Interview with Allard M. Nooy

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Southeast Asian countries have been making serious attempts to attract private participation in infrastructure. This is being supported by a favourable policy regime. Overall, there is growing acceptance of public-private partnerships (PPPs) throughout the region. However, the key to successfully realising private investments is eliminating the bottlenecks that undermine infrastructure development, both at the pre-award and post-award stages. In an interview with Southeast Asia Infrastructure, *Allard M. Nooy, Chief Executive Officer, InfraCo Asia, a company of the Private Infrastructure Development Group (PIDG), discusses the firm's role, key achievements, priorities, plans and challenges…*

What has been the overall trend in private participation in the Southeast Asian region? How has the experience of the private sector in different markets been?

We are publicly funded and that makes us quite unique in the sense that we are private sector focused and commercially managed. We are an infrastructure development and investment company looking at markets where private sector participation is allowed, and a significant need for new or improved access to infrastructure for poorer people in Asia exists. There are a number of markets where there are still restrictions on both foreign ownership as well as private sector participation (PSP). Some markets still have caps in terms of the percentage of private sector ownership or foreign ownership. I must say that if you look at the subsectors, the power sector probably tends to be the first market to be opened up for PSP, followed by transport and the water and waste sectors. We at InfraCo Asia take great pride in that we are working with key stakeholders in order to get that changed. I will give you one example. In the northern part of Vietnam, quite a number of years ago, we developed a distressed asset in the hydroelectric power sector; we took a majority stake in the development of the power project and by the time we got to commissioning and operation that was still the first and only majority foreign-owned hydroelectric power project in the country. We have worked very closely with settling rules, regulations and tariff structures with various stakeholders and authorities across countries in the region. In all our markets, we are working with joint venture (JV) partners – everything that we do is as a JV with either regional or local partners. Sometimes, these local JV partners do not have the capabilities or the funding to develop projects, orthe access to authorities at the same level that we do. The access we have, is partly to do with the fact that we are funded by the UK, Australian, and Swiss governments through PIDG, which is based in London.

If you have to comment on the regions that have opened up significantly to private participation, which ones would they be?

In Southeast Asia, where we have seen positive movements in both the private sector as well as foreign direct ownership, Vietnam comes to mind as an example. The country has taken significant steps forward in order to attract foreign direct investment and that is in a number of subsectors, in particular the power sector. There are no limitations there on foreign ownership and no limitations there any more on PSP. Indonesia is another market where there have been positive steps forward to liberalise markets and to attract the private sector into infrastructure development and investments. There are still markets that do have restrictions. Myanmar must be mentioned because it is in a great need of a whole lot of investment in infrastructure. It is 20 years behind the rest of ASEAN in infrastructure development and has to improve access to better infrastructure for the citizens of Myanmar. Again, there have been some really positive movements in the recent past: a number of sectors are being opened up for PSP as well as foreign direct ownership, and restrictions on certain sectors have been lifted. So I am quite bullish on Myanmar actually, given the very recent changes in legislation. Markets that still have restrictions to prevent market access for foreign direct investment and/or PSP include the Philippines. The Philippines still has a cap on ownership by foreigners in the renewable energy sector, which is currently capped at 40 per cent, and that restricts the further development of renewable energy sector.

How is InfraCo Asia actually facilitating investments in the region in these specific settings?

That is a very valid question. InfraCo Asia is mandated to develop projects where the risk is very high. So we do some very early-stage, high-risk infrastructure project development. We are there as a catalyst to attract other private sector investors to come along with us at the appropriate time. We take that very early-stage development risk in 12 markets in South and Southeast Asia. We have got a number of investment criteria and key performance indicators (KPIs). One of these KPIs is the number of dollars we attract from the private sector for every dollar that we spend before financial close during the development process. That amount includes a combination of private sector debt and private sector capital (equity). We currently stand at 12 – for every dollar that we have invested before financial closure, we have been able to attract $12 from the market, again a combination of debt and equity.

Could you also share the total portfolio of projects that you have?

The reason why InfraCo Asia was established was that there was definitely a gap in the market where certain projects were not developed by private sector investors either because of perceived risk, or real risk – that is a combination of market access risk, financing risk, as well as political risk and development risk. It usually takes a long time and a lot of patience and capital to get projects developed and to get them to financial close. Because we are a company of PIDG that is backed by a number of governments, we can use development dollars to de-risk projects and bring them to a stage where they are viable and bankable.

The current portfolio of projects in operation, under construction or under development is 30-plus, and that is in 11 different countries. We are across five different infrastructure sectors. I think it is fair to say that the renewable energy sector currently represents about 60 per cent of our committed capital and proportion of projects in our portfolio.

