



PPP and Infrastructure Financing in Asia and the Pacific

Tientip Subhanij

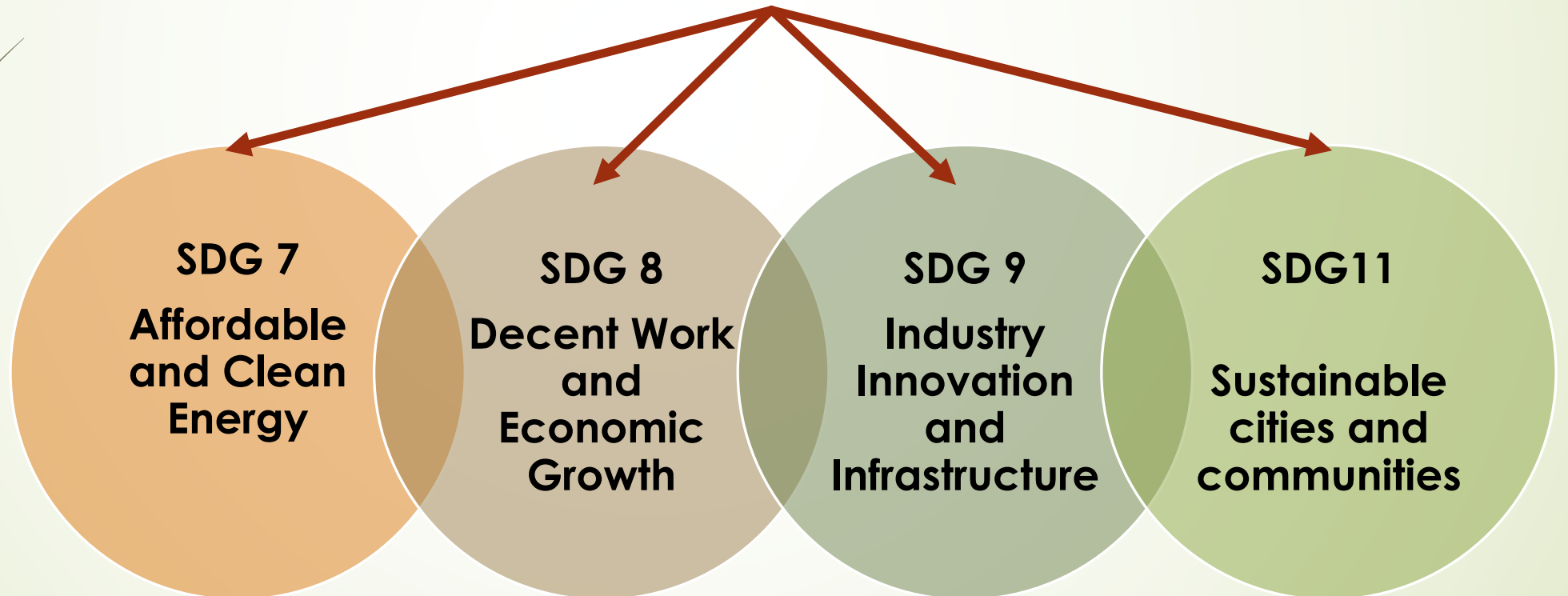
**8th Meeting of the Asia-Pacific
Foreign Direct Investment Network**

Bangkok, Thailand

25-26 September 2018

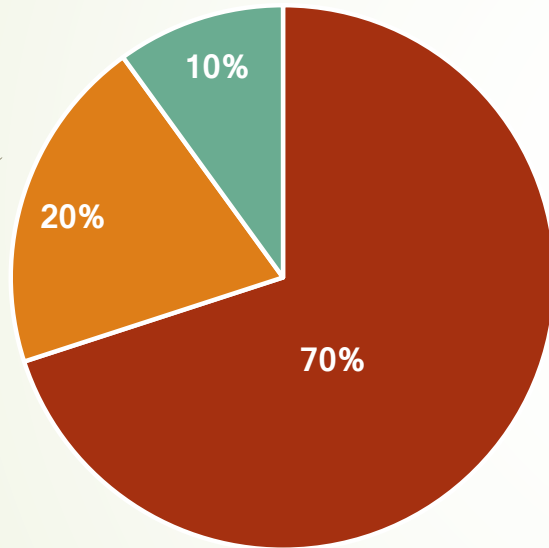
The Importance of Infrastructure

Improving Infrastructure is vital for achieving multiple sustainable development goals



Composition of Infrastructure Financing

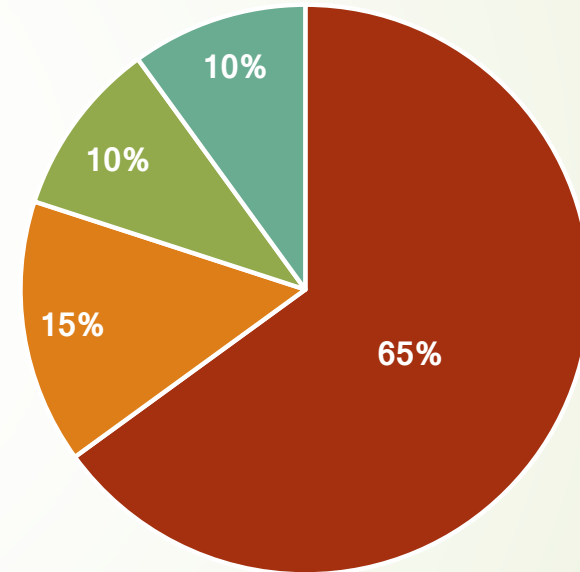
Asia



■ Domestic Public ■ Private ■ Multilateral agencies

Source: Deutsche Bank, Asia infrastructure financing 2016

Asian Countries with Special Needs



■ Domestic Public ■ Private ■ ODA ■ MDB

Source: ESCAP – Asia-Pacific Countries with Special Needs Development Report 2017

Reasons for low private funding

Despite ample available capital...

