American Association of the Indo-Pacific

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Opportunities for the Partnership for Global Infrastructure and Investment in the Indo-Pacific:

Perspectives from the U.S. business community

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aaip
American
Association of the
Indo-Pacific

REPORT CONTRIBUTORS*

Jason Bajaj
The Osiris Group

Simon Booker
PwC

AAIP BOARD MEMBERS

Jason Bajaj
The Osiris Group

Steven Chan
PayPal

Jenny Cosco
London Stock Exchange Group

Matthew Creedon
Lynk Global

David A. Katz
KKR

Jamie Kebely
Varian Medical Systems

AAIP ADVISORY BOARD MEMBERS

Glen S. Fukushima
Center for American Progress

Amb. Clifford Hart
BowerGroup Asia

Rebecca Terner-Lentchner
Government Affairs Advisor

Amb. Kurt Tong
The Asia Group

Barbara Weisel
Rock Creek Global Advisors

AAIP MANAGEMENT

Jackson Cox
Woodmont International

* Views expressed are their own.

TABLE OF CONTENTS

SUMMARY OF RECOMMENDATIONS

AAIP outlines a number of thoughtful recommendations in the conclusion of this report, which offers a practical roadmap for the mobilization of the PGII. Highlights of AAIP's recommendations include:

Creating the architecture for the PGII in the Indo-Pacific

- Establish a PGII regional secretariat in Singapore
- Mobilize a PGII advisory council
- Convene an annual PGII Indo-Pacific summit

Establishing objectives for the PGII secretariat

- Facilitate an infrastructure dialogue among major investor states
- Enhance project quality through the development of new guidance
- Encourage beneficiaries to develop mid-term infrastructure strategies
- Coordinate sources of co-investment and grant funding

Measuring the PGII's success

- Focus on impact projects in the short term
- Develop a PGII evaluation framework
- Develop a data-driven record of PGII projects

FOREWORD

President Biden launched the Partnership for Global Infrastructure and Investment (PGII) in June of this year, alongside his fellow G7 leaders.

The PGII will mobilize more than USD 600 billion (USD 200 billion from USA) in infrastructure investment over the next five years, concentrating on four key pillars: the climate crisis and energy infrastructure; information and communication technology and digital connectivity infrastructure; gender equity and economic participation; and health infrastructure.

The PGII seeks to fill a critical gap in infrastructure funding in the developing world and address the small number of financing options for many developing countries, many of which lack transparency, fuel corruption, and leave countries with unsustainable debt levels.

Ultimately, it takes on the dual task of promoting prosperity and facing significant global challenges to sustainable growth.

The involvement of private sector capital is key to the success of the PGII. It seeks to:

- Support institutional reforms to create conditions to attract private sector financing;
- Boost the involvement of U.S. small and medium-sized enterprises in international infrastructure projects;
- Mobilize U.S. private sector capital;
- Prioritize projects that can attract complementary private sector financing.

The PGII will take on additional significance alongside the Indo-Pacific Economic Framework. The two policy initiatives will complement each other in establishing conditions for economic and social prosperity, paving the way for meaningful infrastructure projects and private sector financing.

For the U.S. private sector in the Indo-Pacific, the PGII is a significant opportunity for two reasons. First, it will serve as an opportunity to provide capital, services, and expertise. Second, the PGII will catalyze further growth in the region, providing cleaner and more reliable energy, improving digital connectivity, broadening equitable economic participation, and promoting healthier societies and workforces.

This report explores the U.S. private sector's vital role in the PGII and makes key recommendations for the U.S. government and its partners.

Jackson Cox
Interim President, American Association of the Indo-Pacific

INTRODUCTION

The American Association of the Indo-Pacific (AAIP) considers the proposed Partnership for Global Infrastructure and Investment (PGII) a real opportunity to deepen the impact of American business and investment in the Indo-Pacific region. As economies worldwide work to emerge from the COVID-19 pandemic better and healthier than before–all while facing new and emerging realities created by the ongoing Russia-Ukraine conflict– now is the time to launch such an initiative. Nowhere is this work more critical than in the developing world. American business and investment are uniquely positioned to be a partner of choice for the region's middle- and low-income economies as they address their post-pandemic recoveries.

The case for the PGII made by the Biden Administration at the June 2021 G7 Leaders Meeting in Cornwall, and subsequent statements, acknowledges three central and compelling realities:[1]

1. The tremendous need that exists in the developing world requires a new and affirmative initiative that efficiently mobilizes, coordinates, and connects private sector capital to impactful projects–not only for basic infrastructure but also for sustainable and equitable growth.

2. Adjustments to the American development financing toolkit and alignment with G7 partners, recipient countries, and other stakeholders are required to allow a streamlined and efficient project development pipeline that brings private sector capital to the table and offers sustainable and transparent financing terms.

3. The PGII will be a high-standard, values-driven initiative that looks far beyond traditional infrastructure development projects to address issues such as climate and energy security, health and health security, digital connectivity, and gender equity and equality.

[1] Center for Global Development: "Crafting an Affirmative Initiative for Infrastructure in the Developing World: A Conversation with Deputy National Security Advisor Daleep Singh," https://www.cgdev.org/event/crafting-affirmative-initiative-infrastructure-developing-world-conversation-deputy-national

While the operationalization of the PGII is still a work in progress, it is clear that both the need and opportunity exist. How the PGII is operationalized will determine its success and impact. AAIP supports a path forward for the PGII in the Indo-Pacific that is:

- *Efficient* by aligning all the development finance tools of the U.S. government and multi-lateral partners to ensure bankable projects are advanced efficiently and in the spirit of full partnership with the recipient countries;
- *Strategic* by leveraging PGII projects to further advance bilateral and regional issues such as rules of trade, smooth data flows, emerging technology, and transparency;
- *Comprehensive* by making sure the PGII is just one part of a multi-pronged strategy to elevate U.S. engagement in the Indo-Pacific–the U.S. must also actively pursue trade agreements and other tools to advance its overall trade agenda; and
- *Inclusive* by acknowledging that the PGII is not in competition with other approaches and instead represents an opportunity to connect American capital to the region's infrastructure needs while demonstrating the benefits of the values-based approach that so many American businesses and investors represent.

