

# Infrastructure Investment Policy Blueprint: Country Performance Assessment

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# Preface

The world needs more infrastructure: In emerging economies, a strong infrastructure backbone can help accelerate growth and combat poverty. In developed economies, investments in legacy infrastructure and new projects are necessary to sustain growth in the coming decades. National budgets, already strained by the financial crisis and its aftermath, have limited resources to allocate to infrastructure financing. Private investors, especially long-term investors such as pension funds and insurance companies, want to invest in infrastructure projects but are often deterred by the bureaucratic and political complexities inherent to this asset class. The result is a misalignment of supply and demand, between infrastructure projects that need funding and private investors seeking long-term investments.

At the 2014 Annual Meeting in Davos-Klosters, as part of the Global Strategic Infrastructure Initiative, the World Economic Forum released the *Infrastructure Investment Policy Blueprint*, a set of recommendations for policy makers on how to attract private capital to infrastructure projects while creating clear social and economic value for citizens. Our conversations with leading policy makers, investors and contractors indicate that there is increasing agreement on the preconditions required to attract private investment to infrastructure. Yet, despite this growing consensus, many economically viable and much needed projects remain left on the wayside, unable to find financing. What is driving this 'execution gap'?


The World Economic Forum has reviewed the recommendations outlined in the Blueprint (see summary on following pages) and assessed how they would apply in the context of specific countries. We continue to see that recommended actions, while easy to outline, can be considerably harder to implement. They require a significant build-up of expertise and capabilities within government, investment of political capital and engagement in the time-consuming process of building consensus and agreement amongst stakeholders. All the while, government leaders must balance infrastructure needs against other high-priority issues.

A summary of the lessons learned thus far from applying the Blueprint's recommendations to specific countries is presented herein, along with a preliminary performance analysis tool that can be used by investors and policy makers to assess the performance of a particular country or region. We will continue to release country analyses and additional case studies that may serve as a compendium of best practices. This will be complemented by the Infrastructure Risk Mitigation knowledge series to be released in April 2015.

While general policy recommendations always require a fair amount of adaptation to local realities, we hope that the ideas presented in the following pages will offer all stakeholders in the infrastructure finance space actionable recommendations and replicable best practices. As always, we welcome feedback from the readers of this report and we look forward to interacting with you at future World Economic Forum events.



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Head, Investors Industries



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# Executive Summary

In January 2014, at the Annual Meeting in Davos-Klosters, the World Economic Forum launched the *Infrastructure Investment Policy Blueprint*, a policy guide for governments seeking to attract private finance to infrastructure projects, while creating social and economic value for citizens. *The Advancing Infrastructure Finance Initiative* is an ongoing continuation of this effort, and examines the recommendations of the Blueprint in the context of certain countries, drawing upon the expertise of business, government and civil society. For each country, the initiative encourages public-private dialogue, identifies policy priorities and uncovers gaps between the reality and perception of a country's investment environment.

While every country has its own specificities and challenges, some common themes emerged:

- **A country's performance on the Blueprint scorecard is only as strong as its weakest component.** For instance, a country with excellent rule of law, strong bidding processes and supportive government policies can be held back by the absence of a clear pipeline of future infrastructure deals. On the other end of the performance spectrum, a country with plenty of projects in the infrastructure pipeline may perform poorly due to corruption and lack of transparency. This led us to refine our understanding of these issues as presented in the Blueprint: countries cannot ignore any of the performance criteria that impact infrastructure finance. From a policy perspective, this means adopting a holistic view of the infrastructure finance value chain and systematically addressing areas of underperformance.
- **Administrative complexities remain one of the major barriers to entry.** Every country has its own administrative structure, with national, regional and local public entities. Navigating this bureaucratic landscape may represent a significant cost for investors and as a result constitutes a barrier to entry in a country's infrastructure market. A number of measures can be easily adopted to make the investment process less burdensome, such as standardized templates for permits, online processes in several common languages, or the establishment of a single point of contact within the government for international investors.
- **Regulatory or political uncertainty are still primary concerns for investors, particularly in more established markets.** In today's environment, investors are more likely to be affected by subtle renegotiations or "creeping expropriations", whereby the accumulation of multiple small government or regulatory decisions can result in a significant loss of return. This risk is difficult to insure against, and continues to be a significant impediment to investment.
- **The right balance must be found between public and private funding, both at the individual project and project pipeline level.** Not all projects are right for the private sector. Conversely, most governments do not have the resources to address all of their country's infrastructure needs. The simplest approach would be to let governments finance what they can and allow the private sector to finance the rest. It is possible to achieve better outcomes faster, however, through financial engineering and the careful allocation of risks between the public and private sectors. For example, say that a country has projects that require 100 million dollars of financing. The country has 20 million dollars of public financing available for infrastructure and investors are interested in financing an additional 20 million dollars. At first glance, it would seem that the country is in a position to finance only 40 percent of its infrastructure needs. But by spreading public funds over a wider range of projects, with the government taking on certain risks and guaranteeing loans, all projects potentially could be financed in full. Of course, this is a simplified example, but the idea remains the same: finding the right mix between public and private investment can help policy makers accelerate infrastructure development and make the best use of taxpayer money.
- **If governments focus on project design and execution, investment will follow.** Most governments consider attracting international investment to be a strategic priority, as a means of accelerating growth, reducing poverty and connecting their countries to the global economy. Infrastructure investments are often approached in a similar way, with countries showcasing investment opportunities and running road shows and public relations campaigns. While this focus on communication does have value in terms of attracting investors, it is not sufficient to guarantee funding and will not deliver value without competitive projects and appropriate regulatory environments.
- **Alternative models exist for infrastructure development.** Most infrastructure projects are governed by a top-down approach: Governments identify national priorities, investors express interest in financing a particular infrastructure asset, meetings are held and contracts are signed. This traditional model for large infrastructure projects may still be valid, but it is now being challenged by alternative models, such as micro-level projects with a bottom-up approach. Take the example of electricity generation in many emerging countries. While the traditional model of electrification relies on connecting large power plants to a dense grid, distributed generation and renewable energy may yield faster and often better outcomes. In isolated areas, solar panels combined with battery packs now offer an alternative to grid connection. The main lesson from this is that a bottom-up approach to infrastructure development can and should co-exist with large, centrally run projects.