Global institutional investors currently manage more than US\$50 trillion

Investments in infrastructure assets, with theoretically stable cashflows over time, can still be unattractive even to investors with long-term liabilities

...Infrastructure investment is unattractive in both developed and developing countries

Infrastructure projects rarely rank as the most attractive option to deploy capital on a risk adjusted basis –
Too much risk and uncertainty over investment returns. Investors have global alternatives which present higher return in other asset classes for the same level of risk

55% to 65% of infrastructure projects in emerging markets are fundamentally not bankable without government or multilateral development bank support*



Private Sector: Banking Sector Dominance

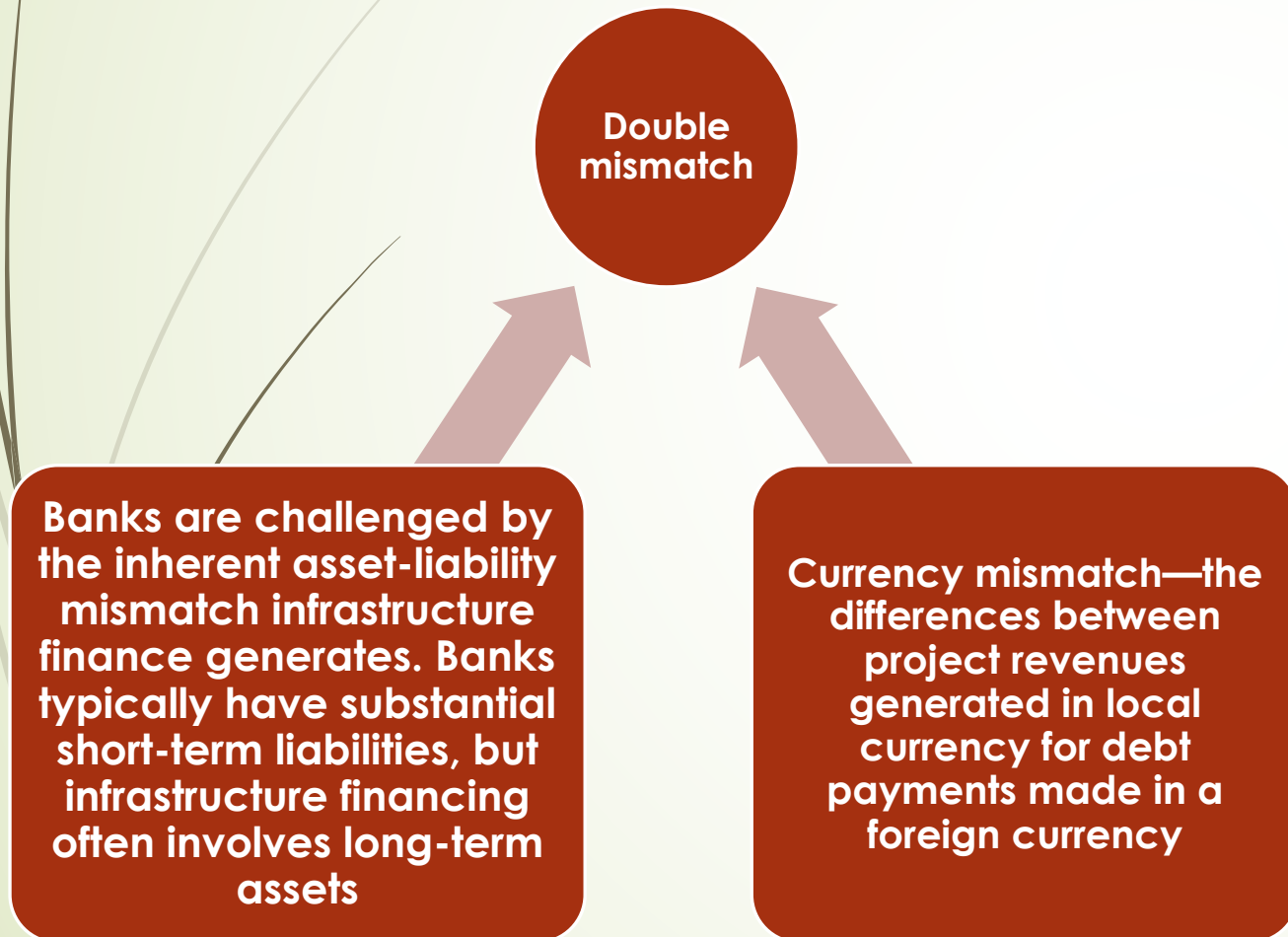
Conventional Commercial Bank Loans

- ▶ The banking sector has traditionally played a major role in financing infrastructure projects in the region
- ▶ Banks take greater risks during the initial stage of construction, which only subside over time as projects become less risky.
- ▶ However, bank dominant system increase the risk of an overexposed banking system.

Syndicated Loans

- ▶ As infrastructure financing requirements are large, loans more often than not come under a **syndicate of banks***
- ▶ **Syndicated loans have grown steadily** since the global financial crisis.
- ▶ The US dollar is the predominant currency for syndicated loans, alongside local currencies

Banking Sector: Declining Involvement in Infrastructure Finance



New regulations and Trends

- Large international commercial banks, which had previously provided a significant portion of infrastructure financing, have been deleveraging since the global financial crisis.
- Regulation of banking activities significantly affects banking industry's position on project finance

Capital Markets and Institutional Investors

Capital markets would reduce the pressure on the banking system while also making available fresh equity to finance / refinance infrastructure projects.

Asia is home to diverse financial systems that vary in depth and sophistication, ranging from developed countries with sophisticated financial markets to emerging markets and low-income economies where markets are still in their infancy.


○ Much attention is being focused on the institutional investor, given the long-term nature of the liabilities.

The long-term nature of infrastructure projects matches the long-term liabilities of institutional investors.

Most institutional investors, even those with long-term liabilities such as pension funds, life insurance companies continue to invest in liquid assets, often with a short-term investment horizon.

