

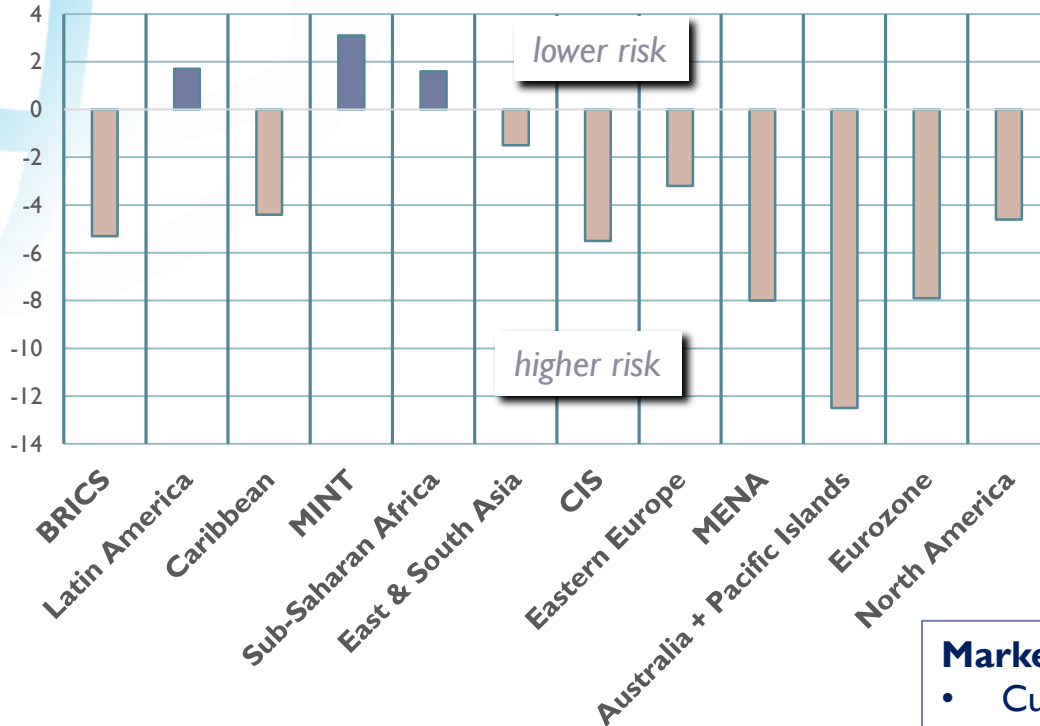
Closing the Infrastructure Investment Gap The Context for Investing

Shanghai
GIH/WEF
January 25, 2016

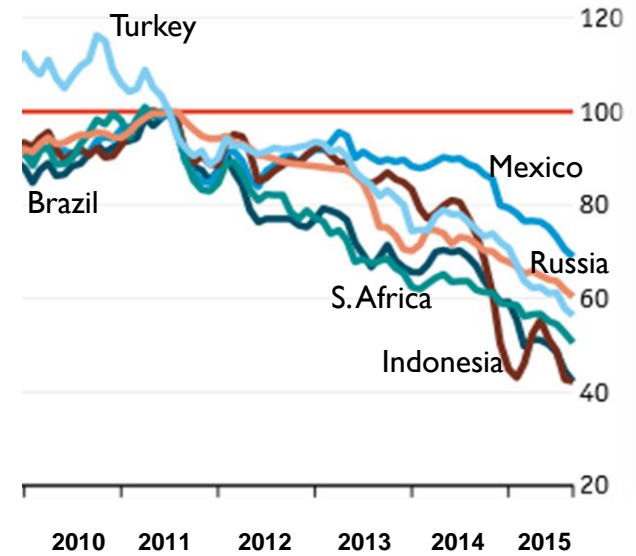
Jordan Schwartz
Director
Singapore Infrastructure & Urban Development Hub
World Bank

