



**Asia-Pacific
Economic Cooperation**

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Session: 6

Supporting Infrastructure Development and Financing

Purpose: Information

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APEC
PHILIPPINES
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**Finance and Central Bank Deputies' Meeting
Tagaytay, Philippines
5-6 March 2015**

**APEC FINANCE AND CENTRAL BANK
DEPUTIES MEETING
6 March 2015**

**Session 6: Supporting Infrastructure
Development and Financing**

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Outline

1. Infrastructure Opportunities

Key Pointer: Mitigate Risks and Boost Bankability

2. Infrastructure Financing

Key Pointer: Boost Local Currency Debt Markets

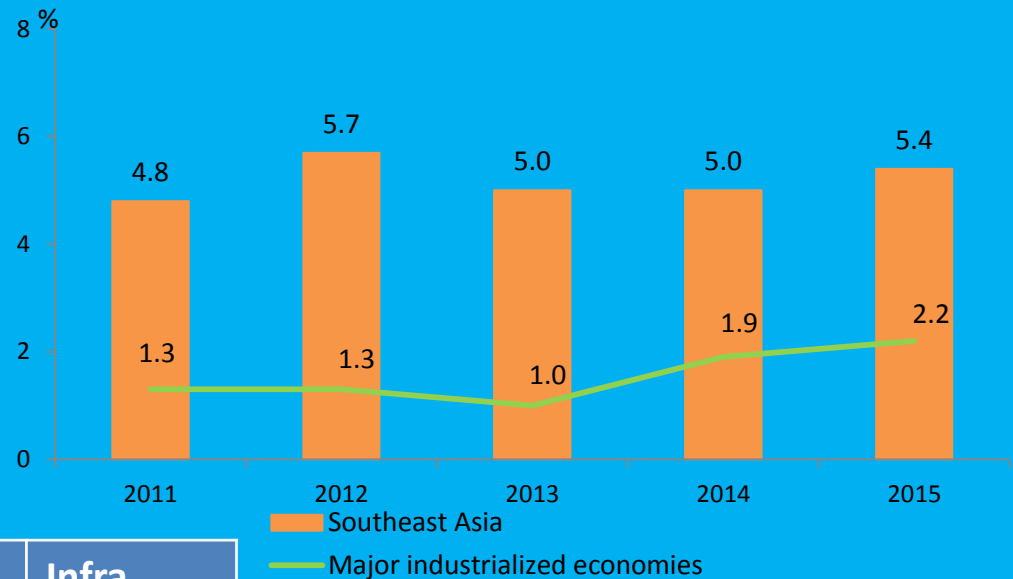
3. Regional Connectivity

Key Pointer: Identify Drivers of Growth

1. Infrastructure Opportunities

- S.E. Asia's Dilemma:

Decent growth ≠ Adequate infrastructure, as yet

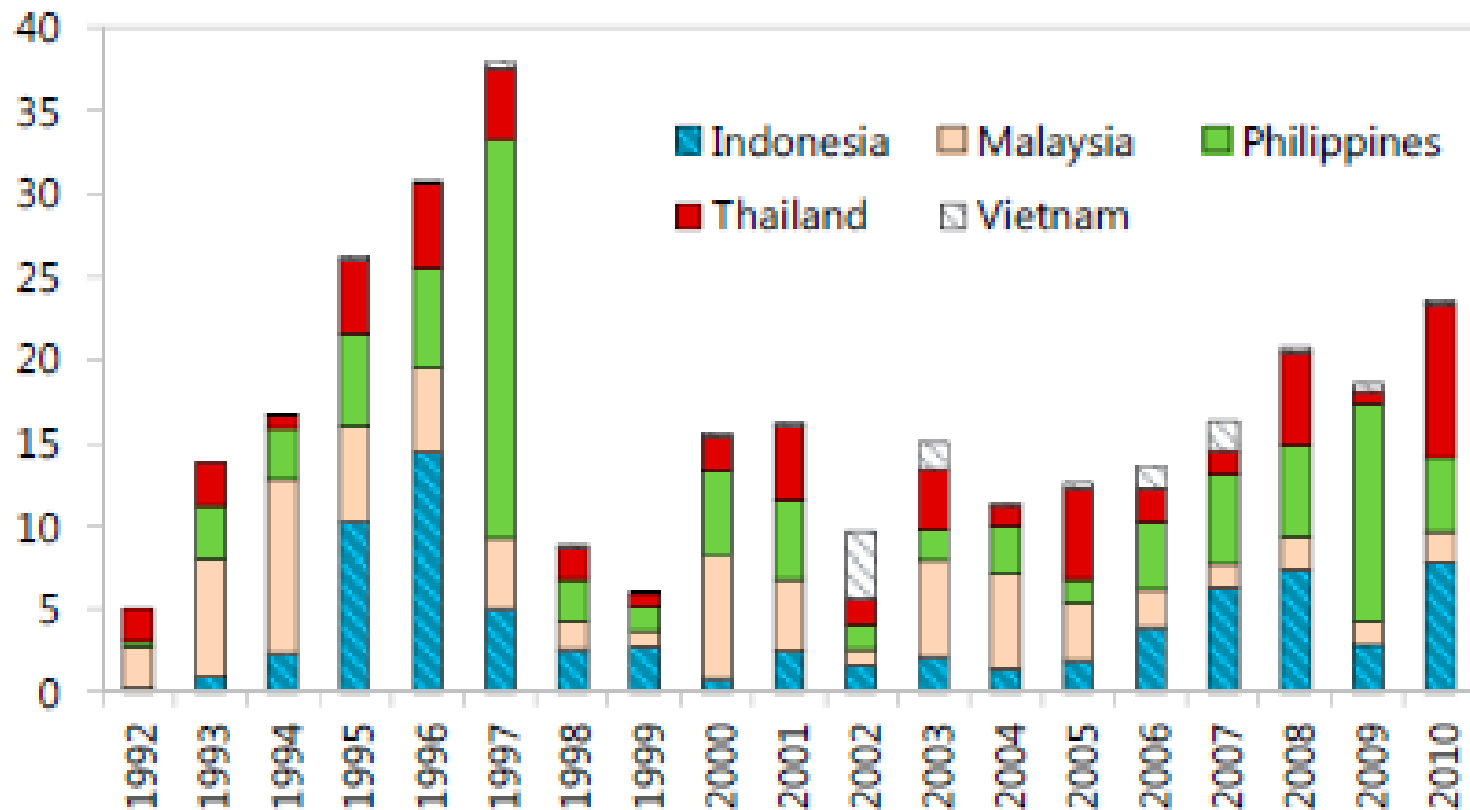


Country	Est. Infra Needs (2010-2020) USD Billion	Needs as % of Estimated GDP (Annual, 2010-2020)	Infra Spend as % of GDP (1980-2009)	Infra Spend as % of GDP (2012)
INO	450.0	6.2	7.0	3.0
MAL	188.1	6.7	6.0	3.5
PHI	127.0	6.1	2.0	2.2
THA	173.0	4.9	4.0	2.0
VIE	110.0	8.1	12.8 (for 2009)	9.2

Private funding is yet to come

Investment Commitments to Infrastructure Projects with Private Participation

(In billions of US dollars)

