



ASEAN Infrastructure Fund

Financing Infrastructure for Growth and Development

September 2019



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6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 632 4444; Fax +63 2 636 2444
www.adb.org

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Notes:
ADB recognizes “Vietnam” as Viet Nam.
In this publication, “\$” refers to United States dollars.

On the cover: Aerial View of Cikubang Railway Bridge and Toll Bridge, Cipularang, Jakarta to Bandung, Indonesia (photo from Shutterstock.com).

WHAT IS THE ASEAN INFRASTRUCTURE FUND?

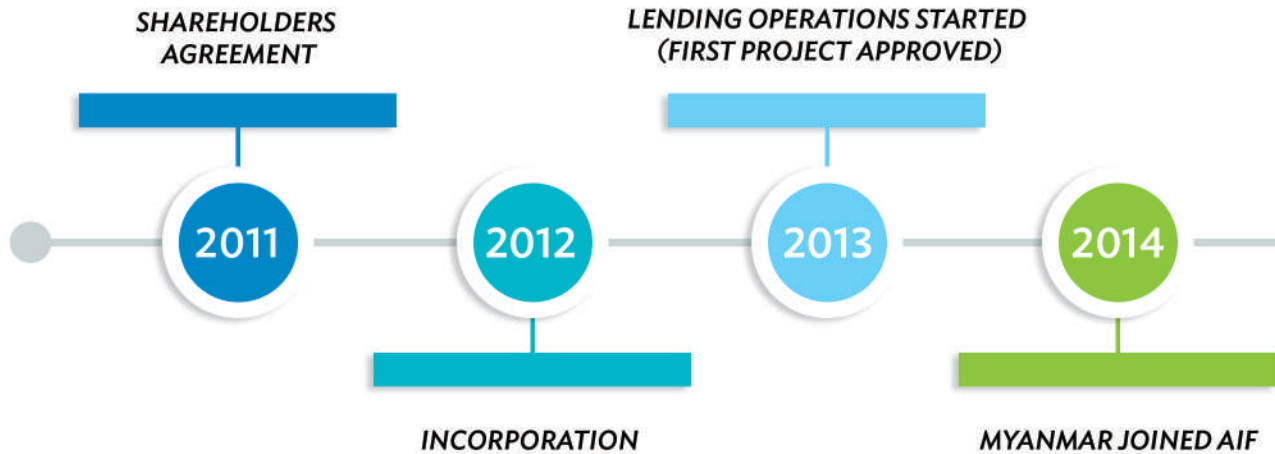
The ASEAN Infrastructure Fund promotes regional infrastructure financing to support the long-term development of the ASEAN member states.

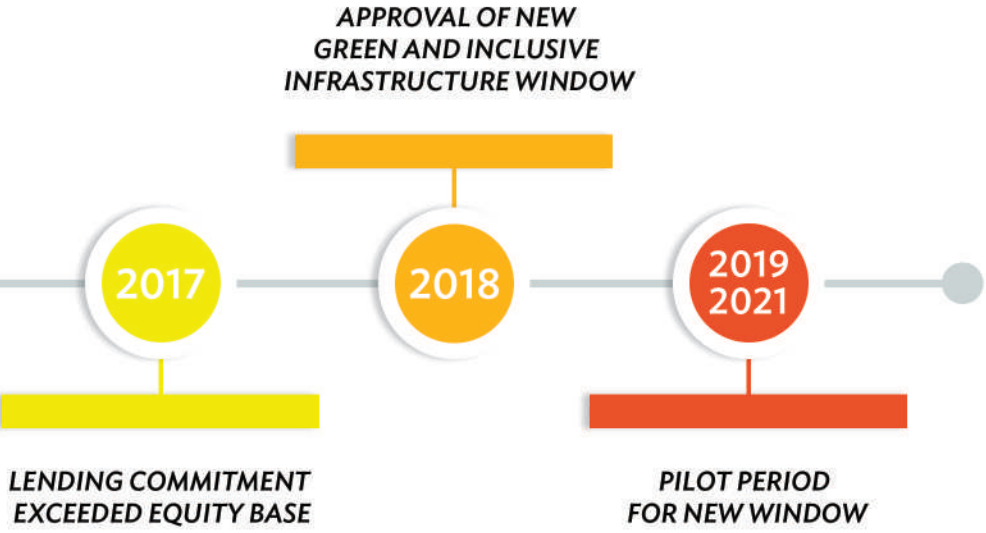
The ASEAN Infrastructure Fund is a regional infrastructure financing institution established in 2011 by the Association of Southeast Asian Nations (ASEAN) member states and the Asian Development Bank (ADB). With paid equity totaling \$485.3 million, the AIF is ASEAN's largest financing initiative for infrastructure based on member countries' funding contributions. Its shareholders include all 10 ASEAN member states and ADB.

