

Asian Development Bank Institute Infrastructure Investment: Opportunities and Constraints – An Investor's Perspective*

November 2007

The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Some preliminary comments

- A bad project is a bad project!
- Companies are not primarily interested in reform or redistribution
- Although the sector is long term, companies select priorities with a 1 – 3 year horizon.
- But international expertise is transformational, even in developed markets.
- Do Finance and Expertise have to be linked?

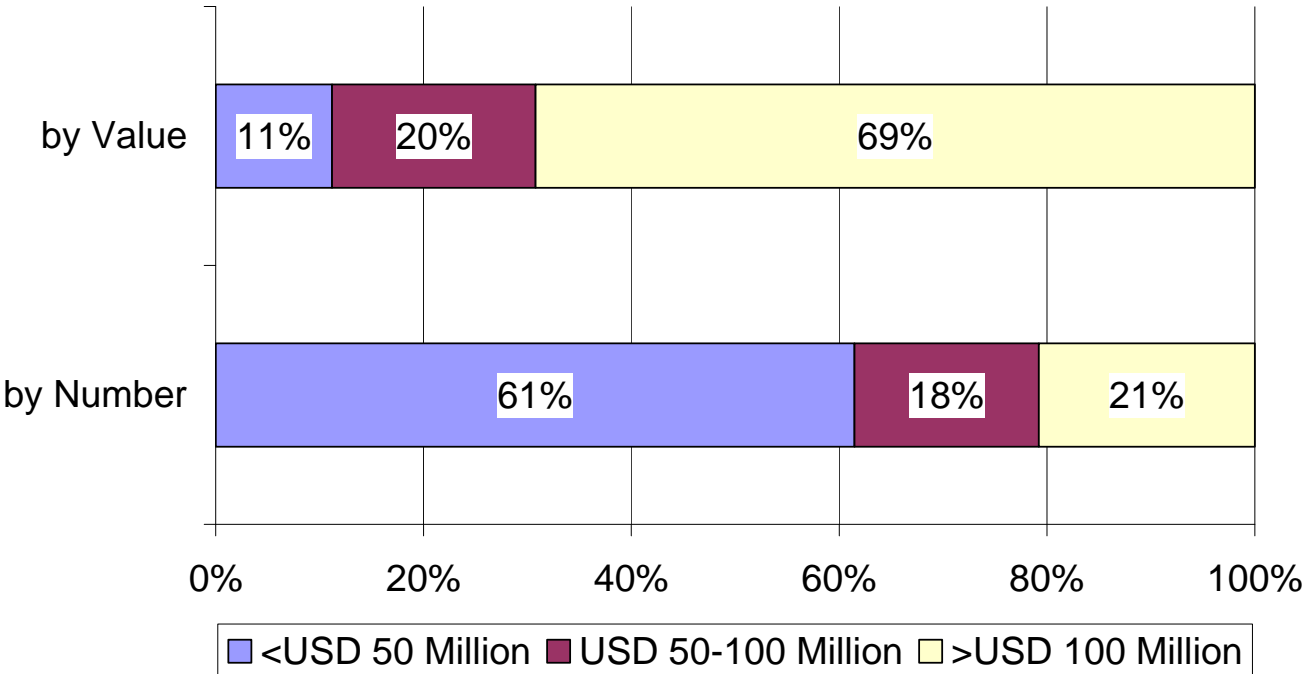
International companies' criteria

1. Scale
2. Clear framework
3. Opportunity to create value
4. Risk Allocation
5. Deals v rules
6. Good counterparties
7. Decision making
8. Advocacy
9. Returns
10. Funding and other partners

India Initiative

PPP Project Sizes

**Size Wise Grouping of PPP Projects by Value and Number
(Value USD15.8 billion, Number 231)**



PPP projects in India are predominantly small in size (*less than USD 50 million*) by number of projects and these small projects are able to reach financial closure without much difficulty (*given that they are viable and carry reasonable levels of risk*).

India Initiative

PPP Projects – Strategic Investments

| Sector | No of project with strategic investor | Equity Infused (US\$ Million) |
|--------------|---------------------------------------|-------------------------------|
| Ports | 4 | 29.89 |
| Airports | 3 | 102.15 |
| Water Supply | 1 | 30.00 |
| Railways | 1 | 4.89 |
| Total | 9 | 166.93 |

Strategic investor in infrastructure sector has been found in only 9 PPP projects, and predominantly the investments have come into Ports & Airports sector.

