

**Confidential and Proprietary**

**ZIARUL BURSA  
INFRASTRUCTURE FINANCE AND CAPITAL MARKETS**

**KEY PRINCIPLES OF INFRASTRUCTURE AND MUNICIPAL FINANCE:  
Draft Jan 11 2019**

**BUCHAREST , ROMANIA  
January 28, 2020**

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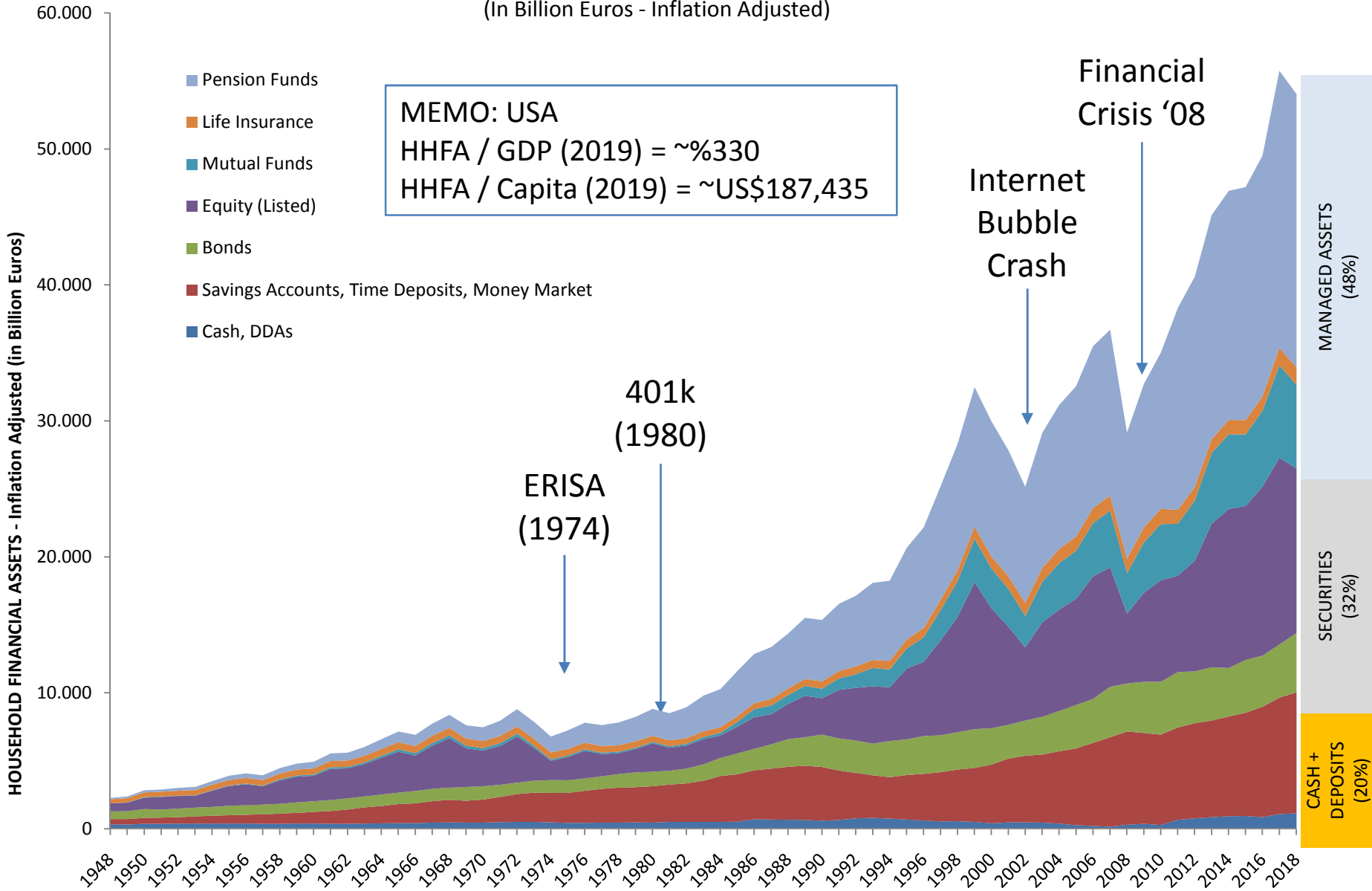
## *AGENDA...*

- Evolutionary View of Finance: Where does Romania stand?
- Infrastructure and Municipal Finance: Observations/Best Practices
- Recommendations for Romania

