FUNDING:

Capital expected to come from Chinese banks, special purpose financial vehicles

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At an Oct 15 forum held in Hong Kong, banking and finance executives said innovative infrastructure-financing mechanisms are needed to ensure steady and diverse inflow of capital and to mitigate the risks involved in infrastructure development.

In his keynote speech, on BRI-related infrastructure financing, Hong Kong Monetary Authority (HKMA) Chief Executive Norman Chan Tak-lam noted the "wide gap" between the developing economies' need for infrastructure financing and the banks and financial institutions' need for projects that can plow in steady returns.

"When I ask investors or bankers why they are not putting their money into infrastructure projects that are waiting to be built and financed, the answer is, there is a lack of 'bankable' or 'investible' projects," Chan said at the one-day forum jointly organized by the Hong Kong Institute of Bankers and the Asia-Pacific Structured Finance Association (APSA).

"It is rather disappointing if not frustrating that the wide gap between demand and supply has continued to exist," he said, noting that there is a need "to close that gap and bring about a win-win outcome for project proponents and operators on the one hand and financiers or investors on the other".

Chan attributed investors' and bankers' reluctance to the difficulty involved in funding infrastructure projects.

"The typical infrastructure projects normally involve larger investments and for a longer period than many other types of investments. They also involve complicated land acquisition, environmental, labor and other social issues that require strong support or facilitation by the host government in their resolution," he said.

Norman Chan Tak-lam,
chief executive,
Hong Kong Monetary Authority.

Zhu Qi,
CEO, CMB Wing Lung Bank.

Shi Yulong,
director, China Center
for Urban Development.

Hu Zhirong,
director-general, International
Finance Department at China
Development Bank.

Stephen Chan Man,
general manager, institutional
department of Bank of China
(Hong Kong).

Wang Wen,
chief economist and director, Country
Risk Research Center at China Export
& Credit Insurance Corp (Sinosure).

Wei Guoxiong,
chief counselor, Sino-CEE Fund and
Sino-CEEF Capital Management Co.

Helen Wong,
CEO, Greater China, HSBC.

Anthony Francis Neoh,
Hong Kong Senior Counsel.

APSA co-convener Susie Cheung noted that, unlike international banks, it could be quite challenging for local commercial banks to extend loans for Belt and Road projects. This is because they have to deal with unfamiliar and diverse markets.

"In order to do an infrastructure project, you need to understand the bigger picture, the supporting environment, when the project is done. You need to know much more than trade financing," she told *China Daily Asia Weekly* on the forum sidelines.

It also does not help that several BRI member countries pose considerable risk for potential investors.

Wang Wen, chief economist and director of the Country Risk Research Center at China Export & Credit Insurance Corp (Sinosure), said Belt and Road countries including Iraq, Yemen and Afghanistan have high political risk.

"Country risk levels are generally high, and Chinese enterprises are facing certain challenges in going out," he said at the forum.

Wang said political instability in South America, weaker currencies in Asia, environmental problems in Africa, and Britain's departure from the European Union are all raising global political and economic risk.

It was in 2013, during state visits to Kazakhstan and Indonesia, that Chinese President Xi Jinping proposed the building of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The following year, China pledged $40 billion to set up a Silk Road Fund.

China's big commercial banks and development banks, including China Development Bank (CDB) and the Export-Import Bank of China, have likewise financed several BRI projects in recent years.

Some international banks have also joined in BRI projects. HSBC has already financed nearly 100 projects in Belt and Road countries, while Standard Chartered funded over 50 Belt and Road deals in 2017 alone.

Despite the inflow of new funding, Shi Yulong, director of the Beijing-based China Center for Urban Development, said that a sound mechanism for pooling widely engaged, long-term, stable and risk-savvy financing is yet to be developed.

Shi and other banking and industry executives also stressed the importance of planning and due diligence to encourage more investments, reduce risk, and ensure that the funding is used efficiently.

Shi said that since the Belt and Road includes several economic corridors, infrastructure funding needs to address the most urgent problem of a particular region. Energy infrastructure funding must be the priority in such countries as Bangladesh and Pakistan, he said, while central Europe prefers funding to improve its transportation system.

APSA's Cheung proposed that China needs to develop a blueprint that will standardize the infrastructure development in all Belt and Road countries. This blueprint should have information on the risks involved, the project cost and the development master plan of each country.

Hu Zhirong, director-general of CDB's International Finance Department, said the BRI needs to plan and match funding to recipients to ensure that infrastructure development can be sustained in the long term.

Wei Guoxiong, chief counselor of Sino-CEE Fund and Sino-CEEF Capital Management Co, said banks and other financial institutions can get involved during different stages of a project's life cycle. An equity fund, for instance, can be used in the initial phase, while other forms of funding can come in later.

Stephen Chan Man, general manager at the institutional department of Bank of China (Hong Kong), said commercial banks can also participate in infrastructure funding by providing bridge loans or other short-term loans.

Wang, of Sinosure, shared the bank's experiences in easing the credit risks of both bankers and lending recipients in financing large infrastructure projects. This, he said, is how an export -import bank can help in mitigating the risks involved in long-term infrastructure financing.

For the HKMA's Chan, the special administrative region has a pivotal role in infrastructure financing, given the many resources at its disposal. He cited Hong Kong's well-developed capital markets, deep pool of finance professionals and its reputation as a leading center in arbitration and dispute resolution.

Chan said the Hong Kong Mortgage Corporation is taking the first step in pursuing the securitization of infrastructure loans that can "facilitate a more efficient flow of capital into infrastructure investments". He said infrastructure loan-backed securities can bring "a win-win outcome" for the investors, the recipient countries, the intermediaries, and the capital markets.

Zhu Qi, CEO of CMB Wing Lung Bank, said the Hong Kong bourse can provide investor participation in infrastructure projects via the secondary market. Hong Kong Senior Counsel Anthony Francis Neoh, the dialogue moderator, said the Hong Kong stock exchange, as a vehicle for capital raising, has floated shares of some project companies.

At the end of the day, banking and finance executives agreed that potential investors need to realize that the Belt and Road offers opportunities that go beyond financial returns.

"Infrastructure will support the development of a modern society," Cheung said, noting that the BRI has made more people aware of the need for infrastructure development in emerging economies.

"We have to build together, to be successful together," CDB's Hu said.