Government of India opened up Infrastructure sector to attract Foreign Direct Investment (FDI), thus allowing 100% FDI (*under automatic route*) in all the sectors, except in the case of Airport sector, where equity investment beyond 74%, Government Approval is required for existing airports and 100% is allowed for Greenfield airports under automatic route. Total FDI under PPP till date is only about US \$ 322 Million.

Public-Private Participation in India

Constraints

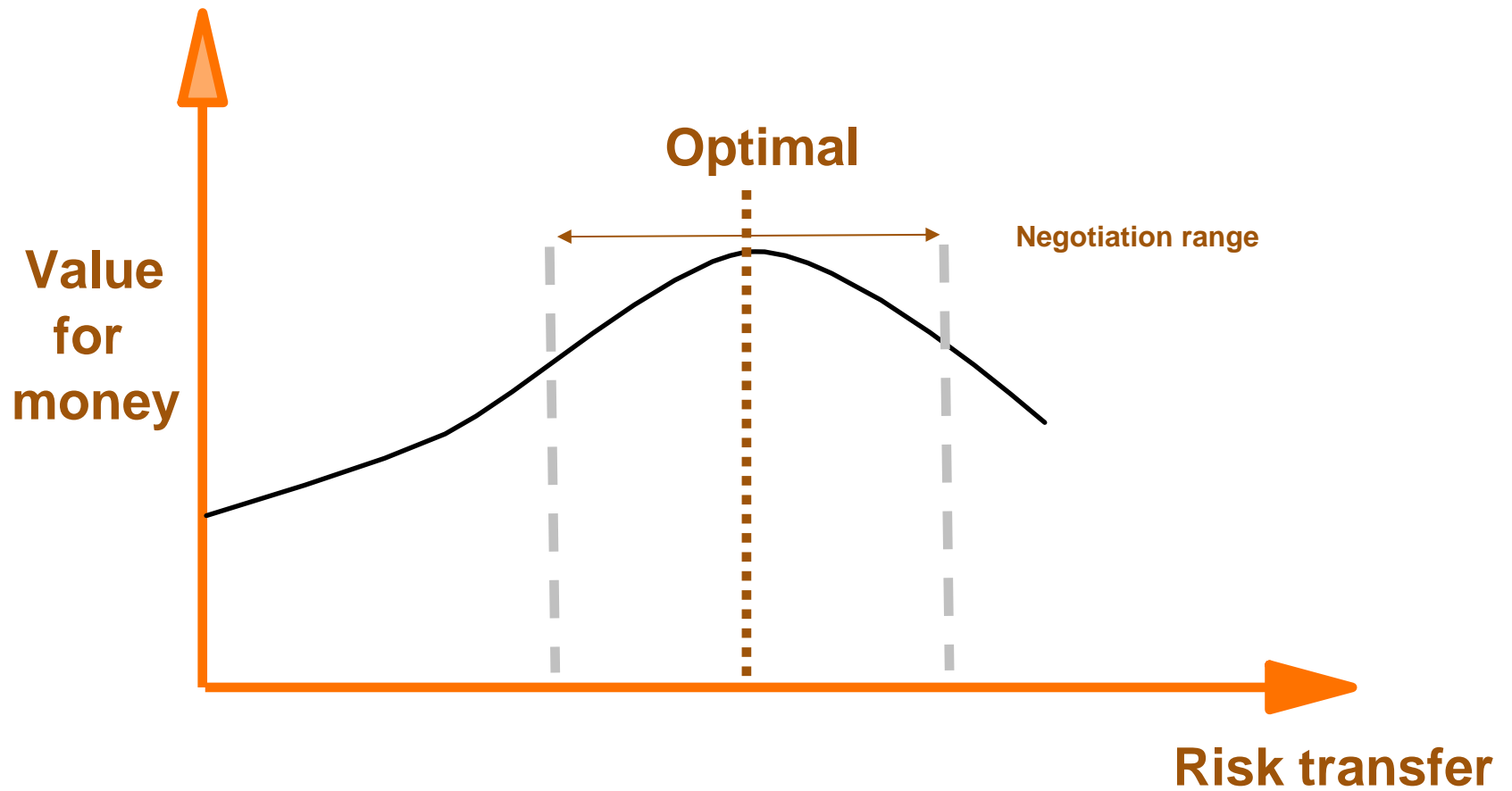
Policy, Institutional & Regulatory

- Absence of PPP-friendly policy and regulatory framework and lack of participation of State Governments continue to be a constraint.
- Lack of capacity in public institutions to manage the PPP process
- Lack of shelf of credible, bankable infrastructure projects, which could be offered for financing to the private sector
- Adequacy & Capacity of India interested private sector players

