



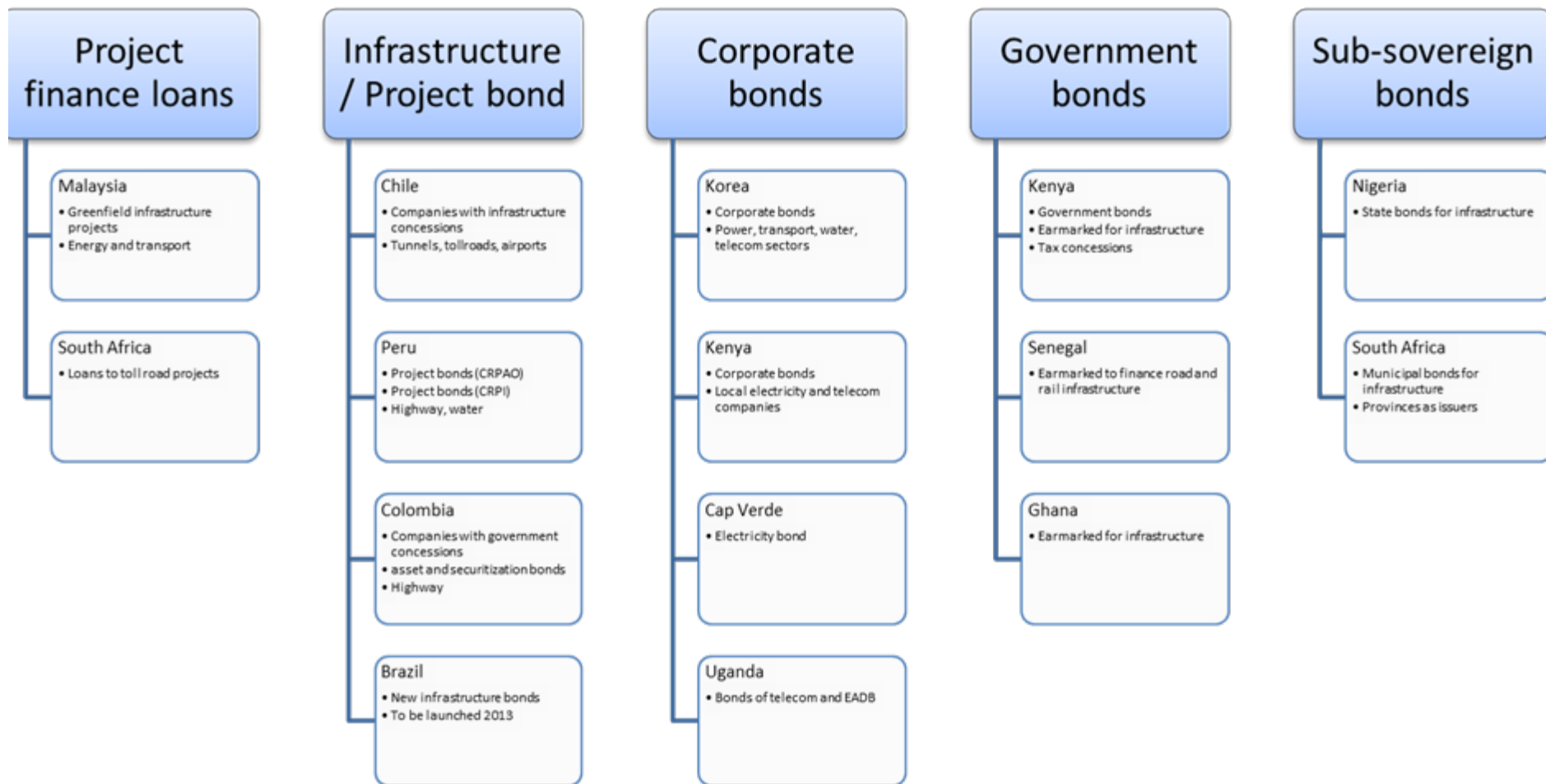
Institutional Investors and EM Infrastructure

Fiona Stewart
Global Pension & Savings Conference
3rd April 2014
World Bank
Washington

