



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Office of the Advisory Group Chair

UPDATE ON THE ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP) INITIATIVE

1. At the Public-Private Partnerships Forum held in Melbourne on 9 February 2010, participants, including key APEC officials, Australian officials, representatives of major international institutions, academe and private sector endorsed the idea of an Asia-Pacific Infrastructure Partnership (APIP) and encouraged the Advisory Group and ABAC to develop the institutional infrastructure to promote such a partnership in the region. RMIT University confirmed its offer to provide financial support for the Australian APEC Study Center at RMIT University in playing a coordinating role in the initial period of efforts to bring about the formation of APIP.
2. At the APEC Senior Financial Officials' Meeting (SFOM) in Tokyo on 18-19 February, the Coordinator made a presentation on APIP, which was well-received by participating officials from APEC economies' finance ministries, central banks and financial regulatory agencies as well as representatives of the ADB, the IMF and the World Bank. The Australian Treasury, which is leading SFOM's 2010 initiative on infrastructure PPP, expressed support for an initiative that would create a structure for stable and continuous private sector engagement in regional efforts to promote infrastructure PPP.
3. The APEC SOM Chair encouraged ABAC and the Advisory Group to develop an initiative for possible endorsement by APEC in 2010.
4. During the period starting February 2010, various efforts were undertaken by ABAC Australia and ABAC Japan to discuss the APIP concept with ADB, the World Bank, APEC officials and major private sector firms and organizations involved in infrastructure PPP. In these discussions, the concept was positively received, and the Advisory Group was encouraged to develop concrete proposals regarding the structure and operations of APIP. Institutions and private sector firms and organizations expressed interest and willingness to be involved in promoting the partnership.
5. Based on these discussions and previous work by the Advisory Group, a briefing note was prepared by the Advisory Group Coordinator (See Annex).
6. The development of the initiative is being undertaken in four steps.
 - i. Step 1: Formation of the private sector component of the tri-partite partnership, provisionally called "Private Sector for Asia-Pacific Infrastructure Partnership" (or PS-APIP) to enable ABAC and the Advisory Group to actively involve business organizations, key firms and experts. The Advisory Group will further flesh out the institutional framework, designing a structure that reflects broad interests of the various stakeholders in the region, based on a concrete proposal that the Australian APEC Study Centre at RMIT University has developed for discussion at the Taipei meeting.
 - ii. Step 2: Initial activity to demonstrate value and get support from public sector. As an initial activity, PS-APIP would start functioning by involving key private sector

players in the activities related to the APEC Senior Finance Officials' infrastructure PPP initiative planned to be held in Melbourne in early August 2010.

- iii. Step 3: Tie-up with multilateral institutions and joint approach to APEC. PS-APIP will discuss with key multilateral institutions the possibility of making a joint proposal to APEC to launch an APEC initiative and a joint invitation to APEC member economies to join APIP on a pathfinder basis.
- iv. Step 4: APEC endorsement. The proposal could be endorsed by SOM and SFOM and eventually by the APEC Trade Ministers, the APEC Finance Ministers, the APEC Ministers and APEC Economic Leaders, sometime within the next two years, but preferably in 2010.

ANNEX

ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP Promoting Infrastructure PPP through a Pathfinder Initiative Toward a Regional Tri-Partite Partnership

A BRIEFING NOTE¹

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I. TRI-PARTITE PARTNERSHIP AS A KEY TO MEETING THE REGION'S VAST INFRASTRUCTURE NEEDS

A recent study² has concluded that on average, Asia would need to invest about US\$750 billion annually to meet domestic and regional infrastructure needs over the period 2010-2020. The APEC Business Advisory Council (ABAC), in its 2009 Report to APEC Finance Ministers, underscored the huge potential of public-private partnership (PPP) to help meet these needs. However, for PPP to be effectively harnessed toward this objective, key issues need to be addressed.

- Information asymmetry between the public and private sectors has discouraged both sectors from engaging more broadly in PPP. There is a need to foster an environment where governments can be reassured of a constructive and candid dialogue and industry can provide input and perspective without risk of loss of financial benefit or intellectual property.

¹ This paper contains recommendations on the issue of infrastructure PPP from the 2009 Report of the Advisory Group on APEC Financial System Capacity-Building, as officially endorsed by ABAC and annexed to ABAC's 2009 Report to the APEC Finance Ministers and summarized in ABAC's 2009 Report to APEC Economic Leaders, and key ideas from discussion of the Advisory Group at recent ABAC meetings in Singapore (November 2009) and Melbourne (February 2010). This report was prepared on behalf of ABAC and the Advisory Group by Dr. Julius Caesar Parreñas, Advisor on International Affairs of the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Senior Advisory Fellow of the Institute for International Monetary Affairs (Tel 03-3240-5279; Fax 03-3240-3879; Email jc_parrenas@mufg.jp).

² Asian Development Bank and ADB Institute, *Infrastructure for a Seamless Asia*, 2009.

- There is a need for broader and deeper capital markets, given that infrastructure projects are generally long-life assets earning revenues in local currencies.
- Multilateral institutions need to play a more active role in the provision of long-term funds in local currencies and know-how.