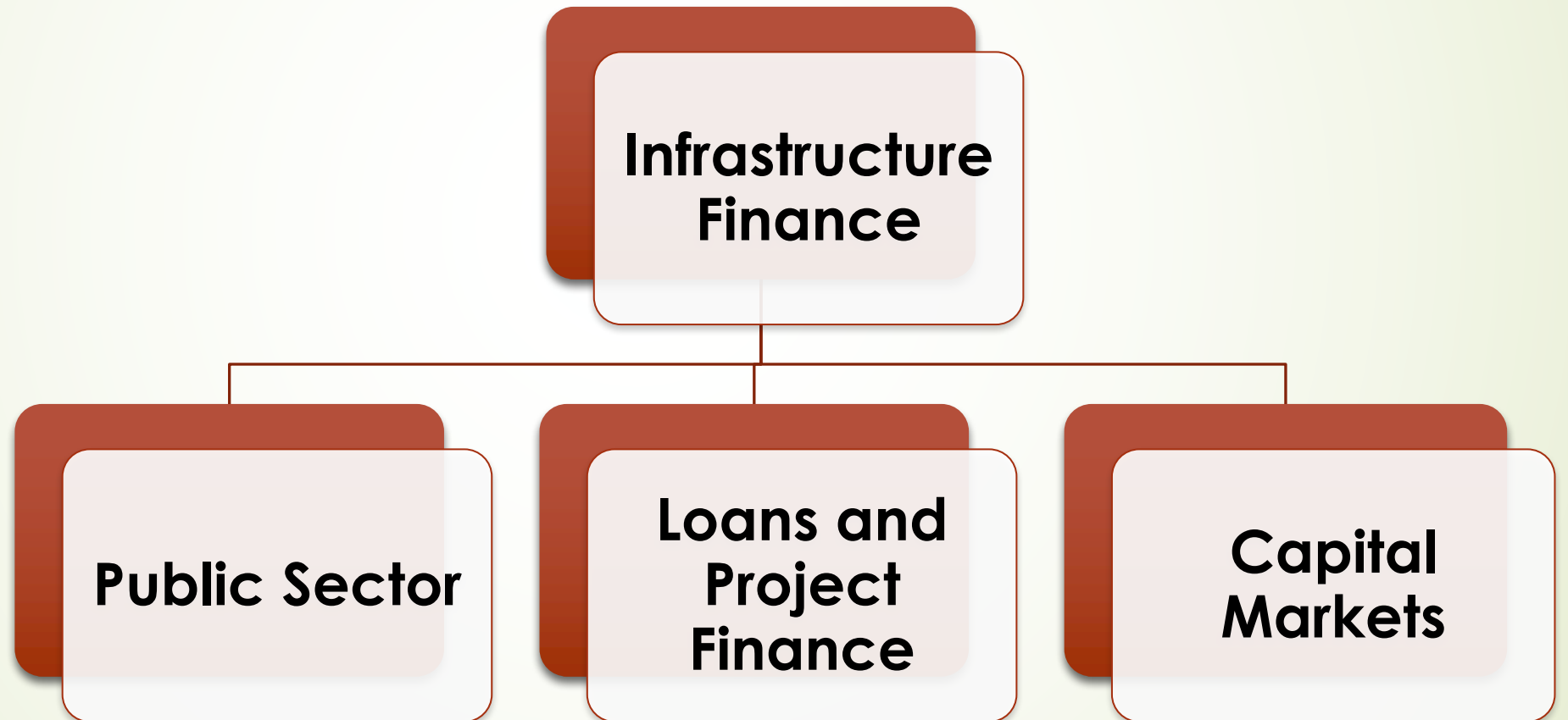
There is a high correlation between the size of the institutional investor base and the size of capital markets.*

Underdeveloped equity and bond markets prevent institutional investors to finance infrastructure investment.

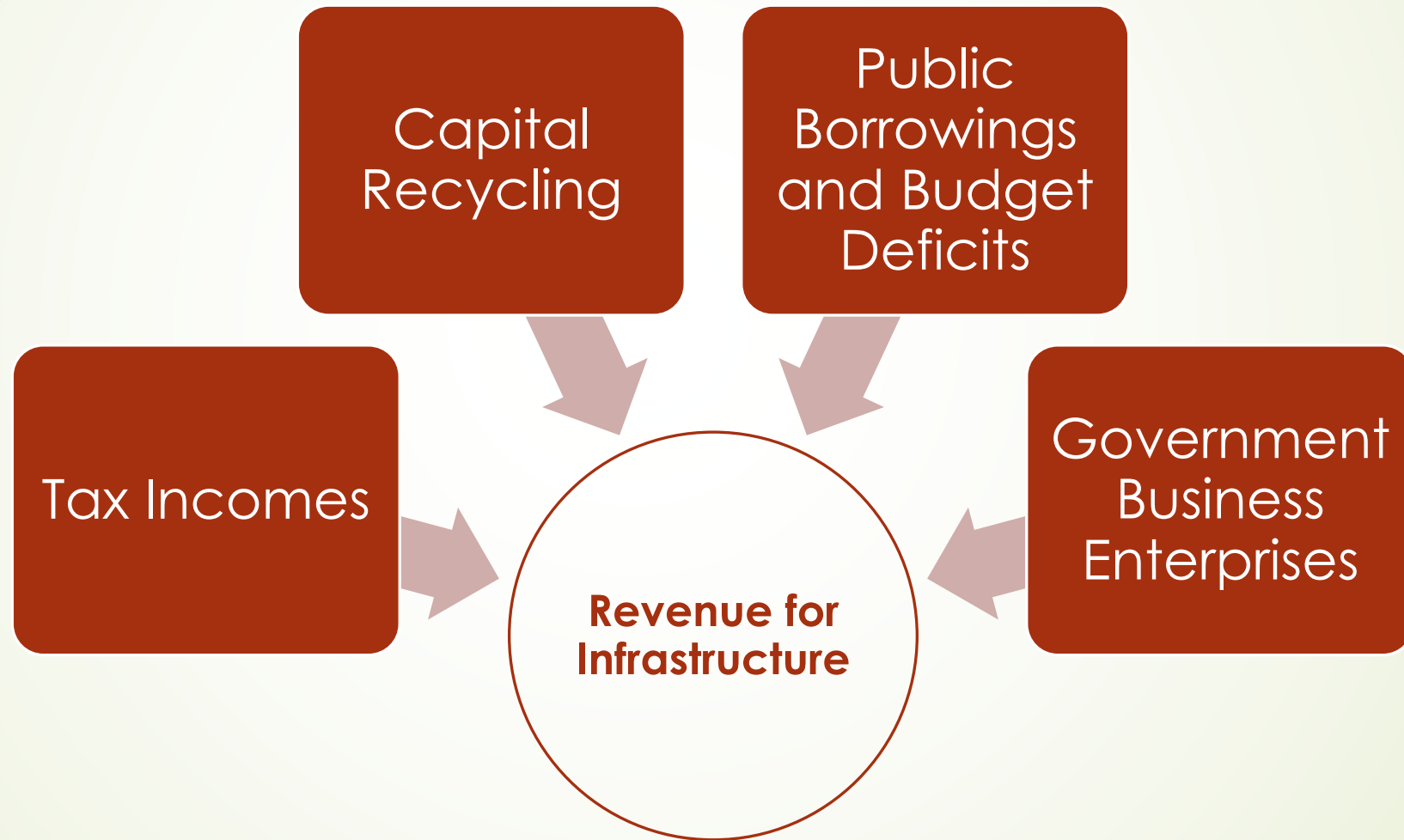
The image features a series of high-voltage power transmission towers, also known as pylons, silhouetted against a vibrant sunset sky. The sky transitions from a deep blue at the top to a bright orange and red near the horizon. The towers are constructed from a complex lattice of steel beams. In the foreground, the top of a tower is visible, showing insulators and cross-arms. The background shows several more towers receding into the distance, with some trees and a small light visible on the far left. A semi-transparent dark grey vertical bar is on the left side, containing the title text. An orange arrow-shaped graphic points to the right at the bottom left.