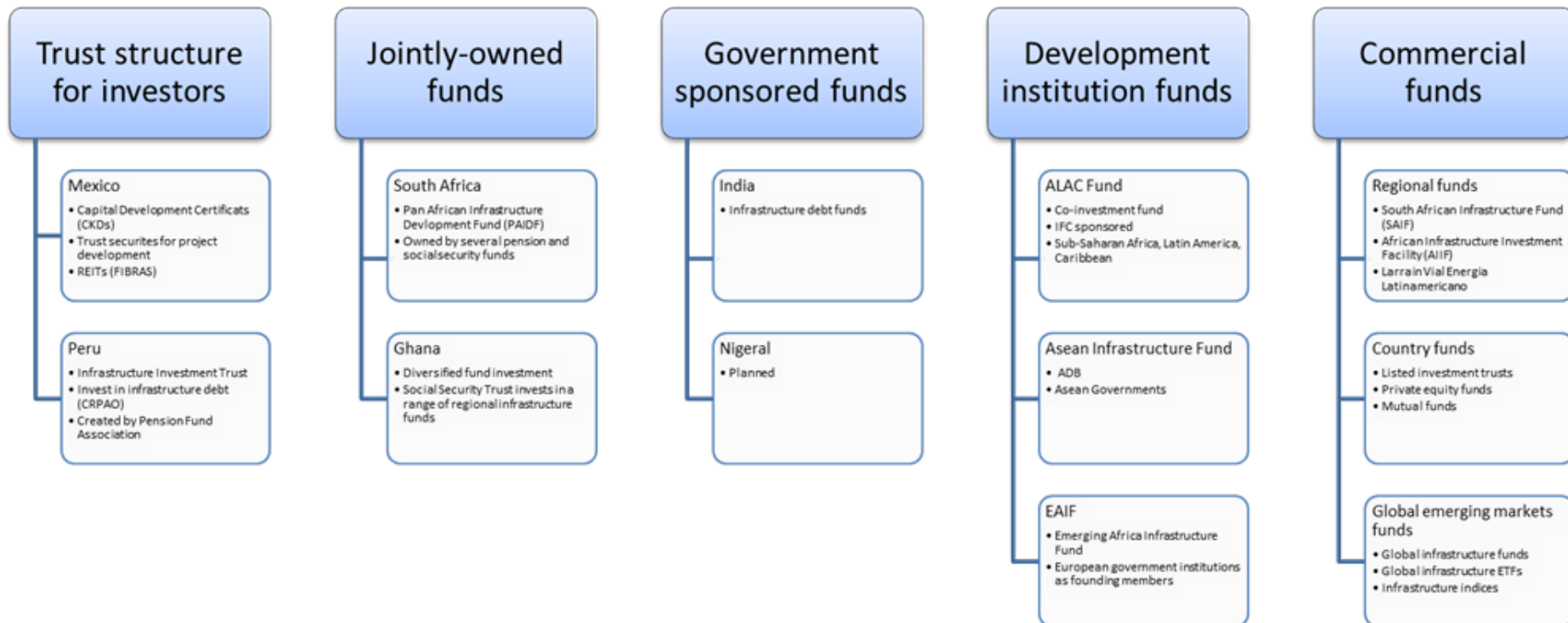
How much of the Infrastructure Financing Gap Could Institutional Investors Fill?

Institutional Investors	AUM USD \$	Current Investment in EM Infrastructure	Potential Investment in EM Infrastructure	Comments
OECD Institutional Investors	79 trillion +	<1% = total leading investors c10% most in domestic markets	1% assets = \$750 billion	WEF (2011) breakdown of institutional investors AUM to truly long-term capital = \$6.5 trillion Around 1% of this implies c\$50 billion target
Emerging Market Institutional Investors	4.5 trillion NB growth potential – e.g. EM pension funds currently \$2.5 trillion AUM estimated to rise to \$17.4 trillion by 2050	Even more limited than leading OECD investors Chilean pension funds 1.5%	1% assets = c\$50 billion	This target could be much higher as many EM institutions can only invest in domestic markets
Sovereign Wealth Funds	4 trillion	0-5%	c5% assets = c\$250 billion	Many of new EM SWF being set up to specifically invest in domestic infrastructure
EM pension reserve and social security funds	1 trillion	Limited – ad hoc examples only	10% assets = c\$100 billion	High target as these funds are often the largest single source of capital in a developing country

Institutional Investor Involvement in Infrastructure Debt: Some examples from developing economies



Institutional Investor Involvement in Infrastructure Funds – some examples for developing economies



Pre-conditions for institutional infrastructure investment

Are there institutional investors with investment funds? (Pension / social security funds, insurers, SWFs)

- Yes (type, size)
- No: Create or reform funded pension / social security system

Are there substantial investment limits / constraints?

- No
- Yes: Review
- Quantitative limits
 - asset classes / investment vehicles
 - liquidity
- Investor regulation
 - funding & solvency
- Foreign investments

Are there infrastructure assets to invest in?

- Yes: private / privatized
- Yes: public - private / PPP
- No: Develop / review infrastructure policy

Are there working capital markets? (equities / bonds/ derivatives)

- Yes
- No: Develop / reform capital markets

Is the bank intermediation working ?

