

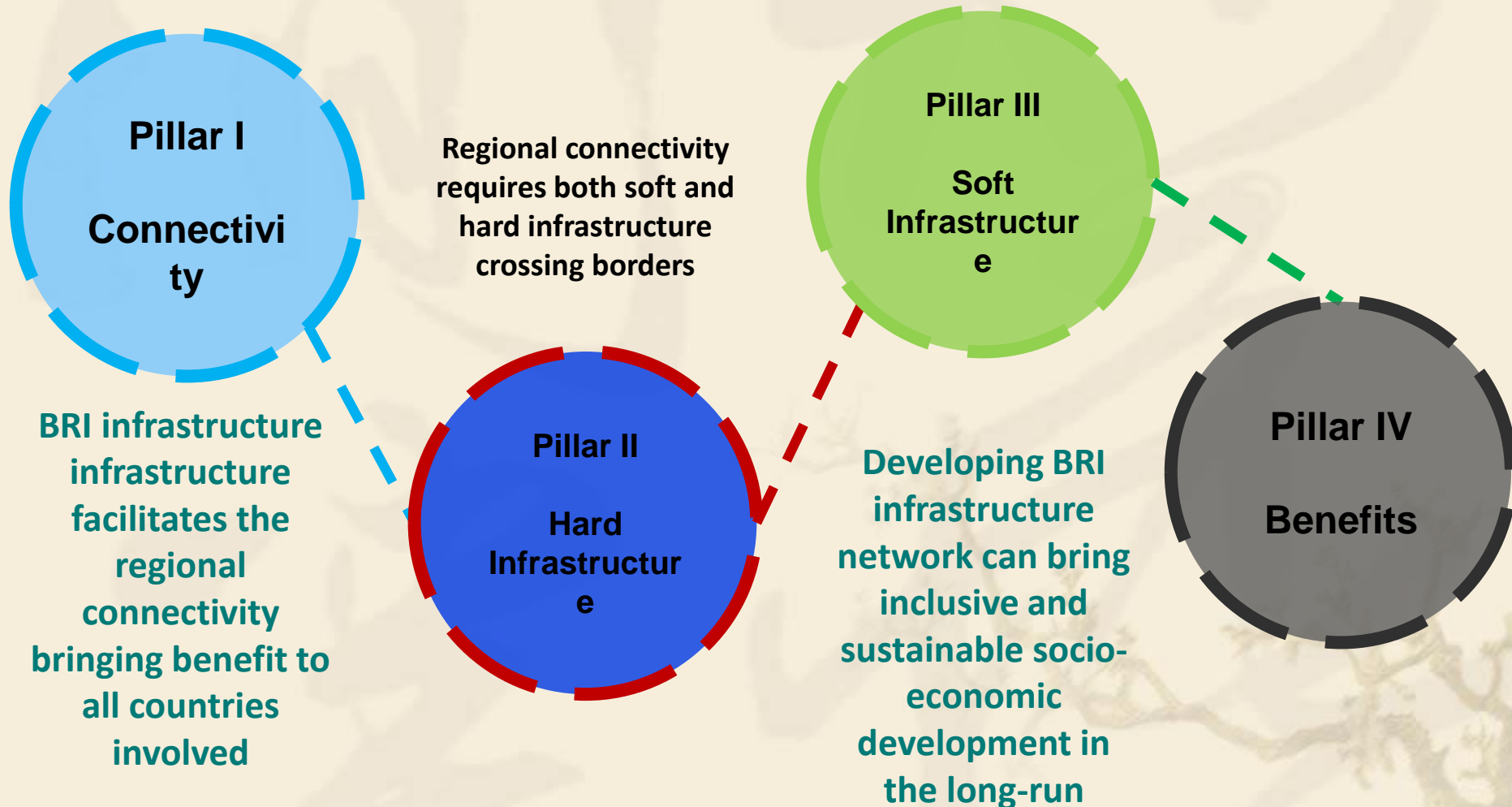
# **Private Involvement in the Infrastructure Building of BRI**

**Gu Qingyang**  
**Associate Professor**

**Lee Kuan Yew School of Public Policy**  
**National University of Singapore**

***qingyang@nus.edu.sg***

# BRI Infrastructure Development



# ***The Challenges of BRI Infrastructure Projects***

- ❖ The Chinese government and SOEs are the main sources of the funding for BRI projects.
- ❖ The main problems for this are:
  - ❧ one nation's financial capacity is not sufficient
  - ❧ the BRI might be challenged by public resistance if it is considered to be solely government-led.

# A Great Challenge On BRI Infrastructure

❖ Financing remains a challenge

❧ What are the characteristics of BRI infrastructure investments which make them unique for financing?

❧ What are the key risks faced in such projects which prevent commercial financing?

# Characteristics of BRI Projects

## ❖ Large capital needs

- ❧ The BRI infrastructure projects are often capital intensive and the financial sources are mainly from public sectors.