Infrastructure Financing Modalities and Current State

Financing Modalities: What is the ultimate source of financing?



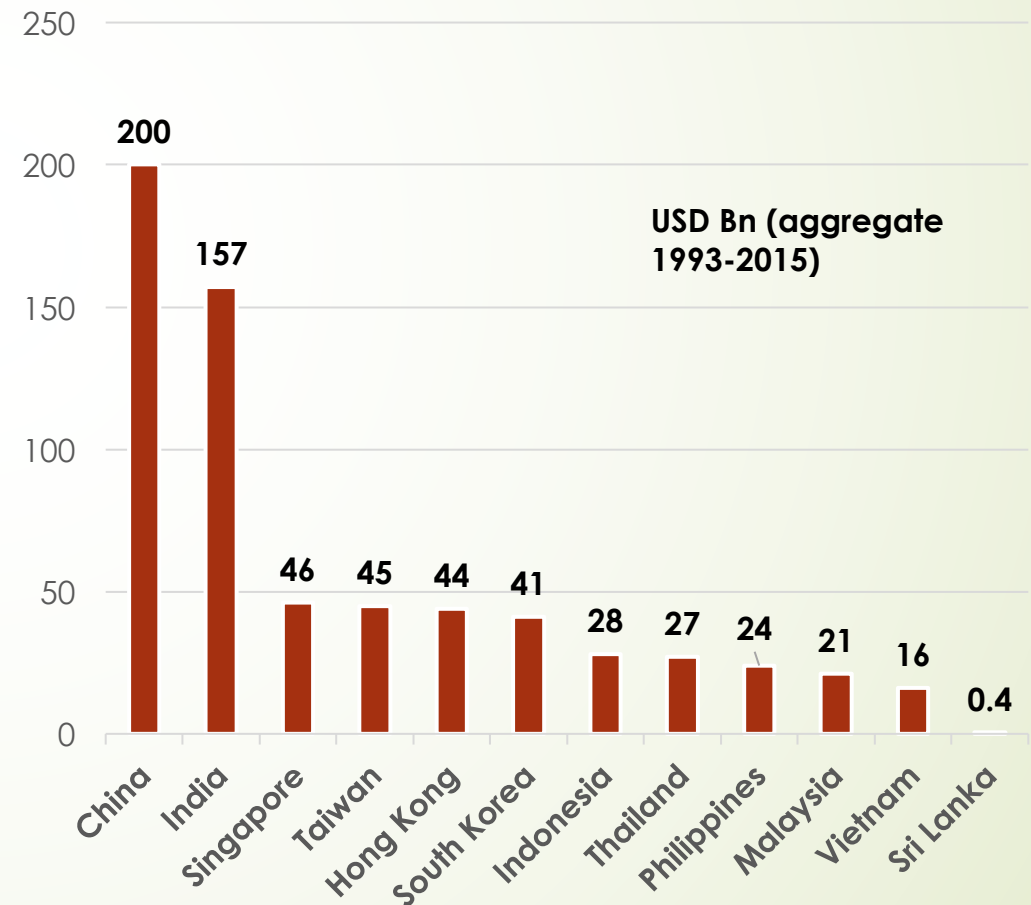
Government Provision



Loans and Project Finance

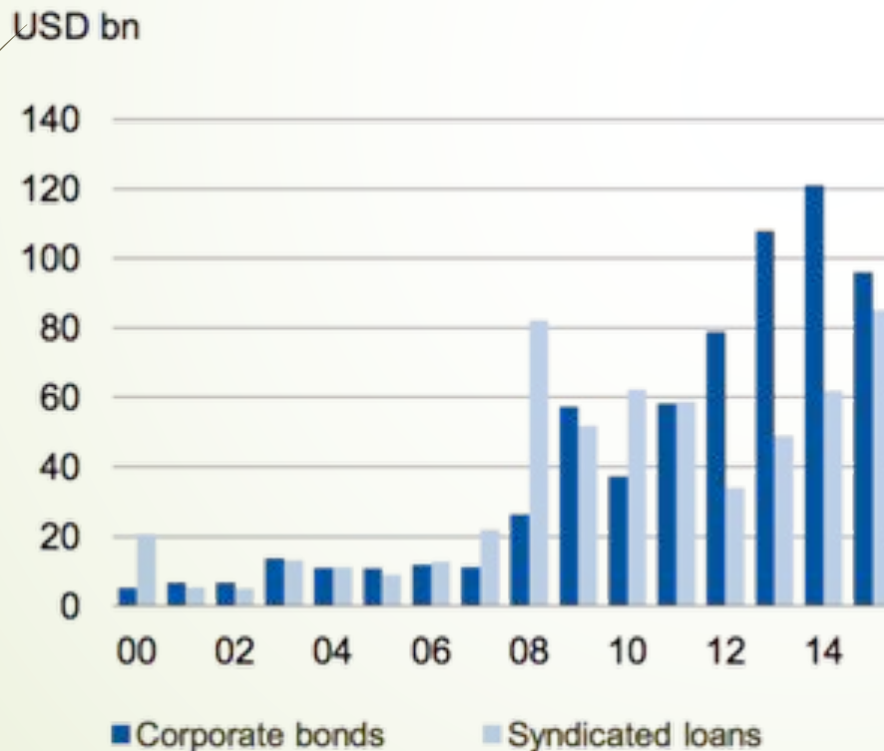
- Banks have provided most of the global finance since the 1960's and syndicated project finance remains the most common finance for financing private Infrastructure investment in the Asia Pacific region

