

***The Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs  
PART III: MAPPING A WAY FORWARD: WILL ASIA LEAD THE RECOVERY?***

**Webinar Summary**  
October 22, 2020

## OVERVIEW SUMMARY

The Global Infrastructure Facility (GIF) wrapped up its three-part webinar series on ***The Impact of the COVID-19 Crisis in Emerging Market Infrastructure Finance & PPPs*** on October 22<sup>nd</sup>, with ***Mapping a Way Forward: Will Asia Lead the Recovery?*** This final webinar delved into the challenges and opportunities for infrastructure in Asia – the region expected to invest the most in infrastructure investments and drive global economic growth post-COVID-19. It considered what a post COVID-19 recovery would look like and what steps governments, financiers, MDBs, and investors are taking to help propel Asia to the forefront of the global economic recovery.

**Jason Lu**, Head of the GIF, moderated the webinar. He welcomed all to the third and final segment of the GIF series and acknowledged the rich conversations had over the course of the first two webinars. He noted how Webinar I underscored that as government budgets become more fiscally constrained, project preparation becomes more critical for the design and structuring of quality, bankable and sustainable infrastructure projects. And, how Webinar II highlighted a flight to quality in the Latin America and the Caribbean (LAC) and Europe and Central Asia (ECA) regions as investors became more selective, performed more stress tests, and conducted more due diligence, making project preparation facilities more crucial. After reviewing the agenda, Jason introduced **Imad Fakhoury**, GIF Governing Council and Director of the Infrastructure Finance, PPPs & Guarantees Global Practice, World Bank, and **Jerome Jean Haegeli**, Co-Chair of the GIF Advisory Council and Group Chief Economist, Swiss Re, Managing Director, Swiss Re Institute, who provided the introductory and opening remarks.

In his Introductory Remarks, **Imad Fakhoury** referred to Asia as one of the most rapidly urbanizing regions of the world that has been enjoying strong economic growth and steady social development. It is also home to half of the world’s population—making it well positioned to lead in sustainable, quality infrastructure investment in the post-COVID-19 era. Imad also pointed to an ongoing need to better understand infrastructure service delivery levels in the region and noted the findings of a 2020 World Bank report, [Infrastructure in Asia](#). Although Asia has good economic and social indicators, it also has significant constraints to infrastructure investment. Imad suggested that all regions must focus on making smarter investments, harnessing Infratech, data and other efficiencies, and that public and private partners can help accelerate a post-COVID-19 recovery.

In his Opening Remarks, **Jérôme Jean Haegeli** recognized the deep global recession and how an IMF growth forecast projected that the global economy will remain in negative territory for the foreseeable future. On the positive side, however, he also noted the resilience of Asia. Just as Asia first experienced the COVID-19 pandemic, it was also expected to be the first to exit the crisis, positioning it to lead the post-COVID-19 recovery through infrastructure investments. According to a [Swiss Re Institute sigma study](#), \$66 trillion in global infrastructure investments is expected over the next 20 years, with 66 percent of that occurring in emerging markets and in Asia. He emphasized the importance of smart spending—in the right amount, in the right place, and with the right balance of public and private flows. He also called for the breaking down of the barriers to infrastructure investment and noted the importance of the MDBs, infrastructure as a tradable asset class, and standardization, pipelines, and transparency.

