



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

WORKSHOP ON MEASURES TO PROMOTE AN INSTITUTIONAL FRAMEWORK FOR PUBLIC PRIVATE PARTNERSHIPS

10 February 2010



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Introduction

The workshop was convened to further APEC's work in promoting PPPs in infrastructure in the region and to consider a proposal for an Asia Pacific Public-Private Infrastructure Partnership which would bring together public and private sector interests, multilateral agencies, academics and professional groups and which would assemble knowledge and information, address issues of asymmetry of information and support and promote capacity building.

The Workshop – 10th February, Park Hyatt

The workshop was well attended; invitations were extended to ABAC members and staffers and to PPP specialists. The purpose was to further define the objectives for the Asia Pacific Public-Private Infrastructure Partnership. The 15 participants were drawn from business, public sectors, the Asian Development Bank, the World Bank, academia and professional groups involved in PPP design, administration, financing and management. The workshop included representatives from Pacific Economic Cooperation Council, Partnership Victoria, and Infrastructure Australia.

Opening Session

Mr. Ken Waller opened the workshop. He gave an overview of the outcomes of the Forum held the day before and the goals for the workshop. He noted that the development of PPPs is a priority for APEC Leaders that Japan ABAC is very supportive of work to develop an Asia Pacific Infrastructure Partnership but required a clear picture of its objectives and how it would function. He outlined the purposes of the workshop: how to create a Partnership that would bring private

sector knowledge and expertise to support public sector policy makers in making effective decisions on PPP projects and securing the involvement of the IFIs in a partnership. He noted that for it to succeed a partnership would require solid commitment and resources and some form of secretariat; the question to consider is how best to work toward those goals. He asked participants to provide guidance in a frank and open way and to help develop a strategy that might lead toward a structure, loosely defined.

Mr. Waller noted that the Victorian Government and RMIT University had agreed to utilize funding available to the Australian APEC Study Centre to promote initiatives in APEC in PPPs this year and that those initiatives should complement and support those of the Advisory Group on APEC financial system capacity building.

Session 2

Defining key components of a public private partnership and links with key regional and global agencies

Mr. Michael Barrow, ADB, discussed infrastructure demand and provided an overview of ADB activities. He quoted from the Jan 2009 'Infrastructure for a Seamless Asia' Report about the size of infrastructure need. Between 2010 and 2020, Asian economies need to invest approximately \$8 trillion in overall national infrastructure. Regional infrastructure development creates a win-win outcome for all participating countries. Improving connectivity in the region would bring Asia large welfare gains through increased market access, reduced trade costs, and more efficient energy production and use.

The goal for the ADB for 2020 is to "scale up private sector development and private sector operations in all operational areas, reaching 50% of annual operations by 2020". ADB has many initiatives around PPPs, including MPI3C, PPP Days, training and workshop, development of PPP resources, a countrywide approach for India, readiness for PS Engagement, project financing guarantees and joint agency efforts. He noted that a number of areas in the ADB were involved in PPPs and the Bank is presently revamping its internal strategy for PPPs.

There is countrywide, holistic approach with the Government of India. It emphasizes the crucial importance of PPPs in addressing infrastructure gaps in India. India and has been assisted by the ADB through its "Mainstreaming PPPs in India" technical assistance programs. With a view to improving infrastructure in the rural sector, the Government and ADB agreed on the objectives, scope, implementation arrangements, and financing plan for a capacity development technical assistance (CDTA) to be provided in support of a flagship Government program, the Provision of Urban Amenities in Rural Areas (PURA).

Mr. Kamran Khan, World Bank, noted that East Asia will need huge infrastructure investments, 70% for new capacity and 30% for maintenance and replacement. He focused on the factors that constrain successful implementation of PPPs, including inability to combine public and private finances for PPPs, pre-financial close risks/transaction costs, under-developed capital markets, and the lack of local currency debt financing. The WB partnership with ASEAN Infrastructure Finance Network is a regional platform providing a strategic perspective to policymakers, and public and private sector practitioners on raising and channeling private financing into infrastructure.

