



# Recent infrastructure financing trend and KIND's strategy

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Korea Overseas **IN**frastructure & Urban **D**evelopment Corporation



# Self introduction

- Engineer with MBA and MA in dev. studies
- Army officer
- Night-shifter at Financial Times Korea during full-time MBA
- **Samsung C&T (Construction&Trading) Corporation**
  - Bangladesh Info-Bahan admin network
  - Malaysia substations (Nuni&Paroi, Ampang, Sri Antan)
  - India Delhi&Bengalore metro fare collection systems
  - Financial advisory to Indonesia and Malaysia telecom projects (Packet One, U-Mobile)
  - Vietnam customs tax system / Ho Chi Minh – Trung Luong ITS
  - e-Gov in Angola, Gabon, Tanzania
  - Ecuador sewage water treatment for Santo Domingo
  - Ethiopia grid / substations @ Gebregracha, Chancho, Sululta
  - Tanzania Muhimbili hospital @ Mlonganzila
  - Director for East Africa @Nairobi, Kenya (2013. 5 ~ 2018. 4)
- **Small, but frequent successes > Big deals involvement**
- **Developer capacity > Sector expert**
- **Private sector => Public sector**





# Agenda

**0 Preface**

**1 Infrastructure financing: Korea's case**

**2 Introduction: KIND**

**3 Infrastructure financing: Recent global trend**

**4 Conclusion: KIND's Strategy and Suggestions**





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## **0 Preface**

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## Preface 1) Importance of Fundamentals

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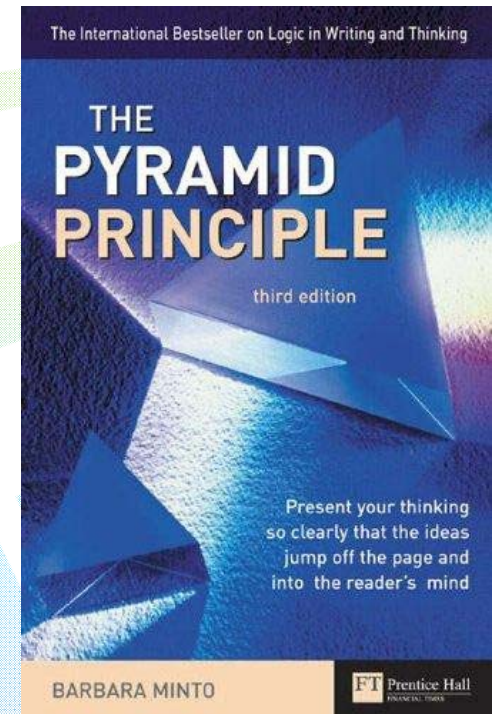
**MECE?**

**Mutually Exclusive, Collectively Exhaustive**

**Oliver Wyman consultant's choice  
for group book study**

**The only question asked at  
Morgan Stanley interview**

**What is a bond?**



## Preface 2) Infrastructure financing

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Major infrastructure requires huge amount of fund.  
Government budget may not always be enough to cover.  
So it needs 'financing'.

It can finance the project 1) by issuing and selling bonds.  
It can also 2) invite private investments in Public-Private Partnership (PPP) scheme.

So why do we need 'infrastructure financing'?

**Because infrastructure projects cost so hugely that it needs to mobilize not only national budget, but also private investments.**

And why is option 2) PPP scheme popular for infrastructure projects?

**Because private sector can additionally bring efficiency, creativity, and technology to the projects.**

## Preface 3) Project financing

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**Before project financing, banks gave loans within pre-arranged credit line. And that credit line has to be backed by various mortgages or securities. This conventional lending practice is called 'corporate financing'.**

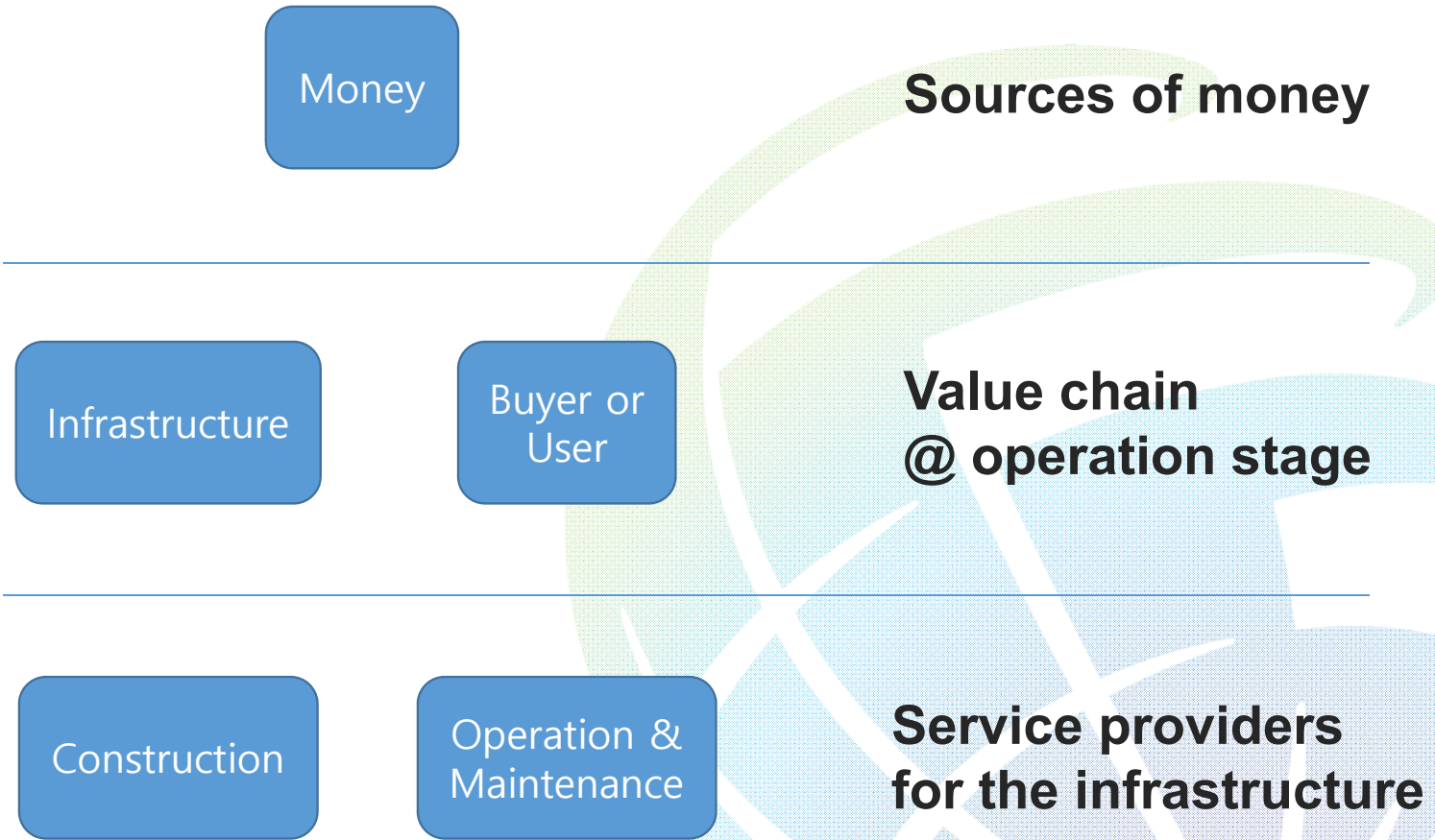
**Imagine a small company that doesn't have much mortgages to provide, but sees a great project opportunity that will bring regular and stable returns. If a progressive thinking bank believes the regularity and stability of returns, and decides to finance the project, that is called 'project financing' scheme.**

**In case the project fails, do lenders collect the company's mortgages? If the full responsibility falls on the company, there's no difference with C.F. To limit the extent of responsibility, in P.F., project company is separately set.**

