**CONFEDERATION OF INTERNATIONAL CONTRACTORS’ ASSOCIATIONS**

**Roger Fiszelson’s presentation at CHINCA’s 6th III&CF in Macau, 4th – 5th June 2015:**

**Panel 3 on “Innovative Financing Modes and Multilateral Financial Cooperation on Cross-border Infrastructure Projects”**

I will deliver a speech that might go against current trends. It is nowadays common to place the financing at the center of the achievement of an increased volume of infrastructure projects. However the financing is not just a prerequisite, it is the consequence of a meticulous upstream process that contributes to ease the financing and the safety of this financing.

If it is unanimously recognized that the creation and the maintenance of infrastructures of public services are essential to the establishment of a prosperous economy and without such complete approach the conditions to reach them are still very insufficiently satisfied. The absence of public capacity of financing is most of the time mentioned as the main reason to explain these deficiencies. The recourse to private financing based on the techniques of Project Finance/PFI is presented as being the solution.

However useful it is, this approach is totally insufficient to answer the immense world’s needs for infrastructures by 2030. They are estimated annually:

- Trade Infrastructures: investment financing thanks to users fee collection: **USD 2, 6 trillion / year**;

- Social Infrastructures: financing from States budget and from Public Aid: **USD 1, 6 trillion / year**.

The experience of our companies shows the indispensability of a comprehensive, coordinated and orderly, careful and detailed approach of all internal and external components of the process that must precede the financial closing.

The first step involves the identification and planning of the needs to be met. It is the role of the Public Authorities, national or local, to identify, prioritize and select projects to maximize their impact on economic development. To do so and to capture the various components, it is the responsibility of the Public Authorities to clarify and quantify the objectives and needs to be met to achieve the performance, functionality that will express the infrastructure, meet the imperatives of the objectives of the Sustainable Development Goals, including those that the UN will enact in September and the obligations arising from the generally accepted principles of social responsibility that companies and infrastructure operators must meet.

This first phase allows a detailed design and in parallel, the conduct of socio-economic cost / benefit studies. These studies will assess the net externalities of the project and estimate the budgetary impact. Indeed, the reasonable estimate of the budgetary component of an infrastructure project is an important factor of justification, prioritization of the projects pipeline, the decision to undertake or not the projects and in what order so that their combination allows to maximize the impact on growth and development. In this regard, the IMF, in its World Economic Outlook 2014, estimated in chapter 3 that an infrastructure whose usefulness is demonstrated will have a neutral budget impact and in most cases a positive impact.

To be fully effective, this process must be part of an institutional and legal framework adapted and implementing a set of coherent policies. They will cover the institutional, legal and contractual fields and the economic, financial, public budgetary constraint and organizational aspects. They will give birth to in depth analyses, templates, standards, norms, clauses and standard form of contracts, methodologies, procedures, practical instruments. In the absence of the implementation of such a process, taking into consideration the institutional peculiarities, legal, economic, cultural of the concerned countries, rationality, resilience and acceptability of the project will be badly assured.

The identification of the risks, their uncertain perception will probably be insufficient, leading investors to ask a high return on investments that could prevent the achievement of a useful project.

We must be fully aware that in the absence of revenues other than the payment of the State deferred in time, the hope of seeing the private sector to replace the State or the community is an illusion. The PFI is then usually a complicated financial arrangement, long, which does not relieve the public finances which is ultimately more expensive than a loan taken by the public person. It raises the question who pays, if the person who pays has the resources, and to distinguish between two concepts of funding and financing. It is therefore appropriate not to lend to this form of contract the virtues it has not. Nevertheless, this form of contract presents certain advantages, too often forgotten, that are more difficult to obtain via the traditional public command. The close association of the private sector enables:

- Optimization of the project and public funds savings;

- Conservation in time of public assets and the maintenance of their value in use.

Contractual forms other than PFI such as Design and Build (DB) or Design, Build and Operate (DBO), help maintain these advantages. For its actions of Development Aid, the European Union Commission through DG DEVCO is seriously considering this possibility.

