

4.0 CAPITAL PROJECTS IMPLEMENTATION ACTIVITY

This section describes the various implementation activities that are taking place in the international capital project market. These activities are described within the context of the driving forces and trends that are currently helping to shape and direct this market. Three driving forces are described that help to subsequently explain a number of important trends for this market. These driving forces and trends help to establish the background against which possible opportunities for Canadian firms are outlined.

4.1 Driving Forces and Trends in International Capital Projects

4.1.1 Key Driving Forces

The trends taking place in the international capital project market are shaped by three main driving forces: competition for capital, privatization, and heightened competition. These driving forces are outlined below, followed by an examination of the trends affecting the international capital project market.

The competition for capital is a driving force shaping how projects are being developed and financed by governments, international financial institutions, commercial and merchant banks, private sources of capital and others. The competition for capital is driven by the demand and supply of capital.

On the demand side relatively more projects, particularly outside the OECD, are competing for the available pools of funding, than in previous years. These new project opportunities are taking place in Latin America, and Asia and to a lesser extent in Eastern Europe.

The supply of capital remains relatively high, reflected by the liquidity of commercial and merchant banks, and the rapidly expanding base of equity in world stock markets. Paradoxically, the industrial sectors and location of the new projects tend not always to match the risk appetite of many capital suppliers. Consequently, there is an undersupply of capital in certain industries and geographic markets.

Some of the implications of this demand and supply situation include: i) an increase in project financing appetite by traditional sources; ii) changes in risk assessment by traditional sources of capital; iii) further entry of non-traditional sources of capital (e.g. private capital and pension funds); iv) greater marketing efforts by project sponsors to attract capital, particularly in middle income developing countries; and, v) greater reliance on limited recourse projects

Privatization is a phenomenon which has become an important feature of countries' economic policy. Many governments have concluded that protected public entities do not maximize productivity, efficiency or service and that a competitive environment is more conducive to foster these objectives. In addition these governments face new constraints to their financing activities which place a limit on the role of government.