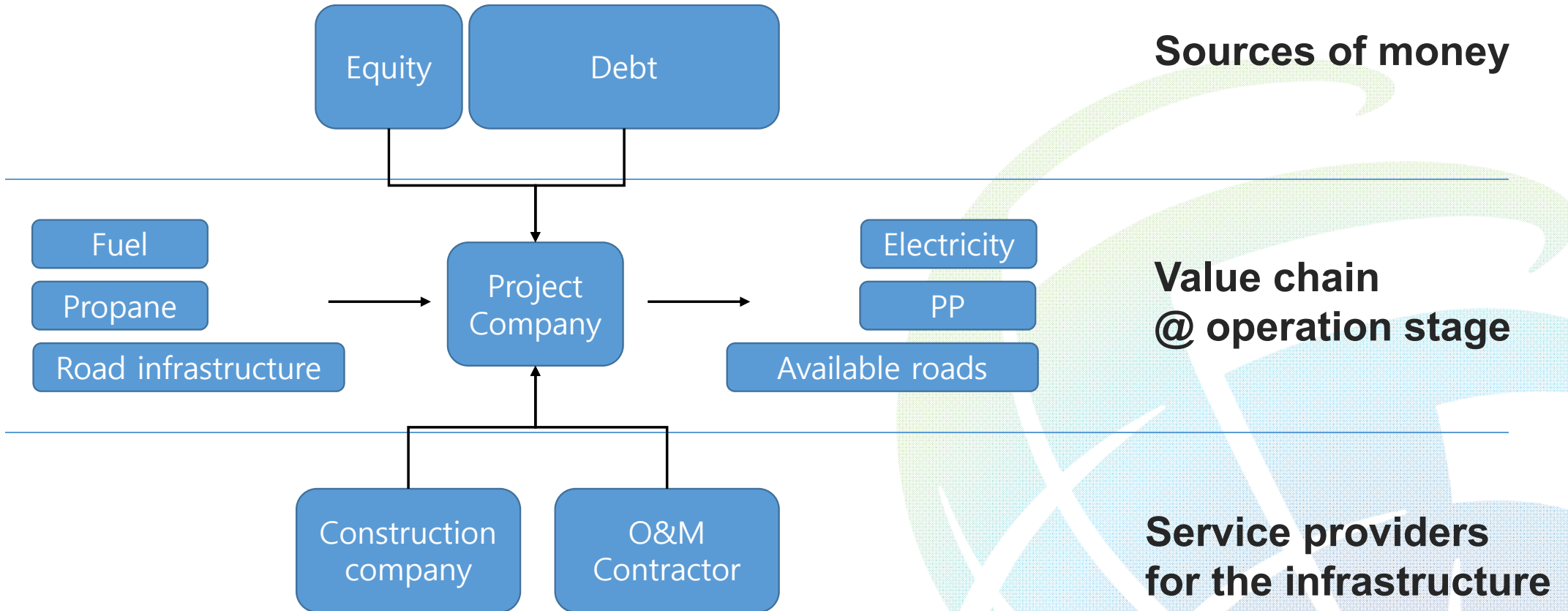
**Hence the two most important characteristics of project financing are 'Limited recourse', and 'Off-balance sheet'.**

# Preface 4) Infrastructure + project financing

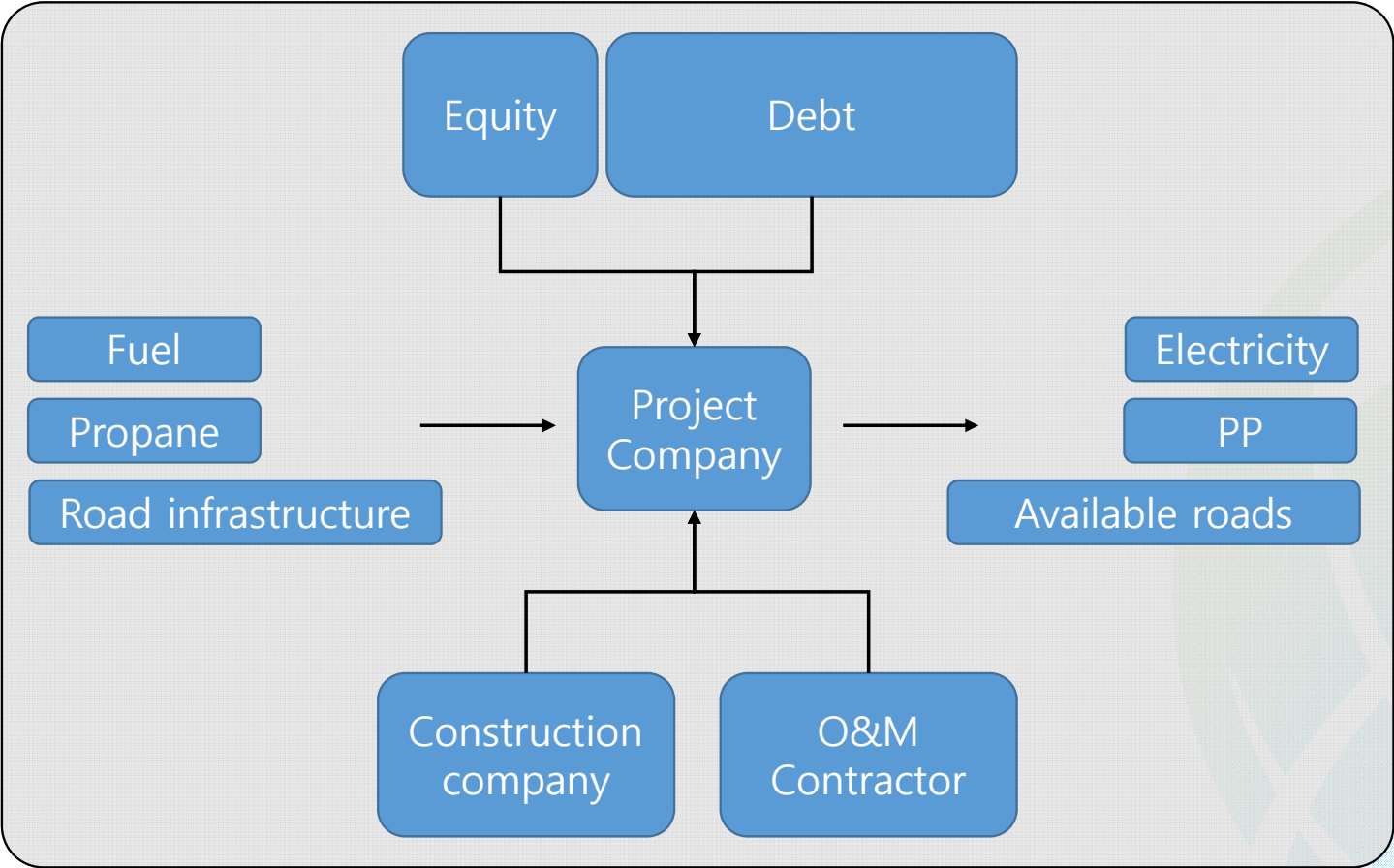
Key elements of Infrastructure projects



# Preface 4) Infrastructure + project financing



# Preface 4) Infrastructure + project financing



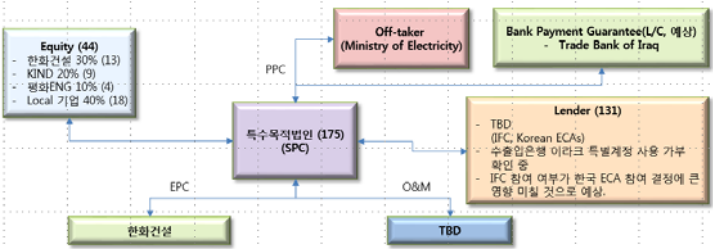
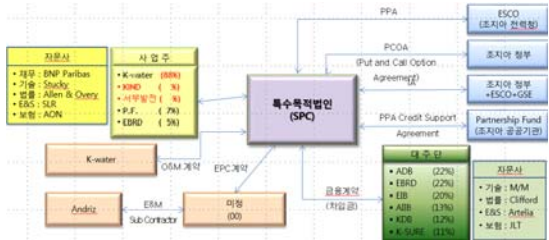
*Backed and administered by the government*

