



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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ABAC-ADB-JBIC Private Infrastructure Finance Forum

Asian Development Bank



APEC Japan 2010

ABAC-ADB-JBIC Private Infrastructure Finance Forum MOF Process

7 November 2010
Yokohama, Japan

Draft Concept Paper (Working Draft)

I. Background

A. Infrastructure Development

- The world's economies, including the APEC economies have recognized the critical importance of infrastructure development in competing in the increasingly globalized world and to any effort at value added activities and employment creation. At the private sector, the quality of physical infrastructure and the services it produces come to the top of any business decision. Currently, there are substantial needs for infrastructure development and repair, with global estimates ranging into the many trillions of dollars over the next 20 years.
- As early as 1993, the APEC Leaders have realized the need for a forum to discuss issues and challenges facing the region, including financing investment and infrastructure development¹. And in 2010, APEC has drafted its Growth Strategy that recognized infrastructure development as a crucial means to facilitate balanced growth in the APEC region.
- Efficient infrastructure development and management are important for achieving inclusive, balanced and sustainable growth in the APEC region. They provide the citizens of APEC economies with improved access to telecommunication services, social delivery institutions, business centers, domestic and international markets, and quality water supply. They also supply secured electricity to real sectors and households in the APEC economies.

B. Infrastructure Development and Finance in the APEC Economies

- Infrastructure funds offer opportunities for long-term investment of savings, including pension funds, in APEC economies. APEC economies have actively delivered Public-Private Partnerships (PPPs) infrastructure projects in various sectors including telecommunications, power and transport sectors. They have also introduced policies to support renewable energy development, aiming at green growth. The People's Republic of China (PRC), USA, Canada, and Russia have substantial renewable energy potentials, with an estimated total increase of 3,230 TWh/year between 2005 and 2020, according to the International Energy Agency.² For instance, many APEC economies³ have actively pursued geothermal power generation. Such geothermal projects may need financing support either from project development funds and/or APEC economies at their development stage. In addition, they are usually located within or near

¹ APEC Leaders Economic Vision Statement. Blake Island, Seattle (20 November 1993).

² PRC's renewable energy is equivalent to about 370 TWh/year in 2005, while total renewable energy is expected to reach 2,000 TWh/year in 2020 (an increase of 1,630 TWh/year), followed by USA (350 TWh/year in 2005 and 1,200 TWh/year in 2020), Canada (370 TWh/year and 700 TWh/year), and Russia (180 TWh/year and 600 TWh/year), Japan (100 TWh/year and 230 TWh/year) and Mexico (30 TWh/year and 150 TWh/year). (Source: IEA. Energy Technology Perspective 2010. August 2010. PowerPoint Presentation in Japanese.)

³ Geothermal power generating countries in the APEC region include USA, the Philippines, Mexico, Japan, Indonesia, New Zealand, PRC, Russia, Thailand and Australia, totaling about 6,200 MW, which constitutes about 85% of the total electricity generated by the top 20 geothermal power generating countries.

national parks, where developments are strictly prohibited by domestic laws. APEC economies may need to review the existing laws in order to support green power generation, while they continue to ensure appropriate environmental mitigation measures.⁴

- Some economies have also pursued innovative PPPs. This includes Japan's Kasumigaseki Common Gate project in Tokyo where new government offices were developed with private sector participation and private telecommunication sector's use of the fiber optic cable systems used for railway signaling in some APEC countries.