Syndicated loans to key infrastructure sectors in 12 Asian economies



Capital Markets: Bond Market

In recent years, bonds have outstripped syndicated loans as a source of infrastructure finance in Non-Japan Asian countries*



- The vast majority of infrastructure bonds have been issued in local currency (LCY).
- In some Non-Japan Asian countries where banking sectors are constrained by domestic factors such as deleveraging policies or legacy NPLs, such as China and India, many companies or state entities have increasingly turned to issuing bonds

Infrastructure Companies

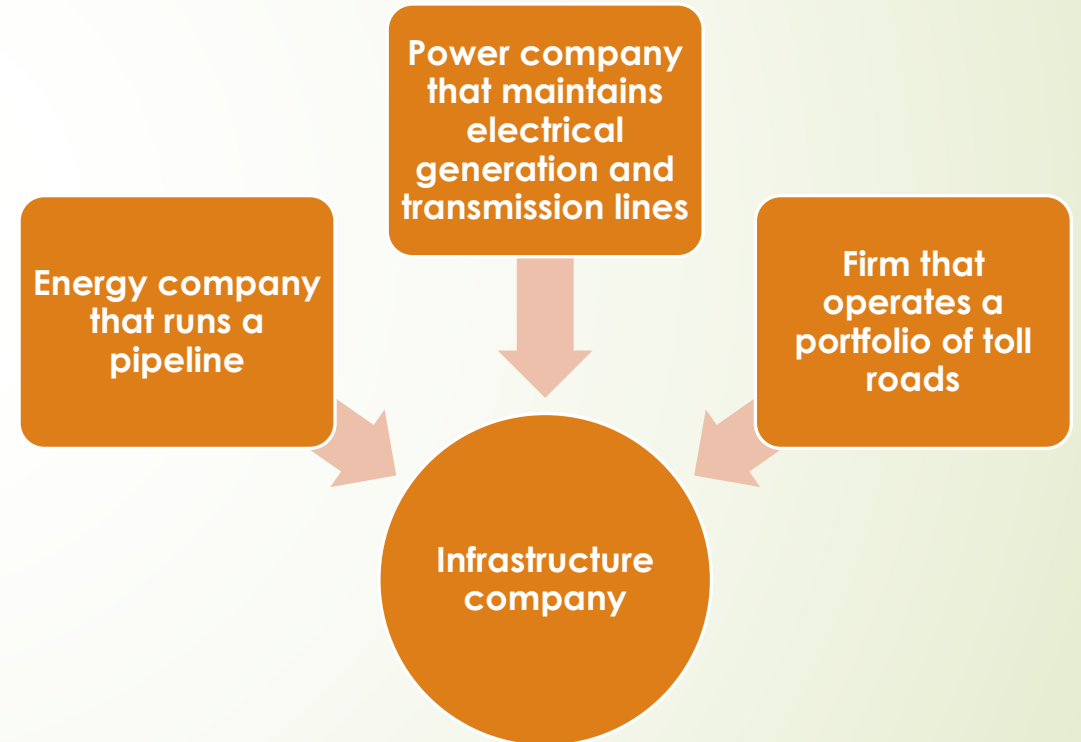
Private Company that operates infrastructure



Like all firms, infrastructure companies rely on equity and debt for financing. Infrastructure companies can be publicly listed.



Infrastructure companies are not SPVs : They make profit by operating the infrastructure they built or acquired



Infrastructure Projects

SPV/SPE Listing

- ▶ Establish a dedicated project company known as a “Special Purpose Vehicle/ Entity (SPV/SPE) to acquire financing and implement project activities.
- ▶ This legally isolates the parent organization from direct exposure to the financial risks associated with a project.
- ▶ If the SPV is listed on the stock exchange, investors can invest directly in the project

Project Bond

- ▶ Project bonds are debt instruments used for financing stand-alone infrastructure projects.
- ▶ The creditworthiness of this bond depends on the cash flow performance of the underlying infrastructure project
- ▶ The volume of project bonds is \$36 billion in world (2013). In Asia, the volume ranged between \$1 billion and \$ 3 billion
- ▶ Average maturity of the bonds is 8 years in Asia, compared to 15 years in advanced economies

Infrastructure Funds

Another intermediary mechanism between investors and infrastructure projects

Serve as a vehicle to pool resources, skills and experiences from different investors while achieving economies of scale

Specialized skills are required for structuring and assessing infrastructure investments

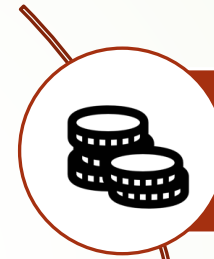
Public Private Partnerships (PPP)

"A long-term contract between a private party and a government agency, for providing public services and/or developing public infrastructure, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance"

Long term
relationship beyond
construction phase

Contract Based

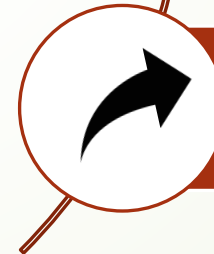
Different from
privatization



Mobilize resources




Achieving a long
term solutions



Transferring risks to the
private sector



A photograph of a construction site at sunset. In the center, a tall tower crane is silhouetted against the bright orange and yellow sky, with a light glowing from its base. To the right, a modern skyscraper with a glass facade is partially visible. The left side of the image is dominated by a dark, semi-transparent overlay containing the title text. At the bottom of this overlay is a solid orange arrow pointing to the right.

