

**7th Meeting of the
International Policy Advisory Group
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**Session 5: Financing Infrastructure for
Inclusive Growth**

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Outline

1. Infrastructure Landscape

Key Pointers:

- a. Make growth inclusive, and socially and environmentally sustainable;
- b. Mitigate risks to boost bankability of projects

2. Infrastructure Financing

Key Pointer: Deepen capital markets, particularly Local Currency Bond Markets

3. Regional Connectivity

Key Pointer: Invest in Hardware, Software & Regional Public Goods

1. ASIA'S INFRASTRUCTURE LANDSCAPE

Developing Asia's Infrastructure Challenges	Opportunities
<ul style="list-style-type: none"> ➤ 1.7 billion people lack access to basic sanitation ➤ More than 360 million lack access to safe drinking water ➤ 600 million individuals lack access to electricity ➤ Large unmet infrastructure needs, estimated between \$8 and \$11 trillion ➤ Countries on average investing only 2-3% of GDP annually, against 6% required 	<ul style="list-style-type: none"> ✓ Significant scope for making growth INCLUSIVE through infrastructure ✓ “Needs” need to be converted to viable “Demand” – Huge scope to do BANKABLE projects ✓ Significant scope to BOOST REGIONAL CONNECTIVITY
<ul style="list-style-type: none"> ➤ Countries are spending on average only 2.5-3% of GDP on infrastructure annually, against 6% required to meet the needs 	<ul style="list-style-type: none"> ✓ Huge scope to LEVERAGE public and private investments ✓ Focus on DEVELOPING AND DEEPENING LOCAL CURRENCY BOND MARKETS
<ul style="list-style-type: none"> ➤ Infrastructure needs to be environmentally and socially sustainable 	<ul style="list-style-type: none"> ✓ View INFRASTRUCTURE AS SOCIETAL INVESTMENTS as opposed to cost to tax payers

Overall Framework for Infrastructure Development

PUBLIC SECTOR ROLE

- Ensuring Macroeconomic Stability and Overall Sound Public Administration
- Master Planning
- Medium-term Budget Framework and Allocation of Resources for Infrastructure Investments
- Adoption of Sound Environmental and Social Safeguard Mechanisms
- Robust Policy, Legal, Regulatory and Institutional Framework
- Design and Execution of Key Public Sector Projects
- Development of a Strong Financial Sector & Instruments
- Strong Risk-Sharing Arrangements
- Effective Dispute Resolution Mechanisms
- Adherence to International Commitments
- Address Market Failures
- Making Infrastructure Resilient to Natural Disasters

PRIVATE SECTOR ROLE

- Appropriate Valuation of Commercial/Market Risks, and Investing in Infrastructure
- Effective Interface with Public Sector
- Responsible Business Conduct
- Inclusive Community Engagement

PUBLIC-PRIVATE PARTNERSHIPS

- Well-designed Ownership, Investment, Contracting, Operating and Maintenance Arrangements
- Open Dialogue, beyond Specific Projects, to Provide Efficient Services to Public at Large

ADB/OTHER

IFIs' ROLE:

Supporting and/or Ensuring the following -

- Inclusive Growth
- Enabling Environment
- Sound Environmental and Social Safeguards
- Adequate Public Consultations, and Continuous Community Engagement
- Design and Execution of Projects
- Public Investments through Market-Based and Concessional Loans
- Credit Enhancements & Equity Investments to Share Risks with Private Sector
- Development of Financial Markets and Innovative Financing Modalities

Benefits of Environmental and Social Safeguards

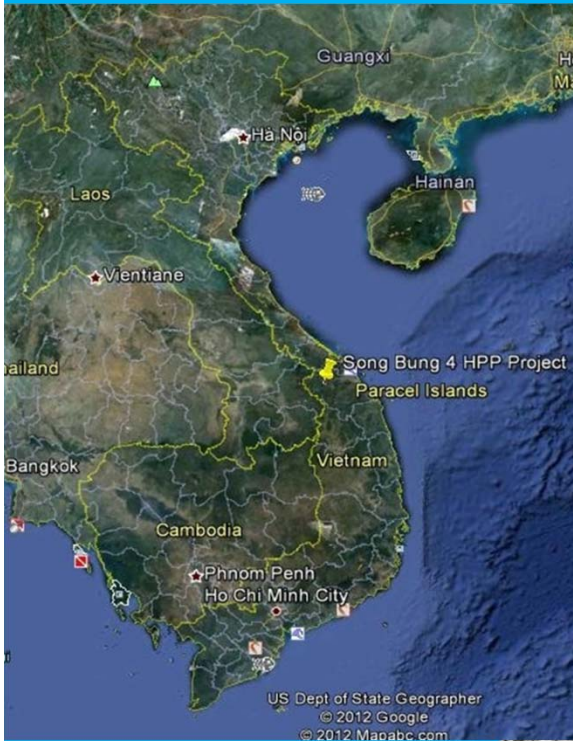
Environment	Involuntary Resettlement	Indigenous Peoples
<ul style="list-style-type: none"> ➤ Pollution Prevention & Abatement ➤ Community Health & Safety ➤ Biodiversity Conservation ➤ Sustainable Natural Resources Management ➤ Preserving Physical Cultural Resources ➤ Address Capacity Gaps ➤ Set Performance Indicators for Environmental Monitoring & Reporting 	<ul style="list-style-type: none"> ➤ Socio-Economic Profiling of Affected Communities, including Meticulous Estimation of Asset and Income Losses ➤ Orderly Land Acquisition ➤ Mitigating Resettlement Impacts ➤ Comprehensive and Meaningful Consultations ➤ Designing Effective Income Restoration Programs ➤ Ensuring Adequate Budgetary Resources 	<ul style="list-style-type: none"> ➤ Assessing and Integration Potential Impacts on Indigenous Peoples (IP) Communities ➤ Designing IP Plans or Frameworks (IPP/IPFs) ➤ Holding Culturally Appropriate Consultations ➤ Designing Beneficial and Mitigative Measures for affected IP ➤ Full and Itemized Budgetary Allocations for IPP/IPF Implementation

