InfraCo - PIDG project development arm

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Concept summary

There is broad consensus around what the multiple challenges to unlock private finance for the climate and development agenda are. The specific challenges of investing in infrastructure in emerging markets and developing countries are well recognised; the combination of weak ecosystems, challenging policy and macro-economic environments, combined with additional perceived risks generate a chronic lack of bankable project pipeline, lack of investment in infrastructure by commercial and institutional domestic investors, and lack of the scale, diversification and aggregation needed to attract large flows of private finance in operational – de-risked – assets.

Yet currently, only a small proportion of ODA, or the catalytic capital available within DFIs, MDB or philanthropic institutions is deployed to support the mitigation of early stage development risk; and if private finance is to be mobilized at the scale required to meet the scale of the infrastructure gap in developing markets as well as to address the effects of climate change.

PIDG’s success in de-risking projects in some of the most challenging jurisdictions is anchored on six key drivers: Distinct focus and track-record in infrastructure, exclusively in emerging markets and developing countries; Access to the appropriate type of capital to tackle high-risk project development, deployed mainly as equity through InfraCo and quasi equity or returnable grant through PIDG TA; Ability to deploy capital over the life cycle of an infrastructure project and across the capital structure by means of grants, equity, debt or guarantees, including those denominated in local currencies; Use of blended finance tools that have proven successful in de-risking and mobilising private sector at scale, both in PIDG itself and at project level; Experience in mobilising domestic investors and building local capacity, including through locally based credit enhancement facilities in Nigeria and Pakistan, with more planned; Well-developed climate approach with focus on Paris aligned deals, climate mitigation and increasing climate risk and resilience.

Track record & instrument mechanics

PIDG addresses a gap in the international development architecture, which is critical to the achievement of the UN SDGs, delivering pioneering infrastructure through three business lines that deploy a unique set of capabilities. The development arms (InfraCo Africa and InfraCo Asia) both co-develop and invest risk capital in the form of equity, or debt with the intention of de-risking projects during the crucial development stage, thereby creating a pipeline of bankable and sustainable investments and to mobilize capital from others at scale.
Successfully developing infrastructure requires risk capital, patience, and expertise. PIDG’s development arms are unique in providing all three.

PIDG development arm has been investing equity at the Financial Close of its projects for several years, to close a financing gap or give confidence to new funders entering at the construction phase. It also means we can ensure that our projects are built and operated as intended: keeping the promises made to partners, local communities, and other stakeholders. We can also invest into innovative infrastructure-related businesses that need support to scale-up, pilot products or enter new markets and so ultimately demonstrate the commercial viability of planned growth.

Successful exits: developing markets to attract private investors

**Building the markets for private investment in renewables in Pakistan and Vietnam**
- Attracting private investors where they did not previously go is a key signal of building markets.
- InfraCo gives early stage high risk project development capital which is vital to create a pipeline of buildable projects for investment by the private sector, unlocking future flows of private investment and ultimately transforming markets.
- Successful exits to private investors is the ultimate test of the viability of the investment and the sign of a market that is starting to function.
- Here we highlight two examples from InfraCo Asia in Pakistan and Vietnam.
- It is significant that a few years after these investment PIDG realized its stake in the projects.
- In Pakistan PIDG established InfraCo Pakistan a local credit enhancement guarantee for projects work is advanced to launch the first commercially issued local currency sovereign bond.

**GuD Ahmed and Metro Wind Power, Pakistan**
- InfraCo Asia achieved its first exit from a high-risk renewable energy project in 2017, selling its stake in the first stage of the two projects to private sector company GWI.
- InfraCo Asia supported Pakistan’s Government’s attempt to harness the country’s large wind energy potential and therefore reduce its dependence on fossil fuels. Financial close and construction two years later.
- InfraCo Asia’s investments in two projects are expected to contribute 180MW renewable energy generation capacity and benefit approximately 170,000 people with improved access to electricity.
- Having worked to support the development of the two groundbreaking projects through to operational, InfraCo Asia is in favour of the private sector, recycling public funds into the earthen development of new infrastructure.
- GuD Ahmed and Metro Wind Power’s Energy’s first projects in Pakistan, bringing key energy and infrastructure expertise to the country.

**Coc San Hydropower, Vietnam**
- InfraCo Asia was approached to develop the 250MW project when it was in the feasibility stage.
- InfraCo Asia supported the project’s Vietnamese and international lenders to ensure a higher level of environmental standards and was instrumental in attracting foreign private sector capital to achieve financial close.
- As the majority stakeholder, InfraCo Asia worked with the project’s Vietnamese and international lenders to ensure a higher level of environmental standards and was instrumental in attracting foreign private sector capital to achieve financial close.
- Coc San began delivering clean and affordable power to the people of Lao Cai province in 2020, under the direction of InfraCo Asia—developer and one of the first women to take a lead role in Vietnam’s renewable energy sector.
- In November 2020 InfraCo Asia, dedicated to share its vision to Tokyo Electric Power Company Holdings, Inc. (TEPCO), marking its first hydropower investment outside Japan.
Through our investment team, we support those businesses that enable Africa’s and Asia’s economies to emerge from the COVID-19 crisis in a stronger position. With a focus on developing local capital markets, generating more local jobs, broadening, and deepening local supply chains and capabilities, whilst always championing green growth that supports climate resilience and drives down carbon emissions. Safeguarding workforces, customers, suppliers, and partners is also a critical consideration when selecting investments: we will prioritise investments that seek to engage and empower women and those with disabilities.

**Future development plans**

Achieving the scale and pace required entails matching risk and cost of capital for the distinct phases of infrastructure development of early-stage project design, development, construction, and operation.

Risks are generally higher at the earlier stage of projects, although the development stage capital is a relatively small proportion of total project costs (usually between 5% and 10% for limited recourse transactions). Given this combination, re-focusing scarce patient catalytic capital and blended finance solutions towards the development stage and associated equity investments can unlock a greater pipeline of bankable projects and large sums of private capital at later stages.

As we launch the new PIDG strategy in June (covering the period 2023-2030), we aim to grow our deployment of capital by doubling our yearly commitments by 2030 (from the 2022 basis). We will introduce more defined Group investment approaches for selected countries, while still responding to market evolution across the regions in our mandate. This will result in combinations of impact objectives, sectors, geography and PIDG solutions / products that will help us prioritise our origination efforts, and coordinate government and market engagement. We will keep these under review so we can stay flexible as the market evolves.