



**Asia-Pacific  
Economic Cooperation**

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**2009/SOM2/IEG-EC/SEM/005**

Session 3

## **Stimulating FDI Using the PFI Method into the ASEAN and East Asia Region**

Submitted by: Macquarie



**Capacity Building for Sharing Success Factors  
for Improvement of Investment Environment**

**Singapore  
27 July 2009**




## Agenda

1. Macquarie's infrastructure business
2. What is PFI?
3. Attributes required in PPP projects to attract FDI
4. Conclusion



## Macquarie's Infrastructure Business Model



**A complete financial service provider...**







Broker	Financial Adviser	Underwriter	Fund & Asset Manager	Principal
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**Governance Separation**

- A dedicated **Infrastructure Advisory Team** comprised of over 500 infrastructure specialist around the world;
- A **Debt Advisory Team** with extensive experience on debt syndication, debt restructure, project finance and convertible bonds
- An **Equity Capital Market** team with track record in initial public offering, rights issue and placement

- A **Private Placement Group** with established relationship with over 380 institutional investors
- Listed and unlisted **infrastructure funds** pursuing acquisitions and deeply involved in asset management

**...covering all classes of infrastructure**

Toll road
Airport
Rail
Port
Telecom
Power

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# Macquarie Capital Infrastructure Funds



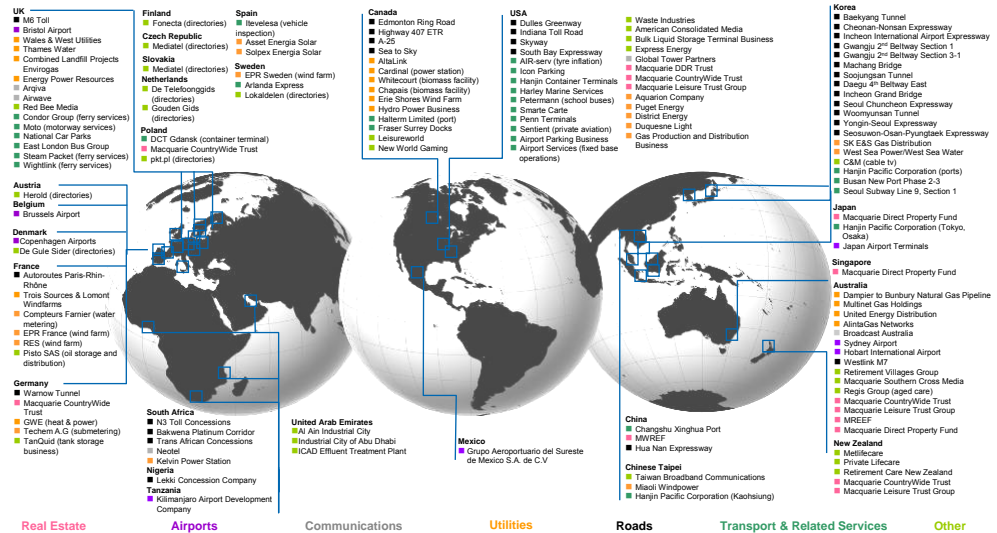
Macquarie manages 29 listed and unlisted infrastructure funds across geographies

Macquarie listed funds		Major Macquarie unlisted funds	
Fund	Location Description	Fund	Location Description
<b>Asia</b>			
Macquarie International Infrastructure Fund (MIIF)	Invests in infrastructure assets around the world, with a focus on Asia	Macquarie SBI Infrastructure Fund (MSIF)	US\$1.037 billion to invest directly into Indian infrastructure assets
Macquarie Korea Infrastructure Fund (MKIF)	Invests in Korean infrastructure businesses	Macquarie Korea Opportunities Fund (MKOF)	Invests in infrastructure assets
<b>Non-Asia</b>			
Macquarie Infrastructure Group (MIG)	Invests in toll roads globally	Macquarie European Infrastructure Fund II (MEIF II)	Invests in high-quality infrastructure businesses in developed European countries
Macquarie Airports (MAP)	Invests in airports globally	Macquarie Infrastructure Partners (MIP)	Invests in North American infrastructure businesses
DUET Group (DUET)	Invests in energy utility infrastructure		
Macquarie Power & Infrastructure Income Fund (MPT)	Invests in North American infrastructure businesses, with an emphasis on power infrastructure and Canadian businesses		

# Macquarie's 110 Infrastructure Assets




Macquarie manages 110 assets in 27 countries, servicing more than 100 million people every day




As at 31 March 2009. Represents businesses and assets which Macquarie Capital Funds manages on behalf of investors with various direct percentage stakes held in each.