The complex nature of the challenge calls for government and the private sector to develop innovative, regional solutions. For example, the APEC Framework approaches to bidding procedures and concession agreements, creation of secondary market for infrastructure assets

to attract institutional capital and Infrastructure Finance Marketplace led by the WB-Singapore Urban Hub. Transparent and consistent frameworks were needed across the region.

He commented on the need for instruments that would bring Official Development Assistance Finance together with private sector capital to address financing viability gaps in funding. This required new thinking on doing business with the private and public sectors. Pension funds are not investing in PPP projects and there was a need to change the profile of projects to attract significant private savings into infrastructure development. He questioned the value at this stage of creating infrastructure funds. The overarching issue is to define ways of attracting private investment in public infrastructure and different ways would be needed to succeed.

Mr. Glenn Maguire, Partnerships Victoria, discussed the breadth of experience in Victoria and Australia with PPPs. He focused on the importance of a country using a tender selection process that applicable to that country's way of doing business. He drew on his experiences with some Asian economies and noted that a forum that shared experience in the region could be extremely valuable. Partnership Victoria would be pleased to be involved.

He noted the important role of capacity building, in securing good resources for public agencies to equip them with the knowledge and techniques of developing and implementing PPPs, and in the concurrent development of private sector capabilities in bidding and implementing PPPs.

He commented on the dangers of entertaining unsolicited bids and the reliance on use of their associated feasibility studies, which often underestimated costs and over-estimated revenues. Project selection and development processes were critical and international agencies could play a valuable role in assisting governments to develop robust feasibility studies.

He suggested that efforts to build capacities should be targeted and proposed that tender selection, avoidance of corruption in tender processes should be usefully pursued, and a menu of options developed. He thought it useful to build work on lessons learned, that more information would be helpful on developments in PPPs in the region and that any Forum that evolved be chaired by an Asian-based expert. He noted that Australian experience with an officer level intergovernmental PPP forum worked well in the early years of PPPs; it focused on addressing common priority issues (eg. tender processes, and discount rates) and sharing practical experiences. However, whilst an Australian Ministerial PPP forum was established it was not suitable. He was of the opinion that a one-off forum might be more practical.

Mr. Garry Bowditch representing PECC, expressed concern on the enormity of the geography. He thought there were strategic choices. Rather than address the region, he asked what specific processes should be the focus of attention. He noted the need to work with the ADB and the World Bank; a common issue was the absence of a pipe-line of bankable projects in the region. He observed that the hypothesis behind the proposal for a partnership was the prospect of early intervention by the private sector with government so that they could discuss what might be acceptable and appropriate ways in which to attract the private sector into PPPs. He thought it might be useful to think of working with 1 or 2 economies in providing impartial and frank advice. For a partnership to work it would need to capture the imagination and be successful.

The ensuing discussion focused on the importance of setting up a framework for governments to meet with the private sector early and often in any PPP process. The private sector can have a critical role and help build confidence. APEC might be well placed to propose a panel of private sector experts which could meet with the public sector specialists and investors. Such a grouping could create a useful platform. It would be advisable for this to convene in the region; the World Bank would be pleased to work on a joint basis with others. ADB gave the example of

its water committee and its success in India. It is important to have “champions” and there is a need to show a successful model project. Examples where strong leadership pushed through reforms and are the Phnom Penh Water Board and the New Delhi Metro.

It was noted that the ADB and the World Bank have high credibility in Thailand and it would be helpful if they could participate in an infrastructure funds; this would help mobilize local savings. It was observed that the delivery of services was a different issue to the question of ownership of a project. The concept of “trusted advisors” was considered and it may be useful to think in those terms in assembling a group of advisors. APEC and ABAC may well be considered as trusted advisors. Any model of a partnership would need to define outputs for the long-term. In many economies there are constituencies against change. They can be persuasive so there is a need to ensure central agencies drive the PPP agenda.

Session 3

Defining the value of a Partnership for key stakeholders

It was noted that self-interest was the motivating force for organizations thinking of participating in a partnership. There is a need to establish the objectives of a partnership and to clearly establish the benefits that could be expected to arise. The objectives should not be too broad. The value in a partnership could arise from discussions of issues and ways to resolve them. (The IPA forum in Australia does some heavy lifting in pushing forward with an agenda). But is it feasible to consider a partnership in a region as big as Asia?

