

Strengthening Private Sector Participation and Investment in Physical Infrastructure

Asian Development Bank Institute, 19-22 November 2007, Tokyo

"Bankable Deals" - What Does It Take?

Session 9 : Ports and Airports

A Private Sector View

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What to do and not to do for the finance of ports and airports.

My fellow panel members will be talking on their experience which highlights what you must do and must not do for the finance of ports and airports. These cases highlight all the issues that have been discussed over the last two days. Above all they show that the correct regulatory infrastructure is vital to ensure that PPP projects for infrastructures are bankable.

- The private sector view which I am putting highlights the possibility of attracting private sector funds to kick start developments that can later be re-packaged and sold to institutional investors.
- Private sector high yield investors are willing to take what appears to be greater risks if they can see ways of mitigating these risks by using structured finance or/or technology to enhance their yield
- I am suggesting that governments should maintain a flexible and open mind to entertain innovative or unusual finance and development propositions if these can allow them to achieve what it may otherwise take them considerable time to reach.
- The sub prime investor can still be tapped even in today's market.

Infrastructure development in a sub prime world

- No shortage of money

To access the cheapest money you must have
the institutional and legislative framework

But

Before you get the ideal framework

HOW DO YOU RAISE MONEY IN THE MARKET
TODAY

HOW DO YOU FINANCE PROJECTS NOW WHEN YOU HAVE NOT ACHIEVED THE OPTIMUM INSTITUTIONAL STRUCTURE

Mobilise the market

Give the private sector what it wants:

Profit

Money will find its own level and yield to reflect the correct risk/reward – return

If the yield is high enough the money is there

Does this sound like a recipe for the private sector to exploit the government? NO

Identify the value added by the private sector

Private Sector has access to

1)**Technology** and

2)**Finance** that the government does not always have

BUT

Above all

The **private sector moves fast.**

The markets are

1) Global

2)dynamic

Markets are not just financial – we are talking about global market for goods services and commodities, etc..

As markets change so opportunities arise and

They are arising faster every year.

The current environment represents a new post crisis position after the other major events which have altered the financial markets:

1) the Asian Crisis

2) 9/11

3) The current sub prime crisis

This sub prime crisis has highlighted a major shift in power that has been taking place over the last few years – provoked by the substantial rise in energy prices and accumulation of funds in the Sovereign Wealth Funds (SWF) of the Energy Producing countries and in China from its export trade surplus.

This has shifted balance of total available funds from the OECD countries to these SWFs and the Chinese

These new power centres have their own agendas for the use of their funds.

The OECD countries have also had to alter their trade objectives.

This produces the opportunity for

INVESTMENT LINKAGE

To

1)Exports from OECD countries in order to maintain employment

2)Investment of the surpluses by the SWF s - and Compliance with their own social and religious requirements – i.e Islamic financing

3)Security of supply and investment for China – i.e investment and the creation of alternative investment instruments instead of US or European treasury bonds - export credit and direct purchase of commodity producers and equity investment.

4) Defence and security – USA - Europe - Russia - China

This linkage means that standard investment criteria can be altered.

This linkage can be utilised to provide risk mitigation for the investor.

Standard OECD capital funds – i.e. Western institutional investors must now adopt much more fully researched project analysis –

the 6 Ps

Following the sub prime crisis

- 1 The linkage can be exploited and combined with investors who are seeking high yield – i.e. More profits
- 2 Funds with linkage can be mobilised particularly to exploit new technology and new markets.
- 3 Technology in particular can create new markets and new opportunities
- 4 Income from New Markets produced by Technology and Funding can provide additional profits and higher yield for the private sector to enhance the infrastructure investment yield

LINKAGE

Much infrastructure project investment has been initially funded on a bi-lateral basis.

Most telecoms investments were funded by the export credit agencies in Europe and USA

The result is that the companies were able to achieve very high gearing and high yields.

- 1) Export Credit Funding can be used to initiate infrastructure development prior to it being financed by long term institutional investors.
- 2) SWFs can be attracted by structuring investment vehicles suitable for their requirements – i .e. Islamic finance.
- 3) China is prepared to both provide export credit and to make direct investments linked to its longer term strategic interest of securing crucial commodity and energy supplies
- 4) Defence security. USA Europe Russia and China are all prepared to assist developments in order to secure what they perceive to be their long term strategic and defence interests and will therefore fund or produce credit enhancement on a parallel market basis

Counter trade is one example of this. There are many other possibilities for semi aid and concessionary funding which will always arise as political events unfold. These can be exploited.

Private sector can assist in mobilising these sources of funds and mobilise new technology to create new markets and new opportunities.

The most obvious application of this is to exploit the natural economic zones and development areas provided by the sea and rivers

Rivers are the cheapest natural form of transport and have created natural economic corridors since humanity began.

It is significant that virtually all capital cities in the world are on water.

Previous speakers have pointed out that the cost of transport is such that each day of transport to the USA is equivalent to a tax or price rise of 0.8% in the delivered cost

The efficient use of natural distribution channels such as rivers and waterways can represent the exploitation of natural infrastructure resources which pre date any modern trade pattern changes

This can be done by using water as a location as well as a transport and power delivery medium through the use of Floating and Modular Infrastructure.