## SESSION SUMMARY

### ***PART 1: Building Back Stronger: Challenges and Opportunities in India and Indonesia***

- **Suresh G.**, Advisor, National Highway Authority of India

- **Mohammad Ghozie Indra Dalel**, Project Development & Advisory Director, PT Sarana Multi Infrastruktur
- **Colin Chen**, Managing Director & Head of Structured Finance, Asian Investment Banking Division, MUFG Bank, Ltd.
- **Seth Tan**, Executive Director, Infrastructure Asia, Singapore

#### Key takeaways:

- India is leveraging asset recycling to bridge financing gaps for its national highway projects
- Indonesia's economic growth rate fell in Q2 of 2020 to -5.32 percent, but could rebound to 5 percent in 2021
- Private sector infrastructure investment in Asia is 10-15 percent compared to 50-60 percent in other regions
- Asian Banks look to invest in projects with cash flow certainty and predictability

**Mr. Suresh G. of the National Highway Authorize of India (NHAI)** described the impact of COVID-19 on India's infrastructure sector from the perspective of the NHAI, a government agency tasked with the development, maintenance and management of the country's main arterial highways, consisting of about 65,000 KM of national highway and accounting for about 80 percent of the country's traffic.

India has been hit hard by COVID-19, not only with high rates of infection, but also by experiencing a decrease in real GDP of 24 percent in the second quarter of 2020, with an estimated economic contraction of 9.5 percent for the year that will result in job and income losses. However, demand side solutions and infrastructure investments are seen as promising bright spots.

New and varied policy measures and tools to bridge the highway infrastructure funding gap are being considered. For example, the *Bharatmala Pariyojana*, a 27,500 KM highway project, has entered its phase one implementation. However, it requires \$132 billion to complete the program and, until now, market borrowing has been the solution. As borrowing becomes increasingly expensive, the government is considering alternatives such as asset recycling schemes that monetize the project's income earning assets and leases them in exchange for upfront revenue are being considered.

One monetization tool, the Toll Operate and Transfer (TOT), uses an asset recycling approach to lease income earning assets to private investors and developer institutions for 20-30 years in exchange for revenues used for future development, operation, and maintenance of highways. Other tools include monetizing through commercial banks and securitization through the Infrastructure Investment Trust. The GIF is working with the World Bank to support structuring and designing of some of these projects with NHAI.

**Mohammad Ghozie Indra Dalel of PT Sarana Multi Infrastruktur (PT SMI)** explained that PT SMI is a state-owned enterprise (SOE) of the Indonesian government that aims to catalyze and accelerate infrastructure development through its 3 business pillars financing & equity investment, advisory and project development.

Due to COVID-19, Indonesia's economic outlook has suffered, with economic growth dropping to -5.32 percent in the second quarter of 2020. Optimistic projections show a potential rebound as high as 5 percent in a post-COVID-19 recovery phase in 2021. The transport and construction sectors have been hit hard hit by the downturn while social infrastructure and water and waste management have been areas of growth. Infrastructure investment is now seen as a major driver of the recovery.

On the fiscal side, the government deficit stands at about 6.3 percent due to pandemic support policies while the debt to GDP ratio has increased from a 5-year average of 29 percent to 37 percent. Projections for 2021 are 38 percent. COVID-19 support policies have included a widened budget deficit, tax relaxation, interventions to increase liquidity, easing of import and export regulations and the restructuring of loans.

The government has provided Rp643 trillion of emergency funding for the economic recovery, with Rp410 trillion allocated to small and medium enterprises, corporations, and government municipalities. Also, noteworthy is a new Omnibus Law, expected to increase Foreign Direct Investment and improve the environment for doing business, and a sovereign wealth fund to accelerate new, less risky infrastructure projects that are more beneficial to foreign investors. The recycling of SOE assets at the operational stage is also attracting foreign and local private investors and helping to increase SOE balance sheets.

**Colin Chen of MUFG Bank**, one of Japan's largest banks, discussed project financing and how it could help mobilize more financing in the post-COVID-19 recovery period. He distinguished between equity that is provided by sponsors and debt that is provided by banks and noted that although each focus on a different aspect, both functions are essential for mobilizing private capital post COVID-19.

