Key Elements of Private Infrastructure Financing in the Asia-Pacific Region

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This presentation starts with the description of the Region's infrastructure requirements and the scope of the response to date in terms of projects completed and the projects in process and then will turn to how the framework for project financing of infrastructure projects in the Asia-Pacific Region differs; i.e. the "distinguishing characteristics" of infrastructure project finance in the Asia-Pacific Region.

In each country of the Asia-Pacific Region infrastructure investment has failed to keep pace with requirements of expanding economies. The expansion of infrastructure is now a pre-condition to further growth. The question of how best to finance infrastructure requirements is being addressed by such governments in a broader policy framework of liberalization, which contemplates a more limited public sector role and the encouragement of private sector led development. But international commercial banks and private sector institutional investors still have a rather cautious appetite for financing such infrastructure projects and are particularly concerned about sovereign risks. In other words, they remain highly selective in their willingness to lend long-term to private infrastructure projects on a limited recourse basis. Substantial progress in attracting greater participation by such banks and institutional investors will require the mitigation of the risks of governmental non-performance in respect of such projects.

Mitigation of such risks requires action by the concerned governments in clarifying and solidifying the policy, legal, regulatory and financial frameworks for such projects. Through government guarantees, project risks, such as the ability of a public utility to pay its private suppliers, can be transformed to sovereign risk. Developing countries can reduce their exposure by replacing full credit guarantees with more narrowly defined guarantees such as power purchase agreements. Such unbundling of risks presumes that the parties can be trusted to honor their commitments; if they cannot be trusted, investors will prefer full guarantees.

This helps clarify why developing countries with low credit ratings rely heavily on full financing by international development institutions and/or export credit agencies, whereas developing countries with higher credit ratings offer guarantees for specific risks. Support by international development institutions and export credit agencies appears to substitute for an international contract enforcement mechanism.