- **Policy makers need a user-friendly self-assessment tool.**

Over the course of the country-specific analyses, it became clear that governments do not necessarily have the tools at their disposal to identify the key infrastructure issues that require their attention. A simple methodology is clearly needed to help policymakers and investors assess a country's performance in light of the Blueprint's recommendations and key macroeconomic metrics. Such a user-friendly assessment tool can help infrastructure investment stakeholders understand the current state of infrastructure financing in a specific geography and serve as a basis for targeted policy improvements. We offer a ready-to-use methodology for such an assessment in the Appendix of this document.

The relevance of these themes may vary from one country to the next, but all told they represent the primary lessons learned from the country analyses conducted by The World Economic Forum in 2014. Additional themes may appear in certain geographies, especially with regard to the complexities of managing mature infrastructure landscapes where the maintenance of legacy assets and brownfield recycling (i.e., the process through which an existing infrastructure asset is privatized in order to finance a greenfield project) are important considerations.

These themes also overlap with one another, which is why a holistic view is needed when conducting an assessment of a country's attractiveness for infrastructure investors. We hope that the following pages offer a useful guide to conducting such an assessment; first, by examining the issues that have appeared across the geographies examined so far, and second, by providing a methodology with applicable metrics and benchmarks.

# Overview of the Blueprint recommendations

The *Blueprint* recommendations fall into three categories. First, policy-makers are advised to define and communicate a strategic infrastructure vision that aggregates and prioritizes a project pipeline, defines a viable role for private investors and sets out a communication strategy. By developing a strategic vision, policy-makers can cultivate an overarching view of infrastructure needs and an ongoing project pipeline, signalling the seriousness of their intent to investors. Second, they should address critical policy and regulatory impediments to

infrastructure investment. By addressing political and regulatory risks, streamlining procurement and permitting processes and re-evaluating tax policy, governments can show that they understand investor expectations and needs. Third, each potential project and investment must show a clear investor value proposition. Developing investor value propositions for individual projects with appropriate risk return trade-offs will allow policy-makers to structure bankable projects that attract high-quality bids.

Recommendation		
Blueprint framework	Strategic vision	<ul style="list-style-type: none"> <li>○ Create a credible infrastructure pipeline driven by a long-term vision</li> <li>○ Define a viable role for investors, and consider the value of brownfield capital recycling</li> <li>○ Communicate the potential value of, and safeguards around, private sector involvement</li> </ul>
	Policy and regulatory enablers	<b>Renegotiation risk</b> <ul style="list-style-type: none"> <li>○ Evaluate various governance and contract mechanisms to reduce political risk: <ul style="list-style-type: none"> <li>— Independent, full-time regulator which explicitly considers the impact of decisions on the long-term investment climate</li> <li>— Legislative hurdles to change agreements</li> <li>— Profit-sharing or equity-retention agreements</li> <li>— Explicit exemptions from changes, well-defined termination payments, clear dispute resolution frameworks</li> <li>— Appropriate incentive mechanisms and payment structures</li> </ul> </li> <li>○ Where appropriate, leverage support and available risk guarantees from multilateral development banks</li> </ul>
		<b>Procurement process</b> <ul style="list-style-type: none"> <li>○ Task a public-private partnership unit with improving procurement process efficiency by increasing standardization and predictability, and providing technical skills to line agencies</li> </ul>
		<b>Permitting process</b> <ul style="list-style-type: none"> <li>○ Review and streamline regulatory and environmental permitting processes and appoint a lead agency to manage and coordinate them</li> </ul>
		<b>Tax policy</b> <ul style="list-style-type: none"> <li>○ Ensure taxes do not systematically advantage or disadvantage certain types of investors and are stable over time</li> </ul>
	Investor value proposition	<ul style="list-style-type: none"> <li>○ Analyse returns from an investor's perspective and benchmark the project's risk-adjusted returns</li> <li>○ Create a standard methodology and approach for risk allocation</li> <li>○ Conduct market sounding with investors to gather feedback on the project and determine if refinements may be necessary to attract interest</li> </ul>