ADB's Safeguard Categorization of Projects

Safeguard Area	Avg # of Projects (%) 2010-2012	Average # of Projects (%) 2013-24
Environment (Category A+B)	78 (69%)	81 (72%)
Involuntary Resettlement (Cat A+B)	56 (50%)	59 (53%)
Indigenous Peoples (Cat A+B)	17 (15%)	17 (15%)
Financial Intermediation Projects (Cat A+B)	8 (7%)	9 (8%)
Total Projects	224 (100%)	224 (100%)
Value in USD Billion	Approx. \$90 billion of loan projects screened in a comprehensive manner	

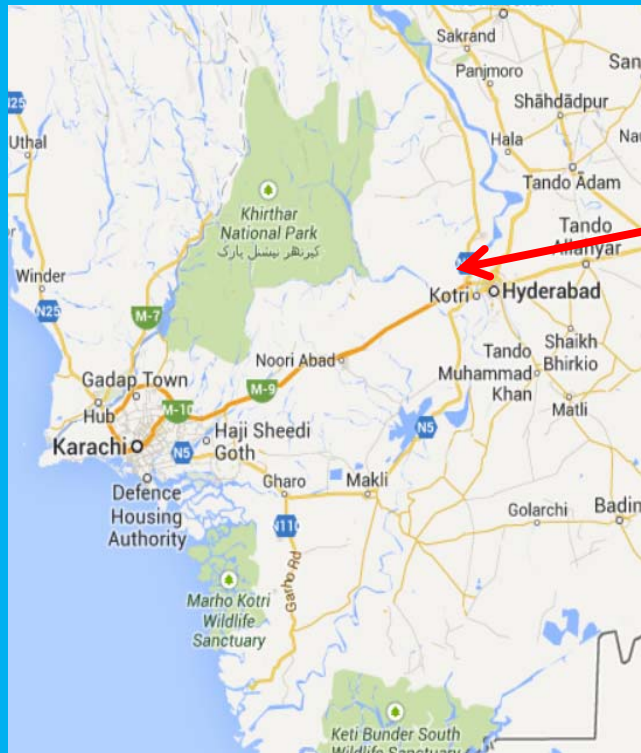
Creating New Livelihoods

Vietnam: Song Bung 4 Hydro Power Project



Pollution Prevention

- Jamshoro Power Plant in Pakistan
- Sub-critical to Super-critical



2. Infrastructure financing

- Challenge is lack of depth of financial sectors in many countries, relative to the massive infrastructure investment requirements.
- Paradox however is Asian economies have large savings, with major demand from institutional investors for high-quality infrastructure assets
- Continuing “Global Bias” versus “Regional Bias” in investments
- With rapid urbanization, sub-national governments will have a larger role in infrastructure finance.
- **Summary:** Huge scope to develop and deepen capital markets, particularly Local Currency Bond Markets

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, January 2015 Draft Report on *Local Currency Bonds and Infrastructure Finance in ASEAN + 3*

Clear need to boost institutional investor base

Chart 1. Institutional Investor Assets, % of GDP.

