Private Capital in Infrastructure in ASEAN: How the Global Infrastructure Facility can help.

November, 2015
Agenda

• Private Participation in Infrastructure (PPI) in ASEAN
• ASEAN PPP Pipeline Work
• Global Infrastructure Facility
ASEAN: PPI 2004 - 2014

![Graph showing PPI for ASEAN from 2004 to 2014 by sector: Energy, Telecom, Transport, Water and Sewerage.]
## 2014 Snapshot: PPI in ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>US$ Billion</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lao PDR</td>
<td>2.02</td>
<td>Energy</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.65</td>
<td>Energy</td>
</tr>
<tr>
<td>Myanmar</td>
<td>1.50</td>
<td>Telecom</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.54</td>
<td>Energy</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.79</td>
<td>Energy</td>
</tr>
<tr>
<td>Total</td>
<td>10.50</td>
<td></td>
</tr>
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</table>

Source: WB PPI Database
# ASEAN PPP landscape over past 5 years

- Focus on developing regulatory frameworks

<table>
<thead>
<tr>
<th>Brunei</th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Laos</th>
<th>Malaysia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Vietnam</th>
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7 out of 10 ASEAN member states have amended or passed PPP-related laws in the past 5 years
Opportunity to increase usage of PPPs

- ASEAN region’s PPP investment/GDP small in comparison to other middle-income countries

**Infrastructure Gap until 2020**
(WORLD ECONOMIC FORUM FORECAST)

**US$8 trillion**

**PPP/GDP**

- Brazil: 3.00%
- India: 1.69%
- Turkey: 1.22%
- ASEAN (ex-Sgp/Brunei): 0.75%

Source: WB PPI Database

- 0.75% → US$60b
- 1.69% → US$135.2b
- 3.00% → US$192b
Challenges exist for ASEAN to attract PPP

**Adequate Enabling Environment?**
- **Sector fundamentals** needed
- **Lack of regulatory clarity** on PPP-related laws:
  - 5 out of 10 ASEAN member states with PPP Law
- **Land Acquisition** difficulties and issues
- **Long gestation period** of PPPs
- **Dispute resolution**

**Long-term public and private financing?**
- Unclear or **non-existent public funding support frameworks**
- Difficulties in the **creation of securities** based on infrastructure asset
- Lack of **long-term financing**
- Challenges of adjustments for foreign exchange, inflation and other **economic risks**
- **Capped returns** mandated by policy

**Project Structuring and Risk Allocation?**
- **Lack of open and competitive bidding**, including unsolicited proposals:
- **Politicised project prioritisation** vs. Objective Project Evaluation
- **Capacity** to implement PPP projects:
  - 4 out of 10 ASEAN member states with PPP units
Agenda

• Private Participation in Infrastructure (PPI) in ASEAN
• ASEAN PPP Pipeline Work
• Global Infrastructure Facility
ASEAN PPP Pipeline Project?

• ASEAN need to explore alternative funding sources for infrastructure (limited ODA, budgetary constraints etc.)

• In July 2014: ASEAN Secretariat and WB started working on the ASEAN PPP Pipeline based on Universe of projects:
  1. MPAC
  2. ASEAN Sectoral and Sub Regional Initiatives
  3. National Connectivity w/ links to MPAC

Goal for ASEAN:
To identify short list of projects to implement as PPPs
Overview of ASEAN PPP Pipeline Work

Draft Universe List: 214 projects

Universe List: 258 projects

Draft Long List: 40 projects

Additional research + updates

Long List: 29 projects

Additional research + updates from ACC

Short List: 10 projects

SM1
- Pass/Fail test for Red Flags
- 3 main criteria:
  ✓ Strategic Relevance
  ✓ Level of project development
  ✓ Project feasibility

SM2
- Ranking: Quantification
- 2 main criteria:
  ✓ Strategic Fit
  ✓ Project Readiness and PPP Enabling Environment

Draft Universe List: 214 projects
MPAC Priority Projects: ASEAN Highway Network (AHN)

Status
- Upgrading works for most countries in place as AHN corresponds with National Roads
- Indonesia: plan to shift AH 2 and 25 to newly built toll roads (Trans Sumatra and Trans Java)

Issues
- Country priority vs. regional priority?
- Is there enough traffic for expansion or PPPs?