# AN EVOLUTIONARY VIEW OF FINANCE... EXAMPLE: THE "US MODEL"...

## USA: HOUSEHOLD FINANCIAL ASSETS

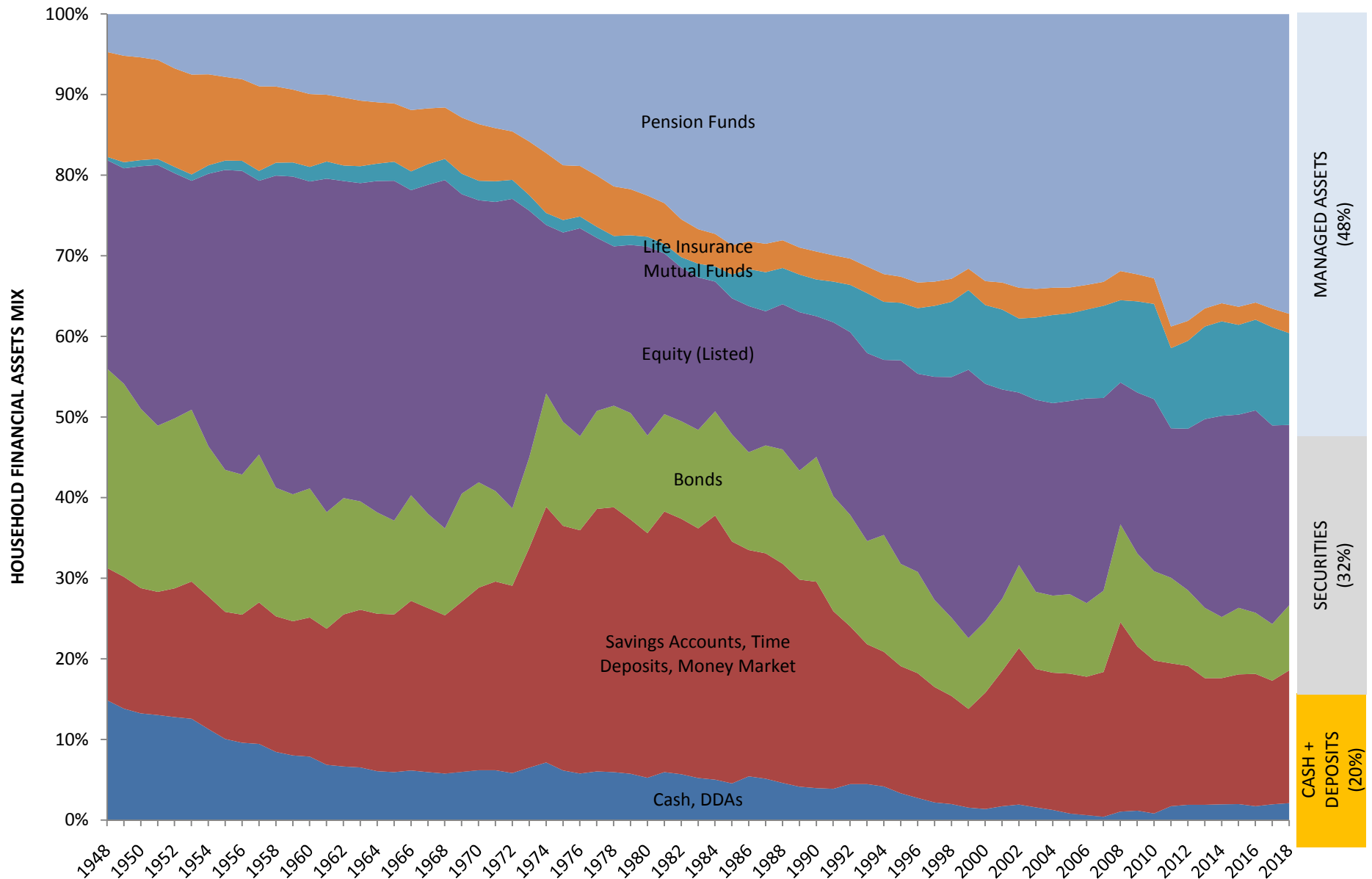
(In Billion Euros - Inflation Adjusted)