This report takes a closer look at why the PGII matters to the Indo-Pacific region. The report reviews examples of the good work already underway by American businesses across the region to close the infrastructure gap, explores options for how best to deploy the PGII to ensure the American private sector participates, and provides the Biden Administration with concrete recommendations on moving the PGII forward in the Indo-Pacific region.

AAIP is poised to be a helpful mechanism and resource for convening in the months ahead as the PGII becomes further defined and operational.

Initiatives such as the PGII present a valuable framework for bringing impactful solutions forward to the region's middle- and low-income economies while providing American business and investment an opportunity to be a part of the solution.

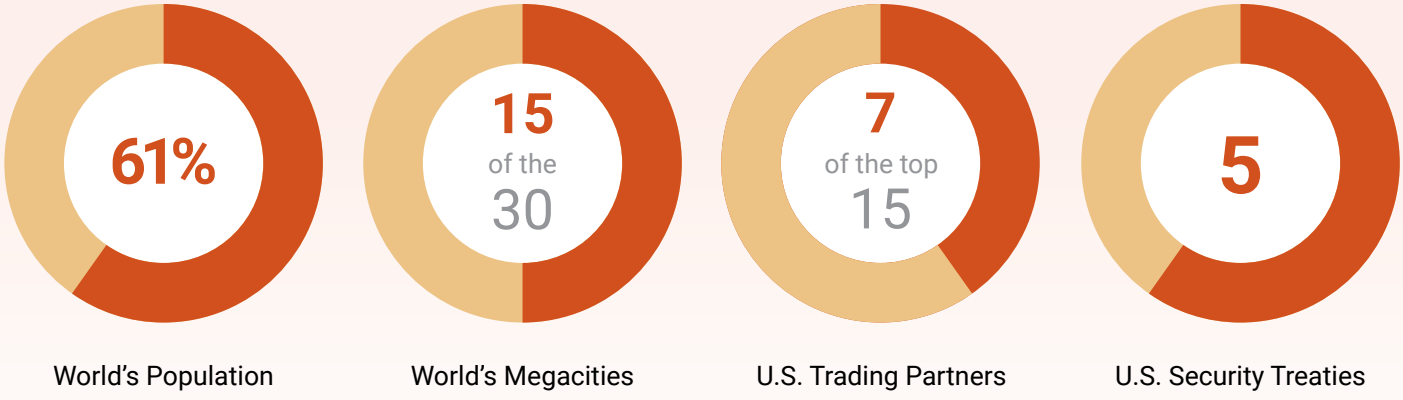
PART ONE:

Why the PGII matters in the Indo-Pacific region

INTRODUCTION

In the United States, there is bipartisan agreement that what happens in the Indo-Pacific will shape the trajectory of the world in the 21st Century more than any other geography. Despite the pandemic, the region is still the fastest growing on the planet, home to more than half the world's population, accounting for 60% of global GDP and two-thirds of global growth over the last five years. The U.S. has been engaged with this community for decades, with connections that go back generations for more than 24 million Asian Americans living in the United States. This strong connectivity allows for bilateral investment and trade opportunities, and helps create millions of U.S. jobs spread across all 50 states.[2]

The growing role of the Indo-Pacific region in the global economy:



Source: U.S. Department of Defense, - defense.gov

However, after 40 years of rapid economic development, the Indo-Pacific is at a crossroads. The region is extraordinarily diverse, with distinct interests, political frictions, conservative COVID-19 protocols, rising border disputes, socio-economic challenges, and solutions needing to be scaled across geographies. Climate change, health accessibility, financial inclusion, the digital divide, and gender empowerment are just some of the additional 21st Century priorities required for continued sustainable development.

[2] Center for Global Development: "Crafting an Affirmative Initiative for Infrastructure in the Developing World: A Conversation with Deputy National Security Advisor Daleep Singh," https://www.cgdev.org/event/crafting-affirmative-initiative-infrastructure-developing-world-conversation-deputy-national

