



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Infrastructure Public Private Partnership: Considerations for the Advisory Group's 2010 Agenda *[First Draft]*

ABAC Japan

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Infrastructure Public Private Partnership: Considerations for the Advisory Group's 2010 Agenda

*First Draft
As of 4 November 2009*

- 1 In its 2009 report, the Advisory Group pointed to the huge potential contribution that public-private partnership (PPP) could make to the development of much-needed infrastructure in the region. However, a number of underlying issues remain to be addressed, particularly those that relate to (a) the lack of an environment for constructive and confidential dialogue between governments and industry, (b) the need to develop broader and deeper capital markets, and (c) the need to promote a more active role for international financial institutions in the provision of long-term funds in local currencies. It was agreed that a multilateral approach such as the proposed Asia Infrastructure Partnership could help address these issues and provide effective ways of bringing skills and financial resources to developing economies.
- 2 Consequently, the Advisory Group recommended that APEC launch a regional infrastructure partnership among governments, international financial institutions and the private sector that will produce a list of major projects that represent regional priorities based on extensive consultations and actively identify ways of building up the range of financing options offered by capital markets through addressing policy and regulatory impediments to further innovation and greater market participation.
- 3 Over the past several months, ABAC Japan explored the prospects for moving this forward through discussions with various industry players and government officials (in particular those involved in the APEC process). Following are the conclusions of this investigation:
 - 3.1 There remains no doubt about the importance of infrastructure PPP. The ADB estimates that meeting the Asia-Pacific's needs for infrastructure would require around US\$750 billion annually over the next decade. It is well understood that this is a conservative estimate. Only a small fraction of this (around 4-5%) can be made available by multilateral and bilateral development institutions, so that a large amount of private sector resources would have to be mobilized if this need is to be met.
 - 3.2 Financing for infrastructure projects in emerging markets is limited by the risks that investors face. Addressing these risks, including those related to investor protection, policies, legal frameworks, currency and maturity, could enable investors to expand their investment in infrastructure. The commitment of central governments to projects is also an important factor, alongside revenue stability and

the creditworthiness of the purchasers of services. Investors favor sectors with well-developed frameworks with strong public commitment such as energy. Others such as water, roads and railways are more complex (involving various local political units and large areas), making it more difficult to protect the value of the investment. These underscore the important contribution closer cooperation between public and private sectors can make toward attracting more private sector participation in infrastructure development.

- 3.3 ASEAN as a grouping is very keen to promote infrastructure PPP in emerging economies. APEC could be a valuable contributor, as several of its member economies can contribute based on specific areas of expertise, successful experiences and competitiveness. For example, while Japan can make significant contributions in construction and engineering, Australia has much to contribute with respect to the design of legal and policy frameworks and legal services, to name a few areas. Strong private sector engagement and the active involvement of multilateral financial institutions also make APEC an excellent platform for promoting infrastructure PPP in the region.
 - 3.4 The elements of an institutional infrastructure for a regional infrastructure dialogue are present. There are current proposals and initiatives that could provide a platform for such a dialogue. The ADBI study has proposed a "Pan-Asia Infrastructure Forum." ADB is a candidate to host such a forum, if this is accepted by member governments. The World Bank has launched an Infrastructure Finance Summit to serve as a platform for exchange of views and showcasing regional infrastructure initiatives and projects. APEC is developing common approaches toward private infrastructure investment across the region and launched a pathfinder initiative on developing a harmonized roadmap for infrastructure procurement. On the part of the private sector, there are existing organizations and networks that can be attracted to help facilitate active private sector engagement in a regional dialogue, including Infrastructure Partnership Australia, the Asia PPP Promotion Conference (with Japan's Engineering and Consulting Firms Association playing the secretariat role), the Australia-Japan Business Cooperation Committee, and the Economic Research Institute for ASEAN and East Asia, just to name a few. Other similar significant organizations in the APEC region can also be encouraged to participate.
 - 3.5 There is significant support among key officials, including in Australia, Japan and ASEAN-level officials, for the idea of promoting infrastructure development in the region's emerging economies, particularly in Asia, where there are both abundant savings and a great need for infrastructure. Hopefully, this support will be confirmed by the incoming APEC Chair on or before the beginning of 2010.
- 4 In light of the above considerations, the Advisory Group can play a role in integrating various elements into a workable concept for a regional infrastructure partnership that has the support of APEC economies, multilateral institutions and the private sector. Especially important is identifying a structure that would ensure active, sustained and broad private sector participation in such a partnership. It is suggested that the Advisory Group organize a special conference or workshop involving key players from the three sectors as well as key APEC officials, preferably in early 2010, to develop this concept.**