The AIF was established upon signing of the Shareholders Agreement in September 2011 and was formally incorporated in Labuan, Malaysia, in April 2012. The AIF commenced lending operations in 2013, offering loans to its sovereign member countries for infrastructure projects in the region. To date, the AIF has committed financing to nine projects, with a total portfolio size of around \$3 billion cofinanced with ADB, for infrastructure development in various sectors such as energy, water, transport, and urban.

Solar panels installed to provide electricity in Sumba Island, Indonesia (photo from ADB).

AIF TIMELINE







Total Equity:

\$485.3
million

Number of Shareholders:



11

ASEAN member states and ADB

Total Project Value:

\$3
billion

Projects Financed:

9

Value of Total Loans Committed:



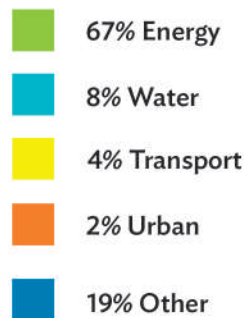
\$497
million



The town of Thanh My which lies amidst the forests of A Vuong, an important watershed that provides hydropower needed to generate electricity for Vietnam (photo from ADB).

AIF COMMITMENTS (2013-2018)

SECTORS



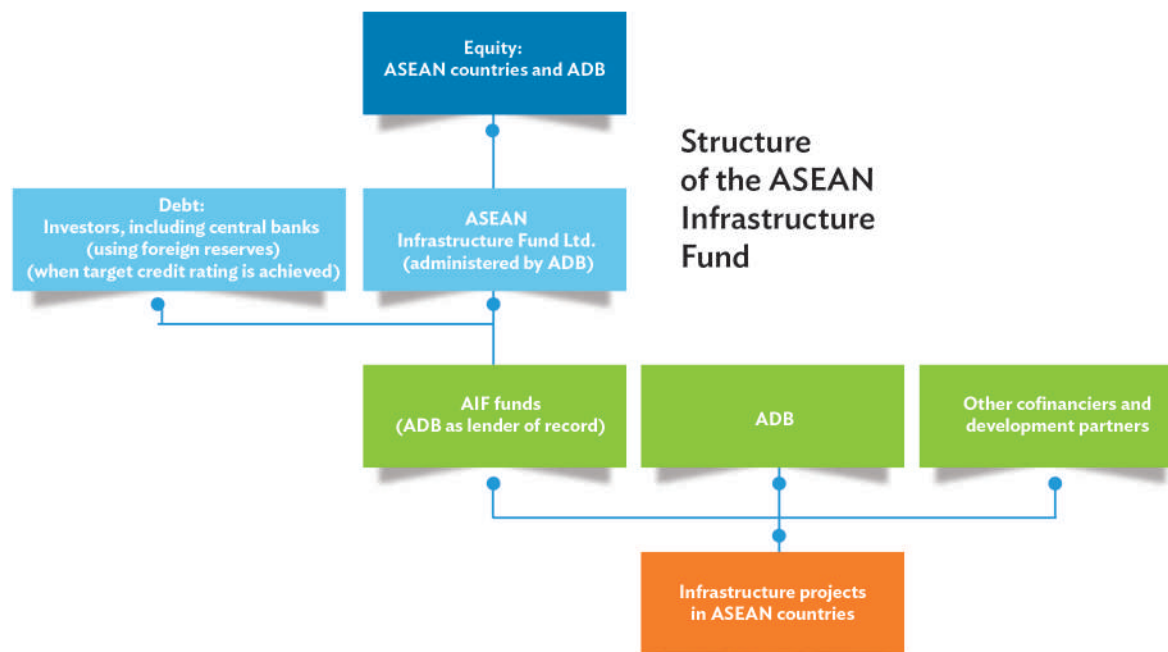
BORROWER COUNTRIES:



