

## **An Alternative Model of Infrastructure Financing Based on Capital Markets : Infrastructure REITS (InfraREITs) in Turkey**

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A sustainably higher GDP growth path is possible only through mobilizing adequate funds for investment in infrastructure. Capital markets can be used as an effective environment in mobilizing long-term investment funds to the infrastructure sector. Capital market funding motivates the participation of private sector in infrastructure projects and thus eases the constraints imposed by the public sector budget on infrastructure development and the burden on taxpayers. This equity-based model has no doubt gained prominence in the aftermaths of recent global financial crisis driven by excessive borrowing and leverage. This paper explores how Real Estate Investment Trusts (REITs) in Turkey can be used as an equity finance vehicle to launch and operate infrastructure projects.

We presented an overview on infrastructure assets and funds, their operational framework and risk factors related to infrastructure funds in the second section. In the third section we analyzed capital market financing of infrastructure projects in Turkey. In the next section we provided some information on REITs in Turkey . In the fifth and the last section we proposed that REITs can be an alternative tool for financing urban regeneration projects or regional projects such as Southern Anatolia Project .

### **I. Introduction**

Development and modernization of infrastructure is the core to economic growth of any country and requires significant initial investment. Historically, infrastructure has been procured and funded by the public sector, with the taxpayer taking both the responsibility and risk of asset delivery, cost and operation. To obtain better value for

money for taxpayers, to share the burden of financing and in some cases to overcome constraints imposed by the public sector budgetary process, governments have recently turned to the private sector to assist in the procurement of infrastructure. Private sector involvement in the provision of infrastructure has steadily increased with privatization of existing businesses and the use of concessions to procure new assets.

In recent years, there has been a significant increase across the globe in the involvement of the private sector in the development and funding of public infrastructure. The governments have found that they do not have enough resources to fund their country's infrastructure to the necessary levels for the economic development. Besides technological advances, competitiveness in world markets has become dependent on the availability of high quality, efficient infrastructure. Public private partnerships (PPPs) are regarded as an effective way of allocating risks and responsibilities of developing infrastructure. Private sector is able to bring technical expertise and thus increased efficiency whereas governments can facilitate the projects by providing assets such as land and license, subsidies or guaranties to the private sector.

The success of private sector involvement in the infrastructure sector has led many governments to implement standardized procurement models such as PPP and Public Finance Initiative (PFI) as in the UK. Some countries use these models initially to procure transportation infrastructure, others (for example the UK, Portugal, France and Spain) have responded to the success of their initial projects by extending the scope into the provision of other public or social infrastructure assets.

New to the infrastructure sector are investment funds, sponsored by global investment banks, private equity firms, and institutional money managers, looking to place money from pension funds, insurance companies and high net worth clients into infrastructure investments. During the mid-1990s, Australian investment firms established the first of these funds, looking for new assets to invest in after tapping out on local real estate, stocks, and bonds. The rise of private infrastructure investing in Australia notably coincided with reduced government spending (from 7.2 percent of gdp in 1970 to about 3.6 percent in 2006). In 2007, more than \$30 billion of Australian infrastructure assets were held in publicly traded or listed entities. Various new global

infrastructure funds have raised about \$100 billion to invest in infrastructure assets with an initial focus on Europe, where public/private partnerships have been well established in many countries whose governments have sought alternative financing sources<sup>1</sup>.

As one of the global PPP models, Turkey can adopt a strategic partnership or a project joint venture PPP in the form of REITs and raise money from institutional investors and general public to finance many infrastructure projects. In this paper we focus on how to benefit of existing REIT structure in financing infrastructure projects. We simply name those REITs as InfraREITs. They can function as an infrastructure fund if structured well legally and technically.

## **2. Infrastructure Assets and Funds**

Infrastructure assets offer secure, long-term cash flows, inflation protection, and opportunities for reducing overall portfolio volatility and risk. Infrastructure assets and funds tend to be highly diversified investing in economic infrastructure like toll roads, parking lots, power plants, water treatment facilities and airports as well as social infrastructure, including hospitals, schools, and affordable housing as shown in Chart 1 .

### **2.1. Infrastructure Assets**

Fundamentally, infrastructure assets are distinguished by displaying the following key characteristics:

- Provide essential community services
- Have strategic competitive advantage
- Have predictable long-term cashflow

Infrastructure assets display unique characteristics. Their long-term nature, combined with strong competitive position, leads to stable and predictable consumer demand and cash generation. These assets tend to have a high fixed capital base with comparatively low operating costs.

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<sup>1</sup> Infrastructure 2007 : A Global Perspective: Urban Land Institute and Ernst Young

Along with the long-term operating licence and predictable demand, often in a regulated environment, this allows the manager to forecast cashflows with accuracy.

