

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 33-048
Draft: **FIRST**
Source: Government of the Republic of Indonesia
Date: 5 July 2013
Meeting: Kyoto, Japan

Third Meeting 2013

10 July 2013

7:30 AM – 9:30 AM

Gyoun Room, Kyoto Hotel Okura

Kyoto, Japan

Meeting Paper 4-C APEC Multi-Year Plan on Infrastructure Development and Investment (MYPIDI) (Draft)

Government of the Republic of Indonesia

<i>PURPOSE</i>	For information.
<i>ISSUE</i>	APEC Multi-Year Plan on Infrastructure Development and Investment (MYPIDI)
<i>BACKGROUND</i>	<p>In February 2013 SOM and Officials of the Finance Minister's Process agreed to develop a multi-year plan that aims to assist economies to execute infrastructure projects, by identifying (i) impediments faced by economies in the region, and (ii) ways to address the impediments including by adding value to ongoing work.</p> <p>The Multi-Year Plan identifies four workstreams that will help guide future APEC work in infrastructure development and investment. In the process, the Multi-Year Plan would create common regional understanding and in turn help stakeholders in making decisions when carrying forward infrastructure projects.</p>
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Note the draft paper.

APEC MULTI-YEAR PLAN ON INFRASTRUCTURE DEVELOPMENT AND INVESTMENT (MYPIDI)

1. APEC's work on connectivity and infrastructure development is long standing. Increased work in the area is important to ensure that the Asia-Pacific remains resilient and fulfils its role as the engine of the world's economic growth. The work will also complement APEC's long-standing efforts to achieve the Bogor Goals of free and open trade and investment in the Asia-Pacific by 2020.
2. Well-designed, sustainable and resilient infrastructure development and investment can enhance economic growth and increase productivity, and provide significant positive flow-on effects including improved access to markets, job creation and manufacturing growth. Infrastructure investment is likely to have a significant impact on gross domestic product (GDP). The World Bank estimates that a 10% increase in infrastructure provision raises growth by 1% in the long-term.
3. The APEC 2010 Leaders Growth Strategy acknowledged APEC's role in facilitating growth through infrastructure development. It stated that APEC can use its convening power to help create a platform to develop innovative solutions, and provide technical assistance and advisory services to help member economies in need that have different abilities in raising private and public financing for infrastructure-related projects. APEC can also provide an exchange of views on best practices in public-private partnerships in infrastructure development.
4. In 2011 Finance Ministers also underlined that accelerating infrastructure investment and improving service delivery would contribute to boosting the recovery and is critical for sustaining economic growth in the Asia-Pacific region. Finance Ministers acknowledged the efforts underway in some economies to improve the environment for investment through public-private partnerships (PPP) and minimizing regulatory risk. They recognized that dialogue with market participants on infrastructure financing is critical to achieving the full benefit of private sector resources.
5. In Vladivostok in 2012 Leaders acknowledged the critical importance of private sector investment in regional infrastructure development and encouraged broader work in the format of public-private partnerships. Related to this, Leaders also recognized the importance of adopting and maintaining laws, regulations and practices that facilitate investment, as well as efforts to improve the investment climate in the APEC region.
6. The APEC 2013 Ministers Responsible for Trade instructed Senior Officials to develop a unifying, forward-looking, and ambitious APEC Framework on Connectivity in 2013 to deepen and broaden the region's connectivity around and across the Pacific Ocean and within APEC's archipelagic and continental regions. The development of physical infrastructure is recognized as a key pillar of the connectivity framework. Addressing impediments to cross-border transport infrastructure development is also a key element of APEC's work on Supply Chain Connectivity.
7. In February 2013 SOM and Officials of the Finance Minister's Process agreed to develop a multi-year plan that aims to assist economies to execute infrastructure projects, by identifying (i) impediments faced by economies in the region, and (ii) ways to address the impediments including by adding value to ongoing work.
8. The Multi-Year Plan identifies four workstreams that will help guide future APEC work in infrastructure development and investment. In the process, the Multi-Year Plan would

create common regional understanding and in turn help stakeholders in making decisions when carrying forward infrastructure projects. The workstreams, defined in Annex 1 of the Multi-Year Plan are as follows:

- Workstream 1: *A supportive climate, including a strong regulatory framework*
- Workstream 2: *Integrated planning system mechanisms*
- Workstream 3: *Development of government capacity to generate a pipeline of bankable infrastructure projects*
- Workstream 4: *Development of a financing environment that is supportive to long term investors*

