

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 32-003
Draft: **FIRST**
Source: Australian APEC Study Centre - RMIT University
Date: 7 February 2012
Meeting: Hong Kong, China

First Meeting 2012

23 February 2012

7:30 AM – 9:30 AM

Room S221, Hong Kong Convention and Exhibition Center
Hong Kong SAR, People's Republic of China

Meeting Paper 4-B

Summary of the Honolulu Forum with APEC Deputy Finance Ministers

Australian APEC Study Centre at RMIT University

<i>PURPOSE</i>	For information.
<i>ISSUE</i>	Report on the Forum “Promoting Private Financing for Infrastructure in APEC” Convened in Honolulu 9th November 2011.
<i>BACKGROUND</i>	With the support of the US Treasury and the World Bank, the Forum was convened in conjunction with the APEC Leaders’ meeting. It provided an opportunity for APEC Deputy Finance Ministers, ABAC members, members of the Advisory Group, APiP representatives and senior officials from the World Bank and the ADB to review the work of APEC in promoting infrastructure finance in PPPs in 2011 and to define the private sector role and what APEC could do to support PPPs in the period ahead.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Note the report.

**ASIA PACIFIC INFRASTRUCTURE PARTNERSHIP
PROMOTING PRIVATE FINANCING FOR INFRASTRUCTURE IN APEC**

***REPORT ON A FORUM CONVENED IN HONOLULU ON 9TH NOVEMBER 2011.
SPONSORED BY ABAC, ABAC US AND THE WORLD BANK***

Background

The Forum was convened to i) review APEC's work during 2011 on infrastructure financing and to assess outcomes, and the prospects for 2012, and ii) define the private sector's role in infrastructure finance and what APEC can do to assist. It was well attended by APEC Ministers and senior officials, ABAC members, members of the Advisory Group (present in Honolulu for the Leaders' meetings), members of the APIP and the World Bank and the ADB.

The Chairman (Mark Johnson, Australia ABAC) welcomed participants and introduced Charles Collins, Assistant Secretary for International Finance, US Treasury who noted that despite the financial crisis in Europe, APEC continued to work on its agenda to assure a strong and sustainable recovery. Infrastructure spending was an important element in supporting job recovery in the US economy. The public sector faced major fiscal constraints and needed to tap private sector resources. While in principle this was a simple enough prospect, in reality it was dependent on getting frameworks in place, including structures which matched public sector and private sector expertise. Developments in municipal bond markets in the US were a useful example of how expertise could be brought together. Partnerships involved understandings on risk sharing.

Session 1.

Mr. Kamran Khan of the World Bank noted the important objectives of growth and inclusion. Connectivity in terms of providing access to schools and to markets to distribute products, to health services and to clean water were critical matters in promoting regional growth and development. He appreciated the work of ABAC and the APIP, noting the value of the balanced composition of members of APIP in discussing with governments risk sharing and risk mitigation and the relevance of these matters to investment flows. APIP discussions during the year in Peru and the Philippines confirmed the value of the APIP concept.

Mr. Michael Kaplan of the US Treasury and chair of the Senior Finance Officials' Meeting noted the outcomes of a workshop organized in Washington in June by the World Bank and ABAC and the valued added that APEC generated. However, deal flows were modest and there remained a gulf between what the private sector can deliver in terms of PPPs and what the sector requires if it is to be attracted into partnerships.

Mr. Bill Brummitt of the Australian Treasury noted the growing interest by Finance Ministers in PPPs. Capacity building in some economies is contributing to the design and delivery of PPPs and in bringing projects to markets; however, few have so far come to market. As a

consequence, Australia with the World Bank launched the APEC PPP mentoring scheme to draw in experts into economies to help in PPP processes. Pilot schemes were in place in developing a water treatment plant in Indonesia and a toll road in Vietnam. The scale of the challenge needed the involvement of the multilateral financial agencies, and APEC and political “buy-in” by Finance Ministers was important.

The senior Russian representative noted that PPPs had been high on Russia’s agenda for a decade or so and that while PPPs are under active discussion, progress was slow. Recent events pointed to increasing interest in the public sector and declining interest by the private sector. Public sector agencies often played lead roles in PPPs and a matter for determination in Russia was whether the state or the private sector initiated projects. In 2012, Russia as APEC chair, would be keen to share experiences within APEC particularly in the transport sector and in logistical services.

The Chairman noted that the idea of bridging the gap between public and private sector interests had been around for some time; information asymmetry led to mistrust between the two sectors and that is why APIP had been constructed as an open, honest forum where members with deep expertise together with representatives of the MDBS s could advise governments on various aspects of PPPs. The meetings earlier in the year with Peru, Mexico and the Philippines had been very successful. ABAC now looked to APEC Finance Ministers to endorse the APIP process and he noted that while the Australian APEC Study Centre and the World Bank provided secretarial support, some more support was needed. This would assist in researching and disseminating issues and ideas that emanated from the APIP dialogues.

Session 2.

Russia looked forward to the opportunity to discuss in concrete terms how PPPs can be utilized in transport and logistics. Russia also supported the idea of a smart institution in the APEC Secretariat perhaps by the appointment of a couple of people to promote analysis and experience sharing.

Mr. John Walter, APIP Australia, noted that experiences in Australia suggested that the private sector was much more comfortable when public sector agencies promoted projects – this contributed to increased certainty of government commitment. Where risk returns get badly awry the consequences for a project could be serious, as had occurred in the case of an airport in the Philippines and in Australia where some developments had been resented by the community and threatened the term of office of governments.

