

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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

Australian APEC Study Center at RMIT University

PURPOSE	For information.
ISSUE	Report of the forum.
BACKGROUND	The Forum was attended by about 110 participants, comprising of APEC senior finance officials, representatives from APEC Business Advisory Council (ABAC), Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and senior representatives of the business community and financial industry from Japan and other APEC economies. Speakers and commentators made high-quality interventions and provided detailed presentations that provided insights into major factors impacting public-private partnership (PPP) developments in the region.
PROPOSAL	N.A.
DECISION POINT	Note this report.



ABAC-ADB-JBIC Private Infrastructure Finance Forum

7 November 2010

Yokohama, Japan

SUMMARY REPORT

Introduction

The Forum was attended by about 110 participants, comprising of APEC senior finance officials, representatives from APEC Business Advisory Council (ABAC), Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and senior representatives of the business community and financial industry from Japan and other APEC economies. Speakers and commentators made high-quality interventions and provided detailed presentations that provided insights into major factors impacting public-private partnership (PPP) developments in the region. A copy of the program is attached to this report.

Summary of key points

- Substantial infrastructure investment during the next decade amounts to \$8 trillion in Asia and the Pacific to support current levels of economic growth and achieve balanced and sustainable growth.
- Since the infrastructure investment demand is huge, public sector investment alone cannot meet the infrastructure challenges. Therefore, PPPs in developing and managing infrastructure are important.
- Emerging Asia's savings rates are exceptionally high. Yet, mobilizing them to help build infrastructure necessary for long-term prosperity is an urgent challenge. In this respect, infrastructure funds and local institutional investors such as pension and provident funds can channel Asian savings to help finance PPP infrastructure projects. Multilateral Development Banks (MDBs) like ADB and Export Credit Agencies (ECAs) like JBIC can support this process through credit enhancement tools and expertise.
- Many PPPs have been undertaken in Asia and the Pacific over the past two decades. Significant PPPs are being undertaken by major Japanese corporations in rail, water and environmental sectors – including in developed and developing economies.
- Based on lessons learned from these PPPs, APEC economies have improved their PPP policies and procedures. For instance, important changes have been introduced to promote PPPs in Indonesia. The Philippines is reviewing new PPP policies and approaches. Malaysia has identified the development of PPPs in its 10th Malaysia Plan. India's PPP case was quoted during the Forum as an example of successful PPPs useful for Asia and the Pacific.
- Major constraints impeding PPP development in some economies were outlined. They include inadequate depth of capital markets, the dearth of good quality projects,

inadequate regulatory frameworks, and concerns with transparency, political and country risk, exchange and interest rate risk.

- MDBs such as ADB and the World Bank and ECAs actively support PPP developments, using credit enhancement products. They also support APEC economies in building capacities and in developing PPP projects.
 - The ADB has a strategy to enhance urban development in the Asia-Pacific region and this will involve major PPP infrastructure investment.
 - The infrastructure challenge for developing Asia is one of the most daunting we face today. It involves far more than just the size and cost of infrastructure demands.
 - The Forum confirmed that all stakeholders must work diligently to be innovative, yet financially responsible, in mobilizing Asian savings in order to deliver successful, sustainable and robust infrastructure projects.
 - The Forum confirmed a need for solid partnerships among all stakeholders - governments, MDBs like ADB, ECAs like JBIC, and the private sector - in delivering and managing complex PPP projects.
 - Moving forward, the Forum underscored the importance of regular dialogues among governments, MDBs, ECAs and the private sector to further discuss PPP issues and constraints objectively.
 - There was a high degree of confidence in the evolving ABAC processes to develop the Asia-Pacific Infrastructure Partnership (APIP) and support to take this concept forward in 2011.
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Detailed Summary of the Forum

Opening Session

- Mr. Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building, provided an introduction to the forum. In his opening remarks, he noted the wealth of experience of the 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.
- Mr. Takehiko Nakao, Director General, International Bureau, Ministry of Finance, Japan, delivered the welcome remarks and expressed gratitude to the organizers. He mentioned that the APEC Finance Ministers' Meeting (FMM) was not only concerned about macroeconomic issues but also gives importance to infrastructure finance. Due to the high demand for financing infrastructure, private sector involvement is needed

and governments should provide an enabling environment to allow the sector's active participation in PPP projects for the long-term.