# Country Assessment

## Example: Poland

**Infrastructure financing needed: US\$300 billion<sup>1</sup>**

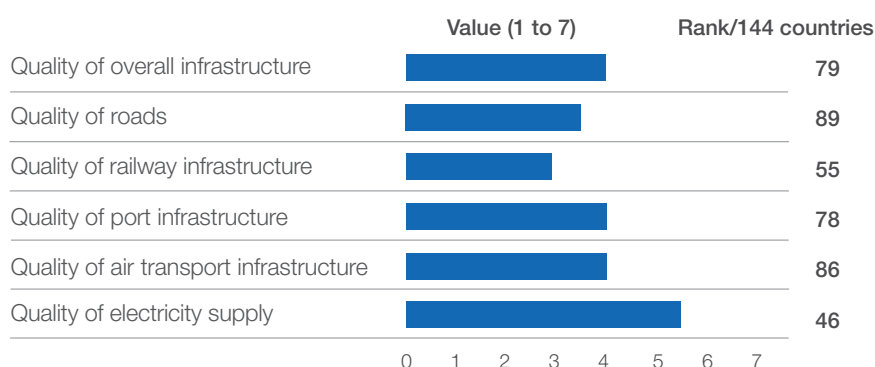
**Available EU funds for infrastructure finance over the 2014-2020 period: ~US\$40 billion<sup>2</sup>**

### Infrastructure Ranking – Global Competitiveness Report

In the World Economic Forum's Global Competitiveness Report 2014-2015, Poland ranked 63 out of 144 countries for its infrastructure, one of its worst performance indicators, along with labour market efficiency and innovation. The details of this ranking are presented in the graph below.

#### Poland Infrastructure Ranking

1 = worst, 7 = best



“

Poland has gotten many things right already: transparency and the rule of law have improved dramatically over the past two decades.

”



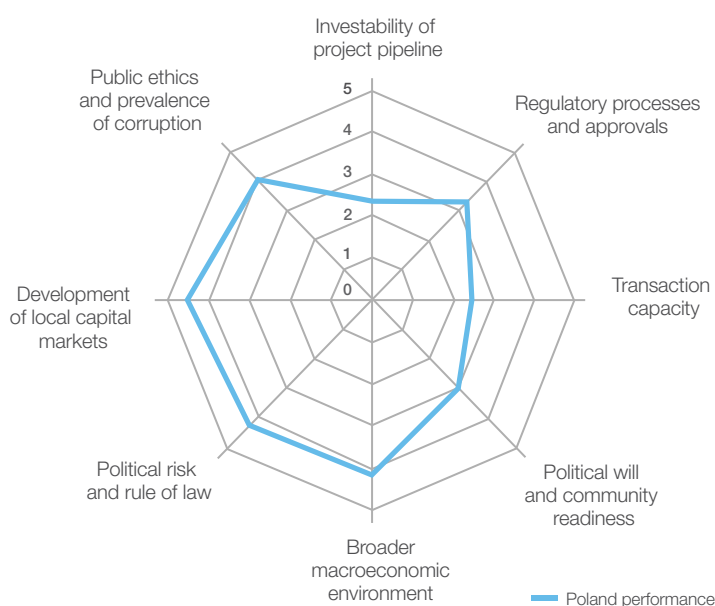
## Recent Infrastructure Developments

Poland's infrastructure has improved dramatically over the past decade, supporting the economy and fuelling growth throughout the global financial crisis. It was the only country in the European Union that has not seen a single quarter of GDP loss since 2008. But the country's infrastructure still requires catching-up from years of underinvestment and to ensure it keeps pace with a rapidly growing economy. Although estimates vary, the country's infrastructure needs have been put at around US\$300 billion over the next decade. EU funds will only contribute a fraction of the capital required. Polish taxpayer money will also play a critical role, but will remain constrained by European budgetary rules on deficit and public debt. As a result, it is clear that the private sector, both Polish and international, will be called upon to increase its investment in the country's infrastructure.