C. Partnerships among APEC Economies, Multilateral Development Banks, Export Credit Agencies, and Private Sector

- Substantial partnership opportunities exist among APEC economies, multilateral development banks (MDBs), APEC economies' Export Credit Agencies (ECAs), and the private sector in carrying out PPPs in the APEC region.
- MDBs such as the Asian Development Bank (ADB), Inter-American Development Bank and World Bank can provide the much needed long tenure financing to the public and private sector for development of infrastructure and offer credit enhancement products to PPPs. MDBs can also bring in good governance, competition, transparent procurement, best practices, etc. Furthermore, MDBs can support governments' policies that encourage infrastructure development for balanced, sustainable (green), secure, innovative, and inclusive growth.
- MDBs can also support the establishment of Project Development Funds (PDFs) to assist governments in structuring bankable PPP projects. PDFs can fund the project development cost, thereby reducing the transaction cost burden to governments, while improving the quality of projects to be offered in the market. The PDFs need not be grant-funded, but operated as rotating funds to be used for both PPP and privately financed projects, and the preparation expenses recovered from successful bidders.
- Access to finance will help encourage the private sector to be involved in financing infrastructure projects. APEC economies should further stimulate the development of local capital markets and encourage the introduction of local currency funding solutions such as tapping local pension funds as a source of long-term local currency funding for PPP infrastructure projects. In this regard, ADB is supporting the Asian Bond Markets Initiative. Local currency financing is expected to solve the issue of currency mismatch.⁵
- APEC economies have capable ECAs which support PPPs.
- There have been growing concerns on environment and green house gas emission in particular. PPP projects are increasingly required to address environment issues and take necessary mitigation measures. MDBs, ECAs, and the private sector have accumulated expertise to deal with environmental issues.

⁴ In Oita prefecture in Japan, where the APEC Growth Strategy High-Level Policy Round Table was held on 7-8 August 2010, there are three geothermal plants, including the Hatchobaru Geothermal Power Plant (110 MW)—the largest in Japan—located in national parks (which require stringent environment mitigation measures), generating about 150 MW in total which constitutes about 28% of the total geothermal power generation capacity in Japan. The prefecture also has two local hotels equipped with geothermal power plants (totaling about 4 MW), supporting the tourism industry and selling excess electricity to the Kyushu Electric Power Corporation. For further geothermal power development in the future, the existing national park laws may need adjustments.

⁵ Typical currency mismatch occurs where PPPs secure financing in hard currency, while revenues are paid in local currency.

II. Proposed Infrastructure Finance Forum

A. Objectives

- The main objectives of the Forum are to:
 - Showcase successful PPPs in the APEC economies, their challenges and lessons learned;
 - Share experiences among the stakeholders (APEC economies, MDBs, ECAs, and private sector), and identify areas of cooperation and PPP business opportunities; and
 - Jointly define possible partnership among APEC economies, MDBs, ECAs and the private sector in financing and enhancing the policy environment for PPP infrastructure development in the APEC economies.

B. Participants

- About 135-150 participants are expected to attend the Forum.
- Delegations from the APEC member economies, consisting of the officials who attended the Finance Ministers' Meeting and senior finance officials, will be invited.
- Representatives from APEC Business Advisory Council (ABAC), ADB and JBIC are also expected to participate.
- Representatives from international organizations may also be invited.

C. Proposed Forum Format and Structure

- The Forum will feature (i) presentations on power (coal, oil, hydro, and renewable), transport/water and innovative PPPs (the Kasumigaseki Common Gate and others); (ii) APEC economies (Indonesia and Viet Nam) to share economy-specific PPP opportunities and challenges; and (iii) interactive discussions on potential areas of cooperation and investment opportunities.

D. Expected Outcomes

- Increased awareness among APEC officials and business community in Japan about PPP infrastructure finance opportunities in the APEC regions.
- Indication of interest from public/private sectors in Japan, APEC economies, MDBs, and ECAs on PPP infrastructure development.
- Identification of specific areas of cooperation and concrete steps, including collaboration on enhancing the policy environment and co-financing of PPP infrastructure projects.