In a post COVID-19 phase, he suggested that governments will promote more income producing projects through transactions on the equity side, but also emphasized the need for certainty and predictability of cash flows for any transaction made on the debt side. When reflecting on asset recycling approaches in India and Indonesia, he noted how India is focused on the equity risk side while Indonesia is financing through debt. He added that PPPs are always very attractive, especially when they have a fair allocation of risks, and cautioned against lengthy decision-making processes because they often result in missed opportunities. Making timely decisions that can be adjusted at a later time is a better approach to securing financing.

**According to Seth Tan of Infrastructure Asia**, the institution was established by the Singapore government to support infrastructure financing and development and to promote private sector engagement in regional infrastructure since regional private investment has traditionally been low compared to other regions.

Interestingly, he noted that regional private sector liquidity has remained very strong in the region despite the disruption of COVID-19. He attributed this in part to the fact that Singapore has a large number of sophisticated investors residing there, overseeing \$4 trillion under management. It's becoming a location of choice for those who wish to be close to investment opportunities in the ASEAN and Asia region. And investments from Singapore are among the top FDI in countries such as India and Indonesia and in sectors that include clean energy, health, connectivity, and digital infrastructure.

In closing, he made the case for why the time is right for infrastructure investment in Asia. First, Singapore's investors have global portfolios and the ability to analyze risks in specific industries as well as in this Covid-19 era. These investors have signaled their confidence by continuing to hold infrastructure investments in Asia. Furthermore, they improve asset efficacy through private innovations that allow for more bankable assets going to market. Second, the green financing community is rapidly growing, with a doubling between 2018-2019 from \$4 to \$8 billion in the region. And third, the region is poised to stimulate growth through infrastructure investment with climate smart considerations in project planning and designs.

## SESSION SUMMARY

### ***PART 2: Responding to the Needs of Client Perspectives***

- **Jang Ping Thia, Lead Economist and Manager**, Economics Department, Asian Infrastructure Investment Bank (AIIB)
- **Takeo Koike, Director**, Office of Public Private Partnership, Asian Development Bank (ADB)

#### Key takeaways:

- AIIB made ready a \$13 billion lending window going beyond its traditional private sector mandate
- ADB rolled out a \$20 billion COVID-19 rescue package having government and private financing and emphasized the role of private sector in developing sustainable infrastructure

**Jang Ping Thia of the Asia Infrastructure Investment Bank (AIIB)** reflected on the key role played by the MDBs in the early days of the Pandemic as they created unprecedented short- and long-term emergency response programs to assist their members and clients. For example, the [COVID-19 Crisis Recovery Facility](#) was established by AIIB to prevent infrastructure deals from collapsing and financing gaps from expanding by making ready a \$13 billion lending window. This facility went beyond AIIB's traditional mandate in order to mitigate government fiscal and monetary policy constraints, private sector operating disruptions, and jobs losses. It financed public and private members with funds for health infrastructure and pandemic preparedness, ensured immediate fiscal and budgetary support to mitigate long-term economic damage, and provided on-lending facilities and credit lines to assist curtailed, delayed or suspended projects.

AIIB began tracking the medium- to long-term impacts and sentiment around infrastructure investment during the COVID-19 crisis. Based on information reviewed, expectations were that uncertainty would continue into 2021. However, on the positive side, it was the observance of strong cross-border FDI, particularly in the ICT sector, that continued to hold up despite the pandemic. Also observed was a sense of confidence in infrastructure as an asset class, growing interest in asset recycling and refinancing opportunities, and steady demand for AIIB and commercial bank support.

It was further noted that in the short term, there remains a need to finance working capital to sustain companies and provide liquidity support while asset recycling could unlock more fiscal resources for infrastructure maintenance and project completion. In the medium-term, assistance during the initial pick-up phase and building back better would be important, with expanded areas for collaboration. In the longer-term, infrastructure will be a stimulus for Building Back Better and greener while the digitalization of healthcare, 5G, and retrofitting of older power plants will also be important.