Mr. Jose San Martin Romero, APIP Mexico, noted the value of the APIP dialogues and the opportunity they presented to share experiences; this was particularly valuable given the different stages of development in economies in the region. The role of the public sector was to provide adequate legal frameworks and to fill financing gaps where a market failure existed. When a project is determined, governments must provide a right of way.

The World Bank representative encouraged Mexico to provide G20 with a practitioners view on PPPs and to outline to governments why they should welcome and feel comfortable with APIP dialogues.

Mr. Bob Prieto, APIP US, proposed business interest in PPPs rested on four pillars; prioritization (it is what drives private sector responses); project execution (how risks are allocated and the skill sets required to manage risks); funding (direct or through fees); and financing (not really an issue where debt and or equity could be raised - but rather the private sector responded to sound policies related to the first three pillars).

Mr. Wayne Golding, ABAC PNG, observed that in response to the question who should lead a project, the answer would differ for different economies. There may be a distinction between a lead player and a facilitator – generally who would do what would be based on trust.

Mr. Jaime Ayala, ABAC Philippines, affirmed that the APIP discussions in Manila had been extremely useful; that the Philippine government is a strong believer in PPPs, that PPPs are working well and that the risk/reward equation is always an important matter. However, more work was now needed on understanding the externalities that flow from projects.

Mr. Peter Scher, ABAC US, wondered if the austerity measures now being faced in financial markets changed the dynamics of PPPs. Mr. Prieto noted the huge projects required in the state of New York and, and looking at the region as a whole, there was a need to look at the grand challenge; cutting infrastructure costs could be important. Political interest in the environment should lead to interest in developing strong PPP frameworks in these areas; rates of return, auditing and outreach to communities could reduce politicization of PPPs.

Mr. Tom Clark, US business, noted that business was in the market for risk taking but business could not deal with uncertainty, inadequate frameworks, legal structures and a lack transparency. Where income streams from a project were important, legal certainty was highly relevant to the investor. Japan's new PPP laws provided greater degrees of certainty to creditors.

Mr. Watanabe, ABAC Japan and APIP member, observed that while there are massive savings available for investment, business is shy about risk taking and since margins on business are low, risk mitigation is a prominent objective of business. These included in areas of currency risk where cross-border financing is concerned although he recognized that most infrastructure is domestically financed.

Mr. Twatchai Yongkittikul, ABAC Thailand and APIP member, asked how do governments best explain the value of PPPs to consumers and the public who generally don't buy the argument of a project "at any cost". The APIP dialogues could usefully focus on that question.

A further question was what form of incentive systems would be important in attracting the private sector to support the financing of a project.

Mr. Gary Judd, ABAC NZ and APIP member, noted that most of the points discussed led to the view that project design was the key issue and that all stakeholders should be involved; a lack of knowledge of design by major stakeholders might well explain project failure. A template on good project design would be useful.

Mr. Koide, ADB, observed that in looking at the financing gap in Asia, there was a need to think beyond PPP but to also consider other issues such as the development of local bond markets, enhancing local currency markets and that view these matters be viewed in a holistic

way.

The massive public sector debt in Japan was noted and that as a consequence the government was pursuing self-sustaining projects and the very clear message was that if responsibility is left to business to develop revenue streams, business would attract private capital.

The Chairman observed that challenges included a shortage of high quality projects, a lack of due process in PPPs in some economies, and concerns regarding transparency, governance, risk allocation, viability gap financing and externalities. He further noted real deficiencies in the public sector in economies and that where the private sector is contracted to deliver it could do so, that in some economies capital is in abundance so what, he asked, are the impediments in moving ahead?

Responding, Mr. Prieto, US APIP business, noted that exchanges between the public and private sector partners needed to be intensified. Because there is a chequered history of performance, levels of risk needed to be fully understood. While risks in design and implementation are commonplace, the contractual nature of PPPs constrained “scope control”. He, noted that in large projects it was useful to have “stage gate” projects in readiness to go forward and proposed the idea of a “stage gateway process”.

Mr. Koide, ADB, referred to the Asian Infrastructure Initiative and the ASEAN Infrastructure Fund which can provide support for PPPs and for supply chain developments. Many lessons can be learned from experiences and issues can be specific to different sectors. The integrity of the appraisal teams was highly important was the quality of contracts.

Mr. Wayne Golding noted the quality of the APIP dialogues and their neutrality was a rare event. He wondered whether the World Bank and the ADB could help build capacities in economies, including in Pacific Island states.

A senior Canadian official noted that an argument could be made that change is in the air and that Federal/State institutional functions in relation to PPPs seemed to be appropriate. He thought it important to measure and to account for value in PPPs.

Summarising the discussion, the Chairman noted that he had sought and received feedback on the value of the APIP and that the value of the processes had been confirmed, notwithstanding the modest secretarial support. He further observed that ABAC would not have achieved its objectives without the support of the US Treasury and the World Bank.

In his concluding comments, Mr. Collyns, US Treasury, confirmed that that there was clearly a role for APEC in PPPs. The Australian mentoring program pointed to the multidimensional nature of the problems associated with PPPs. He believed that the ABAC APIP dialogues helped in providing understanding on the issues related to PPPs. He welcomed Russia’s commitment to continue work in APEC in 2012 on PPPs.

Report prepared by Ken Waller, Director, Australian APEC Study Centre at RMIT University.
