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Infrastructure players look for another Budget boost

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An exim bank, preparatory fund, Asean coordinating forum and getting SMEs onboard are some key issues

Singapore

AN IMPORT-EXPORT bank for Singapore in the next Budget? Yes, please.

That is one Budget request from mainboard-listed **Boustead Singapore** – which would like a national infrastructure bank or import-export bank to add to local lenders' project finance offerings, according to senior vice-president Keith Chu.

"Here, we depend on the likes of local banks, whose motivations are purely commercial and which may not take into account various other factors," lamented Mr Chu, whose company has handled contracts such as waste heat recovery units for natural gas facilities in Thailand and Vietnam and smart mapping services for agencies in Malaysia and Indonesia.

Mr Chu and his fellow market watchers are looking to the upcoming Singapore Budget for new ways to build on the Infrastructure Asia initiative first dangled by Finance Minister Heng Swee Keat in the 2018 Budget.

The government agency, which is led by Enterprise Singapore and the Monetary Authority of Singapore and billed as a one-stop shop for public works investment, was launched in late October and folks can't wait for more details on its plans to grow the regional infrastructure sector.

Its inaugural pacts were with the World Bank Group, to share knowledge in Asia, and the Singapore Business Federation, to take local companies overseas and find them partners.

"Prior to Budget 2018, the trend was for the public sector … to bear the bulk of the responsibility for infrastructure spending. 2018 witnessed a shift in the financing model from state-funded to include more private-public partnerships," said Withers KhattarWong partner Amarjit Kaur.

But she still called the last Budget's focus mostly inward-looking, and added that "more stimulus could be provided to encourage Singapore companies to take on outbound projects or projects on a regional level".

Sharad Somani, head of infrastructure advisory at KPMG Singapore, now expects the Government to beef up Infrastructure Asia with a project preparation and capacity development fund, which it could tap in stated priority areas like smart cities and water and waste management.

"While it is still early days, the key areas that would need to be prioritised would be project identification and preparation," Mr Somani noted.

"This would potentially require upfront investments in project feasibility and structuring, to make it ready for banks and investors."

In fact, solutions to money and collaboration woes were high on the Budget wish list for industry stimulus.

When it comes to regional infrastructure development, Mr Chu's plea for an import-export bank, or its ilk, is just part of the "bankability gap" highlighted by watchers such as Reed Smith partner Kohe Hasan. Ms Hasan told *The Business Times* that "participation by different infrastructure financing players, such as multilateral institutions, project finance teams of private-sector banks and project advisory teams of accounting firms, may help to spread the risks" for projects.

Michael Lawson, a King & Wood Mallesons partner with a background in liquefied natural gas (LNG), said a forum for organisations such as multilateral banks and individual Asean infrastructure development bodies to coordinate efforts "may not be a panacea, but we think it would be highly valuable all the same".

He also noted that the Republic can play a key capacity-building role through grassroots initiatives such as study tours, secondments and scholarships here, adding: "Improving the coordination of existing inter-governmental, multilateral and quasi-governmental efforts is at least as important as the launch of new initiatives."

But observers said that infrastructure is a long-term play, with a key issue being winning over small and medium-sized enterprises (SMEs) – even after previous Budget measures like the Partnerships for Capability Transformation scheme for tie-ups.

Ms Hasan said: "We often find that local SMEs are not aware of the various grants and schemes available to them to help with their capability development or regionalisation efforts."

"At the same time, the application process can be long and tedious, further discouraging SMEs that already face limited manpower and resources."

"In this regard, the Singapore Government's digitalisation efforts would be a boon in not only streamlining the process, but also providing various data touch points to identify and engage potential SMEs for such grants and schemes."

As for other support that could come from this year's Budget, Ernst & Young tax services partner Ivy Ng pointed to the present rules on interest costs for loans taken out here to pay for projects done overseas.

"Based on current Singapore tax rules, the Singapore company would not be able to secure tax deduction on the interest cost incurred locally on a current basis," she said. "Perhaps special deduction rules surrounding interest cost deduction could be catered for in such a case, to encourage SMEs to expand regionally."

The region is certainly not wanting in projects, especially as development picks up in emerging economies. **Boustead**'s Mr Chu described China's Belt and Road Initiative as "the infrastructure story that has been grabbing almost all of the attention over the past few years".

"There will also be flow-over projects into Asean from this, as South-east Asia plays an integral role in China's push with strengthening trade, and perhaps more trading reliability than is currently seen, as compared to the US," Mr Chu said.

But challenges in regional infrastructure do remain, including some factors beyond Singapore's control.

These include elections in key markets and a delay in projects like the Kuala Lumpur-Singapore high-speed rail, said Lim Wee Seng, head of project finance at DBS. His team expects four to six advisory mandates this year, compared with 10 in 2018.

His colleague Clifford Lee, head of fixed income at DBS, also warned that infrastructure spending, a driver of regional bonds, "has been slower to materialise than previously anticipated".

He noted that Singapore is already "as good as it gets" on issues like tax, legal infrastructure and financial market capabilities, so – no matter what is announced in the Budget – the Republic also depends on regional partners firming up their domestic systems. Still, China took off within 10 years and is already in the international capital markets, said Mr Lee.

He dubbed "sleeping giant" Indonesia the next rising market for infrastructure bonds, and added that the next five years will be key as G3 bond issuance – in US dollars, yen and euros – from Malaysia, Thailand and the Philippines picks up from a low base.

Mr Lim also suggested: "Besides the big markets of China or India, where it's sometimes difficult to compete with domestic players, Singapore companies could seek partnerships with Asean companies such as Indonesia, Thailand and Philippines."

He added: "I'm hopeful that Singapore companies can start positioning themselves in terms of their LNG expertise, their familiarity with gas to power, and their experience in Asean."

Meanwhile, Mr Chu urged parties to fund "only regional infrastructure projects that are aligned with long-term trends in smart cities and climate change" as this would show "an emphasis on future-proofing the sustainability of such infrastructure projects".

Ms Hasan added: "With a plethora of opportunities available, Singapore policymakers should now focus efforts on the marketing and accessibility of these initiatives to fully capitalise on the momentum built."