

# Mobilising Private Capital Flows for Infrastructure Development in APAC



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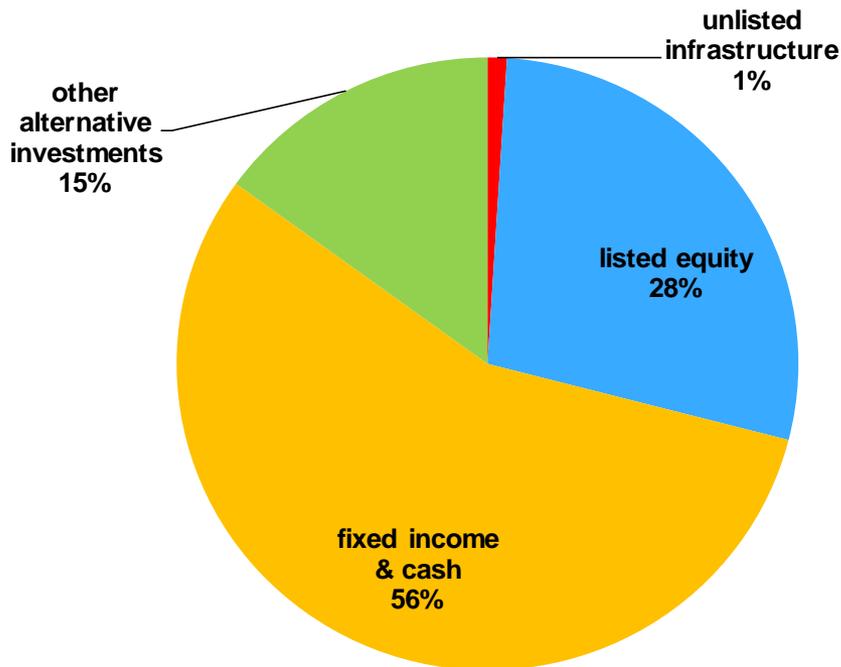
30<sup>th</sup>-31<sup>st</sup> March 2016 | United Nations High Level Dialogue on Financing for Development



# Pension Funds Asset Allocation to Infrastructure is Low

## Asset Allocation of Large Pension Funds

% of total, 2012 Source: OECD



- Data for large pension funds indicates an asset allocation of 1% to unlisted infrastructure assets.
- Some larger pension funds are able to treat infrastructure as a separate asset class.
- There has been a gradual increase in asset allocation to infrastructure by pension funds.
- Infrastructure as an asset class offers potential portfolio diversification and often can provide stable long-term yields and can reduce volatility.
- Regulation has a significant impact on the ability of pension funds and insurance funds to invest in infrastructure in some countries.

# Listed REITs and Infrastructure Funds in the Asia-Pacific



Incheon Grand Bridge Source: KTO

- Macquarie Korea Infrastructure Fund was the Republic of Korea's first listed infrastructure fund, launched in 2006. MKIF has a 41% share in Incheon Grand Bridge and a 24.1% share in Incheon International Airport Expressway as well as many other infrastructure investments.

- The total market capitalisation of REITs in the Asia-Pacific was estimated at around USD 290 billion at the end of 2014.
- Japan's J-REIT market started in 2001 and has an estimated USD 105 billion market capitalisation in March 2016. The Tokyo Stock Exchange also launched a new market for listed infrastructure funds in 2015.
- Singapore's REITs market has an estimated value of SGD 80 billion at the end of 2014.
- Listed REITs and infrastructure trusts offer fund managers liquid investment solutions while providing exposure to real estate and infrastructure as asset classes.
- The average annual return of Asia-Pacific REITs from September 2001 to December 2014 was 12.4%, based on EMIA industry estimates.

# Disaster Risk Insurance Solutions in the Asia-Pacific

## G-7 Leaders' Declaration to Increase Disaster Risk Insurance Solutions

Schloss Elmau, Germany, June 8, 2015

### From G-7 Leaders' Declaration on Climate Change

*"To this end, we will:*

*a) Intensify our support particularly for vulnerable countries' own efforts to manage climate change related disaster risk and to build resilience. We will aim to increase by up to 400 million the number of people in the most vulnerable developing countries who have access to direct or indirect insurance coverage against the negative impact of climate change related hazards by 2020 and support the development of early warning systems in the most vulnerable countries. To do so we will learn from and build on already existing risk insurance facilities such as the African Risk Capacity, the Caribbean Catastrophe Risk Insurance Facility and other efforts to develop insurance solutions and markets in vulnerable regions, including in small islands developing states, Africa, Asia and Pacific, Latin America and the Caribbean."*

- The G-7 Leaders' Declaration in June 2015 aims to increase insurance coverage to help to manage the negative impact of climate change related disaster risk.
- The focus on finding insurance solutions to mitigate economic losses from natural disasters is likely to make further significant progress over the 2016-2020 period.
- At the Commonwealth Summit in November 2015, UK Prime Minister David Cameron announced a climate change support package for Commonwealth small island states, including a GBP 15 million disaster risk insurance fund for the Pacific islands to help mitigate the effects of natural disasters