A useful focus should be on the challenge of self-interest with the private sector. It is important to have a dialogue with the government and external stakeholders. A growing issue is that of external stakeholders such as the community and the environment. It is important that governments communicate the wider benefit of the PPPs and the possible tax and efficiency gains for taxpayers. Communications on bankable projects, how to enhance probity and integrity and the relevant decision-making processes would be relevant issues for a partnership to consider. The role of the partnership should be distinct, immediate and practical.

Emphasis was placed on the importance of case studies and a focus on the practical. The value-add benefits in two recent Victorian projects were highlighted. In the Peninsula link project, the builder will partner the community by forging links with local schools and developing a cultural legacy in partnership with a local art gallery for sculptures along the road. A schools project, involved a unique partnership with YMCA providing services to schools and local communities from purpose-built facilities. These arrangements provided additional benefits from the project beyond value for money.

Any partnership should not deal in generalities but focus on actual projects. IFIs could eliminate sovereign risk out of a project

Discussions following this session focused on the value of partnerships and collaboration. Positive outcomes could arise from an APEC harmonization of local standards committee and the contribution of best practices and discussions between economies. Case studies were emphasised, including messages from negative examples. Why a project failed? Local examples are very important as well as best practice examples from say, Australia, UK and Korea.

It is very important to develop PPP champions in governments. Premier Brumby in Victoria was a good example. There are significant benefits for the sector when public officials and the private sector work together on collaborative projects. APEC might well represent the political forum that

would be important in developing a partnership. It was noted that frankness and openness in advice would be critical; it was realistic for any partnership to get engaged slowly but bold steps would be necessary.

Emphasis should be placed on building capacities in member economies of APEC; some fundamental steps could be taken immediately in economies, for example, by providing funding in budgets. As a private sector led group, a partnership could build a capacity to manager advisors, and develop advice on utilising resources.

Session 4

Establishing, maintaining and utilisation of a data base

It was observed that different users seek different information from PPP data bases. The timing and collection of data was often very difficult to manage. An APEC database which provided broad information on PPP projects and on general market conditions would be achievable but the timing and value was questioned. Understanding the nature of the recipient of data would be important and clearly if a data base were to be established it ought to provide a useful input to APEC processes. It should be practical and relevant.

If a data base were to be linked to case study material it could be useful. There is value in some data bases in driving cultural change. Issues of comprehensiveness, coverage and comparability were important. Achieving these objectives across APEC economies and which would involve projects at national and sub-national levels of government would be problematic. A question was raised as to whether a database would be a useful first step for APEC. Would it solve problems or create them? Some databases available, including at the World Bank but this focuses on investment in infrastructure and not on PPPs as such. Building some useful PPP models offered a more realistic approach than focusing on a data base.

Perhaps a more useful approach would be to consider the role of an independent National Audit Office, similar to one in the UK which provided audited analysis of PPPs and had proven to be extremely useful in determining value propositions underpinning PPPs. A case study approach was again reemphasized. The International Finance Magazine was noted as being a useful source of information on PPPs.

Discussion focused on other initiatives that a partnership might consider, including manuals to cover evaluation and policy guidelines, the type of initiatives in Victoria known as "Gateway Initiatives", and support in putting together a business case for a PPP. Other work could focus on bidding processes and providing advice to the private sector on the grounds on which an investment decision should be considered, and the facilities to support financing risk.

In summarizing the workshop outcomes, the Chairman thanked participants most warmly for their frank and open advice. He concluded that there was strong support from all participants for developing a concept of a partnership and taking it a step further. APEC and the Advisory Group were seen as having a unique opportunity to bring the concept together. He suggested that the idea of a next step involving a high level dialogue to which could involve Ministers and senior officials, the IFIs and senior business representatives involved in PPPs in the region; this was endorsed by the working group. He concluded that such a dialogue should best take place in the region later this year. All APEC economies should be invited. Momentum generated by such a dialogue would be a vital ingredient to realizing the concept.