Press Release

CGIF and Surbana Jurong team up on greenfield project bonds

Innovative partnership to boost infrastructure funding in Southeast Asia

Singapore, 24 May 2017 – The Credit Guarantee & Investment Facility (CGIF) and Surbana Jurong Private Limited (SJ) today announced a collaboration to boost the use of local currency-denominated project bonds to finance greenfield infrastructure projects in Southeast Asia.

CGIF is a multilateral facility established by ASEAN+3 countries and the Asian Development Bank to develop and strengthen local currency and regional bond markets in ASEAN.

Under this collaboration, SJ will provide technical assessments to validate the time, cost and quality aspects of identified greenfield infrastructure projects aiming to issue project bonds with the support of CGIF's Construction Period Guarantee (CPG). CGIF will offer irrevocable and unconditional guarantees to projects in ASEAN with robust construction programmes, as screened by SJ. These guarantees can stretch up to US$140 million equivalent per single greenfield infrastructure project to facilitate the issuance of long term local currency bonds.

The CPG, launched in July last year, is designed to frame risks associated with the construction period to acceptable levels for conservative long term investors to consider greenfield project bonds. *(See Appendix I for more info on CPG.)*

This collaboration marks the first partnership between CGIF and a urban, industrial and infrastructure consulting firm. CGIF has undertaken 13 corporate bond guarantee transactions since her establishment in May 2012, and is actively looking to embark on her first infrastructure project bond guarantee with SJ.

"For many conservative long term investors, construction risk has been the key impediment keeping them from supporting the build-up of infrastructure assets despite their natural appetite for long term bonds. This collaboration marks an innovative attempt to bring to the market high quality greenfield project bonds where construction risks have been adequately appraised and mitigated as guided by the engineering prowess of a firm like Surbana Jurong and backed by CGIF's guarantees," said Mr Kiyoshi Nishimura, Chief Executive Officer of CGIF.

He further added: “Many ASEAN countries are witnessing rapid accumulation of domestic savings in the non-bank sectors such as pension funds and insurance companies as their economies grow and their income levels rise. However these savings are not well tapped to finance critically needed infrastructure assets. Catalyzing these institutional investors’ support for infrastructure projects perfectly fits the aspirations of CGIF’s Contributors which includes the Singapore Government to find new methods to narrow the widening infrastructure gap in the region”.

“For a country to develop and grow, infrastructure development is key. However, perceived risks in such projects in Developing Asia deter investors, and infrastructure development is, in turn, often severely hampered. Surbana Jurong is delighted to partner the CGIF to develop a robust construction risk assessment and mitigation framework that will provide assurance to new investors in greenfield infrastructure project bonds. This partnership aims to boost infrastructure investment in ASEAN,” said Mr Wong Heang Fine, Group Chief Executive Officer of SJ.

He added: “As one of the largest Asia-based urban, industrial and infrastructure consultancy service providers, SJ is always keen to further value-add to our global clients with a complete value-chain of services. This complementary partnership with CGIF allows us to now offer a new dimension of financing solutions for our infrastructure project pipeline. We believe we are the only player in our industry to offer such a solution.”

Stimulating local currency bonds

According to the Asian Development Bank's latest forecasts, Developing Asia will need to invest US$26 trillion from 2016 to 2030, or US$1.7 trillion per year, in order to maintain the region's growth momentum, eradicate poverty, and respond to climate change. New approaches will be required to stimulate private sector finance in infrastructure investments and to prevent the region from falling further behind.

One such approach is to facilitate the channelling of domestic long term savings to finance infrastructure directly via project bonds, particularly at the greenfield stage. Mobilising long term savings to meet long term funding needs in matching currencies is the most efficient model of financing infrastructure. However, only a few countries have successfully pursued this capability. A critical impediment towards mobilising long term savings is the low risk appetite of pension and insurance fund managers and their aversion to construction risks.

How the CGIF-SJ collaboration helps to boost funding

The collaboration between CGIF and SJ aims to deliver the assurance needed by institutional investors to make investments in greenfield project bonds. It marries CGIF's financial strength as a guarantor, in particular via its new Construction Period Guarantee or CPG[1], with the engineering and technical prowess of SJ to examine and validate construction-related risks on projects. When construction risks are expertly assessed, properly managed and mitigated, CGIF's irrevocable and unconditional guarantee for project completion can attract long term investors to invest in greenfield project bonds.

Initially, long term investors will rely on expert assessments like those from SJ and CGIF's CPG risk assessment framework to frame construction risks to acceptable levels. However, over time, it is envisaged that this will ultimately aid infrastructure investors to gain the necessary experience to evaluate future greenfield project bonds, and to help narrow the region's substantial infrastructure gap.

[1] CPG: See Appendix I

About CGIF

CGIF was established by the 10 members of the Association of Southeast Asian Nations (ASEAN) together with China, Japan and Korea (ASEAN+3), and the Asian Development Bank (ADB) in 2010 to develop ASEAN local currency bond markets. It exists as a trust fund of ADB and operates independently out of ADB's headquarters in Manila.