While there are ongoing bilateral efforts to address infrastructure-related issues, there is a need to move toward a multilateral approach to ensure an integrated region connected by world-class, environment-friendly infrastructure networks. APEC could play an important role by undertaking a pathfinder initiative to provide models for regional cooperation. Such an initiative should take into account key findings of recent studies, such as the ADB/ADBI study and the expert report submitted to the APEC Finance Ministers in 2009.³ These key findings are as follows:

- Effective institutional mechanisms at regional and economy levels are needed to attract private investors. The ADB suggests a regional infrastructure forum to help Asia coordinate and integrate existing sub-regional infrastructure initiatives, help mobilize public and private funds and help prioritize, prepare and finance bankable regional projects.
- The APEC expert study recommended a center of excellence for information exchange on experiences and best practices and common approaches toward private infrastructure investment, including harmonization and commonality in areas such as bidding templates, delivery of PPPs and contract management.

The APEC Business Advisory Council (ABAC), in collaboration with various international institutions and regional financial industry organizations within the Advisory Group on APEC Financial System Capacity-Building, supports the development of regional structures to facilitate cooperation among **three key sectors – public sector, private sector and multilateral institutions** – in promoting infrastructure PPP. Among key issues for such tri-partite regional cooperation are (a) helping economies identify important projects supporting development; (b) providing advice on sources of finance for PPP development; and (c) enhancement of the investment environment.

II. APEC AS CATALYST FOR WIDER REGIONAL TRI-PARTITE PARTNERSHIP

The private sector is keen to support the development of this tri-partite collaboration over the long-term to address infrastructure needs of emerging markets in the region. Under this vision, private sector and multilateral institutions could jointly engage various regional organizations including APEC, ASEAN, ASEAN+6 and East Asian Summit. This collaboration can also be undertaken as part of frameworks and programs being proposed or already being undertaken by multilateral institutions, including the Asian Development Bank, the World Bank,

³ APEC's Post Crisis Infrastructure Challenge: Towards Commonality in PPP Infrastructure Markets, 2009.

Inter-American Development Bank and International Finance Corporation, among others.

Given the Japanese Government's strong interest in supporting infrastructure PPP during its chairmanship of APEC, the private sector is proposing to use APEC as a catalyst to establish a functioning model for regional infrastructure partnership, on a pathfinder basis. Eventually, the resulting structure could also be used in the future to pursue tri-partite collaboration under other frameworks and fora.

APEC is seen as an ideal catalyst for this tri-partite regional cooperation, given its mechanism for strong and broad, across-the-region private sector involvement through ABAC. ABAC is seen as an excellent candidate to initiate regional private sector involvement in infrastructure PPP, given its credibility as an impartial and high-level regional representation for the private sector that can engage all business and industry organizations, the largest firms and SMEs in the region.

An important asset is ABAC's direct access to APEC Leaders and ministerial-level officials, who have identified PPPs as a priority issue and recognized the private sector's role in developing strategies. ABAC also maintains important relationships with think tanks, training institutions and experts that have supported its work throughout the years. The Advisory Group, where ABAC plays an active role, enables it to collaborate closely with multilateral institutions, development agencies and regional private sector organizations.

With this in mind, the Advisory Group and ABAC are proposing the launch under APEC of a pathfinder initiative toward the eventual establishment of a functioning model for regional tri-partite collaboration, provisionally called the "Asia-Pacific Infrastructure Partnership" (APIP). APIP is envisioned to provide a mechanism to secure strong private sector participation by offering opportunities to provide early and insightful strategic advice to governments in collaboration with multilateral institutions.

III. STEPS TOWARD AN ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP

The Advisory Group and ABAC are taking the following four steps to develop such an initiative:

Step 1: Formation of the private sector component of the tri-partite partnership. The aim of this private sector component is to enable ABAC and the Advisory Group to actively involve business organizations, key firms and experts in regional tri-partite collaboration activities, including experts from multilateral development institutions in promoting PPPs in the region. This will be provisionally called "Private Sector for Asia-Pacific Infrastructure Partnership" (or PS-APIP). The PS-APIP will serve as a center to support private sector engagement in regional cooperation. It will also seek to develop the capability to generate information, especially from the private sector, and undertake limited but targeted capacity-building activities in support of the partnership's strategies.

A provisional secretariat with initial funding for the first year provided by RMIT University and supported by the State Government of Victoria, Australia has been established at the Australian APEC Study Centre in Melbourne to undertake initial activities. It is envisioned that a future permanent secretariat will have a broad base of funding sources across the region for its activities that will help ensure the effectiveness, objectivity and neutrality of private sector engagement in regional tri-partite partnership.

ABAC and the Advisory Group will further flesh out the institutional framework for private sector involvement based on successful models (e.g., Infrastructure Partnerships Australia), designing a structure that reflects broad interests of the various stakeholders in the region and effectively complements the aspirations of APEC member economies.

Step 2: Initial activity to demonstrate value and get support from public sector. As an initial activity, PS-APIP would start functioning by involving key private sector players in the activities related to the APEC Senior Finance Officials' infrastructure PPP initiative planned to be held in Melbourne in early August 2010.

Step 3: Tie-up with multilateral institutions and joint approach to APEC. PS-APIP will discuss with key multilateral institutions the possibility of making a joint proposal to APEC to launch an APEC initiative and a joint invitation to APEC member economies to join APIP on a pathfinder basis.

Step 4: APEC endorsement. The proposal could be endorsed by SOM and SFOM and eventually by the APEC Trade Ministers, the APEC Finance Ministers, the APEC Ministers and APEC Economic Leaders, sometime within the next two years, but preferably in 2010.