

# Why Institutions Matter for Closing Asia's Infrastructure Financing Gap

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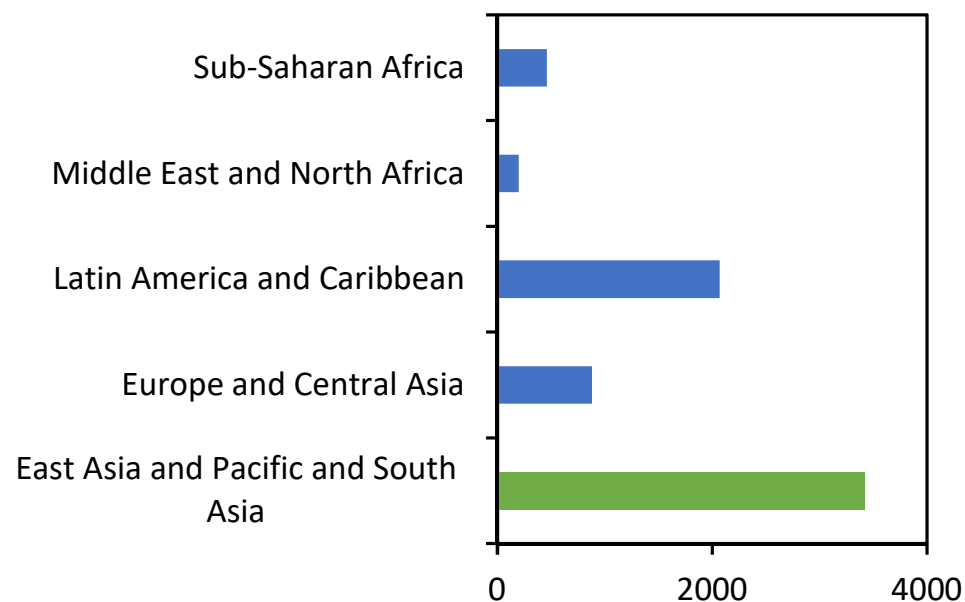
**Lotis Quiao**  
Asian Development Bank



## Private contributions are critical to meeting region's infrastructure finance deficit

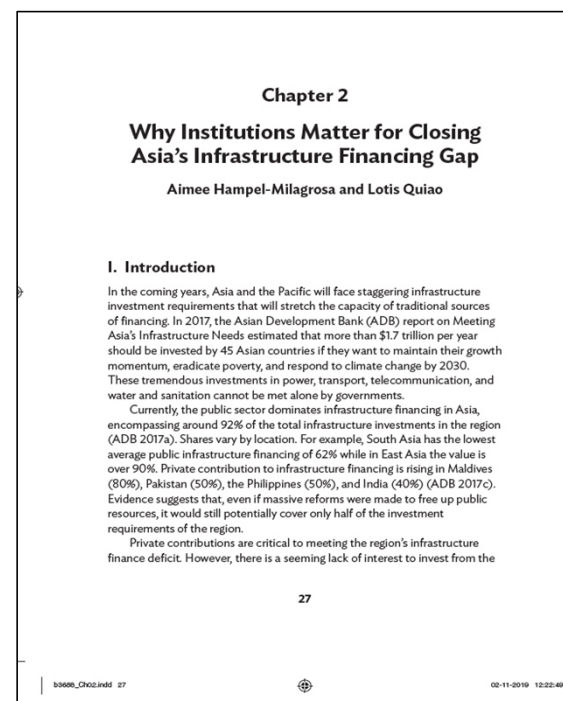
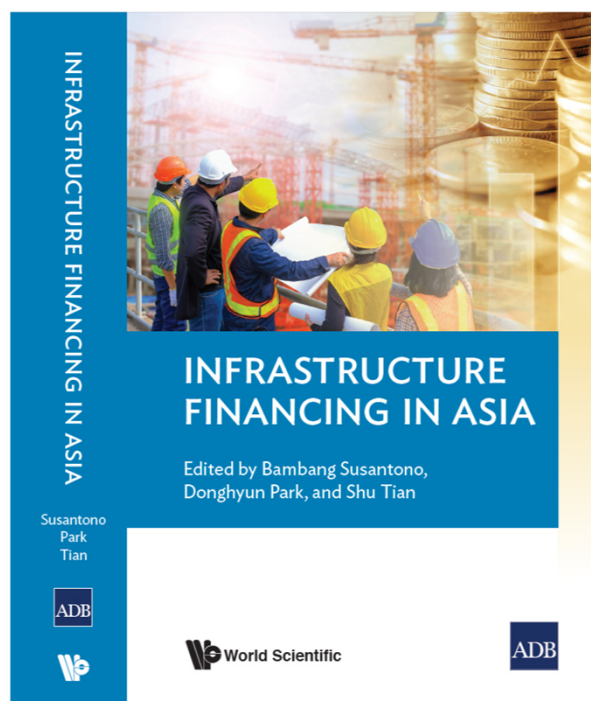
- **Public sector** finances 92% of total infrastructure investments
- **Private participation in infrastructure (PPI)** will need to grow by 60% from 2016–2030
- But we have many **risk gaps**:
  - weak property rights
  - lack of dedicated policies
  - poor governance
  - lack of institutional structures and capacity