Poland has gotten many things right already: transparency and the rule of law have improved dramatically over the past two decades. The country is a stable market that has seen continuous growth in recent years and the Polish zloty has sheltered Poland from the troubles of the Eurozone. But beyond these positive macroeconomic indicators lie a number of deficiencies in the infrastructure finance market: there is no investment pipeline listing available projects, public action is not sufficiently coordinated at the local and national levels and investors are often confused by the country's administrative complexity.

Building on strong fundamentals, Poland has the opportunity to attract additional investment in its infrastructure and accelerate growth and development as a result.

## Performance Assessment for Poland



## Recommendations

- 1. Present the case to the investment community and get the execution right.** Poland has a great story to tell. The country has made incredible progress in the two decades since its transition to democracy and stands out among European peers for its sound economic policies and stable growth. Combined with the country's infrastructure needs, this makes for an appealing investment destination. But what investors also need is a deal pipeline with detailed financial data and a mid-term view on future projects. Only with that level of visibility can they justify investing time and resources to develop a presence in Poland.
- 2. Combine E.U. funds with private sector investment to accelerate growth.** EU funding and private investments are not mutually exclusive. On the contrary, they can be combined to multiply investments and accelerate the delivery of much needed infrastructure.
- 3. Hope for the best, plan for the worst.** Poland seems certain to receive a major influx of investment funds from Brussels until the end of the decade, perhaps even beyond. But given the current levels of political uncertainty in Europe, it is good policy to make contingency plans. By attracting private investment for the country's infrastructure today, the country can pave the way for a smooth transition away from EU funding, whenever this may occur.
- 4. Simplify, standardize.** The current process for investing in Polish infrastructure relies on a number of different entities, both at the national and local levels. This administrative complexity turns away many investors who do not have the resources to navigate the bureaucratic labyrinth. Efforts should be made to establish a single point of contact at the national level for all infrastructure investors and make sure that permits and approvals follow a single template (with a translation in EU official languages) throughout the country. Removing these obstacles to investment can increase the country's attractiveness for international investors.

## Self-Assessment Tool: Poland

Assessing government 'readiness' for private sector investment in infrastructure<sup>5</sup>

### Infrastructure Investment Specific Criteria

	1	2	3	4	5	Grade
	Low performance			High performance		
<b>Investability of the Project Pipeline</b>						<b>2.3</b>
Is there a clear pipeline of viable infrastructure projects in the country?		2				
Does the agency listing these projects have the ability to execute (i.e., are they credible)?		2				
Is it clear which sectors or projects are prioritised or available for private partnerships?			3			
<b>Regulatory Processes and Approvals</b>						<b>3.3</b>
Do the sectors or assets prioritised for private sector investment have a stable regulatory environment?				4		
Is there a transparent and easy to understand pathway to gaining regulatory approvals?			3			
Do regulatory or transaction approvals have time limits for decisions, or can they be extended indefinitely?			3			
Is the average total approval time shorter than [18 months]?			Yes			
<b>Transaction Capacity</b>						<b>2.5</b>
Is there a PPP Unit which can either provide technical skills to line agencies or has the power to oversee the transaction directly?			3			
Does the team have significant experience in negotiating complex PPP agreements, both on the public and private sector side?			3			
Is there a clear contact point on the government side for investors interested in a particular opportunity?		2				
Does that contact point respond to private sector inquiries in a timely manner?		2				
Are there standardised templates available for the bidding process or transaction documentation?			3			
Is there a set of publicly available guiding principles or framework for any transaction?		2				
<b>Political Will and Community Readiness</b>						<b>3</b>
What is the public sentiment towards private sector investment across various infrastructure sectors?			3			
What is the track record of private investment in infrastructure?			3			
How open are local public services to private capital?				4		
What is the prevalence of subsidies for services?		2				

### General Investment Environment

<b>Broader Macroeconomic Environment</b>						<b>4.1</b>
GDP volatility				4		
Government debt				4		
Rating of long-term sovereign debt					5	
Budget balance			3			
Exchange rate volatility				4		
Inflation				4		
Soundness of banks				4		
Barriers to foreign capital					5	
<b>Political Risk and the Rule of Law</b>						<b>4.3</b>
Regulatory efficiency				4		
Independence of the judiciary				4		
Effectiveness of dispute settlement procedures				4		
Speed of rulings				4		
Risk of expropriation					5	
Currency transfer risk					5	
<b>Development of Local Capital Markets</b>						<b>4.6</b>
Local bond markets					5	
Local equity markets					5	
Availability of long-term credit				4		
<b>Public Ethics and Prevalence of Corruption</b>						<b>4</b>
Favouritism in decisions of public officials				4		
Diversion of public funds				4		
Irregular payments in public contracts				4		