ESCAP PPP Survey 2018 (Example Results)

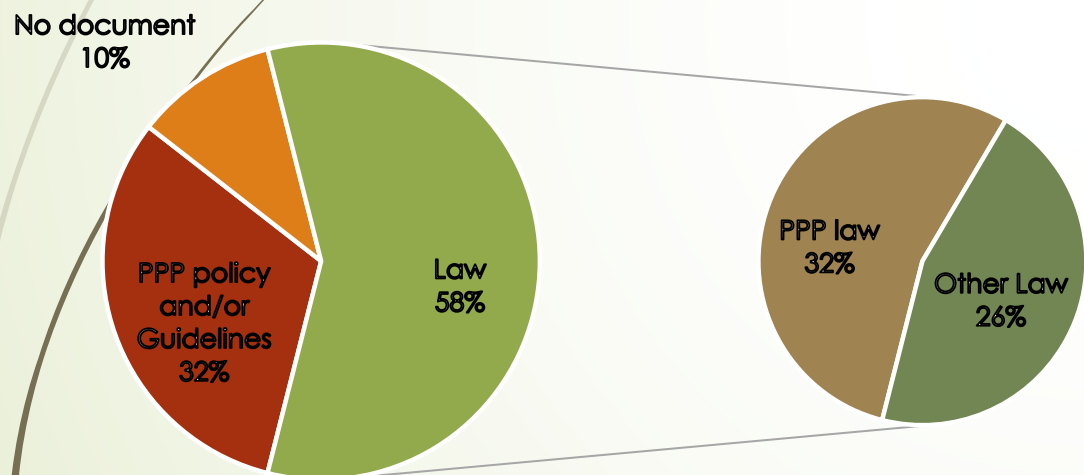


Survey Themes

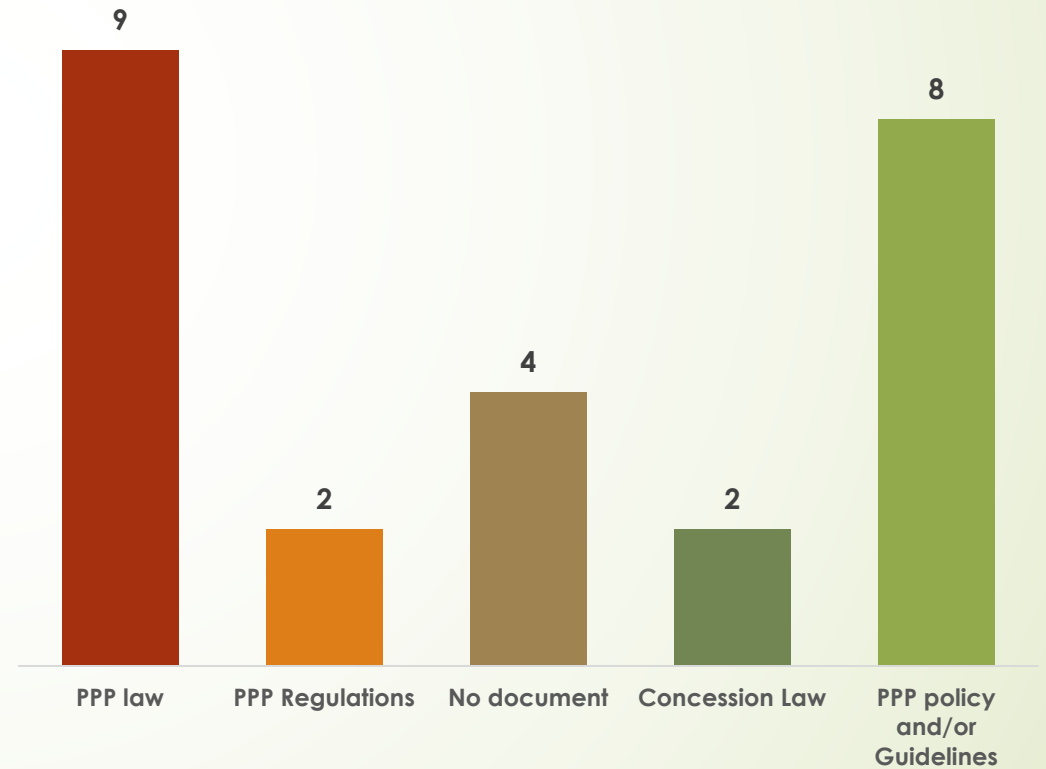
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- Legal and Regulatory Framework
 - Institutional Framework
 - PPP Unit Functions
 - Challenge in PPP Implementation
 - Existing Mechanisms
 - Sustainable Development Goals in PPPs
 - Needs and Expectations

