

Summary: Infrastructure Dialogue 2016 (22nd & 23rd June)

by Stefan Reich

The following pages on hand follow the aim to summarize the most important key facts and messages within chosen dialogues of the Infrastructure Dialogue 2016. Notes, which were made within the sessions, as well as experiences and memories, serve as basis for this paper.

Day I (22nd June 2016)

1st Dialogue: Infrastructure in emerging markets – What regions are popular and why?

As the title of the dialogue already reveals, the first dialogue has focused on popular developments of infrastructure in specific emerging markets by the use of so-called PPPs.

First of all, it is important to define what actually an emerging market itself is and if it is fitting for a PPP approach. Substantial prerequisites are for example the country's respective domestic legal framework, its international awareness and participation and the currency exchange risk. Successful PPP projects in emerging markets should be based on a preparation process. In addition, a necessary high liquidity should be ensured by integrating more investors into the field. Here it would help to enhance the focus also more on private investors.

For many infrastructural projects, the public sector makes more and more use of PPPs, which are public-private partnerships. In projects, those PPPs can be seen as kind of a coat, which is laid over the whole process from the beginning until the end. PPPs help and advice in infrastructural projects by bringing together all necessary partners and accompanying the single stages until the end. Generally, the goal in PPP projects can be seen in the financial closure: the project itself should be able to refinance its capital expenditures by ensuring stable cash flows so that the finished project is able to survive by itself.

In detail, Turkey can be expected as one of the most important so-called investment targets in 2015, as the country has seen high capital investments in the respective year. Especially the new airport and several new infrastructure developments focusing on sources for renewable energies are noticed as the most notable flagship projects. Besides of Turkey, a further focus should also be set on Belarus and Kazakhstan as those register a huge potential for new infrastructural investments within the public sector. One of the most crucial elements for successful undertakings in emerging markets are local partners, as they know their domestic environment best. In this way, it is recommended to outsource work and to build up an effective local partnership network in future projects.

Day II (23rd June 2016)

2nd Dialogue: Partnership capital – Infrastructure investors & cooperates, best way to collaborate?

Investments in emerging and developing countries bear high risks. Nevertheless, there are a lot of approaches that can be applied in order to minimize those. For example, risks can be lowered by creating more ground for renewable assets. A further tool is the right allocation of risk to promote a stable cash flow. Local partners do also help as they can support better deals. Research, especially in the macro environment, helps creating a clearer picture of the market itself and advices in future decisions. Furthermore, infrastructural projects should work together within cooperation with strong companies that are specialized in the field of interest. In case of a long-term investment, a clear exit strategy should be defined in the beginning to prevent unnecessary losses in later stages. A basic way to identify chances and risks is simply checking what the country-related governments do and how investors were already treated.

In infrastructural undertakings, investors often set a strong focus on equity allocation between the sponsors and the lenders. By doing investments, the financing needs to be expected as a key factor. In this respect, the project's nature is crucial for the financing; the more core-distanced it is, the more burdens have to be solved for receiving a sufficient loan. Before making the final investment decision, there are several points that take center stage. First, it has to be identified which skills are needed within the project process and how to move in order to win a deal due to high competition in the market. The right choice of partners highly influences the success of the undertaking, because it is crucial to generate and offer a very competitive price. A further light should be casted on governance topics. It must be clearly defined up to which extend in business it is better to go alone and up to which point together where with a partner. In addition, also a development of an alignment of interest helps a lot. There may already be companies operating in the market, which should be detected. In a lot of cases, projects are based on a so-called development of the deal what means not more than learning from mistakes as they are often the first in the respective field.

3rd Dialogue: PPPs in emerging & mature markets – How to attract capital & achieve seamless cooperation?

As a prerequisite in order to create a PPP in emerging and mature markets, there needs to be specific willingness for taking a risk on the investor sides. This may be a part of the reasons why we can see a clear decline in PPPs in emerging and developing markets. Problems, especially related to emerging markets, can particularly be seen in governmental actions. In many cases, they are still not able to build or even just run infrastructure markets. In addition, financing is another problem. There may be a high liquidity in the markets themselves, but there are issues in terms of directing the capital to the right places.

Generally, well-educated governmental ministers for infrastructural issues and the choice of the right people and partners are essential to start a successful cooperation. Besides of that, the project also has

to be fitting, because not all undertakings are optimal for a PPP. Basically, two criteria are crucial in initiating the PPP project. First, political willingness has to be present and second, a strong consortium needs to be given or organized. In detail, all stakeholders should be brought into the project in its very first stages, especially the financing partners. The big challenge here is to motivate the people for the PPP approach.

For international projects, four initial PPP criteria were set up within a framework to build up a solid basis. First, there has to be a transparent so-called human process implemented. Second, the application of the lifecycle approach of a project has to be set up. Third, an off-balance financing for the undertaking needs to be organized, in case of occurring, unexpected financing problems. Fourth and last, the enforcement of the long-term contractors needs to be secured.

Many countries could develop a much stronger economy by improving the infrastructural system. PPPs can help in this case. Especially many African countries for example own a lot of natural resources. Those resources can be turned into valuable assets. Now, the problem is that there are just a very small number of developers who are willing to go for this job. The implementation of trading companies could solve this problem and attract more developers and investors in those value-generating processes. Another common issue closely related to infrastructural problems in many developing and emerging countries is a missing public investment planning. Often, neither the size of investment capital nor any other information but the project name itself is known. On this resulting lack of information, decisions are simply done by ministers and projects often go downhill in the further stages.

4th Dialogue: Business etiquette – Common pitfalls, the “best” approach?

This dialogue focused on difficult situations in business life and how to handle them in the best possible way. If it comes to international business meetings, it is very easy to offend a business partner or to show some amount of irreverence just by acting wrong in small details. Based on cultural diversity and differences as well as varying conditions from country to country, it is needed to inform about country-related behavior and culture before meeting such a respective business partner or going abroad. Especially in situations of welcoming, debating, having dinner or a drink, it is required to take care on culture and country-related manners. Besides, a business person may also emerge in situations, which are not preventable. Especially regions in which it is needed to bring an extra portion of awareness against criminal practices, it is crucial to stay “cool” and act respectful in critical situations in order to prevent something much worse.