastructure (infrastructure: 10 billion). Most of these 10 billion is invested in OECD countries. To Rashad Kaldany it represents low risk and high return. The aim is generating more flows to the emerging markets but the political risk comes. He quoted the World Economic Forum’s study on political risk mitigation. One of the conclusions: a lot of MDBs provide political risk mitigation insurance but very little is actually deployed. It is complicated for investors to understand these instruments. They call for a clarification and harmonization of these instruments. More collaboration is needed by sharing due diligence and standardized information. There is a huge endorsement of these recommendations. What EBRD and MIGA were able to catalyze in Turkey for hospitals projects is a great example. How to replicate this? This is one of the solutions. The project preparation too is crucial. But the most important is building capacity in the countries. As a financier, to attract financial institutions, the political risk mitigation is essential.

❖ **Afsaneh BESCHLOSS, Founder and Chief Executive Officer, Rock Creek Group**

Alternatives assets which include private equity, but also infrastructure, are very appealing. The largest area of interest globally in the US and non US is infrastructure. Infrastructure allows a return on investment that corresponds to the pension funds expectations. However they are still very rare on the markets (1 to 2% of the portfolios in average). How to connect more the capital and the projects and increase the percentage of infrastructure assets in the portfolios? Afsaneh Beschloss also mentioned the need to pay for project preparation which is crucial to mitigate the risk of an infrastructure project. Finally, he underlined the importance of the issue of the way the investment returns of infrastructure projects are set in time.

❖ **Kevin LU, Partner and Chairman of Asia, Partners Group (Swiss firm - 60 billion of assets):** (spent 10 years at MIGA)

Kevin Lu presented the advantages of infrastructure as an asset class: infrastructure are almost like a fixed income and they allow a strong diversification of portfolios. They also have high investment returns. Equity minded investors look for 8% return net.
The question of **how to blend the brown fields and the green field features** was asked and a platform to blend it was mentioned.

It was also explained that the creation of an infrastructure asset class is complicated in comparison with other creations of asset classes. For the mortgage asset class for example, governments came to take some of the risk away. For infrastructure unfortunately there is no intervention as such. Everybody is waiting for that but the problem is it takes a lot of coordination, planning etc. to unblock the situation.

- **Bernard SHEAHAN, Director, International Finance Corporation (IFC):**

  Bernard Sheahan said that big aspirations for infrastructure assets in emerging markets came with microeconomic reforms. A lot of works have been done under the G20: project preparation; connecting macro and micro; getting sectors reforms; standardization. UK tried to export their standardization of partnerships. It was a failure when they tried to take their common law to Egypt. Now it is better accepted especially in the renewable energies sector. Solar programs in Egypt are an example. IFC-EBRD “Scaling solar” is a **standardization of procurement, project, financing and risk mitigation documents.**

**Questions & Answers**

The problem of disconnection of large investors pools and infrastructure experts was evoked. In infrastructure the information is very fragmented. Databases have to be created for the emergence of an infrastructure asset class.

Kevin Lu said political risk insurers like MIGA have to be programmatic and not only underwrite for a short period (2 or 3 years) on a few IPPs.

- **Mark MOSELEY, Global Infrastructure Hub,** underlined the necessity to increase the transparency and knowledge. Databases can play an important role in achieving this. There are huge needs for data on the returns of infrastructure to attract equity investors and debt investors. There is no such database today. There is no comprehensive global database covering emerging and developed markets to see how infrastructure has performed as an asset class. One of the mandates of the Global Infrastructure Hub is to address the infrastructure gap. This data will be important to persuade the financial regulators of the creation of the infrastructure asset class. GIH talked to IFC, EIB, OECD, Long Term Investors. They agreed the first step is to consolidate the MDBs data.

- **A representative from the World Economic Forum** said there should be an ecosystem approach to mobilize the financing to help the projects move forward. He mentioned a “Project review group” to address the financing challenge. He underlined the distinction between the green field assets and brown field assets. **Different MDBs are engaging in very different ways. How to harmonize?**

  **IFC:** Technology will be the best way for standardization. There will be a big disruption.

  **HSBC:** It is important to distinguish capital structure and valuation. There is a need for an index to go with valuation.