9. This joint SOM-FMP initiative reflects the importance of a coordinated APEC approach which will harness expertise across APEC fora. Further development of work to take place under the Multi-Year Plan will be discussed in relevant sub-fora and finalised by SOM1 and FCBD 2014.
10. Given the long-term nature of the work involved, the multi-year plan will span an initial period of 2013-2016.
11. The Multi-Year Plan is informed by the work undertaken by APEC in 2013, including a Dialogue on Infrastructure Development and Investment, a Symposium on Connectivity, an FMP Workshop on Project Readiness to Increase Infrastructure Investment, and an FMP Workshop on Infrastructure Financing, as well as work undertaken by regional and global fora such as the ASEAN and the G-20. The APEC Secretariat conducted a mapping exercise to identify current and previous APEC work in this area. Input was also received from relevant APEC fora, APEC member economies, the private sector and development banks.
12. The Multi-Year Plan builds on work already undertaken to improve the investment climate in APEC economies, enhance regulatory frameworks and support economies as they design and implement infrastructure projects.
13. In addition, the Multi-Year Plan will support efforts underway through the APEC Supply Chain Connectivity Initiative endorsed by Leaders in 2009. Of the eight identified chokepoints in regional supply chains, Chokepoint no. 2 outlines that “inefficient or inadequate transport infrastructure and a lack of cross border physical linkages e.g. roads, bridges” act as impediments to a seamless supply chain in the Asia-Pacific region. Addressing the other Chokepoints under APEC’s Supply Chain Connectivity Initiative will also facilitate the development of transport infrastructure.
14. APEC cooperation on infrastructure development and investment will take advantage of regional expertise, experience and funding sources, including from multilateral and regional development banks, and the private sector. The Asia-Pacific Infrastructure Partnership (APIP) and ABAC’s PPP checklist are particularly relevant.
15. Under the SOM process, the SCE will coordinate the work under the multi-year plan by engaging relevant APEC channels, namely EC, IEG, SFOM, and related Working Groups.
16. Significant APEC past work relevant to the 4 workstreams, including ongoing work identified in the mapping exercise is set out in Annex 2.
17. Suggestions for possible new APEC initiatives to take forward this work are contained in Annex 3.

**APEC MULTI-YEAR PLAN ON INFRASTRUCTURE INVESTMENT AND
DEVELOPMENT
WORKSTREAMS**

Workstreams 1: *A supportive climate, including a strong regulatory framework*

Workstreams 2: *Integrated planning system mechanisms*

Workstreams 3: *Development of government capacity to generate a pipeline of bankable infrastructure projects*

Workstreams 4: *Development of a financing environment that is supportive to long term investors*

**APEC MULTI-YEAR PLAN ON INFRASTRUCTURE INVESTMENT AND
DEVELOPMENT
RELEVANT PAST APEC WORK**

Workstream 1: *A supportive climate, including a strong regulatory framework*

Investment Policy

- Investment Facilitation Action Plan
- APEC Non-Binding Investment Principles
- APEC Strategy on Investment of 2010

Government Procurement Policy

- Non-Binding Principles on Government Procurement

Structural Reform:

- APEC Ease of Doing Business (EoDB) Action Plan
- Good Regulatory Practice Guide
- Good Practice Guide on Public Sector Governance
- APEC-OECD Integrated Checklist on Regulatory Reform
- Handbook for the APEC Voluntary Review of Institutional Frameworks and Processes for Structural Reform
- The Impacts and Benefits of Structural Reforms in the Transport, Energy and Telecommunications Sectors

Workstream 2: *Integrated planning system mechanisms*

Workstream 3: *Development of government capacity to generate a pipeline of bankable infrastructure projects*

Workstream 4: *Development of a financing environment that is supportive to long term investors*

APEC Publication:

1. Meeting APEC's post crisis infrastructure challenge: Towards commonality in PPP infrastructure markets (2009)
2. **Breaking the PPP Logjam (2010)**
3. **Filling the Infrastructure Gaps in the APEC's Developing Economies (2011)**

**APEC MULTI-YEAR PLAN ON INFRASTRUCTURE INVESTMENT AND
DEVELOPMENT
POSSIBLE WORK STREAMS**

Workstream 1: *Supportive investment climate, including a strong regulatory framework*

Businesses will increase their participation in infrastructure projects if they feel confident that solid regulatory frameworks are in place to support their investment decisions. Governments can foster a business friendly environment by taking actions to ensure that their regulatory systems deliver transparency and certainty to business, and are responsive to their needs.

