



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Fourth Meeting 2010

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Seiryu I/II, Yokohama Bay Sheraton Hotel & Towers
Yokohama, Japan

Meeting Paper 6-B

Report on the ABAC-ADB-JBIC Private Infrastructure Finance Forum, 7th November 2010, Yokohama, Japan

Australian APEC Study Centre at RMIT University

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING

Fourth Meeting 2010, 10th November 2010, Yokohama, Japan.

ITEM 6: Outlook for ongoing initiatives: Infrastructure PPP

Report on the ABAC-ADB-JBIC Private Infrastructure Finance Forum, 7th November 2010, Yokohama.

Summary of key points:

- the Forum was well attended, speakers and commentators made high quality interventions and provided detailed presentations which provided insights into major factors impacting on PPP developments in the region
- significant PPPs are being undertaken by major Japanese corporations in rail, water and environmental sectors – including in developed and developing economies
- regional growth and Japanese growth will be dependent on significant increases in investment in PPP infrastructure projects in the region
- important changes have been introduced to promote PPPs in Indonesia; there are important questions to be broached by the Philippines government in its new approach to PPP policies and Malaysia has identified the development of PPPs in its 10th Plan; India is making significant progress in utilising PPPs
- major constraints impeding PPP development in some economies were outlined; they include inadequate depth to capital markets; the dearth of good quality projects; inadequate regulatory frameworks and concerns with transparency, political and country risk, exchange and interest rate risk
- the ADB and the World Bank and official economy agencies are implementing major changes in support of PPP development in the region; the changes include guarantee and credit enhancement facilities, support to economies in building capacities and in developing pipelines of projects
- the ADB has a strategy to enhance urban development in the Asia Pacific region and this will involve major PPP infrastructure investment

- while the public and private sectors and financiers and contractors and MDBs view PPP challenges through different prisms, they share mutual interests in effective responses and share a common aspiration to find ways to make progress
- there was a high degree of confidence in the evolving ABAC processes to develop the Asia Pacific Infrastructure Partnership and support to take this concept forward in 2011*

(* a separate informal meeting between interested parties representing ABAC, MDBs, private sector financiers and contractors, APEC officials and academia was convened after the Forum. Its purpose was to discuss the way forward with the APIP concept and views expressed supported further work in 2011. A report on this meeting and proposals for the development of the concept will be available to and considered by the Advisory Group of ABAC in early 2011).

The following is a more detailed report on the Yokohama Private Infrastructure Finance Forum – 7th November 2010

- Opening Session

- The forum was well attended with representatives from multilateral development banks, official agencies from the region, PPP financiers and contractors, APEC members and APEC officials
- In his opening remarks, the Chairman of the Forum, Mr. Mark Johnson noted the wealth of experience of people attending, the value of sharing that experience and asked that participants consider what next steps ABAC might promote to move forward in its deliberations on the role of the private sector, academia and MDBs in supporting infrastructure in the region
- The Director General, International Bureau, Ministry of Finance of Japan, the President of the ADB and the Group CEO, Global Banking and Deputy President, the Bank of Tokyo-Mitsubishi UFJ, Ltd. gave key note addresses in which they stressed
 - the private sector would contribute 40% of total infrastructure costs in the period to 2020

- meeting the financing demands for infrastructure over the next two decades and beyond would require development of capital markets and the channelling of private savings through pensions and mutual funds
- the role of governments in supporting long-term financing needs, through guarantees, ensuring appropriate cost recovery by investors and the need for stable regulatory frameworks
- the development of facilities in the ADB and in other MDBs to help leverage private funds into infrastructure projects and to enhance credit
- success in Japan's growth strategy will be in part dependent on meeting the infrastructure needs of the Asian region
- the greater policy emphasis on sustainable growth, on urbanisation, clean water and the environment

Session 1

- The session chair, Mr. Yoshihiro Watanabe, introduced speakers and commentators representing JBIC, the ADB, Mitsubishi Corporation, Hitachi Ltd., UEM Group, White and Case and the Australian Treasury. They variously discussed :
 - The challenges of meeting host country objectives through PPPs, including fiscal constraints and the need to ensure efficient management of PPPs by the private sector;
 - the appropriate institutional design of PPPs, the balance between profitability and social benefit and risk sharing and risk mitigation - whether or not debt related to PPPs is sovereign debt
 - The dearth of bankable projects in some developing economies, the fact that capital markets lack depth and the fundamental importance of risk mitigation and the legal and regulatory framework which govern PPPs
 - The need for government support to encourage the increasing use of renewable energy in the region and the need for a deeper appreciation of the challenges relating to long-term water availability in some economies in the region