## ❖ Long maturation cycle

- ❧ the coordination of the participating countries is difficult
- ❧ the project may go through multiple political cycles.
- ❧ the implementation is also time-consuming



# Characteristics of BRI Projects

- ❖ Insufficient rationale of cross-border BRI projects
- ❖ Many BRI infrastructure projects are politically significant and hold a strategic position
- ❖ Commercial arrangements between governments are often dictated more by political than economic considerations

# Public + Private Investments In BRI Projects

- ❖ Such projects are driven by governments and SOEs, especially if they are resource-based
- ❖ There has been limited private sector participation in BRI projects
- ❖ This underscores the importance of putting project analysis in a proper institutional and political economy context

# Public + Private Investments In BRI Projects

- ❖ **Public financing:** government investments, public borrowing via bonds and loans, borrowing/grants from bilateral development banks, MDBs or other international financial institutions
- ❖ **Private financing:** debt through commercial banks, and corporate bonds and project bonds, public and private equity



# ***Public-Private Partnerships (PPP)***

- ❖ As infrastructure is usually considered a public good, the responsibility for its provision rests mainly on the public sector.
- ❖ Unfortunately, government revenues are severely limited; this leaves open an avenue for forging solutions with private enterprises, not only for financial support but also for technical management and operational expertise for large-scale projects.

# Complexity And Risk Of BRI Projects

- ❖ Infrastructure projects tend to be with high risks
- ❖ BRI infrastructure projects are even more so
  - ∞ Higher and more diverse risks, such as political risks, foreign exchange risks, inflation risks, counterparty risks, environmental and social risks
  - ∞ Involve huge transaction costs, and therefore demand dramatically for good incentive compatibility and appropriate institutional arrangements
- ❖ Instruments are needed to reduce the risks of BRI projects in order to attract the private equity providers and the commercial lenders.

# Political Risks

- ❖ Multiple political cycles, socio-political disorders
- ❖ Leadership changes and breach of contracts, default risks
- ❖ Unexpected government interference,
- ❖ Discrimination against foreign investors
- ❖ Integration risks due to difficulties in coordinating with multiple government entities

# Regulatory Risks

- ❖ **Multiple regulatory systems**
- ❖ **Regulatory restrictions in the host country**
  - ❧ Adverse and abrupt changes of laws and regulations
  - ❧ Restrictions to scope of business activities
  - ❧ Protectionism
  - ❧ Lack of transparency in procurement policies
  - ❧ Land acquisition
  - ❧ Complicated construction legislative systems
  - ❧ Cancellation of license and approvals



# Governance Capacity Risk

- ❖ Horizontal coordination and vertical coordination
- ❖ Corruption issues or ambiguous rules
- ❖ Lack of procurement expertise and technical preparation
- ❖ Lack of transparent bidding procedures
- ❖ Lack of the agreement on a prioritized program
- ❖ Governments have insufficient contract management and monitoring skills for PPP projects



# Macro-economic Risks

## ❖ Foreign exchange risks

- ∞ Inflation risks

- ∞ Commodity price risks

- ∞ Credit risks

- ∞ Demand risks

## ❖ Risk management instruments are needed

- ∞ Demand guarantees, exchange rate guarantees, commodity price-linked instruments, inflation-linked guarantees

## ❖ The dominant risks differ by sectors

# Environmental And Social Risks

- ❖ High resettlement risks
- ❖ Culture and language barriers
- ❖ Differences in business culture
- ❖ Differences in management philosophy
- ❖ The benefit sharing of BRI projects with the transit countries or the communities is a challenge



# Technical Standards Risk

- ❖ Variations in design specifications, construction codes or material standards
- ❖ Frameworks and procedures for dealing with standard disputes or governance impediments are needed
- ❖ When governments/SOEs contracting with the private sector or foreign companies at the project construction and operation stages, the differences in the standards need to be addressed in the contracts

# Commercial Risk

- ❖ High risks, long repayment periods, and large contingent liabilities
- ❖ Appropriate financial mechanisms are needed to improve financial viability
- ❖ Innovative financial instruments to attract private investments: direct investments, public guarantees, concessional finance
- ❖ Equity investment is an efficient way for long-tenure BRI projects to attract public and private investments and sharing risks among the investors



# ***Some Questions***

- ❖ **What kind of institutional and policy framework is necessary for attracting private investment in infrastructure?**
- ❖ **What kind of legal and regulatory system will offer protection for private enterprises in infrastructure development?**
- ❖ **How can policies, institutional arrangements, and governance facilitate the private participation of the BRI infrastructure?**



# Policy Recommendation at Identification & Planning Phase

- ❖ Relevant governments should establish a close relationship as coordination between different countries is crucial to achieve coherent regional planning
- ❖ In the regional masterplan, governments need to identify projects which will bring economic benefits and value for money on both sides
- ❖ A centralized committee responsible for planning and oversight can be established to help prioritize projects from a clear pipeline of well-planned projects

