



How Can Finance Help Frontier Asia Meet Infrastructure Needs and Address Demographic Challenges?

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Background paper

- Identify the need for further financial integration and market deepening in Asia for financial resources mobilization for infrastructure development.
- Infrastructure investment contributes to both economic and social development including education, health, energy, trade, and nation integration with the region and world
- Infrastructure deficit across the region remain substantial due to the shallow financial system with limited private sector participation and suffers from capital exported to advanced economies with low return.

Cambodia

- A small and opened economy yet highly dollarized with liberalized capital account
- GDP growth 7%, Low inflation 1.2%, and credit to GDP 57%
- Steady increase of population growth
- Working age population expanding increase the need for more schools, energy, transportations, and trade to the necessity to create more jobs

How to address infrastructure needs and deal with demographic change

- Enhance financial innovation
- Deeper financial integration
- Broader financial inclusion
 - However, face with Financial Stability risks :
Capital Flows and Asset Price Vulnerability

Infrastructure investments for Cambodia

- Underdeveloped infrastructure
- Estimated investment need USD \$13 billion by 2020
- Funding: Multilateral and bilateral loans: ADB, JBIC, China & Korea
- Cambodia welcomes PPP

Attract Institutional investors to Cambodia

- Financial sector is at an early stage of Development – ASEAN integration remains a challenge, depending on Cambodia readiness.
- Further steps are necessary to attract investment funds:
- Strengthen our legal and regulatory framework, continuous improvements in human capital, improving business climate
- Have an effectively planned, well-structured project and equitable risks allocation.
- Lack of evaluation capacity-Development partner can help to assess the projects in term of returns and viabilities

Conclusion

Emerging market and Frontier economies need to focus on developing legal frameworks, institutional strength and consistency, in parallel with the regional integration, so as to attract investment capital in infrastructure.

Issues for Discussion

- How best to leverage demographic boom in Asia to mobilize investment funds that play critical role in financing infrastructures development?
- How to raise long term funding to finance infrastructures in a dollarized economy?
- Can financial integration alone help to solve finance infrastructure development?
- Is capital account liberalization a benefits or a cost?