Areas in which APEC could engage in targeted and meaningful work:

- Good Regulatory Practices
 - Meeting Leaders' and Ministers' 2011 [and 2013] instructions on strengthening the implementation of Good Regulatory Practices, including:
 - Ensuring internal coordination of regulatory work;
 - Assessing the impact of regulations; and
 - Conducting public consultations.
 - Strengthening the implementation of Good Regulatory Practices described in the APEC-OECD Checklist on Regulatory Reform.
 - Structural Reform
 - Continuing efforts to improve the ease of doing business, particularly by reducing administrative burdens and simplifying regulation
 - Development and implementation of policies that enforce predictability and equal treatment of private sector in the market (including in relation to state owned enterprises)
 - PPP regulatory coherence and cooperation for more conducive/business friendly investment climate
 - Legal and regulatory framework that fosters an appropriate risk allocation between the public and private sector
- Contract Issues: Enforcement , Dispute Settlement and Legal Certainty
 - Sharing good practices on enforcement of contracts – strengthening of contract enforcement regimes
 - Assisting economies to establish clear and effective mechanisms for solving disputes
 - Importance of contractual guarantees regarding changes of law.
- Property rights frameworks/Land acquisition,
 - Assist economies to develop and implement good practices regarding land acquisition and environment impact assessment, including community consultation.
- Government Procurement Process
 - Adopting a predictable and transparent tendering process that promotes the best procurement for value
 - Access to information via a one-stop website

- Business and Investment Climate
 - Encouraging transparency in tax regimes, preferential loans, and construction permits
 - Encouraging transparency in construction services
 - Developing a network of regional investment protection agreement
 - Supporting anti-corruption measures
- Ensuring Institutional Readiness for APEC economies through Surveys

Workstream 2: *Integrated planning system mechanisms.*

Businesses will feel more confident making long term infrastructure investment decisions if they are convinced that government decisions are being guided by a well coordinated planning mechanism. Governments can develop (or refine existing) planning mechanisms in a way that demonstrates serious commitment to the longer term infrastructure needs of their economies.

Also, well-designed, sustainable and resilient infrastructure development and investment can enhance economic growth and increase productivity, and provide significant positive flow-on effects including improved access to markets, job creation and manufacturing growth.

Areas in which APEC could engage in targeted and meaningful work:

- Strengthening infrastructure planning capacity, by assisting economies:
 - To develop or refine forward-looking national infrastructure plans.
 - To identify well-designed, sustainable, and resilient projects that generate greatest net public benefits that also fit into broader infrastructure plans and are coherent with medium-term expenditure frameworks.

Workstream 3: *Development of government capacity to generate a pipeline of bankable infrastructure projects*

There is an emerging international consensus that coordination and clear allocation of responsibility at a domestic level, and project preparation and selection are the keys to successful infrastructure development. Also, well-designed, sustainable and resilient infrastructure projects can attract private investment by securing long-lasting asset value and stability of long-term revenue stream.

Governments can leverage increased private sector involvement in infrastructure by developing domestic capacity to generate a pipeline of bankable infrastructure projects that can accommodate private sector investors.

Areas in which APEC could engage in targeted and meaningful work:

- Strengthening PPP project preparation through the creation of a dedicated PPP Center in individual economies:

- To help turn projects into bankable projects
- To develop strategies to communicate the public infrastructure projects available for investment to the private sector.
- Convene APEC PPP Experts Panel to guide a Pilot PPP Centre
- Discuss mechanisms and share good practices on directing appropriate government support to high net public benefit projects,
 - Including through "Dedicated national-level funds" to support strongly economic and sound infrastructure projects with private sector investment that can also help to build up a credible pipeline of bankable projects.
- Develop a mechanism and capacity to prioritize infrastructure projects to help government to prioritize between competing projects on a consistent cost-benefit basis.
- Increasing sectoral expertise to ensure the right pricing of projects
- Improving governments' expertise in planning infrastructure projects with comprehensive and holistic consideration
 - To secure long-lasting asset value and stability of long-term cash flow of infrastructure projects.
 - To improve bidding process of infrastructure projects that incorporate not only a purchase price but also key elements such as lifecycle cost including performance and durability, environmental friendliness, safety and maintainability.

Workstream 4: *Development of a financing environment that is supportive to long term investors*

Well functioning financial markets can facilitate the participation of long term investors in infrastructure through provision of appropriate financial products. To achieve this, governments should put in place clear and consistent financial regulatory frameworks and maintain strong financial supervision – while reducing unnecessary legal and regulatory impediments to the smooth functioning of these markets.

Areas in which APEC could engage in targeted and meaningful capacity building are:

- Strengthening of financial regulatory, monitoring and supervision capacity
- Ensuring that financing mechanism and instruments (such as local currency financial markets, including bond markets, for infrastructure projects) are in place to direct to bankable PPP project proposals.
- Providing support for long-term local currency-denominated financing

- Create capacity to develop a wide range of infrastructure investment models that can take into account the needs of different kinds of investors such as institutional investors (including pension funds, insurers and sovereign wealth funds) that take a longer term view on investment opportunities.