Infrastructure financing and opportunities for Asia’s capital markets

Ian Greer – Managing Director
Corporate & Government Ratings

October 13, 2009
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
Global infrastructure needs through 2030 are estimated to be about $41 trillion.
Quality of overall infrastructure

Source: The Global competitiveness Report 2008-09
### Private sector investment in infrastructure

<table>
<thead>
<tr>
<th>Period</th>
<th>Region</th>
<th>Investment (billion $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-2005</td>
<td>Asia</td>
<td>284.0</td>
</tr>
<tr>
<td></td>
<td>- East Asia / Pacific</td>
<td>75.0</td>
</tr>
<tr>
<td></td>
<td>- Southeast Asia</td>
<td>136.6</td>
</tr>
<tr>
<td></td>
<td>- South Asia</td>
<td>67.5</td>
</tr>
<tr>
<td></td>
<td>- Central Asia</td>
<td>7.5</td>
</tr>
</tbody>
</table>

### Estimated infrastructure needs

<table>
<thead>
<tr>
<th>Period</th>
<th>Region</th>
<th>Investment (billion $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2010</td>
<td>Asia</td>
<td>248.8</td>
</tr>
<tr>
<td></td>
<td>- East Asia / Pacific</td>
<td>178.9</td>
</tr>
<tr>
<td></td>
<td>- South Asia</td>
<td>63.1</td>
</tr>
<tr>
<td></td>
<td>- Central Asia</td>
<td>6.8</td>
</tr>
</tbody>
</table>

(Source: *ADB’s Infrastructure Operations*, ADB 2007)
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 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)


© Standard & Poor’s 2009.
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