

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## First Meeting 2011

14 February 2011

Shangri-La Hotel, Guangzhou Ballroom  
Guangzhou, People's Republic of China

## Meeting Paper 4-C

### Report on the Informal Meeting on APIP with APEC Officials, MDBs and Infrastructure Experts, Yokohama, 7<sup>th</sup> November 2010

Australian APEC Study Center at RMIT University

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| <b>PURPOSE</b>            | For information.  |
| <b>ISSUE</b>              | Report of informal meeting  |
| <b>BACKGROUND</b>         | Representatives from the finance ministries, MDBs and the private sector attended this informal meeting immediately following the ABAC-ADB-JBIC Private Infrastructure Finance Forum to provide advice on messages from the Forum and next steps in promoting the concept of an Asia Pacific Infrastructure Partnership (APIP). |
| <b>PROPOSAL</b>           | N.A.  |
| <b>DECISION<br/>POINT</b> | Note this report.   |

## **REPORT ON INFORMAL MEETING ON THE ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP) WITH APEC OFFICIALS, MDBs AND INFRASTRUCTURE EXPERTS, YOKOHAMA, 7<sup>TH</sup> NOVEMBER 2010**

Representatives from the following groups attended a smaller meeting convened immediately following the ABAC-ADB-JBIC Private Infrastructure Finance Forum to provide advice on messages from the Forum and next steps in promoting the concept of an Asia Pacific Infrastructure Partnership (APIP):

- MDBs (the Asian Development Bank, Inter-American Development Bank, World Bank)
- senior officials from APEC economies – Australia, Indonesia, Philippines, USA
- the Advisory Group on APEC Financial System Capacity Building
- private sector financial institutions – Bank of Tokyo-Mitsubishi UFJ and JP Morgan
- private sector project management – UEM Berhad, Fluor Corporation
- academia – Universities of Wollongong, Stanford, RMIT

Mark Johnson chaired the meeting and noting the highly productive dialogue in the Forum asked if ABAC seeks to mobilize private sector involvement in the regional PPP space or if, by doing so, would it get in the way of developments, many of which seemed to be going quite well.

He noted that in Australia, there had been some very good experiences with PPPs and also some disasters. A few centres of excellence had evolved in some Australian states which were capable of dealing with the private sector. At the national level Infrastructure Australia had been established and its development supported by outward looking governments. This had yielded economic benefits. In the context of the APIP, it could be considered as something of a straw man.

Bob Prieto noted a partnership model akin to those formed in Australia, the UK and Canada had helped drive consistency in the contractual approach to PPPs. This had been of huge benefit. But the question now is is ABAC attempting to develop a similar model of partnership, noting that ABAC works with a number of institutions. Would it be useful to think of trying a partnership for say 12 months to see if it could work successfully.

Dr. Freddie Saragih, Ministry of Finance, Indonesia, noted that a partnership might raise legal issues; would it be an international forum. He anticipated that governments would be open-minded. In response to a question from Mr. Prieto as to how Indonesia had benefitted from the Guarantee Fund (IIGF) on the contract side of things, Dr. Saragih noted that so far discussions on contracts were going well.

Mr. Ashok Sharma, ADB, noted that the Bank regarded ABAC's capacity building initiatives as the way forward. Mr Johnson observed that ABAC can draw on wide business expertise but the need is for better policy frameworks to support PPPs. He wondered, where foreign exchange is a risk in a project, could ABAC bring together some smart people to find an instrument/s more acceptable to markets and thereby improve the environment for PPPs. He also noted that ABAC is building connections with academics and that the team that Mr. Bowditch has brought together is looking at PPPs in a systematic way and in ways that the private finance sector might not look at.

Mr. Sharma noted that while most countries in the region borrow from the ADB there are constraints on the bank. There is a huge interest in PPPs but governments have not changed their approach to involving the private sector. The capacities of some governments, for example in the legal areas of PPPs is very thin and the ADB sees it as a major challenge to help build those capacities. Setting up panels to facilitate the design the design of PPPs is important. Long-term funding is a constraint and regional economies need to have guarantee facilities or funding arrangements in place and measures to ameliorate risk in PPPs. India is a success story.

The ADB has around 40 resource specialists and would be pleased to support initiatives with its experts. Presently the ADB does convene capacity building training programs in Manila or in-country and invites stakeholders from a range of institutions in sectors such as health, water and education.

Mr. Johnson asked that if there was a forum active across the region able to discuss the way PPPs are moving and how they are moving and the forum provided a base of knowledge, would that be useful to the ADB? Mr. Sharma responded positively in the case of Vietnam, noting that the Bank is considering setting up an infrastructure forum to which it would invite all relevant stakeholders. The requirements in Vietnam are considerable.

