Private Sector Involvement in Infrastructure Development – An Economic Performance Booster

Associated Event at the EBRD Annual Meeting 2015

In the face of continuing challenges to the global economic environment, and anaemic growth in many countries where the EBRD works, there is an urgent need to identify new domestic engines of economic growth.

Recent economic literature shows that infrastructure investment can play a key role in boosting growth without increasing the debt burden on future generations[1]. Adequate project preparation and implementation capacity are necessary for delivering and sustaining the long-term growth effects of infrastructure. Therefore, for economies with clearly identified infrastructure needs and efficient processes for public investment, infrastructure development can have a strong and positive effect on growth and can be delivered in an economically sustainable way.

In the EBRD region, infrastructure investment needs are enormous – likely in the range of US$ 500-550 billion annually. This is not only due to years of underinvestment and insufficient maintenance, but also reflects a significant need for new infrastructure.

Moreover, the infrastructure now being built will have long-lasting impacts on the carbon and resource-intensity of these economies for several decades to come. It provides a unique opportunity to set countries on a different, more sustainable growth path.

Currently, up to 70 per cent of infrastructure financing comes directly from public budgets. In future, given the increased need for infrastructure, public resources will be insufficient to meet all requirements, especially in view of the tight fiscal constraints that many countries face. Alternative sources of funding will have to be found. Substantial funding must come from private sources and be delivered through private sector mechanisms, such as public-private partnerships (PPPs). As Battacharya and others[2] argue, there is an opportunity to channel the large and growing pool of global savings into debt and equity financing of infrastructure that offers long-term, stable returns. Multilateral development banks can play a key role in facilitating the development of infrastructure as an asset class. Climate finance can also offer an opportunity to source funding for infrastructure.

A one-day event organised jointly by the EBRD, the Turkish Presidency of the G20 and the Reinventing Bretton Woods Committee will take place on Wednesday 13 May 2015, focusing on how to increase private sector involvement in the financing and delivery of infrastructure investment in the EBRD region. Dedicated sessions will discuss: the institutional capabilities that are needed to implement infrastructure PPPs; what institutional investors require in order to commit substantial investment; and how to ensure that scarce public resources are spent on sustainable infrastructure that can deliver long-term green-growth objectives. This event will be a chance to hear the views of practitioners in the field, from investors and PPP operators to government and policy-makers from advanced and emerging markets.

[1] For example, see World Economic Outlook 2014, Chapter 3.
[2] See A. Battacharya, M. Romani and N. Stern (2012), "Infrastructure for development: meeting the challenge", Policy Paper, Centre for Climate Change Economics and Policy, Grantham Research Institute on Climate Change and the Environment.

Event Agenda
Wednesday 13 May 2015 09.00–17.30
Parliament Building on Rustaveli Avenue, Room B, Tbilisi

09.00–09.10 Introductory remarks by EBRD President Sir Suma Chakrabarti

09.10–09.30 Keynote speech by the Undersecretary of the Turkish Treasury and Governor of EBRD for Turkey, Mr Cavit Dağdaş (confirmed)

09.30–11.00 Session I: The Public Sector Perspective

Infrastructure investment may suffer from policy uncertainties or weaknesses in the capacity for project preparation, which deter private investors from committing long-term resources for uncertain returns. In some cases, authorities may be reluctant to attract private investors to infrastructure projects because of negative public attitudes towards user charges or the perception that subsidies may be associated with private investment in infrastructure. When perceived risks are too high, the cost of infrastructure delivery through the private sector could exceed the likely benefits and private investment may not materialise. The panel will discuss what private concessionaires and investors view as mechanisms and governance solutions that could reduce the risks connected with long-term investment decisions. The panel will also provide government views on the experience of building capacity for project preparation and monitoring as well as reducing policy risks.

Key questions:

- Why are PPPs an important solution to infrastructure needs?
- Which segments of infrastructure are suitable for private sector activities?
- What have we learnt about the key policies and institutions that need to be in place in order for a PPP to succeed?
- What are the main obstacles to the success of PPPs?
- What are the institutional framework requirements for attracting private sector investment?
- What are the best ways to scale up PPPs to match substantial infrastructure investment needs?

Panel

Moderator	**Cavit Dağdaş**, Undersecretary of Turkish Treasury and EBRD Governor for Turkey (confirmed)
Panellists	**Hu Xiaolian,** Chairman, China Exim Bank
	Sergio Hinojosa, International Consultant in public-private partnerships, IKONS ATN (confirmed)
	Natasha Khanjenkova, Managing Director for Turkey, EBRD (confirmed)
	Azim Sadikov, Resident Representative in Georgia, International Monetary Fund (confirmed)
	Ed Plewa, Regional Managing Director for Transportation, AECOM (confirmed)

11.00–11.15 Coffee break

11.15–12.45 Session II: Building Sustainable Infrastructure

Infrastructure rehabilitation and expansion provide great opportunities for greening the economy and switching to environmentally balanced economic growth if the additional upfront costs associated with resilient and environmentally friendly assets can be overcome. The challenges of infrastructure sustainability are multifaceted. Infrastructure needs to grow in size but at the same time requires new ways to deliver cleaner and more sustainable (green) services. However, innovative greener solutions typically entail higher upfront and overall costs, which pose a challenge to governments and financiers. Climate finance is one of the funding options available, but which domestic policies and financing measures can make green infrastructure more attractive? The panel will discuss the experiences and policy mechanisms involved in implementing green infrastructure projects that have credible commitment to funding delivery and to maintenance.