# Policy Recommendation at Preparation & Procurement Phase

- ❖ Form a joint implementation company i.e. SPV to undertake the project
- ❖ Having broad political consensus and commitment
- ❖ MDBs can provide financial interventions
- ❖ Governments need to strengthen the social and environmental safeguards and enhance the technical and financial viability
- ❖ To connect BRI projects to national level infrastructure development plan
- ❖ Governments need to ensuring alignment of regulations

# Policy Recommendation at Implementation Phase

- ❖ Risk management
- ❖ Agreement on inter-governmental cooperation on project management and oversight of the SPV. This will help in resolving potential future disputes, claims and renegotiations enhancing the governance systems
- ❖ Governments should attempt to maintain stable political stances to avoid possible impediments to implementation of such projects

# Policy Recommendation at Implementation Phase

## ❖ Construction phase

- ❧ Ensuring all key activities are carried out well, e.g. project site set up and permits clearance, project design finalized, project construction delivered
- ❧ Monitoring tasks, e.g. performance & risk monitoring, cost oversight, follow-up of the implementation of social and environmental impact management plans. Schedule management and quality management



# Policy Recommendation at Implementation Phase

## ❖ Operational phase

- ❧ Making sure contractual performance is in accordance with contractual requirements
- ❧ Supporting constant development, quality improvement and innovation throughout the life of the contract
- ❧ Managing finances e.g. payment mechanisms, budget, contingency planning
- ❧ Variation management
- ❧ Expiry, default and early termination management



# Roles Of Stakeholders In Financing BRI Infrastructure

- ❖ The role of multilateral/bilateral institutions, the multilateral development banks (MDBs), the role of governments, the role of the private sector and the role of affected people and civil society organizations.
- ❖ **The public sector** can contribute to the BRI infrastructure by direct investments or creating an enabling environment to catalyze private sector involvement and attract foreign direct investments.

# Role Of Regional Entities

- ❖ Long-term planning and inter-governmental negotiation, good quality of coordination
- ❖ Institutions are needed for governments to reduce the negotiation costs and manage emerging conflicts and provide a platform for stakeholder engagement, decision making and dispute resolution
- ❖ Institutional arrangements can exist at international, national, or project levels
- ❖ The engagement of the private sector investors should be institutionalized so that they have the opportunity to express their interests and concerns

# Role Of Multilateral Institutions

- ❖ Provide direct investments and encourage private sector involvement
- ❖ Multilateral institutions, including MDBs, can encourage upstream intergovernmental dialogues and coordinate to reduce policy- and procedure-related impediments
- ❖ MDBs can provide downstream financial intervention instruments and project preparatory technical assistance

# Role Of MDBs

- ❖ Provide grants, loans on concessional terms
- ❖ Provide guarantees, risk management products and insurance
- ❖ Provide training, technical assistance, general policy advice, and capacity building services
- ❖ Help to address asymmetric distribution of costs and benefits across different countries or communities, especially when the governments lack the capacity to manage the environmental and resettlement issues



# Role of National Government and SOEs

## ❖ National government

- ❧ provides upfront political supports, strong political commitment and mitigates political risks
- ❧ provides credible and predictable regulatory regimes to reduce the regulatory risks
- ❧ capacity-building of its government officials
- ❧ works on an enabling investment environment to attract foreign direct investments and private investments
- ❧ improves inter-agency arrangements and coordination
- ❧ identifies the opportunities in the long-run and ensure the BRI infrastructure align with domestic needs

## ❖ SOEs normally participate the projects as the implementers



# Role Of Affected People And Civil Society Organizations

- ❖ BRI infrastructure projects involve no single jurisdiction and are difficult to secure a fair system of compensations and procedures
- ❖ Governments may enjoy economy-wide benefits, the local people and communities are the ones who bear the actual negative social and environmental costs
- ❖ How to internalize the negative externalities
  - ∞ Civil society organizations can improve the overall outcome

# Modalities Of Private Sector Participation

- ❖ Can **adopt the consortium approach** to distribute risks and ensure the representativeness of the interests of multiple stakeholders
- ❖ Possible **financial modes** include syndicated loan, leveraged loan, collateralized loan obligations, asset-backed securities, mutual fund, qualified public infrastructure bonds, credit enhancement, green bond, and so on
- ❖ Can also join the project construction and operation through the forms of **PPPs**.

# Modalities Of Private Sector Participation

- ❖ Special Purpose Vehicle (SPV)
  - ❧ Private investment comes as direct investors
  - ❧ Public-Private Partnerships (PPP): company can provide a combination of design, construction, operation, and maintenance expertise
- ❖ Joint venture (JV)
  - ❧ A Contractual Joint Venture
  - ❧ A Corporate Joint Venture
- ❖ Direct contracting for services and products

# *Q & A*