Examples of Potential PPPs
- Indonesia: ASEAN Highway 25: Trans-Sumatra Toll Road (select portions Palambang –Bandar Lampung)
- Lao PDR: National Road 13S and 13N (AH 11 and 12)
MPAC Priority Projects: SKRL Rail Network

Status
- Many missing links yet to be built in CLMV countries
- Other countries with rail systems have SKRL line largely in place

Issues
- Competition from other modes of transport
- Priority: connection to China vs. intra-ASEAN connection (CLMV + Thailand)
- Low projected traffic, high capital costs
  → low projected financial return: viability of PPPs?

Examples of Potential PPPs
- Unclear
MPAC Priority Projects: 47 Ports

Status

- Port upgrading proceeding well as ports are seen as priority and lower-cost mode of transport (e.g. Indonesia “Sea Toll”; Philippines “Gateway Ports”)
- Percent of ports complete/construction in progress (in MPAC document): 26%

Issues

- Viability of PPPs?
  - Too many transshipment ports in ASEAN?
  - Too low traffic for smaller smaller
- Productivity enhancement of existing ports (ICT, new cranes etc.) vs. building new ports
- Lack of land for further expansion

Examples of Potential PPPs

- Makassar Port (Indonesia)
- Davao Sasa Port (Philippines)
MPAC Priority Projects: ASEAN RORO Network

**Status**

- Important for countries with long coastlines such as Indonesia and Philippines; relatively little movement in other countries
- Services have started in Brunei and Malaysia (Muara-Labuan, established Oct 2010) and Indonesia and the Philippines (private joint venture, established late 2014)

**Issues**

- Competition from other modes of transport (ports for goods, air travel for passengers)
- Intra-ASEAN vs. external trade volume: Priority of intra-ASEAN RoRo?

**Examples of Potential PPPs**

- Unclear
MPAC Priority Projects: ASEAN Power Grid

Status
- Cross-border energy interconnection progressing well when domestic priorities are aligned
  - Greater Mekong Subregion: Good energy generation network built by IPPs + energy needs from neighbours (e.g. Lao PDR)
  - Indonesia and Peninsular Malaysia: Peak load smoothing
- Percent of APG projects completed/under construction (in MPAC document): 53%

Issues
- Domestic energy needs vs. desire to export
- Regulatory mismatches (e.g. differences in electricity tariff pricing mechanisms in Philippines and Malaysia)

Examples of Potential PPPs
- New cross-border projects in Lao PDR?
MPAC Priority Projects: Trans—ASEAN Gas Pipeline (TAGP)

Status

- Limited movement on building new gas pipelines due to high capital costs
  - Malaysia: plans completed, no new pipelines going forward
  - Indonesia: only domestic pipeline being built

- Nevertheless, energy diversification needs and carbon emission limits prompting governments to consider gas

- Virtual Gas Pipeline: LNG facilities (regasification terminals+ships) may provide more flexibility.
  - LNG terminals in Brunei, Singapore, Indonesia, Malaysia, Thailand (possibly Myanmar, Vietnam and the Philippines)

Issues

- LNG pricing – competitive to warrant investment (cost of power in Thailand and Vietnam; unpredictability of oil prices)?
Agenda

• Private Participation in Infrastructure (PPI) in ASEAN
• ASEAN PPP Pipeline Work
• The WBG and the Global Infrastructure Facility (GIF)
## The World Bank Group (WBG)

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<th>IDA</th>
<th>IFC</th>
<th>MIGA</th>
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<tr>
<td>International Bank for Reconstruction and Development</td>
<td>International Development Association</td>
<td>International Finance Corporation</td>
<td>Multilateral Investment and Guarantee Agency</td>
</tr>
<tr>
<td>Est. 1945</td>
<td>Est. 1960</td>
<td>Est. 1956</td>
<td>Est. 1998</td>
</tr>
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### Role
- **IBRD**: To promote institutional, legal and regulatory reform
- **IDA**: To promote institutional, legal and regulatory reform
- **IFC**: To promote private sector development
- **MIGA**: To reduce political investment risk

### Clients
- **IBRD**: Governments of member economies with per capita income between $1,025 and $6,055
- **IDA**: Governments of poorest economies with per capita income of less than $1,025
- **IFC**: Private companies in member economies
- **MIGA**: Foreign investors in member economies

