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STUDY TO SHED LIGHT ON PROJECTED SUPPLY OF BANK FINANCING

MAS to study ways to attract investment in Asian infrastructure

Central bank's tender is part of a slew of measures to ensure a steady pipeline of bankable projects in the region

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SINGAPORE – In light of bank lending constraints since the 2008 financial crisis, the Republic's central bank will be studying ways to encourage institutional investors — such as insurance firms, pension funds and sovereign wealth funds — to help finance Asia's growing infrastructure needs.

Investors could take over the financing of public infrastructure such as roads, ports and power plants after banks have financed its construction, said the Monetary Authority of Singapore (MAS) in a tender last week calling for a study of these possibilities.

Such a move would benefit banks that prefer loans returned in a shorter time as well as institutional investors who find infrastructure assets a "good match" for their long-term liabilities but are wary of risks during the construction phase, said the MAS.

The central bank's tender is part of Singapore's efforts to ride the infrastructure boom in Asia. The Asian Development Bank has estimated that from 2010 to 2020, Asia's overall national infrastructure investment needs will reach US$8 trillion (S$9.97 trillion), out of which 68 per cent will be for new capacity investments and 32 per cent for maintaining and replacing existing infrastructure.

However, the proportion of bankable projects has been estimated to be as low as 10 per cent, said the MAS. It added that if the bankability of these projects is not enhanced, the opportunity to bring in private sector capital will be lost and governments will have to provide the funding instead.

Although banks play a key role in financing infrastructure, new rules after the financial crisis aimed at raising their capacity to absorb losses have dampened long-term lending. The Basel III capital standards, for example, have raised the quality and amount of capital that banks must hold.

The MAS said investors could take over the financing of public infrastructure after banks have financed its construction. TODAY FILE PHOTO

Last week's tender was part of a slew of measures to ensure a steady pipeline of bankable projects in the region and match these projects with private sector capital. "This will not only benefit Singapore's growth, but also potentially unlock another US$300 billion of infrastructure opportunity per annum, which will boost Asian gross domestic product by 2.5 per cent over 10 years," said an MAS spokesperson.

The study aims to shed light on the projected supply of bank financing for Asian infrastructure in the next 10 to 15 years. It will also give advice on how institutional investors can finance Asian infrastructure and suggest initiatives to encourage such involvement.

Welcoming the move to encourage non-bank investors to finance infrastructure after construction, deputy director of Nanyang Technological University's Centre for Infrastructure Systems Robert Tiong said construction delays and cost overruns can severely impact the financial viability of infrastructure projects.

Thus, institutional investors looking for long-term investments prefer successfully-completed projects.

Singapore Management University Professor David Lee said Singapore is in an ideal position to take advantage of Asia's infrastructure demand. The city-state's strong wealth management, pro-business regulations and brand for financial services make it a natural choice for fund-raising, he added.

To attract more institutional investors to finance infrastructure, Prof Lee suggested incentives for taxes and technological innovation to enhance productivity and encourage creative innovations.

"This will allow the Singapore economy to ride on the growth of emerging markets and diversify away from a property- and construction-focused economy," said the director of Sim Kee Boon Institute for Financial Economics.