

## **CGIF launches CPG – a new guarantee product to help mobilise private long term debt capital to finance greenfield infrastructure projects.**

1 July 2016, Manila

The Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank (“CGIF”) is pleased to announce the launch of CPG, a new guarantee product aimed at addressing concerns of construction risks from conservative long term investors about greenfield infrastructure projects.

Besides assuring investors of the completion of construction works, CPG which stands for Construction Period Guarantee, is designed to frame the boundaries of risks during the construction period to acceptable levels. This assessment framework that underpins CGIF’s CPG product is envisaged to drive the quality of the regions’ projects to higher levels in particular with respect to mitigating construction related risks.

“For some time now, construction risks have been identified by long term bond investors as an unassailable impediment for participating in greenfield infrastructure projects and it is timely for CGIF to look to deliver a solution for this” says Kiyoshi Nishimura, Chief Executive Officer of CGIF.

“CPG not only provides assurance to bond investors if a project does not complete, but is backed by a robust construction risk assessment and mitigation framework developed by CGIF” he added.

“An accessible project bond market for greenfield infrastructure projects in Asia would be a game-changer for developers – CPG is a very significant and a very welcome step forward” said Fergus Smith, Partner of Herbert Smith Freehills, which supported CGIF on the legal perspectives of CPG.

CGIF is now in search of a suitable project in the ASEAN region to roll out a pilot implementation of CPG. While it will still take considerable effort to conclude the first CPG supported project bond from this point, the benefits anticipated from its success will accrue for many years to come. This will represent a significant milestone for the development of project bonds and local currency bond markets not only in CGIF’s focus countries but globally.

“We are looking forward to working with project sponsors, advisors and investors on this exciting journey to deliver the much needed infrastructure – be it for green energy or clean water, there is lot more to do from this first step forward” adds Boo Hock Khoo, CGIF’s Vice President, Operations.

Interested partners are encouraged to refer to the CPG factsheet attached and contact CGIF at [guarantee\\_enquiries@cgif-abmi.org](mailto:guarantee_enquiries@cgif-abmi.org) to discuss potential projects and collaboration opportunities.

### **About CGIF**

CGIF is a multilateral facility established by the ASEAN+3 and Asian Development Bank (“ADB”). It is established as a trust fund of ADB with an initial paid-in capital of USD700 million from its contributors. As a key component of the Asian Bond Markets Initiative, CGIF was established to develop and strengthen local currency and regional bond markets in the ASEAN+3 region. CGIF commenced its guarantee operations on 1 May 2012 and seeks to provide credit enhancements, mainly in local currencies, issued by credit worthy ASEAN+3-domiciled bond issuers.

### **CGIF’s Credit Ratings**

Rating Agency	Scale	Ratings	Outlook	Date Reviewed
Standard & Poor’s	Global (Long Term / Short Term)	AA / A-1+	Stable	22 June 2016
Standard & Poor’s	ASEAN	axAAA	Stable	22 June 2016
RAM Ratings	Global / ASEAN / National	gAAA / seaAAA / AAA	Stable	22 December 2015
MARC	National	AAA	Stable	28 January 2016
TRIS Ratings	National	AAA	Stable	19 October 2015

### **About Herbert Smith Freehills**

Operating from over 26 offices across asia pacific, emea and north america, Herbert Smith Freehills is at the heart of the new global business landscape providing premium quality, full-service legal advice. Herbert Smith Freehills is recognised as a global leader in the project financing of energy & infrastructure projects. Herbert Smith Freehills provide many of the world’s most important organisations with access to market-leading dispute resolution, projects and transactional legal advice, combined with expertise in a number of global industry sectors, including energy, natural resources, infrastructure and financial services. [www.herbertsmithfreehills.com](http://www.herbertsmithfreehills.com)

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# CONSTRUCTION PERIOD GUARANTEE

# CGIF'S CONSTRUCTION PERIOD GUARANTEE

Construction risk has long been an impediment for the use of project bonds to finance green-field infrastructure projects. Despite being suitable long term investments for pension and life insurance funds in the region, exposures to green-field infrastructure projects fall outside the risk appetite of their conservative investment strategies due to construction risks.

