



## PRIVATE PARTICIPATION IN INFRASTRUCTURE DATABASE

PPI data update note 14

December 2008

### New private infrastructure projects in developing countries have started being affected by the financial crisis<sup>1</sup>

**Summary:** New private activity continued to take place in developing countries in Aug-Nov 2008 with projects being developed, tendered, and taken to financial close, but at rate that was over 40% lower than in the same period in 2007. The slowdown reflects the initial impact of the financial crisis which has made financing more onerous and difficult to secure as access to capital markets and bank lending has been reduced or halted and risk perception increased. Projects are facing higher cost of financing, but the major impact to date is project being delayed or cancelled.

Many projects that reached financial closure in the last four months were at an advanced stage of raising finance or able to switch to some (or a mix of) local public banks, export credit agencies, and bilateral and multilateral agencies. Where possible, many PPI sponsors opted for local currency denominated debt since major devaluations over the last few months in many developing countries made foreign denominated debt too expensive. Nevertheless, it is unlikely that local financing institutions together with bilateral and multilateral financing institutions will have the capacity to replace other sources of financing. Consequently the trends in increased costs, delay, and cancellation are expected to continue.

It is, however, too early to assess the full impact of the crisis on new PPI projects. Many investors and financiers are in a wait-and-see attitude and are likely to be so for the next 3 to 6 months or until the breadth and depth of the crisis' impact become clearer. When financial markets bottom out or start to recover, project financing levels are likely to remain impacted over a significant period of time if the trends shown in previous financial crises are repeated. The "flight to quality" from banks and other financiers is likely to translate into more stringent financial conditions, not only via higher cost of financing but also with lower debt/equity ratios and more conservative structures. The expected economic downturn in developed and developing countries is also likely to reduce demand levels and have a significant impact on project revenues, and consequently on projects' financial viability.

**Trends in new infrastructure projects with private participation:** Recently gathered data on new infrastructure projects with private participation have shed some light on the short-term impact of the financial crisis.<sup>2</sup>

**1. PPI projects continue to reach financial closure but at a lower pace than that of 2007:** In 21 developing countries, 31 PPI projects reached financial closure involving investment commitments (hereafter investment) for US\$17.2 billion from Aug to Nov 2008 (tables 1 and 2). Such level of investment in new projects represents a decline of over 40% compared with the level in the same period in 2007. As in previous years, new projects have been mainly in electricity and transport. By region, those projects have been primarily in LAC (US\$8.3 billion), MENA (US\$2.9 billion), and EAP (US\$2.8 billion).

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<sup>1</sup> The note was produced by Ada Karina Izaguirre, infrastructure specialist in the Finance, Economics, and Urban Development Department (FEU), Sustainable Development Network, World Bank. Raymond Bourdeaux, lead infrastructure specialist in FEU, provided comments.

<sup>2</sup> This note relies on data compiled in the "impact of the financial crisis on PPI" database, which uses the same sector and type of project criteria as the PPI Project Database as well as information sources. But numbers of both databases are not directly comparable. The crisis impact database includes 173 infrastructure projects with private participation in developing countries which were trying to raise financing on project finance basis or were in advanced tender stage between August and November 2008. Therefore, it includes projects before financial or contractual closure while the PPI Project Database, which is annually updated, includes only projects that have reached such closure. In addition, the crisis impact database does not include projects previously implemented whose investment programs could be affected by a higher cost of financing (particularly if debt restructuring or additional financing is needed) and lower demand (due to slower economic growth). Those projects represented over 50% of total investment commitments in 2004-07 as reported by the PPI project database.



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**2. Projects are impacted not only via higher cost of financing, but also project delays and cancellations:** The slowdown is linked in part to increased financing cost<sup>3</sup>. So far, increased cost of financing is quoted as a major impact of the crisis on only 3% of surveyed projects by investment. These data may underestimate the impact of increasing financing costs as the information to date is limited and sometimes hard to get. As projects are being negotiated, there is a natural reluctance from private sponsors to release financing information or acknowledge difficulties on raising financing.

The data show that numerous projects are being postponed or cancelled due to the crisis in the financial markets, confirming the evidence of a significant slowdown in PPI projects reaching financial closure. Around 27% of surveyed projects by investment have been delayed (22%), canceled (2%) or are at risk of being canceled (3%). In addition, 47% of projects by investment are at risk of being delayed if financing is not put in place in the coming months. Projects delayed and at risk of being delayed amount to US\$82 billion and are primarily in South Asia (28 projects for US\$24.9 billion), ECA (25 projects for US\$24.1 billion), LAC (16 projects for US\$17.1 billion), and EAP (20 projects for US\$13.8 billion). As a point of reference, 288 new projects involving investment of US\$73 billion reached financial closure in 2007. A similar trend of project delays was experienced after previous financial crisis. Investments in private infrastructure projects in East Asia and Latin America declined substantially after the late 1990s crises in developing countries and had not recovered their pre-crisis levels by 2007.<sup>4</sup>

There is a growing pipeline of PPI projects which are trying to raise funds or will do so in the next six to twelve months and could be affected if financial markets do not recover by then. Around 44 projects involving investment of US\$34.7 billion, which were not able to secure financing by Nov 2008, are expected to continue looking for finance. There are 73 additional projects with investment of US\$42.3 billion which will be trying to raise financing in the next six to 12 months. Those projects were recently awarded or their tender processes are close to be finalized. Competition to attract financing will increase among projects as a growing number of them attempt to raise financing.