Infrastructure Finance

- Lack of adequate instruments and capacity to meet the long-term equity and debt financing need of infrastructure projects
- FDI in Infrastructure
- Effective utilization of Forex Reserves

4. Risk allocation



4. Risk allocation (cont'd)

"Risks should be allocated to the party best able to manage them"



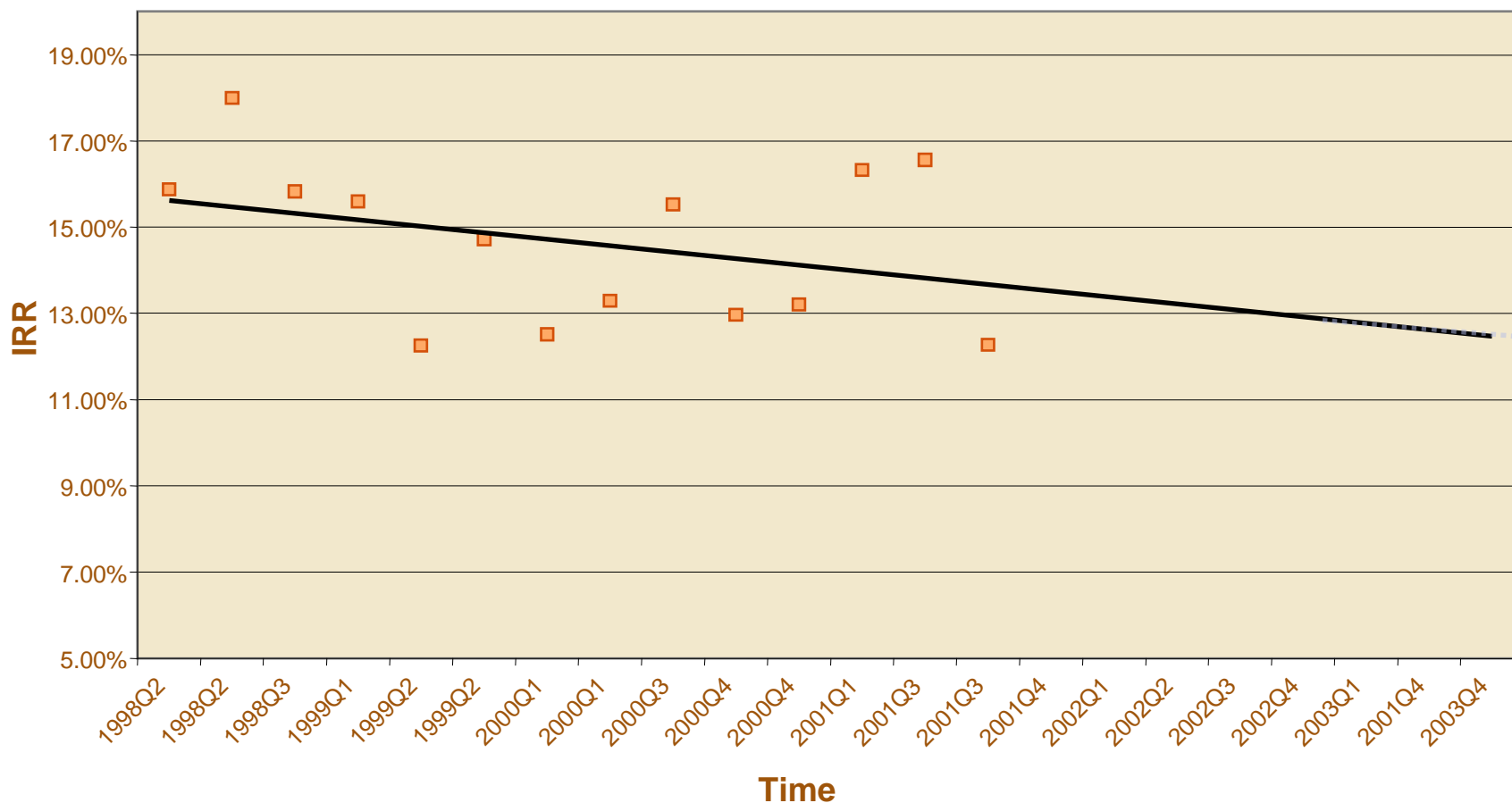
- Outline planning permission
- Discriminatory regulatory risk

- Volume risk
- Inflation risk
- General regulatory risk
- Force majeure

- Detailed planning permission
- Design
- Construction
- Commissioning
- Operating performance
- Project finance
- Technology obsolescence

9. Required returns

Typically reflect increased confidence and competition over time



Source: PricewaterhouseCoopers study for the UK Government

Thank You

