

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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**Report on PPP Training Program convened by the
Australian APEC Study Centre and ADBI,
Melbourne, 21/27th October 2009 and a Proposal to
convene a forum on the Asia Infrastructure
Partnership in Melbourne on 10th February 2010
*[First Draft]***

RMIT APEC Study Centre

Report on Training Program, Melbourne, 21/27th October 2009

The training program “Financing and Managing Risks in PPPs at National and Sub-national levels of government”, was financed by the Ausaid under the Public Sector Linkages Program and also supported by the Asian Development Bank Institute. Partnership Victoria collaborated in the design of the program. 28 participants from Bangladesh, Cambodia, Chile, China, India, Indonesia, Lao PDR, Mexico, Pakistan, Papua New Guinea, Philippines, Thailand and Vietnam attended.

The program involved specialist presenters from the World Bank, ADB and ADBI, a former UNCTAD investment official, Australian government representatives involved in infrastructure developments and policy advisors from the Victorian government agency, Partnership Victoria. A range of private sector financing, transactions and legal specialists also presented at the program and the Chairman of the Advisory Group was guest dinner speaker. Participants made presentations on PPP developments and strategies in their respective economies and involved in detailed discussions after each presentation. They also involved in workshop activities.

The program pursued two themes arising from earlier APEC officials’ work, namely financing and managing risk at national and sub-national levels of government and it considered a concept of a register of PPPs in the Asia Pacific region.

On the first matter the following points were relevant:

- there are a wide range of arrangements between national and sub-national levels of government in the region; these reflect governmental, constitutional structures and the power that resides in various levels of government in accessing and distributing taxation across an economy; (arrangements that are in place in Vietnam, Philippines, China, India and Mexico were discussed)
- accounting for contingent liabilities inherent in risk sharing in PPPs was seen as very important and uncertainties were noted as to whether comprehensive accounting is undertaken of contingent PPP risks at various levels of government
- national leadership is important to promote PPPs in an economy but a key constraint at lower levels of government is that of the skills base of staff in relevant agencies and access by sub-regional levels of government to financial markets
- a major financier noted a preparedness to invest in sub-regional projects and in sub-investment proposals if it could be assured of attracting solid backers

As regards a regional register, the following were noted as key considerations:

- information on PPPs is available on web-sites; to be of value, any centre which housed a register should have a capacity building element in it; it should provide advice, help coordinate activities, help with scoping studies and have global contacts
- UNESCAP might already be providing data on PPPs
- an ASEAN/Europe Committee provides a forum for exchanging ideas on PPP developments

- regional cooperation has been successful in improving transparency and has reduced the scope for misunderstanding between governments and the private sector; a centre would contribute further to those positive developments and should enhance probity
- a centre would need to be widely supported and marketed

The training course focused on transactional and legal aspects of PPPs in the context of the global financial crisis and the impact of the crisis on PPP financing arrangements. Some major points of relevance to the private sector were:

- the importance of the certainty of a pipe-line of projects to attract investors over time and that it is the transaction that defines the project, risk sharing and financing underpinnings
- the value proposition of PPPs had been seriously affected by the global financial crisis private sector financiers were not willing to take on the refinancing risk and this had changed the market dynamics with governments having to accept more risk sharing in the form of equity, if a PPP was to go ahead
- there should be much greater emphasis on sustainable financial forecasts, on robust “change” mechanisms, on the need for changes to payment arrangements and to modes of risk transfer
- while risk premiums on PPPs had markedly increased and tenors had shortened dramatically, conditions for longer term finance were improving; the crisis demonstrated demonstrated the robustness of the PPP model but also the need for more flexibility in risk sharing
- securitization remained an important financial tool in the dispersion of risk relevant to PPPs
- there is some expectation of a return to wholesale funding by banks and that while mono line insurers had largely disappeared as a class and were no longer in the business to underwrite bond issuance, national export credit agencies and multilateral agencies were seeking to support PPP activity

Recommendation:

- **the Advisory Group note the report on the recent training course**

Proposal to convene a forum on an Asia Infrastructure Partnership, in Melbourne, 10th February 2010

This proposal was raised at the last meeting of the Advisory Group. The Australian APEC Study Centre at RMIT University subsequently discussed the proposal with Mr. John Denton, Australian ABAC member and Partner and CEO of Corrs Chambers Westgarth. It is proposed that a forum be convened in the margins of the ABAC Melbourne meeting at the offices of Corrs, Chambers, Westgarth, Level 36, 600 Bourke St. Melbourne, starting with an informal lunch at 12.30 and followed by a forum meeting.

The central purpose of the meeting would be to further develop the concept of an Asia Infrastructure Partnership (AIP). Such a partnership between the public and private sectors of interested economies and regional and multilateral agencies and private sector institutions would be a catalyst to:

- promote and assist in the development of PPPs in the region,
- review and assemble knowledge and information on prevailing conditions and terms applying to PPPs, including legal and financial frameworks and documentation
- review market conditions for financing PPPs
- address asymmetry in the information flow between public agencies and promote the flow of information that the private sector requires in considering participation in PPPs

As well as considering the issues just outlined, the forum could also consider the location of AIP and the appropriateness of developing it as a facility of a regional or an international financial institution.

The AIP would be open-ended and membership would be voluntary and it could develop sub-groups to reflect APEC regional interests or tiers to reflect specialist sectors in areas of economic and social infrastructure or large or small projects

Funding for AIP could be provided jointly by the public and private sectors. AIP would be seen as a major initiative by ABAC as contributing to a key goal of the APEC Finance Ministers' processes for the promotion of PPPs in the region to promote and sustain growth, development and regional integration

Proposed arrangements for the forum in Melbourne.

The Australian APEC Study Centre at RMIT University would work in partnership with Corrs Chambers and Westgarth, the Chairman and Coordinator of the Advisory Group and ABAC Japan to :

- seek the support of the Victorian government in associating with the forum – possibly involving the Treasurer, the Hon. John Lenders – and with Partnership Victoria, a lead agency in Australia in PPPs

- encourage the involvement of a major regional/international contractor/originator of PPPs and a major PPP financier/originator as participants in the forum and as potential sponsors of the AIP
- refine the agenda for the forum
- develop an invitation list to the forum
- agree administrative arrangements for the forum

Recommendation:

- **the Advisory Group endorse the proposal for the forum and the suggested arrangements**

Ken Waller,

Director, Australian APEC Study Centre at RMIT University. 6 November 2009.