**Chart 1**

<b>Transport</b>	<b>Regulated Utilities</b>	<b>Communications</b>	<b>Social</b>
Toll roads	Electricity	Fixed Line Networks	Education
Bridges	Gas	Satellite Systems	Hospitals
Tunnels	Water	Broadcast Facilities	Health Care
Ports			Prisons
Airports	<b>Project Types :</b>		Court Houses
Rail	<i>Distribution</i>		Government Buildings
Ferries	<i>Storage</i>		
Tram	<i>Generation</i>		
Rapid Transit	<i>Treatment</i>		
Car Parks			

*Source: ING REIM Research*

Infrastructure assets have a low correlation to equity markets and other main asset classes. For this reason, it can provide valuable diversification in an investment portfolio. It also provides a good match for the long-dated liabilities of pension funds due its long-life and inflation protected returns. This stability in operating cashflows can reduce the overall volatility of returns for investors and investors are finding this combination of sustainable yields, lower volatility and inflation-linked returns increasingly appealing.

Another key distinction between infrastructure assets is whether they are primary or secondary stage projects. Primary Stage projects require a construction phase prior to operation and this will be reflected in a higher level of return. Primary stage assets themselves fall in to two categories. ‘*Greenfield*’ projects are entirely new infrastructure assets

while '*brownfield*' assets involve a second construction phase to an existing asset such as an extension, major refurbishment or upgrade. The risks involved in the latter are clearly lower than those of a green field project as a portion of the overall investment will be income producing from the start. Secondary Stage projects will see the investor acquire an up and running asset and the responsibility becomes one of operation, maintenance and managing long term life cycle costs. Mature projects with predictable cash flows will represent low risk investments.

## **2.2. Infrastructure Funds**

A combination of strong investor demand for stable yield, inflation/recession protected asset and an increase in the deal flow of infrastructure assets has led to a rapid expansion of interest in infrastructure sector. This led to the establishment of a number of specialist infrastructure funds which are offered usually to institutional investors to provide increased opportunities to access infrastructure returns.

Before the establishment of such funds the methods for accessing the sector was limited and that was usually done through direct involvement in infrastructure projects achieved by securing a concession/asset, either independently or through a joint venture. This gave investors very little opportunity to diversify and left them at the mercy of individual project risks. The more viable alternative for most was to invest in listed infrastructure companies. However, the limited choice of pure infrastructure companies and the higher volatility of returns that result from their stock market listings also present investors with problems and may detract from the fundamental stability of the underlying assets.

Infrastructure funds remove any need for direct involvement in an infrastructure asset. Infrastructure funds contain sufficient numbers of assets to diversify away specific risk, leaving investors with a market return. As a result, investors with smaller amounts of equity at their disposal can achieve high levels of diversification and so take lower overall risks.

An infrastructure fund is a managed vehicle through which investors gain exposure to the underlying characteristics of infrastructure assets.

Infrastructure is emerging strongly as an asset class which can be particularly well suited to pension funds and other investors with a long-term outlook. Infrastructure assets tend to display comparatively stable, long-term real returns and provide a good match for long-dated liabilities. Funds usually created by a core investor or an independent management team through funds raised in the open market from institutional investors and they aim to maximize financial returns to shareholders. Independent teams make investment decisions based on pre-defined sector and financial objectives .

By investing in infrastructure through a specialized fund, investors not only gain access to infrastructure as an asset class, but they benefit from the expertise that the fund manager can bring to asset selection and management.

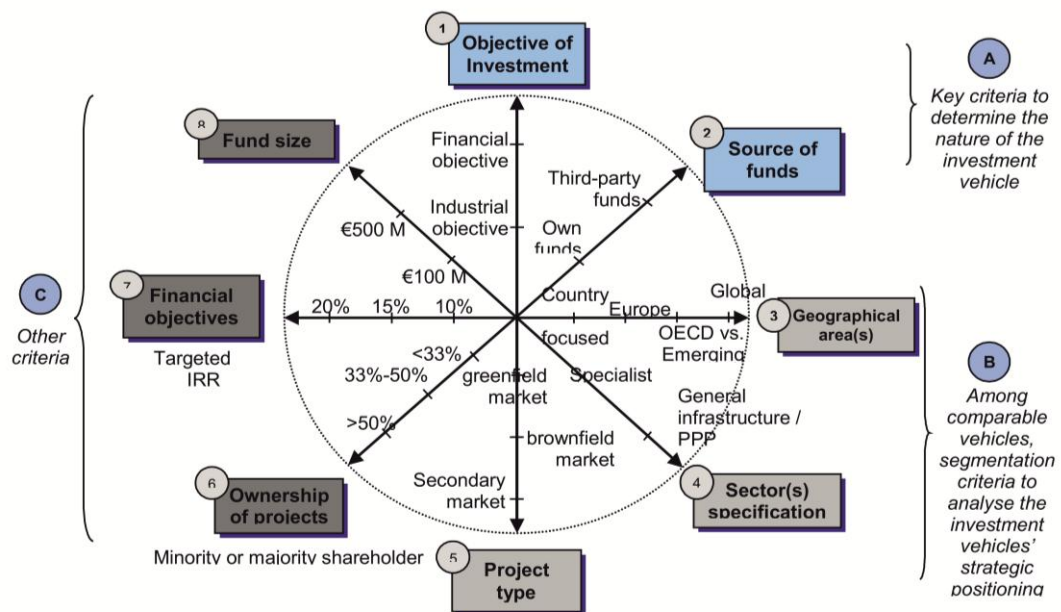
As mentioned above, cash flows from infrastructure tend to be relatively stable and predictable, and therefore lower risk. They may not suit high risk / high return investors. While unlisted funds often move toward a listing, investors looking for immediate liquidity may find listed funds or direct investment in infrastructure equities more attractive.

