Financing Inclusive Growth (Infrastructure perspective)

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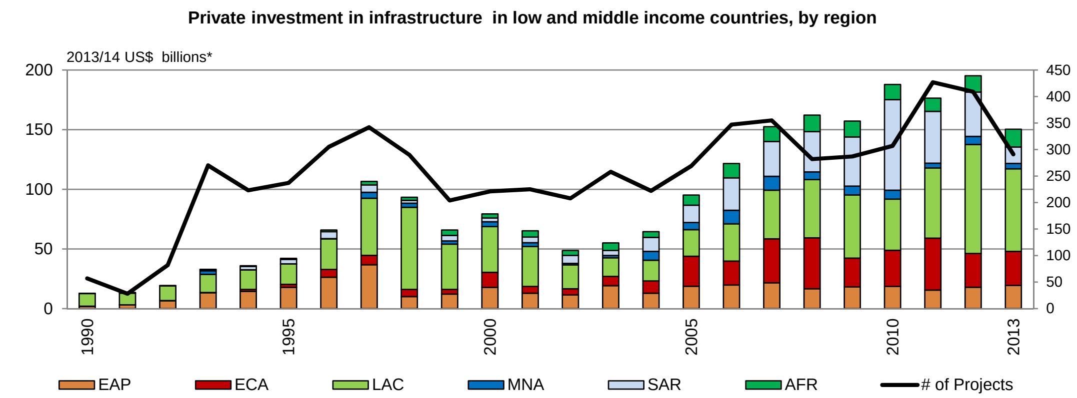
Current trends in Infrastructure

World Bank Group view



Source: World Bank and PPIAF, PPI Project Database.

* Adjusted by US CPI

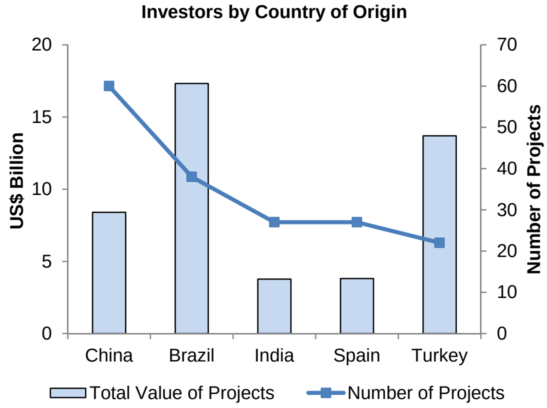
- Trend at the end of 2013/14 is downwards (US$150 b; number and size of projects)
- The number of projects in 2013/14 decreased to 292, a 28.8% decrease from 2012.
- Average project size was US$ 276.4 million (same as 2012)

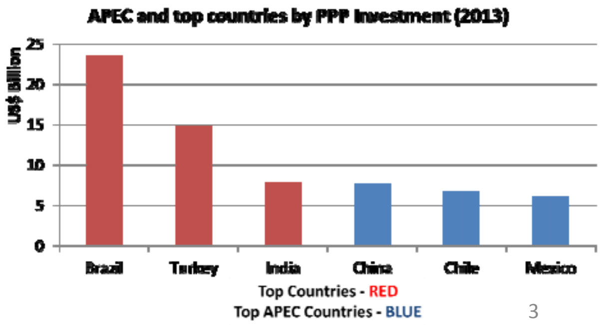
NB: World Bank definition of infrastructure is roads, transport, energy, telecomms

Current trends in Private Participation in Infrastructure

World Bank Group view of major players

- China led the way in number of projects in 2013/14 – 60, followed by Brazil (51) and India (31)
- Note the big drop of 74% in number of projects in 2013/14 in India (31) as compared to 2012/13 (119)
- Chinese and Brazilian investors had the most projects
- Chinese investors (including Hong Kong) sponsored 60 projects (either alone or in a joint venture) although 93% of these deals were inside of China





Source: World Bank and PPIAF, PPI Project Database.
Please note figures above refer to World Bank Group client countries excludes Australia, Brunei, Canada, Japan, United States, Rep of Korea, New Zealand & Singapore.

ASEAN & APEC Perspective

2013/2014 data

- ASEAN investment grew by 8.5% over the previous year to US$19.4 billion and comprised 12.9% of global investment
- PPI growth of approx. 3% for the region since 2003 did not keep pace with 8.2% annual regional GDP growth
- Most regional investment was in the energy sector (US$8.8 billion), with nearly US$8.4 billion in electricity generation
- ASEAN Region implemented 85 new projects and attracted investments of US$19.4 billion
  - Energy (62) followed by water and sewerage (14) and transport (8)
  - China was followed by Indonesia (US$3.8 billion), Thailand (US$3.4 billion), Malaysia (US$2.6 billion) and Philippines (US$2.04 billion)
- APEC
  - Chile (US$6.6 b energy and transport exc telc, H12014 aprox US$1.5 b
  - Mexico (US$6 b, H1 2014, US$3.9 b, 7 deals averaging US$563 m mainly energy)
  - Peru (US$3.2 b, H1 2014, US$1.1 b – energy & transport)

Current trends in Infrastructure

Where are we today globally?

- Project finance volumes are back at 2008 levels/close to 2007 levels, but leverage levels remain significantly lower
- Deal activity continues to be driven by disposals of corporates, privatizations and increasingly from maturing funds (ie little greenfield)
- Funds, SWF etc targeting primarily US/Europe
- Current deals over past year / 18 months:
  - PPPs increasingly using capital markets to source debt despite retreating bank lending due to Solvency (Basel) III
  - Major focus on brownfield assets (large caps are over valued)
  - Transactions in developed jurisdictions traded at a significant premium (implies few deals in EMs)
  - In Developed Markets: valuations are high (given low real interest rates)
  - Infra managers move up the risk curve
- Many new infra manager entrants; but 'smart' money (eg Australian supers etc) focusing on large players only

Current critical bottlenecks in Infra

What are investors looking for and market is not providing?

