



Global Infrastructure Hub

Bridging the Infrastructure gap

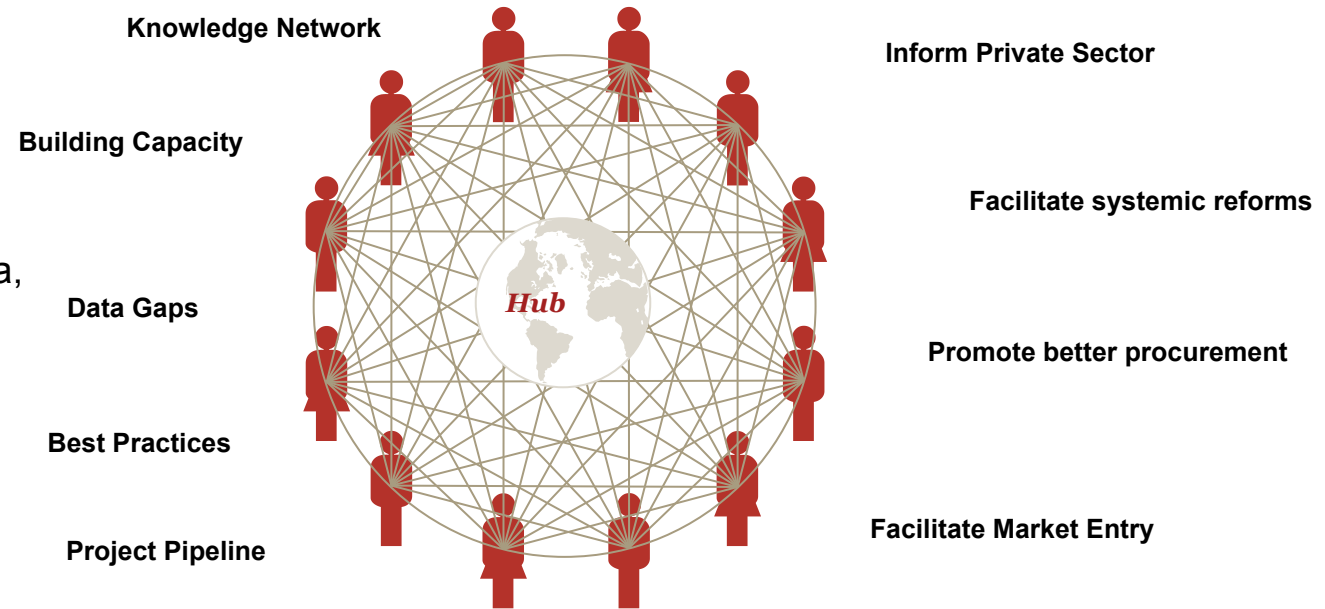
G24 meeting

Cartagena, Colombia 3-4 March 2016

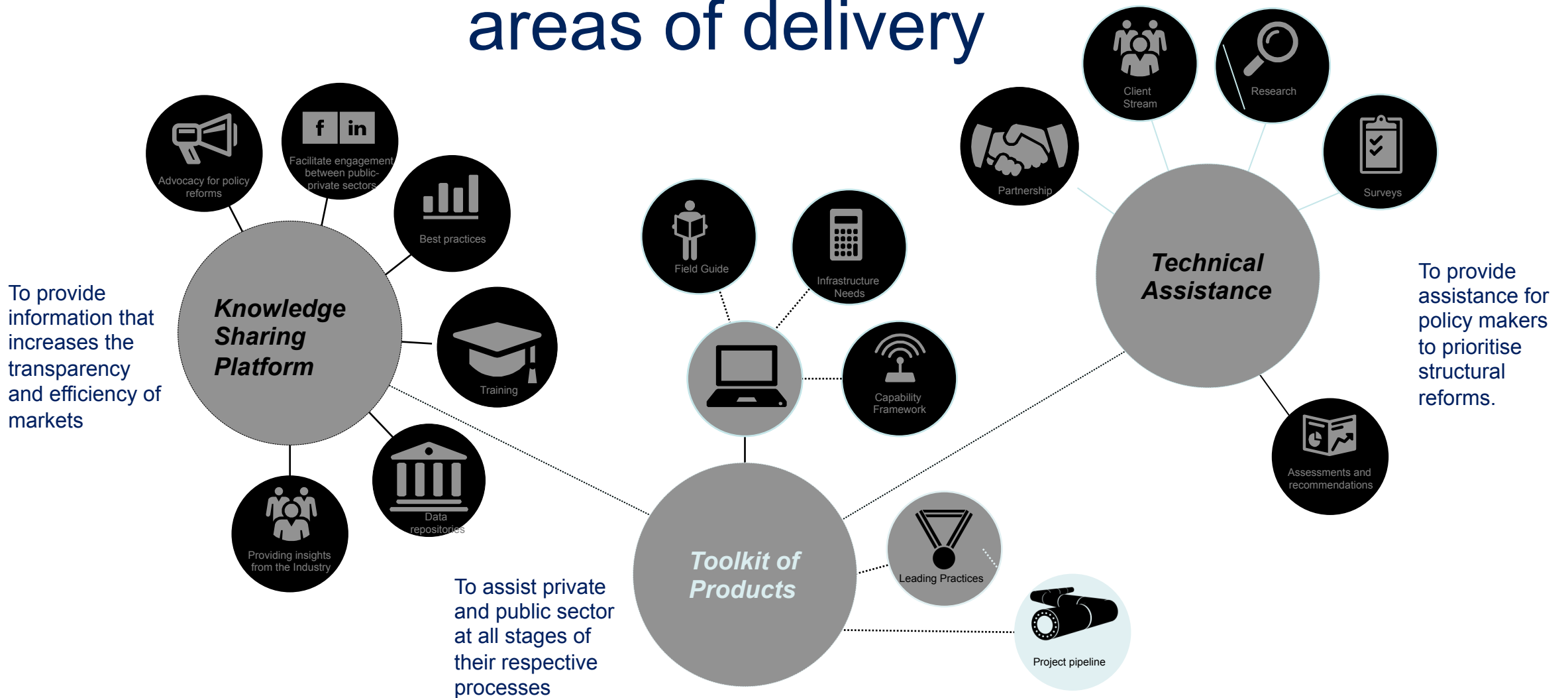


Global Infrastructure Hub

- Registered as a not-for-profit company under Australian law
- Governed by an international Board of Directors, comprising Australian Chair, two independent directors and four directors from UK, South Korea, Turkey, China and Germany
- Funding donors included Australia, United Kingdom, China, Saudi Arabia, New Zealand, the Republic of Korea, Mexico and Singapore
- Strategic advisory council is being appointed to provide additional expertise to the Board and CEO from multilateral and private sector representatives
- CEO Chris Heathcote appointed in mid 2015. Key staff started late 2015. Secondments from G20 countries



The Hub is organised around three areas of delivery





Alternatives and fixed interest allocations are increasing demand for infrastructure assets



Private Capital
US\$221bn deals in 2015



Mostly in:

- Mature markets
- Brownfields & secondary stage

However Greenfields remain largely funded by Public Investment allocations



Public Investment in Infrastructure
From 3% of GDP in 1980
to 1% in 2014



More in:

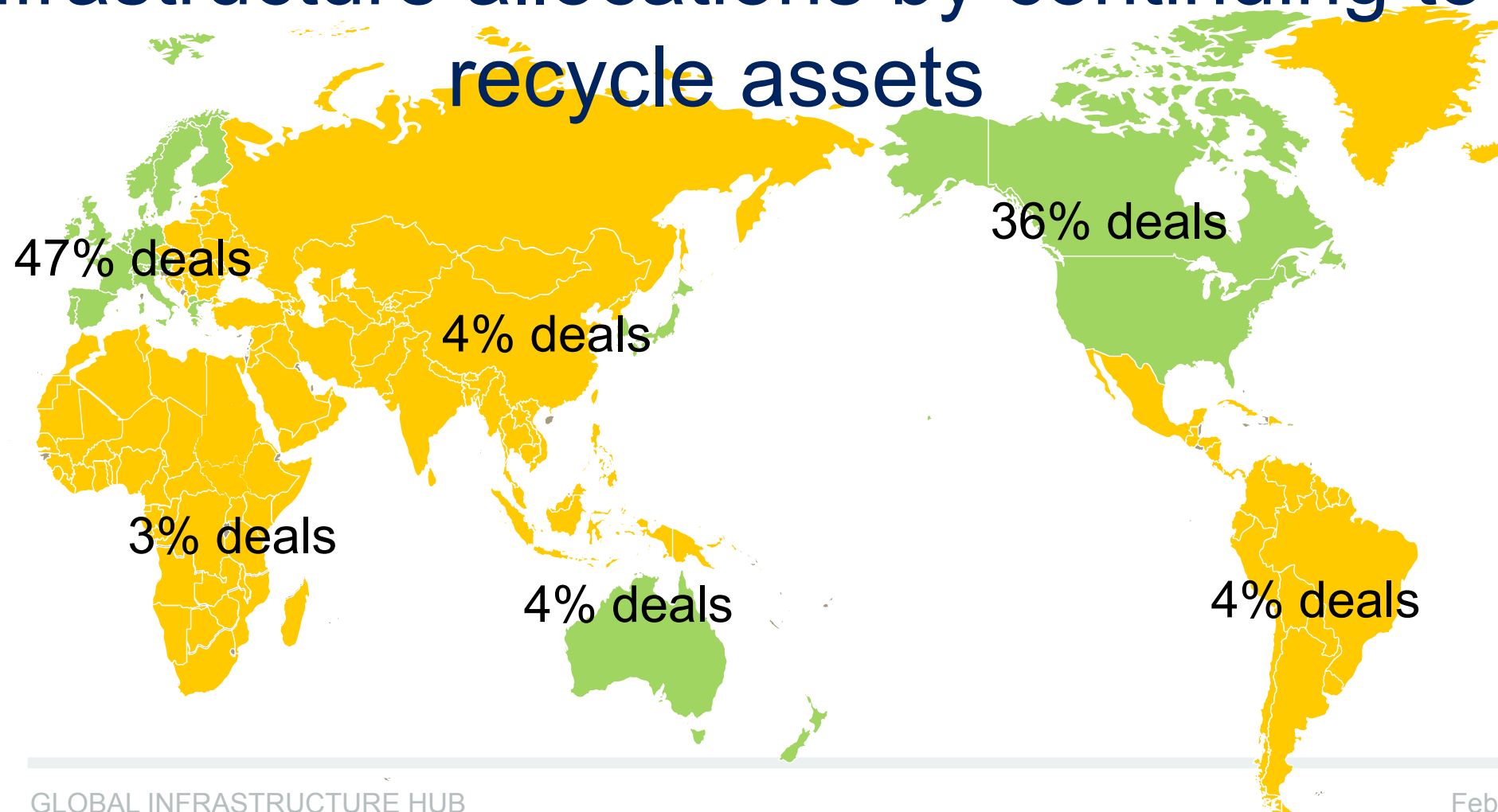
- Developing Markets
- Greenfields

Sources: <http://www.ipfa.org/news/infradeals-trend-report-2015/>
<https://www.preqin.com/docs/quarterly/inf/Preqin-Quarterly-Infrastructure-Update-Q3-2015.pdf>

