Long-Term Infrastructure Financing

Confederation of International Contractors' Associations

CBIC meeting
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Increasing Private Funding for Infrastructure

A quadruple preliminary observation

- A huge worldwide need for infrastructure of all kinds estimated between $ 4,300 bn / year and 6,000 bn year, by 2035/2040;
- A high-growth global public debt reducing the ability of governments to finance infrastructure;
- A 2017 stock of Private Equity dedicated to infrastructures of only $ 428 bn;
- An increasing amount of reserves not invested (Dry Powder) reaching now $ 1,540 bn.

- Although infrastructure investment is now accepted as an alternative asset class, the volume of private finance, (Funding), is insufficient to bridge the gap in EMDEs.

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Some barriers to private funding growth:

- difficulty to obtain an acceptable rating;
- a high rate of return expectation (IRR requirement) boosted by low interest rates.

What actions contractors / operators can do to increase private funding?

Better risks management to reduce the level of the IRR.

The two factors determining IRR are:

1-) - Investor Weighted Average Cost of Capital (WACC) plus a project risk premium.

1-1) What is WACC?

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1-2) The 4 components of the project risk premium:

- the risk that design or engineering processes will fail to perform as expected;
- the risk that faulty building techniques or poor project management lead to cost escalation during construction;
- the risk that operations and maintenance costs will be higher than projected;
- the risk that performance will not be at the standard expected at financial close, giving rise to deductions or penalties, and reduced income for the private sector operator.

2°) What is Beta (β)?

- the key measure of systematic (or market) risk;
- a function of the return available on a risk-free investment (the risk-free rate).

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2.2) the Equity Market Risk Premium (EMRP)

2.1) the Beta (β) of the investment

- In EMDES global IRR requirement, vary between 17% and 20%.
- Need for a rating BBB^+/A^- rating, difficult to obtain.
- High IRR requirement drastically reduces financial closure of a large number of projects

2.3) Reducing these risks:

- Contractors have little control over these risks.
- However, it is up to them to make known to public stakeholders their difficulties and proposals to remedy it.