



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 30-033  
Draft: **FIRST**  
Source: Australian APEC Study Centre –  
RMIT University  
Date: 10 August 2010  
Meeting: Bangkok, Thailand

## **Third Meeting 2010**

26 August 2010

Ballroom 1, InterContinental Hotel, Bangkok  
Bangkok, Thailand

# **Meeting Paper 6-A**

## **Paper on Public-Private Partnerships for Infrastructure Development**

Australian APEC Study Centre at RMIT University

# **ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING**

**– BANGKOK, 26 AUGUST 2010**

## **ITEM 6-A : Infrastructure Public-Private Partnership**

### **1. Introduction**

At the last meeting of the Advisory Group in May in Taipei, the Group endorsed suggestions on the structure, governance and operation of a secretariat for the Asia Pacific Infrastructure Partnership, developed by the Australian APEC Study Centre at RMIT University.

The suggestions provided for transitional arrangements to support the development of the APIP during a period until support for a secretariat could be established, and leaving open the prospect of the ADB or some other institution taking on the role if the concept does gain broad support over the next year or two.

### **2. Further developments since the Taipei meeting**

Since Taipei, the coordinating group has been giving further thought to the role and purpose of an APIP.

Summarising, we see an APIP supporting what is essentially a political process, helping governments :

- determine the right questions to address when they are considering public policy investment and using some private capital in the process
- better understand the factors that might best contribute to a value for money business model for governments, and
- the ingredients in a business model that are most likely to attract private capital

In short, we are of the view that an APIP could/should be designed to help ministers and senior officials develop a strategic approach to PPPs, to consider PPPs in a holistic way and to help in making good policy choices. Under such an approach, an APIP could support governments in:

- identifying and evaluating critical PPP development objectives and priorities

### **3. Suggested refinements to the APIP concept**

If ABAC agrees to the approach outlined above, it would involve some refinements to the earlier concept of APIP which was essentially based on the idea that the APIP would help governments

deal with specific issues relevant to developing and concluding PPP contracts. That earlier approach continues to have great value and should be integral to thinking about the purpose of the APIP.

However, it is likely that the underlying value of that part of the APIP concept would best fill gaps that might arise **after** the strategic issues discussed in Section 2 above have been resolved. The earlier approach could become more relevant in the period of PPP implementation when the strategic approaches have been discussed with governments and governments have agreed a particular direction and strategy for PPPs.

Three important issues arise in the refinement to the APIP concept now proposed:

- a) how to interest the private sector in discussing strategic/development issues when there is no discernible commercial gain that could arise from the process,
- b) what are the characteristics of private sector people who would be willing/interested to contribute to the strategic engagement with governments through the APIP
- c) how does ABAC get matters rolling such that we can demonstrate the value of the APIP

**A.** The first issue might best be answered along the following lines. Briefly, explain to potential interested private sector parties in the APIP the following:

- the development and financial challenges confronting the region in terms of infrastructure needs
- the critical need to assist governments mobilise private sector partnership in development
- the need to gain the confidence of governments that the private sector does have long-term interests in sustainable development in economies of the region
- while recognising that ultimately the profit motive is the driving force for business, the long-term nature of PPPs requires that business assist in building the confidence of governments and their officials in using private capital and expertise in infrastructure development
- building this confidence should contribute to better economic development, lower risk to private sector participants and ultimately, better returns to public and private parties
- confidence building requires that the private sector participants in the APIP should have the capacity to meet two challenges in supporting PPP development:

**first**, a willingness to support governments in determining strategic development priorities in an economy and in particular the role that PPPs can play in the process

**secondly**, providing support and advice in respect of specific PPP investments when the strategic approaches to involve PPPs in the development process have been determined

by governments

- to meet these challenges, there need to be some differentiation in the conceptual approach of the APIP about the provision of strategic /policy advice and issues relevant to that challenge and the skills required, and the valuable practical advice to meet the second challenge and the skills for that
- meeting these two challenges suggests that the APIP consider a structure with two- tiers, each tier of equal importance but requiring somewhat different skills and experiences of the private sector – discussed further in B below
- success in deepening the involvement of the private sector requires an understanding of the skill sets required for each tier and a recognition that these requirements will influence the way the APIP is structured - but not the over-arching purpose and objectives of the APIP which is to provide unbiased, objective advice to regional governments and agencies on PPPs and to help them build institutional capacities to meet economic and social infrastructure needs in the region.