AIF COMMITMENTS (2013-2018)

HOW DOES THE ASEAN INFRASTRUCTURE FUND WORK?

The AIF provides lending to sovereign or sovereign-guaranteed projects in the ASEAN region through a funded participation in ADB loans. Project proponents for national and subregional infrastructure projects in ASEAN developing countries can apply for funding to be cofinanced by ADB and the AIF, through ADB operations in the countries and sectors.



The AIF Board of Directors

The AIF Board of Directors includes nominees of the respective ministries of finance as shareholders of AIF. The board meets at least twice a year.

ADB's role

ADB plays an important role in the AIF through its contributions as a shareholder, cofinancier and administrator.

As cofinancier and lender of record, ADB helps attract additional resources and ease risk concerns for investors, enabling the AIF to establish a credible track record.

As administrator, ADB is responsible for managing and disbursing all AIF resources and for ensuring that projects comply with its policies and safeguards. It designs and structures projects and shares the substantial costs linked to their preparation and implementation, thereby freeing up more AIF resources for investment. ADB reports regularly on the AIF's operations to the AIF Board of Directors

AIF lending terms

AIF loans are similar to ADB loans based on a London interbank offered rate (LIBOR), with a floating rate based on 6-month LIBOR plus a fixed spread and a maturity premium (where applicable) that are fixed over the life of the loan. All AIF loans are denominated in United States dollars. From 2019, under its new Green and Inclusive Infrastructure Window, the AIF will offer attractive loan terms for projects that meet certain criteria.



Low cost housing village built through the Neighborhood Upgrading and Shelter Sector Project in Bau-Bau, Buton, Indonesia (photo from ADB).

WHAT ARE THE BENEFITS OF THE ASEAN INFRASTRUCTURE FUND?





REGIONAL FUND

The AIF is a regional vehicle, owned and directed by ASEAN governments, to support critical infrastructure. It allows governments to pool their financing together with the aim of mobilizing further resources for the region.



POTENTIAL CHANNEL FOR SAVINGS

Subject to a suitable credit rating, the AIF could offer central banks the opportunity to purchase investment-grade debt paper using foreign exchange reserves, and therefore channel the region's huge assets into productive investments. Moreover, institutional investors such as pension or wealth funds may be able to purchase debt instruments, opening up access to the region's private savings.



INFRASTRUCTURE FOCUS

Upgrading key infrastructure will strengthen connectivity within the ASEAN region, thus helping to spur increased levels of trade, tourism, and investment. It will provide broader access, especially for the poor, to much needed energy, clean water, and sanitation facilities, and will improve transportation and mobility. This, in turn, will support economic growth, new employment opportunities, and poverty reduction.



STRONG SUSTAINABILITY STANDARDS

Ensuring that investments are environmentally sustainable and socially inclusive is a central goal of the AIF. To help achieve this, investment projects will have to comply with ADB's strict requirements regarding environmental and social safeguards, as well as its anticorruption provisions.

THE AIF IN ACTION: Increasing the sustainability of irrigated-agriculture in Indonesia

THE PROBLEM:

Boosting rural incomes and improving food security in Indonesia are critical to reduce poverty and to achieve the Sustainable Development Goals. Within this context, water resources and irrigation management in the agriculture sector play an important role in the country's efforts to increase agricultural output. The Ministry of Public Works and Housing estimates that only 55% of the nation's irrigation system is functioning at full capacity, limiting yields and reducing cropping intensity.