Infrastructure funds invest in private infrastructure companies, but the funds themselves can be listed or unlisted. The funds tend to either specialise in one class of infrastructure may – for example invest only in airports or only in toll-roads – or they invest across various infrastructure sectors which meet specified investment criteria . In addition, they can have a global or regional focus. In a research by Adventon Business Partners, eight potential segmentation criteria was used to segment the infrastructure investment vehicles market as shown in Chart 2 .

### **2.3.Operational Framework of Infrastructure Funds**

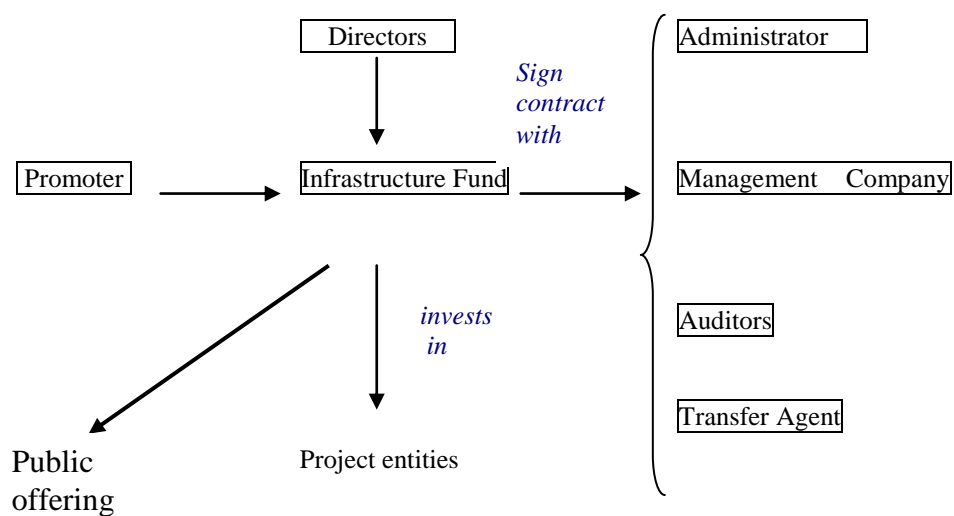
Infrastructure funds are usually established as a limited liability, off-shore incorporated, closed-ended investment company. The companies are advised by an investment management company, usually a subsidiary of the same infrastructure group.

Chart 2



The main actors in an infrastructure fund can be described as in chart 3 below:

Chart 3



where;

*Promoter*, is a person or an entity that initiates the creation of fund, *Management company*, oversees whether the investments are carried out in compliance with the prospectus and the investment policy, *Administrator* provides general administration facilities, secretarial services calculate net asset value of the fund, prepare annual accounts and financial reports, *Transfer agent or registrar*; executes subscription or redemption of orders, hold and maintain shareholder's register, *Directors* are responsible for the overall management of the company, *Auditors* certify fund's annual or periodical reports as required by government authorities, *Custodian/depository bank* safeguards the assets of the fund.

This chart summarizes the institutional framework of funds in general. Depending on the country where the fund is domiciled or shares are offered, there may be other or different types of institutions in charge of the funds required by regulations.