Avoiding exclusive use of public finance for infrastructure funding led to turn to the user through tolls or user fees for the use of the model of the concession and other assimilated forms. Used widely throughout the first industrial revolution and until World War 1, concession has fallen into disuse although still widely used in France with more than 10,000 contracts in force, a thousand being renewed every year.

The concession model does not take into consideration all the needs but it has a fairly broad scope:

- Road transportation and urban connection;

- Ports, airports;

- Energy provided that the price is properly established and that the recipe is collected from the final consumer and equitably distributed among the various stakeholders involved in its production, transport and distribution;

- Water;

- Telecommunications, the demonstration of the relevance of the economic and financial balance of the sector has already been done.

Again, experience shows that the perception by the user of:

- the value of the infrastructure;

- the quality of the service,

supported by:

- the reasonable study of the traffic, attendance or the use of the service provided by the infrastructure,

- the adequacy of the price to the initial fiscal capacity of the user;

- the opportunity to develop it in time to accompany the improvement of the financial situation of the households that it has contributed to

are all factors that allow the use of concession and other contractual assimilated forms (affermage or lease, etc.)

The use of the concession model is not exclusive public funding, in the form of grants or other forms of support, during the years of rise of the concession model. This public participation is offset by broadening the base of taxes that the infrastructure generates in the long term.

The consideration of this reality calls for a review of the capacity and fiscal governance of the States. Here it is necessary to have a renewed vision of the deficit and public debt. Its assessment should be differentiated according to its origin: either face-to-day operating costs, either to the uncontrolled increase of the scope of the State or to increased social transfers, is not at all the same impact on public finances as the debt taken out for the construction of infrastructure investments, tangible or intangible, whose usefulness is demonstrated. The interpretation of budgetary principles, often inherited from the 19th century: universality of the budget and its consequence: no allocation of revenues to expenditures, annuity etc. should be reviewed.

We can imagine other possibilities to increase infrastructure financing capacity by the States or by the MDBs and DFIs among which are included:

- The granting of existing infrastructure concessions or sale of assets with a public service obligation (divesture);

- Research of additional revenue from the private use of public infrastructure without affecting the usual forms of delivery of public service. This source of funding is possible for pools, gyms and other sport facilities, schools, hospitals, etc.

- Profit sharing mechanism State / concessionaire for higher results than the rate of return agreed in the initial business plan.

- Sale of part of the loan portfolio of MDBs / DFIs (proposal by the Task Force of 20 B infrastructure and investment), etc.

Finally, we must work on the ways and means to direct investors towards infrastructure to better catalyze the huge amount of available funds in search of gainful employment as the funding of infrastructure can provide;

- Revision of systemic anti prudential rules, legacies of the 2007/2008 crisis (Basle III CRD IV) and Solvency II: the possibilities such loans generate a systemic crisis are limited;

- Determination of the exact conditions for the creation of differentiated classes of assets depending on the nature and characteristics of the infrastructure, to mobilize the institutional investors whose investment horizon is long (pension funds, sovereign wealth funds, life insurance, etc.) widely desired but still insufficiently realized.

That is why CICA and IFEJI have just launched under the aegis of a United Nations’ agency, the Economic Commission for Europe (UNECE) which received mandate of other UN Economic commissions, an International Center of Excellence dedicated to Policy, Laws and Institutions applicable to the concessions of public services and contractual forms associating the States and private companies to Facilitate the realization of a number of Largest infrastructure.

This Centre will cross public and private experiences, national and international. It will collect field experiences to anticipate and overcome obstacles preventing the creation of a resilient pipeline of projects. To do this, it creates a knowledge center which will formulate a set of best practices that will cover the following fields: economic, financial, budgetary, organizational, institutional, legal and contractual. The recommendations will be expressed in the form of analyzes, templates, standards, standards, clauses and standard contracts, methodology proposals, procedures, practical instruments.

The work of the knowledge center will be operational. They will be relayed by a training center which meets the demand of the States addressed to the UNECE. It will organize capacity building actions in favor of ministries, agencies and staff of the concerned States. These trainings centers will disseminate a set of easy to implement practical recommendations tailored to specific institutional, legal, economic, financial and cultural states will benefit.