THE BELT AND ROAD AS A DEVELOPMENT TOOL IN LOW- AND MIDDLE-INCOME INDO-PACIFIC COUNTRIES

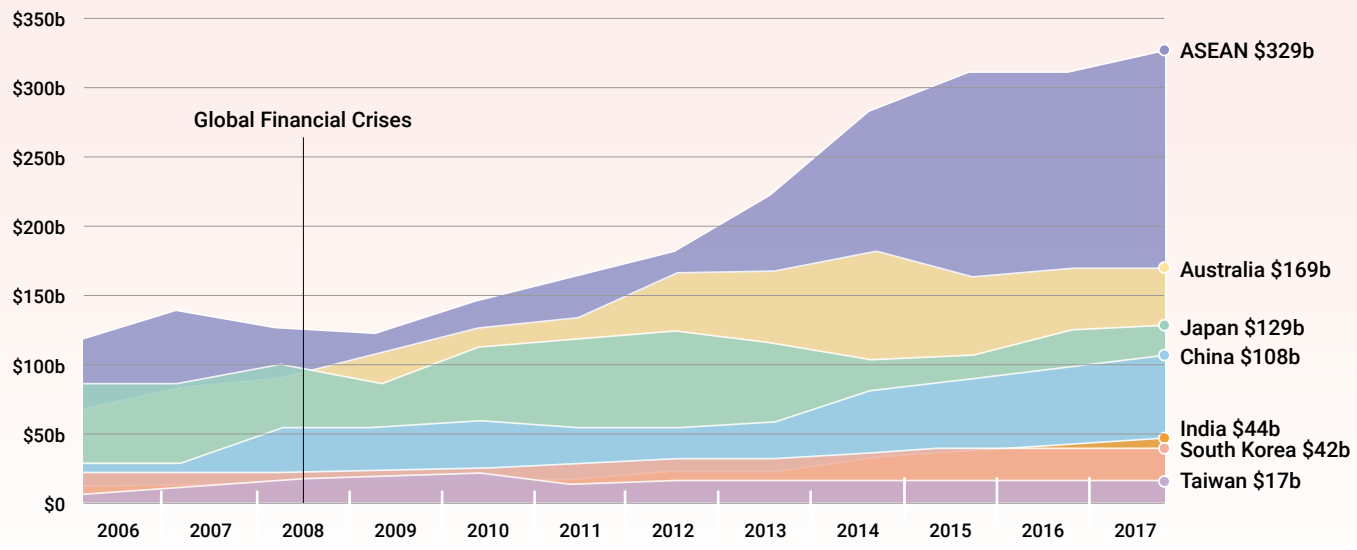
Since the People's Republic of China (PRC) launched the Belt and Road Initiative (BRI) in 2013 with Pakistan, President Xi Jinping's signature foreign policy project has effectively challenged the traditional model of sovereign economic development. China's primary advantage in infrastructure diplomacy lies in its one-stop-shop package of financing, insurance, and construction for projects. The governments of capital-strapped low-and middle-income Indo-Pacific countries initially celebrated state-sponsored fixed asset investments (FAI).

However, as we approach the 10-year anniversary of the BRI, the lack of local job creation and human skills development–both key agenda items for local governments–is becoming a concern.

OTHER DEVELOPMENT MODELS IN THE INDO-PACIFIC

Governments in emerging economies have, over the decades, tried many different policy agendas to stimulate development, accelerate growth, alleviate poverty, and achieve any number of goals to mixed success. The challenge of development is hard but fundamentally one of economic opportunity.

The growing role of U.S. FDI in the Indo-Pacific:



Source: U.S. Bureau of Economic Analysis (BEA) Direct Investment Position on a Historical-Cost Basis

In a 2019 report, McKinsey noted, "After studying emerging economies' performance over 50 years, we find that countries tend to achieve the strongest and most consistent growth when they have adopted measures to encourage vibrant competition that enables the rise of **strong companies** that drive growth."[3]

American businesses in the region proactively compete with many national firms. This competition makes them better. In the Indo-Pacific, U.S. private sector foreign direct investment (FDI) is extremely successful among Japanese, Singaporean, Korean, European, and Russian competitors battling for regional opportunities every day.

The Partnership for Global Infrastructure and Investment (PGII) is a powerful prong of the Biden Administration's recently announced Indo-Pacific Economic Framework (IPEF) and is most aligned with local community needs when it comes to delivering U.S. goods and services to low- and middle-income nations. In June 2021, President Biden and his G7 counterparts agreed to launch the PGII, "a values-driven, market-led, high-standard, and transparent infrastructure partnership," to help narrow the 40+ trillion USD infrastructure gap in the developing world by 2035. The PGII aims to mobilize bilateral, multilateral, and private sector capital for investments in four areas: **climate and energy security, health and health security, digital connectivity, and gender equity and equality.**[4]

The PGII is intended to be global in scope and covers low-income (GNI per capita <1,045 USD), lower- to middle-income (GNI per capita 1,046-4,125 USD), and upper- to middle-income (GNI per capita 4,126-12,535 USD) countries. The acclaimed hallmark of the PGII is its economic viability, alignment with the Paris Agreement, ESG integration, and compliance with international standards, laws, and regulations.

The PGII is an extension of the previous Blue Dot Network (BDN), in which the U.S. joined forces with Japan and Australia to support high-quality, private sector-led infrastructure investments. Prime Minister Abe's formal announcement of the Free and Open Indo-Pacific (FOIP) Strategy in 2016 set the stage for Japan to be an early alternative source of BRI financing. In 2018, when global publicity for BRI reached its peak, the Japan Bank for International Cooperation (JBIC) established its 500 billion USD Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth (QI-ESG) program, which morphed into its Growth Investment Facility (GIF) in early 2020.[5]

