



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 6-A

APEC Senior Financial Officials' Meeting Policy Research Project: APEC Framework of Guiding Principles for Enhancing Private Sector Infrastructure Provision

The Australian Treasury

From: Williams, Leslie [mailto:Leslie.Williams@treasury.gov.au]

Sent: Thursday, August 20, 2009 8:56 AM

Subject: Update - Progress on Developing Expert Study - APEC Framework of Guiding Principles for Enhancing Private Sector Infrastructure Provision [SEC=UNCLASSIFIED]

Dear Colleagues

Greetings from Canberra.

You will recall that during SFOM 6 Australia offered to commission an expert study to develop a framework of guiding principles for creating greater commonality in bidding procedures and concession agreements in infrastructure projects. We are pleased to inform all SFOM members that steps have been taken to progress this initiative and that the following milestones have been achieved:

1. A small Steering Committee has been formed to guide the development of this project. Members of this committee include Australia, Canada, Indonesia, Korea, New Zealand, Singapore and Vietnam. We have closely consulted this committee over the last 4 weeks in the course of developing a workplan and drafting the terms of reference (TOR) for the project.
2. The TOR has been produced and is attached for your reference.
3. To ensure that the project is consistent with the extensive work already underway in various regional groupings and bodies, we have also consulted ADB, World Bank and other relevant institutions. This consultation process will be ongoing throughout the duration of the study.
4. Input has also been sought from ABAC to ensure that business and private sector perspectives are taken into account in the course of developing this project. We will continue to consult and seek ABAC's input into the project.
5. Potential experts who have the qualifications, knowledge and experience to undertake this study have been identified and invited to submit expressions of interest in accordance with the TOR. A suitable expert will be selected within the next week and work on the study is expected to commence at the beginning of September.

SFOM members will receive a draft report on the study by the third week of October for comment following its review by the Steering Committee and other stakeholders. As we are working with a very tight schedule, your kind and timely response to our request for support and feedback throughout the duration of this project would be greatly appreciated. With your support and Singapore's approval as APEC Chair, we hope to have this report completed and submitted in time for FMM in November.

Please feel free to contact me should you have any questions regarding this matter. Thank you for your kind attention.

Best wishes
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Policy Research Project

An Activity of the Senior Finance Officials' Meeting (SFOM)

APEC Framework of Guiding Principles for Enhancing Private Sector Infrastructure Provision

Terms of Reference

1. Aim and Objectives

The aim of this study is to report on areas where gains from greater commonality in approaches to bidding procedures and concession agreements in infrastructure projects could be maximised and to draw out possible guiding principles in these areas. To achieve this aim, the study will seek to address a number of specific objectives. These include:

- Identifying areas that may both be amenable to greater commonality and benefit from a framework of guiding principles;
- Examining how greater commonality in these areas could lower bidding costs for contracts, reduce government transaction-costs, encourage more competition, and assist in fast-tracking projects to a bankable stage;
- Offering practical suggestions on how best to create greater commonality and integration in a post-crisis world characterised by reduced private sector risk appetite and increased strain on government balance sheets;
- Describing the efficiency gains from different approaches to bundling project components, adopting new risk-sharing and financing arrangements to attract private investment, and boosting cross-border funding, particularly by institutional investors; and
- Providing a set of clear recommendations for Finance Ministers to consider when formulating policy actions.

2. Background

The APEC region's economic growth and competitiveness depend to a large extent on efficient, fast, and reliable infrastructure connections. Investment in infrastructure has substantial and far-reaching benefits that go beyond the upside of putting in place a larger capital stock. These benefits include significant positive spill-over effects through channels such as competition in markets, facilitating trade and more inclusive growth, a more efficient allocation of resources across regions and economies, and the diffusion of technology.

According to the Asian Development Bank's *Infrastructure for a Seamless Asia* report, total infrastructure needs for the Asia region from 2010 to 2020 are expected to be in the order of US\$750 billion a year. For advanced economies, there is a need to replace ageing infrastructure, often put in place in the immediate post-war period. For emerging economies, infrastructure investment did not keep pace with rapid economic growth in the pre-crisis years.

The global financial crisis has vastly complicated the challenges in meeting the infrastructure needs of economies in the APEC region. On the one hand, governments do not have the capacity to meet all of the infrastructure needs on their own, as their fiscal positions have deteriorated markedly. On the other hand, lower risk appetite and dislocation in capital markets have reduced the scope for traditional Public-Private Partnership (PPP) projects. Furthermore, the impact of overly optimistic demand forecasts and the loss or write-off of equity on numerous recent PPP projects is not only making it harder to raise equity for new projects, but also has made debt providers more reluctant to support these projects.

In order to sustain private infrastructure markets in the current financial climate, and cushion economies from the worst impacts of the global crisis, governments are embracing a greater underwriting role and taking on more risk. However, in doing this, there is the danger of governments taking on excessive contingent liabilities. The basic question that remains for any given project is whether value for money is greater via public or private provision, or some combination of the two.

As a medium-term issue with strong challenges for both public and private sectors, infrastructure policy is well-suited for APEC. Previous infrastructure related work undertaken within the APEC Finance Ministers' Process (FMP) in 2006-2008 sought to examine a range of issues relating to the management and development of PPPs. Contingent liabilities, fiscal sustainability, managing risks and the role of PPPs in capital market development were among the core policy issues considered in this area.

