[Dr Shamshad Akhtar](https://www.thenews.com.pk/writer/dr-shamshad-akhtar)

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**Infrastructure investment**

Investment in infrastructure is well recognized as the most effective accelerator and essential driver of long-term and sustainable economic growth and development. Conversely, inadequate infrastructure hurts growth and trade, while resulting in wide-ranging inefficiencies and productivity losses and, in turn, lower tax receipts for governments and nation-states.

At 2.1 percent of GDP, Pakistan’s infrastructure spending is one of the lowest in the region and well below the required national average of 8-10 percent of annual GDP. Infrastructure shortages and inefficiencies have resulted in substantial national loss for Pakistan, with earlier estimates at around $6 billion of GDP per annum. Latest evidence of the ADB Institute (ADBI) however points to net income loss being more sizable as the lack of reliable access to electricity for households alone in Pakistan costs around $4.5 billion a year.

Given that Pakistan’s population is estimated to rise by another 75 million in the next 15 years, these infrastructure gaps and associated losses are likely to worsen. Not surprisingly then, the same ADBI working paper notes that Pakistan will be faced with a gap of $124 billion in infrastructure development between 2016 and 2040 – approximately $15 billion per annum.

Promoting infrastructure development is key to spurring robust economic growth as it has the potential to enhance industrial competitiveness, commercialization and productivity, which in turn helps job creation and incomes. Deficits, inefficiencies and high cost of energy, transport, and social services have resulted in phenomenal costs to the country, including loss of tax revenue, retarded development, stifled human development and perpetuated inequities.

Across the world, infrastructure development is being supported with innovative partnership and financing structures, new approaches and modalities. In Pakistan, commercial banks account for about three-fourth of all financial assets, but their appetite for credit risk associated with long-term lending is limited. All incentives have remained skewed to support banking intermediation; hence the role of capital markets to tap infrastructure capital has remained subdued. New capital raising structures are therefore required to address the risk aversion issues of commercial banks and to leverage financing from other commercial capital providers.

Within this context, the establishment of InfraZamin Pakistan (IZP) is a timely and fortuitous event. First, there is massive demand. Both issuers’ and investors’ demand for a local credit enhancement facility is significant and catering to this is expected to bring in depth, sophistication and inclusivity to the financial markets. Second, given the massive gap in infrastructure financing in Pakistan, coupled with perpetuating fiscal deficits, growing debt burden and weak public resource mobilization, IZP is expected to play a critical role in crowding in the required level of private capital and to bridge the growing and unmet requirements of Pakistan’s infrastructure financing.

Third, InfraZamin has successfully tapped a like-minded community in the form of its three principal sponsors – GuarantCo, InfraCo Asia and Karandaaz Pakistan – which will not only be a source of financial support but also of the expertise and technical assistance required by this first-of-its-kind entity. Guarantco brings to InfraZamin experience of infrastructure debt-raising of $5.8 billion in 57 transactions across 22 countries in South Asia and Sub-Saharan Africa. However, simultaneously it would be remiss not to state that risk sharing is a joint responsibility of the state, financial intermediaries and credit enhancement facilities.

Pakistan’s financial sector regulators have played a key role in issuing guidelines for licensing and operation of credit enhancement facilities such as InfraZamin, providing facilitation in enabling FDI by foreign subsidiaries and amending the prudential regulations to recognize InfraZamin Credit Guarantee Facility, to give comfort to private domestic or foreign capital seeking opportunities to invest in long-term funding. That said, the state could also consider working towards promoting dedicated private infrastructure funding institutional mechanisms and offer a viable policy, legal and regulatory framework both at the macro and sector level, exploit more user pay infrastructure transactions such as PPPs (Public Private Partnerships) combined with the need to manage debt exposures by governments.

A prerequisite for attracting private sector investment are stronger and predictable legal and regulatory as well as policy and institutional capacities across the federal, provincial and municipal levels. Some efforts have been underway to facilitate approvals. For instance, the Central Development Working Party (CDWP), organized by the Planning Commission has been delegated the authority to approve development projects recommended by any province and with outlays exceeding Rs10 billion.

Specific focus on low-cost housing and increased spending under the federal PSDP will also have a positive knock-on effect on infrastructure development in the country. But for sustained momentum, political structures need to align themselves and the federation should launch distinct efforts to align, harmonize and streamline policies while offering effective guidance to the provinces and local governments, as well as facilitate/fast track approvals and due diligence by reducing red tape in the system.

The writer is the chairperson of Karandaaz.