## CONSTRUCTION PERIOD GUARANTEE FACILITY

CGIF's Construction Period Guarantee ("CPG") facility is aimed at allaying bond investors' concerns about construction risks by guaranteeing the completion of construction works and the commencement of the operations phase in a project which will be financed by project bonds issued in the local currency bond market in the region. Under this facility, CGIF irrevocably, unconditionally guarantees non-payment of scheduled payments for the project's bonds occurring prior to the commencement of commercial operations. If a project's completion is delayed, CGIF shall ensure that the project bonds are adequately serviced on a timely basis. In the unlikely event that it cannot be completed, CGIF shall accelerate the guaranteed bonds and pay 100% principal and accrued interest amounts owing to bondholders. CGIF's CPG will terminate upon the commencement of commercial operations as defined in the project documents.

To take on construction risks, CGIF has developed a comprehensive assessment framework that allows these risks to be measured and managed. Components of this framework allow for expert judgement of the various risk factors relating to the construction works as critical inputs in the assessment. Risks are also managed by CPG's boilerplate requirements on the various contractual agreements and risk mitigants that are consistent with international project finance practices to frame up the boundaries of risk during the construction period to manageable levels.

## ANTICIPATED IMPACT

CPG is anticipated to boost the use of local currency project bonds for new projects in the region by eliminating construction risks for bondholders investing in green-field projects. If rated, with CGIF's CPG, the project bond's rating during the construction period should not be lower than its operations phase rating.

## INTENDED BENEFITS

**Project Companies:** CGIF's CPG is envisaged to enable infrastructure project developers to tap long term local currency project bonds that otherwise would not normally be accessible. Project companies are also able to engage with a single controlling creditor with respect to the monitoring of construction progress and consent requirements instead of numerous bondholders. The elimination of rating penalties (notching down or caps) associated with construction risks helps improve the long term bond pricing and deliver considerable interest savings to the project over its life.

**Investors:** With the mitigation of one of the most significant concerns, conservative life insurers and pension funds in the region can now invest in safe and highly rated project bonds that provide long term stable fixed income that matches well with their long term liabilities. Supporting projects at the green-field stage will allow these funds to directly contribute to building infrastructure. Investors will also be relieved of the necessary monitoring and management obligations of lenders during the construction phase.

**Governments:** By ensuring that the projects meet CPG's boilerplate standards with respect to the various concession and construction contracts, Governments will be ensuring that the respective projects are well delivered. This helps boost private sector participation and long term regional savings to help boost the roll out of infrastructure projects.

## **ELIGIBILITY**

CGIF's CPG will be deployed to projects in the ASEAN+3 region for qualifying green-field projects. Guaranteed debt instruments should be local currency bonds or notes issued via public or private placement by a ring-fenced Special Purpose Vehicle to finance a specific infrastructure project.

CGIF will only guarantee projects that meet CPG's boilerplate requirements which include a robust construction work program in the hands of experienced and capable contractors. The project shall also meet CGIF's Know Your Client, Environmental & Social Safeguard Policy and due diligence requirements. These will include 3rd party expert consultant and legal counsel opinions on the respective technical aspects to the construction works, contractual arrangements as well as the environmental and social impacts. CGIF's CPG will be subject to the same country, currency, sector and single obligor limits of CGIF's guarantee portfolio.

## **ABOUT CGIF**

CGIF was established in November 2010 to promote financial stability and to boost long-term investments in the ASEAN+3 (China, Japan, and Korea) region. CGIF provides guarantees to local currency denominated bonds issued by corporations and projects in the region.

CGIF enjoys a strong credit rating of AA (global scale) from S&P and AAA (local scale) from regional credit rating agencies (RAM and MARC from Malaysia, TRIS from Thailand). More information about CGIF can be found at [www.cgif-abmi.org](http://www.cgif-abmi.org).

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