THE PROJECT:

The Integrated Participatory Development and Management of Irrigation Program aims to promote sustainable and more productive irrigated agriculture in Indonesia. The program runs from 2017 to 2021 and will deliver three outputs across 74 districts, based on a results-based lending modality:

- Strengthening systems and institutional capacity
- Improving irrigation operation, maintenance, and management
- Improving irrigation infrastructure



Financing:

\$500M

ADB commitments

\$100M

AIF commitments

\$1,079M

Other

commitments

(Government of Indonesia, other development partners)

THE AIF IN ACTION: Improving reliability of electricity supply in Viet Nam

THE PROBLEM:

Access to energy is critical to reduce poverty and improve human development. In Viet Nam, expanding the capacity of the power system to sustainably meet rapidly growing electricity demand is key. Power demand in Viet Nam is growing almost twice as fast as the country's economy, and is expected to grow from 120 terawatt-hours in 2012 to 700 terawatt-hours in 2030.

Driving the expansion of the country's power system to keep pace with the demand are the efforts of Vietnam Electricity, a state-owned utility. However, while the expanding power system has contributed significantly to Viet Nam's development, its financial sustainability has deteriorated. Weaknesses in the country's tariff framework and limited improvements to demand-side efficiency have added to this. Supported by international finance, utilities are exposed to currency fluctuations, which further exacerbate their financial sustainability. The major challenge facing utilities in supporting grid expansion in Viet Nam is to mobilize the investment required while maintaining their own financial sustainability.

THE PROJECT:

The Ha Noi and Ho Chi Minh City Power Grid Development Sector Project aims to improve the power infrastructure in Viet Nam by developing the electricity grids in its two largest cities. The project aims to improve the reliability and efficiency of electricity supply in Ha Noi and Ho Chi Minh City by rehabilitating and developing the 220 kilovolt and 110 kilovolt transmission system and associated substations. The project is financed through a sector loan and is expected to support up to 23 subprojects in Ha Noi and 13 in Ho Chi Minh City. The project is being implemented between 2014 and 2020.



Sapa valley landscape, Vietnam (photo from Shutterstock.com).

Financing:



LOOKING FORWARD (2019-2021): Supporting Green and Inclusive Infrastructure

In 2018, recognizing the need to make infrastructure financing accessible to all, as well as the urgency to mobilize green finance in response to the region's climate and environmental concerns, the AIF created its new Green and Inclusive Infrastructure Window. This window includes two new facilities to be operated initially on a 3-year pilot basis (2019-2021): the Inclusive Finance Facility and the ASEAN Catalytic Green Finance Facility.

INCLUSIVE FINANCE FACILITY



Lower middle-income ASEAN member states have been unable to access AIF resources at its current pricing. In response to this, and in the spirit of ASEAN solidarity, the facility will offer limited concessional loans to Cambodia, Lao People's Democratic Republic, and Myanmar to support critical infrastructure projects.



The ASEAN Catalytic Green Finance Facility will leverage the AIF's existing resources to support green infrastructure in the region. Through innovative use of development finance, AIF resources will be combined with financing from ADB and other development partners and used to de-risk green infrastructure projects, with the explicit aim of attracting private capital. The AIF will offer loans towards ACGF projects through a two-step pricing structure: more concessional terms will be offered for the first 7 years to reduce up-front risks, and pricing will be increased after this to encourage private financing to be crowded in once initial project risks have been mitigated.

Young mangrove trees along the shores of East Tanjung Pinang, Indonesia (photo from ADB).

About the AIF

The ASEAN Infrastructure Fund (AIF) is an innovative initiative by the Association of Southeast Asian Nations (ASEAN) member states to mobilize regional resources to finance infrastructure development in ASEAN countries. The AIF helps promote regional infrastructure financing and financial resilience to support the long-term development of ASEAN member states.

www.adb.org/aif

About ADB

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

www.adb.org