A tough stretch for EMDE markets, especially for infrastructure

Country Risk Ratings end-2015 change since end-2010



EM Currencies vs USD 2010 - 2015



Market Conditions

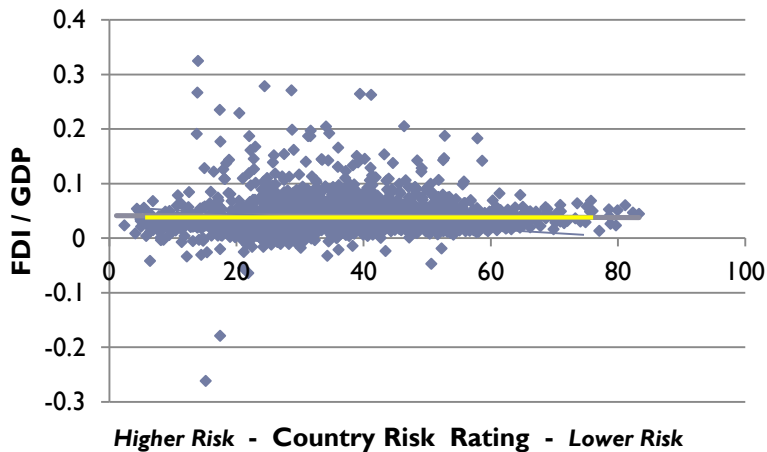
- Currency devaluations
- Slowing growth
- Market volatility
- Worsening country risk ratings
- Rising interest rates
- New prudential/financial regulations

Sources: Euromoney, Thomson Reuters (2016)

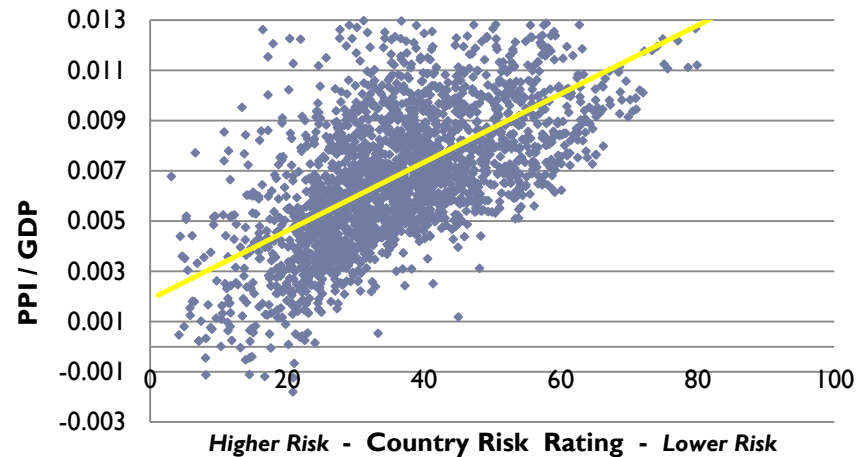
Private infrastructure: Highly sensitive to risk perception and investment climate

- No correlation between level of Foreign Direct Investment and sovereign risk
- Strong direct correlation between PPI and sovereign risk
 - Link is especially strong for concessions

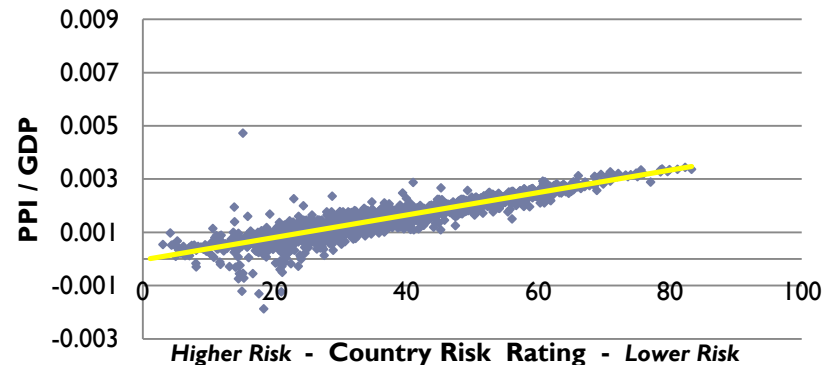
No Correlation between Country Risk and predicted value of FDI/GDP