**Where is the government?**

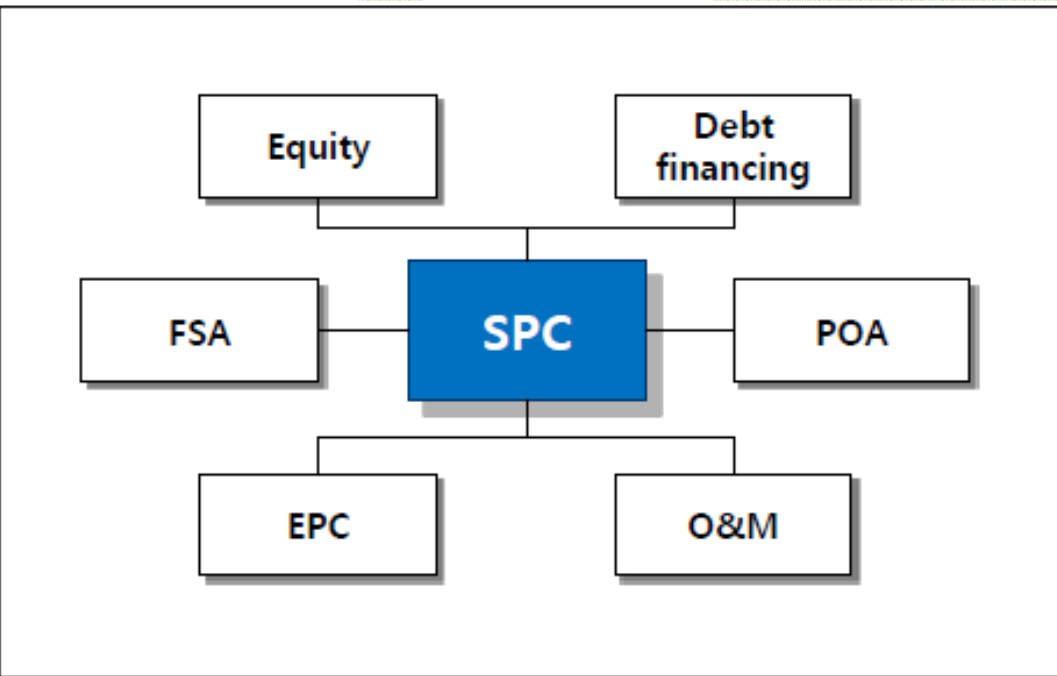
**Invisible? But ubiquitous!**

- Sets legal framework
- Awards concession
- Approves licenses
- Invests together
- Invites and protects investments

# Preface 4) Infrastructure + project financing



Many ways to draw project diagrams,  
But most desirable way is below:





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# Infrastructure by PPP in Korea: everywhere in daily lives

