Quality Infrastructure Investment (QII)
- Innovative Financing Mechanisms for QII

Second International Conference on Sustainable Development through QII

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Introduction

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- Currently holds a position of Joint General Manager in SMBC’s Structured Finance Department in Tokyo.

- Joined SMBC in 1990 and has over 18 years experience in international finance.
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## Selected SMBC Transport financing Credentials

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<td>2015</td>
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<td>2014</td>
<td>Intercity Express Programme – East Coast</td>
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<td>MLA, Docs &amp; Model Bank, Account Bank, Security</td>
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<td>2014</td>
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<td>2012</td>
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<td>Contournement Nimes-Montpelier High Speed Rail PPP</td>
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<td>M51 Kliplef – Sonderborg Highway PPP</td>
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<td>Peninsula Link PPP</td>
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※The above list is created by SMBC, referring to PFI articles.
Case Study - Sao Paulo Metro Line 4

Project Overview

Project Name: Sao Paulo Metro Line 4
Financial Close: 2004 & 2008 (phase I)
2010 (phase II)
Concession Term: 30 years (PPP concession)
Project Costs: Total c. USD 2 Billion
SMBC’s Role: Arranger, JBIC Agent

Sources and Uses (PPP structure / 2008)

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<td>IDB A Loan 70</td>
<td>Rolling Stock</td>
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<td>Equity Confidential</td>
<td>Confidential</td>
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<td>Total Sources Confidential</td>
<td>Total Uses Confidential</td>
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Financing Structure

E&M / O&M (PPP)
FC: 2008 (phase I)

Rolling Stock Supplier

Sponsors

Equity

Via Quatro (SPC)

Project Financing

IDB

Commercial Banks (IDB B loan)

Civil Works
FC: 2004 & 2008 (phase I)
2010 (phase II)

Contractor

Construction Agreement

State of Sao Paulo

Minimum Revenue Guarantee

Sovereign Based Lending

IBRD

JBIC

Commercial Banks

Supply Agreement

E&M: Electrical & Mechanical

※ This case study is created by SMBC, referring to public information disclosed by IDB.
Case Study - Lima Metro Line 2

**Project Overview**
- Project Name: Lima Metro Line 2
- Financial Close: 2015
- Concession Term: 35 years
- Project Costs: USD 5.3 Billion
- SMBC’s Role: Co-Manager (Bond)

**Sources and Uses**

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
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<td>Government's Milestone Payment during construction</td>
<td>Civil works / Rolling Stock / Others</td>
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<tr>
<td>Government's Deferred Payment after completion (Backed by Bond / Term Loan)</td>
<td>Equity</td>
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<td></td>
<td>Others</td>
</tr>
</tbody>
</table>

**Project Structure**

- **Sponsors**
- **Equity**
- **Lenders**
  - **Milestone Payment**
    - (during construction)
  - **Deferred Payment**
    - (after completion)
- **Concession Authority**
  - **Concession Agreement**
  - **EPC Contract**
  - **O&M Contract**
- **Metro de Lima 2 (SPC)**
  - **Rolling Stock**
  - **Civil Works Contractor**
  - **O&M Contractor**

※ This case study is created by SMBC, referring to IJ Global articles.
Implication from Case Studies

- Urban infrastructure development funded by a certain level of commercial financing via ECA / Project Financing, not depending 100% on public funds or subsidies from the governments.
- Demand risk is not assumed.
- Financing in USD (hard currency)
- Long term loan
  ⇒ Long term payment risk mitigation through

  (i) ECA’s credit enhancement (guarantee or insurance / B loan)

  (ii) Utilizing short term loan (e.g. construction revolving facility)
Challenges for commercial banks and Possible Solutions

- **Developing Countries’ Needs**
  - Infrastructure development
  - Certain Limits of Fiscal Burden
  - Mitigation of Foreign Exchange risk

- **Commercial Banks’ Constraints**
  - Increased Geopolitical Risk
  - “Adverse Wind” for Long term financing / Swap
  - Increased Cost of Funding

- **What Commercial Banks need to study**
  - Expansion of Investor Universe
  - Commercial Banks’ Asset Recycling
  - Shorter Financing and Refinancing
  - Funding via Covered Bonds

- **What Commercial Banks expect from MDBs / ECAs**
  - Swap Insurance (e.g. NEXI new program)
  - Grant of PRI or EPRI/EPRG at the time of Refinancing
  - Guarantee of Refinancing Risk (mitigation of market risk)
  - Support on Local Currency Financing