

Recent Progress of the HKMA Infrastructure Financing Facilitation Office

by the HKMA Infrastructure Financing Facilitation Office

The Hong Kong Monetary Authority (HKMA) Infrastructure Financing Facilitation Office (IFFO) is a platform established by the HKMA in July 2016 to facilitate infrastructure investments and their financing. Since its launch, IFFO has established an effective collaborative network with key stakeholders in infrastructure investment and financing and raised the international profile of Hong Kong as an infrastructure financing centre. This article summarises IFFO's recent progress and future initiatives.

Hong Kong's Unique Position in Facilitating Infrastructure Investment and Financing

The Asian Development Bank has estimated that the infrastructure funding needs for developing Asia from 2016 to 2030 amounts to an average of US\$1.7 trillion a year¹. Given the vast infrastructure needs for the region, it is critical to draw in not only public but also private sector investment and financing to bridge the funding gap.

Hong Kong is an international financial centre with well-developed capital markets. The opening up of Mainland China is accelerating and Hong Kong has seized the opportunity to develop into the world's largest centre for offshore renminbi business. It is also the springboard for many Mainland companies expanding overseas, and similarly, an attractive destination for overseas corporations wanting to gain a foothold in the Mainland market. In recent years, a growing number of these companies have been looking for investments in infrastructure and related

projects. This has been given further impetus by the Belt and Road Initiative, a strategy by the Mainland Government to promote connectivity and long-term development in Asia, Africa and Europe. Hong Kong is uniquely positioned to facilitate infrastructure investments and their financing.

By establishing IFFO, the HKMA can play a valuable role as a catalyst in this development with its mandate to promote Hong Kong as an international financial centre. Another advantage is the HKMA's strong relationship with major players in infrastructure investments and their financing, whose engagement and support is crucial to achieving success.

Recent Progress of Infrastructure Financing Facilitation Office

IFFO was established by the HKMA in July 2016 with a mission to facilitate infrastructure investments and their financing by working with a cluster of key stakeholders (Box 1). In the past year, IFFO has made significant progress in a number of areas as set out below.

¹ "Meeting Asia's Infrastructure Needs", *Asian Development Bank*, February 2017

Box 1**IFFO's Mission**

The mission of IFFO is to facilitate infrastructure investments and their financing by working with a cluster of key stakeholders. The functions of IFFO are:

- providing a platform for information exchange and experience sharing;
- building capacity and knowledge on infrastructure investments and financing;
- promoting market and product development; and
- facilitating infrastructure investment and financing flows.



Platform building

Since establishment, IFFO has built an extensive network of key stakeholders in infrastructure investment and financing comprising over 70 partners from Hong Kong, Mainland China and overseas (Box 2). In particular, strong relationships have been fostered with our Mainland counterparts including public investors, development banks and project developers. On an international scale, multilateral development banks, major global banks, insurance companies, asset managers and pension investors have also joined IFFO as partners. Indeed, IFFO has been commended as uniquely positioned to offer “East and West” and public and private sector perspectives in facilitating infrastructure financing in emerging markets in Asia.

Capacity building

Significant progress has also been made in building capacity for the key stakeholders. IFFO has organised and participated in over 15 prominent local and international events on infrastructure investment and financing (Table 1).

TABLE 1**Major local and international events on infrastructure investment and financing organised by IFFO / HKMA**

Date of the events	Events
October 2016	<p>IFFO held its first executive workshop co-organised with the International Finance Corporation (IFC) and Eastspring Investments.</p>  <p><i>IFFO's first Executive Workshop on 26-28 October 2016</i></p>
November 2016	<p>IFFO organised a business seminar featuring the President of the Asian Infrastructure Investment Bank (AIIB) to share experiences in project planning, operation and management in building capacity for the business sector.</p>  <p><i>Business Seminar Featuring AIIB's President on 8 November 2016</i></p>

Date of the events	Events
February 2017	<p>IFFO held a seminar co-organised with Hong Kong Association of Banks (HKAB) on “Risk Mitigation Techniques in Infrastructure Financing for the Belt and Road Initiative”.</p>  <p><i>Seminar with HKAB on 28 February 2017</i></p>
March 2017	<p>IFFO organised the Debt Financing and Investors’ Roundtables which attracted around 100 top executives from key areas in infrastructure investment and financing, such as public and private sector investors, multilateral financial agencies and development banks, asset managers, banks, project developers and professional service firms. Participants discussed a range of issues from risk management to governance framework which are vital in the context of infrastructure investment and financing in emerging economies. The IFFO Roundtables helped enhance mutual understanding among investors, financiers and project developers, which will facilitate future infrastructure investment and financing in the region.</p>  <p><i>Investors’ Roundtable on 24 March 2017</i></p>
April 2017	<p>The HKMA jointly hosted with Invest Hong Kong (InvestHK) and the Hong Kong Chinese Enterprises Association (HKCEA) a seminar on how Chinese enterprises can leverage on Hong Kong’s financial services platform to “go global”.</p>  <p><i>Seminar with InvestHK and HKCEA on 11 April 2017</i></p>
July 2017	<p>IFFO hosted a Senior Executive Training programme organised by the IFC in partnership with the Harvard Kennedy School on Public-Private Partnerships and Project Finance. Some 50 senior executives attended the programme including institutional investors, development and policy bank representatives, project developers and operators, as well as public officials from countries such as Bangladesh, India, Mongolia, Nepal and Thailand.</p>  <p><i>IFC-Harvard Senior Executive Training on 31 July to 4 August 2017</i></p>

In particular, during the Roundtables, a Reference Term Sheet² was developed for equity investment, which is aimed at devising a common language that can be understood and accepted by investors and project owners to narrow the gap in their expectations and bring them closer to doing deals. The term sheet sets out various factors which institutional investors will consider for investment and risk mitigation measures in relation to the main potential risks associated with infrastructure projects. IFFO hopes the term sheet will enable infrastructure project developers with financing needs to better understand issues that may deter potential investors, while strengthening investors' confidence when looking for long-term stable return investments in emerging markets. It will also help promote smoother, more effective communication and co-operation between both sides.