Incheon Bridge



Busan-Geoje Link



Woomyun Hill Tunnel



Seoul Metro 9



Seoul – Chuncheon Highway

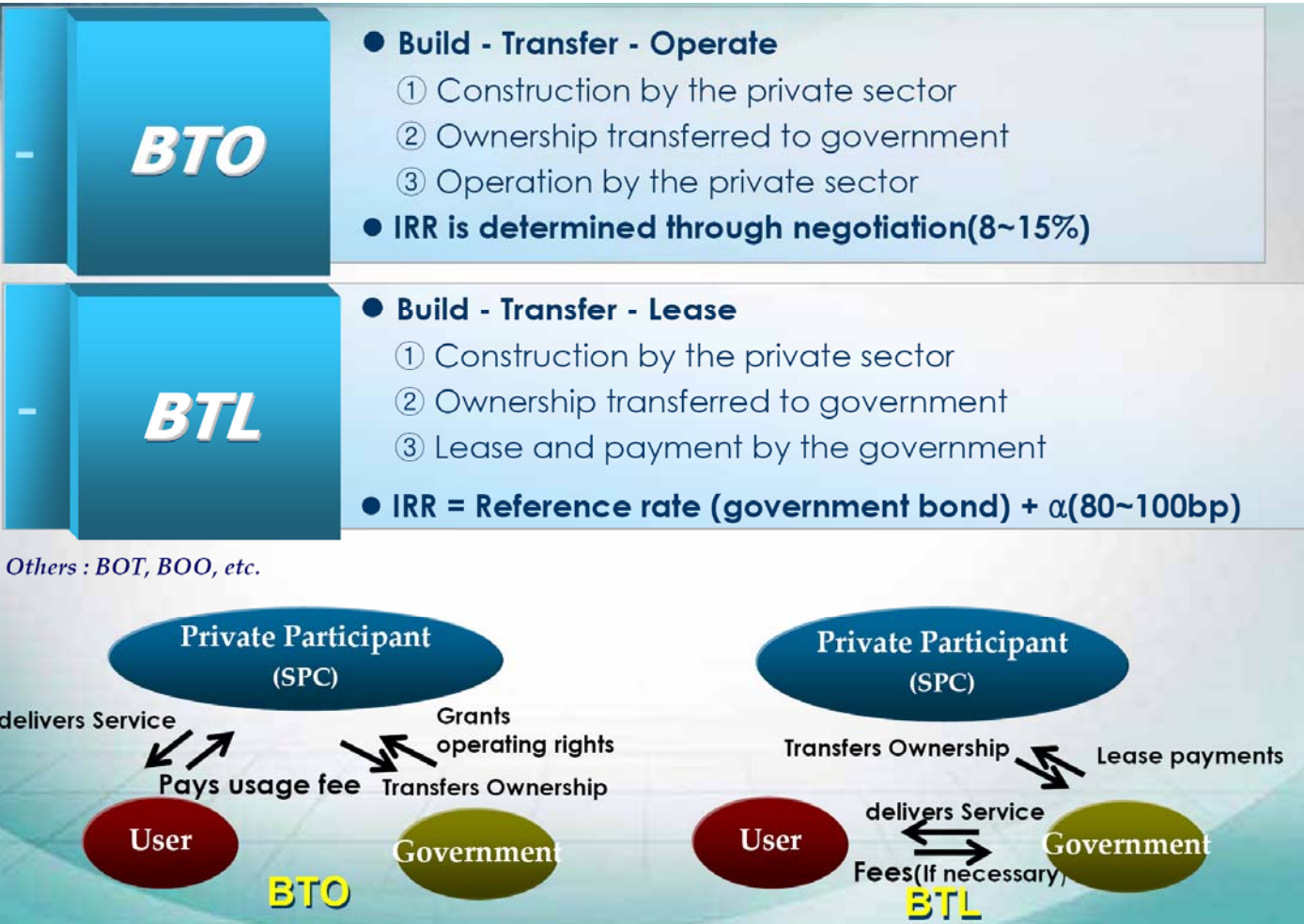


# Korea's PPP Legislation history



Source: Ministry of Strategy and Finance, Korea

# The Most common two schemes in Korea's PPP

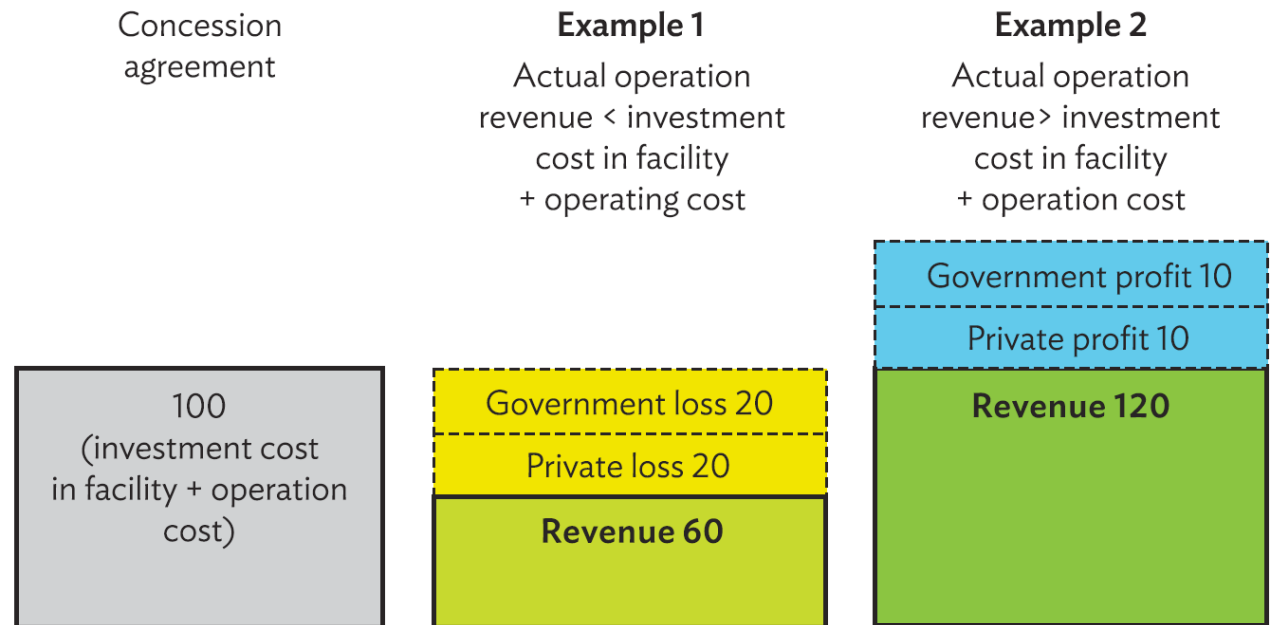


Source: Ministry of Strategy and Finance, Korea

# Recent changes: Korea's PPP keeps evolving

## 1. New schemes

- BTL: Unsolicited proposals are now allowed
- SCS: Standard Cost Support, *NOT Revenue Support*
- BTO-rs (Risk Sharing)

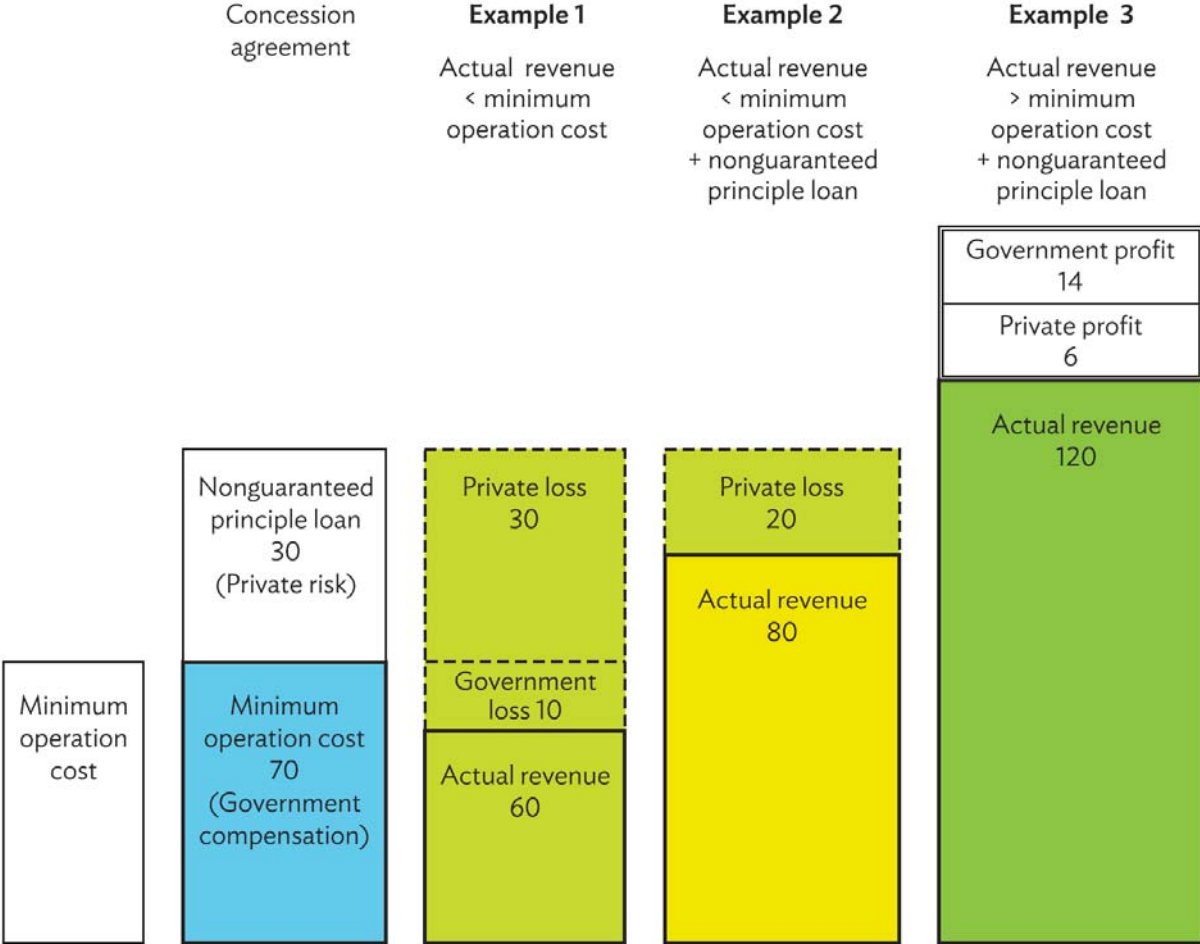


Note: If the share of investment risks between government and private is 50:50

Source: Ministry of Strategy and Finance. 2015. *Public-Private Partnership Projects Promotion Plan*. Sejong.

# Recent changes: Korea's PPP keeps evolving (continued)

- BTO-a (Adjustment)



Source: Ministry of Strategy and Finance, 2015. Public-Private Partnership Projects Promotion Plan. Sejong.

# Recent changes: Korea's PPP keeps evolving (continued)

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## 2. Domestic PPP Unit

PIMAC (Public & Private Infrastructure Investment Management Center) established in 2005

- Specialized PPP Unit and Gatekeeper
- Feasibility analysis
- Consulting and advisory

## 3. Global PPP Support Unit

KIND (Korea overseas Infrastructure&urban Development corp) established in 2018

- Hybrid investment platform specialized in infrastructure
  - Focusing on global market only, *NOT domestic market*
  - Feasibility analysis
  - Financial and Transaction advisory
- 



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# Backgrounds of Incorporation

Recent trends  
in global infrastructure  
& construction sector



Needs to promote  
Team Korea's better  
contribution to global  
projects



- Increasing needs for mega-sized infrastructure and urban development projects
- Such mega-sized projects require complex funding structures, incl. PPP scheme
- To address the demands, fellow countries established supporting institutions  
(E.g., Japan's JOIN, France's EGIS, Qatar's Nebras Power, The US's OPIC expanded to USIDFC, etc.)

- Korean companies' capacity has been well proven domestically for a long time
- Governmental corporations and financial institutions look for global opportunities
- To promote active participation in global infra projects, on top of current K-ECAs' supports, more systematic and holistic support model is required

KIND was established as a unique entity that **leads development** of new projects, brings the best members to **create Team Korea**, and funds projects by **investment** and **financing arrangement**

# Identity of the Institution

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## Identity

PPP Project developer and investor

## Classification

### **Infrastructure investor**

⇒ Similar with many asset management firms, but **governmental**

### **Supporting organization for Korean governmental/private companies**

⇒ But not an **ECA**, nor an **ODA provider**

### **Development Finance Institution**

⇒ More exposure in emerging countries, but open for advanced economies

## Focused areas

Infrastructure & Urban development

## Means of support

- 1) Feasibility study funding ⇒ given to companies or governments
- 2) Investment in PPP projects ⇒ given to SPV's equity or subordinated debt
- 3) Transaction advisory / Financial advisory ⇒ given to companies or governments

# Organization



- Inaugurated in June, 2018
- No. of employees : 57
- Three IFC 50<sup>th</sup> FL, 10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, 07326, Korea
- <http://kindkorea.or.kr/eng>



# Key Facts to Understand KIND

Established under



Relevant Law

OVERSEAS  
CONSTRUCTION  
PROMOTION  
ACT

Shareholders



What KIND does

1. Funding for Feasibility study, Concept planning, Master planning
2. Transaction advisory / Financial advisory
3. Leader of Team Korea / Main channel to materialize G2G discussions
4. Strategic investor, Financial investor / Mezzanine financier

# Target Areas

## Korea Overseas **Infrastructure** & **Urban** Development Corporation

### Transport / Logistics Infrastructure

- Roads, Railways
- Airports, Seaports
- Fuel Terminals (LNG, Coal, etc.)

