



SINGAPORE – GEARING UP TO BE ASIA'S INFRASTRUCTURE EXCHANGE

A note from Indranee Rajah S.C., Senior Minister of State for Law and Finance

We launched the report of the Working Group (Legal & Accounting), a sub-group of the Committee on the Future Economy (CFE), in April.

Those who attended the launch or have read the report will know that Infrastructure has been identified as a major potential growth area for legal and project advisory services. (If you missed it, the Report and my Note on it can be found on www.minlaw.gov.sg)

Lawyers and accountants who want to be at the forefront of this work will need to be familiar with the regional infrastructure landscape, understand what Singapore is doing in this space, build up capability and work in partnership with others who have a stake in this.

I gave an overview of this in my keynote address at the Asia Pacific Energy & Infrastructure Finance Forum held on 9 March 2017. The full text of my speech can be viewed at www.mof.gov.sg.

INFRASTRUCTURE DEMAND IN ASIA

- There is huge infrastructure demand in Asia. From now till 2030, Asia is expected to require US\$20 trillion of additional infrastructure investments.¹
- Governments currently fund 60-65% of infrastructure investments², but will come under greater fiscal pressure as their populations mature.

¹ McKinsey estimates in their report "Bridging Global Infrastructure Gaps" that Asia requires US\$20 trillion of additional infrastructure investments to meet growing demand from 2016-2030.

² Source: G30 Working Group on long-term finance



- There is a lot of money out there looking for projects.
- There are lots of projects out there looking for financing.
- You would think, well this is great, if that's the case then projects should be rolling out like an assembly line.
- Not so. Despite the funds seeking investment, projects are not getting off the ground and Asia's infrastructure needs are still largely unmet.
- Why is this so?
- In a nutshell, it's because many of the projects are not bankable i.e. financiers are not prepared to fund the projects because the returns are not viable or it would take too long to recoup the loan or investment or the risk of non-repayment is high.
- The key to catalysing greater private sector investment in infrastructure lies in improving project bankability.

Bridging the Bankability Gap

The bankability problem is complex and multi-faceted so there is no quick fix or one-size fits all solution.

- However, one very important key to solving the bankability problem is the project structuring. Advising the client how to structure a project to make it bankable is crucial to getting the project off the ground. This is the work of project preparation teams of multilateral institutions, project finance teams of private sector banks and project advisory teams of accounting firms.
- Another important aspect is having the different infrastructure financing players in the same place. This not only facilitates pooling of public and private sector financing, it also facilitates the ability to structure the financing such that different players pick up different parts of the financing at different stages. For example, banks typically prefer to fund the construction stage (which has higher risk but higher return) after which they want repayment so that they can recycle their funds into other investments. Banks will not want to wait for the project to generate enough revenues for repayment as that could take up to 15-20 years, which is outside

their recovery parameters. If the project is to continue, another type of investor with a lower risk appetite looking for steady returns over a longer period (e.g. a pension fund) should come in and take over from the bank. Participation by different types of financiers spreads the risk, allows for participation according to different investment mandates, tenures and risk appetites, and allows funds to be recycled more easily – all of which go towards making a project more bankable.

- Then you would need to tie everything together with the legal documentation and high quality legal advice at each step of the way to ensure that all the legalities are complied with. That's the job of the lawyers.

SINGAPORE'S PLANS

Recognising the critical demand for infrastructure in Asia, identifying the gaps and understanding how our unique strengths can help address these gaps, Singapore is launching itself as the Infrastructure Hub for Asia – the go-to place where infrastructure demand and supply can connect, where infrastructure expertise and financing can be obtained and infrastructure needs are met – we will be Asia's Infrastructure Exchange.

We have a strong ecosystem that integrates infrastructure players along the whole value chain – multilateral banks, private financiers, lawyers, accountants, engineers and other professional services.