#### **2.4. Risk Factors in Infrastructure Funds**

There may be some specific risks associated with the funds due to the nature of infrastructure assets. Some are listed<sup>2</sup> below:

a) Construction risk: Some assets in the funds may be in the construction phases and may not be yet cash generative. As stated above primary stage projects require a construction phase prior to operation and this will be reflected as a higher risk in a higher level of return.

b) Termination of project agreements: Both the project entities and the public sector have the right to terminate a project agreement in certain defined circumstances. In some cases there may be no compensation. In other cases (including termination for force majeure), the amount of

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<sup>2</sup> These are the main risks associated with the funds. The risk factors here are compiled from the prospectuses of major infrastructure funds (such as; Babcock&Brown Infrastructure, Macquaire Infrastructure Group, 3i infrastructure limited). There may be other risks depending on the nature of the fund like, investment policy, geographical focus or related regulations where the fund is domiciled.

compensation payable may cover neither the full amount of senior debt secured on that project entity nor the nominal value of the investment capital invested in the project entity.

c) Financial modeling: Infrastructure projects rely on large and detailed financial models. There may be a risk that errors may occur in the assumptions or methodology used in a financial model. In such circumstances the returns generated by the investment may be less than expected.

d) Targeted returns of project entities: Investments are usually based on estimates or projections of investment cash flows. There can be no assurance that the actual investment cash flows will equal or exceed those expected and that the stated targeted return to shareholders will be achieved.

e) Life cycle costs: During the period of a concession, components of the project facility or building will need, to be replaced or undergo a major refurbishment. The timing of such replacements is usually retained by the project entities to assist in such forecasting of lifecycle timings and costs. However, shorter than anticipated asset lifespans or costs or inflation higher than forecast may result in life cycle costs being more than anticipated. Any cost implication, not otherwise passed down to subcontractors, will generally be borne by the affected project entities.

f) Change in tax law and practice: Financing structures of project entities are usually based on assumptions regarding prevailing taxation law and practice. Any change in a project entity's tax status or in tax legislation (including in relation to taxation rates) could adversely affect the investment return of the investment.

g) Subcontractor service failures: If a subcontractor to a project entity fails to perform the services which it has agreed to provide, the project entity may fail to meet the service standards it has agreed with its public sector client and there may be a reduction in the payments that the project entity is entitled to receive, and/or claims by the public sector client for damages. If there is a subcontractor service failure and the relevant subcontractor or its guarantors or insurers fail to meet their

obligations in respect of the liabilities that have been passed on to them, then, to the extent the liability cannot be set off against service fees, the project entity will not be compensated for any reductions in payments and/or claims made by the public sector which it suffers as a result of the subcontractor's service failure. Ultimately such service failure could lead to termination of a project agreement.

h) Demand risk: Investments may be reliant on revenues receivable from users and may be exposed to full demand risk, as in toll roads and this may result in a reduction in expected revenues for that project entity<sup>3</sup>.

i) Liquidity of investments: Investments may comprise of unquoted project entities which are not publicly traded or freely marketable and a sale may require the consent of other interested parties. Such investments may therefore be difficult to value and realize. These realizations may involve significant time and cost.

## **2.5. Valuation of Infrastructure Investments**

Some infrastructure assets commonly have fixed life concessions after which the asset reverts to government control. Not all infrastructure assets have finite lives. However, a portfolio which contains a significant number of such assets will experience a decrease of value over time. Investors should therefore look at the total internal rate of returns (IRR) produced by their investments rather than the negative capital growth element experienced during the 'wind-down' phase of assets with finite lives. Because infrastructure produces the majority of its returns in the form of income, the asset class does present investors with reinvestment risk. As such it is a more suitable asset for investors with a reasonably high requirement for income such as a mature pension fund. Investors with less of a preference for income would therefore be better served by infrastructure assets with indefinite lives or which have a higher scope for increases in capital values through active management. They may also prefer a fund which more actively trades its infrastructure assets, rather than looks to hold assets until concessions expire. Either way, investors in infrastructure funds are likely to require periodic portfolio valuations on an ongoing basis. The valuation of

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<sup>3</sup> In some countries there are some subsidies like shadow toll payment to cover this risk

infrastructure assets is in some respects a more straightforward process than valuing a listed company or a real estate investment. With a mature secondary infrastructure asset the revenues and costs that will be produced will be known with a fair degree of certainty and the valuation process is a case of applying an appropriate discount rate to those cash flows either to the end of the concession or in perpetuity - depending on the nature of the asset – in order to arrive at a present value. The appropriate discount rate should primarily reflect the risks involved in the project but should also reflect any opportunities for further growth in cash flows. This appropriate rate will be determined by the market through comparable evidence from other new infrastructure concessions or recently traded assets. However, some subjective judgements will be required and so independent third party valuations are generally commissioned from specialist consultants<sup>4</sup>.

### **3. Capital Market Financing of Infrastructure Projects in Turkey**

Infrastructure projects may be financed in different forms. In corporate finance, the primary source of repayment for investor and creditors is the sponsoring company, backed by its entire balance sheet, not the project alone. Project financing on the other hand is different from traditional forms of finance because the financier principally looks to the assets and revenue of the project in order to secure and service the loan. In project finance a new project company is built to own and operate a separate infrastructure project. The new project company is capitalized with equity contributions from each of the sponsors. In contrast to an ordinary borrowing situation, in a project financing the financier usually has little or no recourse to the non-project assets of the borrower or the sponsors of the project. The project is not reflected in the sponsors' balance sheets. In Annex 1, there is a brief comparison of bank loans, bonds and corporate finance in project finance.