- The benefits to both the public and private sectors of PPPs in rail procurement, the factors in determining project feasibility and special purpose financing model arrangements
- Recent developments in the context of Malaysia's 10th Year Plan which identified the private sector as the engine of growth with 52 privatisation and PPP projects under consideration with emphasis on the services delivered by the privatised entities, the requirement that projects are to be subject to key performance indicators and revisions to tariffs to be subject to reward and penalty system
- That while governments have a monopoly on the development of the right institutional framework for PPPs, they needed to involve the private sector in the process; a number of questions were posited that governments, and in particular the Philippines government should consider: they included questions relating to the value of existing PPPs, prioritisation of projects, procurement procedures; transparency in the relationship between a contractor and local government agencies, the legal authority of a contracting agency, conflict resolution arrangements and appeals procedures, the identification and management of risk
- that Australia had presented a report on breaking the log jams in PPPs which addressed the question why few PPPs move forward; it concluded that policy departments lacked hands on experience and as a consequence there was a reluctance to authorise projects; in response, Australia in cooperation with the World Bank proposed a mentoring scheme which aimed to give practical advice to policy makers and add value to processes in the region; it was anticipated that the scheme would be launched in 2011; participants in the forum were invited to be part of the mentoring process.

Session 2

- Drawing on the expertise clearly evident in the first session, Mr. Mark Johnson, the session chair, noted the huge intellectual property that had been applied to the issues raised in the first session. He noted that the purpose of the second session was to consider what more could the private sector do to change the environment for PPPs without detracting from the momentum clearly being demonstrated by the MDBs and other agencies. He noted that the speakers and commentators were people of deep expertise and well suited to advise in framing a response.
- The speakers and commentators represented Nomura Securities, the Ministry of Finance of Indonesia, Fluor Corporation and the University of Wollongong. They variously noted:

- . that developed economies would be the major investors in roads through to 2030 while developing economies would be major investors in electricity; key reasons why Japanese investors were reluctant to invest in infrastructure funds included country and exchange rate risk, a lack of reliable information and the low liquidity in currency exchanges and secondary markets
- . Indonesia has established the IIGF to provide support for infrastructure development; its aim is to improve the creditworthiness and quality of PPPs by establishing a clear framework for project appraisal and for guarantees; to improve governance on guarantees and to facilitate deal flow for contracting agencies by providing guarantees to well structured PPPs; the World Bank assisted in the design of IIGF and is supporting the establishment of a guarantee credit/guarantee facility which will expand the coverage of IIGF; it will be a single window and no other agency will be authorised to provide guarantees; as well as receiving the support of the World Bank, Indonesia involved in extensive consultations with international experts in formulating the IIGF; to qualify for support PPPs must be of high quality and meet commercial tests
- . Mr. Prieto of Fluor Corporation observed that few firms can adequately deal with political risk; the Indonesian government had shown political will to provide a facility which would help develop a sustained climate for PPPs; economies needed to determine priorities and would need quality staff to manage processes; in one sense all risk resides with governments – they either provide the framework for PPPs to work or there are no PPPs and development is constrained; the private sector will not take risks if it does not know and often the highest risk in PPPs is outside the boxes which are ticked off as being covered; discussions on guarantees for long-end risk could be useful in developing long-term relationships between agencies and the private sector and the risk profile can change through various stages of a project
- . Mr. Bowditch of Wollongong University noted that PPPs had not reached their potential in the region; the complexity of PPPs required sound relationships and understanding between relevant parties and that is the rationale for the proposed forum; such a structure would allow parties space to consider complex matters; he had helped create an independent model in Australia and this contributed to better understanding between parties on the risks and the issues they faced – it also provided a forum in which they could develop ideas and this proved useful to governments in Australia; a forum in the region would be a serious initiative but not audacious given the size of the PPP challenge in the region.

Concluding Session

- The Chairman commended the breadth of knowledge and the expertise that speakers and commentators had brought to the Forum; he noted the various prisms through which officials, financiers, contractors and MDB representatives had viewed PPPs and the challenges and believed that mutual interests of the parties had been recognised; they included the need to ensure that capacities are being utilised efficiently
 - . the fact that some economies do lack skills to undertake PPPs
 - . country risks, political risks, exchange rate and interest rate risks are key factors in constraining PPP development
 - . all risks are not transparent and trust is a critical element in the value chain
 - . the development of processes which contributed to greater trust is an aspiration we should all aim for
 - Mr. Aihara, Chair ABAC, offered his sincere gratitude to the ADB and JBIC and for sponsoring a highly successful forum; he noted that APEC's theme for 2010 was sustainable growth for and while APEC's main focus was on trade and investment, it was necessary to address other issues and that infrastructure was a special area; ABAC had proposed the Asia Pacific Infrastructure Partnership be launched as a pathfinder initiative and now that the Kyoto report had been published he believed ABAC should be encouraged to note the importance that Ministers had placed on infrastructure as a key aspect of the ongoing agenda; he believed the Forum to be a milestone in the development of infrastructure in the region.
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Ken Waller, Australian APEC Study Centre at RMIT University

8th November 2010.