Key PFI / PPP Clients



## Some of Macquarie's Infrastructure Clients

**Beyond its fund business, Macquarie Capital advises Government and private third party clients on infrastructure financial advisory, M&A, project finance, and ECM transactions**

Key Utilities Clients		 MACQUARIE		Key PFI / PPP Clients	
Sydney Water	APA Group			Balfour Beatty	Ecovert FM
GDF Suez	Marubeni			Mill Group	John Laing
Origin Energy	AGL	Bouygues Construction			
Key Other Infrastructure Clients				Key Financial Infrastructure Clients	
Transfield Services	Ferrovial	Spark Infrastructure		CPP Investment Board	
Leighton Contractors		JPMorgan Chase		Challenger	
Tata Group	Thiess				

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# What is PFI?

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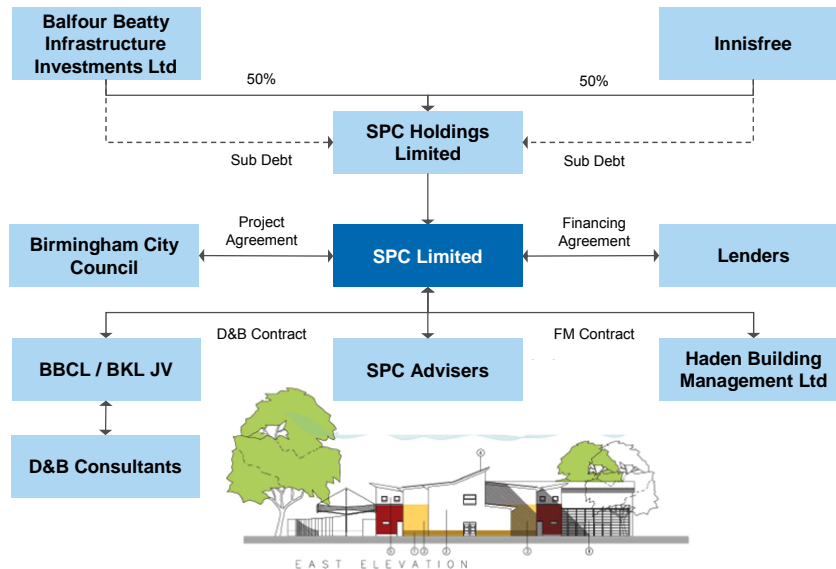
## PFI is a Specific Type of PPP



- The **Private Finance Initiative (PFI)** was implemented in the UK by the Conservative Government in 1987, then continued with modifications by the New Labour Governments in the 1990s – showing political consensus for the scheme
- Under PFI, the private sector is invited to build and operate an infrastructure asset (hospital, school, road, etc.) for a given time period in exchange of Government payments based on performance. Total value of PFI (£60bn) now represents 11% of UK net debt
- PFI is one type of **Public-Private-Partnership (PPP)** which is a broader concept:
  - PPPs started as early as the 19th century with utilities “concessions of public service” in Europe
  - PPPs have been successfully developed across geographies, in both developed and developing markets
  - PPPs have taken many forms: BOT, Government off-take, Government guarantees, Government availability payments, etc.
- In general, **PPP is an interaction between the Government and the private sector in which risks are borne by the party best placed to manage them**

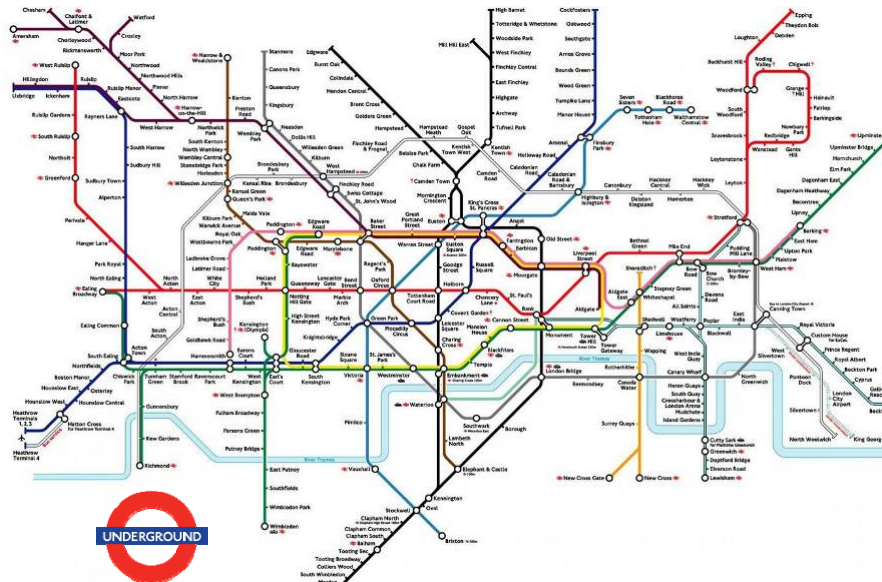
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## Simple PFI Project: Birmingham Schools...