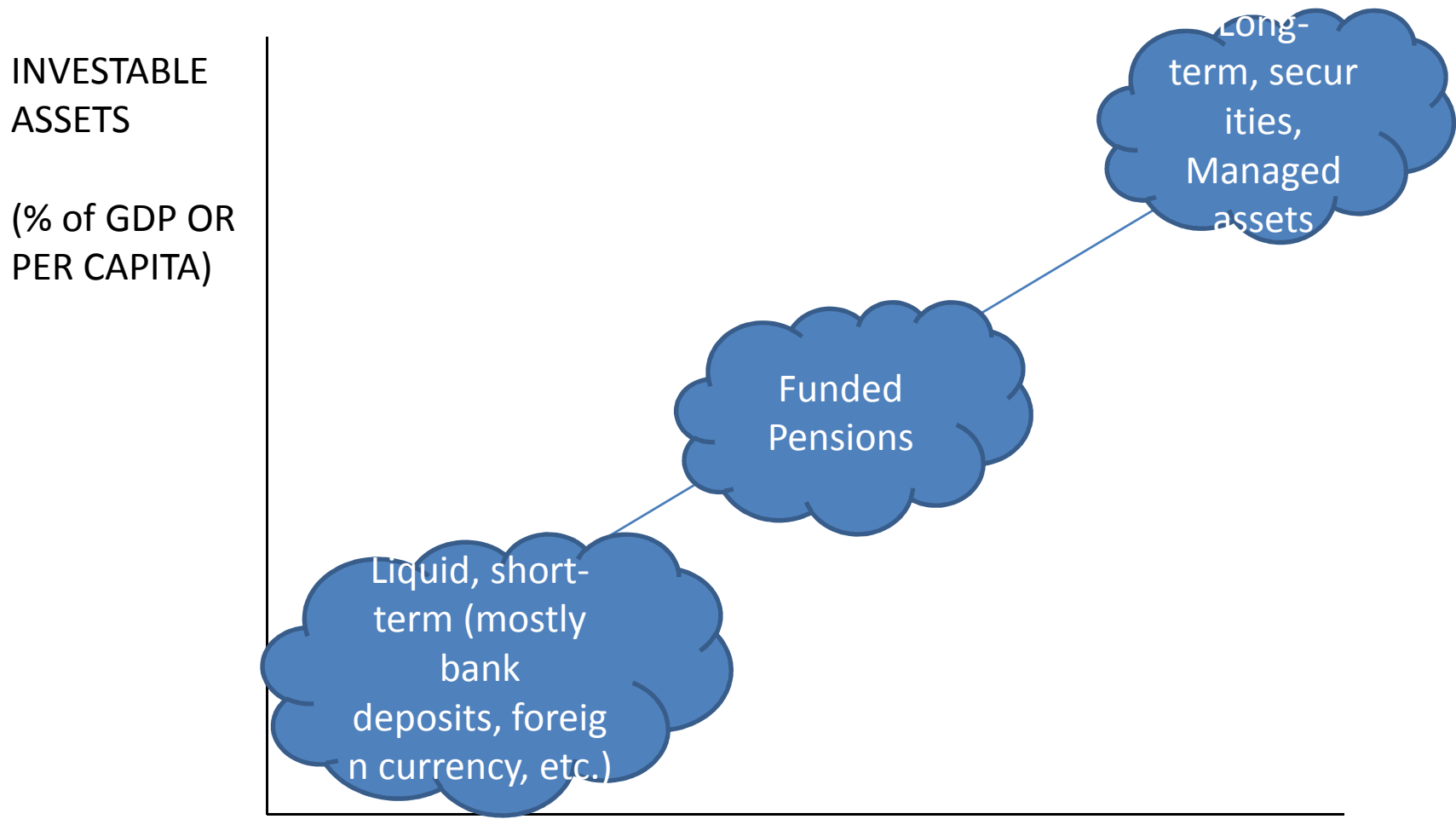
Source: Federal Reserve

# AN EVOLUTIONARY VIEW OF FINANCE... EXAMPLE: THE "US MODEL"...

## USA: HOUSEHOLD FINANCIAL ASSETS PORTFOLIO MIX



# AN EVOLUTIONARY VIEW OF FINANCE...



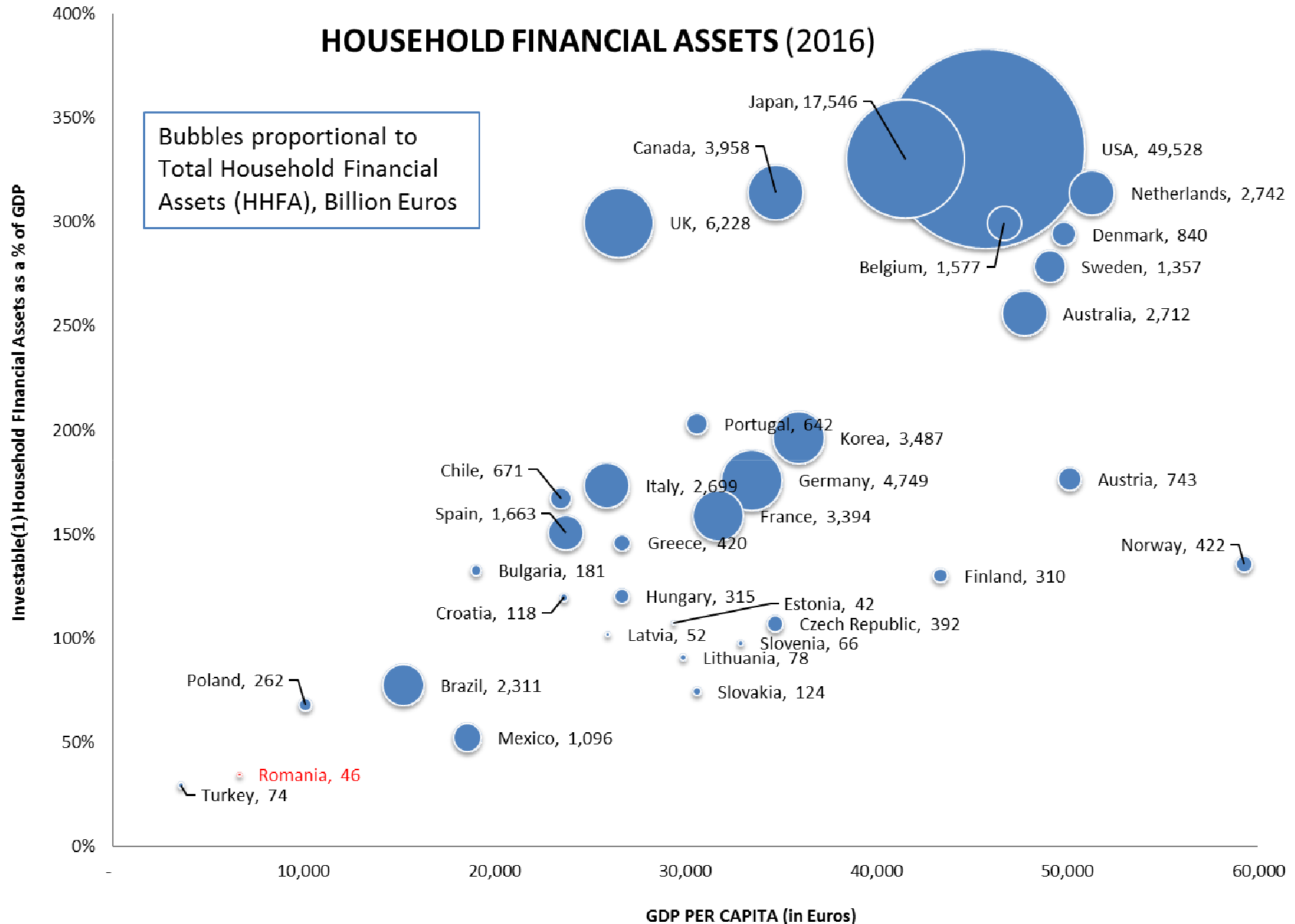
**INCOME PER CAPITA**

“Poor countries”  
 Inflation, instability  
 Real estate, gold are typical  
 long term investments

