Interview with Allard M. Nooy

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Overall, there is growing acceptance of public-private partnerships (PPPs) throughout the region. Almost all Southeast Asian countries have formulated favourable policy frameworks and established investment agencies, or are in the process of doing so. However, the key to successfully realising private investments is eliminating all the bottlenecks that undermine infrastructure development, both at the pre-award and post-award stages. For this, the focus should be on obtaining faster clearances, improving project structuring, offering bankable projects, and enhancing communication among various stakeholder groups. In 2009, InfraCo Asia was established develop and invest in sustainable infrastructure projects and to manage and mitigate risks to attract a greater level of private sector participation and ensure successful implementation of infrastructure projects. *Southeast Asia Infrastructure* brings you the views of Allard M. Nooy, Chief Executive Officer, InfraCo Asia Development Pte Limited, on the enterprise's role, key achievements, priorities, plans and challenges…

What have been the key achievements of InfraCo Asia Development since its inception?

InfraCo Asia was incorporated in 2009 and became fully operational in 2010. It is a commercially managed infrastructure development and investment company headquartered in Singapore. InfraCo Asia is a company of the Private Infrastructure Development Group (PIDG). PIDG is a multi-donor organisation set up by development agencies committed to tackling major market obstacles hindering private participation in infrastructure development in the world's poorer countries. InfraCo Asia is currently funded by three members of PIDG – the Australian Department of Foreign Affairs and Trade, the Swiss State Secretariat for Economic Affairs and the UK Department for International Development. Since inception, we have successfully developed infrastructure projects in the hydroelectric and wind power, waste management and agriculture sectors.

What has been the experience with regard to private sector participation in infrastructure development in the ASEAN region in particular? Which countries do you focus on in the region and why?

We aim to stimulate greater private sector investment in infrastructure in Bangladesh, India, Nepal, Pakistan, Sri Lanka, Cambodia, Indonesia, Laos, Myanmar, the Philippines and Vietnam. These countries are in need of private sector participation in the infrastructure space.

Providing people with better access to infrastructure in the communities where we develop projects has been challenging but not impossible.

How is InfraCo Asia helping to create an enabling environment in these countries for greater private sector participation?

Our mandate is to fund early-stage, high-risk infrastructure development activities by taking equity stake in projects and focusing on socially responsible and commercially viable infrastructure projects. We fund projects that contribute to economic growth and social development. Throughout the development process, we focus on managing and mitigating risks to facilitate private sector participation in the successful implementation of sustainable infrastructure projects. From time to time we come across projects where development activities have been stalled or what I would call distressed assets. The project development process has stopped due to a variety of reasons including, sometimes, regulatory issues. Given our expertise and the support of our donor shareholders (the UK, the Swiss and Australian governments), we create enabling conditions and are sometimes to push boundary conditions.

InfraCo Asia aims to exit projects after financial close. What factors do you take into account in arriving at your decision?

Our goal is to create commercially viable and sustainable infrastructure projects that contribute to economic growth and social development in South and Southeast Asia. The aim is to structure commercially viable infrastructure projects in order to reach financial close and to attract private sector investment into these projects. By taking on the high costs and risks of early-stage project development, we seek to develop infrastructure projects in situations where the private sector would not otherwise be willing or able to invest. We incur the upfront costs and risks related to preparing and structuring infrastructure projects for private sector participation at an early stage (pre-financial close), which normally involves considerable time, resources and uncertainty for investors who have to deal with commercial, technical, environmental and other requirements. The projects that we develop need to be commercially viable, as otherwise an exit would not be feasible. We have divested some of our equity to development finance institutions. Although it is our aim is to divest our equity stake at financial close, this has proved to be challenging. The equity gap which may exist at financial closure could be either taken up by our separate InfraCo Asia Investment Fund or by third parties. Our current exit strategy is to divest some of our equity stake at financial close whereas the remaining stake is divested after the commercial operation date.

What are the common challenges associated with planning, designing and financing PPP infrastructure projects on a large scale? How can emerging ASEAN countries address these challenges?

PPP infrastructure projects, in my view, are associated with the 5P's: "Proper Preparation Prevents Poor Performance". In PPP projects, you are dealing with multiple key stakeholders and land acquisition is often a key issue in ASEAN countries. The challenges regarding the planning and implementation of PPP infrastructure projects also relate to enabling regulatory frameworks. In order to overcome obstacles, some of the ASEAN countries have established dedicated PPP units. These countries include the Philippines and Indonesia. Other ASEAN countries still have restrictions on foreign direct investment (FDI) in certain sectors. The onshore debt markets in a number of ASEAN countries are shallow and this makes project financing challenging.

What are your views on the economic outlook for Southeast Asia over the next two to three years?

Economic development and growth obviously differ across countries in South and Southeast Asia. The future GDP growth is likely to average approximately 6 per cent, subject to political stability; the outlook for countries like Myanmar, Vietnam, Sri Lanka, Laos and Cambodia is positive.

What are the key priorities of InfraCo Asia for 2013-14? What is your message to prospective investors?

Since we became fully operational in 2010, we have operated on a business model where development activities are outsourced to a single team of project developers, save for core corporate management, which is handled by a management team that I lead. This was for the core programme in South and Southeast Asia, except for Myanmar. InfraCo Asia has grown over the years and its funding from PIDG has also increased. While the development activities of InfraCo Asia will continue to be outsourced, we will be launching a model of entering into development services agreements with more than one developer team as well as co-invest in third-party development projects. Our own efforts to pursue co-investment opportunities in South and Southeast Asia are seen as complementary to achieving our objectives. There are several reasons why we believe it is worth pursuing co-investment opportunities, in particular where the partner-developer has the appetite to invest its own capital at financial close, but not at the early high-risk development stage. InfraCo Asia's participation as co-investor will serve to accelerate the financial closure of such projects. I would like to emphasise that we welcome investment proposals from developers for projects where co-investment would meet our qualifying criteria.

For instance, in the case of Myanmar, we launched a separate infrastructure development and co-investment programme in mid-2014. We have also completed the competitive bid process for developer services and are about to award a five-year contract to the successful bidder. The Myanmar programme also contains funding for co-investment initiatives where existing developers could propose investment opportunities to InfraCo Asia.

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What are the projects in the pipeline in the ASEAN region and how are they spread across sectors?

We are able to invest in projects across a range of sectors, including energy and power, water and waste management, transport, agriculture, storage/logistics facilities, telecommunications, urban infrastructure including low-cost housing, and the infrastructure component of industrial, agro-tourism and agro-industrial projects. The InfraCo Asia infrastructure project pipeline currently includes a run-of-the-river hydroelectric power project in Nepal, a waste-to-energy facility in Sri Lanka, a wind power project in Pakistan and some agricultural storage and trading platform facilities in India.

Under the co-investment programme, we are currently in the process of evaluating hydropower opportunities in India and the Philippines.

Which are the infrastructure sectors you are bullish on? Going forward, what will be your strategy in the region?

There is significant demand for infrastructure development and funding in Asia. In much of Asia, demand outstrips financing and private sector financing will be key in meeting this gap. Available private funds are not fully utilised due to lack of bankable projects. Our strategy is focused on filling the critical and most risky funding gap during the origination, early-stage project development and de-risking process in order to bring projects successfully to financial closure. Personally, I believe that there will be continued opportunities in the energy sector, in particular renewables, water and waste management sectors. ■