



CAPITAL MARKETS BOARD OF TURKEY

EUROPEAN FINANCE CONVENTION

4TH CONGRESS ON

FINANCING INFRASTRUCTURE, MUNICIPALITIES AND LOCAL AUTHORITIES

In Central, Eastern & South Eastern European And Mediterranean Countries, Russia, The Caucasus
and the CIS

OPENING ADDRESS

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ACTING CHAIRMAN
CAPITAL MARKETS BOARD

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Hyatt Regency – Istanbul

My Honorable Minister, Distinguished Mayors and Dear Guests,

It is a great pleasure for me to address this distinguished audience and I would like to thank the organizers for providing me this opportunity.

International evidence shows that developing countries invest too little in infrastructure. Total investment in utilities is less than 4% of the GDP and three fourth of the finance has to come from the government budget.

Fortunately, recent years have seen a significant increase in the involvement of the private sector in the development and funding of public facilities and services, ranging from management contracts for existing operations to full greenfield development of new projects.

The increasing private participation is attributable to a number of factors. Public sector does not have the sufficient financial resources to upgrade, maintain and expand infrastructure consistent with economic growth and welfare goals. Moreover, public projects that lack the necessary planning, coordination and efficiency occasionally result in waste of resources.

Private participation brings capital and efficiency that may be difficult to realize by the public sector. On the other hand, government can facilitate project through the provision of assets such as land and licenses, and possibly through the provision of subsidies, guarantees and other supports. Complementary public financial support tools can encourage private participation. These tools range from equity and debt guarantees to exchange rate, subsidies and minimum revenue guarantees.

There are many forms of private participation in infrastructure including the contracting out of services, joint ventures and a various forms of public private partnerships. Each of these implies different levels of risk sharing between the private and public sectors. Project finance can efficiently be structured regarding capital requirements, life of assets, amortization period and project profitability.

Dear guests,

A well defined legal framework for private participation in infrastructure finance is critical. We have various laws regulating private participation in utilities projects and arbitration laws for public concession contracts. It is now the high time to harmonize and coordinate the existing dispersed and complex regulatory framework. We are pleased to see that the State Planning Organization is about to finalize such a draft law. We hope that the new law will provide a single, detailed and comprehensive regulatory framework for private sector involvement in public utility projects.

There are a number of different potential sources of funding for private financing, each with different positions, stakes, and incentives that influence the project outcomes.

These sources range from equity to debt and structured finance and each of these is suitable at different stages of the project.

The traditional sources of funds for infrastructure finance are the equity provided by the project sponsors and syndicated loans from domestic and foreign banks. The limited number of equity or debt providers gives rise to substantial liquidity and risk concentration. As a result, the traditional funding may often be limited especially for developing countries. Capital markets come to our help to overcome these limits. Capital markets have the potential to provide fundamental opportunities for risk sharing among the

numerous private investors through financial innovation. Innovative financial instruments, public offerings and formation of secondary markets may attract global funds and lead to a lower cost of funding.

Dear Participants,

I am confident to say that we have a well functioning and globally linked capital market. We have a strong regulatory and supervisory framework, empowered by our Capital Markets Board of Turkey. Traditionally Capital Markets Board of Turkey has an active role in designing and offering to the market new products. We will do same for infrastructure finance. We have a well functioning equity market and we already have listed companies at the Istanbul Stock Exchange which invest in infrastructure projects. Just last week, our Board has approved another IPO of a private project company. Other structured products suitable for project finance are already available but not efficiently used.

We are happy to observe that our institutional investors' base is rapidly expanding. As the key players of the capital market, institutional investor such as pension funds, investment funds and insurance companies have natural interest in infrastructure assets. Their desire for longer maturity and steady returns is in great consistency with utility projects. The total net asset value of all investment funds and trusts has reached 20 billion US Dollar. Although just couple of years has passed after the first issue, the net asset value of Turkish Private Pension Funds reached to the amount of 2 billion US Dollar. We expect that the demand for the long term assets by the pension funds will continuously increase.

Dear Guests,

We are aware of the need for infrastructure investment in our country and we are also aware of the interest of global capital. We have set up a project team to analyze the needs, to upgrade our existing regulations and to design new capital market instruments. The draft mortgage law soon to be discussed at the parliament provides a general framework for secured borrowing and securitization in Turkey. Infrastructure finance will also benefit from this framework. We have studied the alternative models used worldwide and market needs. We want to establish the most effective structure to increase the share of capital markets funding for infrastructure. We are happy to see a parallel and rapid expansion of investment banking in Turkey.

We are always open to suggestions from market participants and we are keen to meet their demands. I appreciate this conference as an opportunity to evaluate the alternatives for private funding, which no doubt will contribute to the deepening of our capital markets.

Thank you very much for your attention.