



**Asia-Pacific  
Economic Cooperation**

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**2014/SOM3/IEG/DIA/021**

**Session: 3**

## **Regional Collective Action in Developing Physical Connectivity**

Submitted by: China




**Promoting Infrastructure Investment  
Through Public Private Partnership  
Beijing, China  
13 August 2014**



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## Regional Collective Action in Developing Physical Connectivity

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**In the Post Global Financial Crisis era, the need for regional collective action in developing physical connectivity is increasingly important.**


- Improving regional infrastructure conditions
- Promoting regional economic growth



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## **Regional Connectivity is a Public Good**


By reducing the cost of trading over distance, regional connectivity expands markets and trade, producing large economic benefits that are spread widely across Asia.



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## **Who Can Provide Public Goods**


- Superpowers
- Regional Powers
- Regional Cooperation



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## Who Can Provide Public Goods


- Public
- Private
- Public and Private (PPP)



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## Indicative Investment Needs for Regional Identified and Pipeline Infrastructure Projects, 2010-2020

Region/Subregion	Transport Projects		Energy Projects		Total	
	Cost (\$ million)	No.	Cost (\$ million)	No.	Cost (\$ million)	No.
<b>Asia</b>	<b>177,077</b>	<b>931</b>	-	-	<b>177,077</b>	<b>931</b>
Asia Highway	13,276	121	-	-	13,276	121
Trans-Asian Railway	82,801	45	-	-	82,801	45
Asian Container Ports <sup>a</sup>	51,000	765	-	-	51,000	765
<b>East/Southeast-Central-South Asia<sup>b</sup></b>	-	-	<b>22,975</b>	<b>5</b>	<b>22,975</b>	<b>5</b>
<b>Southeast Asia<sup>c</sup></b>	<b>5,858</b>	<b>17</b>	<b>41,444</b>	<b>33</b>	<b>47,302</b>	<b>50</b>
GMS	5,858	17	2,604	14	8,462	31
Trans-ASEAN Gas Pipeline	-	-	7,000	1	7,000	1
BIMP-EAGA	-	-	100	1	100	1
Others	-	-	31,240	17	31,240	17
<b>Central Asia</b>	<b>21,414</b>	<b>38</b>	<b>11,131</b>	<b>44</b>	<b>32,545</b>	<b>82</b>
CAREC	21,414	38	10,661	43	32,075	81
Others	-	-	270	1	270	1
<b>South Asia</b>	<b>293</b>	<b>3</b>	<b>6,846</b>	<b>6</b>	<b>7,139</b>	<b>9</b>
<b>Total</b>	<b>204,642</b>	<b>909</b>	<b>82,369</b>	<b>88</b>	<b>287,038</b>	<b>1,027</b>



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## What is PPP?

- Traditionally infrastructures are funded almost entirely by the government.
- Public-private partnerships (PPP) are emerging as the preferred mode of infrastructure financing to enable the channeling of private sector investments into infrastructure.



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## Constraints Faced by Public-Private Partnership Projects

**Table 1: Private Investment in Infrastructure (2003–2012) and National Infrastructure Investment Needs (2010–2020)**

Country	Private Investment in Infrastructure (2003–2012)	National Infrastructure Investment Needs (2010–2020)
	\$ billion (%)	\$ billion
Bangladesh	8.48 (2.5)	144.90
Bhutan	0.22 (0.1)	0.87
India	275.35 (95.3)	2,172.47
Maldives	0.55 (0.2)	4.51
Nepal	0.78 (0.3)	14.33
Sri Lanka	3.6 (1.3)	37.91
<b>Total</b>	<b>289.07 (100)</b>	<b>2,375.00</b>


Sources: World Bank PPI Database covering energy, telecom, transport, water, and sewerage. <http://ppi.worldbank.org/> and Bhattacharyay, B. N. 2010b. Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific, 2010–2020. ADB Institute Working Paper Series, No. 248. Tokyo: Asian Development Bank Institute. ADB estimates.