**Privately Funded Infrastructure Projects Cancelled or Under Distress, 2018**



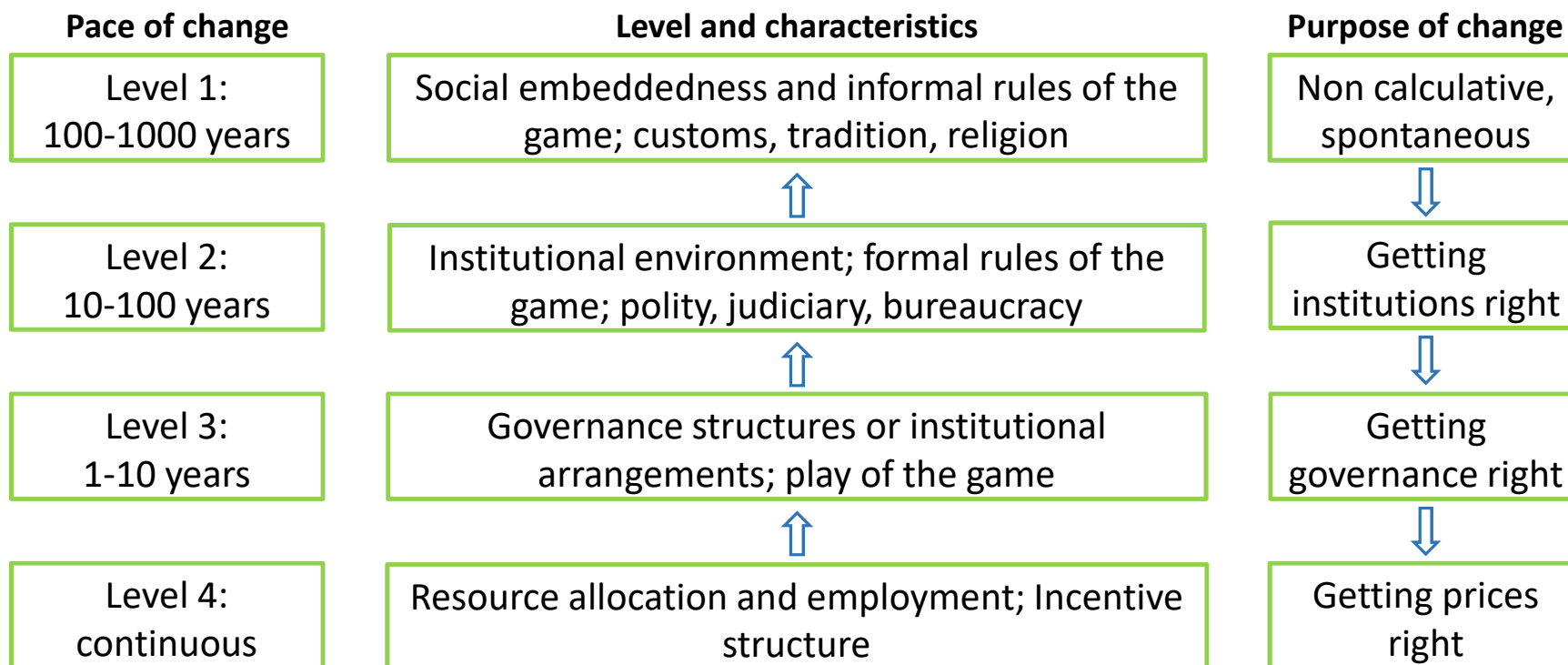
Source: World Bank Private Participation in Infrastructure database. <https://ppi.worldbank.org/>

# Chapter 2 of Infrastructure Financing in Asia: Why Institutions Matter



# What are institutions and why are they important?

## Levels of Institutions



Source: Adapted from Williamson (2000).

