Private financing for infrastructure projects in emerging countries should be highly encouraged, said panellists at the third annual meeting of the Asian Infrastructure Investment Bank (AIIB).

“The gap between financing and demand for infrastructure can be met with the funds of institutional investors,” said Alan S MacDonald, vice-chairman, Citibank. He added institutional investors have dedicated teams to asset classes but don't seem to invest in emerging infrastructure and thus don't solve the gap problem.

The panel, comprising infrastructure financing experts, was exploring how best the infrastructure need in Asia can be met. The participants stressed on the importance of a blended financing structure. They said that different financial institutions, be it public, private or multilateral banks (MDBs), all need to finance specific kinds of infrastructure projects.

“Countries should focus on getting the best infrastructure, it could be government, private or combination of both,” said Shaukat Aziz, Former Prime Minister of Pakistan and AIIB’s International Advisory Panel (IAP). Aziz said that the government should act a regulator and not as a participant. “The government doesn’t need to mobilise resources. The process to get money takes too long for them. Dealing with MDBs is also one of the slowest ways of moving money.”

Risk perception is also a key challenge when it comes to financing of emerging countries’ infrastructure projects.

“The hesitation to invest in emerging countries is often due to risks which are regulatory in nature, political, corruption, transparency or even security risks,” said Ngozi Okonjo-Iweala- Former Managing Director at World Bank, Finance Minister of Nigeria, and IAP.

“While these risks are very much real, risk perception far outweighs the real risk on ground level. This is mainly due to lack of information and asymmetry of data, we need to bridge this gap,” she added.

Risk perception results in localization of infrastructure financing, said the panel members. “Historically, infrastructure investors will first look at their home turfs and fund infrastructure projects in their own country. The focus of big institutional investments has mostly been in developed countries because the investors like knowing the locality, deeper capital pockets, transparency of data due to history of investments,” said Donald P. Kanak- Chairman, Eastspring Investments, Prudential Corporation Asia.

This makes the pool of pension and other funds of emerging countries, though smaller than those of developed countries, more significant in terms of funding infrastructure development, he added.

However, CDPQ’s Executive Vice-President for Growth Markets, Anita Marangoly George said that Canadians have the highest number of pension funds going into infrastructure assets. “Infrastructure development is the most suited type of investment for pension funds,” she said. CPDQ is selective when it comes to emerging markets and has five namely – India, China, Brazil, Mexico and Columbia. For India, George said that the intent and investment is there, simplifying tax structure and reducing dividend distribution tax would play a huge role in channeling financing to India’s infrastructure.