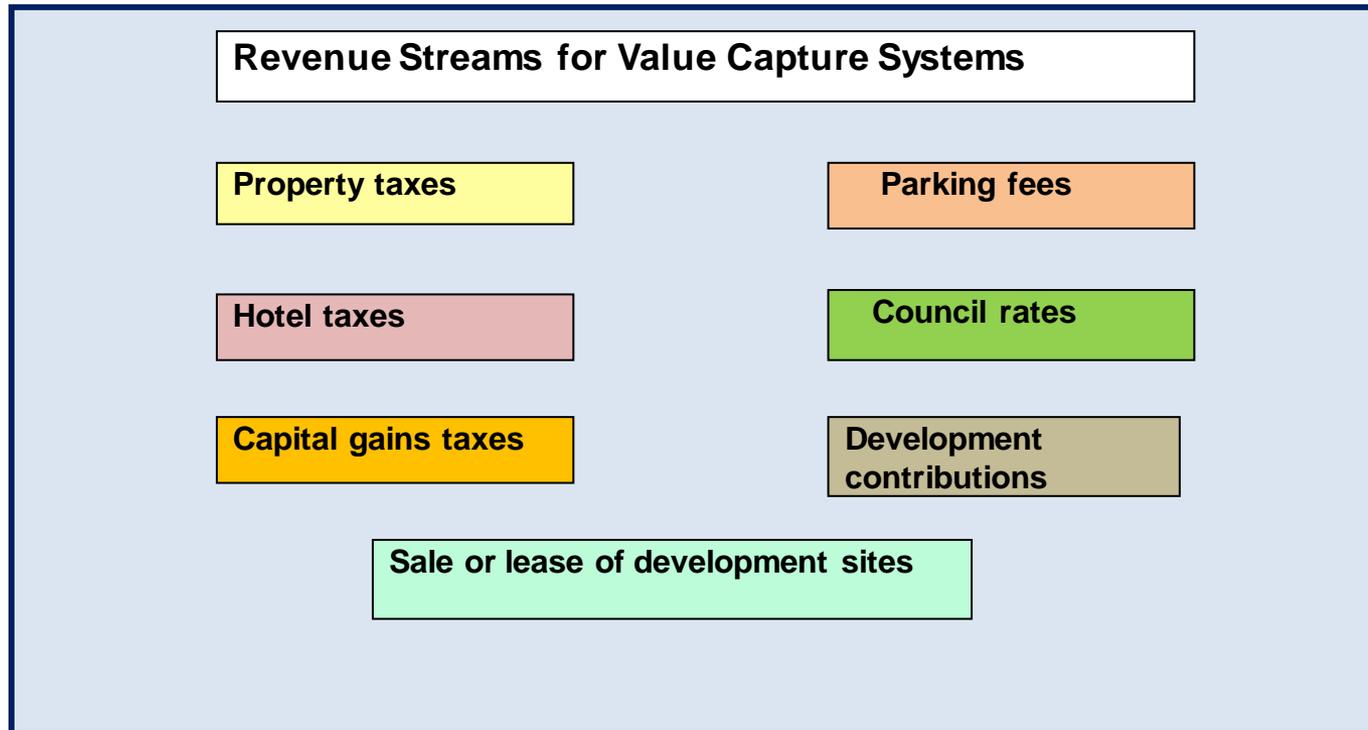
# Co-financing for Infrastructure Finance

## MONGOLIA'S OYU TOLGOI MINE CO-FINANCING

- The co-financing of Mongolia's Oyu Tolgoi copper-gold mine project provides a recent example of large-scale project financing amounting to USD 4.4 billion provided by a syndicate of international financial institutions and export credit agencies, together with 15 commercial banks.
- The project finance facility was funded by Export Development Canada, the European Bank for Reconstruction and Development, the IFC, the US Export-Import Bank, the Export Finance and Insurance Corporation of Australia and 15 commercial banks.
- MIGA provided political risk insurance for the commercial banks.

- **Co-financing:** Co-financing models for mobilising private sector infrastructure investment will become increasingly important.
- Co-financing of large infrastructure projects will be particularly critical for developing countries with a higher country risk profile.
- Multilateral development banks will continue to play a leading role in providing lending, supported by national export credit agencies, which helps to facilitate private sector lending by commercial banks as part of a syndicated project financing deal.
- The role of national development banks is also expected to become increasingly important in such co-financing deals.

# Value Capture Systems



- The use of value capture systems to boost infrastructure development has been well established in the US for several decades, and is also used in the EU, with significant infrastructure projects in the UK utilizing such funding approaches, including to create more attractive project returns for private sector investors.
- In Asia, Hong Kong has also been a leader in utilizing value capture systems, notably for the Mass Transit Railway.

# Thank you!

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