Financing

- With Singapore being an international financial centre, many of the infrastructure financing players are already here and we are working to attract more. Congregating them in a conducive environment allows them to easily connect, and form meaningful partnerships.
- Singapore-based banks have deep understanding of Asia's infrastructure needs and extensive track records of working with regional governments and State Owned Enterprises (SOEs) on infrastructure projects including in power, water and transportation.
- We have an Internationalisation Finance Scheme (IFS) administered by IE Singapore, which facilitates companies' access to financing for their overseas ventures through the co-sharing of default risks between IE Singapore and Participating Financial Institutions. We are enhancing the IFS to provide insurance against default of payments by off-taking sovereigns in selected emerging markets. This will benefit Singapore-based developers who are developing large infrastructure projects in the region. These can be projects involving rail, ports, airports, conventional power plants and desalination plants; typical project value exceeds half a billion dollars.
- We will also extend IFS, where we will co-share banks' risk in providing non-recourse loans on small projects in the post-construction phase. Commercial lenders are typically less prepared to provide financing to SMEs unless they put up personal guarantees or recourse to the company's assets. This makes it difficult for SME to access financing to scale up quickly. Non-recourse loans are secured by the project's assets and cash flows, which will enable SMEs to take on more projects.



Project Structuring

- The World Bank Group has set up in Singapore its first “One Bank Group” overseas office, co-locating 4 out of 5 of the Group's organisations (i.e. World Bank (IBRD/IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA)), to service the full project financing value chain for the region. The World Bank Singapore Hub also co-locates World Bank Group's infrastructure and urban development-focused Global Practices, as well as the supporting financial instruments, providing project development and structuring services across Asia and beyond.
- Singapore is a contributor to the Asian Infrastructure Centre of Excellence (AICOE), a project preparation platform to develop infrastructure PPP projects within ASEAN.

- AICOE engages private sector legal and project advisory services. This is done mainly via competitive tenders listed on ADB's procurement website. Small value services can be procured directly.
- Singapore is also one of the founding funding partners of the Global Infrastructure Facility (GIF), which facilitates the preparation and structuring of complex infrastructure PPPs.
- GIF likewise engages private sector legal and project advisory services. However, this is typically done through the advisory arms of the multilateral banks e.g. International Finance Corporation (IFC).

Professional Services

- We are also well placed to provide infrastructure professional services to the region.
- Our engineering services firms cover the complete suite of services for regional infrastructure projects. This includes upstream project development and financing advisory services, engineering consulting and design services, engineering, procurement and construction management, and operations and maintenance services.
- Our accounting firms, in particular the Big 4, already provide project advisory services to the region, which includes due diligence as well as contract and commercial structuring
- Our law firms too have regional practices, some more well established, others burgeoning. Our top five Singapore law firms are the largest in Southeast Asia. International law firms which do infrastructure work are present in Singapore, which is a convenient base for their regional work.
- Infrastructure related work represents big growth potential for Singapore legal and accountancy practices, provided that you pursue this work aggressively and start building capability in order to ramp up your capacity to do this work (see below).

Teaming Up and Collaborating

- One of the key strategies highlighted in the CFE (Legal & Accounting) report is for professions to partner each other to get regional work.
- The demand in Asia is great, and there is more than enough work for everyone. It's not a zero sum game. The question is how to get your share.
- In infrastructure, finance, project advisory and legal are heavily inter-linked. You can't do one part without the other two. It makes a lot of sense therefore for firms and individuals in these 3 sectors to collaborate and leverage on each other's strength and networks to seek out opportunities together.



- Collaboration does not stop there. It would extend to working with engineering companies and other infrastructure providers in the search for new work.
- Partnering can make for more comprehensive pitches and cohesive work from the outset. It also builds the Singapore brand.
- The partnering applies collaborations between private and public sector. Each have their own strengths. Combining them to source for growth makes for better outcomes.
- Our agencies, such as IE Singapore, EDB, MAS and the Centre for Liveable Cities, take a life cycle/value chain approach to developing Singapore as Asia's Infrastructure Hub.
- Together, we aim to improve project bankability, improve Singapore-based companies' access to financing and improve our infrastructure ecosystems' capture of overseas infrastructure business opportunities.

Capability Building

One of the big challenges for the legal and accounting sectors is to build capability for infrastructure work. You don't want people who can just do the work. You want people who can do excellent work; who understand the infrastructure space and who can structure solutions for the client and seal the deal. That requires a deep understanding of the area and specialist knowledge. Building a cadre of professionals who can do this well takes time and effort. Both the firms and the individuals must be willing to invest the requisite time and effort to build this expertise.



