

Infrastructure financing and opportunities for Asia's capital markets

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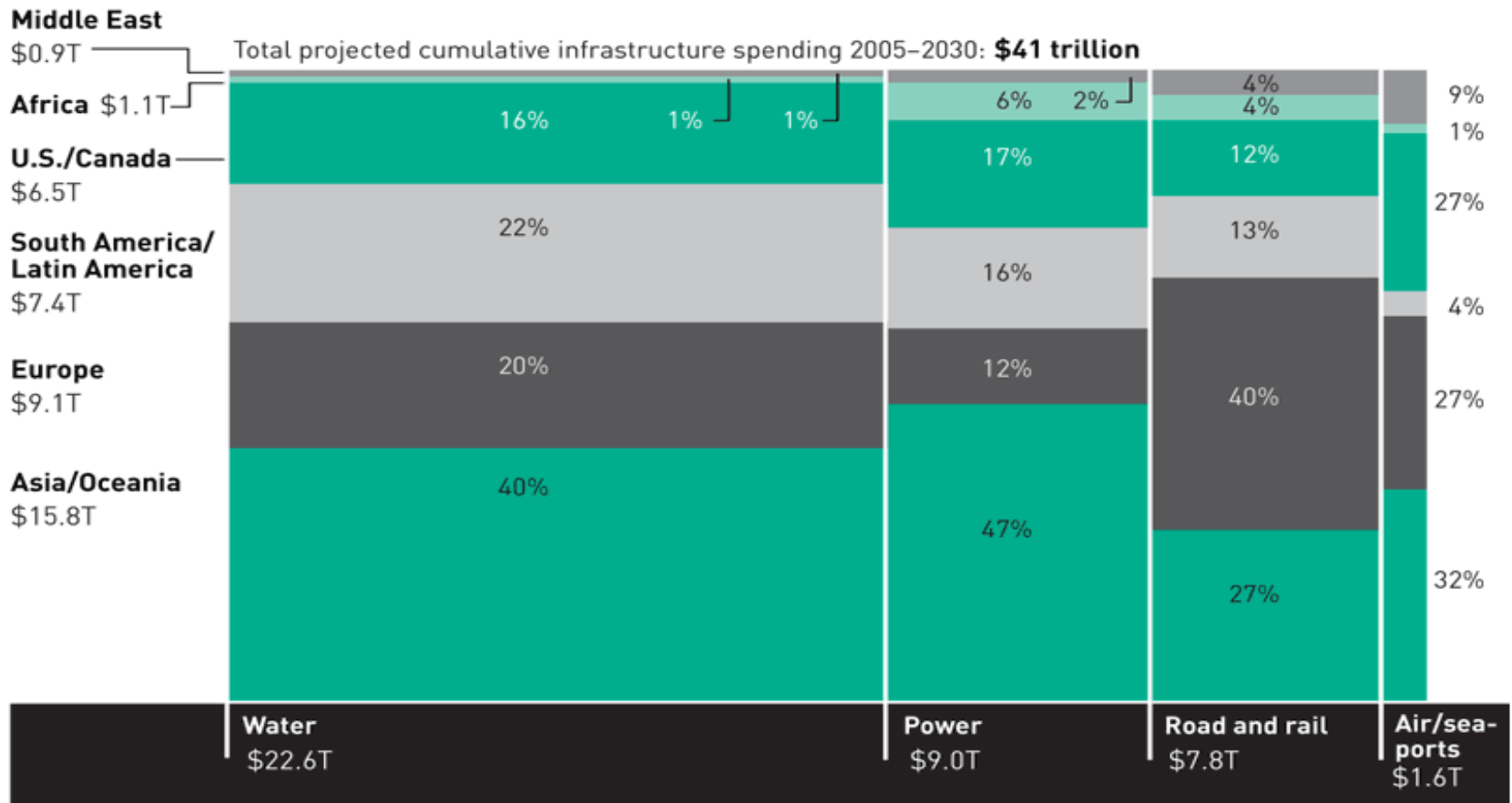
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Outline

