

A major report from the OECD looks at global infrastructure investment needs and the role of the private sector.

Infrastructure to 2030: Global investment needs

A major report released by the Organisation for Economic Co-operation and Development (OECD) concludes that the growing need for infrastructure investment will run far beyond the capacity of governments alone to pay for it, and that there is an important role for the private sector to play in funding the development of these essential services.

The report titled “Infrastructure to 2030” shows that global infrastructure investment needs are growing, with around US\$50 trillion required for investment in roads, water, electricity, telecommunications and rail in OECD countries between 2005 and 2030.

This investment will be used to build new infrastructure and to maintain and upgrade existing systems. Pressure will increase with globalisation, economic development and population growth.

Traditionally governments have facilitated infrastructure investment, however this is becoming increasingly challenging as they focus their spending on areas such as health, education and security.

As a result, the report suggests that traditional means of funding need to be enhanced by private sector investment. This is already well established in some sectors, such as telecommunications, power generation and railways.

In OECD countries alone, some US\$1 trillion of state-owned assets have been sold in recent decades. Considerable scope still remains for further privatisations – for example, it is estimated that around US\$3 trillion of infrastructure in the United States is still in public hands.

The report is the result of an extensive international consultation process undertaken by the OECD Futures Project on Global Infrastructure Needs,



involving government departments and agencies, corporations and research institutes. The purpose of the project was to consider the long-term opportunities and challenges facing the asset class worldwide and propose a set of policy recommendations to OECD governments that aim to enhance the contribution of infrastructure to the economy.

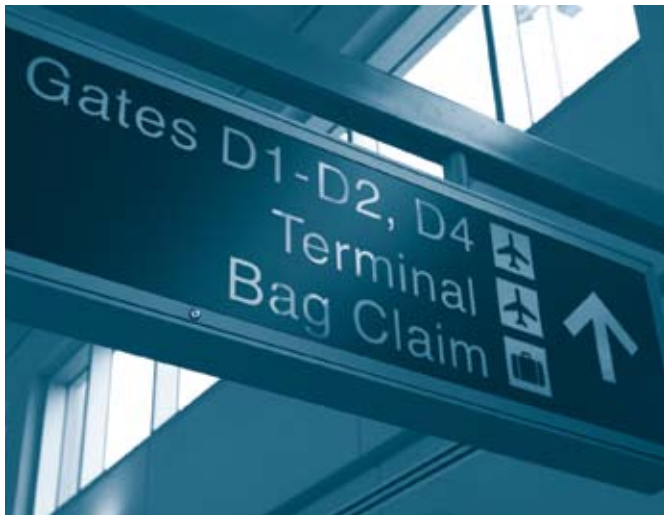
KEY POINTS

- Global infrastructure investment needs are growing
- At the same time, Government spending is declining
- Private capital is identified as essential for meeting the investment gap

The report sets out the OECD’s belief that solid infrastructure promotes prosperity and growth, and provides significant social and economic benefits.

The report sets out a number of policy recommendations to address the needs of the asset class going forward:

- Encourage pension funds and other investors to invest in infrastructure
- Encourage Public Private Partnerships (PPPs) as a means of raising additional financing for infrastructure investment and diversifying business models



“...traditional means of funding infrastructure must be enhanced by private sector investment...”

- Examine the legal and regulatory framework conditions with a view to encouraging the emergence of fresh sources of capital and new business models for the construction, maintenance and operation of infrastructure
- Explore the potential for new institutional arrangements that may provide more effective and efficient financing, funding and/or delivery of infrastructure
- Reduce the vulnerability of long-term infrastructure planning and implementation to short-term thinking and priority setting.

Macquarie, a participating sponsor of the two-year study behind the report, welcomed the report and its findings.

“This is an important and extensive research report that highlights the need for increased private investment alongside the public sector. In particular, the patient capital of pension funds is identified as ideal for long-term ownership of infrastructure assets,” said Neil Jones, Division Director, Macquarie.

“We believe infrastructure funds have the potential to help bridge the gap between shrinking public funding and the growing demand for essential services.”

This document contains information taken from a report titled, “Infrastructure to 2030: Main finding and recommendations”, which was compiled by the OECD Futures Project in 2006 on “Global Infrastructure Needs: Prospects and implications for public and private actors”.

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The report concludes that governments will have to continue playing a major role in infrastructure investment globally. But the same governments, if they want to attract significant private investment, must create the right conditions, namely stable regulation and frameworks to improve reliability and establish standards.

The pensions industry has been increasingly attracted to infrastructure and the dedicated infrastructure funds which have emerged in recent years. Some larger pension funds now define infrastructure as a separate asset class and have assigned it increasing percentages of their portfolios. Increasingly, a broader range investors – large and small – have begun to recognise the investment benefits typically offered by infrastructure and are attracted to its long-term defensive income, low correlation and long-term growth potential.