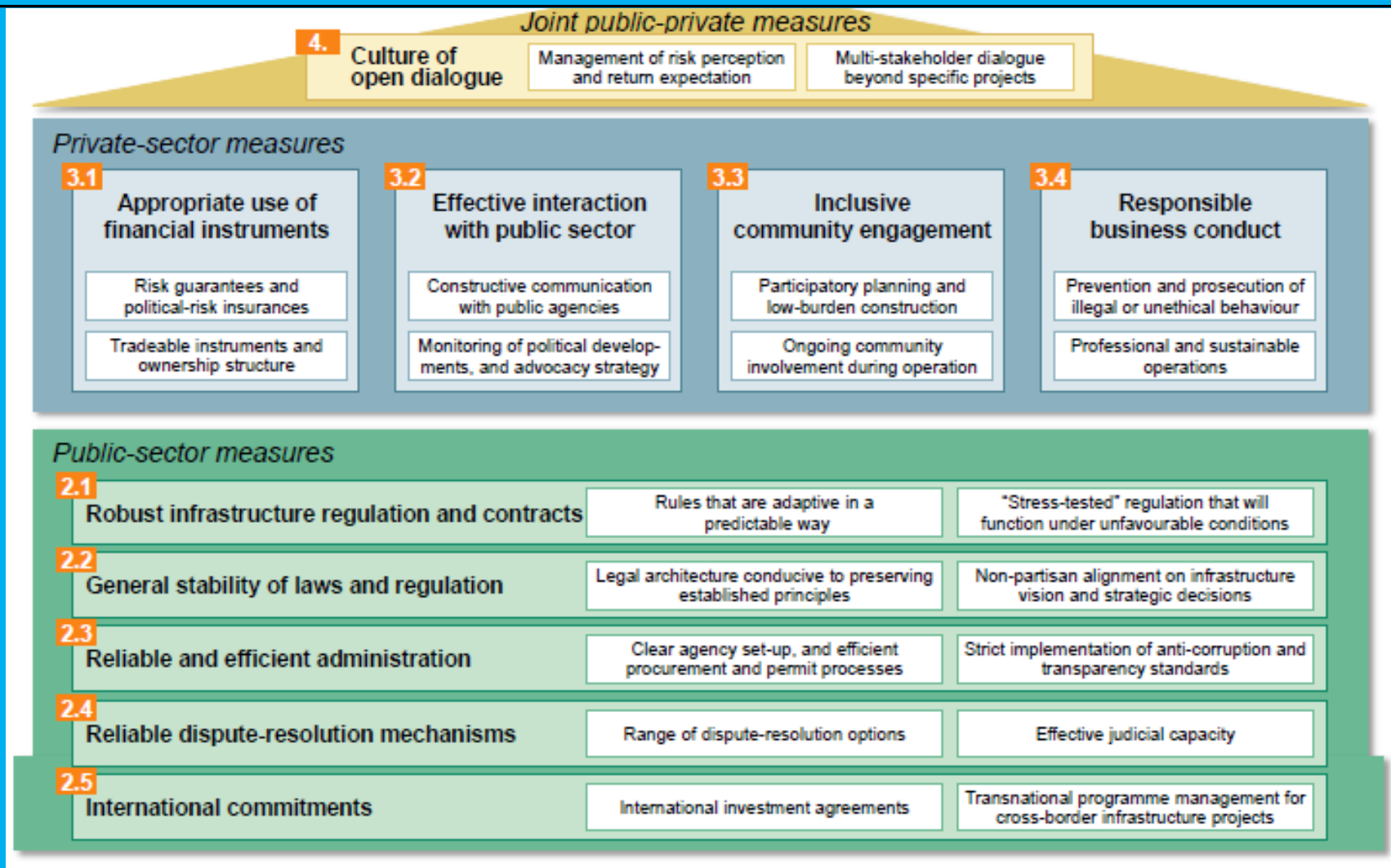


Source: IMF Working Paper by Seneviratne and Sun (2013).

Risks need to be addressed

- Risks at Design, Operation and Termination stages need to be addressed to boost bankability
 - Environmental risks
 - Community risks
 - Expropriation risks
 - Breach of contract risks
 - Regulatory risks
 - Taxation/currency risks
 - Judicial risks
 - Corruption/market distortion risks
 - Concession duration/renewal, and transfer risks
- To mitigate the risks, a range of public sector, private sector, and public-private measures need to be considered
 - **APEC economies – particularly those in SE Asia – have considerable advantages on this front**

Clear need for a wide-range of measures



Source: World Economic Forum Feb 2015. Mitigation of Political and Regulatory Risks in Infrastructure Projects

2. Infrastructure Financing

- APEC economies have adopted different approaches to infrastructure financing
- With respect to SE and E. Asia, project financing has seen limited use. Budget financing has been more predominant.
- Malaysia has seen more project finance as well as PPPs. PPPs are emerging in the Philippines, Thailand and Vietnam.