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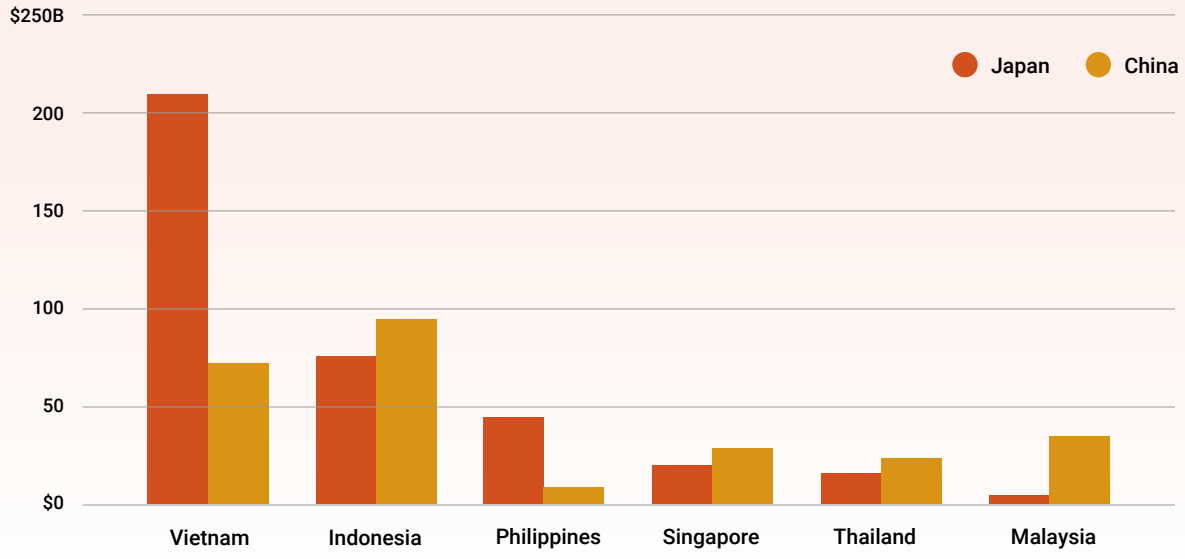
[3] "How governments in emerging economies can help boost and sustain growth," McKinsey, March 11, 2019

[4] White House, "FACT SHEET: President Biden and G7 Leaders Launch Build Back Better World (BW3) Partnership," June 12, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership/

[4] "Japan's challenge to Belt and Road gains momentum," REFINITIV, July 2021

Building Battles

Japan far outpaces China in value of infrastructure projects in Southeast Asia



Source: Fitch Solutions (data provided 18 June 2019) Bloomberg

Quietly, Japan's FOIP initiative, with JBIC as the primary funding agent and private sector trading houses Mitsubishi, Sumitomo, and Marubeni-Itochu acting as execution arms, have single-handedly matched BRI infrastructure investments in the Indo-Pacific with impressive results. Japan is now the largest infrastructure investor across the Indo-Pacific.

In 2019, Bloomberg reported that Japanese investments in Southeast Asia surpassed those of China, with total investments of 367 billion USD compared to China's 255 billion USD. The bulk of Japanese investment went to **six Southeast Asian nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Since then, Japan has expanded infrastructure investments to India, Bangladesh, Sri Lanka, and Pakistan.** Clearly, JBIC financing partnerships with U.S. EXIM Bank, Development Finance Corporation (DFC), and other U.S. coordinated partners like the UK, Australia, and South Korea would be a powerful funnel for catalyzing PGII investments in the Indo-Pacific.[6]

[6] "Japan, the Quad, and the Indo-Pacific," The Asan Forum, November-December 2021

THE RACE TO THE TOP IN THE INDO-PACIFIC

From an Indo-Pacific boots-on-the-ground perspective, the PGII has game-changing potential, particularly if it adds one more tool to the toolkit: the U.S. private sector.

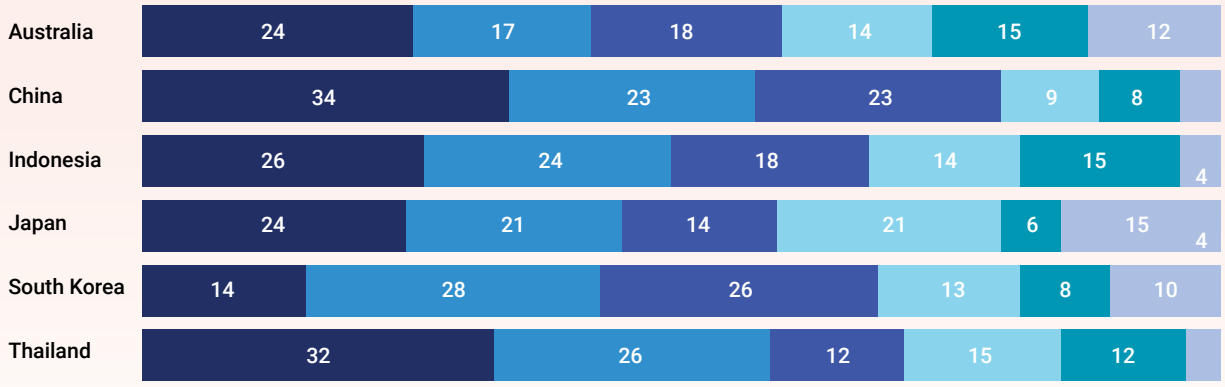
Regionally, there is a huge appetite for the U.S. to step up economically. Indo-Pacific leaders are looking for clear and concrete ways to strengthen economic ties with the United States. Fundamentally, governments in the region want better opportunities for their people, jobs, and greater trade connectivity and help with scaling innovative solutions that **"raise the tide"** for all of their citizens. Simply put, after eight years of existence, the BRI does not accomplish this domestic mission alone, but if implemented correctly, the PGII can satisfy enormous unmet needs and strengthen governance across the board. Trusted U.S. education institutions, manufacturing and healthcare firms, logistic companies, technology firms, and select growth equity and venture capital financing arms are already bringing much-needed U.S. FDI into these capital-hungry nations.

Regionally, U.S. FDI is recognized as a source of economic support. U.S. private sector leaders create local trust and have demonstrated help with the execution strength required to deliver real-world results to pressing societal challenges. It's here where there is a great deal of alignment between low- and middle-income Indo-Pacific government needs and U.S. private sector execution modalities.

The Indo-Pacific is at the center of global geopolitics. A lesser-known fact is that the Indo-Pacific contains more than half the world's millennials—a generation of digital natives ripe with disruptive innovators **representing the future leadership** of these low- and middle-income nations. By 2025, Gen Z (born 1996-2012) will make up a quarter of the Indo-Pacific population. The "race to the top" that benefits local citizen needs from the bottom up, expanding economic opportunity and delivery of essential services for low-income youth, is now a critical demographic cohort for strategic success.