# Types of Infrastructure financing methods

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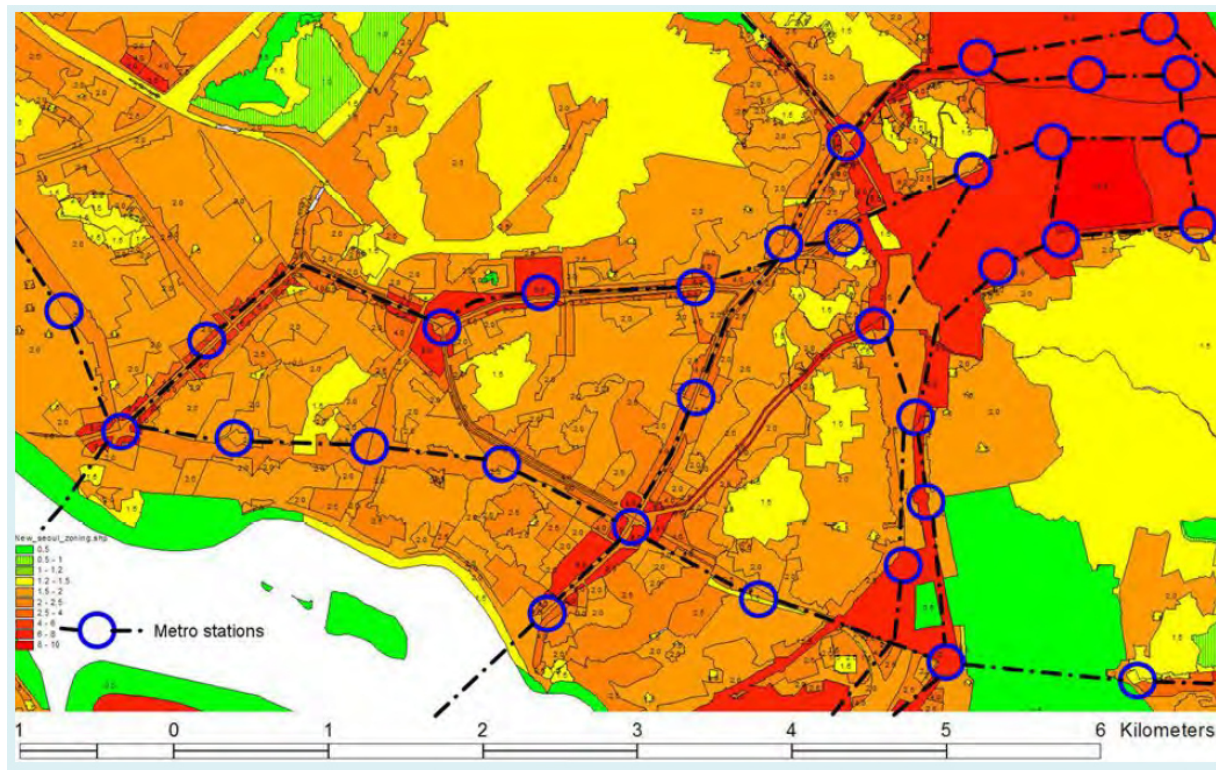
1. Land Value Capture (LVC)
2. Private Public Partnerships (PPP)
3. Green bonds
4. Institutional investments

# LVC: Infrastructure Zoning in Seoul, South Korea



Source: Bertaud (2008)

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# Public Private Partnerships (PPP)