CGIF is tasked to deploy credit guarantees to corporate, project and securitization bonds to boost issuer and investor participation in ASEAN's current local currency bond markets such as Indonesia Rupiah (IDR), Malaysian Ringgit (MYR), Philippine Peso (PHP), Singapore Dollar (SGD), Thai Baht (THB) and Vietnamese Dong (VND). Instigating the inaugural bond issuances in Brunei, Cambodia, Laos and Myanmar is also part of its development mandate.

With "AA" global scale from S&P and "AAA" local scale ratings in many of the local currency markets in ASEAN, CGIF's guarantee has successfully mobilized over USD 1 billion equivalent from local bond investors to new issuers as well as new types of bonds since commencing its operations in May 2012.

Background of CGIF

Before the Asian Financial Crisis in the late nineties, many investments in the region were financed by short-term foreign currency borrowing from commercial banks. This caused a "double mismatch" problem; a mismatch in currency and a mismatch in tenor in financing investments. This double mismatch problem was considered one of the causes of the crisis.

ASEAN+3, together with ADB, started a regional cooperation initiative known as the Asian Bond Market Initiative (ABMI) to address the double mismatch issue. ASEAN+3 has been working together under the ABMI to develop local currency bond markets in the region which companies in the region can tap. CGIF is one of the key elements of this multilateral initiative.

Need for Bond Market Development

Bonds allow investors to directly lend money to finance corporations and infrastructure assets; by-passing intermediation of funds by the banking sector. For infrastructure projects, long-term fixed rate project bonds in matching local currencies are the best method of financing projects including those at the green-field stage. Therefore, building institutional capacity amongst long-term investors to evaluate well developed projects is a key step towards thriving bond markets to finance infrastructure in the region.

Use of CGIF's Guarantees

Companies and project companies can seek CGIF's irrevocable and unconditional guarantee for the full tenure of the bonds to reach conservative long-term investors who are less familiar with their business activities and risks. For projects under construction with robust operational phase cash flows, CGIF can provide a guarantee just for the construction period with its Construction Period Guarantee (CPG)[2] to allow bond investors to earn higher returns by taking the operational phase risks without the punitive construction risks associated with green-field bonds. CGIF's CPG will require the construction program to be well developed and analysed guided by expert opinions from technical consultants as inputs to ensure construction risks are well-framed within acceptable levels.

About Surbana Jurong (SJ)

Surbana Jurong Private Limited (SJ) is one of the largest Asia-based urban, industrial and infrastructure consulting firms. Leveraging technology and creativity, SJ provides one-stop consultancy solutions across the entire value chain of the urbanisation, industrialisation and infrastructure domains.

Headquartered in Singapore, the SJ Group has a global workforce of 13,000 employees in 113 offices across 44 countries in Asia, Australia, the Middle East, Africa and the Americas, and an annual turnover of around S$1.3 billion.

SJ has a track record of over 50 years, and has built more than a million homes in Singapore, crafted master plans for more than 30 countries and developed over 50 industrial parks globally.

SJ's motto 'Building Cities, Shaping Lives' reflects its belief that development is more than just steel and concrete. SJ creates spaces and infrastructure services where people live, work and play, shaping cities into homes with sustainable jobs where communities and businesses can flourish.

[2] CPG: See Appendix I

Credit Guarantee & Investment Facility
An Asian Bond Markets Initiative

SURBANA JURONG

Appendix I: CGIF'S Construction Period Guarantee

What is CGIF's Construction Period Guarantee or CPG?

CPG guarantees the completion of construction works and commencement of operations for green-field project bonds. If the projects are not completed, CGIF will pay bondholders all amounts owed by project companies. Behind CPG is a robust risk assessment framework and boilerplate requirements that help CGIF frame construction risks to acceptable levels.

Why is CPG needed?

CPG is aimed at addressing misconceptions around construction risks amongst long-term bond investors—the guardians of long term savings. These risk-averse investors are the only source of long-term, fixed rate debt funding in matching local currencies that are best suited for infrastructure projects.

How do projects benefit?

When funded by long-term, fixed rate, local currency green-field bonds, projects benefit when financing risks are fully mitigated for the life of the project. Without exposures to interest rate, foreign exchange and refinancing risks, a project's risk profile improves considerably.

Role of Surbana Jurong

On identified projects, CGIF will rely on Surbana Jurong's opinions on the robustness of the construction programme to address risks including those related to technical complexity, timeline and budget.

Expectations for Investors

While CPG affords investors to buy green-field bonds by only focusing on the operational phase risks, following CGIF's pilot implementation, investors will be able to rely on CGIF's framework to evaluate and manage construction risks on their own without a guarantee.

Qualifying Projects

CGIF seeks projects with robust construction programs that are undertaken by experienced contractors with low operational phase risk for a pilot implementation of CPG in ASEAN's 6 local bond markets namely IDR, MYR, PHP, SGD, THB & VND.

For more information on CPG, please contact:

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