E. Organization

- Date: 7 November 2010 (13:30 – 17:30)
- Venue: Yokohama Bay Sheraton Hotel and Tower, Nichirin IV, Yokohama, Japan
- Audience: APEC FMM participants, SFOM members, ABAC members, ADB, IDB, World Bank, and JBIC staff, including the private sector (maximum of 135 persons)
- Host: Ministry of Finance, Japan
- Financiers and Forum Contents' Developers: ADB, ABAC and JBIC
- Cost Estimate: About 6 million yen including contingency
- Focal group for the logistical and administrative arrangements: ABAC Logistic Team
- Coverage: The Forum will cover the following:
 - Power (coal, oil, hydro, and renewable)
 - Transport/water
 - Innovative PPPs
 - PPP Opportunities and Challenges in selected developing economies

- Infrastructure Funds and Pension Funds
 - PPP partnerships among APEC economies, MDBs, ECAs and the private sector.
- The preliminary draft program for the initial internal discussion is attached.

**ABAC-ADB-JBIC Infrastructure Finance Forum
MOF Process**

**7 November 2010
Yokohama Bay Sheraton Hotel and Tower, Nichirin IV
Yokohama, Japan
13:30 – 17:30**

**PRELIMINARY DRAFT PROGRAM
(Working Draft)**

Opening Session

- 13:30 – 13:40 Welcome Remarks by Mr. Nakao, Director General, International Bureau, MOF (10 minutes)
- 13:40 – 13:50 Keynote Address by Mr. Kuroda, President, ADB (10 minutes)
- 13:50 – 14:00 Keynote Address
Senior JBIC representative (10 minutes)
- 14:00 – 14:10 Keynote Address
Senior banking industry representative (10 minutes)

Session I: Infrastructure Finance in Asia and the Pacific (opportunities and challenges and technology and GHG implications)

Chair: Yoshihiro Watanabe, ABAC Finance and Economic Working Group, Chair

- 14:10 – 14:20 Presentation on Renewable Energy (geothermal, wind, and solar) (10 minutes)
JBIC expert
- 14:20 – 14:30 Presentation on (topic: TBD) (10 minutes)
ADB: Director General, PSOD; or Deputy Director General, PSOD
- 14:30 – 14:45 Presentation on Power (coal, oil and hydro) and Water (15 minutes)
Industry representative
- 14:45 – 14:55 Presentation on Transport PPPs (10 minutes)
Industry representative
- 14:55 – 15:00 Presentation on Innovative PPPs (5 minutes)
TBD
- 15:00 – 15:25 Open Forum (25 minutes)
Commentator 1: Industry representative

Commentator 2: EximBank representative from developing economy
- 15:25 – 15:30 Summary of Discussions by Mr. Yoshihiro Watanabe ABAC Finance and Economic Working Group, Chair
- 15:30 – 15:45 Coffee Break

Session II: Infrastructure Funds, PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector, and PPP Infrastructure in Indonesia and Viet Nam

Chair: Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building

- 15:45 – 15:55 Presentation on PPP Opportunities and Challenges (10 minutes)
Minister of Finance, Minister of Trade or Senior Official from developing economy
- 15:55 – 16:05 Presentation on PPP Opportunities and Challenges (10 minutes)
Minister of Finance, Minister of Trade or Senior Official from developing economy
- 16:05 – 16:15 Presentation on PPP Opportunities and Challenges (10 minutes)
Minister/senior official in charge of PPPs from developing economy
- 16:15 – 16:25 Presentation on PPP Opportunities and Challenges (10 minutes)
Minister/senior official in charge of PPPs from developing economy
- 16:25 – 16:35 Presentation on Infrastructure Funds and Pension Funds (10 minutes)
Investment bank representative and/or expert
- 16:35 – 16:45 Presentation on PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector (10 minutes)
Mr. Mark Johnson, ABAC
- 16:45 – 17:15 Open Forum (30 minutes)
Commentator 3: Industry representative

Commentator 4: Industry representative

Concluding Session

- 17:15 – 17:25 Summary of Discussions by Mr. Mark Johnson, ABAC (10 minutes)
- 17:25 – 17:30 Closing Remarks by Mr. Gempachiro Aihara, ABAC Chair (5 minutes)