Strong Correlation between the predicted value of PPI Greenfield/GDP and Country Risk

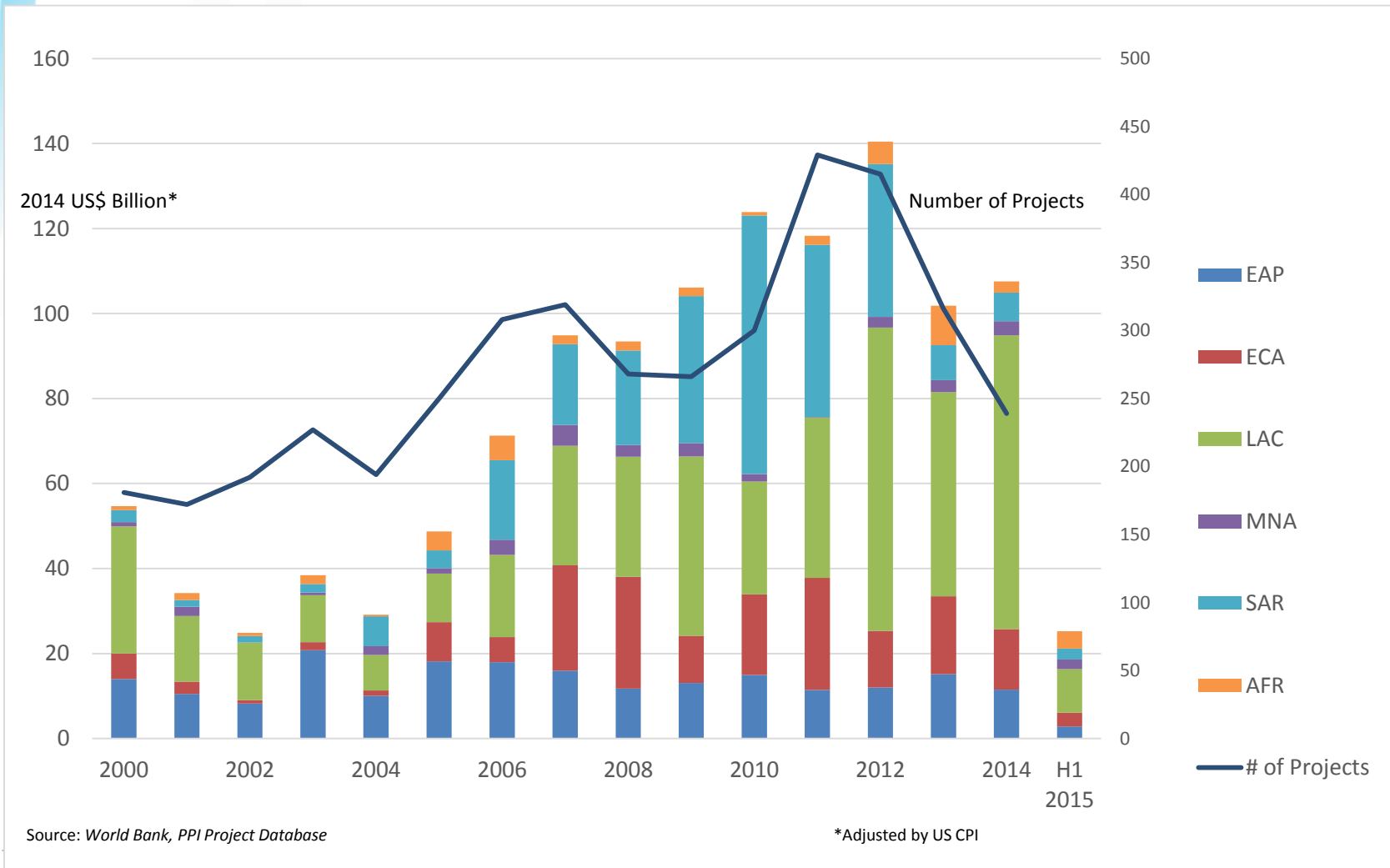


Strong Correlation between the predicted value of PPI Concessions/GDP and Country Risk