Brand-conscious followers and premium shopaholics are the largest segments within Generation Z.

Generation Z population by archetype, %



Brand-conscious followers love brands of all kinds and follow trends closely but don't necessarily love shopping

Premium shopaholics love to shop and take time to research and compare (mainly online) so they can purchase spontaneously

Ethical 'confidents' prefer environmentally responsible and socially ethical brands

Value researchers are always on the hunt for the best deal and prefer to research and buy online

Quality-conscious 'independents' seek out quality (which they judge for themselves) and are willing to pay for it

Disengaged conformists want to spend as little time as possible shopping

Note: Figures may not sum to $100 because of rounding.
Source: McKinsey Asia-Pacific Generation Z Survey, November 2019, n = 16,000

Unlike earlier USG initiatives, the U.S. private sector, particularly firms already experienced in the region, must be **lead execution partners** for the PGII. The convergence among the domestic needs of Indo-Pacific leaders and their citizens, the strategic interests of the United States, and U.S. private sector business opportunities should be implemented as a **PGII Public-Private Partnership.** U.S.-Japan-G7 financing coordination and additional risk mitigation tools made available to U.S. private sector participants in the region by a better-funded Development Finance Corporation (DFC) would structurally create a paradigm shift in how U.S. FDI is allocated to low- and middle-income nations.

INFRASTRUCTURE IS MORE THAN A ROAD

While economic security in the region is vital to U.S. national security, the PGII gives local Indo-Pacific nations a new framework to engage with Washington beyond the security realm. Many of the naysayers—in the U.S. and here in the region—believe the U.S. has no competitive edge with infrastructure investments. But, the definition of what counts as "infrastructure" is critical. President Biden aptly mentioned this last year when he said, "These chips, these wafers, [our] batteries, broadband; it's all infrastructure... We need to build the infrastructure of today, and not just repair the one of yesterday."[9]

Phases of Infrastructure Build

SURVIVAL

- Basic Housing
- Water
- Roads
- Power
- Schools
- Hospitals

ADVANCED

- Digital Infra
- Payment Rails
- Quality Housing
- Pollution Control
- Ports, Airports, Transit
- Data Centers / Smart Grids
- Digital Services
- Higher Education
- Climate Smart Agriculture

QUALITY OF LIFE

- Culture
- Smart Highways
- Electric Vehicles
- Clean Energy
- Edge Technology Centers
- Elder Care
- Risk Management

Source: Osiris Group Proprietary Research

Infrastructure investments have long been a vehicle for nation-building, international diplomacy, and a focus on development aid. Many observers think of infrastructure as only "hard"—roads, bridges, ports, power plants—but at this stage of economic development for low- and middle-income Indo-Pacific nations, infrastructure investments can be broken into three distinct categories: **physical** (road, bridges, rail, ports, power), **digital** (towers, fiber, spectrum, payments, digital services), and **human** (health and education). From this lens, the U.S. is competitive from multiple angles. And when looked at from the more holistic infrastructure phases of survival, advancement, and quality of life, as noted in the above chart, the U.S. has ample competitive advantages with many American firms globally recognized as category leaders. Building critical services on top of "hard infrastructure" has always been the path to societal progress and sovereign development. This is even more relevant in the digital 21st Century.

[9] Remarks by President Biden at a Virtual CEO Summit on Semiconductor and Supply Chain Resilience, Briefing Room Speeches and Remarks, www.whitehouse.gov, April 2021

THE PGII AS A MODEL

The rising competition between two economic giants provides more opportunities and diversified funding options for Indo-Pacific leaders. It helps that despite a PGII versus BRI media narrative, on-the-ground experience teaches us these initiatives are likely to be complementary. And perhaps, over time, they won't be executed only through the **rightful lens of competition but future collaboration** with higher U.S. standards.

While there are signs that resources being available for the BRI peaked in 2016, Indo-Pacific leaders are still looking for alternative sources of funding for critical development solutions.[10] For low- and middle-income governments, the rational choice is to **blend PGII and BRI resources rather than choose one or the other,** the same way Japan's FOIP is being balanced today.

For these countries, PGII projects across climate, health, technology, and gender lens investments contribute to the Sustainable Development Goals (SDGs), involve fewer negative environmental and social impacts, and **better resonate with local hearts and minds, particularly digital delivery of critical services.** Wifi can be more powerful than a road. This is where the BRI and FOIP are behind the curve and where the PGII can immediately take the competitive lead.

Software is not only eating the world but now foreign policy as well. The PGII creates digital trade opportunities for regional integration, cross-border data flows, payment rails, edge technologies, and youth empowerment. Accelerating digital health transformation in a pandemic-stricken geography, the PGII can leverage digital solutions that mitigate healthcare manufacturing and distribution bottlenecks, enable remote consultations for primary care telehealth services, and scale inexpensive digital treatments for non-communicable diseases (NCDs).

The PGII ultimately represents the high-demand **innovation solutions** the U.S. private sector provides while offering greater diversity in the types of investments the U.S. successfully drives.

Finally, PGII execution modalities can learn from the BRI limitations witnessed over the past eight years. Protracted G2G negotiations that do not deliver tangible economic benefits to the region will not resonate.

[10] John Basquill, "Questions raised over G7 plans to take on China's Belt and Road Initiative," Global Trade Review, June 21, 2021, https://www.gtreview.com/news/global/questions-raised-over-g7-plans-to-take-on-chinas-belt-and-road-initiative/.