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## 1. Uncertain Operating Environments

- Absence of a defined institutional framework
- Absence of clear policy/legislative support
- Cumbersome approval process
- Absence of political support
- Need for market attractiveness evaluation



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## 2. Funding Constraints

- Inadequate long-term funding sources
- Stringent banking regulations
- Perceived risk in infrastructure debt
- Credit information gap



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### 3. Institutional Capacity Issues

- Inadequate experience within governments
- Inadequate technical and financial capacity among private players
- Inadequate appraisal skills for infrastructure financing




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### How to Spur Growth of Public-Private Partnership Projects

#### 1. Enabling Environment

- Provide policy/legislative support
- Set up an institutional framework
- Create a single window for approvals
- Develop a PPP index



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## 2. Adequate Funding Support

- Creation of long-term funding options
- Modification of banking guidelines on lending to infrastructure
- Improvements in risk assessment to optimize financing cost

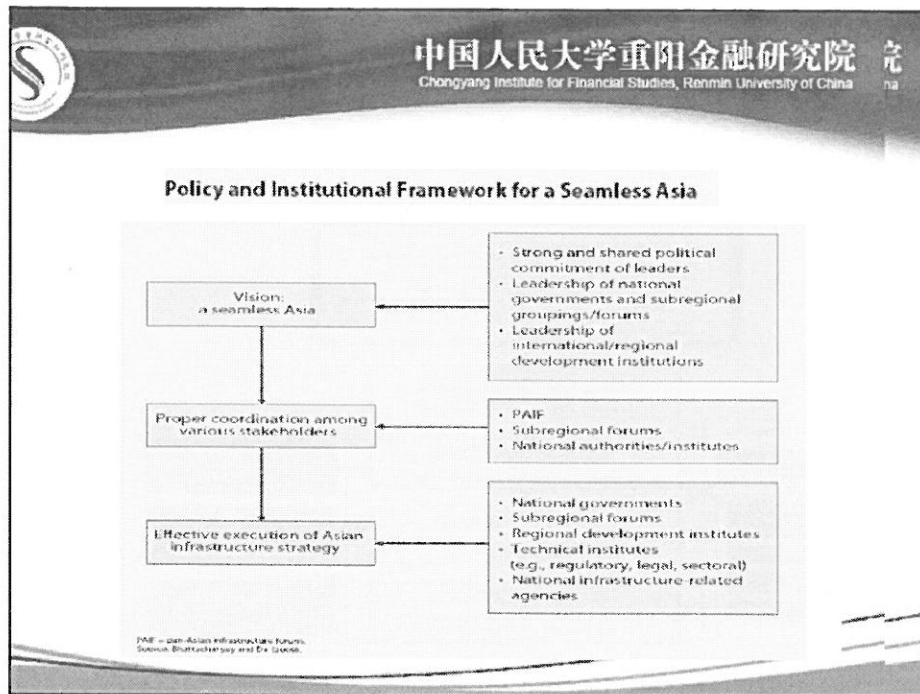


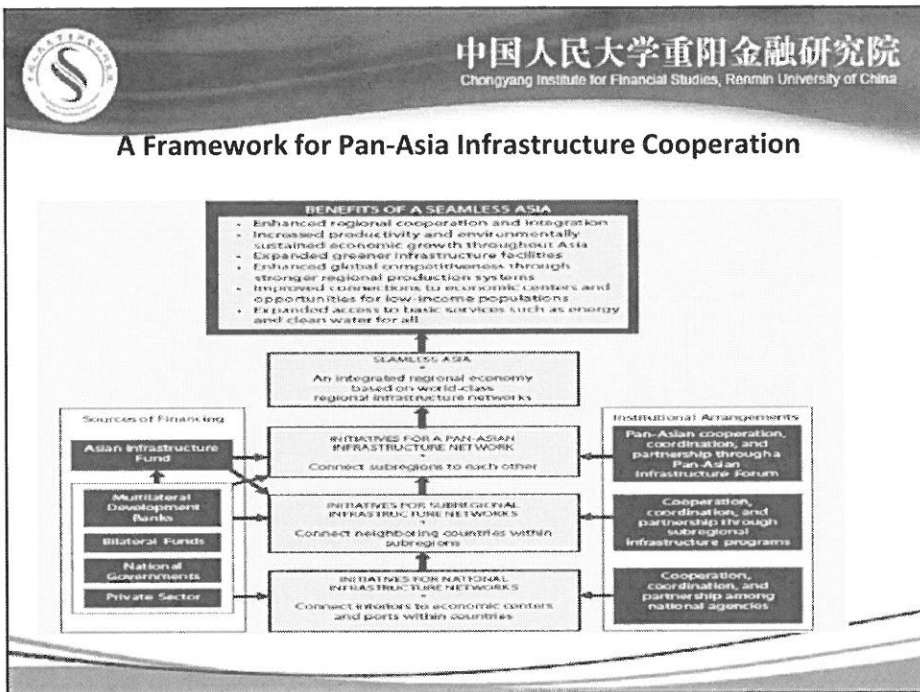
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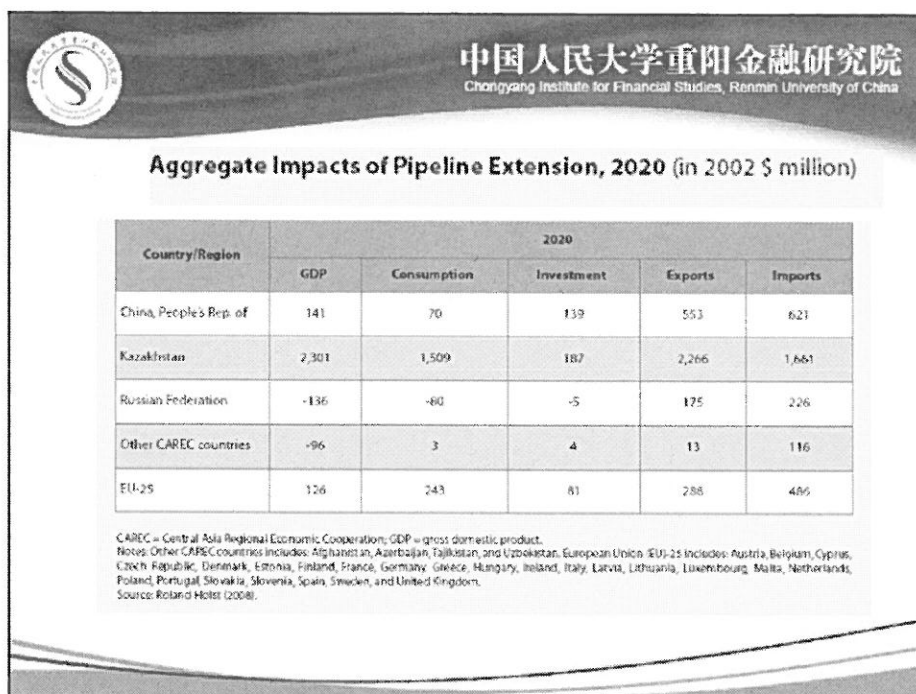
## 3. Institutional Capacity Development

- Capacity building for government employees
- Assessment of developer capability
- Training bank employees to conduct appraisals of public-private partnership projects













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**Promoting Infrastructure Investment Through PPP –  
Way Forward: Recommendations for APEC Future  
Cooperation**

Submitted by: IMF



**Promoting Infrastructure Investment  
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## Promoting Infrastructure Investment through PPP –Way Forward: Recommendations for APEC Future Cooperation

APEC IEG Private-Public Dialogue

W. Raphael Lam  
International Monetary Fund  
August, 2014

The views expressed in this presentation are those of the speaker and do not necessarily represent those of the IMF policy.