**3. Local public banks as well as multilateral, bilateral and export credit agencies have been key finance providers.** Projects in Brazil and India, countries accounting for a large share of private activity, have sourced financing largely from public sector banks. Local banks were also key for providing local currency denominated financing. In several developing countries, major devaluations against the dollar over the last few months have made foreign currency denominated debt too expensive. Funding from multilateral, bilateral and export credit agencies was also mobilized for many projects. Of the 31 projects that reached financial closure, these agencies provided direct financing to 12 projects, which totaled investment of US\$6.9 billion. The agencies are also working in a growing number of new projects. Of the 60 projects looking for finance, these agencies are so far evaluating funding for 16 projects, which total investment of US\$16 billion. This growing participation is not surprising since the financial crisis has caused a collapse of syndication market, an inactive bond markets, and unprecedentedly high cost of funding.

**4. Countries continue to implement their PPI programs, but investors' appetite for new deals seems to be declining:** The surveyed projects show that 21 developing countries awarded 57 projects which involved US\$27.7 billion in investments. Those projects have been in all developing regions, but primarily in LAC (22 projects for US\$10.7 billion) and ECA (18 projects for US\$12.3 billion). However, there is anecdotic evidence that some tenders have had disappointing results while others have been canceled due to low investor interest. So far, tenders for 9 projects have been either delayed or canceled representing US\$15 billion.

<sup>3</sup> Increased financing costs typically require additional negotiations to rebalance the projects cash flows and will therefore delay financial closure.

<sup>4</sup> The recent recovery of investment to infrastructure projects in developing countries was led by other developing regions such as Europe and Central Asia and South Asia.

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**Conclusion:** Although it is still too soon to assess the full impact on new PPI projects, there is strong evidence of lower rates of financial close, projects being cancelled and postponed, and increasing cost of financing. The extent to which such trends persist or intensify will depend on the depth and breadth of financial crisis and the consequently economic downturn. This preliminary analysis will need to be further refined in the coming months to assess whether earlier trends continue and whether conclusions can be drawn on a sector or regional basis.

**Table 1 Infrastructure projects with private participation awarded, raising financing or in advance stage of tender by project status and impact of the crisis in Aug-Nov 2008**

Project status	Impact of the crisis as of Nov 2008								Total
	No major impact reported	Raised financing at higher cost	Project restructuring due to crisis	Delayed	Delayed potentially	Canceled potentially	Canceled potentially more than financial crisis	Canceled	
Awarded	21	-	-	2	37	-	-	-	60
Closed financing	27	3	-	-	1	-	-	-	31
Looking for financing	12	4	-	20	22	-	1	1	60
Tender in progress	-	-	1	1	10	1	-	-	13
Tender delayed	-	-	-	4	-	-	-	-	4
Canceled	-	-	-	2	-	-	-	3	5
<b>Total</b>	<b>60</b>	<b>7</b>	<b>1</b>	<b>29</b>	<b>70</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>173</b>

Source: World Bank and PPIAF, Impact of the financial crisis on PPI database

**Table 2 Investment commitments in infrastructure projects with private participation awarded, raising financing or in advance stage of tender by project status and impact of the crisis in Aug-Nov 2008 (US\$ million)**

Project status	Impact of the crisis as of Nov 2008								Total
	No major impact reported	Raised financing at higher cost	Project restructuring due to crisis	Delayed	Delayed potentially	Canceled potentially	Canceled potentially more than financial crisis	Canceled	
Awarded	8,998	-	-	333	19,941	-	-	-	29,272
Closed financing	13,536	1,134	-	-	2,500	-	-	-	17,170
Looking for financing	2,779	2,870	-	7,895	26,835	-	3,500	1,900	45,778
Tender in progress	-	-	2,500	3,700	6,752	35	-	-	12,987
Tender delayed	-	-	-	8,727	-	-	-	-	8,727
Canceled	-	-	-	5,300	-	-	-	900	6,200
<b>Total</b>	<b>25,313</b>	<b>4,003</b>	<b>2,500</b>	<b>25,955</b>	<b>56,028</b>	<b>35</b>	<b>3,500</b>	<b>2,800</b>	<b>120,134</b>

**Table 3 Investment commitments in infrastructure projects with private participation awarded, raising financing or in advance stage of tender by region and impact of the crisis in Aug-Nov 2008 (US\$ million)**

Impact of crisis	EAP	ECA	LAC	MENA	SA	SSA	Total
No major impact reported	2,909	2,675	12,896	3,215	2,475	1,144	25,313
Raised financing but at higher cost	1,116	1,524	989	-	-	375	4,003
Project restructuring due to crisis	-	2,500	-	-	-	-	2,500
Delayed	1,070	6,825	8,827	333	8,900	-	25,955
Delayed potentially	12,258	17,296	8,297	1,788	15,997	392	56,028
Canceled potentially	-	-	35	-	-	-	35
Canceled potentially (more than financial crisis issues)	-	3,500	-	-	-	-	3,500
Canceled	-	450	1,900	-	-	450	2,800
<b>Total</b>	<b>17,353</b>	<b>34,770</b>	<b>32,943</b>	<b>5,336</b>	<b>27,372</b>	<b>2,361</b>	<b>120,134</b>