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## ...And More Complex: London Underground



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## PPPs Deliver



### Key Benefits

- **Cheaper Projects:** UK National Audit Office Study of Highway PPP found savings of 19% on capital costs, 34% on operating costs, and 17% on lifecycle costs despite higher cost of funding
- **Less Delay:** A 2006 UK Treasury study showed that 76% PFI came in on time or early as opposed to only 30% of non-PFI projects
- **No Cost Overrun:** UK Treasury study found no cost overruns for PFI projects as opposed to 73% of non-PFI that ran over budget
- **User Satisfaction:** UK Treasury study showed 80% users of PFI projects are always or almost always satisfied with the service being provided

### Key Reasons for Benefits

- **Risk transfer:** transfer of “whole life” responsibility to private sector
- **Broader competition:** not just contractors, but also operators, suppliers
- **Economies of scale** in project management, design, construction, operation
- **Less litigation:** due to reduction in scope for claims against governments

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## Attributes required in PPP projects to attract FDI

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### Investment Grade Attributes








1. Identified pipeline of projects
2. Fair equity return for risks taken
3. Developed debt capital markets
4. Parties able to manage construction and O&M risks
5. Central body with applicable skills
6. Good regulatory framework (MCA, enforceable dispute resolution)



## Meeting Attributes Helps Attracting FDI



Countries	Identified pipeline of projects	Fair equity return for risk taken	Developed debt capital markets	Parties managing construction and O&M	Central body with applicable skills	FDI raised as % of all PPP (Macquarie estimates)
UK 	+++	++	+++	+++	+++	40 - 50%
Australia 	++	++	+++	+++	++	30 - 40%
Singapore 	+	++	++	++	+	20 - 30%*
Korea 	+	+	++	+++	+	10 - 20%
India 	+	+	+	++	-	<10%

\* After factoring Temasek's ownership in power, port, and rail infrastructure

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## Successful Case: UK PFI



Attributes	UK PFI Performance
Identified pipeline of projects	An average of 45 projects tendered every year since 1987, with more than 1,000 projects till date
Fair equity return for risk taken	Attractive returns have triggered active participation by both financial and strategic investors (construction co)
Developed debt capital markets	Matured debt capital markets with possibility to consider both bank or bond options
Parties managing construction and O&M risks	Positive reports from UK Treasury on construction and O&M performance
Central body with applicable skills	PFI taskforce created since 1997 within the Treasury to provide central co-ordination
Regulatory framework	Established framework, which has been refined over 20 years

Success in attracting FDI (>50% today)

Macquarie has advised foreign sponsors and helped secure debt from foreign lenders, as well as construction and O&M capabilities from foreign players

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## Limited Success: Indian Road PPPs



Attributes	NHAI Performance
Identified pipeline of projects	Good pipeline, but most projects are too small to attract interest (<US\$500m project cost)
Fair equity return for risk taken	Foreign bidders most of the time not able to match return at which Indian companies are bidding
Developed debt capital markets	Local lenders not comfortable with fully non-recourse financing, hence loans include corporate guarantees
Parties managing construction and O&M risks	Only Indian developers can “manage” some aspects of construction, e.g. physically securing right of way
Central body with applicable skills	NHAI bureaucrats not empowered to assess substance over form, frequent delays in bid process, etc.
Regulatory framework	Issue with termination payments as payments are not always computed based actual project cost

Limited success in attracting FDI so far (<10%)

Macquarie experience has been that we could not qualify on good roads or could not get comfortable with other roads

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## Conclusion

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## Conclusion



- Infrastructure is predominantly a domestic business
  - Local players can price in domestic risks more efficiently
  - No FX risk
  - Equity returns linked to pension fund liabilities
  
- Pension funds look for diversity across their portfolios
  - Look to emerging economies for growth, higher returns and FX exposure
  - Emerging economies need this investment for infrastructure plans to succeed
  
- PPP can be an effective method to increase private sector participation and attracts FDI provided key attributes are in place
  - UK PFI has been a great success
  - For some countries, e.g. India, experience has been disappointing with most equity coming from local players

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