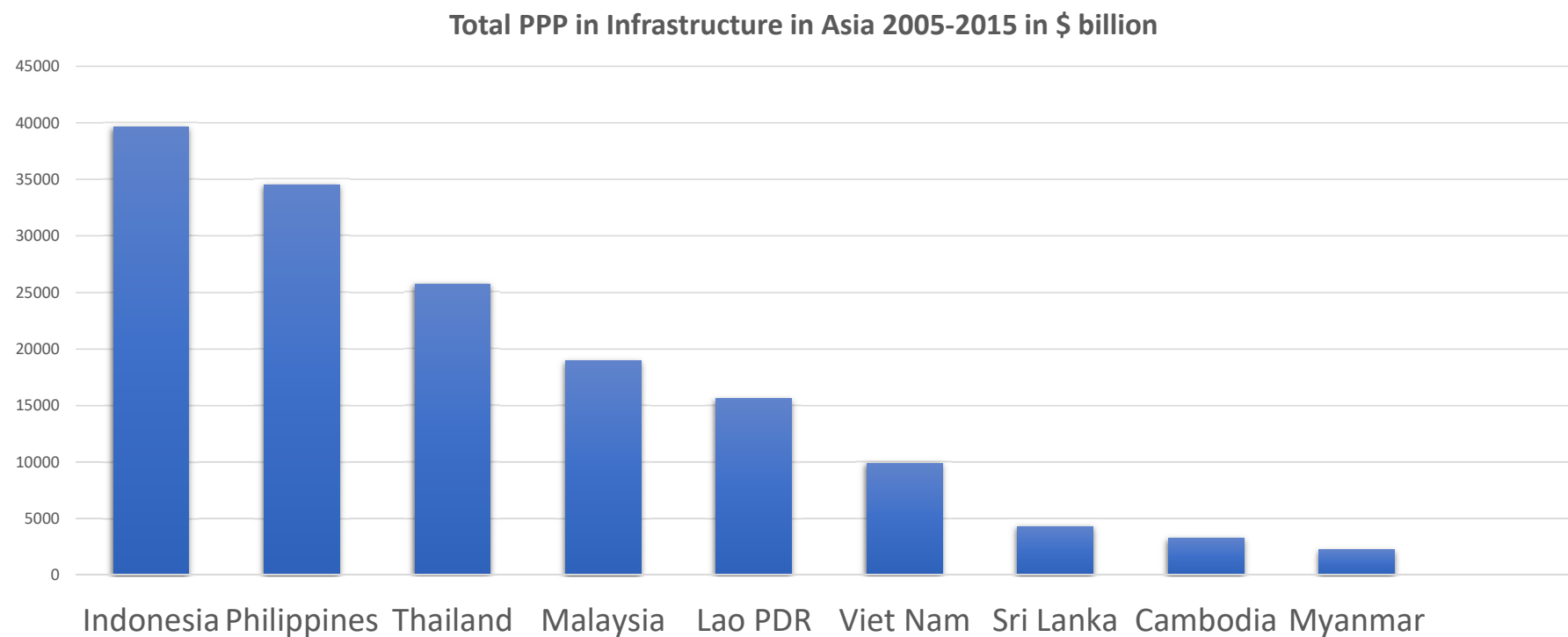
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**Hybrid** institutional arrangements where the government works together with private parties on large-scale infrastructure projects.

Common characteristics:

- 1) Private participation in financing and management
- 2) Transfer of risk from one party to another
- 3) Long term contractual relationship

# Total PPP in Infrastructure in Asia 2005-2015 in \$ billion



Source: World Bank PPI Database (2016)

# PPP: Mactan Cebu International Airport T2

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Source: [www.ppp.gov.ph](http://www.ppp.gov.ph)

# Green Bonds

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- Bonds issued by public and private sponsors to finance projects and technologies that possess **positive environmental benefits**
- **Appeals to** ethical and socially responsible investors
- Two types are recognized for accreditation purposes with the Climate Bonds Institute (CBI):

Type	Definition
<b>Labeled bonds</b> (24.7% of outstanding bonds)	Financing green assets and projects and whose performance is included in the green indexes
<b>Climate-aligned bonds</b> (75.3% of outstanding bonds)	Bonds that contribute to a low-carbon economy and have not been labeled green by the issuing sponsor



# GREEN BOND FRAMEWORK<sup>1</sup>

1. **Project eligibility:** ADB's Green Bond Framework defines eligible projects to support developing member countries seeking to adapt to and mitigate the consequences of climate change
2. **Project Selection:** The project selection criteria will be implemented by sector specialists in coordination with the treasury department
3. **Proceeds:** Green bond proceeds will be allocated to a subportfolio and tracked against disbursement of eligible projects
4. **Reporting:** ADB will make available eligible project list and green bond annual newsletter online



<sup>1/</sup> With second opinion from CICERO, an independent assessor.