Current critical bottlenecks identified for ASEAN and Japan:

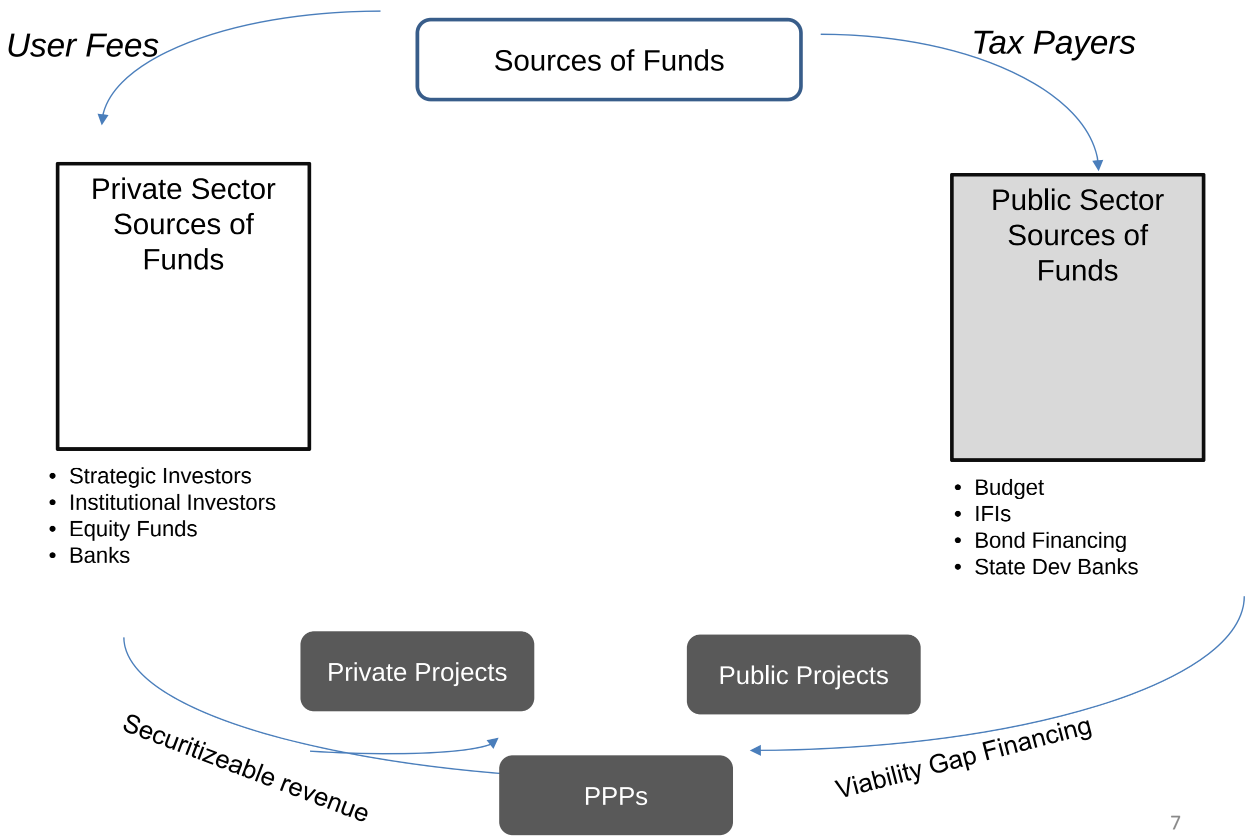
- Lack of quality and standardized project preparation + weak contractual and enabling environments
- Risk aversion to infrastructure-specific uncertainty (e.g., ramp-up in greenfield, currency devaluation, regulatory and political, capital repatriation, public payments)

More generally:

- Pre-feasibility financing (i.e. assessments, patient capital for geological, exploration, technology works)
- Support for Project Preparation (e.g. due diligence and feasibility, transaction structuring, bidding, contracting and management process)
- Enabling Environment (e.g. legal and regulatory framework, tariff regime and demand forecasts, off taker viability, weak planning and prioritization process, local currency financing etc.)
- Financing (concentration risk in Philippines):
  - gap during construction (e.g. CAPEX)
  - gap during operations (e.g. Government payments to cover OPEX and debt service)
- Land Acquisition and Resettlement (i.e. Process and funding major concern in Indonesia)

Current critical bottlenecks in Infra

What about of social inclusion?



Concluding Remarks

Financial aspects of infrastructure for inclusive growth

- APEC has a variety of conditions and therefore experiences
  - This needs to be exploited (eg Canada & Australia's vast experience)
- Social safety nets become a critical aspect of ensuring bankability of PPP deals
  - Use of targeted user subsidies (Output Based Aid) eg Chilean targeted subsidies programme a corner stone of water PPP contracts
  - Buying down total capital costs (Viability Gap Financing) – up to 80% government contributions
  - Public funds to enhance bankability?
  - Backstopping government obligations to lower overall costs
- On infrastructure certain projects will need to be public!
- inclusive growth also means:
  - Looking at transboundary benefits
  - Network effects (between sectors and countries)
  - Establishing adequate framework for funding and financing of public services

Thank you

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