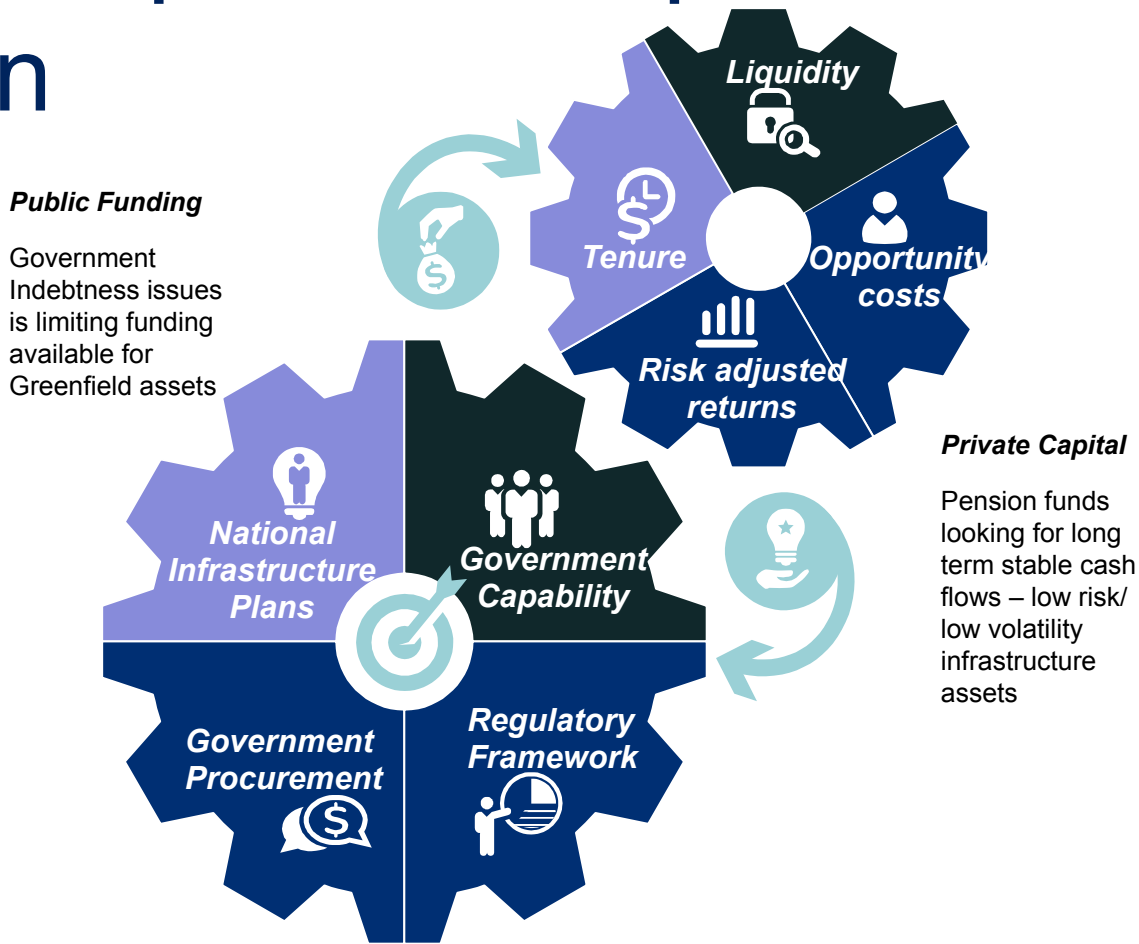
Source: McKinsey Infrastructure Productivity How to save USD 1Trillion a year report 2013



Mature markets are meeting private infrastructure allocations by continuing to recycle assets



For more regions to become mature markets, public and private sectors need to align