One of the efficient ways to finance infrastructure investments might be the use of infrastructure funds via capital markets in Turkey. Although Turkey is an emerging market, the legal and technical structures of capital markets are well designed to launch and operate infrastructure funds.

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<sup>4</sup> ING REIM Research

Our study bases on two main issues. First we propose that the infrastructure funds can use the legal form of REITs, which we will name as InfraREITS, in Turkey as it seems to be the most suitable legal form of an institutional investment to be structured as as infrastructure fund. Secondly we suggest that the InfraREITs be a public-private partnership. A public initiative will enable the private sector enter into concession agreements with more confidence, as government side may facilitate some legal processes regarding the investment.

#### **4. Current legal structure of REITs in Turkey**

According to Capital Markets Law (CML) regulations in Turkey, REIT is a joint stock company and defined as a capital market institution. In general REITs can invest in real estates, capital market instruments based on real estates, real estate projects, rights and capital market instruments based on real estates, establish ordinary partnerships to undertake certain projects.

REITs can also;

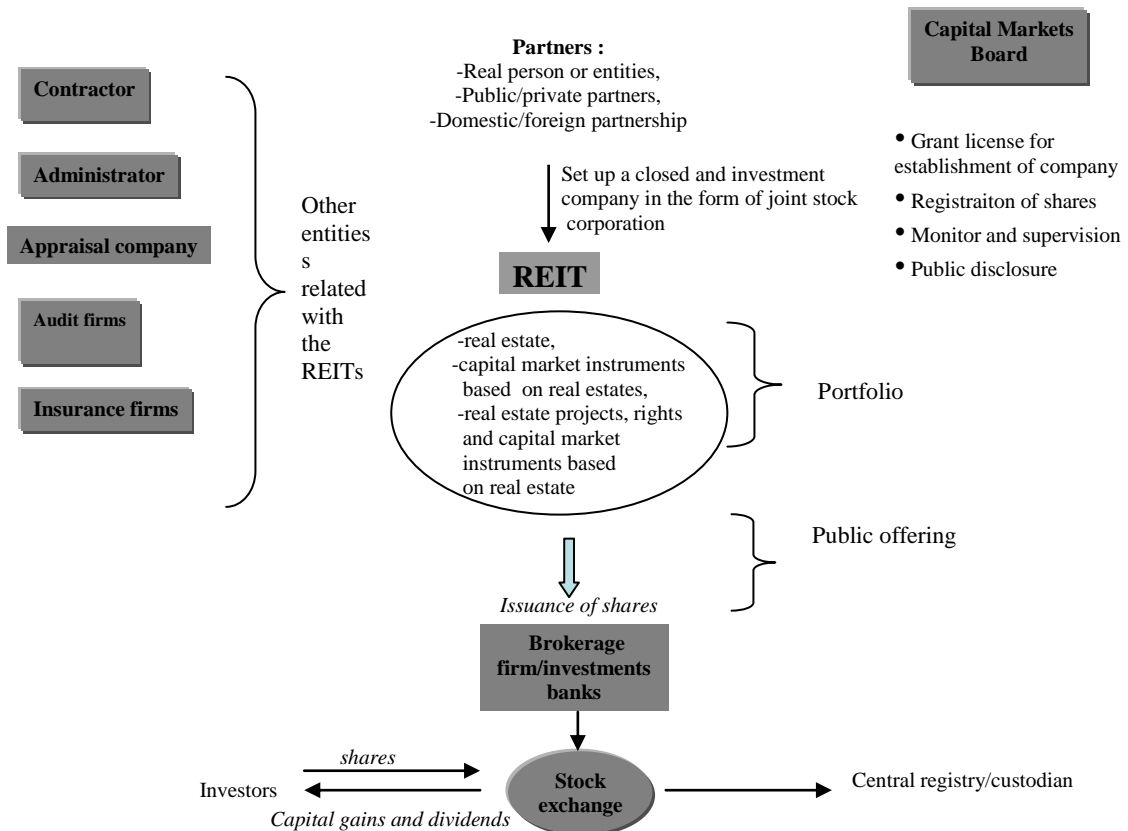
- a) invest in Build-Operate-Transfer (BOT) projects/companies up to %50 of their portfolio value.
- b) be established for a limited time to undertake a certain project.
- c) realize BOT projects by establishing the right for construction for others or itself.

