

# International Meeting Infrastructure and PPPs

BUSINESS OPPORTUNITIES IN INFRASTRUCTURE AND PPPs:  
MEETING WITH THE WORLD REFERENCES ON THE THEME

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Realização



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## Tremendous needs of infrastructures all over the World up to 2030

- Economic infrastructures: USD 2 600 billion per year
  - Transport : USD 1 100 billion per year
  - Power and water : USD 1 100 billion per year
  - Telecom : USD 400 billion per year
- Welfare infrastructures : USD 1 200 billion per year
- Oil & gas : USD 750 billion per year
- Mining: USD 350 billion per year
- Total: USD 4 900 billion per year, without mention of the Real Estate needs: estimated about USD 4 100 billion per year.
- Average expenses in infrastructures in GDP %: 3.8

## Three challenges (1)

- 2015 – 2030 Gap in economic infrastructure : estimated between USD 15 000/20 000 billion;
- Fiscal constraint lead to de-prioritization of the construction/maintenance of infrastructures;
- Inefficiency of the public investment's due to:
  - Poor determination of the real public needs;
    - Objectives, size, phasing, performance to achieve, functionalities, environment, social responsibility, governance, toll/pricing policy etc.;
  - Lack of appropriate best practices: methodology, procedures, instruments, etc.

## Three challenges (2)

- Inappropriate or insufficient Institutional and Legal framework
- Poor project selection and planning/prioritization
- Insufficient project preparation (cf. need to develop Well Prepared Project – WPP tools);
- Inefficient delivery due to under or over estimation of preliminary of the socio-economic studies;
- Unsuitable investment climate: clarity and stability of laws and regulations, tax horizon, settlement of FDI's litigation, the currency exchange regime, etc.;
- Persistent bias for new infrastructure, rather than optimizing the use of the existing one.

## What Concessions and other PPP could offer?

Concessions and other forms of Public-Private Partnership cannot solve entirety of this issues but they can provide significant financing.

- Concessions, publicly or privately owns, and other PPPs have proven to be an effective vehicle to deliver infrastructure more effectively and efficiently. Compare to traditional Procurement concessions and others PPPs, in average <sup>(1)</sup>:
  - Meeting construction budgets : 70% of projects ;
  - Meeting time schedule : 65% of projects ;
  - Reducing overall costs: 20% of the total amount.

Source: B 20 Task Force “Infrastructure & Investment”.

## Participation of Institutional Investors and Lenders (1)

Possible institutional investors funds allocations and leverage could provide an extra USD 5 000/

8 000 billion for infrastructure investment if:

- Improvement of efficiency and effectiveness of the delivery system happen;
- Existence of suitable and transparent project pipeline for concessions or other PPPs,
- Decreasing risks thanks to WPP procedures, then adequate risk-adjusted return:
  - Appropriate and optimal risk mitigation and allocation;

## Participation of Institutional Investors and Lenders (2)

- Lowering development and transaction costs. This objective can be done through the following levers:
  - Make better decisions about project selection using strict and accurate cost-benefit and socio-economic analyses and studies and prioritizing projects;
  - Streamline project delivery:
    - Shortening time for approval, permits, licenses, land acquisition;
    - Adopting accurate Procurement rules, bidding and award processes;
    - Using best-practices project planning, design-to-cost ;
    - Lean construction methods;
    - Strengthening early cooperation with contractors;
    - Fostering construction sector capabilities and productivity;
    - Having better involvement of SMEs, etc.

## Other tracks to follow to develop and finance infrastructure needs (1)

- Reaffirm the critical importance of infrastructure in national growth plans;
- Ask MDBs and DFIs to develop local capital markets and act as “market maker”;
- Implement leading practices for using best practices, assessing and improving Institutional and legal framework for concessions and other PPPs;
- Improve understanding and the chain of consequences of the 2 sources of payment : users versus States and/or other public bodies;
- Work towards greater promotion and protection of cross-border investment in infrastructure.



## Other tracks to follow to develop and finance infrastructure needs (2)

- Increase the availability of long term financing for investment in infrastructure:
  - Develop infrastructure as a strong, viable asset class for equity and debt providers : role of standardization/categorization of documents, risks;
  - Facilitate divestiture of public brownfield project ;
  - Assuring statutory adaptation for better eligibility of the investment vehicles
  - Revision of the prudential rules (Solvency II) and better appreciation of the reality of the systemic risks ;
  - Restore guarantee mechanisms/credit enhancement and develop leverage effect with blending mechanism

## Other tracks to follow to develop and finance infrastructure needs (3)

- Ensure continued participation of the banking sector;
  - Reassess Basel III – CRD IV rules accuracy and remove useless statutory barriers with regard to the protection against the systematic risks;
- Develop studies and methodology to better assess the tax return of the infrastructure project all over its life cycle;
  - Revised the debt ratio /GDP taking in consideration the source of the public indebtedness: ordinary expenses and social transfer versus public investment in infrastructure (cf. IMF studies)
  - Revised the public accounting principles and rules;
  - Improve strongly the public budgetary governance.

## To conclude:

- It is essential to have a global, coordinated and orderly approach of the concessions and other PPPs;
- The institutional and legal frame work: has **to express all the components essential** to the realization of infrastructures of public service resilient;
- The fragmented or pointillist approaches which do not take into account the cultural, economic and legal specificities of countries; are to be ruled out;
- If today the main reasons of the failures are known, the instruments of their correction remain still widely to develop. They will owe, ideally to be:
  - Synthetic;
  - Simple;
  - Operational;
  - **Understandable and easily usable by politics and civil servants;**
- On these bases an important effort of strengthening of capacity will have to be undertaken.