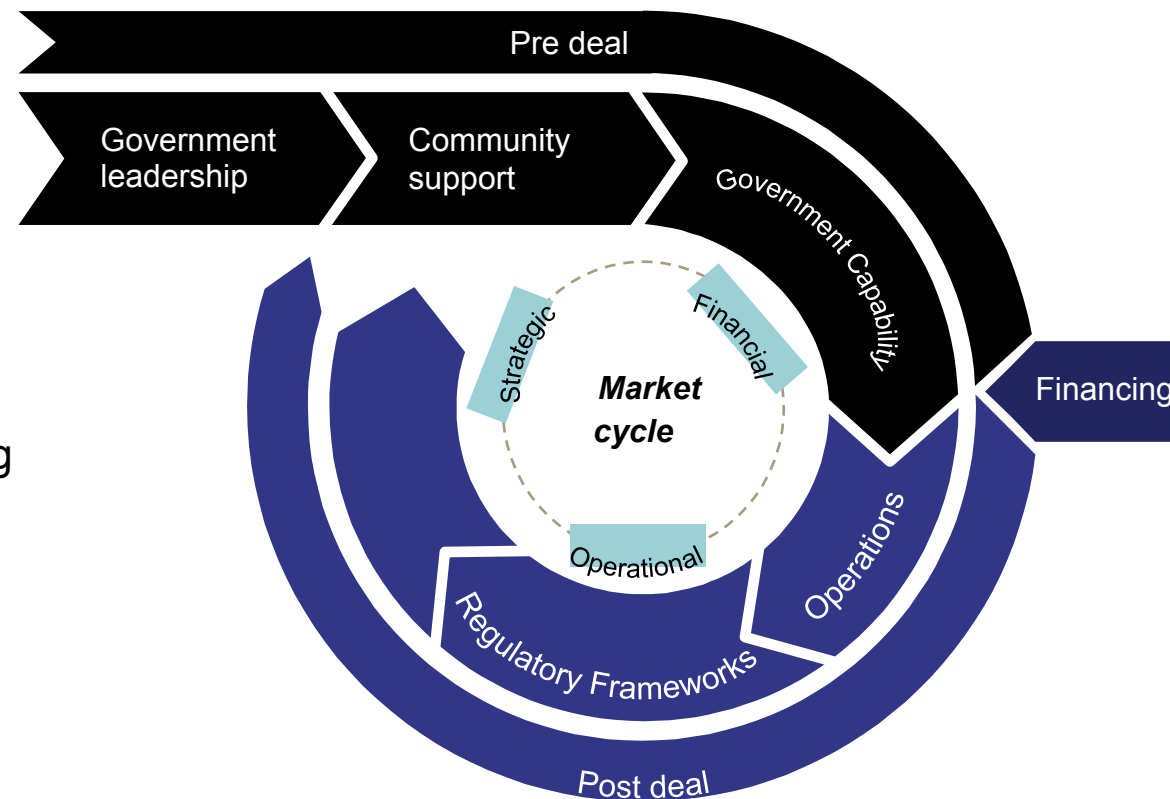




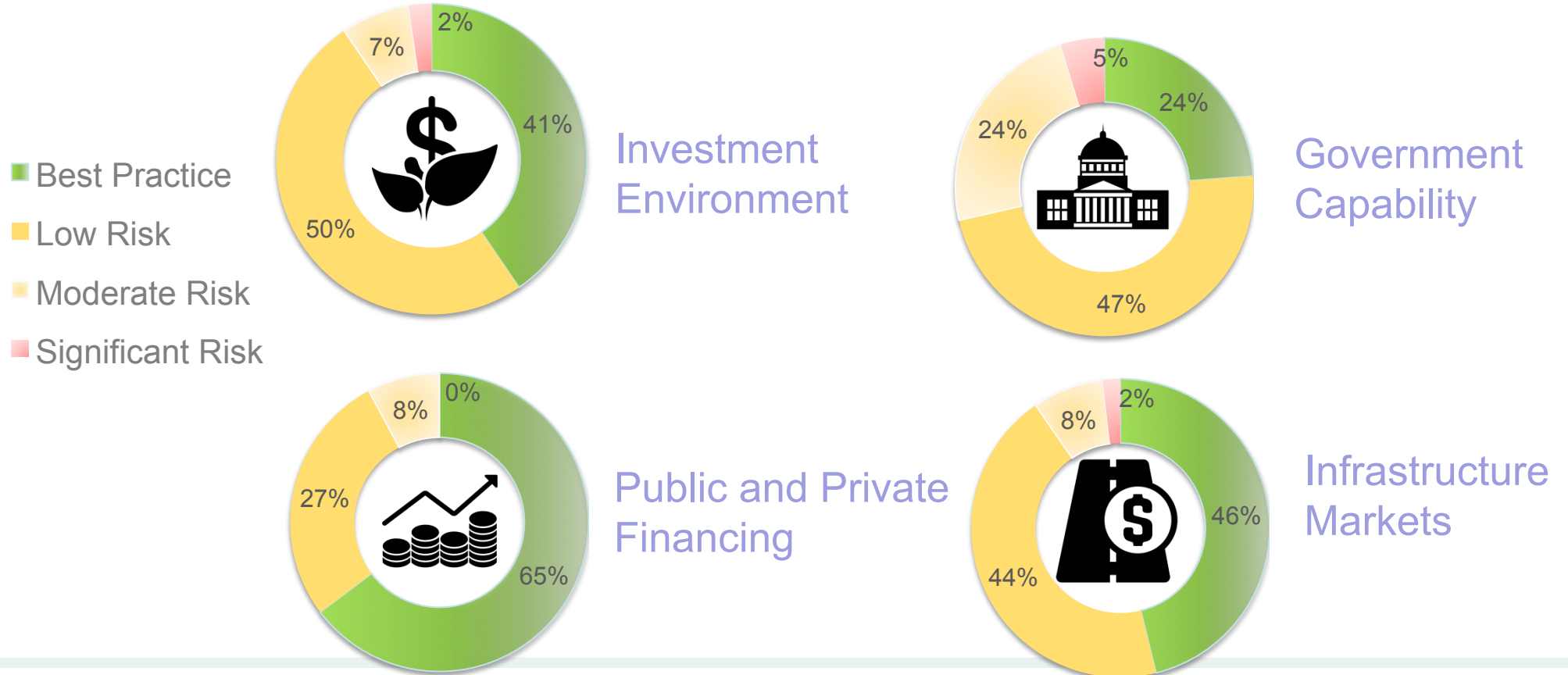
Creating investable Infrastructure Markets that are aligned to private sector capital