Mr. Johnson noted the mentoring role proposed by Australia and asked if the forum under consideration would be a useful adjunct to the mentoring concept. Mr. Williams, Australian Treasury, noted that APEC should add value in its work, there are a number of initiatives going on but that set against the ADB role, the mentoring proposal would be a relatively small part of capacity building. As regards the role, it needs to be fleshed out and crafted with participating economies on board.

The World Bank representative noted the need for systematic private sector dialogue and the value of bringing together public and private sectors and said that this would be relevant even with the mentoring scheme in place.

Mr. Watanabe asked if the mentoring scheme would consider cross-border issues in the development of PPPs, for example would it consider matters in relation to China. Mr. Williams responded noting the scheme would be “gap driven” and by what economies determined.

Mr. Prieto observed that the total amount of ADB funding for PPPs over time was equivalent to around 1% of the private sectors bid costs. This put the discussion in perspective; the critical question to ask is what has to happen to get the finances together to meet the region’s PPP needs over the next two decades or so. The issue is not about getting the concrete and steel together for a mega project but rather one of building capacities at national and municipal levels of government. He noted that on-line knowledge systems offered great benefit but such systems was not presently in place. The benefits of lessons learned and the sharing of experiences would be of immense importance. Translating procedures into standards and go-by documents is important and there is real value in putting functional knowledge before PPP leadership.

Mr. Johnson presumed that Fluor would protect its intellectual property. Mr. Prieto confirmed that to be the case, noting that his company was supporting industry-wide sharing on a particular project.

Mr. Bowditch observed that there were two propositions. One was how to grow the PPP market to meet the challenges confronting the region. The mentoring proposal was about a bottom-up approach to capacity building but there is a need for a top-down approach to advise Ministers and very high level decision makers. This was the top-down approach of the APIP concept. The two approaches complemented each other.

Mr. Kaplan of the US Treasury noted that the US would be pleased to support whatever ABAC wanted to do to promote PPPs during 2011. The US is considering financial inclusion as a major initiative during 2011 but was open ended on infrastructure. The US would be happy to convene something but not as a seminar in the margins of a SFOM meeting which could limit the value of any conversation with the private sector. Any ABAC proposal should be specific and should add value.

Dr. Saragih noted that there is considerable knowledge around about PPPs. Noting limitations on staff capabilities he observed that notwithstanding the risks inherent in PPPs work had to start. In South Sumatra, the government had brought all contracting parties together to study contracts and procedures. He was unsure whether this would be regarded as a top-down approach.

Mr. Prieto raised the value of a check-list of procedures and the development of go-by documents to assist agencies.

Mr. Johnson asked Mr Sharma if the discussion thus far provided food for thought for the ADB in designing its proposed forum. Mr. Sharma noted the value of more dialogue and forums and the value of an ADB web-site. The ADB is thinking of an Asia Infrastructure Forum which would meet every 3 months but would avoid general discussions. Rather the focus would be on issues being confronted on specific projects relevant to three economies.

Mr. Ryan of Stanford University endorsed the concept of the APIP noting that the needs of the region were great, dialogues were helpful in match making but they should be action oriented and country specific issues should be presented to a panel. The panel should be cross-resourced and involve experts from the private sector. Mr. LaFleur (J.P. Morgan) noted the importance of high quality documents to encourage governments across the region in promoting uniformity and standards. Mr. Prieto noted the value of going through a check-list with the owners of a PPP project; this could be particularly helpful in understanding responsibilities and obligations.

Mr. Watanabe noted three major issues; how to ensure commercial viability; how to handle foreign exchange risk confronting commercial investors and thirdly, how to handle political risk. India is to launch a \$trillion investment program with the private sector expected to contribute around \$500 billion. The ADB has provided technical assistance and the commercial viability of projects would be supported by funds from the World Bank and the ADB. The ADB will provide guarantees to offset political risks but foreign exchange risks remained a challenge.

Tan Sri Datuk Dr. Ahmad Tajuddin Ali noted three major stakeholders; the government, banks and project proponents. From an ABAC perspective, governments have a capability to frame something that would protect the other stakeholders and in so doing governments needed to address their risks and concerns.

In concluding, Mr. Johnson thanked participants for their valuable insights which gave ABAC heart to proceed but not to get in the way of the work of others.

*Australian APEC Study Centre at RMIT University*

*13<sup>th</sup> December 2010*

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