Innovations needed in infrastructure financing

- In larger economies such as PRC, sub-national governments had large role in infrastructure finance.
- LC financing has multiple advantages. Challenge is lack of depth of financial sectors in many countries, relative to the massive infrastructure investment requirements.
- Continuing “Global Bias” versus “Regional Bias” in investments
- Paradox however is Asian APEC economies have large savings, with major demand from institutional investors for high-quality LC bonds

Infrastructure bonds still nascent

Country	Infra Project Bonds (\$ billion)	% of Corporate Market	Total Bond
China, P.R.	288.5		42.2
Indonesia	1.3		7.3
Korea	154.0		15.2
Malaysia	29.6		22.8
Philippines	2.6		19.8
Singapore	23.0		25.0
Thailand	1.5		2.5
Viet Nam	0.7		18.0

Note: PRC and Korea data refer to outstanding bonds issued by infrastructure-related entities, as % of top 30 corporate issuers.

Source: ADB

Clear need to boost institutional investor base

Chart 1. Institutional Investor Assets, % of GDP.

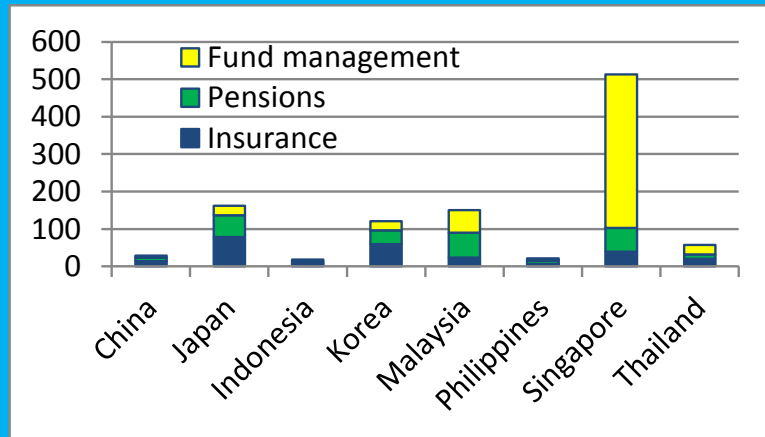


Chart 2. Institutional Investor Assets, \$ billions

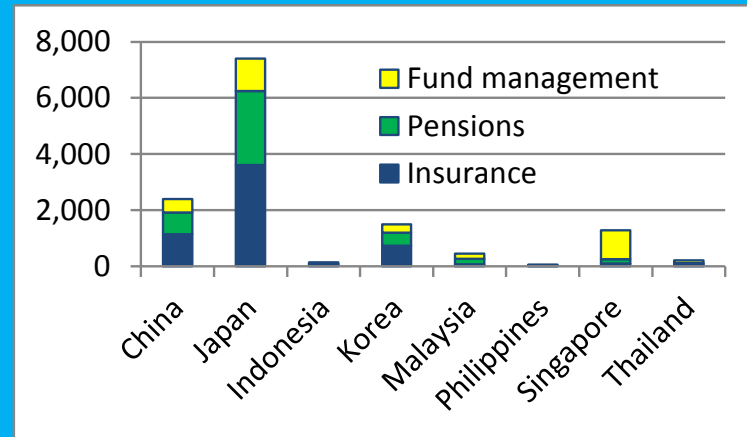


Chart 3. Local currency corporate bond market, % of GDP.