**B.** Accepting the need for some differentiation in the strategies of APIP in dealing with the policy/strategic issues associated with PPPs with that of advising on practical commercial issues relating to design, contracts, implementation and management of PPPs, a two-tier structure could recognise the somewhat different qualities required of each tier, as follows:

***- APIP - First tier qualities***

A first tier panel should comprise a group of people who between them can demonstrate:

- experience and deep knowledge of PPPs and their role and priority in infrastructure development
- commercial high level leadership and decision-making experience
- capacity to distinguish between business and public policy objectives

***-APIP – Second tier qualities***

A second tier group would be composed of a group of people with the following qualities:

- experience in PPP design, implementation and management of PPPs in economic and social Infrastructure sectors
- legal and financial involvement in PPP contracts
- experience in advising governments and agencies on managing risks in PPPs
- experience as an academic or senior IFI representative in advising governments and agencies on

PPPs

A specific panel could be constructed of APIP representatives with the qualities identified under either of the two-tiers, depending on the objectives of the discussion with a particular economy or economies, or it could reflect a combination of skills from both tiers. The composition of a panel should be a matter for discussion with the APIP chair and private sector members of the APIP taking into account the interests of an economy/economies who agree to participate in a dialogue with the APIP.

***The coordinating group will propose a list of individuals who have the experience and skills outlined above and who would be invited to join the APIP.***

C. It is proposed that the value of an APIP be demonstrated at a meeting being organised by the ADB, the Ministry of Finance of Japan and ABAC to be convened following the APEC Finance Ministers meeting in Japan in November. It is proposed that ministers from Indonesia, Philippines, PNG and Vietnam and their senior officials be invited to a discussion with a business group composed as an APIP panel to be convened in Yokohama on 7<sup>th</sup> November.

Preparations for this **initiative** would be undertaken by the coordinating group and supported by the Australian APEC Study Centre at RMIT University working in association with the ADB and the Ministry of Finance of Japan. The following actions would be required:

- securing the interest of Indonesia, Philippines, PNG and Vietnam in participating in a discussion primarily on strategic and policy issues with a high level panel of APIP advisors, subject to advice by representatives of those economies on the focus of the meeting
- securing the APIP advisors and their agreement to participate
- design of an agenda that would meet the aspirations of ministers and advisors
- inviting IFIs and others who would make a contribution to such a discussion
- reporting the outcomes of the discussion to participants and to other interested parties
- evaluating the efficacy of this first initiative of the APIP and presenting views on outcomes from participants to the first meeting of the Advisory Group in 2011
- utilising the experiences gained from the meeting and outcomes in generating interest in a second phase discussion with Indonesia, Philippines, PNG and Vietnam later in 2011
- and in promoting a meeting with other economies interested in PPPs in mid-2011, primarily focused on policy and strategic issues.

#### **4. Links with the APEC Finance Ministers' processes**

At the Taipei meeting, the Advisory Group endorsed the idea that ABAC would continue to work with APEC officials in promoting PPPs in the region and in furthering the concept of the APIP. The Advisory Group also endorsed suggestions concerning the structure of the APIP and the governance and secretariat arrangements to support its formation. It was also envisaged that ABAC would seek endorsement of APEC Finance Ministers and Leaders for the creation of the APIP as a component of

an APEC Pathfinder Initiative and that this be referred to in the Joint Ministerial Statements issued at the conclusion of the APEC Leaders' Meeting in November 2010, or in 2011.

(At the time of the Taipei meeting, ABAC involvement in a proposed Ministerial PPP meeting in Melbourne in August was envisaged. However, because of the announcement of a Federal election in Australia for 21<sup>st</sup> August, that Ministerial meeting was not convened. However, a workshop organised by the Australian Treasury, involving the Chairman of the Advisory Group with officials from PPP agencies in the region and business and IFIs was held in Melbourne on 3/6<sup>th</sup> August).