“Rich countries”  
 Low inflation, stable

- EXAMPLES:
- |        |         |        |        |       |        |     |
|--------|---------|--------|--------|-------|--------|-----|
| TURKEY | ROMANIA | POLAND | BRAZIL | ITALY | CANADA | USA |
|--------|---------|--------|--------|-------|--------|-----|

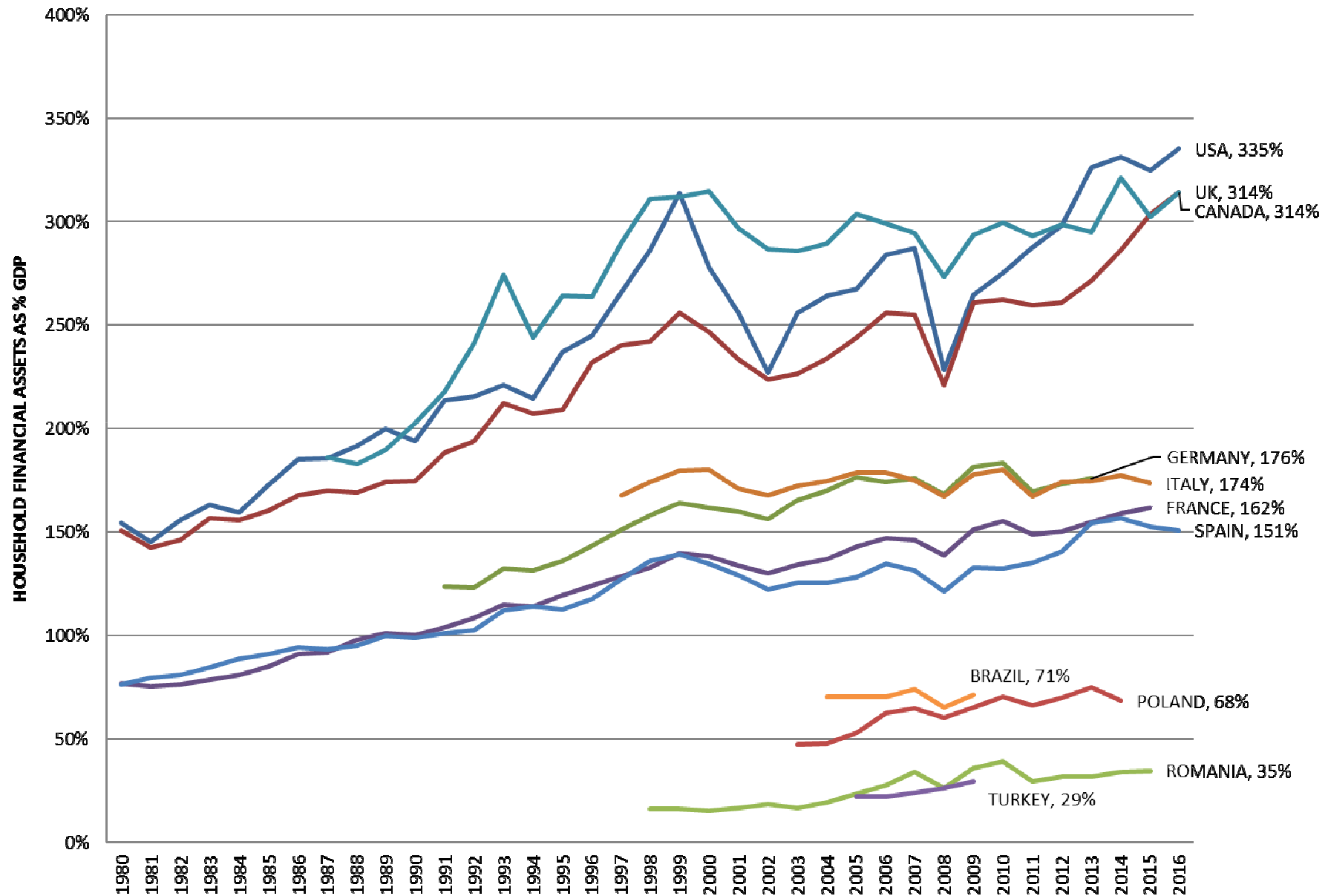
# AN EVOLUTIONARY VIEW OF FINANCE...