# Country Assessment

## Example: India

Annual infrastructure finance needs over the next decade: US\$200 billion<sup>3</sup>

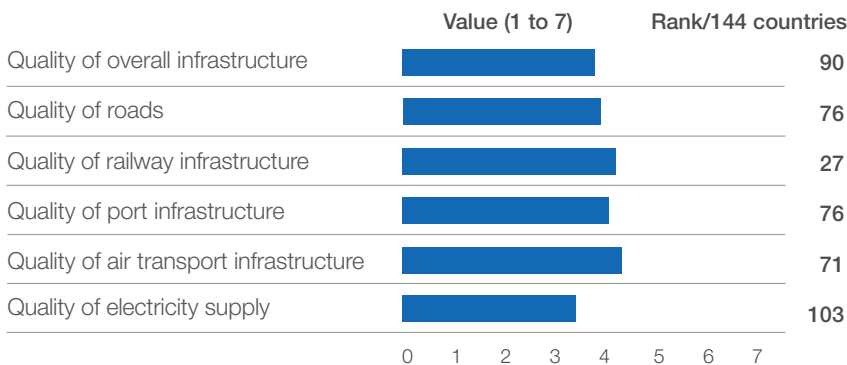
Maximum annual public investment potentially available: US\$100 billion<sup>3</sup>

### Infrastructure Ranking – Global Competitiveness Report

In the World Economic Forum’s Global Competitiveness Report 2014-2015, India ranked 87 out of 144 countries for its infrastructure. The details of this ranking are presented in the graph below.

#### India Infrastructure Ranking

1 = worst, 7 = best



“

India has the opportunity to become a leading edge adopter of new technologies and innovative development options.

”

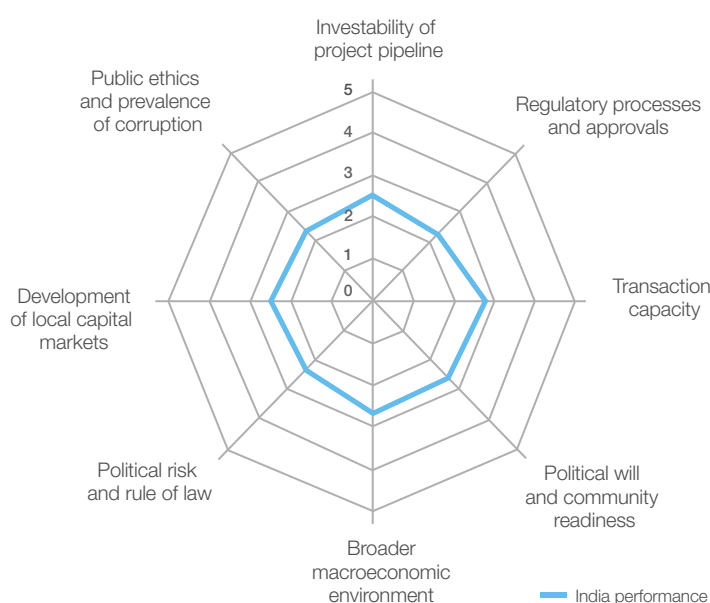
## Recent Infrastructure Developments

India's extensive infrastructure needs are well known. Decades of underinvestment have left the country with significant deficits in such critical areas as railways, roads, ports, airports, telecommunications and electricity generation. The infrastructure finance gap is massive, reaching several hundred billion dollars over the coming years.

Mobilizing this level of financing will not be easy, but it is achievable. India has a high savings rate and could finance much of its investment needs domestically. The Union budget announced on February 27<sup>th</sup> 2015 included more than \$11 billion (700 billion rupees) in new infrastructure spending aimed at upgrading the country's overloaded roads, railways, ports and power plants. In addition, with the right frameworks, global institutional investors could potentially allocate more than US\$50 billion to direct equity investment in India's infrastructure.<sup>4</sup> Developing the right financial intermediaries and investment environment will be critical to unlocking these sources of capital.

India has much to accomplish from a social and economic perspective, from reducing poverty to bringing sanitation and reliable power to hundreds of millions of people. The election of Prime Minister Modi has raised expectations both within the country and internationally, and his government has identified infrastructure development as a national priority. Much will need to be done to make investment in India's infrastructure an attractive proposition for investors. Many issues, from corruption to bureaucratic barriers, stand in the way of the country's growth potential. The recommendations below outline some potential options for reducing India's most pressing infrastructure development barriers.