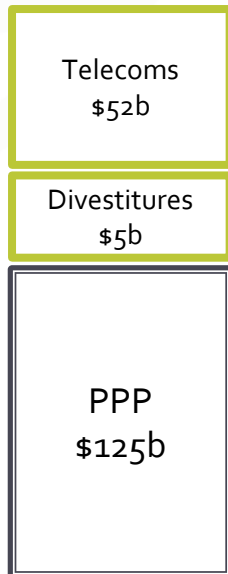
Despite the rhetoric, private flows into infrastructure are decreasing, not growing

Investment in Private & PPP Energy, Transport and Projects in EMDE

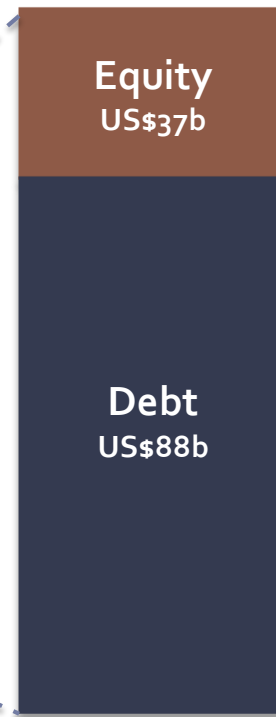


How much private investment in infrastructure is *private*?