According to **Takeo Koike of the Asia Development Bank (ADB)**, Asia's economy has been severely affected by COVID-19 relative to other regions, particularly by supply chain disruptions, a long physical lock-down, lost revenues, and a regional lag in ICT infrastructure. Fiscal spending was severely constrained due to emergency funding, and so the ADB stepped in to help fill the public funding gap through immediate as well as medium- to long-term financing for members and clients.

The ADB's short term measure of a [\\$20 billion COVID-19 rescue package](#) included government and private financing vehicles. The package has allocated billions of dollars to developing country governments for effective countercyclical expenditure programs. A COVID-19 Pandemic Response Option also helped governments with the health and economic consequences of the pandemic, as well as support to private sector operations for micro, small, and medium-sized enterprises, domestic and regional trade, and directly impacted firms. Technical assistance and grants covered critical medical supplies and food.

Looking ahead, five key areas were noted. First, in view of globalization to return but in a different shape, the ADB will help clients diversify value and supply chains and promote regional public goods for the prevention of disease, adaptation and mitigation of climate change impacts, and enhancement of the regional financial safety net. Second, the ADB will support interventions in education, healthcare, and social protection. Third, the ADB stands ready to support a digital transformation throughout Asia. Fourth, the ADB will ensure low-carbon recovery while improving climate and disaster resilience. Quality infrastructure investment will play a key role. And fifth, domestic resource mobilization through tax cooperation and the development of capital markets will be essential. A regional hub for domestic resource mobilization is being created.

In preparing a post-COVID strategy for developing sustainable infrastructure, ADB will support successful and sustainable PPPs by emphasizing the following points:

- Leveraging scarce government funds and shifting many factors post-COVID-19, including investor risk appetite, return expectation, economic and financial rationale.
- Easing immediate fiscal constraints by proactively using availability payments, minimum revenue guarantees, asset recycling, etc.
- Mitigating heightened project risk perception to catalyze commercial financing by proactively using credit enhancement products to help manage extra risks emerging from new market conditions;
- Strengthening credit profiles of sub-sovereign stakeholders;
- Enhancing capacity to provide long-term local currency financing; and
- Accelerating support to renewable energy, energy efficiency, social infrastructure, and digital transformation.

## FINAL THOUGHTS & CLOSING REMARKS

**Jérôme Jean Haegeli** affirmed the webinars overarching premise that Asia will lead the COVID19 recovery phase through infrastructure investment. He reflected on the first panel's illustration of how Asia is building back stronger, by using asset

recycling, for example. And how the second panel highlighted the extraordinary measures taken by MDBs in the initial phase of the crisis, while also recommending medium- and long-term measures for sustaining public and private entities. He felt strongly that public investment and PPPs will remain at the core of the economic recovery, along with the GIF's quality, project preparation work and more sustainable infrastructure projects. He also welcomed the positive news of strong cross border FDI infrastructure flows in ICT.

In closing, **Jason Lu** summed up the important insights shared throughout the GIF webinar series. He emphasized the final webinar's positive messages on the role of infrastructure investment as an economic stimulus in a future post-COVID-19 recovery phase, and the opportunity to build back better and more sustainably. He noted infrastructure's low default rates that reinforce its attractiveness, the need for a broader spectrum of investors, including institutional investors, and was pleased to learn that asset recycling is being applied in practice in India and Indonesia. He encouraged collective efforts to help governments prepare and structure transactions, and collect and share the good practices and examples with other developing countries. Finally, he thanked all for contributing to the success of the GIF webinar series.

#### **ABOUT THE GLOBAL INFRASTRUCTURE FACILITY**

The Global Infrastructure Facility (GIF) supports end-to-end transaction advisory services to governments in developing countries to build pipelines of bankable, sustainable infrastructure programs and projects that are attractive to private capital. As a global collaboration platform, the GIF connects governments, multilateral development banks, private sector investors and financiers, and other infrastructure stakeholders to promote connectivity and integration and deliver climate-smart infrastructure in developing countries.

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