They can invest in projects of real estate, for which all required permits have been obtained pursuant to the relevant legislation, whose project is ready and approved and all of whose legally required documents to start construction have been determined by independent real estate appraisal companies to be fully and correctly existent.

After fulfilling the required conditions set up in the regulations, REITs grant a license from Capital Markets Board (CMB), their shares are registered with CMB and offer their shares to public. The shares should then be quoted on stock exchanges. The legal and operational framework of REITs is provided in the chart below:

Chart 5

## Legal and Operational Structure of REITs in Turkey



Portfolio administration gains of REITs in Turkey are exempt from corporate tax regardless of whether they distribute dividends or not. If REITs are registered with the Board and fulfill all the legal conditions, they benefit from this exemption. At investor level, the sale of shares is subject to a 0% of withholding tax for domestic and foreign investors.

The company deducts %15 of an income tax from the distributed profits. This is the final tax for foreign investors. For domestic investors, after deduction 1/2 of the dividends are tax exempt and if the amount exceeds the income amount which is determined in Income Law, the income will then be declared. Tax exempt REITs can be used in 3 ways in infrastructure finance.

*a) Designing REITs as an infrastructure Fund (private sector initiative):*

As REITs in Turkey are allowed to invest in BOT projects/companies up to %50 of their portfolio value, they can act as an infrastructure fund. The project companies are not required to be listed.

*b) Designing REITs as a project based special purpose vehicle - SPV (Private sector initiative)*

REITs are also allowed by regulation to be set up as an SPV to realize a specific BOT project. Thus, they can raise money from investors to finance the infrastructure projects

*c) As an institutional PPP /strategic partnership- joint venture (public & private sector initiative)*

Another use of REITs may be that the REIT would be formed as a public-private partnership between the government (which may or may not contribute cash) and strategic sponsors, such as developers, contractors and equipment providers, local investors and small shareholders. The REIT may raise money from investors and the generated cash will be used to fund the infrastructure projects in the portfolio. The REIT can also have the opportunity to issue bonds or convertible bonds or borrow from financial institutions up to three times<sup>5</sup> of its net asset value.

## **5. Alternative Implementations of Infrastructure Funds**

In this section we proposed alternative models to explore how InfraREITs can be used as a tool for financing public and/or private investment initiatives.

### **5.1. Funding urban regeneration projects through infraREITs**

One of the potential use of benefits in infrastructure could be the urban regeneration projects. Municipalities can alone or through a joint venture with private contractors, set up a REIT and finance urban

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<sup>5</sup>Borrowing limit according to the current regime for REITs.

regeneration projects. We propose this to be done through either setting up a REIT by municipalities or a joint venture with a contractor.

**5.1.1. Setting up a REIT by municipalities:** In this model, the ownership of the houses/flats belongs to the municipality in the initial stage. Municipalities will alone or through a private company purely established by the municipality, will set up a REIT. 100% of the shares of the REIT will belong to the municipalities or the municipal companies. These subsidiary companies can also be established in the form of private REITs for tax purposes. The contractors will not have any shares in the company, but the municipality signs a contract with the contractors that win the tender, in turn for progress payments. The REIT will then offer its shares to private investors and/or general public. The income generated from the public offering will be used to finance a) the construction cost of houses/flats and other residentials, b) infrastructure of the regenerated area, c) progress payments of contractors.

**5.1.2. Joint venture:** In this model, the municipality will provide capital in kind and the contractors will provide capital in cash, and they set up a REIT, where both the private contractors and the municipality will have equal shares. The municipality will go into a tender process, and the contractors that win the tender will sign a revenue sharing contract with the municipality, based on flat-for-land construction. The contract will then be registered to title deed and the contractors will get a kind of a property right backed by real estate. Afterwards the REIT will offer its shares to investors and the income generated from the offering will be used to a) pay the progress payments for commitment of construction works, b) pay the landlords of squattered houses, if there any, and lastly c) to fund the infrastructure of the regenerated area.