Key questions:

- What are the main mechanisms through which infrastructure greening can complement the development aspects of infrastructure investment?
- How can green infrastructure investment be scaled up?
- What are the key opportunities for shifting to a different quality of economic growth by investing in green infrastructure?
- What are the bottlenecks for private sector investment in sustainable infrastructure?
- Can greener infrastructure be financially viable or sustainable in the absence of subsidies?
- What role can the new climate funds play in supporting sustainable infrastructure investment?

Panel

Moderator	**Mattia Romani**, Managing Director for Country and Sector Economics, EBRD (confirmed)
Panellists	**Amar Bhattacharya,** Senior Fellow, Brookings Institution (confirmed) **Mauricio Janauskas**, Partner at McKinsey & Company (confirmed) **Michael Liebreich**, Chairman of the Advisory Board, Bloomberg New Energy Finance **David Bresch**, Global Head Sustainability Swiss Re

12.45–14.15 Lunch Break

14.15–15.45 Session III: Lessons Learnt from Past PPP Experiences

Public-private partnerships (PPPs) are increasingly seen as an alternative way to fund public infrastructure investment projects. However, the track record of PPPs in the EBRD region has been mixed. Their success often depends on a long-term political commitment to: involving the private sector; sharing risks; and developing the appropriate legal framework and governance structure, including the ability to assess value-for-money, capacity to design and prioritise projects and monitor their execution. The panel will provide examples of successful PPPs, discuss the circumstances and sectors to which PPPs might be better suited, look at PPP designs and structures for risk-sharing, and discuss measures and governance that can maximise the likelihood that PPPs will work well.

Key question:

- What have we learnt from past successes and failures?
- What are the key features required to make a PPP project successful?
- Can PPPs be successful in the absence of proven long-term delivery and resilience to risk?
- What models and examples can be scaled up to deliver a different magnitude of PPP investment?

Panel

Moderator	**Thomas Maier,** Managing Director for Infrastructure, EBRD (confirmed)
Panellists	**John McBride**, CEO, PPP Canada (confirmed)
	Ergun Ozen, CEO, Garanti Bank
	Thierry Déau, CEO, Meridiam (confirmed)
	Dimitris Tsitsiragos, Vice President, IFC Global Client Services
	Carlo Vivaldi, Head of Central and Eastern Europe Division, UniCredit

15.45–16.00 Coffee break

16.00–17.30 Session IV: Instruments and Policies to Attract Institutional Investors

A large and growing pool of savings, particularly in emerging economies, is managed by institutional investors seeking stable and secure long-term returns. How can this supply of funds be matched effectively with the increasing demand for infrastructure financing? The scale of need for new infrastructure is so great that public funding alone is unlikely to cover it in the foreseeable future. Attracting financing from third parties – infrastructure equity investors, pension funds, insurance companies, sovereign wealth funds or commercial financiers – requires adequate legal frameworks and suitable instruments that reduce transaction costs (for example, infrastructure bonds). While there is private financing available for brownfield assets, large greenfield infrastructure projects often struggle to attract commercial investment. To ensure a sustainable long-term investor base, countries should consider ways to attract existing worldwide institutional investors but also further develop their domestic institutional-investor base. The panel will discuss these aspects from the perspective of investors but also include contributions from the public authorities that shape these risks and often provide mitigation of last resort.

Key questions:

- What are the necessary conditions for increasing investment in infrastructure by institutional investors?
- What is the likely investor base?
- What currently prevents institutional investors from investing in infrastructure in the EBRD region?
- Is there equity-risk appetite for infrastructure investment in the EBRD region?

Panel	
Moderator	**Marc Uzan,** Executive Director and Founder, Reinventing Bretton Woods Committee (confirmed)
Panellists	**Franco Bassanini**, Chairman, Cassa Depositi e Prestiti **Allen A. Weaver,** Senior Managing Director and Head of Prudential Capital Group **Michael Buchanan**, Managing Director for Strategy, Temasek **Massimiliano Castelli,** Managing Director, Head of Strategy, Global Sovereign Markets, UBS Global Asset Management (confirmed) **Patricia Haas Cleveland,** Financial Adviso, Multilateral Interim Secretariat at AIIB

17.00 Closing remarks: Philippe le Houérou, Vice President for Policy, EBRD (confirmed)