Legal Framework

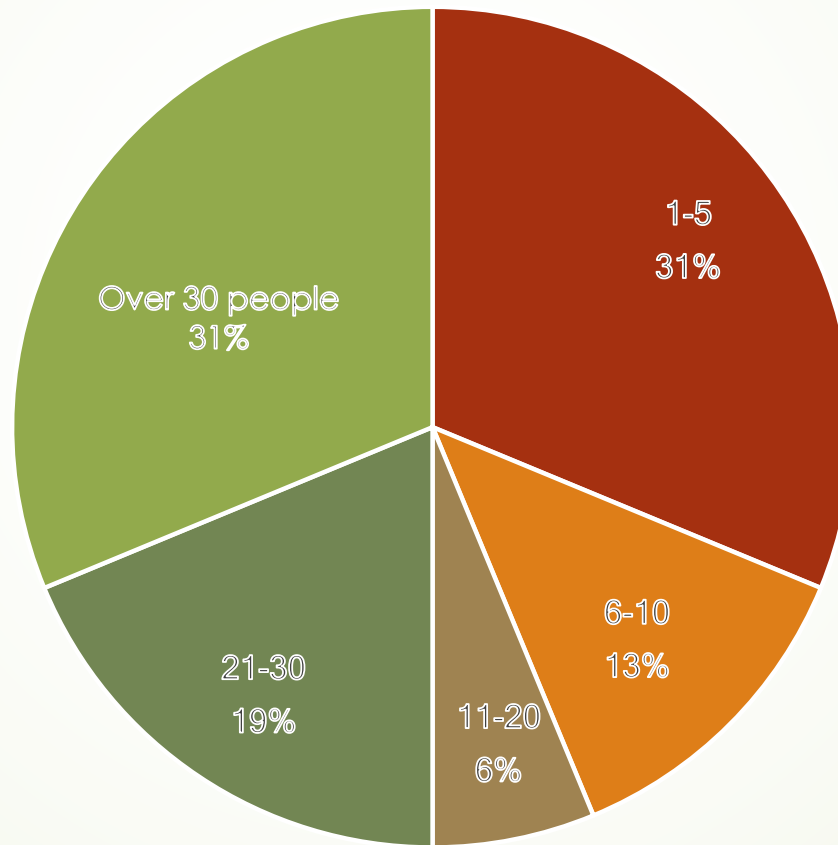
Existing Legal Document



Document under Development



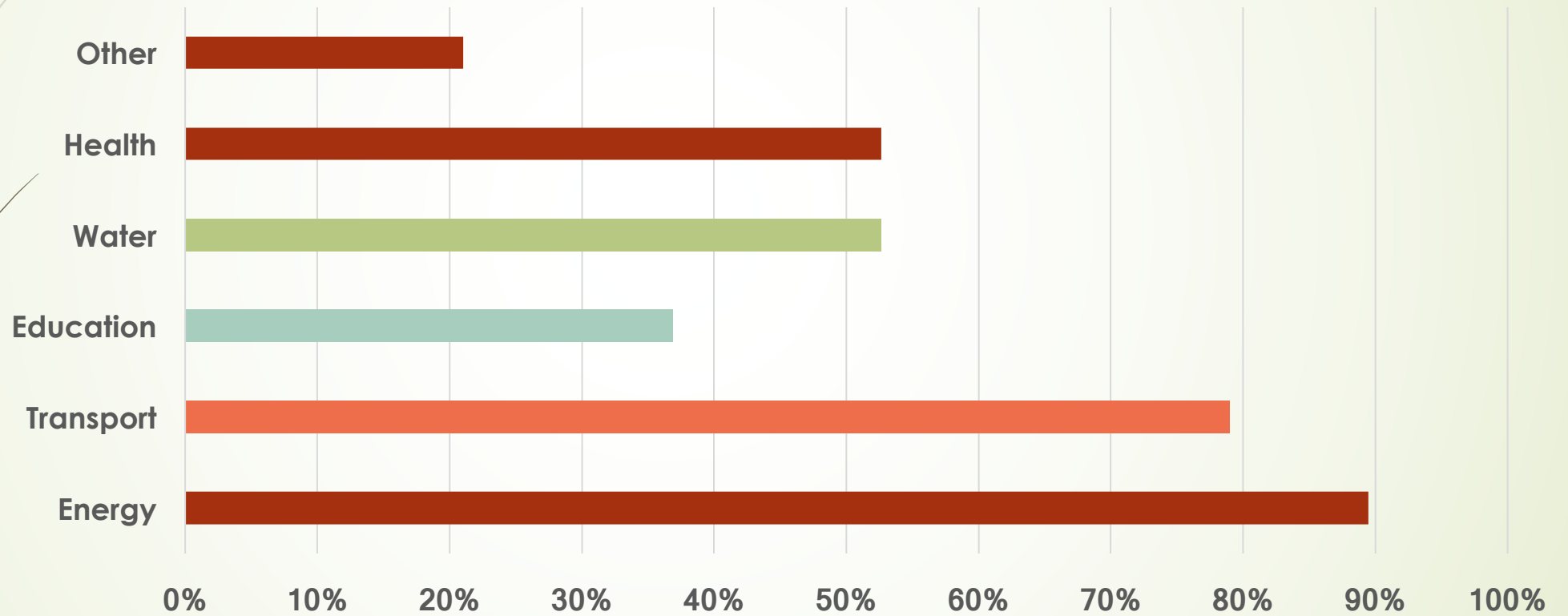
Institutional Framework Staff Members



Source: ESCAP

PPP use by sector

In which sector are PPP used?



Source: ESCAP

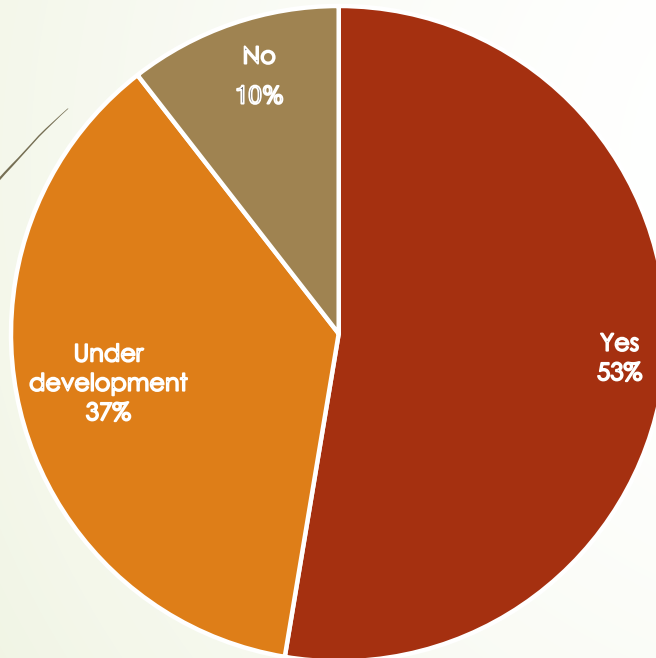


Challenges in PPP implementation

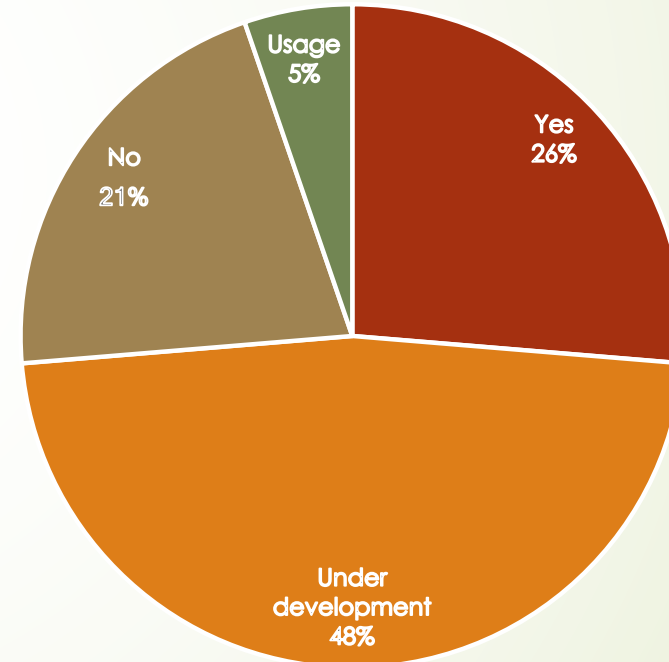
1. Limited Experience
2. Weak Investment Climate
3. Lack of skills and technical capacity
4. Lack of legal framework
5. Lack of Bankable projects