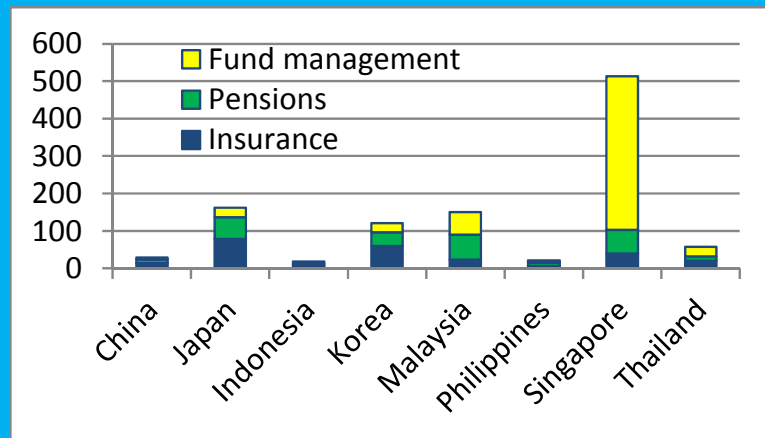


Chart 2. Institutional Investor Assets, \$ billions

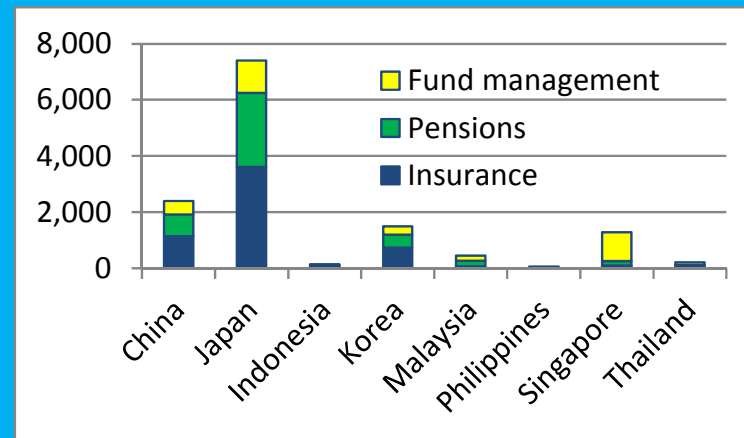


Chart 3. Local currency corporate bond market, % of GDP.

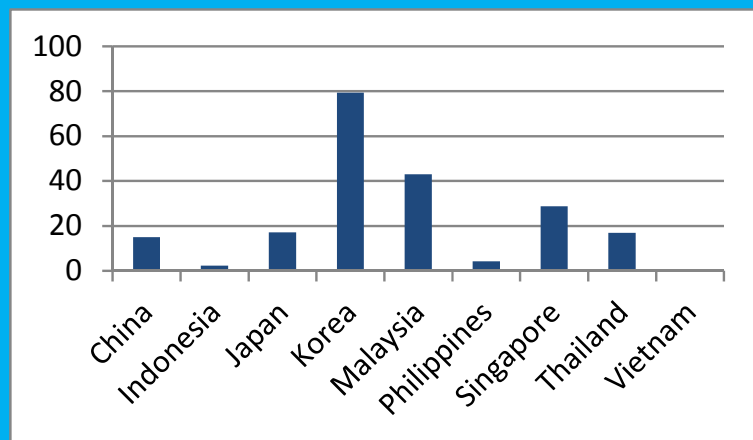
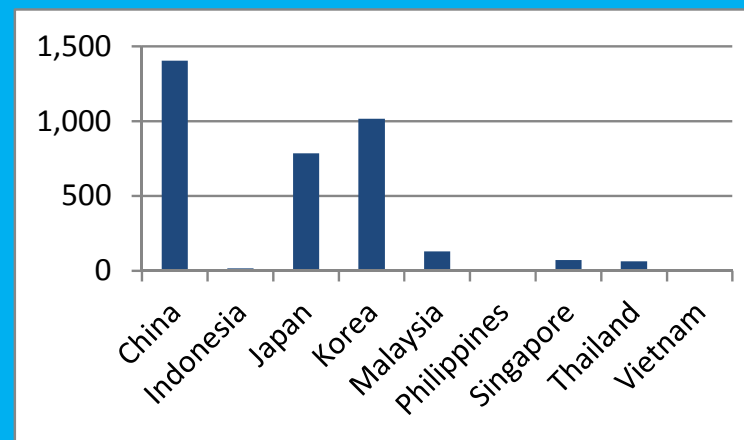


Chart 4. Local currency corporate bond market, \$ billions



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

Source: Same as cited on Slide 9

3. 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

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

[Source: Chapter by Fan Zhai, 2012 in Infrastructure in Asian Connectivity, book edited by Bhattacharyay-Masahiro Kawai, Rajat Nag and published by ADBI and Edward Elgar]

Gains from Regional Connectivity are clear and real

Simulated Real Income Gains from Regional Infrastructure in Selected South East Asian 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

Gains from Regional Connectivity are clear and real

Simulated Real Income Gains from Regional Infrastructure in South Asian Economies

Country	Household Welfare Impact of Transport Cost Reduction (% of GDP)	Gains to Households in USD Billions
Bangladesh	4.1%	2.3
India	0.7%	4.3
Nepal	14.8%	2.1
Pakistan	2.7%	2.6
Sri Lanka	4.6%	1.0

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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