- Mr. Haruhiko Kuroda, President, ADB, gave the main keynote address and explained that substantial infrastructure investment during the next decade totalling \$8 trillion exists in Asia and the Pacific region to support current levels of economic growth. Private participation through PPPs is essential and private investment is expected to cover about 40% of total costs, according to ADB's estimate. Meeting the financing demands for infrastructure would require strong legal and regulatory frameworks, development of domestic capital markets and the channelling of private savings through pension and mutual funds. Multilateral development banks (MDBs) like ADB and export credit agencies (ECAs) like JBIC can support this process through credit enhancement tools and expertise. Currency mismatches have been problematic in many PPP projects. Continued development of domestic capital markets and encouraging local currency lending will help address this problem. For example, local pension funds could be tapped as a source of long-term local currency funding. The ASEAN+3 Asian Bond Markets Initiative has been working to deepen domestic capital markets and promote local currency bond issues for widening both issuer and investor bases. The pilot \$700 million Credit Guarantee and Investment Facility is expected to be operational by 2011 within ASEAN+3. He briefly explained ADB's major infrastructure initiatives such as the Asia Infrastructure Project Development Company, the Asian Training and Research Initiative for Urban Management, the Cities Development Initiative for Asia and Water Financing Program. He called for being innovative, yet financially responsible, in mobilizing Asian savings to deliver successful, sustainable and robust infrastructure projects. He also called for maintaining solid partnerships among all stakeholders in delivering and managing complex PPP projects.
- Mr. Hiroshi Watanabe, President and CEO, JBIC, delivered the second keynote speech and emphasized the importance of infrastructure development for balanced and sustainable growth. He underscored the importance of developing efficient energy supply chain systems, implementing energy savings programs, and establishing environmentally sustainable economic structures with low greenhouse gas emissions. MDBs and ECAs play a significant role in processing PPP projects and JBIC as a public sector financing institution provides financing packages for PPP projects that induce private sector participation.
- Mr. Tatsuo Tanaka, Group CEO, Global Banking and Deputy President, The Bank of Tokyo-Mitsubishi UFJ, Ltd., shared his views on PPP infrastructure financing in the context of private banking institutions. Since infrastructure projects have become larger, financing amounts have increased and this has created opportunities for public-private collaboration, where MDBs and ECAs can provide additional financing with longer tenure and shared risks.

Session 1: Infrastructure Finance in Asia and the Pacific (Opportunities, Challenges, Technology and Greenhouse Gas Implications)

- The session chair, Mr. Yoshihiro Watanabe, introduced speakers representing JBIC, the ADB, Mitsubishi Corporation, Hitachi Ltd., and commentators representing UEM Group and White and Case. A representative from the Australian Treasury provided the concluding comments.
- The first presentation was given by Mr. Fumio Hoshi, Senior Executive Director, JBIC. He elaborated on the major infrastructure finance challenges such as the need for establishing appropriate PPP frameworks, hitting the right balance between profitability and public service obligations of PPP arrangements, and pursuing appropriate risk sharing, including political risks.
- The second presentation was delivered by Mr. Ashok Sharma, Senior Director, Office of Regional and Economic Integration, ADB. He elaborated on the (i) demand for infrastructure; (ii) mechanisms to promote PPP; and (iii) ADB's initiatives to support PPP. He highlighted the need for cooperation and emphasized the need for dialogues among stakeholders in order to discuss PPP issues, resulting in acceptable arrangements.
- The third presentation was given by Mr. Nobuaki Kojima, Executive Vice President and Group CEO, Global Environment Business Development Group, Mitsubishi Corporation. He presented the demand for water and energy infrastructure, the dearth of bankable projects in some developing economies, the lack of depth in some capital markets, the fundamental importance of risk mitigation and the legal and regulatory frameworks which govern PPPs. He noted 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 and energy availability in economies in the region.
- The last presentation was given by Mr. Toshihide Uchimura, Chief Strategy Officer, Global and Transportation Business, Hitachi, Ltd. Industrial and Social Infrastructure Systems Company. He presented 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; and the need to have a mitigation mechanism brought about by the following factors: (i) shrinking project finance capability of the private sector; (ii) high margin for the private sector; (iii) difficulties of obtaining longer tenor debt; and (iv) difficulties of refinancing.
- Tan Sri Datuk Dr. Ahmad Tajuddin Ali, Chairman, United Engineers Malaysia (UEM) Group Berhad, mentioned that in the case of Malaysia, the government clearly defines its role and areas for PPP undertakings. He discussed recent developments in

the context of the 10th Malaysia Plan, which identifies the private sector as the engine of growth with 52 privatization and PPP projects under consideration, with emphasis on services delivered by the privatized entities, and the requirement that projects are to be subject to key performance indicators and revisions to tariffs to be subject to a reward and penalty system. This will require government review of the existing contracts to develop PPP model contracts that will adequately cover the present requirements.

