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Investors in Infrastructure in Developing Countries:Skyscrapper

Financial Intermediaries

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The section looks at the typical main investors into infrastructure projects.

Commercial banks (local/ international)

Commercial banks are important investors in infrastructure projects, particularly through senior loans and guarantee products such as performance guarantees and letters of credit. The complexity and duration of project financed projects often means that local banks in many developing countries lack the technical capacity or willingness to enter into these projects, and where they do they tend to be junior members of a syndication.

Capital markets/ bondholders (local/ international)

Bond financing is suited to project finance as it tends to be longer tenure than commercial loans. However, there is less flexibility in the lending. It may be easier for an infrastructure fund to raise finance through the capital markets rather than an individual project, given that many institutional investors can only invest in investment grade products.

Equity funds

Private equity funds (often called “infrastructure funds”) can play an important role in providing mezzanine financing to a project, taking more risk than traditional lenders, but less than the sponsors.

An equity fund is a collective investment scheme investing in equities. Collective investment schemes are a way for investors to invest with other investors order to benefit from the inherent advantages of working as part of a group. These advantages include an ability to:

- hire a professional investment manager, which theoretically offers the prospects of better returns and/or risk management
- benefit from economies of scale – cost sharing among others
- diversify more than would be feasible for most individual investors which, theoretically, reduces risk.

Around the world large markets have developed around collective investment and these account for a substantial portion of all trading on major stock exchanges.

The nature of intervention by a private equity fund will depend largely on the nature of that fund. Some bring significant infrastructure finance experience, and can help improve project management and cost effectiveness. Others are focused on financial investment with only limited infrastructure experience.

For more on private equity in emerging markets, one source is the Emerging Markets Private Equity Association (EMPEA), now Global Private Capital Association.

Export credit agencies

An export credit agency (ECA) is a private or quasi-governmental institution that acts as an intermediary between national governments and exporters to issue export financing. The financing can take the form of credits (financial support) or credit insurance and guarantees (pure cover) or both.

ECAs are active in a number of developing countries and are increasingly investing in infrastructure. ECAs provide three main forms of support to an importing entity:

- Direct lending - This is the simplest structure - the loan is conditional on purchase of goods or services from businesses in the ECA country.
- Financial intermediary loans – the ECA lends funds to a financial intermediary, such as a commercial bank, that in turn lends to the importing entity.
- Interest rate equalization – a commercial lender provides a loan to the importing entity at below-market interest rates, and in turn receives compensation from the ECA for the difference between the below-market rate and the commercial rate.

Development finance institutions

Development Finance Institutions (DFIs) are bilateral, regional or multilateral institutions that are supported by states with developed economies. DFIs generally have a mandate to provide finance to the private sector for investments that promote development. The purpose of DFIs is to ensure investments where otherwise the commercial markets would not invest. DFIs aim to be catalysts, helping companies get funding in countries where there is restricted access to domestic and foreign capital markets and provide risk mitigation products that enable investors to proceed with plans they might otherwise abandon. DFIs provide loans with longer maturities and other financial products. Examples of DFIs are International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), CDC Group (UK's development finance institution), DEG (the German development finance institution), Proparco (the French DFI) and European Investment Bank (EIB).

Some of these DFIs also have specialist products and facilities that support project development and seed equity to projects, such as IFC's Infraventures initiative. For more, go to IFC.

See Risk Mitigation Products for more information on some specific products developed by DFIs and MDBs that can be used in projects.

Bilateral agencies

Bilateral aid agencies are the aid arm of countries that provide aid to the developed world. They provide funding through grants directly or through multilateral and regional agencies and trust funds.

Multilateral Development Banks

Multilateral Development Banks are institutions that provide financial support and professional advice for economic and social development activities in developing countries. The term Multilateral Development Banks (MDBs) typically refers to:

- The World Bank
- The African Development Bank
- The Asian Development Bank
- The European Bank for Reconstruction and Development
- The Inter-American Development Bank Group

MDBs provide support to governments in development of projects, through Risk Mitigation Products and by providing funds that the governments can use to provide Government Support in Financing PPPs. For more on how the World Bank Group assists in PPPs, go to World Bank Group's Role.

Sovereign wealth funds

Sovereign wealth funds allow countries with superior savings rates to export that capital to other parts of the world and represent significant sources of funding for infrastructure projects. They often come into projects with some sort of mezzanine financing.

Sovereign wealth funds are state-owned investment fund composed of financial assets such as stocks, bonds, property, precious metals or other financial instruments. They are typically created when governments have budgetary surpluses and have little or no international debt. There are two types of funds: saving funds and stabilization funds. Stabilization SWFs are created to reduce the volatility of government revenues, to counter the boom-bust cycles' adverse effect on government spending and the national economy. Savings SWFs build up savings for future generations. Sovereign wealth funds invest globally and many like to invest in infrastructure as a long-term investment. Sovereign wealth funds have been around for decades but since 2000, the number of sovereign wealth funds has increased dramatically. The first SWF was the Kuwait Investment Authority.

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Additional Resources

- Managing PPP risks with a new guide on guarantees
- Another unknown in post-COVID PPPs in Africa: Resumption of foreign direct investment

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