Capability Framework

- 1 Investment Environment
- 2 Public and Private Financing
- 3 Government Capability
- 4 Infra Markets



The private sector survey currently conducted by the Hub is measuring perceptions of risk by the private sector





Lessons Learned in Procurement

Since the outset, procurement of infrastructure projects has evolved considerably and continues to. There is not a one size fits all approach, however patterns of good practice have developed



1. Opportunity costs
2. Bid costs
3. Structuring
4. Contracts
5. Timetable
6. Governance



Private commitment - to a new country - is driven primarily by the Investment Environment and Government Capability (pipeline & track record)

1. Opportunity costs

- Not providing a consistent pipeline of projects and staging of processes to ensure bidders can be sustained and maximum participation
- Failure to be consistent with own rules, such as the number of bidders to be shortlisted

2. Bid costs

- Shortlisting too many buyers and allowing parties to rack up large bid costs when they have little chance of success
- Rescoping the process midway through and incurring massive redesign costs
- Requirements for all sorts of documentation (eg Aboriginal Employment Policies) which add massively to bid costs

General risk allocation guidelines need to be skilfully applied to the local commercial and financial reality

3. Structuring

- Using a template for the process rather than asking if the process and requirements are relevant and required.
- Providing inconsistent or incomplete data that makes it difficult for investors to appraise a deal.
- Proposed financial structures that are too rigid, i.e. fixed periodic payments that are not linked to operating cash flows or credit rating.
- Designing processes for activities which are unviable - and hurts future ability to undertake similar activities
- Processes which sacrifice good economic outcomes to maximise sale proceeds.
- Structures that do not allow a combination of regulated and not regulated income for assets that are operating in competitive markets.



Contracts is one of the areas with more potential for – partial - standardisation

4. Contracts

- Contract clauses that are too inflexible and/or disregard commercial reality (force majeure clauses that do not allow for negotiation and/or disregard the insurance market)
- Inflexible pricing unrelated to economic indicators (such as inflation) or production costs (such as energy prices)
- Regulatory incentives to gold plate or build too much capacity ahead of demand which result in costly maintenance and suboptimal unregulated returns

Political Leadership is critical for the success of key projects and needs to be factored into timeframes

5. Timetable

- Processes that are run without consideration of electoral timetables with binding contracts that the Opposition commit to breaking.
- Processes that are run with an election as key driver of the timetable and condense the process to point that pressure on both sides results in failure.
- Timetables that do not consider the prospects of a market or market events, i.e. the Malev collapse and the privatisation of Budapest airport.



Aligning shareholders' interests through a shared vision and a business plan and an agreement that is designed for the long term

6. Governance

- Processes which introduce minority holdings of private sector equity - with Government keeping majority and control and which do not achieve more commercial outcomes.
- Using too many advisors during procurement with conflicted or vested interests which results in dysfunctional and/or indecisive decision making processes.
- Not having appropriate institutional frameworks in place from the outset, such as anti competitive or independent regulatory agencies, which result in short sighted pricing paths and/or other contractual provisions.



So where to look for best practices?

- Global Infrastructure Hub Conference in Shanghai February 2016 – Slides available on Website.
- Global Infrastructure Hub Field Guide will be the repository of best practices going forward.
- Capability Framework – Country level scorecard measuring Investment Readiness for Infrastructure.
- The Global Infrastructure Hub will be launching Best Practices Guidelines in Risk Allocation toolkit in April 2016. Followed by Best Practices in PPP Units and Project Prioritisation and Planning. A number of seminars will follow.
- Best Practices in Project Preparation – IISS.
- Project Data Base - Best Practices Pipelines – System being developed building on IISS platform.



Thank you to our partners and funders