### Urban Development

- Smart city
- Residential / Commercial
- Other urban facilities (Hospitals, etc.)

### Power

- Conventional (Thermal, Nuclear)
- New & Renewable (Hydro, Solar, Wind, etc.)

### Environmental

- Waste-to-Energy
- Water treatment (Sewerage, desalination, etc.)

### Others

- Petrochemical plant & facilities
- Other infrastructures

# Basic Investment Guidelines

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Co-developer (Non-majority Shareholder) actively working since Day-1

Risk taking to the manageable extent

Securing bankability by thorough due diligence

Complying with international social-environmental guidelines

Promoting MDBs' engagements

Sharing knowledge, technology, and experiences with project clients

## Other Investment Conditions

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Ticket size

Per project, up to 40% of KIND's total equity

Share %

Avoiding Majority / Up to 30% of SPC total equity

Exit policy

Do not remain without Korean investors

Investment type

Preferably Green field / More flexible than ECAs

Target markets

Wherever Korean investors or contractors go



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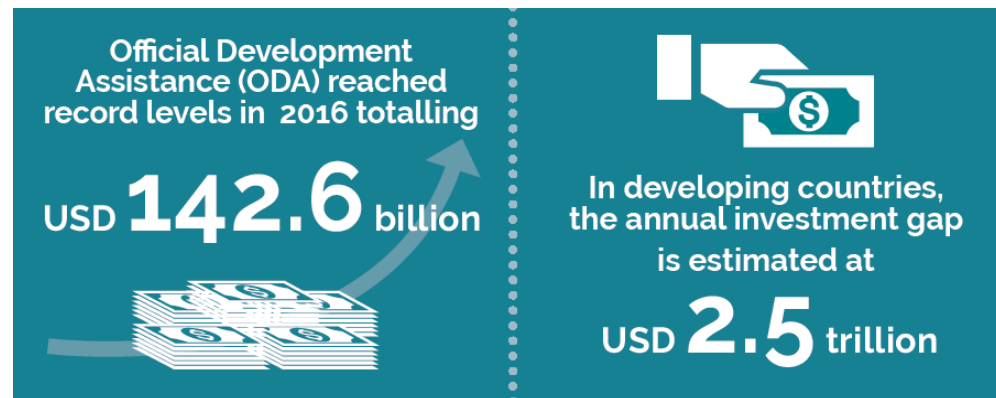
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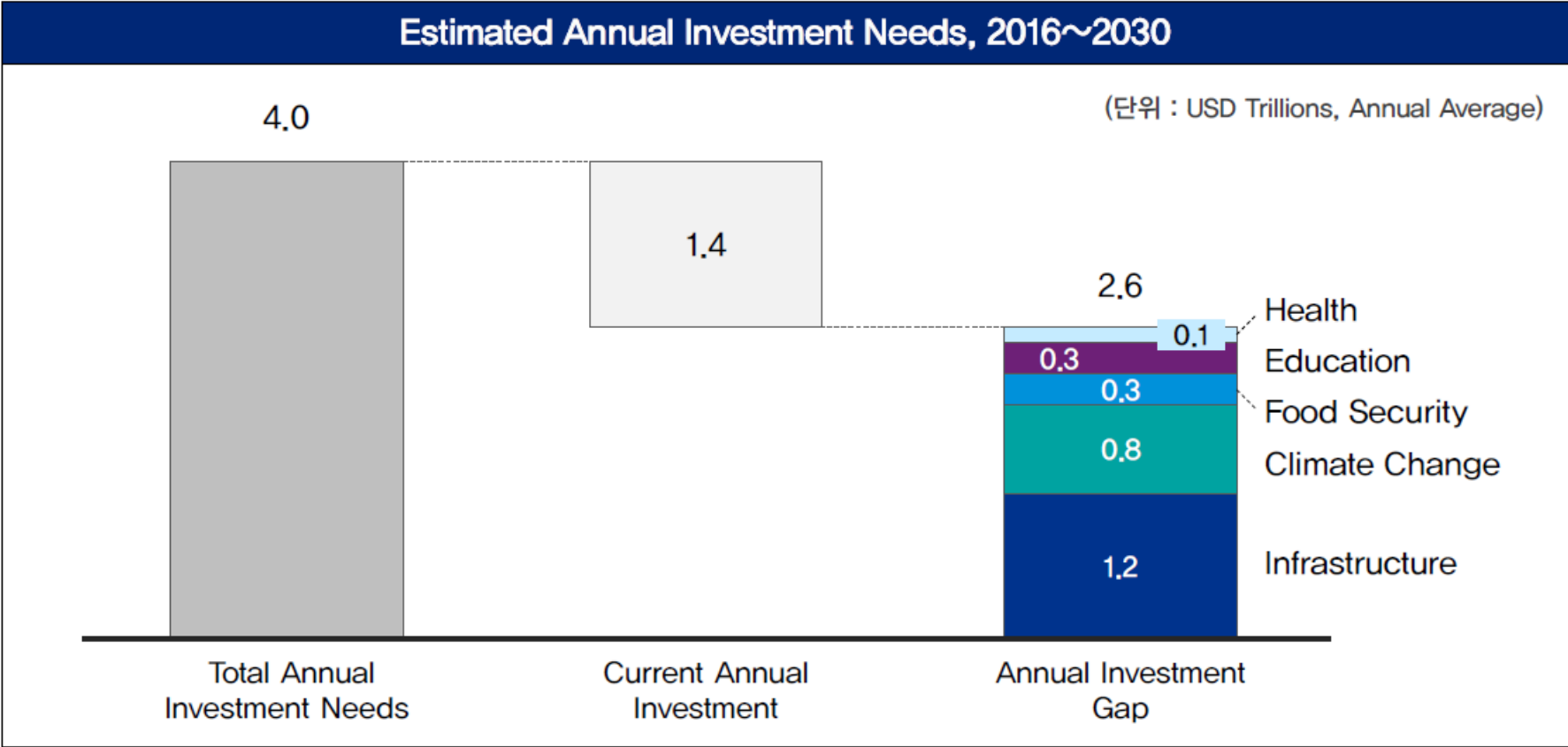


## Scale of the challenge: Financing gap



- **Annual investment gap** to deliver the SDGs in developing countries is estimated at **USD 2.5 trillion**
- **Public development finance** - from governments and donors - will **not be sufficient** to fill investment gap.
- **Mobilizing additional private sector resources** in developing countries is **essential** to achieve the SDGs

# Gap to fulfill SDG



Source : UNCTAD; Dalberg

# Blended finance: Broader perspective

MDG substituted to SDG

Biggest driver to acknowledge necessity of private investment involvement

Then many things are happening...