IFFO is now exploring the development of a similar reference term sheet for debt financing and will explore with its partners, including multilateral development banks and debt financiers, on co-financing opportunities.

Business development

Last December, IFFO signed two Memorandums of Understanding (MoUs) with the China Development Bank and the Export-Import Bank of China, in which the two banks undertook to further develop the infrastructure financing market in the region through the Hong Kong platform. These two MoUs are designed to attract more Mainland corporates to use the Hong Kong platform for investment and financing activities.

IFFO also signed an MoU with the IFC in July last year which established a strategic co-operation framework for using the IFFO platform to promote a more efficient and conducive market environment for infrastructure investment and financing in the region. In June, IFFO hosted an agreement signing ceremony

between the IFC and Eastspring Investments, both IFFO partners, to raise money for an innovative IFC programme known as the Managed Co-lending Portfolio Program (MCPPI) Infrastructure, which aims to mobilise funds from institutional investors for infrastructure projects in emerging markets. IFFO is exploring this and other risk-tranching products that could help attract other institutional investors to create space for lenders to further fund infrastructure projects.



IFFO-Eastspring MCPPI Infrastructure Signing Ceremony on 28 June 2017

In addition, IFFO is looking into the feasibility of creating an investment platform where like-minded institutional investors could consider joint investments in emerging market infrastructure projects, which would have a demonstration effect for other investors and hence attract more private capital into this asset class.

Looking Ahead

Effective public and private sector collaboration is critical to bridging the huge infrastructure financing gap in developing Asia. As we have shown here, IFFO has made significant progress in the past year in helping to achieve its goals. IFFO looks forward to collaborating closely with public and private sector stakeholders in developing a more conducive environment for infrastructure investment and financing in the region.

² Reference Term Sheet is available at IFFO website: https://www.iffo.org.hk/docs/default-source/Default/reference_infra_term_sheet.pdf

Box 2

List of IFFO Partners at 1 September 2017 (in alphabetical order)

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| 1. Actis | 41. Ernst & Young |
| 2. Agricultural Bank of China Limited Hong Kong Branch | 42. Export-Import Bank of China (The) |
| 3. AIA Group Limited | 43. General Electric |
| 4. AIG Insurance Hong Kong Limited | 44. Global Infrastructure Hub |
| 5. Airport Authority Hong Kong | 45. Hong Kong Trade Development Council |
| 6. Allen & Overy | 46. Hongkong and Shanghai Banking Corporation Limited (The) |
| 7. Aon Hong Kong Limited | 47. HSBC Holdings Plc |
| 8. APG Asset Management | 48. Industrial and Commercial Bank of China (Asia) Limited |
| 9. Asian Academy of International law | 49. Industrial and Commercial Bank of China Limited |
| 10. Asian Development Bank | 50. International Finance Corporation, a member of the World Bank Group |
| 11. Astana International Financial Centre | 51. Japan Bank for International Cooperation |
| 12. AustralianSuper | 52. Jardine Lloyd Thompson Limited |
| 13. Bank of China (Hong Kong) Limited | 53. King & Wood Mallesons |
| 14. Bank of China Limited | 54. KPMG |
| 15. Bank of Communications Co. Ltd. | 55. Legg Mason Global Asset Management |
| 16. Bank of Tokyo-Mitsubishi UFJ, Ltd. (The) | 56. Macquarie Group |
| 17. BlackRock | 57. Malayan Banking Berhad |
| 18. Blackstone Group | 58. Marsh (Hong Kong) Limited |
| 19. Brookfield Asset Management | 59. Mayer Brown JSM |
| 20. Canada Pension Plan Investment Board | 60. Mitsubishi Corporation (Hong Kong) Ltd. |
| 21. CGCOC Group (Hong Kong) Co., Limited | 61. Mitsui & Co. (Hong Kong) Ltd. |
| 22. China Construction Bank (Asia) Corporation Limited | 62. Mizuho Bank, Ltd. |
| 23. China Construction Bank Corporation | 63. Morgan Stanley |
| 24. China Development Bank Corporation | 64. MTR Corporation Limited |
| 25. China Export & Credit Insurance Corporation | 65. Multilateral Investment Guarantee Agency, a member of the World Bank Group |
| 26. China Hua Neng Group Hong Kong Limited | 66. National Pension Service |
| 27. China Investment Corporation | 67. Ontario Teachers' Pension Plan |
| 28. China National Petroleum Corporation | 68. Pinsent Masons |
| 29. China Three Gorges Corporation | 69. PwC |
| 30. China-Africa Development Fund | 70. Silk Road Fund |
| 31. China-Britain Business Council | 71. Standard Chartered Bank |
| 32. CITIC Capital | 72. Standard Chartered Bank (Hong Kong) Limited |
| 33. Citigroup | 73. State Grid Corporation of China |
| 34. Clifford Chance | 74. Sumitomo Mitsui Banking Corporation |
| 35. CLP Group | 75. TPG Capital |
| 36. CNIC Corporation Limited | 76. Willis Towers Watson |
| 37. Crédit Agricole Corporate and Investment Bank | 77. Zurich Insurance Company Limited |
| 38. Currie & Brown | |
| 39. Deloitte China | |
| 40. Eastspring Investments | |