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Item 9: Investment for development: Investing in the sustainable development goals

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Mobilising private finance for infrastructure

Myths and realities

Infrastructure is the backbone

Fundamental Human Right
Key Determinant of Domestic Investment Climate

Private Capital Providers

- Commercial Banks (Intern
- Commercial Banks (D
- Pension Funds
- Insurance C
- Infras ... nce Companies
- C ... ompanies
- P ... quity Providers

All have very different risk appetites and investment strategies

Role of Governments: Public Entities and Development banks

- Directly Finance from tax revenues
- Issues Bonds
- Offer shares of the project
- Provide guarantees
- Credit enhance
- Insurance, hedging or other financial instruments

Deploying Infrastructure is done through ….

- Public Procurement: public sector purchases the asset

- Public Private Partnerships

What are Private Public Partnerships?

Contracts or arrangements under which governments work with the private sector to :

- Capitalise or co-capitalise
- Design
- Build
- Operate
- Maintain

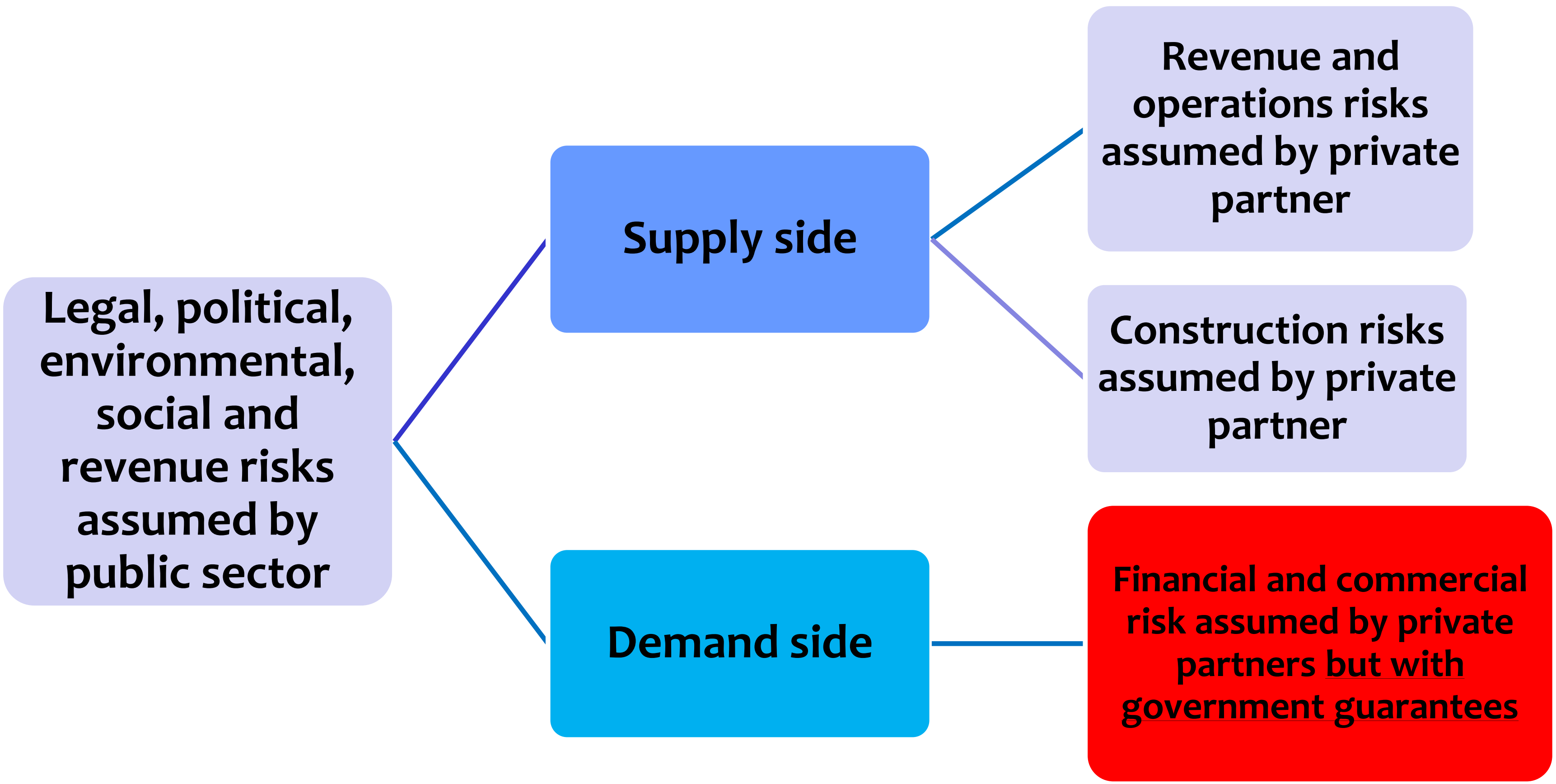
Public infrastructure and services

There are many choices in PPP arrangements …

- Concession Agreement
- Build, Operate and Transfer (BOT)
- Design, Build, Finance, Operate (DBFO)
- Design, Build, Finance, Maintain (DBFM)
- Design, Build, Operate (DBO)
- Build, Finance, Maintain
- Operate, Maintain (O&M)
- Design, Build

complex and long-term

PPPs are 'risk sharing' arrangements between public and private entities



Stages in mobilising private finance into infrastructure

Pre-construction deal structure : 10% to 30% of total project costs

PUBLIC MONEY

Construction Phase Debt/Equity

ECA, Commercial Banks, Private Equity Providers

Operations Phase Refinancing

Project bonds, institutional inventors, IPO/listing

Key risks for the private investor:

Devaluation: US$ value of cash flows fall below debt servicing levels

Convertibility: Prevent currency transfers into forex and overseas.

Uncertainties linked to future revenue streams:

Bankability of infrastructure financing is based on future revenue streams. Data and expertise in forecasting notoriously inaccurate.

Policy makers cant orchestrate PPPs:

Policy makers are not deal makers. A new mindset and skills set are needed.

Solutions to crowd in private sector

Government:

•Assume legal and political risks and also revenue risks when needed.

•Infrastructure development funds/project development funds/ viability gap funds

•Credit Guarantees

•Tweak existing instruments to reward 'green' infrastructure

Commercial Banks:

•Address asset –liability mismatch. Banks seeks to hold for 5 to 7 years. Construction projects needs longer time frames.

•More innovative ways to finance, aim to improve credit ratings for transactions.

Solutions to crowd in private sector

Development Banks and Export Credit Agencies :

- Country risk mitigation and deepen capital markets
- Guarantees
- Credit enhancement

Public entities:

- Improve credit worthiness, corporate governance, management capacity
- Address the issue of inefficient state-owned monopolies
- Improve local expertise to structure long term project financing
- Remove tax holidays in favour of lower but universal fiscal regimes

The infrastructure reality

- Bankability is based on future revenue streams/availability payments.
- When revenue streams are predictable and sufficiently large, debt financing is an option.
- When future revenues are not sufficiently predictable, the ‘gap’ can be closed by public funds or private equity.
- Debt gets paid on pre-determines schedules.
- Private equity takes higher risks and gets paid after debt servicing.
- This aspects of deal structuring deserves close attention.

The infrastructure reality

- Private invests will invest if minimum internal rates of return are big enough.

- Public agencies may need to give away large shares of future revenues to private investors, even if the equity stake is small.

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Thank you

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