Session 3

Financing for Infrastructure Development

1 Session objective

Infrastructure deficits across and within countries in Asia and the Pacific are holding back inclusive growth and sustainable development. A majority of the countries in the region face challenges in mobilizing additional resources for infrastructure development because of lack of access to long-term financing facilities and institutional arrangements. New regional and cross-regional multilateral infrastructure financing mechanisms could support cross-border infrastructure projects, creating benefits that extend beyond those of purely national projects of the same size. This session is intended to explore ways to encourage new multilateral infrastructure financing institutions, institutional investors and other emerging financial vehicles to enhance access to long-term finance in infrastructure development.

2 Background

The infrastructure needs of the Asia-Pacific Region are very large and growing because of the rising population and rapid urbanization in a number of developing countries. A major portion of the infrastructure investments in the region are financed by tax revenues and public borrowing. As a result, the public sector has been the traditional provider of infrastructure, with complementary support coming from official development assistance (ODA) in financing infrastructure. However, there is growing interest among many countries to tap private resources and expertise to develop infrastructure.

For the region as a whole, the cumulative requirement for infrastructure investment is close to $30 trillion from now until 2030. A major portion of this requirement is in the transport sector, followed by the telecommunications sector and the water and sanitations sector. Several financing mechanisms can be used to support infrastructure investment development, including, among them, are: (i) national, subregional, regional and global multilateral financial institutions and development banks; (ii) a public-private partnerships (PPP) model to provide a potentially higher levels of technical capacity, efficiency and resources; (iii) institutional investors to provide long-term infrastructure financing; and (iv) ODA to support infrastructure projects.

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At the regional level, (i) the Asian Infrastructure Investment Bank (AIIB), with authorized capital of $100 billion, can play an important regional financing role for reducing infrastructure gaps; and (ii) BRICS countries (Brazil, Russia, India, China and South Africa) have set up the New Development Bank (NDB), with initial capital of $100 billion, to provide financing and expertise required for the development of infrastructure, specifically in Asia and the Pacific. At the subregional level (i) the ASEAN Infrastructure Fund (AIF), (ii) the Eurasian Development Bank (EDB), (iii) the SAARC Development Fund (SDF), and (iv) the Pacific Region Infrastructure Facility (PRIF) are major initiatives that provide financing for projects supporting transportation, energy, water and sanitation, environment and rural development, and social infrastructure sectors. At the national level (i) the Silk Road Infrastructure Fund announced by China in 2014, with $40 billion of capital, would support megaprojects of the "one belt one road" initiative, through investments in various infrastructure projects as its centerpiece, and (ii) Japan announced plans to provide $110 billion to support high-quality infrastructure projects in Asia. The resources available from these sources may seem small in relation to the financing needs; however, these institutions could be seen as catalyzers for obtaining funds from other sources.

In addition, the increasing role of institutional investors complements public funding for the infrastructure sector. The top institutional investors of the region possess a total asset pool that exceeds $12 trillion. Those funds could be used to provide funding for long-term infrastructure sectors. However, thus far, private sector participation has been uneven in the region. India, the Russian Federation and Turkey have been the most successful countries in attracting private sector investments in infrastructure development, with more than 70 per cent of total private sector investment in Asia and the Pacific being directed to these countries over the past decade. Indonesia, Thailand and Viet Nam are member countries of the Association of Southeast Asian Nations (ASEAN) that have used PPP as an alternative mode to address financing infrastructure needs. The growth in ODA to the infrastructure sector has outpaced overall ODA growth in the region. The cumulative share of ODA to the infrastructure sector was about 23 per cent of the total ODA in the period 2005-2013. Annual shares have historically ranged between 19 per cent and 29 per cent.

3 Policy issues for discussion

Traditional public sector resources and ODA cannot fully cover the financing requirements in infrastructure development in the region. This financing gap has resulted in the emergence of development finance institutions (DFIs) organized by large emerging economies, such as China, Brazil, India, the Russian Federation and South Africa, as alternative sources of infrastructure financing, potentially complementing existing multilateral institutions. Collaboration and cooperation in raising additional resources for financing infrastructure with the most beneficial terms is needed in order to connect countries with special needs, such as least developed countries, landlocked developing countries and small-island developing States, to the main markets in the Asia-Pacific region. Hence, policies must spell out the basic preconditions for long-term infrastructure investment projects and highlight the role of national development banks and DFIs.

In the case of institutional investors with long investment horizons, national policies in areas, such as financial and tax regulations, could increase capital flows to the domestic bond and equity markets of developing countries. Governments could also seek to promote savings through national pension funds and insurance companies, as well as make regulatory reforms that encourage more infrastructure investment in the portfolios of pension funds and insurance companies. Given the long-term nature of their investment portfolios, it is particularly important to create stable and predictable macroeconomic and regulatory framework and to effectively enforce the rule of law and eliminate corruption.

Public-private partnerships are one of the innovative ways to finance infrastructure in the region, especially in developing economies. The experiences in these countries indicate that with appropriate incentives and institutional frameworks, PPPs can cover a substantial part of their infrastructure requirements. However, there is need to ensure high enough returns to meet the profit objectives and risk-taking behaviour of private investors. For the smaller developing economies, PPPs are not yet a significant source of infrastructure financing. The countries with special needs that are not viewed as profitable investment destinations by private investors need to explore ways to embrace PPPs in their national planning process.

Possible Questions

- How can national development banks and multilateral financial institutions facilitate private domestic and cross-border infrastructure investment in the Asia and Pacific region?
- What new mechanisms can be used to improve collaboration and cooperation among different infrastructure facilitation institutions in the region?
- What policies would be most effective for encouraging greater asset allocation by domestic pension funds, insurance companies and other institutional investors for infrastructure investment?
- What institutional frameworks are most appropriate for encouraging private sector investment through public-private partnerships (PPPs), not only in emerging countries but also in countries with special needs?
- What risk mitigation mechanisms should governments provide to mobilize more long-term private investment in infrastructure?

HIGH-LEVEL SPEAKERS

The Chair will introduce the panelists, explain the structure and objectives of the session and moderate the discussions. The speakers in the panel discussions will be kindly requested to limit their interventions to seven minutes

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Encouraging Long-term Infrastructure Finance

THE REGION NEEDS
$30 TRILLION
IN INFRASTRUCTURE
THROUGH TO 2030

Emerging Financing Institutions

- $100 billion — Asian Infrastructure Investment Bank
- $100 billion — New Development Bank
- $40 billion — Silk Road Infrastructure Fund

Existing Financing Institutions

- Asian Development Bank
- World Bank
- ASEAN Infrastructure Fund
- Eurasian Development Bank
- SAARC Development Fund
- Pacific Region Infrastructure Facility

DEPLOYING INSTITUTIONAL INVESTORS

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