World Bank: MFD Campaign  
(Maximizing Finance for Development)

OECD: Blended finance promotion

Korea EXIM Bank: Development Finance,  
EDPF (Economic Development Promotion Fund)

Hybrid platform launched: KIND  
(Bilateral version of IFC)

Governments:  
refine legal framework for PPP

Private Equity Funds'  
alternative investments  
Booming due to low interest rates

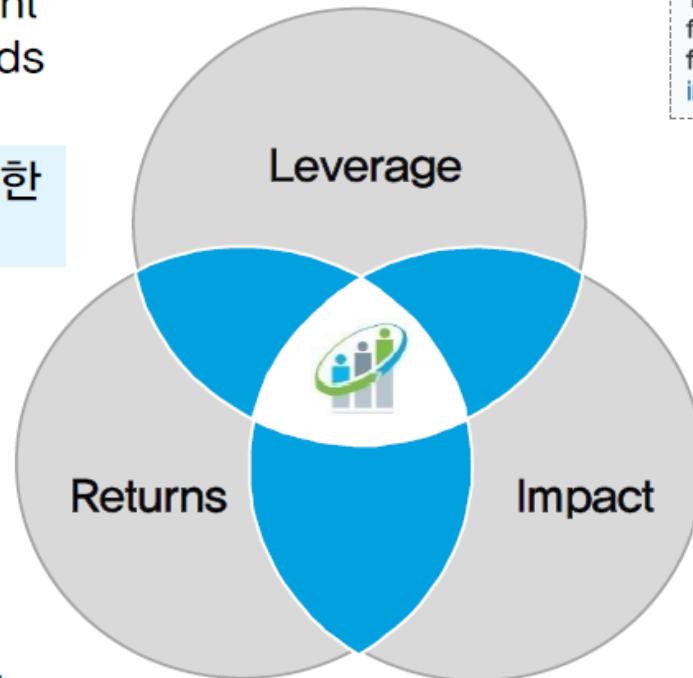
# Blended finance: Definition

**Leverage** : Use of development finance and philanthropic funds to attract private capital

“개발금융과 자선자금 활용을 통한 민간투자재원 동원”

**Returns** : Returns for private investors in line with market expectations based on perceived risk

“위험수준에 부합하는 민간투자자 수익 달성”



## What is “Blended Finance”?

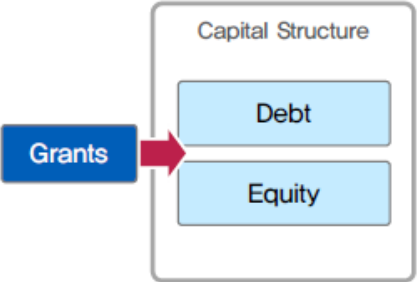
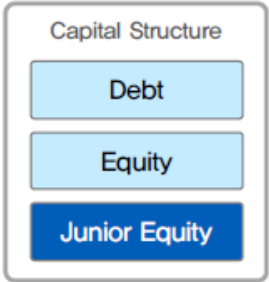
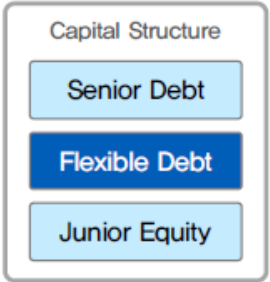
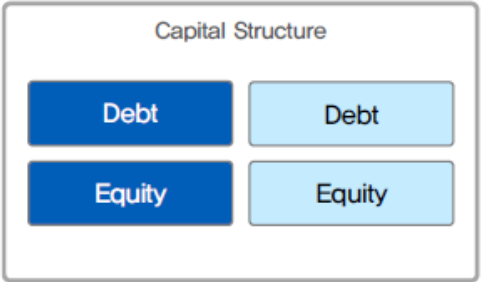
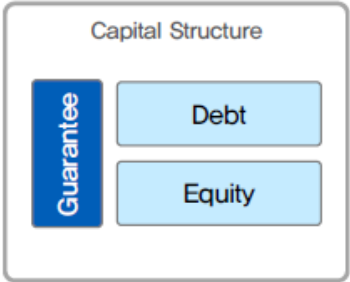


The strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets, resulting in positive results for both investors and communities.

**Impact** : Investments that drive social, environmental and economic progress

“사회, 환경, 경제 분야 발전을 촉진하는 투자”

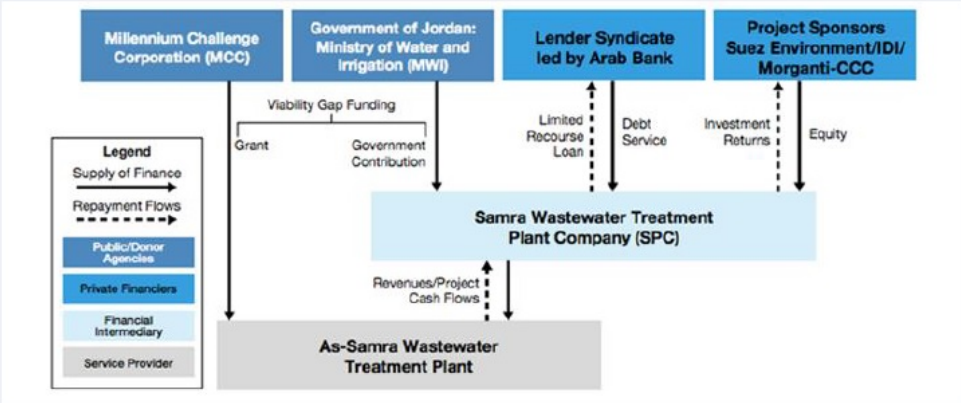
# Common uses of financial instruments in blended finance

Grants (증여)	Junior Equity (후순위 지분투자)	Flexible Debt (후순위 대출)	Market Rate Debt or Equity (시장조건 대출 또는 지분투자)	Guarantees (보증)
<ul style="list-style-type: none"> <li>Funds costs and activities that lead to investment</li> </ul> 	<ul style="list-style-type: none"> <li>Subordinate position absorbs highest risk</li> </ul> 	<ul style="list-style-type: none"> <li>Favorable terms shift risk–return profile</li> </ul> 	<ul style="list-style-type: none"> <li>Investment on same terms demonstrates viability and provides investor comfort</li> </ul> 	<ul style="list-style-type: none"> <li>Risk reduction tools that protect investors against capital losses or provide credit enhancement</li> </ul> 
<p>투자로 이어지는 각종 비용 및 활동 지원</p>	<p>후순위 지분투자로 인한 추가 위험부담</p>	<p>유리한 조건의 자금 공급을 통한 민간 투자자들의 수익률 개선 기여</p>	<p>시장과 동일한 조건의 대출, 지분투자 지원을 통한 프로젝트 실행가능성 증명</p>	<p>투자자 손실 발생을 방지, 신용도를 높여줌으로써 리스크 저감</p>