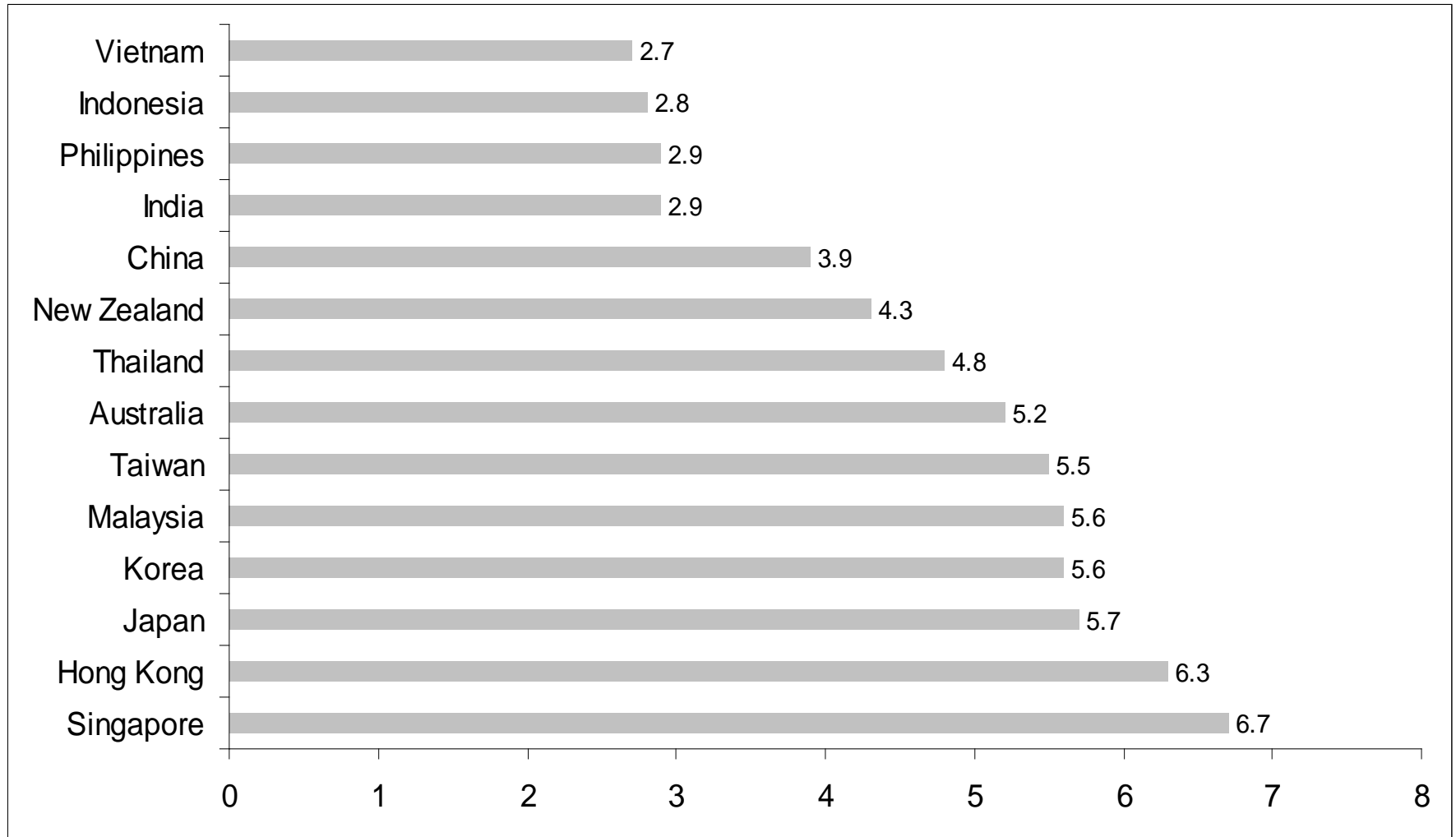
- **Rationale for private investment in Infrastructure**
- **Government Credit and Management**
- **Project selection and management.**
- **Legal & Policy Environment**
- **Role of local, regional and international financial markets**

