

PUBLIC AND PRIVATE SECTORS MUST WORK TOGETHER TO BRIDGE ASEAN'S INFRASTRUCTURE GAP



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The ten member-states of the Association of South-East Asian Nations (ASEAN) have enjoyed a remarkable decade of economic success. The region has doubled its gross domestic product (GDP) and raised its share of global merchandise exports by 50%. But, during the past few years, ASEAN's share of global trade has levelled off, with total merchandise export value peaking in 2014 and the inflow of foreign direct investment peaking in 2013.

To remain a growth powerhouse, ASEAN must continue to boost its competitiveness, particularly as China, India and other developing nations raise their games. ASEAN's own research identifies infrastructure as key to raising competitiveness. Telecommunications, power, roads, rail and ports provide the backbone of modern competitive supply chains, and more efficient supply chains will increase ASEAN's appeal to global manufacturers.

ASEAN also needs to step up its infrastructure spending to cope with its daunting demographic changes. Between 2015 and 2030, ASEAN will have added 60 million to its working population and 80 million new middle-class households will have come into being. Most of that growth will occur in cities, which are expected to gain 100 million new residents by 2030 – the equivalent of 20,000

newcomers every day. Each will require housing, water, transportation, and power. They will look also for improved education and health facilities.

Financing infrastructure on such a scale presents ASEAN nations with an unprecedented challenge. The Asian Development Bank (ADB) estimates ASEAN will require USD3 trillion in infrastructure investment between 2016 and 2030. Current bank and capital-market finance will be insufficient: USD3 trillion is equivalent to 90% of ASEAN's total banking assets, or 130% of the region's stock-market capitalisation. Even with public finance reforms, according to the ADB, the public sector can provide only 50% of the required investment.

Closing this gap is a shared challenge for business and governments across ASEAN. Public funds for infrastructure are constrained in most countries because of imperatives for social spending. Concessionary finance from donor nations or multilateral institutions is likewise limited. ASEAN has high domestic savings, but most are in cash, short-term bank deposits, or property, thus unavailable for long-term investment. Growing the insurance sector, pension funds and capital markets will create pools of long-term savings, but this could take decades.



TO CLOSE THE INFRASTRUCTURE GAP, URGENT ATTENTION IS NEEDED ON TWO FRONTS:

1. Public and multilateral action on “crowding-in” private capital.

In developed markets, life insurers have long invested in infrastructure assets. For example our parent company, Prudential plc, has tens of billions invested in infrastructure in UK/Europe. However, in Asia, direct investing in infrastructure by insurers and asset managers is still in its infancy.

Recent efforts, like the International Finance Corporation (IFC) Managed Co-Lending Portfolio Program (MCPP) and the Credit Guarantee and Investment Facility (CGIF) established by the ASEAN+3 countries, use multilateral capital to provide credit enhancement partially to insulate private sector capital. Whether in the form of additional collateral or a third-party guarantee, credit enhancement helps private institutional investors to invest in countries and or projects they otherwise might have deemed too risky.

An example of using blended finance to reduce risk is my own firm, Eastspring Investments, becoming the first Asian investor to co-invest with the IFC in a portfolio of emerging-market infrastructure investments with a layer of loss protection for insurance investors. In that structure, the Eastspring Infrastructure Debt Fund (EIDF) will lend to infrastructure projects in global emerging markets, with a first loss tranche provided by IFC. EIDF shows how private/public sector collaboration can help

to address the world’s infrastructure gap. For Eastspring, this type of structure is a win-win. Insurance and asset management customers will benefit not only from the sustainable, long-term financial returns produced by these investments, but they will also appreciate that their savings are being invested to improve the quality of life in their own countries.

As with the IFC, other multilateral bodies should increase their efforts to expand private-sector blended finance. They should also encourage national governments to develop local capital markets facilities to do the same. Credit enhancement need not always be at a multinational level. The Indonesian government established the Indonesia Infrastructure Fund (IIF) and the Indonesia Infrastructure Guarantee Fund (IIGF). IIF provides lending to viable infrastructure projects in domestic currency, while the IIGF provides guarantees for public-private partnership (PPP) projects.

With these successful examples as a guide, leaders in government and industry need to create more capacity and more facilities to “crowd in” private investment. Multilateral bodies and governments must ensure they assemble teams with the requisite specialist capabilities. Public-sector organisations should reward “crowding in” private finance, not just lending in competition with the private sector.

2. Prioritising and accelerating the most investible projects.

All those with an interest in this subject agree fervently that the pipeline of approved investment-ready projects is too small to meet society’s needs.



National, multilateral and private-sector leadership must bring more urgency to building a robust pipeline of bankable deals, removing unintended investment restrictions.

One area warranting immediate attention is for investors, project sponsors and governments to identify projects that can proceed without public sector financial support. One new initiative tackling this challenge is the Sustainable Development Investment Partnership (SDIP), a joint initiative of the Organisation for Economic Co-operation and Development and the World Economic Forum. SDIP is establishing an ASEAN infrastructure investment hub in Cambodia to review the governments' lists of priority infrastructure projects. Projects that can be designed to be investible with only private funding should be accelerated, leaving public resources to support projects where revenues alone are insufficient to justify private investment.

Many projects are public-private in nature, or involve risks that will necessitate public-sector support to attract capital. Several ASEAN countries have passed PPP laws and established PPP offices to attract private investors to infrastructure. This is constructive, but continuous efforts are needed

to improve and professionalise project planning. One possible solution is further investment in Project Preparation Facilities. These are public or public-private organisations that help developers use expertise to move a project from concept to investment-readiness.

ASEAN should also look to the more than USD60 trillion of institutional funds that are managed globally by insurance companies and pension funds. Those funds, according to Goldman Sachs's Insurance Survey, increasingly see infrastructure as an attractive asset class. Whether those institutions choose to invest in the infrastructure of Europe or America, or in emerging Asia, is a matter of risk and return.

By focusing on the two urgent priorities above, public and private-sector leaders in Asia can improve the attractiveness of emerging-market infrastructure. With co-operation and a greater sense of urgency to scale-up and replicate the pilots and initiatives mentioned above, I believe big strides are possible in closing ASEAN's infrastructure gap, with blended finance accelerating the development of this important and socially useful investment market.



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