Source: <http://www.adb.org/sites/default/files/adb-green-bonds-framework.pdf>

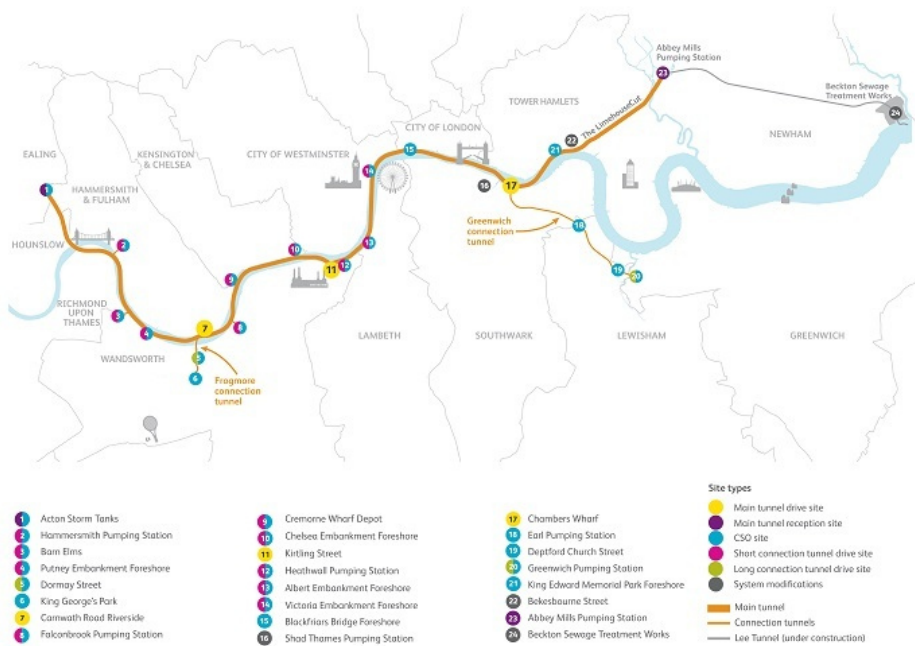
# Institutional investments

- IEs are debt and equity portfolio allocations of financial institutions
- Banks and insurance companies account for 42% of IE in Asia and the Pacific
- Institutional investors more cautious
- Asia has the highest savings rate in the world

Sources of IE in Asian Infrastructure (Prequin, 2015)

Source	%	Source	%
Banks	22	Government agency	6
Insurance company	20	Private pension fund	5
Corporate investors	9	Family offices	4
Public pension fund	8	Sovereign wealth	4
Investment company	7	Wealth managers	4
Mutual funds	7	Others	4

# Thames Tideway Tunnel funded by UK pension funds



# IFA, Chapter 2 Main message:

## Strengthen specific institutions to promote specific types of financing

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### Institutions that Encourage Private Investments



**Land value capture**



Strong property rights and efficient taxation mechanisms



**Public-private partnerships**



Dedicated policies and public-private partnership units



**Green bonds**



Sustainability policy framework



**Institutional investments**



Guarantees

# Institutions and infrastructure financing: what are the enablers?

Type of Infrastructure financing	Enabling institution	Effect = de-risk
Land Value Capture	<ul style="list-style-type: none"><li>• Strong property rights</li><li>• Efficient taxation</li></ul>	<ul style="list-style-type: none"><li>▪ Clarifies right to use, to appropriate income, to transfer the asset to others, etc.</li><li>▪ Exhibits neutrality in investment decision-making</li></ul>
Public Private Partnership	<ul style="list-style-type: none"><li>• Creation of dedicated laws, guidelines, and proper governance</li><li>• Creation of dedicated and capable PPP units</li></ul>	<ul style="list-style-type: none"><li>▪ Signifies rule of law</li><li>▪ Signals a stable support system for PPP contracts</li><li>▪ Monitors performance and adherence to contract</li></ul>
Green Bonds	Sustainability policy or environmental policy framework	Shows commitment to sustainable infrastructure
Institutional Investments	<ul style="list-style-type: none"><li>• Guarantees</li></ul>	De-risk for risk-averse institutional investors

## Infrastructure Finance in Azerbaijan

- Increase private participation in infrastructure
- Learn from rich global PPP experience
- Potential areas:
  - Toll roads and solid waste management
  - Rail freight, Power generation
  - Airports, Ports
  - Social infrastructure



**Public-private  
partnerships**



Dedicated  
policies and  
public-private  
partnership units



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