The Chairman of the Advisory Group participated as a panellist in the Melbourne meeting and the Director of the Australian APEC Study Centre at RMIT University also attended. He discussed APIP with a few APEC economy participants to gauge their views on the rationale for the APIP and for the proposal to convene a forum in Yokohama on 7th Nov following the Kyoto FMM involving ministers and some selected experienced business people from the region and globally. These matters were discussed with the following officials:

- Mr. Maman Suhendra, Head of Subdivision of transportation infrastructure risk Center for fiscal management , Ministry of Finance, Indonesia
- Mr. Rafael U. Ledesma II, Division Chief, Business Development Dept., Build Operate and Transfer Center, Dept. of Trade and Industry, Philippines
- Mr. Le Tuan Ahn, and Mr. Le Anh Tuan, Experts, respectively, Dept of Investment and Dept of Banking and Financial Institutions, Ministry of Finance, Vietnam
- Mr. Fidelis Golu, Senior Economist, Structural Policy Branch, Dept. of Treasury, PNG.

Each of them responded positively to the suggestion that a forum which would provide for a high level exchange between their ministers and the private sector. They undertook to help promote the concept with their organizations if ABAC manages to get a group of business people together to participate and noted that the Advisory Group would provide further advice following this Bangkok meeting on business participation.

All of them made constructive comments, as follows:

- The Deputy President of Indonesia is championing PPPs and a forum which helped him gain broader support in the Cabinet and in the community broadly could be a most helpful contribution by ABAC
- President Aquino of the Philippines has determined that PPPs will be a major component of the country's development and impartial business advice would be valued
- Vice Minister Dong of the Ministry of Planning in Vietnam is committed to PPPs and that Ministry and the Ministry of Finance would be supportive of an APEC business advisory forum
- PNG is establishing a centre of excellence in the Treasury Dept and an Impediments to development group in the Cabinet has been formed which meets regularly to focus on impediments, including those relating to the emergence of PPPs; external advice under the APEC auspices would

likely be seen as very helpful. Critical issues include prioritizing PPPs within the various geographic areas and bearing in mind local patronage and political influence.

Because of their roles and level of seniority, the officials noted may have only limited degrees of influence in their respective administrations. However, their comments were thoughtful and constructive and highlight the fact that there is a strategic space that a high-level APIP group could play.

This group of officials could be a useful base on which to try to promote the APIP process in their economies. There will be others including ABAC members to help prosecute the APIP concept in relevant economies. We need to form a compelling business participate in a high level meeting and this should be the focus of the Bangkok meeting.

In a related development at the Melbourne meeting, Robert Seidler, Chairman of Hunter Phillip Japan Ltd. advised of an initiative he had promoted which had led to the establishment of a strong Japan Australia business/govt business group for the joint pursuit of PPP activities in both Japan and Australia. Both economies have recently joined in a PPP mission to India which seems to have been very well received by the Indians and offering the prospect of combined Japanese Australian PPP activities in India. Knowledge sharing about processes in Japan and Australia (and India) is at the heart of the success of this model. It is a highly relevant initiative by the private sector and it is worth considering the model for wider development in the region. ABAC could consider commending it, along with the APIP, to APEC Ministers.

On the assumption that the Advisory Group gains support for the Yokohama meeting with Ministers from Indonesia, Philippines, PNG and Vietnam on 7<sup>th</sup> November in the format outlined earlier, it would seem timely and appropriate for the Group to seek to include reference to that meeting and to the intention to form the APIP during or subsequent to that meeting in the 2010 APEC Ministerial Statements.

***The Advisory Group is asked to consider***

- Endorsing the refinements proposed in the concept of the composition of the APIP as outlined in 3 A and B
- Endorsing the initiative outlined in 3 C for a meeting in Yokohama on 7<sup>th</sup> November
- Following up with the officials noted in 4 above to gain support for high level Ministerial and official participation in a Yokohama meeting and the development of an appropriate agenda for that meeting
- Seeking inclusion in the APEC Ministerial Statements this year to the Yokohama meeting and to the intention to form the APIP, as outlined in 4 above, and to include reference to the joint Japan/Australia model as an additional useful model to promote PPPs in the region.