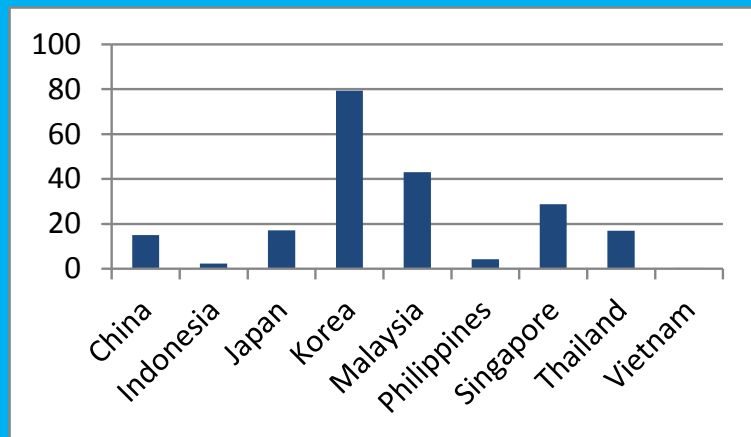
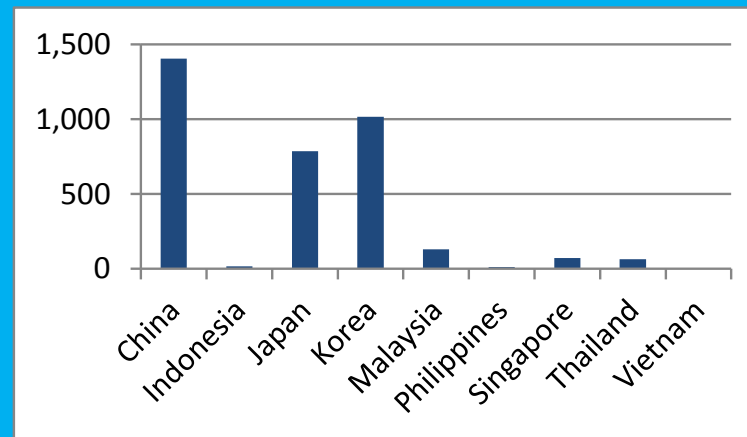


Chart 4. Local currency corporate bond market, \$ billions



Sources: Country overviews in Appendix 1, Asian Bonds Online.

PPP and LCBM will play a vital role

- **Promote a robust PPP Framework**
 - Address the Public, Private and Public-Private issues in Slide 6
 - Ensure macroeconomic and fiscal sustainability
- **Develop and deepen LC bond markets (LCBM)**
 - Design modern legal framework for capital markets, with proper infrastructure
 - Pave way for partial funding for Government pensions and promote private pensions
 - Develop fund management industry, with external fund managers
 - Ensure tax neutrality between project bonds and bank debt
 - Design sound prudential regulatory framework for banks

3. Regional Connectivity

- Many APEC economies – in Asia as well as Latin America – can benefit from greater regional connectivity
- Infrastructure connectivity reduces economic distance and increases density and scale of economic activity (agglomeration)
- It improves productivity and efficiency of economic agents
 - Greater opportunities for market access by reducing costs of trade and physical movement
 - Stimulates consumption through better delivery of goods and services
 - Benefits are larger when more countries are connected due to network externality

BIMP-EAGA and IMT-GT

Brunei Darussalam-Indonesia- Malaysia-Philippines East ASEAN Growth Area

IMT
Detail
Please us

Indonesia-Malaysia- Thailand Growth Triangle



Need to boost regional cooperation

- Importance of network externality
 - Missing links in one country can reduce connectivity benefits (from transport connections, electricity distribution systems) for all countries
 - Fair sharing of costs across countries based on objective assessments of benefits and costs needed
- Inter-governmental coordination on software is essential—trade facilitation, efficient logistics, harmonized technical standards, harmonized regulation

Significant growth expected

Projected Growth in Regional Infrastructure Stock over 2010-2020
for Selected APEC Economies (in Percentage)

Country	Trans- port	Tele com	Power	Total
INO	110	51	111	89
MAL	91	24	66	72
PHI	60	16	67	46
THA	81	35	64	58
VIE	37	32	129	67

Gains from Regional Connectivity are clear and real

Simulated Real Income Gains from Regional Infrastructure in Selected APEC Economies, 2020

Country	Real Income Gains (% of baseline GDP)	Gains in USD Billions (2008 value)
INO	21%	164.0
MAL	31%	104.0
PHI	10%	28.0
THA	32%	157.0
VIE	29%	49.0

Steps needed to promote regional projects

- Identification of high-priority cross-border projects
- Formulation of a forward-looking project pipeline & project processing; and Execution of projects
- Policy, knowledge and capacity support for developing countries
- Hardware-software synergy
- Best practices in social and environmental safeguards
- Ensuring benefits exceed costs and maintain productive relationships with civil society and local communities

Coordinated regional initiatives help

- Credit Guarantee and Investment Facility (CGIF) – Supported by ASEAN+3 and ADB
- ASEAN Infrastructure Fund – Supported by all ASEAN economies and ADB
- Asia Infrastructure Center of Excellence (AICOE) – Supported by Canada and Singapore

THANK YOU!

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