Public-private partnerships an imperative for Asean green efforts

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President Masatsugu Asakawa, president of Asian Development Bank (ADB) president. The PPP approach to support sustainable development will be an attractive proposition to a private company as it strikes a balance between the betterment of the environment it operates in, while also making financial sense for accountability to their stakeholders. On this front, we are witnessing an encouraging development between The Asian Development Bank (ADB) and Japan's Ministry of Economy, Trade and Industry (METI) says Nomura Research Institute Singapore.
PHOTO: ADB

As economies across the globe look toward gradual recovery in a post-Covid-19 world, many countries are urgently recognising the role of sustainable development in their post-Covid recovery and future resilience planning. Sustainable development plays an integral role in helping Asean attract both foreign and domestic investments, as well as navigate fast economic growth and rapid urbanisation by delivering positive environmental and social impact.

Some Asean countries are experiencing challenges in meeting sustainability goals as efforts fall behind when public finances are strained from combatting the public health and economic woes caused by Covid-19. Public Private Partnership (PPP) arrangements have therefore emerged as an increasingly prominent lever for Asean's sustainable infrastructure development.

At Nomura Research Institute, we are witnessing majority of the PPP efforts coming from corporates and development banks that are seeking participation in fast-growing Asean economies through investments in renewable energy and smart cities as part of the broader sustainable development umbrella. The benefit of governments partnering with private companies to overcome financial limitations is that it will ensure sustainability stays firmly on Asean's agenda.

PPP will be a prominent lever more than ever

Firstly, let's look at the opportunity and the need: the Asean Centre for Energy (ACE) estimated that demand for primary energy across the region will be more than double from 625 million tonnes of oil equivalent (MTOE) in 2017 to 1,589 MTOE in 2040, in a baseline scenario. Due to the effects of Covid-19, ACE projects that regional total primary energy supply could slightly decrease by 3 per cent in 2040. In efforts to make the green transition, the Asean Plan of Action and Energy Cooperation has laid out targets to enhance energy security and sustainability, all of which will inevitably entail a significant financial cost.

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Secondly, Southeast Asian countries have mainly relied on public funding for energy investment and the burden of debt can quickly rise due to the fast-paced development to meet the rise in energy demand. When we look at the national debt levels of Asean countries from 2010 to 2020, what we witness is a seemingly exponential growth starting from 2017, and a huge increase from 2019 to 2020, in part due to massive government aid and the decline in state and corporate revenues. In light of this, SEA governments could turn to PPP to avoid the risk of financial distress.

As such, the increasing pressure to achieve sustainability targets will require a sizeable amount of funding and support, and PPPs have certainly proven that they can be an effective and workable solution for such challenges now, and in the future.

Bringing stability while striking the right balance

The PPP approach to support sustainable development will be an attractive proposition to a private company as it strikes a balance between the betterment of the environment it operates in, while also making financial sense for accountability to their stakeholders.

On this front, we are witnessing an encouraging development between The Asian Development Bank (ADB) and Japan's Ministry of Economy, Trade and Industry (METI).

In November 2020, ADB and METI signed a memorandum of cooperation to strengthen cooperation between the two organisations under the Cleaner Energy Future Initiative for Asean (CEFIA). CEFIA facilitates the collaboration of the public and private sectors in accelerating the deployment of sustainable energy and low-carbon technology in the region. The memorandum of cooperation serves as a good indication of commitment to PPP to narrow the funding gap for energy development in Asean and contribute to sustainability goals, while keeping the balance of their financial considerations. Such investments will also bring about tangible benefits like jobs and sustainable environments. As such, not only do PPPs serve as a funding mechanism, it could also be a good model for companies to be a stabilising force for their communities in these uncertain times now.

Speeding up the green transition while catering to increasing energy demand

In Southeast Asia, energy demand is expected to grow by 5.4% in 2021 compared to last year. Steered by their commitment to sustainable energy development, governments in the region are encouraging renewable energy projects, but at the same time are facing the challenges of managing and operating energy systems to fully achieve the renewable energy targets. In addressing this gap, the role of private capital has emerged as one solution to shift the needle on sustainable energy transmission and management.

One strategic development we have witnessed is in Vietnam. Some provinces in Vietnam have seen a strain on the national power grid in the past two years, as more transmission lines and sub-stations were becoming overloaded. There were calls for the government to allow investors to install transmission systems and transfer them to the state-owned Vietnam Electricity for operation, with one particular voice, the Ministry of Industry and Trade's Electricity and Renewable Energy Authority, encouraging private investments in the power sector to assist with the huge sums required for electricity development. Following discussions and approval from the authorities, a private company was given the licence – for the first time – to install and connect a 500/220kV substation and transmission line to the Vietnam national grid to improve the transmission capacity to certain provinces.

A response to the ultra-low interest rate environment

Another reason that makes PPP a viable economic solution is the ultra-low interest rate environment that the world is engulfed in. Sustainable development and financing for PPP is expected to increase in pace, and the low interest rate environment coupled with appropriate risk allocation will reduce overall financial risk and cost, leading to improved returns and investor confidence. Moreover, PPP will be a good source investment that provides stable returns, and can act as a hedge for companies when traditional tools like bonds became less attractive due to low interest rates. As such, PPP makes a strong business case for both governments and companies to navigate through the economic crisis caused by COVID-19, while preparing the country for future growth to meet long-term economic benefits.

Engaging suitable stakeholders

The nature of PPP is advantageous in ensuring that the involved stakeholders are fully aligned and committed to sustainability developments, and bring along financial and non-financial capabilities. A most recent PPP case involving Malaysia's municipal waste-to-energy where benefits are realised from waste management and green energy production for the area. This project in Malaysia is the second of six proposed waste-to-energy projects proposed by the Malaysian government and the country launched the tender for its second waste-to-energy PPP project to seek a strategic partner that has the relevant competencies and can ensure sustainable operations.

This example in Malaysia sets the tone for a greater need to deploy PPP models in spearheading green energy growth, smart city development and other sustainable efforts in Asean. Not only does this enable governments to utilise public funds more efficiently, it could also help mitigate the economic effects of future public health issues akin to COVID-19 without increasing risk of financial distress coming from mounting debt levels. This bodes well in making PPP a model of success for infrastructure development in Asean countries.

PPPs have grown in importance over the years and COVID-19 has inevitably put them in the spotlight as a solution for countries that aim to meet their sustainability goals while recovering from the pandemic's impact. The bottom line is that governments and companies across Asean need to ensure PPPs remain a priority and that they ramp up stakeholders' engagement to explore relevant opportunities that can benefit all parties.

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