

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 4-A

ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP): THE WAY FORWARD AND PLANNED ACTIVITIES FOR 2011

[First Draft]

Australian APEC Study Center at RMIT University

- PURPOSE** For consideration.
- ISSUE** Proposed strategy for promoting further engagement on PPPs in 2011.
- BACKGROUND** This paper discusses outcomes arising from the Yokohama meetings on PPPs and APIP and next steps. It proposes a strategy for consideration in early 2011.
- In determining that strategy it is noted that the first APEC Deputy Finance Ministers meeting is scheduled to be held in San Francisco, 22nd February 2011, and that that meeting will likely decide on finance and economic issues to be considered by APEC in 2011. The first ABAC Advisory Group meeting will be convened on 14th February in Guangzhou and this meeting will need to sign-off on the APIP strategy for 2011.
- PROPOSAL**
1. Pursue a targeted “demand driven” program focused on “big issues” confronting selected individual economies from both Asia and Latin America.
 2. Seek the involvement of PPP contractors and financiers in promoting three activities: (a) two relatively small dialogues – one in Asia and another in Latin America; and (b) a forum in Honolulu in November building on the results of the previous two dialogues, in collaboration with interested MDBs and possibly in conjunction with the AFMM.
- DECISION POINT** Agree on this way forward and planned activities for 2011.

DISCUSSION PAPER:

ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP): THE WAY FORWARD AND PLANNED ACTIVITIES FOR 2011

Background

This paper discusses outcomes arising from the Yokohama meetings on PPPs and APIP and next steps. It proposes a strategy for consideration in early 2011.

In determining that strategy it is noted that the first APEC Deputy Finance Ministers meeting is scheduled to be held in San Francisco, 22nd February 2011, and that that meeting will likely decide on finance and economic issues to be considered by APEC in 2011.

The first ABAC Advisory Group meeting will be convened on 14th February in Guangzhou and this meeting will need to sign-off on the APIP strategy for 2011.

Assessment of outcomes of the Yokohama meetings

Reports of both meetings – the Forum and the small group meeting – have been circulated. Both were useful meetings, the Forum in bringing together some important private/public sector personalities and MDB people to advise on “big” issues and in highlighting the size of the financing infrastructure needs and the opportunities - if they could be commercialised. It also pointed to the role MDBs are playing in supporting PPPs and new mechanisms being taken by governments, for example in Indonesia, in guarantees and in procedures required of regional/local governments in the PPP space.

However, the overwhelming impression of the Forum was that mobilizing private finance on the scale needed remains a primary challenge for most developing economies of the region.

The small meeting demonstrated MDB support and the interest of private sector participants for the APIP. MDB representatives agreed that the APIP could provide benefits, mainly by way of an extension of the work they are doing. The US expressed a willingness to provide an opportunity in 2011 to further develop thinking on the APIP. Some value was seen in top-down approach (represented by the APIP) as an adjunct to an Australian, Singapore, World Bank initiative (adopted in Kyoto by Finance Ministers) for a mentoring approach (bottom-up). Indonesia sees some progress in the PPP environment in that economy as a consequence of recent measures introduced by the government. Malaysia is making progress in prioritizing the commercialization or partial commercialization of state owned enterprises. India is making significant strides in promoting and raising funds for PPPs.

Private sector PPP sponsors and financiers saw value in an APIP, noting that the financing being mobilized by MDBs is relatively very small – about 1% of the cost of private sector expenditures on bids for PPPs, that standardization of documentation and processes would be very important to financiers and that measures to develop electronic information sharing web-sites would probably do much to assist developing economies.

Conclusions: A strategy for 2011 based on the findings just noted could be guided by the following propositions:

- Another general forum of the Yokohama type is unlikely to yield much more than was achieved in Yokohama in demonstrating the need for the APIP concept or a mechanism similar in purpose to the APIP concept.
- Given the massive financing gap and at best the modest developments in PPP infrastructure projects in the region, the APIP concept continues to be a valuable proposition but its utility needs to be more clearly demonstrated to the private sector.
- More work is also needed to demonstrate its value to developing economies in the region which have a strong interest in promoting PPPs.

Proposed strategy for promoting further engagement on PPPs in 2011

Based on the conclusions noted above, the following is a suggested strategy for the Advisory Group to consider.

- A targeted “demand driven” program focused on “big issues” confronting selected individual economies from both Asia and Latin America could be a useful way to promote the value of APIP or a similar concept and should be pursued as a continuation of an ABAC initiative in 2011.
- To more actively engage the private sector, thought could be given to seeking the involvement of PPP contractors and financiers in promoting three activities:
 - two relatively small dialogues – one in Asia and another in Latin America -- either in collaboration with interested institutions or ministries or as a component of one of the ABAC meetings in 2011, and
 - a forum in Honolulu in November building on the results of the previous two dialogues, in collaboration with interested MDBs and possibly in conjunction with the AFMM.
- The Advisory Group chair or co-chairs, interested ABAC members and other key private sector people identified by the Advisory Group could be asked to discuss with responsible ministers and senior officials key political/economy strategy issues in an effort to ascertain the key issues that a small forum could focus on. Some suggested issues could be:
 - strategies for PPP infrastructure development
 - approaches best suited to attract private sector participation
 - ways to consider dealing with “big picture” issues Ministers confront
 - ways in which further private sector advice – by sector specialists – might be mobilized to provide further support for infrastructure developments in those economies
 - mobilizing private sector finance and encouragement for the role of MDBs
 - availability and access to high quality information contained on web-sites

- Assuming support for the strategy outlined above is forthcoming, there would be a need to include advice to influential business leaders who can significantly contribute to promoting effective PPPs of ABAC's PPP initiative in 2011, inviting their participation should these proposed activities find favour with APEC finance ministries.
- High level MDB involvement and the participation of high quality academics should be positively considered in any forum that is organized under the strategy.
- Formulating a structure for an APIP type structure is of less importance at this phase than is the idea of developing the opportunity for such a structure to surface in the region
- An outline of developments on this strategy should be conveyed to the Deputy Finance Ministers' meeting in late February.

Proposal

That the Advisory Group note the report on the Yokohama meetings in November 2010 and endorse the proposed strategy as explained and outlined in this note for 2011.

Australian APEC Study Centre at RMIT University.

13th December 2010