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Infrastructure developments in 2020: trends for Asia Pacific in 2021

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Over the past year, several factors have influenced the need for changes to infrastructure planning and delivery: sociopolitical developments, trade tensions, a global pandemic and fast-evolving tech innovations. These create both opportunity and risk while yielding new possibilities for innovation in capital flows and investment models. Many of these factors are not new, and similar trends have been talked about for years. What has changed, however, is that the pandemic has accelerated the need for governments and investors to adopt policies that reflect these priorities.

Infrastructure in 2020 was defined by three Rs – resilience, renewables and recycling. Power and utilities infrastructure has shown incredible resilience during the pandemic, and it was promising to see essential services functioning so effectively to keep the lights and internet on! The transition from a physical work environment to a virtual one was almost seamless, thanks to the accelerated adoption of digital technology and a much more agile way of working.

Renewable energy was the clear winner this year given the confluence of maturing technology, conducive policies and grid parity. Vietnam led from the front by achieving a quantum leap in additional renewable energy capacity, whilst Indonesia launched pioneering solar and battery project partnerships with the private sector.

Recycling and refinancing became a reality, with institutional and alternate capital, as well as local bank financing, playing a defining role. Toll road monetisation in India and further momentum in monetisation of bank infrastructure debts through structured bonds are clear signs of an emerging trend in new financing mechanisms and a deepening infrastructure finance market. Issuance of green bonds in various sectors and linking of cost of debt to the ESG performance of projects are some of the innovations this year that will define the future course of infrastructure financing.

2020 will be remembered as a turnaround year for ESG and digital transformation, themes that were on top of the agenda for most CEOs. Increased focus and resources are expected to be diverted to these two priorities in the coming years. The KPMG 2020 CEO's Outlook highlights some of the issues discussed here as top priorities for the CEOs across the globe.

2021 – Charting growth in an uncertain environment

The slowdown in project execution and limited new project launches in 2020 have been an expected outcome of the pandemic. The delays in some of the projects have meant there will be a need for additional liquidity facilities and refinancing of stressed assets. We also cannot rule out a level of consolidation and shakeup in selected infrastructure sectors such as logistics and aviation.

The top five trends that will drive the infrastructure sector in the Asia Pacific region in 2021 are:

1 **Technology in infrastructure** – With everything from construction procurement processes to consumer buying moving online, infrastructure providers and governments will need to pay much closer attention to how they deliver and manage projects in a virtual world. We will see more and more companies using technology to improve operational performance, project monitoring and construction supervision. Customer access and engagement will be a driver for leveraging technology across sectors. For example, the Public Utilities Board, the national water utility in Singapore, has announced the deployment of 300,000 Advanced Metering Infrastructure (smart water meters) to better engage with customers and ensure optimization on water consumption and management.

2 **Role of multilateral agencies** – Financially strained governments will likely have limited capacity to invest in infrastructure to stimulate economic growth. Against this backdrop, we see multilateral agencies like the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and World Bank playing an important role in catalysing sector reforms and helping develop the pipeline of economically viable as well environmentally sustainable projects. As the focus moves to cities/urban authorities, there will be a pressing need to help develop frameworks for sub-sovereign financing. There will also be the need to create institutional capacity and to offer standardisation of contracts for faster and bankable project development.

3 **Capital recycling** – More brownfield projects are expected to be offered to the private sector to own and operate, freeing up funds for investment in greenfield projects. While there is availability of institutional capital for low-risk annuity kind of operational brownfield projects, investor demand for risk-laden greenfield ones remains tepid. The Limited Concession Scheme proposed in Indonesia is one example wherein capital tapped from financial and institutional investors can be redeployed for greenfield infrastructure projects. This will not only unlock risk capital but will also help set up a successful precedence of public-private partnership in operating infrastructure projects.

4 **Increased inbound investments and partnerships** – Investors hungry for emerging market exposure are expected to look for joint venture and partnership opportunities with local players in Southeast Asia. Renewable energy projects and the logistics sector are expected to attract strong partnership interest from foreign players. Indeed, many governments, including India and Indonesia, are looking to privatise existing assets in order to recycle the capital into new developments. Brunei has initiated a process to induct a technical partner with a minority equity stake in its national power sector utility while Vietnam has an on-going programme of equitisation (inviting the private sector to take an equity stake) of national infrastructure entities. We expect increased activity to reach out to both traditional sources of capital (developers, infrastructure funds) as well as alternate capital from investors with long-term capital sources (pension funds, insurance companies, etc.).

5 **Continued growth in renewable energy and clean technologies** – Over the past year, governments have been setting unprecedented goals for creating ‘net zero’ economies. Not surprisingly, investment into renewables and other ESG-linked assets[12] has been growing rapidly. In many ways, 2019 was a tipping point wherein solar and wind power capacity additions stood at 67 per cent of total new power capacity additions, exceeding total fossil fuel capacity addition, for the first time. Yet carbon-neutrality is only part of the ESG agenda; infrastructure players will need to also focus on ensuring their investments and assets are contributing to a fairer, more equitable world. We expect further momentum in renewable energy capacity addition in the region with solar and wind projects in countries like Indonesia and Vietnam. We also anticipate increased activity in primary markets deals, and for secondary markets transactions to keep the renewable energy ecosystem lively. Increased investment in clean technology innovation including carbon capture, hydrogen as a fuel, energy efficiency will get a leg up in the coming year supported by green funds.

In this ever-changing global environment, governments, planners, investors, developers and operators will need to respond quickly and be ready to pivot as necessary to rapid changes in policy and spending priorities. The focus is clearly on risk-informed investment planning and decisions that prioritise capital deployments to address and mitigate disruptive risks, and ultimately ensure safety and resilience across the asset life cycle. Flexibility in approach, embracing change, leveraging technology will ultimately be fundamental to driving new ideas for a new era.

[1] The 2020 Global ETF Investor Survey from U.S. private bank Brown Brothers Harriman (BBH) estimated that nearly 74 per cent of global investors plan to increase their ESG ETF allocation over the next year.

[2] The AIMA and KPMG conducted a survey of 135 institutional investors, hedge fund managers and long-only managers with total AUM of USD6.25 trillion across 13 countries and found that 84 per cent of managers reported an increased interest in ESG-orientated funds and strategies over the last 12 months