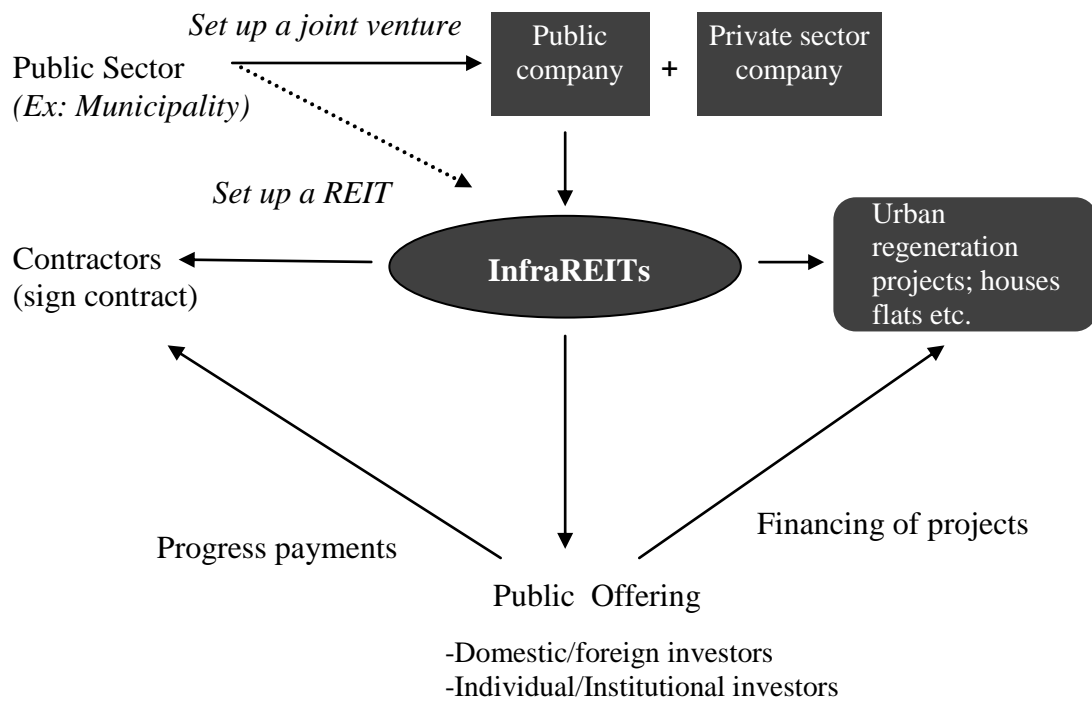
Below is a chart showing the operational framework of the proposed model explained above :

It is important that the urban regeneration project portfolio that is going to be financed by the REIT is chosen among the ones which are feasible and have obtained permits pursuant to the relevant legislations, whose projects are ready and approved by relevant legal authorities, legally required documents to start construction have been determined by

independent real estate appraiser companies to be fully and correctly existent.

### Chart 5

#### Financing of Urban Regeneration Projects through InfraREITs



As we are going to discuss in the following section another potential use of InfraREITs may be Southern Anatolia Project (SAP).

## 5.2. Regional InfraREIT for Southeastern Anatolia project in Turkey

### 5.2.1. Overview

The South-Eastern Anatolia Project (SAP) seeks to uplift the income levels and living standards of people living in the region by mobilizing and utilizing resources existing in this region, to remove inter-regional development disparities and to contribute nationwide goals of economic development and social stability. As such it is a very important and

comprehensive project with international implications. There are 9 administrative provinces in the project region: Adıyaman, Batman, Diyarbakır, Gaziantep, Kilis, Mardin, Siirt, Şanlıurfa and Şırnak. The SAP region has a share of about 10% in both the total population and geographical area of Turkey. Yet, 20% of total irrigable land in Turkey is in this region and the region represents 28% of Turkey's total hydraulic potential mainly with the rivers Euphrates and Tigris. While the share of the region in Gross Domestic Product (GDP) was around 4% in 1985, it rose to 5.5% in 2001 accompanied by rate of per capita income rise from 47% to 55%.

Under the Master Plan, funds needed for envisaged public investments in the region reach 37 billion YTL in 2006 prices. As of the end of 2007, total spending amounted to 21 billion YTL, thus giving the rate of cash realization as 56,4%. Looking at the trend of SAP investment allocation in the period 1990-2006, we observe that on average 6.8% of public funds is annually allocated to SAP investments. The share of SAP investments in country's total investments started rising after 2000: 4.9% in 2001, 5.9 % in 2002, 5.8 % in 2003, 6.8 in 2004 and 2005, and 5.6 in 2006.

SAP investments consist of the sum total of projects and activities in economic and social sectors launched and carried out by about 40 governmental organizations and agencies. Funds allocated for these investments launched by various agencies from different sectors are transferred to the investment budgets of respective agencies and used by them. The financing needs of public investments that must be made in order to achieve the targets and physical outputs envisaged by the SAP Master Plan is 24.000.000 dollars in 2007 prices. In this context, spending made until the end of 2006 reached 15.000.000 dollars giving the cash realization rate of nearly 60 % .

The SAP already enjoys international mention in foreign press and international platforms, referred to as a model of regional development project with its pronounced "human development" dimension and sustainability. As such, the SAP has enjoyed financial support and contributions from various countries including the US, Canada, Israel, France and some other European countries, international finance

institutions including the World Bank, some external funding and credit agencies.

SAP is officially managed by Ministry of Turkey SAP Regional Development Administration which is a public institution.