Based on recent conversations with Indo-Pacific government officials, expected disappointment with the Biden Administration's "true regional economic commitment" is the biggest fear.[11] "The reason there's so much enthusiasm is that nations do want a choice," NSC Daleep Singh says. "For a long time, China has been the only game in town for many of these countries."[12]

As an Indo-Pacific development narrative, from the lens of transparency, host country benefits, and the involvement of local enterprises, the PGII will be greatly welcomed by low- and middle-income governments. The PGII becomes a powerful tool for **bilateral trade facilitation** by integrating host country development agendas with local communities affected by projects, the entrepreneurs and workers who build them, as well as the "real-world" impact they provide for the citizens they help. More than a narrative, the PGII can become the "economic model of choice" for these youthful, fast-growing nations, creating generational dividends on both sides of the Pacific.

But we now have to take the next step and move from advocacy to action. For PGII execution success, the U.S. private sector must be engaged with a seat at the table, with various implementation modalities being contemplated for this powerful, game-changing framework.

The U.S. private sector is ready for this challenge. American businesses that have been competing in the Indo-Pacific for decades want, can, and must do more. The stakes have never been higher.

[11] "The Needle Biden Must Thread: How to Compete in Asia Without a New Trade Deal," Wendy Cutler, Barron's, Dec. 2021

[12] "US Indo-Pacific Strategy Short on Trade Incentives, Experts Say," Patsy Widakuswara, Feb. 19, 2022

PART TWO:

A PGII execution model that brings the private sector to the table

INTRODUCTION

To maximize the effectiveness of the PGII in delivering the infrastructure needed throughout the Indo-Pacific region, the initiative must be underpinned by a robust execution model. This presents three main challenges:

- The wide spectrum of risks presented for investors in such a diverse region and how the PGII model can manage these risks;
- The plethora of infrastructure procurement practices of governmental bodies throughout the Indo-Pacific, many of which are unconventional to international investors; and
- The broad range of infrastructure initiatives in the region that also seek to facilitate international capital and expertise in the delivery of infrastructure and, in many cases, have common objectives.

To address these challenges, the PGII must align with existing development finance institutions (DFIs) and other agencies and initiatives to enhance the alignment of infrastructure strategies. These include the U.S. Blue Dot Network (aimed at enhancing project scrutiny), the European Union's Globally Connected Europe strategy (focused on delivering connectivity infrastructure), Japan's Quality Infrastructure program, and the Belt and Road Initiative (BRI). All of these initiatives target the infrastructure funding gap. The means through which the PGII builds on this framework and brings about coordinated step change in infrastructure delivery must be carefully addressed.

The backdrop of the U.S. Infrastructure Act of 2021, which unlocks 1 trillion USD of domestic spend, will also help support this alignment by casting greater light on general infrastructure capabilities, showcasing the domestic project expertise that stands ready to assist with the infrastructure needs of the Indo-Pacific.

CLOSER ALIGNMENT BETWEEN AGENCIES IS REQUIRED TO DELIVER THE PGII

The opportunity for the PGII to deliver a step change in infrastructure development is timely. Offshore infrastructure investment has fallen sharply in much of the Indo-Pacific, and infrastructure investment in the region is undergoing a transformation. There is less focus on policy bank-financed connectivity infrastructure such as road and rail, and more attention is focused on smaller, diversified infrastructure projects, particularly those related to digital connectivity. Lenders and investors are becoming more focused; geopolitical tensions have heightened scrutiny and raised expectations around transparency and the governance of major projects. At the same time, economic headwinds fueled by COVID-19 are driving governments to look more closely at unlocking new capital to deliver much-needed infrastructure as a catalyst for economic recovery.

DFIs must maximize scale and impact by creating a platform that rapidly brings the private sector into play.

To fill this gap by mobilizing private capital, institutional players must come together and play an active role in the execution of the PGII. DFIs must maximize scale and impact by creating a platform that rapidly brings the private sector into play. DFC has a wide geographical scope and is under pressure to balance investment and expertise between the Indo-Pacific and other low and middle-income countries. The Asian Infrastructure Investment Bank (AIIB) is increasingly focusing on digital infrastructure solutions throughout BRI markets, and JBIC is promoting capacity building for sustainable transport and decarbonization initiatives by promoting quality business cases. These initiatives overlap to some extent with the objectives of the PGII and have common geographical coverage throughout low-income nations. An overarching framework to align these initiatives will need to be developed to align their respective interests.

Greater coordination is also needed among the U.S. agencies with a mission to mobilize the private sector in infrastructure delivery. The DFC, USAID, EXIM Bank, and the U.S. Trade and Development Agency need to be aligned to drive the realization of PGII objectives. A practical starting point here might be to develop a coordinated framework that agencies could use to communicate the values, trade, and outcomes-based principles that could govern investment to governments throughout the region.

ROADMAP FOR MAXIMIZING PRIVATE SECTOR INVESTMENT

While the PGII can be enabled by better aligning U.S. government agencies, DFIs, and other active agencies, this alignment needs to be configured around three enablers of private investment in the region.

First, and arguably the most important, is the need to enhance **transparency** in project procurement and delivery. Transparent contracts are those which clearly define key terms and conditions and are focused on delivering social and economic value alongside commercial returns. They provide for transitional arrangements upon completion, are less likely to be politicized, and provide better local regulatory certainty for investors.

To achieve this, programs such as the Blue Dot Network could be utilized more widely. The BDN framework assesses and certifies projects based on their standards of governance, transparency, and positive socio-economic impacts. Best practice procurement and project governance would then become a central pillar of capacity-building initiatives, and delivering on these standards could be a conditional part of grants and loans.

