Structured Finance for PPP Projects in the ASEAN Region

15. The ADB estimates that developing Asia—including China, India and the ASEAN bloc—is in need of heftier infrastructure financing to be regularly mobilized each year to maintain its growth momentum and eradicate poverty. According to an ADB study on a sample of 25 developing Asian countries, infrastructure requirements would call for aggregate spending of $22.6 trillion (or $26.2 trillion, factoring in climate mitigation), non-inflation-adjusted, between 2016-2030, in transport, power, telecommunication, and urban water and sanitation. Infrastructure investments in 2016-2018 fell significantly short of ADB's estimate and over 90% of infrastructure development funding in the region was derived from government spending. While more public funds could be raised through **fiscal and monetary reforms** or reorienting budget allocations, bridging circa 40% of the estimated investment gap in 2016–2020, private sector infrastructure investments would still have the lion's share in infrastructure financing.

16. ASEAN governments have long under-stood that, in order to attract FDIs, PPP projects need to meet international bankability criteria and present clear-cut contingent risk mitigation mechanisms. An extensive infrastructure greatly contributes to an economy's attractiveness and spurs investment in other areas. Infrastructure investments in ASEAN are increasingly financed by private proponents in PPP arrangements, which are best suited to manage risks, thus enabling governments to mobilize long-term financing from private sources for public infrastructure.

17. **Project finance transactions** in ASEAN present multi-layered complexities and are tackled by a wide array of structures. It is common practice for private project proponents and sponsors to set up a **Special Purpose Vehicle** (SPV), to finance the cost of a PPP project through a combination of equity and debt. Developing economies, such as those of most ASEAN member states, require a reasonable **Debt-to-Equity Ratio** to not incur over-indebtedness. Planning a PPP project correctly from outset—from a legal and financial standpoint, with the structuring of adequate credit enhancement—is imperative, inasmuch as the cost of capital is directly correlated with the project's downside risk, which, in turn, is inversely correlated with the host country's credit rating.

18. Sources of PPP project financing are:

- **Equity**: representing financial resources provided by the SPV's shareholders in return for an ownership interest. It may range between 10%-30% of capitalization.

- **Hybrid**: such as mezzanine finance, subordinated loans, convertible bonds and preferred stock, characterized by an equity-like feature and bridging between equity and debt. It may range between 0%-20% of capitalization.

- **Debt**: accounting for the largest portion of infrastructure finance, provided by a multitude of instruments such as loans, project bonds, ABS, ETFs, sukuk finance (e.g. in Malaysia). It may range between 60%-90% of capitalization.