Media Coverage

Indonesia and Singapore, leading the way in infrastructure financing

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As funding needs for large infrastructure projects across Southeast Asia intensify and bank lending tightens, HSBC finds that Indonesia and Singapore are finding new sources of funding and fresh ways to recycle existing capital.

HSBC estimates that USD2.1 trillion of infrastructure investment is required across Asean but current budgets will cover only USD910 million.

Attracting the additional capital needed across Asean is a formidable task but not an unachievable one.

As the need for infrastructure investment intensifies and traditional bank lending tightens, governments are getting smarter at smoothing the path for private investment.

This includes prioritising projects that will be clearly valued (and utilised) by consumers, and transparent and open project tendering.

Getting the right project selection and investment approach needs strong government policy. Fortunately, there is clear political will in countries like Indonesia to achieve this.

President Jokowi has made infrastructure across transport and power his key priorities and has recognised that Indonesia needs to import both the capital and the expertise to deliver on these commitments.

A key plank of his focus is to increasingly open existing infrastructure assets to the private sector through the debt securitisation and project bond markets.

Paiton Energy is a clear example of how debt capital markets have a potentially significant role to play in the funding of Indonesian infrastructure.

In August 2017, the privately owned independent power producer – Indonesia's second largest - launched a two-tranche USD2 billion project bond. The bonds comprised USD1.2 billion 13-year notes and USD800 million 20-year notes.

The deal was the first in which a private company received an investment grade rating, was the first public project bond to be issued in Asia since 2000 and the long tenors appealed to investors looking for long-dated, high quality infrastructure assets. It showed that Asian investors are prepared to make significant investments in Indonesian infrastructure for the right deals. The fact that investors will buy long-dated amortising structures is also a significant step forward for the Asian capital market.

Beyond investor appetite in infrastructure project bonds, there is also significant demand from international players to invest alongside Indonesian capital in the ownership of Indonesian infrastructure projects and platforms.

In addition to bringing much needed capital to continue to develop and maintain the Indonesian infrastructure sector, this investment can also bring international expertise to improve the operational and financial

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performance of assets, but also enhance valuable physical, financial and people-based linkages between Indonesia and regional or global markets.

Another key and developing source of investment for Indonesia is through China's Belt and Road Initiative (BRI).

According to HSBC, BRI-related commitments for ASEAN – specifically in Malaysia, Indonesia, and the Philippines – will total over USD77billion.

Under the auspices of BRI, the Chinese government is focusing on a commercial approach that seeks sustainable and 'win-win' partnerships with government partners like Indonesia.

Practically speaking, this includes forging stronger relationships across all levels of government, being more proactive in seeking partnerships with local firms in project builds, and early consultation with relevant government bodies to ensure proposals are commercially sustainable and in line with design and environmental standards.

The interest in investing in Indonesia from Chinese companies and benefits of harnessing BRI interest in well designed and structured projects is becoming more obvious in both awarded and potential projects.

For example in the power sector we are seeing a Chinese consortium develop the 2,000 MW Java-7 power station.

The project was awarded through a highly competitive bid process that was also completed in 16 months - record time for this type of project in Indonesia. Once complete, Java-7 will add significant low cost power capacity to the Java and Bali regions and will further strengthen the regional power grid system.

Taking a private partnership approach – whether it's via the capital markets, international investment or BRI - is enabling the Indonesian government to both raise new capital and recycle existing capital into new 'greenfield' projects and has the ability to trigger a 'virtuous circle' through the delivery of technological knowledge transfer and operational efficiencies.

Getting the investment and capital markets infrastructure right is equally important. In this respect, the other clear winner in Asean is Singapore.

Singapore has invested significantly in further developing its capital markets infrastructure including through the Asian Bond Grant Scheme and the Green Bond scheme – designed to encourage issuers to underwrite and issue bonds in Singapore.

The Paiton Energy deal is one such example. In establishing the framework to provide financial incentives for issuers, the Monetary Authority of Singapore has succeeded in broadening the issuer base for Singapore and promoting the city state as a regional financial hub.

This concerted push by Singapore to further develop the sophistication and depth of its bond market has meant that about 60 percent of Asean infrastructure deals – including Paiton and Jawa-7 – are being arranged from the Republic.

Smart infrastructure investment will be the lynchpin of Asean's productivity and growth prospects. The private sector is proving to be a willing investor but ensuring both sides benefit – along with the end consumer - will be the catalyst for future partnerships.

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