# Case study 1. Jordan Wastewater treatment plant

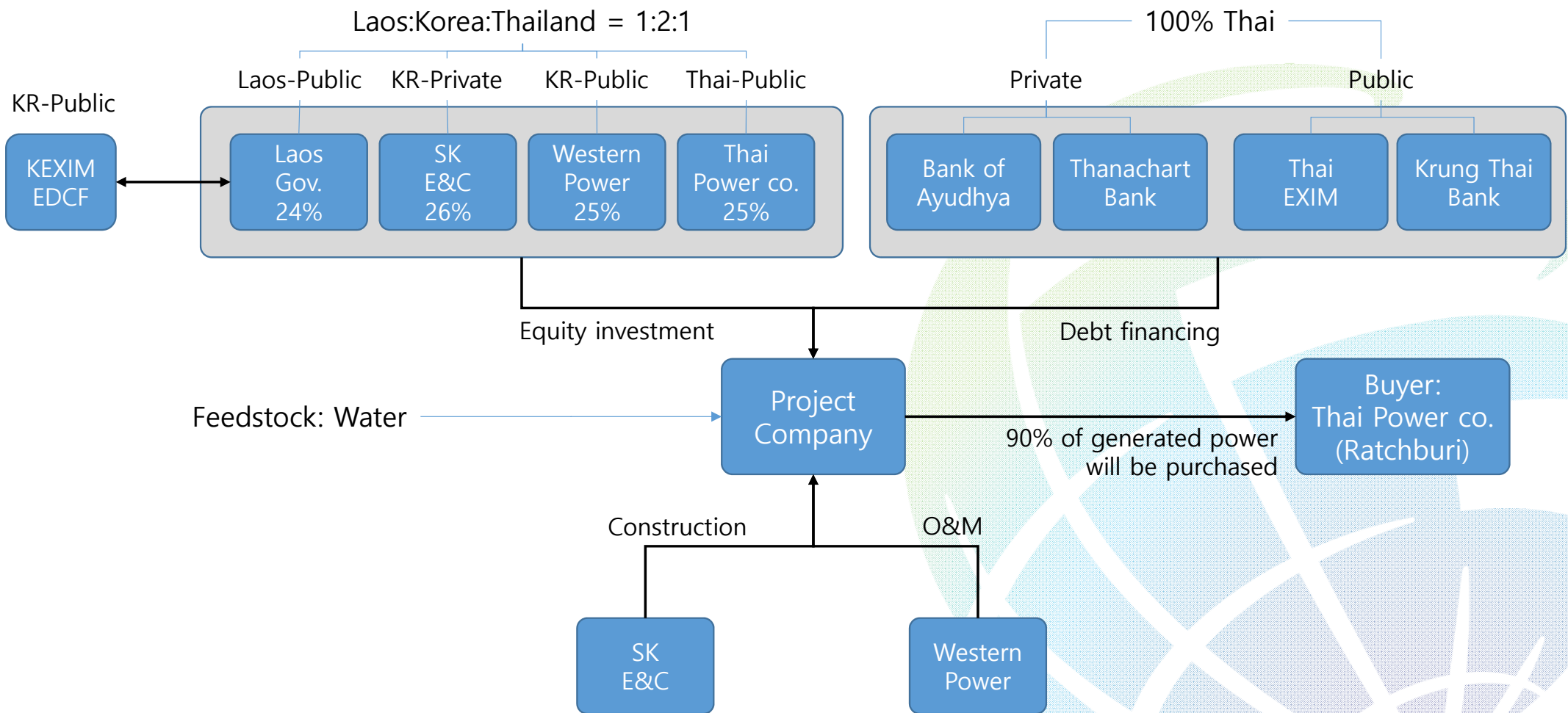
24. The expansion of the As-Samra Wastewater Treatment Plant in Jordan shows how blended finance can crowd-in private investment. Initially designed in 2003, the water treatment plant was overburdened and required capacity expansion. The Millennium Challenge Corporation (MCC), a US aid agency, committed to assist the ministry of Water and Irrigation (MWI) in Jordan in the form of transaction advisory and viability gap funding of a USD 93 million grant. This was crucial in securing the expansion through a build-operate-transfer (BOT) contract, a form of public-private partnership (PPP). The BOT contract was signed between MWI and Samra Wastewater Treatment Plant Company Limited (SPC); private investors include Suez, Morganti and Infilco Degrémont. Apart from the grant from the MCC, the diverse blend of financing (Figure 3.3) included a USD 20 million grant from the Government of Jordan and USD 110 million in private financing arranged by the Arab Bank through a loan syndication process. This project increased the capacity of water that could be used for agriculture, thus freeing up freshwater for high value use in municipalities (World Bank Group, 2016[12]).

Figure 3.3. As-Samra blended finance structure



Source: (World Bank Group, 2016[17])

# Case study 2. Laos hydropower Plant





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# Activities so far

## 26 MOUs signed

YY.MM.	Organization
`18.06.	CAF (Development Bank of Latin America)
`18.09.	GI Hub (Global Infrastructure Hub)
`18.10.	K-Sure (Korea)
`18.12.	Digital Trust (Uzbekistan)
`19.01.	KEXIM Bank (Korea)
`19.01.	ICO (Spain)
`19.03.	ADB (Asia Development Bank)
`19.04.	PPP Authority (Bangladesh)
`19.05	EBRD (European Bank for Reconstruction & Development)

## 10 Conferences hosted

YY.MM.	Conferences, Workshops
`18.11.	Project Financing Meeting w/ MDBs
`18.02.	IFC-MIGA-KEXIM-KIND Workshop
...	...

## 5 Feasibility Study Supports since 2019

YY.MM.	Projects
`18.02.	Mozambique, Maputo CCPP
`18.02.	Turkey, Istanbul Tunnel
`18.02.	Indonesia, Medan LRT + BRT
`18.02.	Vietnam, Hanoi wholesale market
`18.02.	Kyrgyzstan, Biskek Univ. Hospital

# Plans for 2019

## Deal Pipeline Expansion (50→70)

- KIND will expand its deal pipeline from its existing 50 projects to 70 projects

## 4 Overseas Infrastructure Centers

- KIND will launch 4 Overseas Infrastructure Cooperation Center before 2019. 2Q.  
(Indonesia, Vietnam, Uzbekistan, Kenya)

## Feasibility Study (Around 7 mil. USD)

- KIND will provide KRW 7 Bil to support PPP project Feasibility Study and Concept Plan or Master Plan

## 4 New Investments

- KIND is targeting to participate more than 4 projects in 2019.

## Establishing Convergence Project Office

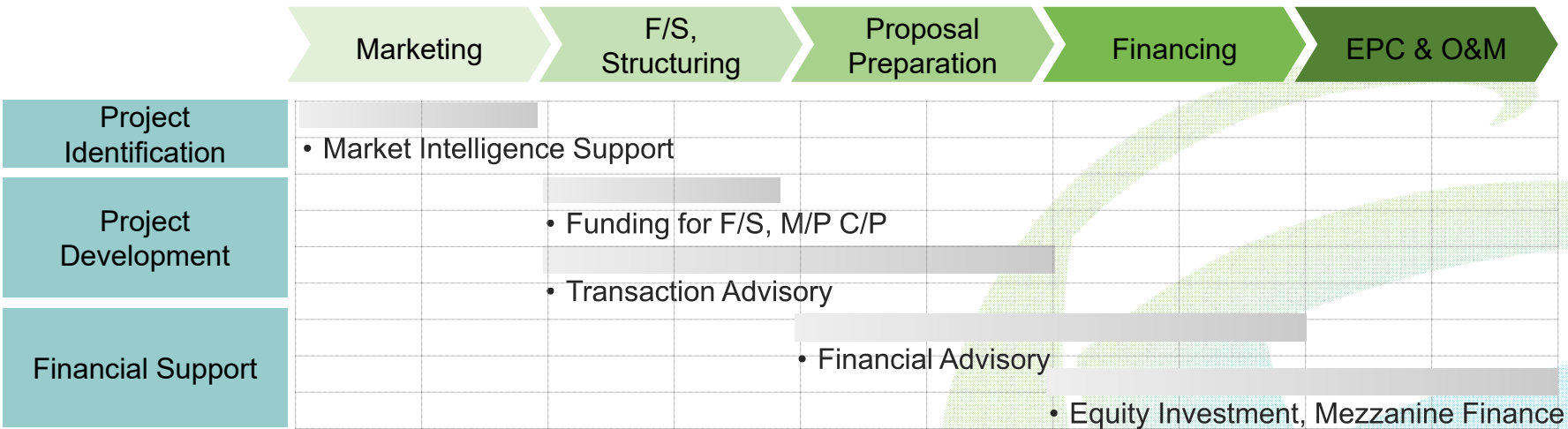
- KIND will establish new project office for Convergence PPP projects to cover Smart City, ICT related projects

## Global Plant, Construction, Smart -City Fund

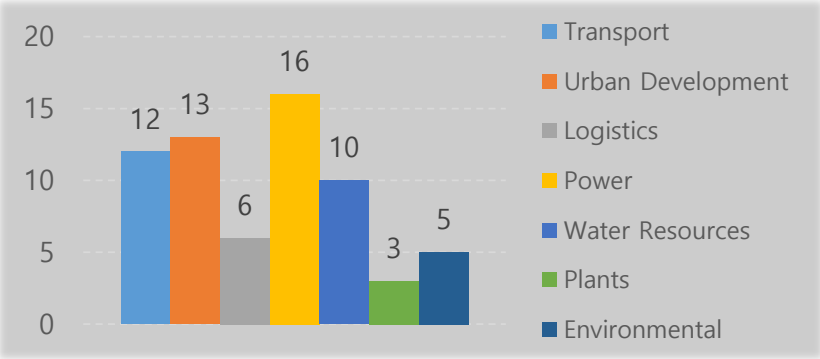
- Korea government is planning to build the Global Plant, Construction, Smart city Fund(KRW 300 Bil = USD 266 Mil) to promote the global infrastructure development
- KIND will participate as a investor and managing organization of the Fund