- Mr. Arthur M. Mitchell, Senior Counselor, White & Case LLP, mentioned that while governments have a monopoly on the development of the right institutional framework for PPPs, they need to involve the private sector in the process. He posed 15 PPP-related questions that governments should consider: (i) Will existing legislation, particularly in the Philippines, be used or will a new PPP law be enacted? (ii) Have international best practices been considered (i.e. UK, Ireland, Australia, Netherlands, South Africa and Canada)? (iii) Does the PPP framework cover critical phases, such as (a) identification of PPP projects on a multi-year plan, (b) preliminary analysis and prioritization of PPP projects, and (c) structuring of PPP projects? (iv) What is the applicability of public procurement laws and do they need to be amended? (v) What is the relationship between the central government and the local government units with respect to PPPs? (vi) What is the legal authority of the local government to grant contracts? (vii) Is there any sector-specific procurement legislation supplementing the general procurement regime? (viii) Does the relevant legislation state or restate the fundamental principles for tender procedures—equal treatment, transparency and competition? (ix) Does the law require the contracting authority to be independent and impartial? (x) How are conflicts dealt with? (xi) When and how can a ‘competitive dialogue’ with the contracting authority be used? (xii) How does the contracting authority deal with ‘abnormally low’ bids? (xiii) What procedures are available for the losing bidder to appeal and what is the role of the courts? (xiv) Can and do the courts issue injunctions and how quickly can disputes be resolved? (xv) Are there any specific investment protections available for foreign investors and financiers?
- Mr. Leslie Williams, Senior Adviser, Regional Engagement Unit, International and G20 Division, Australian Treasury, provided the concluding comments. He mentioned that Australia presented a report to APEC Finance Ministers on breaking the log jams in PPPs which addressed the question why few PPPs move forward. The said report concluded that policy departments lacked hands-on experience and, as a consequence, there was a reluctance to authorize projects. In response, Australia, in cooperation with the World Bank and Singapore, will launch in 2011 the PPP mentoring scheme, which will aim to give practical advice and technical assistance to policy makers and add value to PPP processes in the region. Participants in the forum were invited to be part of the mentoring process.

Session 2: Infrastructure Funds, PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector, and PPP Infrastructure in Indonesia

- 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 and challenges raised in the first session. He noted that the focus of the second session was to consider what more the private sector can do to improve 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.
- Mr. Takaaki Naito, Senior Managing Director, Nomura Securities, noted that developed economies would be the major investors in roads through 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 in secondary markets in some economies.
- Mr. Freddy Saragih, Director, Fiscal Risk Division, Fiscal Policy Office, Ministry of Finance, Republic of Indonesia, discussed PPP opportunities and challenges in Indonesia. Indonesia has established the Indonesia Infrastructure Guarantee Fund (IIGF) to provide support for infrastructure development. It aims to: (i) improve the creditworthiness and quality of PPPs by establishing a clear framework for project appraisal and for guarantees; (ii) to improve governance on guarantees; and (iii) 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 credit guarantee facility which will expand the coverage of IIGF. In addition, Indonesia was involved in extensive consultations with international experts in formulating the IIGF. This will serve as the government's single window for appraising and structuring of guarantees and is designed to make the government's guarantee process consistent, transparent and efficient. To qualify for IIGF, PPPs must be of high quality and meet commercial tests.
- Mr. Robert Prieto, Senior Vice President, Fluor Corporation, observed that few firms can adequately deal with political risk. The Indonesian government has 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. He emphasized the high demand and the corresponding high risks in engaging in PPP. He also mentioned the need to recognize that not all projects and geographical locations are the same. Thus, no common approach is applicable. In the end, he noted that there is a need to (i) create a climate for sustained use of the PPP model; (ii) understand which financing approach will work best for each project; (iii) know PPP priority, focusing on "ready to go" projects that have been costed; (iv) reduce non-financial barriers (such as legal and administrative including approvals);

(v) understand how PPP commitments made by government will be accounted on government books; (vi) identify risk mitigation opportunities; (vii) understand private sector needs in PPP projects; and (viii) form true partnership with the private sector.