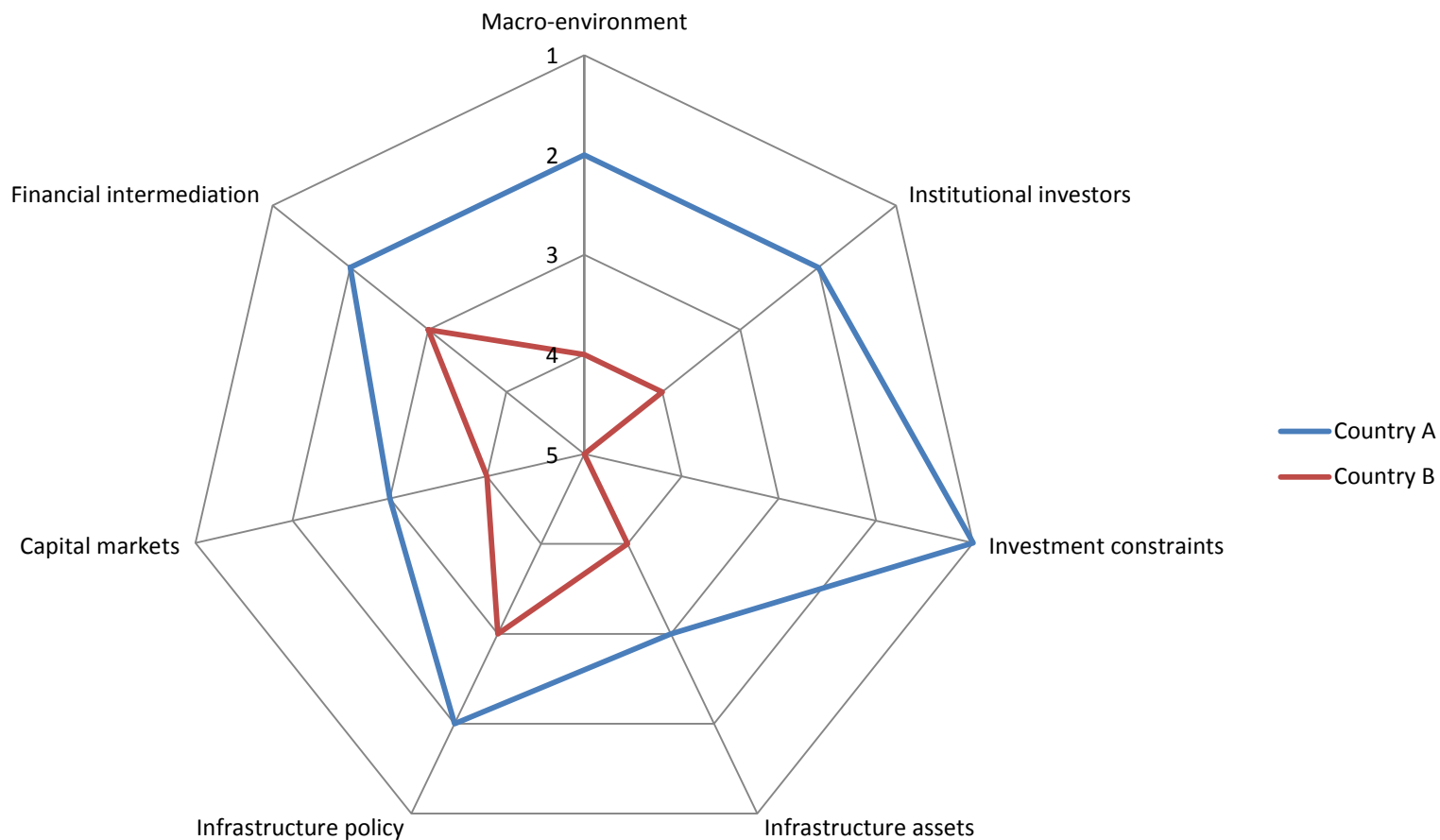
- Yes
- No: reform banks
- No: development banks
- No: multilateral development agencies

Is there a favourable macro-environment (political, law, institutions)

- Yes
- No: reform / improve
 - political stability
 - rule of law
 - regulatory certainty
 - institutions

Assessing a country's macro and financial sector situation can lead to conclusions as to which instruments may fit best

Country Assessment for Institutional Infrastructure Investment



Linking country context to appropriate financial instrument



	Country A	Country B	Country C
Sovereign credit rating	At / close to investment grade	Below investment grade	No rating
Size pension fund AUM (%GDP)	> 10%	1-5%	Minimal
No. pension funds	10s or 100s	A few main funds	Dominant social security fund
Quality of pension system e.g. Mercer Global Pensions Index	D	C	E
Insurance penetration % GDP	High	Medium	Minimal
SWF	Yes	Yes	No
Development Fund or Bank	Yes	No	Yes
Level financial sector - bank assets % GDP - private credit % GDP	Medium	Low	Fledgling
Level capital market - Stock market cap % GDP	High	Medium	Low
Business conditions e.g. IFC Doing Business ranking	Good	Average	Difficult
Infrastructure investment conditions e.g. EC Harris Harris Global Infrastructure Investment Index e.g. Nabarro Infrastructure Index	Good	Average	Poor