The Global Infrastructure Challenge

- Global infrastructure needs through 2030 are estimated to be about \$41 trillion



Quality of overall infrastructure



Source: The Global competitiveness Report 2008-09

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Score out of 7
STANDARD
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Private sector investment in infrastructure

1984-2005	Asia	284.0
\$ billion	- East Asia / Pacific	75.0
cumulative	- Southeast Asia	136.6
	- South Asia	67.5
	- Central Asia	7.5

Estimated infrastructure needs

2006-2010	Asia	248.8
\$ billion	- East Asia / Pacific	178.9
per year	- South Asia	63.1
	- Central Asia	6.8

(Source: ADB's Infrastructure Operations, ADB 2007)

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PPP is not off-balance sheet for Government Credit Quality

- **Availability - contractual obligation to pay**
- **PPP Obligation is considered tax-supported debt**
 - Materiality
 - Degree of risk transfer
 - Underlying motivation
- **Volume based – contingent liability**
- **Design & Construct may lead to contingent liability for changes**

PPP's are difficult to do – but “worth It”

Government representatives said “worth it”

- **Disciplined approach to design.**
- **Whole of life planning and costing.**
- **Ability to deliver on time and budget**
- **Output specification allows innovation and enhanced design**
- **Optimal asset utilization and third party revenues**
- **Funding benefits to Government**
- **Cash upfront to Government for brown fields sale**
- **Real risk transfer**

Source: Comments made by Government representatives at IPFA Seminar – Sydney March 2009

Counterparty

FMA = Financial Management Assessment, is a comprehensive assessment of the financial management sophistication and quality of a public sector entity.

- **Basic-to-intermediate levels of financial management**
 - **UDICs have broad policy mandates and projects are delegated to them on an ad hoc basis, complicating medium- and long-term planning**
 - **The disclosure of financial and operational information to government shareholders is adequate, but there is an observable lack of public disclosure of activities and accountability to the broader public**
 - **Generally strong technical knowledge and industry expertise**
 - **Opaque decision-making structures not subject to outside scrutiny**
- **Powers – Ultra Vires**
 - **Ownership**
 - **Credit standing**

Choice of Projects

Good if it:

- **Reduces bottlenecks**
- **Promotes future growth**
- **Project Selection based on well developed rationale**
- **Disciplined project management – cost and time control**
- **Capacity to deliver is adequate**
- **Government skills**
- **Approvals can be obtained in a timely manner**

Pennsylvania's Failure To Lease Turnpike

The Pew Center issued a report analyzing the failed attempt to lease the Pennsylvania Turnpike in 2008.

Pew says several lessons can be learned;

- the enabling legislation should be passed first;**
- there should be a description of how the money will be invested and how the operator's performance will be monitored;**
- the public and legislature should be involved in a transparent process; specific goals should be defined;**
- and the long-term effects on the economy, environment, and future taxpayers should be taken into consideration.**

Pew also emphasized the importance of realistic financial assumptions.