### Products
- **IBRD**: Technical Assistance, Loans, Policy Advice, Guarantees
- **IDA**: Technical Assistance, Interest Free Loans, Policy Advice, Guarantees
- **IFC**: Equity/Loans, Risk Management, Advisory Services
- **MIGA**: Political Risk Insurance, Guarantees
Upstream and Downstream Support to PPPs

**UPSTREAM**

- PPI Data & Trend Analysis
- Infra Planning, Invest. Climate
- Sector Strategy / Market Structure
- Capacity Bldg. for PPP Units and Regulators
- Regulatory Framework
- VGF Estimates / Financial Structure
- Feasibility Studies
- Best Practices & Standardized Contracts
- Bidding Documents and Transaction
- Gov’t Transfers / VGF Financing
- Private Debt & Equity
- Fund Investment
- Guarantees / Risk Insurance
- M&E / Impact Evaluation

**DOWNSTREAM**

- Government Clients
- Private Sector Clients

**Key**

- Knowledge
- Strategic Advice
- Transaction Support
- Financing and Guarantees
The Global Infrastructure Facility

What is the GIF?

• GIF’s objective is to increase commercial financing and broaden the investor base in infrastructure projects in emerging markets

• GIF will do this through two separate windows:
  • **Upstream Window:** Project Preparation and Structuring
  • **Downstream Window:** Credit Enhancement & Capital Mobilization

• Eligible sectors:
  • Energy
  • Telecommunications
  • Transport
  • Water and sanitation

• Thematic Areas:
  • Climate smart infrastructure
  • Trade-enabling

Who is the GIF?

**Funding Partners:** Australia, Canada, China, Japan, Singapore, and WBG

**Technical Partners:** ADB, EIB, EBRD, IaDB, IFC, and WB
### GIF Advisory Partners

- Leading institutional investors and project finance banks
- Act as sounding board on GIF projects

#### Institutional Investors

- Amundi Asset Management
- AXA SA
- APG Asset Management
- BlackRock Alternative Investors
- Caisse de dépôt et placement du Québec
- Macquarie Group Ltd.
- Munich Re
- Nigeria Sovereign Investment Authority
- Partners Group
- Swiss Re Ltd

#### Commercial Banks

- ANZ Bank
- Bank of Tokyo Mitsubishi UFJ Ltd.
- Citibank
- DBS Bank Ltd.
- HSBC Bank PLC
- Mizuho Bank
- Standard Bank of South Africa Limited
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corporation
- Eurasia Development Bank
- Japan Bank for International Cooperation (JBIC)
- Japan International Cooperation Agency (JICA)

#### DFIs, RDBs, SDBs

- Eurasia Development Bank
- Japan Bank for International Cooperation (JBIC)
- Japan International Cooperation Agency (JICA)

#### Finance Associations

- Institute of International Finance
- World Pension Council
- Gulf Bond and Sukuk Association (GBSA)

#### Quality and Sustainability Organizations

- Global Infrastructure Basel Foundation
- International Federation of Consulting Engineers (FIDIC)
- EDHEC-Risk Institute
- Moody’s Investor Service
GIF Operating Model

- GIF’s first round of capital of US$100 million (3 years)

- GIF dedicated to project preparation and designing downstream window for risk mitigation

- GIF support to projects will be implemented by recipient country and a GIF Technical Partner

- GIF Products:
  - GIF Planning Grant: fund upstream enabling environment and project definition/scoping (maximum of US$150,000)
  - GIF Full Activity Support: funding for project preparation through TPs. Fund costs of internal technical teams and external consultants covering feasibility, structuring, bidding, to financial close
  - GIF Downstream Window: credit enhancement and capital mobilization (Phase 2 of GIF)

- GIF shares the risks of the project
  - If project successful: GIF is reimbursed from success fee
  - If project unsuccessful for market reasons: GIF is not reimbursed

Spectrum of GIF Support

- Sector-level or enabling environment reform
- System planning, project definition and screening analysis
  **Only as needed to support a specific project**
- Detailed feasibility studies
- Investment appraisal
- PPP structuring
- Transaction preparation and implementation
- Early financial structuring and design of "stapled" credit enhancement as needed
- Support to Government during preparation of financing packages
- Credit enhancement design (and provision)

Investment decision
Commercial close
Financial close
Thank you

Towfiqua Hoque
Global Infrastructure Facility
World Bank Group
thoque@worldbank.org