Key priorities for maximizing private sector investment

- Enhance transparency in project procurement and delivery
- Elevate and enhance project governance
- Ensure investors have visibility over a quality pipeline of projects throughout the region by raising project quality and widely publicizing projects

Second, **enhancing project governance** is also a prerequisite for facilitating private capital. The roles and responsibilities of the parties involved must be well defined, and the transfer of risks to the private sector must be balanced against the need to achieve efficient financing terms to avoid accentuating debt capacity and affordability concerns that already resonate throughout the region. Monitoring projects throughout the delivery stage and post-commitment will also be important to ensure benefits are realized as part of good governance. In this respect, the DFC's **Impact Quotient** tool, which measures the impact of projects supported by the agency, could be widely deployed to enhance project governance throughout the region.

Third, **project quality** must be raised and widely publicized so that investors have visibility over a quality pipeline of projects throughout the region. Thorough project feasibility studies are the key to delivering quality projects.

In the past, many projects throughout the region have suffered from comparatively lower levels of due diligence, and their bankability has been undermined as a result. The PGII must advocate for thorough feasibility studies. Projects should be determined as commercially viable before seeking private finance. More focus must be given to environmental impact assessments and ESG considerations within the feasibility assessment itself to ensure full alignment with the four objectives of the PGII: climate and energy security, health and health security, digital connectivity, and gender equity and equality.

The foundations for achieving these objectives are already well developed. The DFC's 2x Women's Initiative is casting a focus on the gender equity issues that COVID-19 has accentuated, and the IFC, ADB, and JBIC already have rigorous evaluation protocols that can be readily leveraged. Moreover, the United Nations Sustainable Development Goals (SDGs) provide a set of priorities that the PGII can embrace to promote the sustainable delivery of infrastructure. The Taskforce on Climate-related Financial Disclosures, which focuses heavily on governance and risk management, also sets out reporting requirements for investors that should form a useful reference point.

INFRASTRUCTURE NEEDS MUST BE REASSESSED AND PRIORITIZED TO MEET PGII OBJECTIVES

While greater alignment is required between multilateral agencies operating at a pan-regional level, greater alignment, and new guidelines that set out a pathway to access the funds and support that form part of the PGII delivery model are also required at the respective governmental and sub-national levels. All too often, governments have focused on fire-fighting the backlog of capital-intensive projects, which must change to better engage the private sector in a timely manner.

These government bodies must focus on developing mid-term infrastructure strategies and plans that signal to private investors that thorough feasibility studies back a pipeline of bankable projects. Support will need to be provided to mobilize these plans and ensure they are aligned.

Pragmatism is required to define where the greatest impact can be made to achieve the PGII's objectives in the infrastructure spectrum, and a significant focus on feasibility studies in the renewable energy sector will be required.

The pipeline of bankable projects varies considerably between countries throughout the Indo-Pacific. Identifying and aligning bankable projects with the PGII will require work. For example, while renewable energy projects clearly support the PGII's climate investment focus, it is not always the case that countries have renewable projects that are "ready to go". Pragmatism is required to define where the greatest impact can be made to achieve the PGII's objectives in the infrastructure spectrum, and a significant focus on feasibility studies in the renewable energy sector will be required.

In the meantime, a continued focus on assisting the region in transitioning the energy mix to cleaner sources through gas-fired and LNG infrastructure will be needed. Support of LNG and combined cycle power plants in Vietnam gives important recognition to the role of climate finance as applied to transitional infrastructure to decarbonize the Indo-Pacific.

Feasibility studies themselves are also becoming a lot more complicated, and capacity building will be required to facilitate an effective pipeline of bankable projects. In the past, DFIs have become somewhat weighed down by heavy commitments to traditional capital-intensive projects (hospitals being one such example). However, technology has enabled investors to take a wider view beyond the traditional infrastructure asset classes, such as digital health and digital infrastructure that also promotes and delivers on PGII goals. These can often be implemented quickly, and benefits are more rapidly realized. The DFC's support for projects that increase broadband connectivity in Myanmar, Singapore, and Indonesia are examples of projects and experiences that can be leveraged to deliver more timely interventions.

OUR APPROACH TO DEVELOPMENT FINANCE MUST EVOLVE TO SUPPORT THE PGII

Development finance is evolving. To an ever-increasing extent, the reliance historically placed on export-import financing to deliver infrastructure projects is being replaced by direct investment as regulatory environments mature and investors become increasingly pragmatic about emerging market risk. Lower infrastructure yields largely drive this evolution in the traditional developed markets. Therefore, the DFC's increasing transition to providing equity investments will become increasingly important, and its focus on the technology sector is highly relevant to delivering the digital infrastructure that the region requires. Equally, the DFC's support for private equity funds, which is intended to address shortfalls in investment capital, will become more important while sub-national governments take time to establish themselves as successful procurement bodies. This will be particularly important in the renewable energy sector, where there is a shortfall in bankable projects.

To do so, DFIs need to evolve. Across the region, more investments are being made in infrastructure projects by state-owned enterprises and local lenders, who are increasingly active in the smaller 200-300 million USD projects. Capital efficiency is key. Concessional lending by foreign investors throughout the region can be as low as 2-3% and structuring investments efficiently to reduce the base cost of funds is a critical "door opener" for DFIs in the region.

Greater support for private equity also resonates against the backdrop of concerns about debt capacity and affordability from countries in the region. The key to alleviating these concerns will be a greater focus on co-investment. Unlocking private capital through co-investment will be an important instrument in attracting co-investment from private sources and reducing the debt burden. The DFC's Health and Prosperity Initiative is evidence of traction in this area, which has leveraged 3 billion USD of private investment from 2 billion USD invested capital. Greater focus on co-investment between DFIs could promote scale in this area.