Legal & Policy Environment

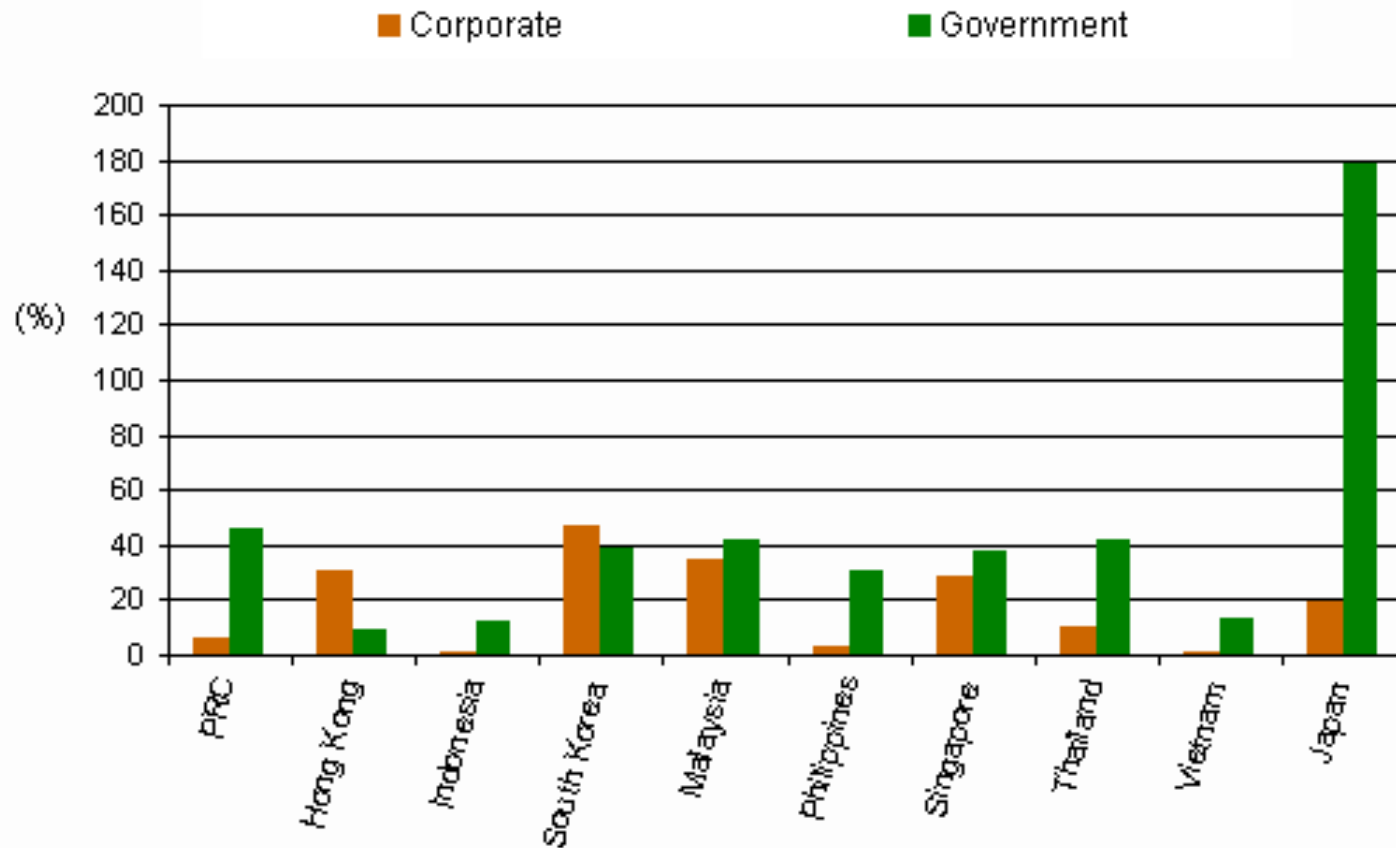
Investors have stated they want:

- **Strong Legal framework**
- **Policy Support**
- **Enforcement**
- **Fair judicial system**
- **Independent regulator body empowered to enforce**
- **Regulator adequately resourced**
- **Political stability**
- **Tariffs adjusted for low collection must cover op costs plus maintenance**

The Regulatory Regime – S&P Criteria

- **Transparency, Adequacy, Certainty**
- **Timeliness and Effectiveness**
- **History of direct intervention**
- **Financial support in emergencies**
- **Regulators legal powers – ability to intervene and force change**
- **Quality of Monitoring**

Comparative Size of East Asian Local Currency Bond Markets (% of GDP, 2008)



Source: Asia Bond Monitor 2009, Asian Development Bank, First Quarter 2009.

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Developed Financing Markets

- **Long term debt ideal for long term assets**
- **Financial infrastructure**
- **Co-financing by Government entities**
- **Multilateral support – World Bank or ADB**
- **Early government support mechanisms**
- **Debt capital markets**
- **Viability Gap Funding**

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