Building on this past work, Australia presented its paper *Infrastructure: A Defining Challenge for the Asia-Pacific Region* at the 6th Senior Finance Officials' Meeting (SFOM) on 17-18 July and called on SFOM members to support the commissioning of an expert study that would lead to the development of an APEC Framework of Guiding Principles for Enhancing Private Sector Infrastructure Provision.

3. Scope of the Project

The final scope of research required for this study will be determined during the project planning / design stage, and following consultation with key stakeholders.

It is envisaged that the study will draw on work undertaken in this area across APEC, with the aim being to examine region-wide experiences, processes, systems and best practices in structuring and managing infrastructure projects.

In examining these areas, the study is expected to shed light on many of the terms, conditions and provisions to help economies bring infrastructure projects to a bankable state. For instance, bidding rules and processes, duration of concession agreements, assessment of demand risk, termination clauses, rate of return guidelines, and policies towards unsolicited bids. A greater understanding of these areas would help shape the design and development of the framework of guiding principles,

the key output of the study which aims to help APEC economies create greater commonality in approaches towards bidding procedures and concession agreements.

4. Proposed Methodology

Detailed research methods will be determined during the planning and design stages of the project, but the following broad elements will be important:

- A review of literature on areas relevant to the study;
- Consultations with key stakeholders in business and government who are able to offer information and insight, and the active incorporation of this information;
- Incorporation of information and feedback from other APEC member economies as it is received by the Australian Treasury; and
- Short case-studies to illustrate viable PPP models and key discussion points in the study.

5. Key Deliverables

The key output will be a 50-page report. Policy recommendations will be made after available options are considered.

While reflecting high quality analytical standards, the report will be written in a style that avoids excessive use of technical language and jargon. This, however, does not preclude the need to provide adequate and appropriate technical details such as explanations and methodologies – such details will be covered in a separate annex to the report.

The report will contain:

- a) Acknowledgements that recognise contributions from the crucial consultation phase with business and government and the input from other APEC economies.
- b) An Abstract and an Executive Summary;
- c) A Main Body that will be well-structured, thorough, and cogently written; and
- d) An Annex that describes the methodology and sources.

6. Time Frame and Milestones

A draft report will be circulated to SFOM members on 20 October 2009. A final, published report will be tabled at the 16th APEC FMM on 12 November 2009.

Comprehensive strategies to facilitate the use and adoption of guiding principles in the report will be drafted in late November, with a view to the report being endorsed by Finance Ministers and directed to SFOM for further action.

7. Resources

Critical inputs to the study include, but are not limited to, material available from the following websites and documents:

- Asian Development Bank: <http://www.adb.org/Documents/Reports/Sustainable-Infrastructure/default.asp>
- World Bank: <http://www.worldbank.org/Infrastructure>

The study will also build on the APEC common principles for formulating guidelines to develop well-functioning PPP markets. These principles were adopted during the 15th APEC Finance Ministers' Meeting (FMM) on 6 November 2008 and include the following:

- Recognising the importance of a sound contractual and property rights framework to support, among other things, clear and transparent risk allocation in PPP contracts;
- Supporting PPP development by establishing dedicated PPP units that have the capacity to identify, manage and allocate risk appropriately;
- Adopting a flexible, streamlined and transparent tendering process that can be tailored to individual projects;
- Removing barriers to institutional investment in non government debt and equity markets to facilitate greater private sector financing of infrastructure;
- Establishing a solid and publicly available pipeline of infrastructure projects to retain and attract private capital; and
- Providing strong government commitment to the use of PPPs in order to help reduce risks that the private sector is unable to manage.

8. Project Management / Administration

The project represents a policy initiative of the APEC FMP, proposed at SFOM-6 in Singapore on 17-18 July 2009.

The Australian Treasury will engage a consultant to undertake this study, with the commissioning of this work being subject to the procurement guidelines of the Australian Government. The Australian Treasury will also oversee the day-to-day management and coordination of this project.

A Steering Committee comprising officials from Australia, Canada, Indonesia, Korea, New Zealand, Singapore and Vietnam will be formed to guide the development of the study, and to provide ad hoc advice on various aspects of the project. This may include making available the resource materials and information on bidding documents utilised in various APEC economies, giving feedback on outputs from the study, and suggesting effective ways of securing SFOM support for guiding principles from the study. Input from members of the Steering Committee will be sought either individually or collectively, depending on the kind of input that is required. Input

will also be sought from the APEC Business Advisory Council (ABAC) to ensure a high level of engagement by the business community and private investors.

To ensure that this project is consistent with extensive work already underway in various international financial institutions and multilateral development banks, the Treasury will continue to liaise with relevant bodies such as the World Bank and the Asian Development Bank. Prior to the publication of the draft and final report, the consultant should seek feedback from the Steering Committee, ABAC, ADB, and the World Bank.

9. Special Requirements

The APEC Secretariat will need to be kept informed of developments with this project to ensure that the procedural arrangements comply with APEC requirements. This may include meeting certain protocols and adhering to guidelines, taking into account a range of sensitivities and priorities going forward, and being aware of expectations in APEC.

10. Contact Officers

For further information on this initiative, please contact:

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