## Performance Assessment for India



## Recommendations

- 1. Identify where government is needed and areas where the private sector is better positioned.** The government needs to play a role in developing infrastructure, from limiting impacts on public health and the environment, to providing capital for projects that are not attractive to private investors. In other areas, market forces can help shape better outcomes. For instance, private companies tend to structure projects in a way that maximizes the chances of success in terms of customer satisfaction and financial viability. Conversely, misplaced public sector intervention can have negative consequences.
- 2. Consider a distributed model for infrastructure projects.** The outcome of large projects have sometimes fallen short of expectations. Infrastructure development must meet the needs of local communities and requires effective implementation on the ground. This is difficult to achieve with a centralized model. Projects designed with a local focus may seem less impressive but have the potential to change people's lives for the better in months, not years (for example, setting up solar panels on houses and buildings versus creating a large centralized project to bring a reliable electrical grid to remote villages).
- 3. Go straight to the finish.** India is less burdened by legacy infrastructure and has the opportunity to become a leading-edge adopter of new technologies and innovative development options. For example, distributed energy and solar power are a promising path to expand power generation in India. These technologies would both reduce the need for a centralized grid and enable India to contribute to the global effort to reduce greenhouse gas emissions. India could benefit from large economies of scale due to a massive build-up of solar panel production capacity in recent years.
- 4. Focus on getting the project right, not on attracting investment.** India's savings rate is high, insurance companies and pension funds are eager to invest in infrastructure and international investors and multilateral development banks are also ready to contribute. What India is missing are well structured projects and transparency.
- 5. Make the investment now, reap the benefits in the decades ahead.** Many infrastructure projects will require a significant upfront investment but will yield savings over the long term. This is particularly true for renewable energy. India is currently spending giant sums to import fossil fuels. By leveraging its renewable energy potential, the country could reallocate these financial resources to other areas of the economy. To support the development of renewables, novel payment schemes for investors should be considered, such as payment in kind. For example, solar panels could be provided in exchange for the diesel or coal that they substitute (priced at the market rate for these fuel sources, not subsidized rates).

## Self-Assessment Tool: India

Assessing government 'readiness' for private sector investment in infrastructure<sup>5</sup>

### Infrastructure Investment Specific Criteria

	1	2	3	4	5	Grade
	Low performance			High performance		
<b>Investability of the Project Pipeline</b>						<b>2.6</b>
Is there a clear pipeline of viable infrastructure projects in the country?		2				
Does the agency listing these projects have the ability to execute (i.e., are they credible)?		2				
Is it clear which sectors or projects are prioritised or available for private partnerships?				4		
<b>Regulatory Processes and Approvals</b>						<b>2.3</b>
Do the sectors or assets prioritised for private sector investment have a stable regulatory environment?			3			
Is there a transparent and easy to understand pathway to gaining regulatory approvals?		2				
Do regulatory or transaction approvals have time limits for decisions, or can they be extended indefinitely?		2				
Is the average total approval time shorter than [18 months]?		No				
<b>Transaction Capacity</b>						<b>2.8</b>
Is there a PPP Unit which can either provide technical skills to line agencies or has the power to oversee the transaction directly?			3			
Does the team have significant experience in negotiating complex PPP agreements, both on the public and private sector side?		2				
Is there a clear contact point on the government side for investors interested in a particular opportunity?				4		
Does that contact point respond to private sector inquiries in a timely manner?				4		
Are there standardised templates available for the bidding process or transaction documentation?		2				
Is there a set of publicly available guiding principles or framework for any transaction?		2				
<b>Political Will and Community Readiness</b>						<b>2.7</b>
What is the public sentiment towards private sector investment across various infrastructure sectors?		2				
What is the track record of private investment in infrastructure?			3			
How open are local public services to private capital?				4		
What is the prevalence of subsidies for services?		2				

### General Investment Environment

<b>Broader Macroeconomic Environment</b>						<b>2.7</b>
GDP volatility		2				
Government debt			3			
Rating of long-term sovereign debt			3			
Budget balance			3			
Exchange rate volatility				4		
Inflation		2				
Soundness of banks			3			
Barriers to foreign capital		2				
<b>Political Risk and the Rule of Law</b>						<b>2.3</b>
Regulatory efficiency		2				
Independence of the judiciary			3			
Effectiveness of dispute settlement procedures		2				
Speed of rulings		2				
Risk of expropriation			3			
Currency transfer risk		2				
<b>Development of Local Capital Markets</b>						<b>2.6</b>
Local bond markets		2				
Local equity markets			3			
Availability of long-term credit			3			
<b>Public Ethics and Prevalence of Corruption</b>						<b>2.3</b>
Favouritism in decisions of public officials			3			
Diversion of public funds		2				
Irregular payments in public contracts		2				



# Conclusion

Bridging the infrastructure finance gap is a complex endeavour that will require localized action by policy makers in cooperation with other stakeholders: investors, construction companies, elected officials and the general public, to name a few. The recommendations from the *Infrastructure Finance Policy Blueprint* represent a comprehensive road map for improving a country's attractiveness for infrastructure investors. It is also clear that the reality on the ground will require significant adaptation of the general recommendations of the Blueprint.