(1) Investable Financial assets exclude non-quoted equities

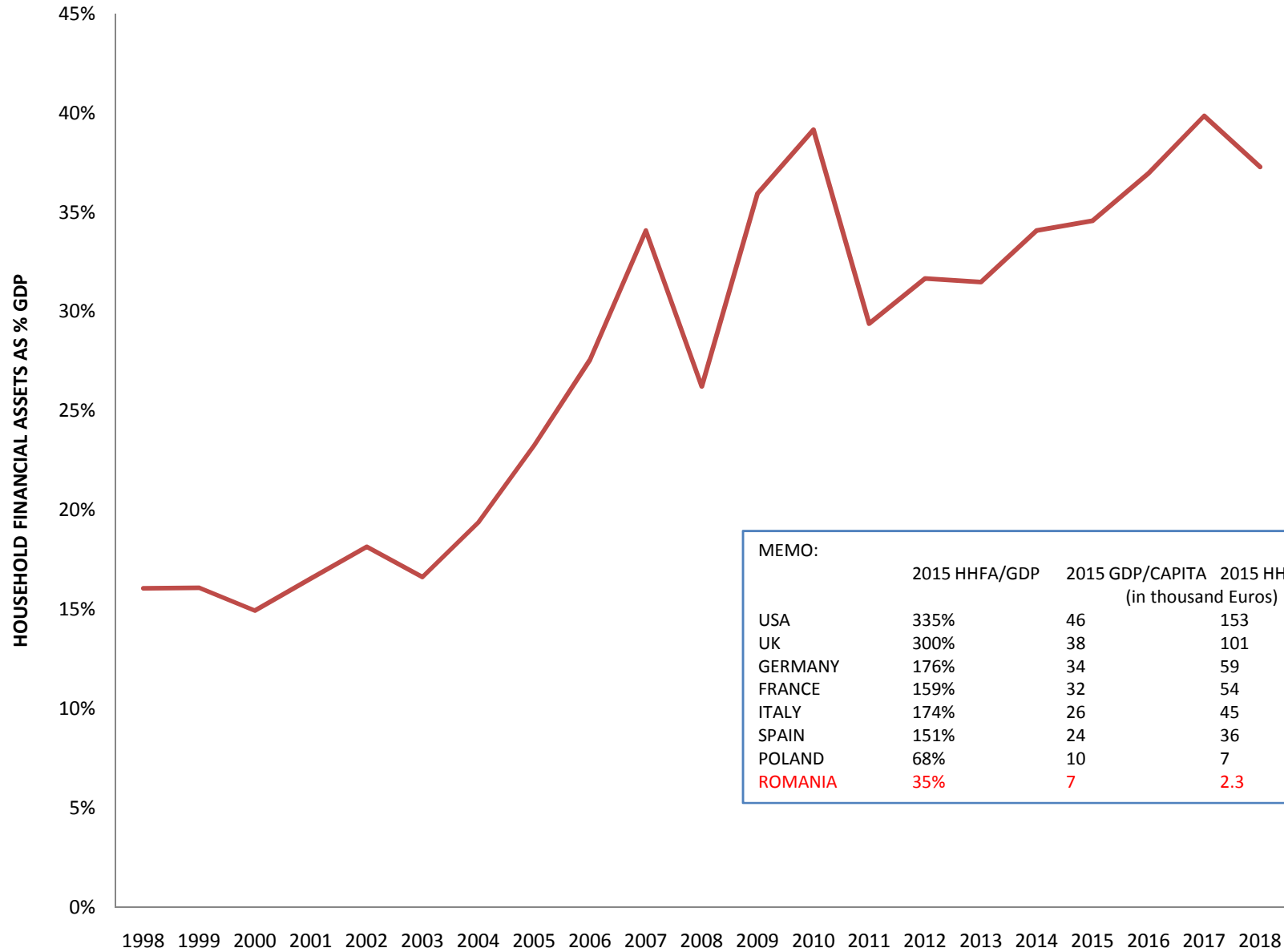
# AN EVOLUTIONARY VIEW OF FINANCE...