**5.2.2. Financing SAP through REITs:** SAP region has a great potential for infrastructure investments. A public-private joint venture can set up a regional REIT that will act as a regional development infrastructure fund to realize many infrastructure projects similar to urban regeneration projects. The portfolio of the REIT can consist of a single project or pools of projects diversified by sectors. A global sale of REIT securities (equity/debt) is expected to attract both domestic and foreign institutional investors. It would be more attractive for the investors if these REITs have some incentives such as tax benefits for investors (as for instance; capital gains and dividends not being subject to tax declaration or withholding tax...etc).

The operational framework for an SAP InfraREIT will be the same as we explained in the previous section. The thing is that SAP already enjoys international mention in foreign press and international platforms, referred to as a model of regional development project with its pronounced "human development" dimension and sustainability. SAP has enjoyed financial support and contributions from various countries including the US, Canada, Israel, France and some other European countries, international finance institutions including the World Bank, some external funding and credit agencies thus having not only national but also an international attention. This may enhance the investor demand that will be set up for an InfraREIT for SAP combined with generous government incentives in addition.

### **5.3. What are the advantages of financing through an InfraREIT Model ?**

In an Infra REIT model the existence of public side such as the municipality in our example, will facilitate the bureaucratic procedures and also provide capital in kind such as land, while the private sector will supply technical support and construction works of the project.

Tax advantage is another incentive for InfraREITs. Portfolio administration gains of REITs in Turkey are exempt from corporate tax. At investor level, the sale of shares is subject to a 0% of withholding tax for domestic and foreign investors. This may provide an incentive both at the supply side and the demand side .

Another point is that InfraREIT based project finance model has no credit cost or credit risk. The source of finance is directly provided from capital markets through public offering. The income generated from the public offering will be used to finance the construction cost of houses/flats and other residentials, infrastructure of the regenerated area, progress payments of contractors.

The proposed system is flexible in context of investment objectives . REITs may be established for a limited time to undertake certain projects or for an unlimited time to invest in more projects in different investment areas. REITs can be used for both greenfield and brownfield projects.

## **6. Conclusion**

The international capital markets are the largest and deepest pool of financing in the world, and in conjunction with local capital markets, which represent an essentially untapped source of funds for infrastructure projects, they can make a huge contribution to economic development, if effective transaction structures are developed.

Capital markets can be used as an effective environment in promoting the flow of investment to the infrastructure sector by permitting capital market institutions such as REITs to launch and operate infrastructure projects and function as an infrastructure fund. They can potentially become an important source of capital for various infrastructure projects that are important for a country's economic development. REITs can attract the financial capital from a wide range of investors including retail investors, pension funds, insurance companies as well as overseas institutional investors. From an investor perspective, REITs can also provide an alternative investment opportunity to retail investors and ensure broader public participation in the infrastructure creation in a country.

In this paper we proposed that infrastructure funds can use the legal form of REITs, which we named as InfraREITS in Turkey and we think REITs are the most suitable legal form of an institutional investment to be structured as an infrastructure fund. We also suggested that the InfraREITs are to be structured as a public-private partnership where public initiative will enable the private sector enter into concession agreements with more confidence, as government side may facilitate some legal processes regarding the investment.

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**Annex 1 : Bank Loans versus Bonds versus Corporate Finance**

<b>Bank Loans</b>	<b>Bonds</b>	<b>Corporate Finance</b>
Can be provided to any credit-worthy market	Only available in certain markets	Available in capital markets, primary source of repayment is the sponsoring company backed by its entire balance sheet
Banks will not offer long term maturity	Generally offer longer term of repayment	There is no maturity on shares, but revenue shares may be related with the duration of the project.
Funds from the loan drawn only when needed	Funds from the bond is drawn all at once and the redeposited until required to pay for project capital costs	Funds are drawn from capital markets at once
Banks tend to maintain longer-term policies towards lending	More affected by short term sentiment	Long term investment
If a project gets into difficulty negotiations with banks should remain private	Negotiations with bond holders may be publicized.	A publicly held company should disclose it immediately if the project gets into difficulty
Low penalties for prepayment	High penalties for prepayment	No prepayment
Banks tightly control the addition of any new debt and are unlikely to agree the basis for this in advance	It is generally easier to add a limited amount of new debt to bond financing as bond investors will agree the terms for this in advance	Capital increase in different periods may provide an additional fund
The sponsors' corporate banking lines will not offer long term maturities	Bonds rely on a different investor base, thus avoiding the need to tie up bank credit lines.	No need to tie up bank credit lines.
Banks exercise control over all changes to project contracts and impose tight controls on the project company	Bond investors only control matters that significantly affect their cash flow cover or security	Investors only control matters indirectly which are given as a shareholder right in regulations such as commercial laws, capital market regulations