We hope that this brief will provide both policy makers and investors with a useful tool to assess their specific infrastructure investment environment and to identify areas of strength versus where blueprint recommendations need to be applied.

The World Economic Forum is planning to follow up with the governments of India and Poland to assist them in the implementation of these recommendations. In addition to the two country overviews included herein for Poland and India, the World Economic Forum plans to continue conducting country-specific assessments that could serve as case studies and best practice guides. Beyond the work of the World Economic Forum, we hope that the methodology presented in this document will allow policy makers to conduct a rapid self-assessment of their performance on different dimensions of the Blueprint. Such an assessment can quickly illuminate where public policy changes might help accelerate the flow of infrastructure financing, to the benefit of populations and economies with pressing infrastructure needs.

# Appendix: The Country Performance Analysis Tool

The Country Performance Analysis Tool outlines the core criteria that impact a country's attractiveness for private investment into infrastructure.

A number of these performance criteria are specific to the infrastructure space and can be structured around four key themes: Investability of the project pipeline, regulatory processes and approvals, transaction capacity and political will and community readiness.

Other key success factors are macroeconomic. They have a direct impact on the infrastructure space but also have broader implications for a country's economy and for its growth prospects.

The assessment tool on the next page enables both infrastructure-specific performance metrics and macroeconomic performance metrics to be assessed. We will suggest analytical tools and benchmarks to allow policy makers to conduct a "self-diagnosis" of their region/country's performance.

Implementation of the recommendations from the *Infrastructure Investment Policy Blueprint* will vary by country and require adaptation to local circumstances. It is important that policy makers not only identify areas where improvements are needed, but that they also review international best practices and understand how their country is positioned in the global investment landscape. Policy makers also will gain insight from identifying relevant peers (that is, countries facing similar infrastructure investment issues) and determining what areas of performance are strongest or weakest versus these peers.

The following assessment tool requires a mix of hard data and perception data to complete. For macroeconomic data, the World Economic Forum's Global Competitiveness Report can be used as a key source, along with World Bank data. Perception data represents a useful complement to hard data, since it can capture key dimensions of the national attractiveness of private infrastructure investment and infrastructure quality, for which there is no quantitative data available in all countries. Perception criteria in the examples of Poland and India were based on interviews conducted by the World Economic Forum with experts, government representatives and investors.

All data should be standardized on an ascending 1-5 scale, in which "1" corresponds to low performance and "5" to high performance for each variable.

## Self-Assessment Tool

Assessing government 'readiness' for private sector investment in infrastructure <sup>5</sup>

### Infrastructure Investment Specific Criteria

1

2

3

4

5

Grading  
criteria

Low performance

High performance

#### Investability of the Project Pipeline

Is there a clear pipeline of viable infrastructure projects in the country?

Does the agency listing these projects have the ability to execute (i.e., are they credible)?

Is it clear which sectors or projects are prioritised or available for private partnerships?

#### Regulatory Processes and Approvals

Do the sectors or assets prioritised for private sector investment have a stable regulatory environment?

Is there a transparent and easy to understand pathway to gaining regulatory approvals?

Do regulatory or transaction approvals have time limits for decisions, or can they be extended indefinitely?

Is the average total approval time shorter than [18 months]?

#### Transaction Capacity

Is there a PPP Unit which can either provide technical skills to line agencies or has the power to oversee the transaction directly?

Does the team have significant experience in negotiating complex PPP agreements, both on the public and private sector side?

Is there a clear contact point on the government side for investors interested in a particular opportunity?

Does that contact point respond to private sector inquiries in a timely manner?

Are there standardised templates available for the bidding process or transaction documentation?

Is there a set of publicly available guiding principles or framework for any transaction?

#### Political Will and Community Readiness

What is the public sentiment towards private sector investment across various infrastructure sectors?

What is the track record of private investment in infrastructure?

How open are local public services to private capital?

What is the prevalence of subsidies for services?