## HOUSEHOLD FINANCIAL ASSETS AS % OF GDP



# ROMANIA...

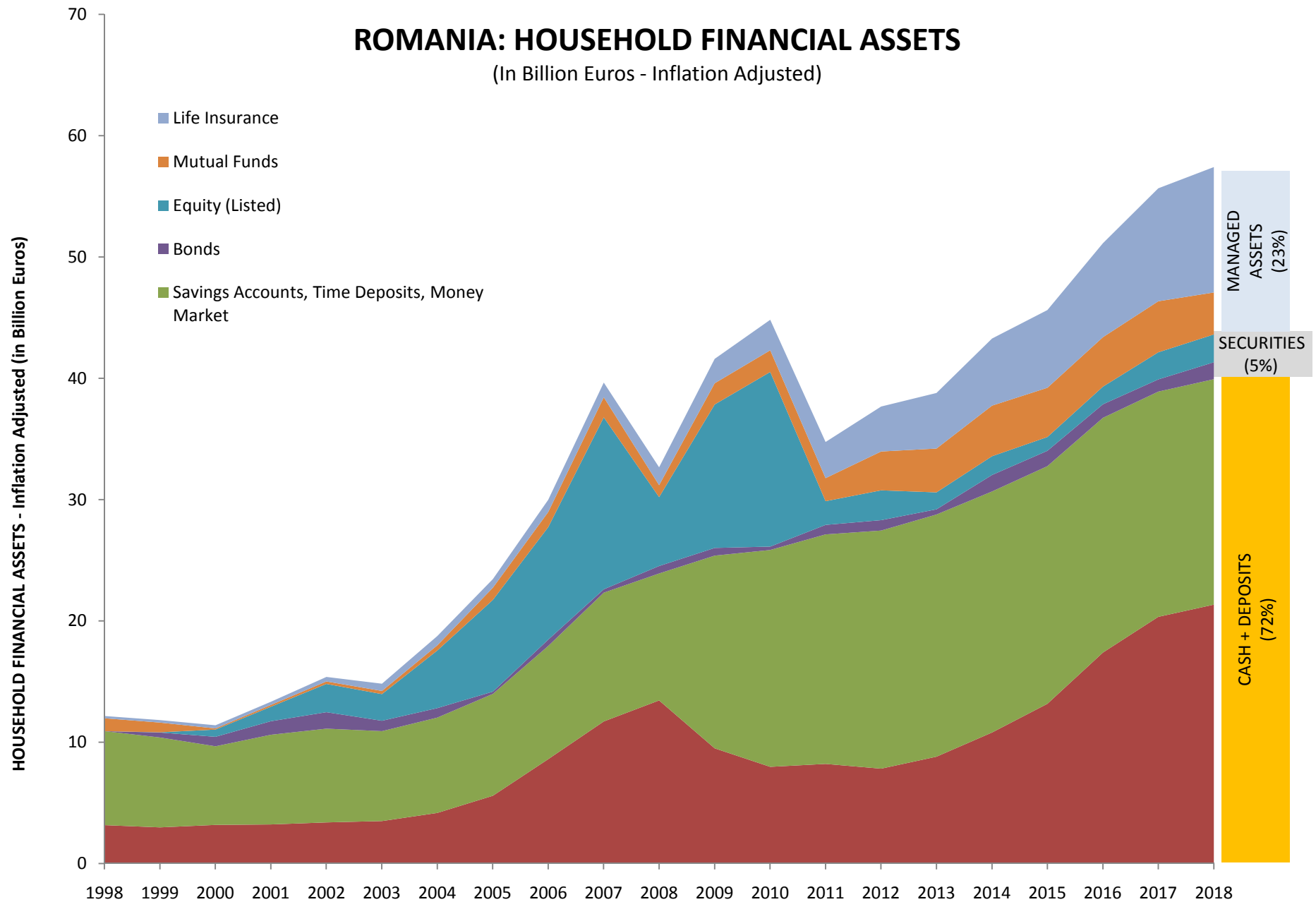
## HOUSEHOLD FINANCIAL ASSETS AS % OF GDP



MEMO:	2015 HHFA/GDP	2015 GDP/CAPITA	2015 HHFA/CAPITA
		(in thousand Euros)	
USA	335%	46	153
UK	300%	38	101
GERMANY	176%	34	59
FRANCE	159%	32	54
ITALY	174%	26	45
SPAIN	151%	24	36
POLAND	68%	10	7
<b>ROMANIA</b>	<b>35%</b>	<b>7</b>	<b>2.3</b>