You mentioned that there are a lot of risks related to project development. What are the common challenges when large infrastructure projects are involved, whether in planning, financing or designing?

I think a common challenging factor across Southeast Asia is land acquisition, which is a key aspect of infrastructure project development and it is across all the markets that we operate in. Land-use rights or acquisition of land remains a big hurdle for infrastructure project development. We operate in accordance with the IFC's performance standards; so we take great interest and put a lot of emphasis on environmental impact assessments and that is one of the very early stage project development activities that we undertake. It is part of our risk identification and mitigation processes, which include due diligence related to the environment, land acquisition, financing in those markets, debt financing and the attractiveness for other private equity to come in alongside us at some point in time and then permitting risk. While risks differ based on countries and sectors, they must be identifiedat a very early stage of project development in order to understand which permits are required to arrive at a bankable solution.

How are the governments in ASEAN working towards resolving these challenges? Are they supportive?

There are certain things that the governments can do but in a number of these markets you are still up against a fair amount of red tape. You need to go from ministry to ministry in order to get your permits in place, and sometimes those permit applications cannot be done in parallel. There are a couple of governments that are trying to improve and set up single-window clearance systems. I think Indonesia has made an improvement particularly for foreign direct investment in terms of having one coordinating agency dealing with land acquisitions, other permits and application processes. So you have one particular authority, which you would talk to in order to get that permit application process in place. Sometimes, it is also the disconnect between the federal governments and provincial or state governments that causes problems; land acquisition, for instance, could be subject to a local permitting procedure. Most recently, in Vietnam, we are developing the country's first utility-scale solar project. The total installed capacity will be 168 MW for which we needed about 160 hectares of land. The Provincial People's Committee in Ninh Thuan province has assisted us in transferring the land-use rights and that has helped us a lot. They were dealing on our behalf with all the individual owners of that big piece of land. There are a few owners who have not transferred their land to the project company but that does not preclude us from starting construction. This is in a joint venture with a Singapore-based solar developer, Sun seep International, and it has been a fantastic experience working with Sun seep on this particular deal. We own one-third of that JV and we are very supportive of the project team in order to get the project off the ground in Vietnam with a commercial project finance structure behind it.

Is power the sector you are mostly involved in right now?

About 60 per cent of our current portfolio is in the renewable energy sector. The other 40 per cent is across four other infrastructure sectors – waste management, water and wastewater, urban infrastructure in the sense of affordable housing and agricultural infrastructure across a number of different countries in South and Southeast Asia.

What are the promising trends that you see in the infrastructure sector in the Southeast Asian region?

There is great need for further infrastructure investments across the region that goes beyond just the 10 nations of ASEAN. There is a huge infrastructure gap because about two-thirds of the projects currently in the development stage are not bankable or are marginally bankable. This is where Infra Co Asia plays an important role – to pick up those projects and to put development dollars at risk to de-risk those projects to get them to a bankable solution across a number of different sectors. I would say the biggest needs are probably in the most challenging sub-sectors in the infrastructure sector, particularly waste management and water and wastewater. This is where you see a lack of investments both by the public as well as the private sector. Getting to a 'user pay' or a 'polluter pay' principle when you talk about water (users) and waste management (polluters) is going to be key to make these projects bankable for the private sector. The other sector is the power sector. Across Southeast Asian countries, more than half the population still does not have access to 24x7 power supply. That is another area where there is huge need for further investments and these are capital intensive projects. Therefore, it needs to have private sector developers with a lot of courage and knowledge and capability as well as financial strength to take on these infrastructure projects development activities.

> **The current portfolio of projects, either in operation or under construction, where we have signed up as a joint venture partner is 30 plus, and that is in 11 different countries.**

What would you like to recommend for greater uptake of PPPs in the region?

I think my recommendation to governments in Southeast Asia is to learn from each other. I will give you one example. Approximately eight years ago, the Philippines decided to set up a PPP Centre of Excellence; they initially had a slow start but they were able to break the barriers amongst the different line ministries and were able to bring projects to market under a PPP structure and attract foreign direct investment. My recommendation to other governments in ASEAN would be to learn from each other – do not try to reinvent the wheel .The PPP framework which works in the Philippines may not completely work for the other nine nations in ASEAN but it could probably work to the extent of 80-90 per cent. So take those frameworks and tailor them to local circumstances. The other aspect is to set up this one window for private sector investments in infrastructure, thus attracting more foreign direct investment across Southeast Asia. The key is to break down the barriers between the line ministries and permitting agencies and simplifying those procedures, which could well accelerate further investments in this space. ■