Existing Mechanisms Governmental Support

Guarantee of Support



Financial Assistance Scheme



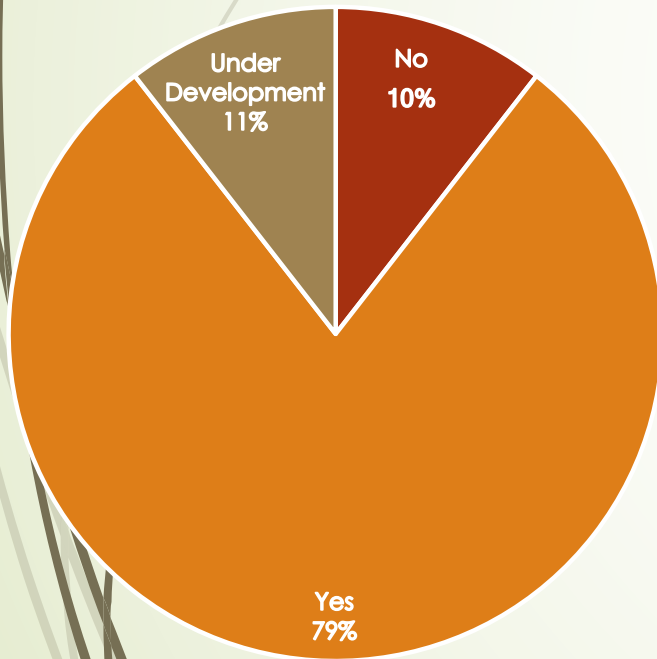


PPP Funding Sources

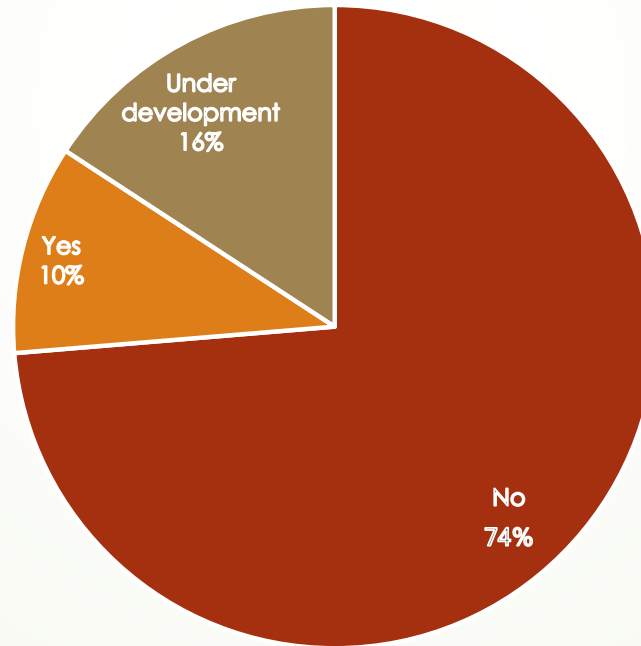
1. Bank Loans
2. Equity
3. Foreign Direct Investment
4. Official Development Aid
5. Bonds

SDG Concerns in PPP Projects

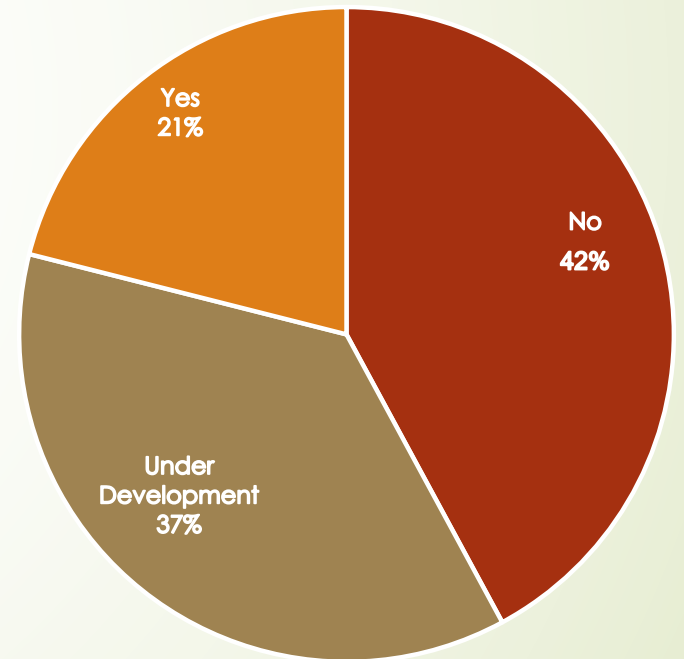
Environmental Concerns



SME Involvement

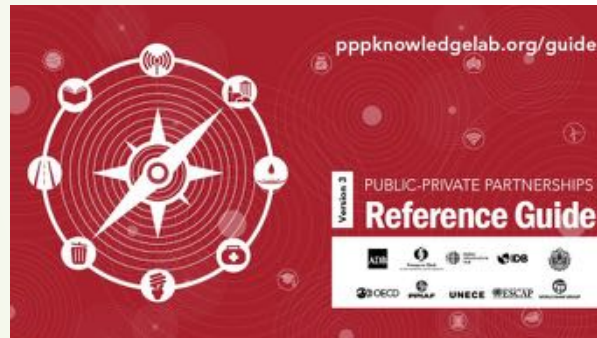


Gender Equality Concerns



International Collaboration

- ESCAP is an active partner in the PPP Knowledge Lab together with 11 international organizations



- ESCAP contributed to the 3rd edition of the Reference Guide published in 2017

- Experts contributing to the activities organized by the different partners
- Joint research with the Korean Development Institute (KDI)

Experience sharing PPP and infrastructure financing Network

- Promote exchange of information / best practices among the countries of the region



Sub-regional and national workshops

PPP Ministerial Conferences
(Seoul 2007 – Jakarta 2010 – Tehran 2012)



Financing for Development,
(Yearly regional consultation since 2014)





Way forward: Private sector engagement

- Private sector engagement has been severely hampered
 - Risk-return profile needs to be adjusted by Government support measures
- Governments can also
 - Enhance coordination across Government agencies to establish a bankable infrastructure project pipeline
 - Facilitate innovative PPP
 - Develop capital market
- Governments and SDGs
 - Ensure infrastructure development gains are shared in an equitable and sustainable manner