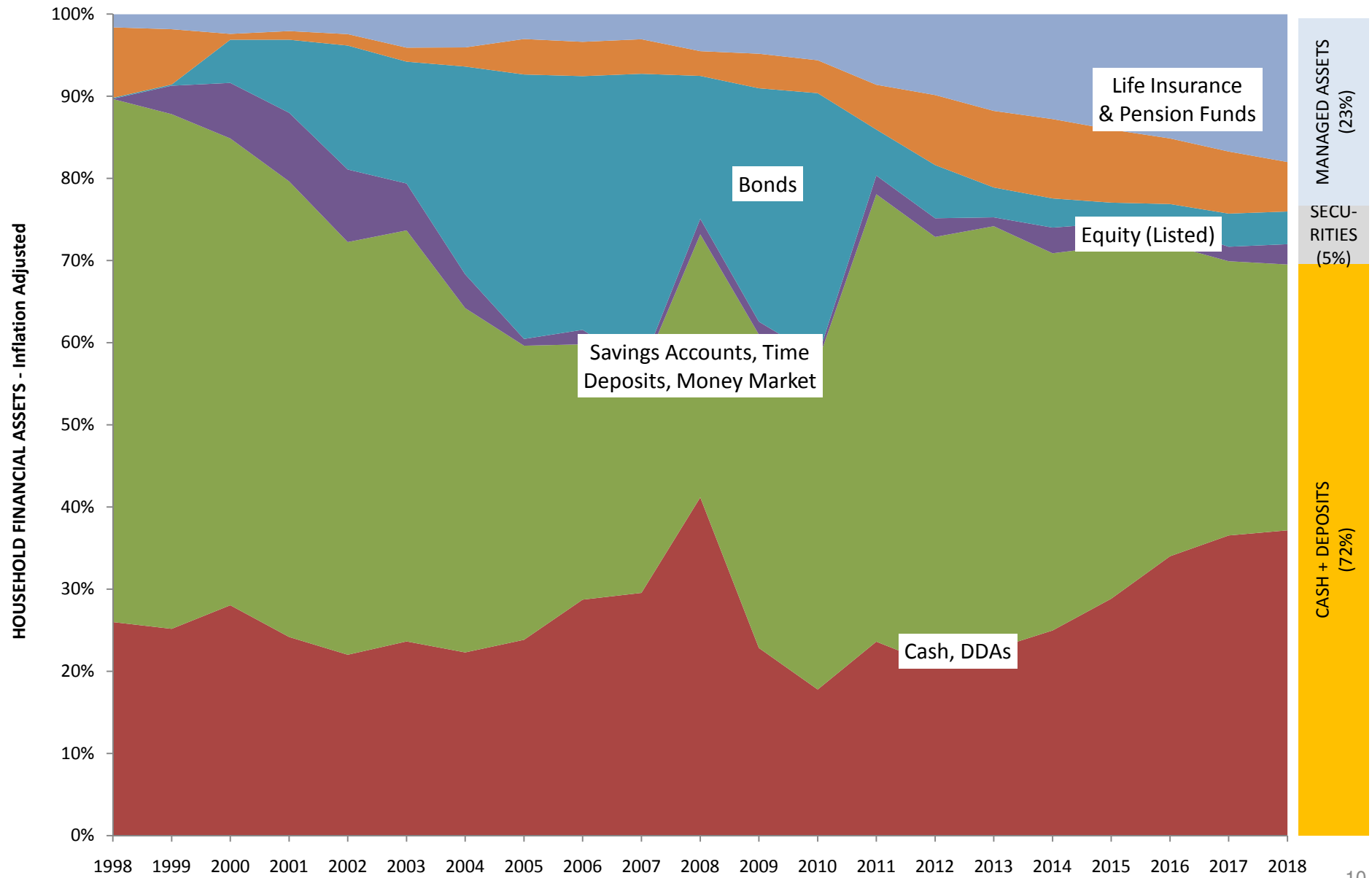


# ROMANIA IS AT THE EARLY STAGE OF EVOLUTION IN CAPITAL MARKETS ...



# ROMANIA IS IN THE EARLY STAGES OF EVOLUTION OF CAPITAL MARKETS ...

## ROMANIA: HOUSEHOLD FINANCIAL ASSETS MIX



## *TO SUM UP...*

FINANCIAL SYSTEMS FOLLOW A CHARACTERISTIC EVOLUTION:

- AS COUNTRIES BECOME STABLE / WEALTHIER, FINANCIAL ASSETS (SAVINGS) INCREASE, IN % GDP OR \$/CAPITA
- MIX EVOLVES FROM CASH / DEPOSITS TO SECURITIES / MANAGED ASSETS; FROM SHORT-TERM TO LONG-TERM
- AS STEADY ACCUMULATORS OF LONG-TERM SAVINGS, PENSION FUNDS ARE CRITICAL DRIVERS OF CAPITAL MARKETS GROWTH

ROMANIA :

- EARLY STAGES OF EVOLUTION TOWARDS CAPITAL MARKETS
- DOMESTIC MARKET SAVINGS, INCLUDING PENSION FUNDS, CONCENTRATED IN LOW-RETURN BANK DEPOSITS/GOVERNMENT BONDS
- HIGHER RETURNS ARE NEEDED → E.G. HIGHER EQUITY ALLOCATIONS, HIGHER-YIELD INFRASTRUCTURE / MUNICIPAL BONDS
- **THE INFRASTRUCTURE/MUNICIPAL FIXED INCOME ASSET CLASS IS IDEAL: STRONG RATINGS, HIGHER YIELD THAN GOVERNMENT BONDS**