### General Investment Environment

#### Broader Macroeconomic Environment

GDP volatility

1

Government debt

2

Rating of long-term sovereign debt

3

Budget balance

4

Exchange rate volatility

5

Inflation

6

Soundness of banks

7

Barriers to foreign capital

8

#### Political Risk and the Rule of Law

Regulatory efficiency

9

Independence of the judiciary

10

Effectiveness of dispute settlement procedures

11

Speed of rulings

12

Risk of expropriation

13

Currency transfer risk

14

#### Development of Local Capital Markets

Local bond markets

15

Local equity markets

16

Availability of long-term credit

17

#### Public Ethics and Prevalence of Corruption

Favouritism in decisions of public officials

18

Diversion of public funds

19

Irregular payments in public contracts

20



## Notes on suggested sources for general investment environment data

- 1) **GDP volatility**  
Volatility as measured by the standard deviation of annual gross domestic product valued at constant prices  
(1 = high volatility, 5 = low volatility)  
Source: International Monetary Fund, World Economic Outlook
- 2) **Government debt**  
Debt to GDP ratio (1 = high debt, 5 = low debt/GDP ratio below 30%)  
Source: Country data, Economist Intelligence Unit
- 3) **Rating of Long-term Sovereign Debt**  
Rating of long-term sovereign debt denominated in local currency  
The letter-based system of rating was converted into a numeric system with values ranging from 1 to 5 (best).  
Source: Standard & Poor's rating services
- 4) **Budget Balance**  
Public deficit to GDP ratio, last 5 years (1 = high deficit, 5 = low deficit)  
Source: Country data, Economist Intelligence Unit
- 5) **Exchange rate volatility**  
Standard deviation of monthly nominal exchange rates, last 5 years  
(1 = high deviation, 5 = low deviation)  
Source: International Monetary Fund, International Financial Statistics
- 6) **Inflation**  
Inflation data converted into a numeric system with values ranging from 1 (high inflation) to 5 (inflation at or below 2%)  
Source: World Economic Forum, Global Competitiveness Report
- 7) **Soundness of banks**  
Stability of financial institutions, number of bank defaults in past 5 years (1 = unstable, 5 = stable)  
Source: World Bank and OECD country reports, Economist Intelligence Unit
- 8) **Barriers to foreign capital**  
Restrictions on Foreign Direct Investment, on foreign ownership of equity and other assets (1 = high barriers, 5 = low barriers)  
Source: Global Competitiveness Report (World Economic Forum), Economist Intelligence Unit
- 9) **Regulatory efficiency**  
Stability and predictability of the regulatory environment; professionalism of the government entity charged with enforcement (1 = low efficiency, 5 = high efficiency)  
Source: Global Competitiveness Report (World Economic Forum)
- 10) **Independence of the judiciary**  
Ability of the judiciary to make and enforce decisions without pressure from the executive or legislative branches of government (1 = limited independence, 5 = high independence)  
Source: Global Competitiveness Report (World Economic Forum), Economist Intelligence Unit
- 11) **Effectiveness of dispute settlement procedure**  
Speed and enforceability of court decisions and other dispute settlements (1 = ineffective, 5 = very effective)  
Source: Global Competitiveness Report (World Economic Forum) and interviews
- 12) **Speed of rulings**  
Average time from court or law suit filing to final judicial decision (1 = slow/above 3 years, 5 = fast, below 1 year)  
Source: OECD data, country data, interviews
- 13) **Risk of expropriation**  
Risk of governments seizing assets without adequate compensation (1 = common occurrence, 5 = never happens)  
Source: interviews, press releases
- 14) **Currency transfer risk**  
Potential difficulties in transferring funds to or from a specific country (1 = high risk, 5 = low risk)  
Source: World Bank and OECD data, interviews and press releases
- 15) **Local bond market**  
Existence of a local bond market, volume of trades, number of bond issuances per year (1 = non-existent market, 5 = well-developed market)  
Source: National bond market data
- 16) **Local equity market**  
Existence of a local equity market, volume of trades, number of stock issuances per year (1 = non-existent market, 5 = well-developed market)  
Source: National stock market data
- 17) **Availability of long term credit**  
Possibility to take out loans for infrastructure projects, in local currency. Number of banks offering these loans (1 = not-available, 5 = readily available)  
Source: Central Bank data, interviews with investors and the finance community
- 18) **Favouritism in decisions of public officials**  
When deciding upon policies and contracts, government officials (from 1 = "usually favour well-connected firms and individuals" to 5 = "are neutral")  
Source: World Economic Forum, Executive Opinion Survey
- 19) **Diversion of public funds**  
Diversion of public funds to companies, individuals or groups due to corruption (from 1 = "is common" to 5 = "never occurs")  
Source: World Economic Forum, Executive Opinion Survey
- 20) **Irregular payments in public contracts**  
How commonly do firms make undocumented extra payments or bribes connected with the awarding of public contracts and licenses? (from 1 = "common" to 5 = "never occurs")  
Source: World Economic Forum, Executive Opinion Survey

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# Endnotes

- <sup>1</sup> Polish Investment for Development (PIR) estimate
- <sup>2</sup> European Union 2014-2020 Investment Program
- <sup>3</sup> Interim report of the High Level Committee on Financing Infrastructure, August 2012
- <sup>4</sup> Total pool of capital (not an annual allocation). Assumes India's proportionate share in terms of worldwide GDP of a potential medium global infrastructure direct investment pool of US\$800 billion (1.2 percent allocation to infrastructure of a global asset under management pool of US\$65 trillion)
- <sup>5</sup> Initial assessment based on interviews and research conducted by the World Economic Forum

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