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Domestic funding sources must also play an increasingly important role in the execution of the PGII and allow governments to better balance their relationship with external lenders. Sovereign agencies must engage with the PGII to maximize domestic funding and focus on de-risking smaller projects in particular. One example is the newly formed Indonesian Investment Authority, which aims to deploy 5 billion USD of capital into social infrastructure projects through co-investment. Engagement and alignment with these agencies will be important for maximizing local participation and expanding the reach of the PGII's impacts.

To maximize both local and international co-investment, DFIs should engage directly with recipient countries and, in particular, sub-national governments, which are typically more active in infrastructure procurement. This may require the development of new frameworks that allow DFIs to mobilize investment at this level of government so that investment tools, including financing, insurance, and technical support, can be deployed. Sub-national bodies can then be empowered to enter into public-private partnerships (PPPs) in more impactful ways. More efficient risk allocation is often needed between parties, and mechanisms such as availability payments could be explored to reduce risks. Bundling projects together is also an effective means of improving bankability by diversifying risks, as demonstrated by the delivery of recent PPP projects in Thailand and India.

CONCLUSIONS & RECOMMENDATIONS

The PGII presents an opportunity for greater collaboration throughout the Indo-Pacific region to achieve common climate and social equity goals by accelerating the delivery of meaningful and impactful infrastructure projects. Economic challenges accentuated by COVID-19 mean that there is common agreement on the urgent need to deliver these projects. To do so, the PGII needs to play a coordinating role–bringing numerous stakeholders and initiatives throughout the region together to maximize collective impact.

We suggest that a roadmap for the mobilization of the PGII is required. The roadmap should begin by creating the architecture to support PGII in the region:

- **A PGII regional secretariat for the Indo-Pacific** should be established and based in Singapore. The regional secretariat would help locate and craft bankable projects and advise on the strategic deployment of funds, guarantees, and technical support to maximize development impact. The secretariat should be focused on balancing and aligning the PGII with DFIs and policy bodies so that duplication is avoided and consistency is promoted to maximize impact. This would likely be best achieved through a blended resourcing model for the secretariat itself, combining expertise from the public and private sectors–using seconded private sector experts–to optimize private sector engagement;

- **Mobilize a PGII advisory council** to integrate the views of the business and investor community and feed these to the secretariat. The purpose of the council should be to ensure that the PGII remains focused on mobilizing private capital and expertise in the most efficient manner. The council will ensure that the voice of industry remains clearly heard; and

- **An annual PGII Indo-Pacific summit** should be launched. AAIP should be appointed as the private sector organizer.

The objectives of the secretariat should be to advocate the advancement of the PGII by:

- **Facilitating an infrastructure dialogue among major investor states,** including China and Japan, to begin aligning programs and reassure regional recipient states that the PGII is inclusive and seeks to maximize investment opportunities available to them;

- **Enhancing project quality through the development of new guidance** that could utilize the Blue Dot Network and the DFC Impact Quotient tool to instill good governance at the heart of project appraisal and evaluation. This will reinforce the identity of the PGII as a transparent and outcome-focused initiative. Specific guidance should also be prepared for local governmental bodies and agencies, clearly setting out how sub-national bodies can leverage the PGII. Throughout the Indo-Pacific, sub-national government bodies are often the active procurers of infrastructure projects, and they have specific needs and priorities that are not currently well addressed through macro-level guidance;

- **Encouraging beneficiaries to develop mid-term infrastructure strategies** that can be used to raise awareness of the pipeline of infrastructure opportunities that could be enhanced by the PGII and promoted to investors and contractors. Projects listed in these pipelines should be subject to appraisal to ensure they are structured optimally and capable of supporting commercial investment on terms that will deliver value to all parties; and

- **Coordinating sources of co-investment and grant funding** and applying these to projects. To the extent possible, grants and loans should contain conditional budgets to support the training requirements of sub-national bodies and promote capacity-building in procurement. Support for private equity should also be prioritized to encourage investors to provide equity where practical.

The success of the PGII must be measured by the impact and change that it delivers. To maximize impact, a focus on impact projects that deliver on PGII goals in the short term could be considered. This should be complemented by the development of a robust, data-driven evaluation framework so that the success of the PGII can be objectively measured:

- **Focus on impact projects in the short term,** which can be brought to realization quickly with minimal complexity. This will likely mean a heavy focus on digital, e-health, and education, and transitional energy projects supporting decarbonization, which are comparatively less capital intensive and have the potential to further both PGII goals and UNSDGs;

- **A PGII evaluation framework should be developed** which clearly sets out the values, trade, and outcomes-based principles that will govern investment for governments throughout the region so that the economic and social case for the PGII is readily understood at the grassroots level. This framework should also be aligned with the UNSDGs to act as a lens helping businesses and stakeholders take a systematic approach to understanding the objectives of the PGII and how expected impacts will be evaluated and monitored over time; and

- **Develop a data-driven record of PGII projects,** those in the pipeline and those that have received support, to monitor progress over time and capture the impact of the PGII as it evolves. Active periodic reporting of progress should be formalized, and evidence of the effectiveness of the incremental impact of PGII projects could be sourced through ongoing initiatives such as the Blue Dot Network.

ABOUT AAIP

The American Association of the Indo-Pacific is a membership-led organization that works to strengthen American business and investment in the Indo-Pacific region. AAIP does this through policy initiatives, ongoing engagement with policymakers in Washington, D.C. and in the region, and with close collaboration with other business associations. AAIP membership is held by U.S.-headquartered companies. AAIP is legally registered in the United States as a 501c6 non-profit corporation.