# INFRASTRUCTURE/MUNICIPAL FINANCE

FINANCING	BUSINESS MODEL	OBSERVATIONS
Gov't Budget	Funded from tax revenues/government debt	Fiscal austerity - limits on budget deficits and debt "Politicization"
European Funds	EU funds	Limited / bureaucratic (~Euro 5 billion/year for Romania)
Commercial Banks	Bank loans funded by deposits	Due to Basel, bank capital requirements prohibitive for longer term (>7 yr) loans
Multilateral Development Banks (e.g. EBRD, EIB)	Loans funded by bond issues or deposits MBD's typically maintain AAA/Aaa	Limited / bureaucratic Romania allocation may be small
National Development Banks (or "Bond Bank")	Loans funded by bond issues Rating: near sovereign rating (BBB- for Romania)	Limited leverage possible: for BBB debt/"hard" equity ~2.5X "Politicization"
Infrastructure Bonds	Financing for a PPP project – to be repaid from user fees and/or availability fees	Flexible: can be tailored to fit PPP Liquidity – tradeable instrument Investors: domestic institutions/retail and international May be credit-enhanced by guarantor
Municipal Bonds	Financing for a city – to be repaid from local taxes or revenue sharing from Central Government	Flexible: can be tailored to fit PPP Liquidity – tradeable instrument Investors: domestic institutions/retail and international May be credit-enhanced by guarantor

# PPP/PFI

**Figure 1. Different Levels of Private Sector Engagement in PPP Contracts**

	Identify Infrastructure Need	Propose Solution	Project Design	Project Financing	Construction	Operation/Maintenance	Ownership
Bid/Build	Public Sector				Private Sector	Public Sector	
Design/Build	Public Sector		Private Sector	Public Sector	Private Sector	Public Sector	
Design/Build/Finance	Public Sector		Private Sector			Public Sector	
Design/Build/Finance/Operate/Maintain	Public Sector		Private Sector				Public Sector

*Source: Brookings analysis and expert interviews*

# PPP FINANCING METHODS

ASSETS	LIABILITIES	PLAYERS
<p><b>INFRASTRUCTURE PROJECT (E.G. TOLL ROAD, AIRPORT, POWER PLANT)</b></p> <p><b>TYPICALLY STANDALONE COMPANY OR SPECIAL PURPOSE VEHICLE (SPV)</b></p>	<p><b>DEBT</b></p> <ul style="list-style-type: none"> <li>BANK LOANS (E.G. CONSTRUCTION)</li> <li>BONDS</li> </ul> <p><b>EQUITY</b></p>	<ul style="list-style-type: none"> <li>COMMERCIAL BANKS (LOAN MATURITY &lt; 7 YEARS)</li> <li>DEVELOPMENT BANKS (LOANS AND/OR GUARANTIES, USUALLY PARTIAL)</li> <li>UNDERWRITTEN /PLACED BY SECURITIES FIRM</li> <li>CREDIT-RATED BY RATING AGENCIES</li> <li>CAN BE CREDIT-ENHANCED BY FINANCIAL GUARANTY INSURER (FGI), I.E. IRREVOCABLE GUARANTY TO CONTINUE DEBT SERVICE IN CASE OF DEFAULT</li> <li>PUBLIC COMPANY, LISTED ON BVB</li> <li>PRIVATE EQUITY: INFRASTRUCTURE FUNDS (e.g. Macquarie, Brookfield)</li> <li>PUBLIC SECTOR AGENCY</li> </ul>

# RECOMMENDATIONS

Romania should:

- Study and « import » international best practices
- Develop full legal/regulatory framework for infrastructure and municipal finance
- Adopt favorable tax-treatment for infrastructure /municipal bonds (e.g. tax-exempt bonds, like the US or Brazil)
- Encourage issuance of infrastructure/municipal bonds (with help from MDBs)
- Establish a national or regional (e.g. Central East Europe) credit rating agency
- Financial Guaranty Insurance solutions – build a national guarantor and/or work with global guarantors
- Seek relationships with global Infrastructure Funds

## *ABOUT THE CBM GROUP...*

- Management consulting firm specialized in financial services, based in New York
- Since founding in 1992, CBM Group has advised 60+ leading financial institutions in North America, Europe, Latin America and Asia
- Key clients: Barclays, JP Morgan Chase, Canadian Imperial Bank of Commerce, UBS, Santander, Citibank, Bank of America, AXA, Banco do Brasil, Mediolanum, BM&F BOVESPA (Brazil), TMX (Canada), London Stock Exchange (LSE), NASDAQ OM, Philippine Stock Exchange, Santiago Stock Exchange (Chile), Ambac, CapMAC, MBIA, XL, Caisse de Depots et Placements du Quebec, Caisse de Depots et Consignations, Natixis
- Practice focus:
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  - Wealth management: asset managers, distributors of investment and insurance products
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