# Supporting means summary / Deal pipelines

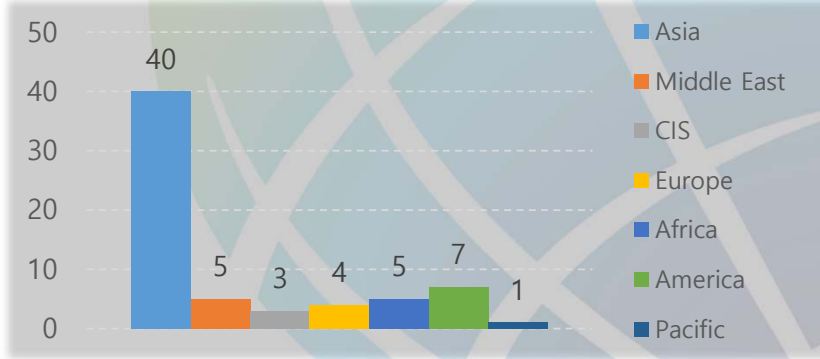
## KIND Supports



## KIND Deal Pipeline (65 projects as of '19. 04)



| # of Projects by Infra Area |



| # of Projects by Region |

# KIND's strategy in recent global trends

World Bank: MFD Campaign  
(Maximizing Finance for Development)

OECD: Blended finance promotion

Korea EXIM Bank: Development Finance,  
EDPF (Economic Development Promotion Fund)

Governments:  
refine legal framework for PPP

Private Equity Funds'  
alternative investments  
Booming due to low interest rates

**With MDBs:**  
**MOU, Joint conferences, constant**  
**Communication on individual projects**

**With K-ECAs:**  
**Promoting blended finance**  
**projects combining ODA and PPP**

**With governments:**  
**KIND's main roles as PPP investor,**  
**Project developer and advisor**

**With private financial institutions:**  
**Already working together on several**  
**projects / expected to increase**

## Prerequisite before last suggestion: Understanding private companies



Very much **reactive** on incentives  
: Regardless how marginal they are

The firm maybe huge,  
but its employee is just another ordinary man  
(小市民) : **Cannot make risky decisions**



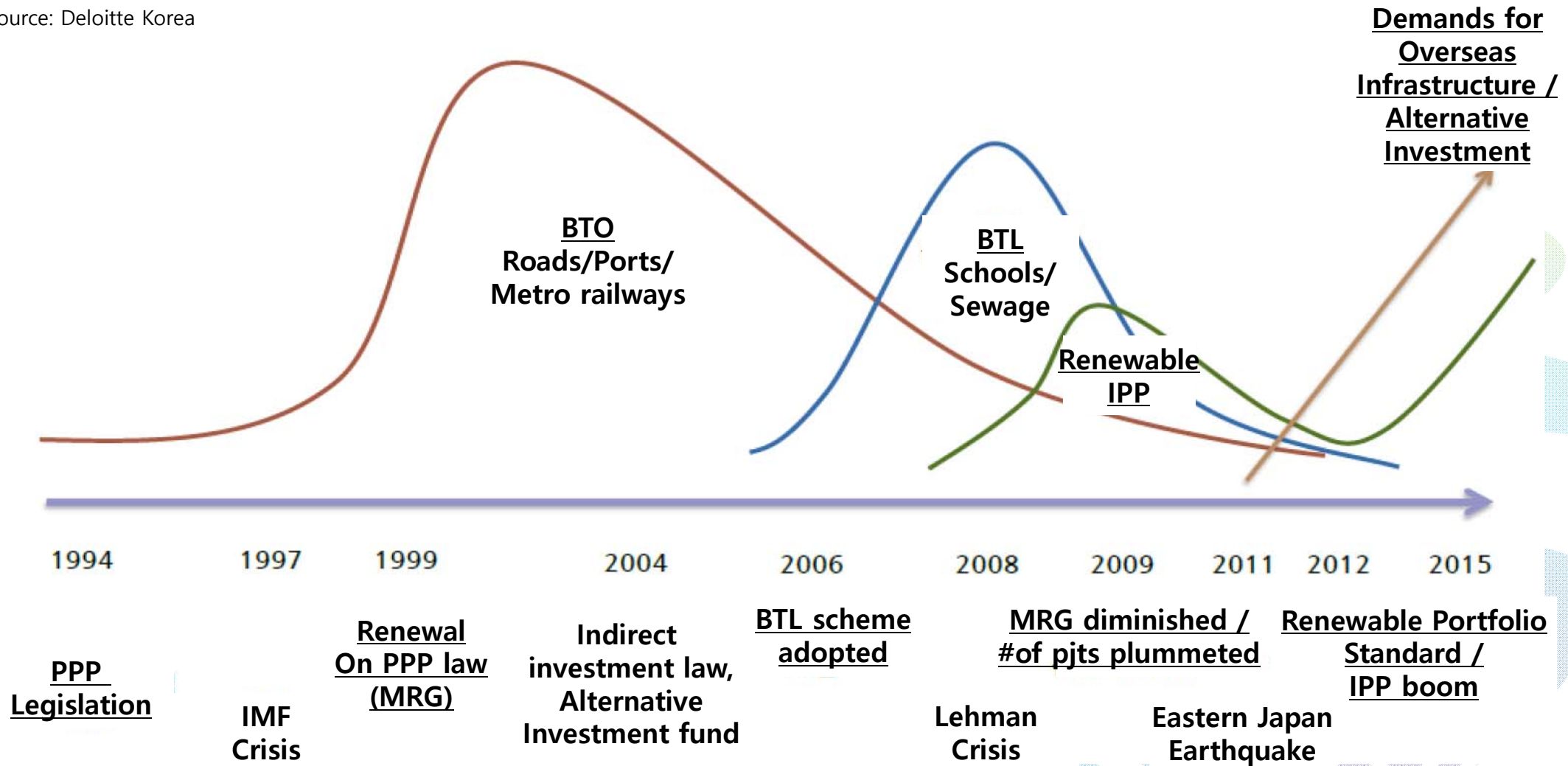
Departments  
compete each other:  
**Good enough deals may fail** due to this internal  
competition

Keep the **liberty to choose their stage from the whole globe:**  
Making my country attractive  
is public servant's job



# KIND's suggestions: Let's cherry-pick from Korea's case

Source: Deloitte Korea



## KIND's suggestions: Let's cherry-pick from Korea's case

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- To lure private investments, there must be investor-friendly policies: Sovereign guarantee, MRG, BTL, AP, Openness to unsolicited proposals, feasibility study provisions, etc.
- If such investor-friendly policies were provided to certain projects, they must be maintained for those projects. However, according to market situations, they can be revised and controlled later.
- Investors are extremely sensitive on the government's policies: Once a policy is presented, they will react
- Successful experiences investors have had will lead another series of successful investments: Moderate level of revenue security, and forex policies favorable to foreign investors will be a big plus

# Suggestion for cooperation between your government and KIND

## KIND: 2-way- Project Identification

Deal **sourcing**: Korean companies bring their opportunities to KIND and request for KIND's support

Deal **origination**: KIND receives new opportunities from foreign governments and gather capable companies to form Team Korea

## Your government: 4 ways to utilize KIND

**For projects that are planned for PPP schemes,**

For early strategic plan, request for **Master planning or Concept planning;**

For a specific project in early stage, request for **preliminary Feasibility study;**

For a specific project being finalized, request for **Full blown Feasibility study.**

**Share new project lists with KIND** so that it can bring potential investors



# Thank you very much

For further information on KIND and its strategy,  
please contact:

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