Intervention on infrastructure financing

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Dear distinguished colleagues, ladies and gentlemen

I would like to welcome you to the Expert Group Meeting: "Advancing Co-deployment Financing through the Asia-Pacific Information Superhighway in North and Central Asia".

The one of the core issues to be discussed today is the infrastructure financing. Investment in efficient infrastructure such as transport, energy, ICT as well as water supply and sanitation, is paramount to future prosperity. Based on a study by the IMF, an increase of one percentage point of GDP in investment spending raises the level of output by about 0.4 % in the same year and by 1.5 % four years after the increase.

Strengthening infrastructure investment in the countries of the region is important in promoting closer economic ties and regional economic integration to ensure regional development. Huge infrastructure investment deficits are hindering regional connectivity and integration.

Globally, current funding for the infrastructure investment in the developing countries comes from government budgets. The UNESCAP has estimated that in the Countries with Special Needs, 65 % of infrastructure projects are funded from government budgets, 15 % financed by the private sector, 10 % financed by loans and credits from Multilateral Development Banks, and the remaining 10 % financed by the Official Development Assistance.

Given the large financing gap in infrastructure, it is obvious that all financing sources, public, private, domestic and international will be needed, with the respective roles of these financing sources differing between different countries and sectors. Nevertheless, there are constraints in many developing countries on both public and private resources as well as foreign investments across countries, which make it challenging for them to meet their infrastructure needs. The complexity of infrastructure investment is one of the main reasons why governments in the developing countries are investing less in infrastructure than necessary. Constrained government budgets, fiscal deficits, public debt issues, relatively underdeveloped and narrow financial markets limit public and private (domestic and international) resources available for infrastructure investment in many developing countries.

Foreign direct investment, including through public-private partnerships (PPPs), new regional initiatives and infrastructure funds, are increasingly considered as a viable solution to meeting the infrastructure needs. In terms of financing instruments, due to relatively narrow capital markets and the main role of the public sector in infrastructure investments, concessional financing has dominated infrastructure finance in many developing countries.

The way public resources are mobilized varies across countries. For example, resource-rich countries in the region more than 50 % generate from non-tax revenue while in other countries a large part of public expenditure is financed by tax revenue. The private sector is involved in infrastructure development through PPPs (joint ventures, concessions, etc.) and direct investment. Private investment has been more prevalent in energy and ICT infrastructure or certain types transport infrastructure, such as railways or airports, due to generating of cash flows through operating activities in these sectors.

Foreign funding is a main element for the developing countries and great opportunity in supplementing their domestic resources. Countries are faced with large opportunities in benefiting from international development finance. In addition, new international sources of finance and technical assistance through various multilateral (including regional integration funds) and bilateral development partners and existing regional initiatives offer greater opportunities than domestic sources. Substantial part of financial flows and technical assistances on infrastructure come from such multilateral development banks as the World Bank, Asian Infrastructure Investment Bank, Asian Development Bank, European Bank for Reconstruction and Development, Eurasian Development Bank, Islamic Development Bank, and other development partners.

In the meantime, the role of international innovative private financing opportunities has been growing globally and remains for the countries as an excellent supplementary opportunity to diversify international sources of financing. The Climate Finance framework provides a great opportunity for the countries in North and Central Asia, especially to those for whom promotion of green economy, low-carbon growth, and energy efficiency is among their national priorities. Islamic finance is another potential innovative source of infrastructure financing due to its growing penetration potential in the banking sectors of the countries of North and Central Asia and beyond.

I would like to extend my sincere thanks to all participants for taking the time to be here today and lively discussion to follow.

Thank you.