Obviously the bulk of the capability building and training has to be done on the job by the legal and accounting firms and rightly so. This is part and parcel of practice.

However, it can be supplemented by education at different points of the career line.

- It would be helpful to the law and accountancy firms if fresh graduates have already been exposed to infrastructure work even before they are hired.
- At the same time, lawyers and accountants who started out in other practice areas may later wish to switch to infrastructure. Hence there is also a need for continuing education for professionals.

Currently we have the following:

- *Infrastructure Development Internship Programme*

This is a programme for university undergraduates. A collaboration between IE Singapore, our universities and infrastructure players, this is an internship programme aimed at giving undergraduates first-hand experience of infrastructure work, while simultaneously providing participating companies with a pipeline of talent from which to recruit.

- *Asia Leaders Programme in Infrastructure Excellence (ALPINE)*

This programme was jointly developed by EDB and SMU. It is run by SMU for executives, professionals and corporate leaders who want to deepen their knowledge of the infrastructure space. Practicing lawyers and accountants are also eligible to take this course. For more details see exd.smu.edu.sg/open-enrollment-programmes/asia-leaders-programme-infrastructure-excellence-alpine

- *Master of Science in Project Management [MSc(PM)]*

Run by NUS and supported by IE Singapore, the programme, which has a specialisation in project finance, aims to provide professionals with sound management skills and techniques necessary for successful completion of complex projects. For more details see www.bdg.nus.edu.sg/graduate/msc-project-management.html

In the works are the following:

- We are exploring infrastructure-related courses with the universities to develop the appropriate multi-disciplinary skills and perspectives.
- A programme for secondments for lawyers and accountants to key infrastructure players e.g. multilateral institutions, project finance teams in banks, funds and other infrastructure service providers. Such secondments need not necessarily be for legal or accounting positions per se but to any positions which meet the needs of the organisations taking them in, while simultaneously allowing the secondees to acquire in-depth practical business knowledge of infrastructure. This will enhance and give greater depth and perspective to their advisory work when they return to professional practice after secondment.

Dispute Resolution Hub

Infrastructure work by its very nature will run into disputes at one stage or another.

Singapore as a jurisdiction has a brand name for trust, neutrality and adherence to the rule of law which makes it a natural venue for dispute resolution.

We also offer a full suite of dispute resolution options: from arbitration, litigation and mediation.

CONCLUSION

In the months and years to come, we will be heavily engaged in the work of transforming Singapore into Asia's Infrastructure Exchange. We hope that you will partner us in this exciting endeavour.

– *Indranee Rajah S.C., Senior Minister of State for Law and Finance*
30 May 2017

Well-positioned to Facilitate Infrastructure Financing

- Singapore-based banks: deep understanding of Asia's infrastructure needs
- Extensive track records of working with regional governments and State Owned Enterprises
- Internationalisation Finance Scheme to finance overseas ventures through co-sharing of default risks



Expertise in Project Structuring

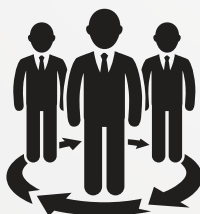
- Building up expertise in Singapore, partnering institutions to develop pipeline of infra projects
- World Bank Singapore Hub
- AICOE: platform to develop PPP projects within ASEAN
- GIF: facilitate complex infrastructure PPPs



ASIA'S INFRASTRUCTURE EXCHANGE

Developing Capabilities in Individuals to Meet Infrastructure Needs

- Infrastructure Development Internship Programme: university students and infrastructure players
- ALPINE programme for professionals, MSc (Project Management) courses
- Exploring infrastructure-related courses with the universities to develop the appropriate multi-disciplinary skills and perspectives



Availability of High-Quality Professional Services

- Big 4 accounting firms provide project advisory services to region
- Engineering services firms cover the complete suite of services for regional infrastructure projects
- Top 5 Singapore law firms are the largest in Southeast Asia with strong regional practices
- Home to over 40 of top 100 international law firms, including those with active infrastructure practices
- Natural venue for dispute resolution: Singapore a jurisdiction with brand name for trust, neutrality, adherence to rule of law