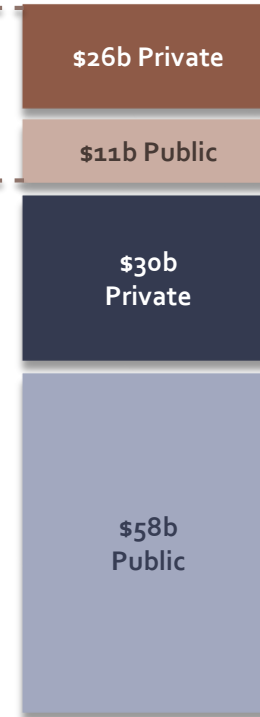
EMDE PPI



PPP Gearing



Public vs Private Finance

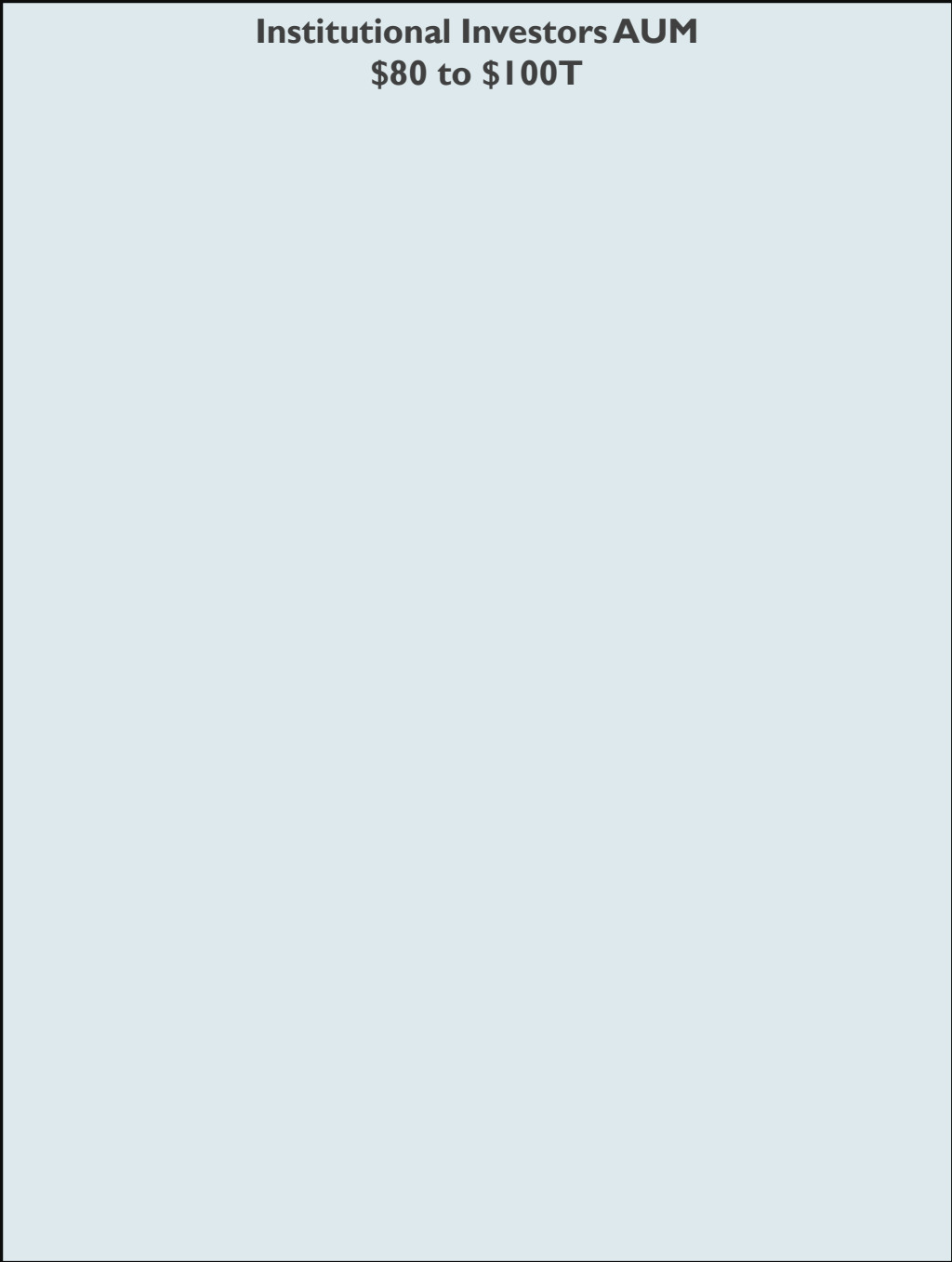


Source: Author's calculations, PPI Database, World Bank, sampling from 2014



**Yearly Infra Finance +
Finance Needs**

**Emerging Markets &
Developing Countries**

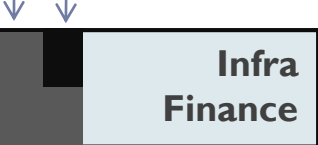


**Infra Financing
Gap**

c. \$1 - 1.5 trillion

Private Infra = \$160 billion

↓
MDBs = c.\$40-\$60 billion



c. \$1 trillion

- Lack of investment opportunities for private participants
 - 60 - 80 PPI projects in all of East Asia and Pacific a year, the fastest growing market globally
 - >\$296b unlisted infrastructure funds under management globally, with \$105 billion in dry powder
 - Only 13% of those funds invested in EMDE

Infra Financing Gap

c. \$1 - 1.5 trillion

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Infra Finance

c. \$1 trillion

Institutional Investors AUM \$80 to \$100T

CATEGORY OF INVESTOR	AUM (US\$)	CURRENT INVESTMENT IN INFRA	CURRENT INVESTMENT IN EMDE
OECD Institutional Investors	80 trillion	Average: 1% of total portfolio, mostly in OECD (~\$800 billion) Leading investors: 5-10%	Estimated 10% in EMDE, but little in infrastructure
Emerging Market Institutional Investors	5 trillion (projected >17 trillion by 2050)	Average: <u>≤1%</u> (0.5% translates to \$25 billion)	High % in EMDE
Of which: EMDE	1 trillion	Limited examples (up to 10%)	High % in EMDE
Sovereign Wealth Funds	4 trillion	Unclear (2% translates into \$80 billion)	Moderate % in EMDE
Other global institutional capital (Asset/wealth managers)	20 trillion	[Assumed] 1% on average (translates to \$200 billion)	Very small in EMDE