- Mr. Garry Bowditch, Director, SMART Infrastructure Facility, University of Wollongong , 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 – the Asia Pacific Infrastructure Forum. Such a structure would allow parties to discuss and consider complex matters. He mentioned that he had helped create an independent model in Australia and that a similar structure contributed to better understanding between parties on the risks and the issues they faced. It also provided a forum in which they developed ideas and this proved to be useful to the Australian government. 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 recognized. He then recapped the forum’s discussion and raised two questions: (i) whether the existing model, rules and regulations are still appropriate in the context of PPP; and (ii) whether information from the governments, private sectors and financial institutions is disseminated efficiently and their capacities utilized efficiently. He then noted the following: (i) There is a need to ensure that capacities are being utilized efficiently. (ii) Some economies do lack skills to undertake PPPs. (iii) Country risks, political risks, exchange rate and interest rate risks are key factors constraining PPP development. (iv) All risks are not transparent and trust is a critical element in the value chain. (v) Development of processes, which contributed to greater trust, is an aspiration we should all aim for.
- To close the forum, Mr. Gempachiro Aihara, ABAC Chair, offered his sincere gratitude to ADB and JBIC for sponsoring a highly successful forum. He noted that APEC’s theme for 2010 was to promote sustainable growth, and that while APEC’s traditional focus was on trade and investment, it was necessary to address other issues. Infrastructure is a special area. ABAC had proposed that the Asia-Pacific Infrastructure Partnership be launched as a pathfinder initiative, and now that the Kyoto report had been published, he believed that ABAC should be encouraged by the importance that APEC Finance Ministers 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.



ABAC-ADB-JBIC Infrastructure Finance Forum

7 November 2010

**Yokohama Bay Sheraton Hotel and Tower, Nichirin IV
Yokohama, Japan**

13:30 – 17:30

PROGRAM

13:00 – 13:30 Registration

Opening Session

- 13:30 – 13:40 Welcome Remarks
Mr. Takehiko Nakao, Director General, International Bureau, Ministry of Finance, Japan
- 13:40 – 13:55 Keynote Address
Mr. Haruhiko Kuroda, President, Asian Development Bank (ADB)
- 13:55 – 14:05 Keynote Address
Mr. Hiroshi Watanabe, President and CEO, Japan Bank for International Cooperation (JBIC)
- 14:05 – 14:15 Keynote Address
Mr. Tatsuo Tanaka, Group CEO, Global Banking and Deputy President, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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

Session Chair: Yoshihiro Watanabe, Chair, ABAC Finance and Economics Working Group

- 14:15 – 14:25 PPP Finance: Principles and Challenges for Further Development
Mr. Fumio Hoshi, Senior Executive Director, JBIC
- 14:25 – 14:35 Private Infrastructure Finance in Asia and the Pacific – Challenges and Opportunities - ADB Perspective
Mr. Ashok Sharma, Senior Director, Office of Regional Economic Integration, ADB
- 14:35 – 14:50 Public-Private Partnership on Water and Power
Mr. Nobuaki Kojima, Executive Vice President and Group CEO, Global Environment Business Development Group, Mitsubishi Corporation

- 14:50 – 15:00 Public-Private Partnership on Rail Procurement
Mr. Toshihide Uchimura, Chief Strategy Officer, Global and Transportation Business, Hitachi, Ltd. Industrial and Social Infrastructure Systems Company
- 15:00 – 15:35 Open Forum
Commentator 1: Tan Sri Datuk Dr. Ahmad Tajuddin Ali, Chairman, UEM Group Berhad
Commentator 2: Mr. Arthur M. Mitchell, Senior Counselor, White & Case LLP
- 15:35 – 15:45 Concluding comments: Mr. Leslie Williams, Senior Adviser, Regional Engagement Unit, International and G20 Division, Australian Treasury
- 15:45 – 16:00 Coffee Break

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

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

- 16:00 – 16:10 Introduction by the Session Chair: PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector
- 16:10 – 16:20 Infrastructure Funds and Pension Funds
Mr. Takaaki Naito, Senior Managing Director, Nomura Securities
- 16:20 – 16:35 PPP Opportunities and Challenges in Indonesia
Mr. Freddy Saragih, Director, Fiscal Risk Division, Fiscal Policy Office, Ministry of Finance, Republic of Indonesia
- 16:35 – 17:15 Open Forum
Commentator 3: Mr. Robert Prieto, Senior Vice President, Fluor Corporation
Commentator 4: Mr. Garry Bowditch, Director, SMART Infrastructure Facility, University of Wollongong

Concluding Session

- 17:15 – 17:25 Summary of Discussions
Mr. Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building
- 17:25 – 17:30 Closing Remarks
Mr. Gempachiro Aihara, Chair, APEC Business Advisory Council