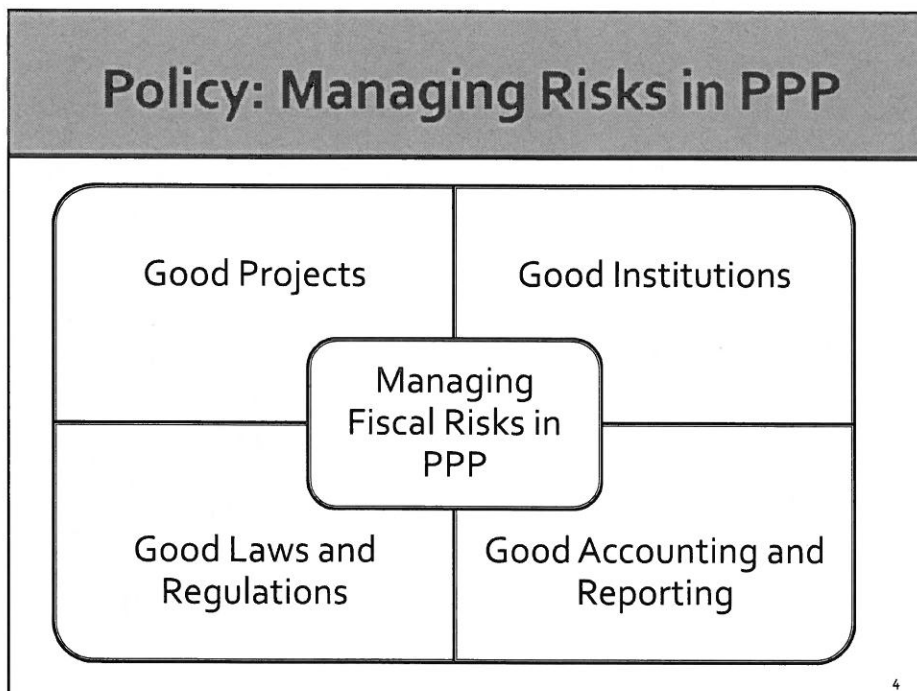
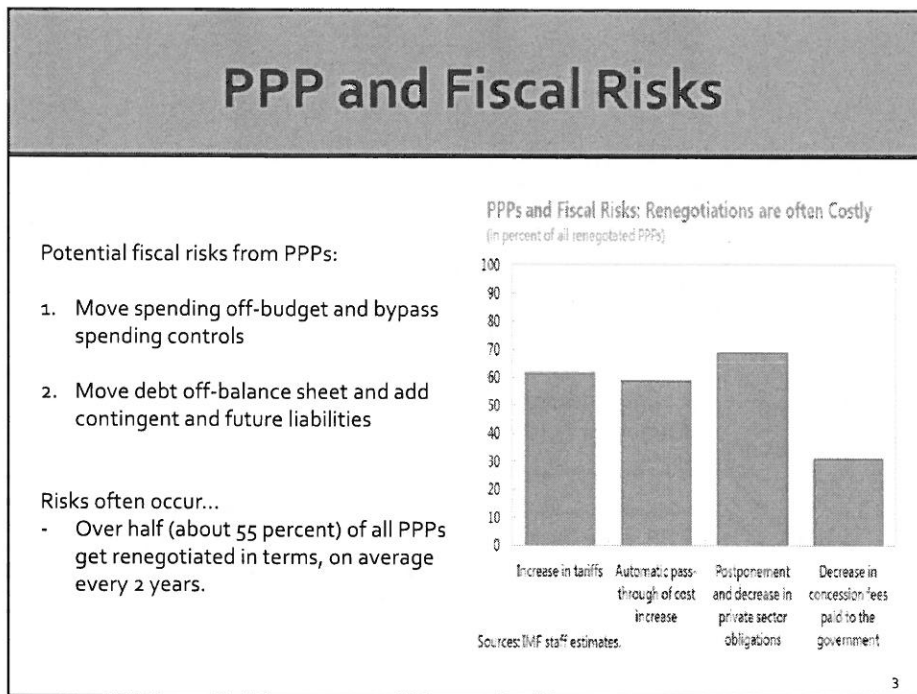
## Key Takeaways

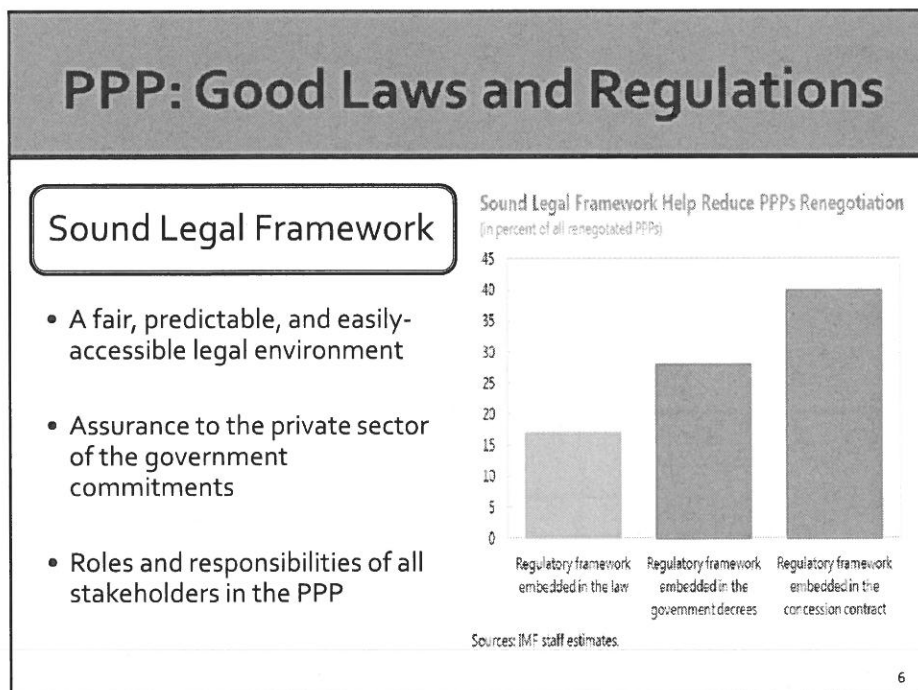
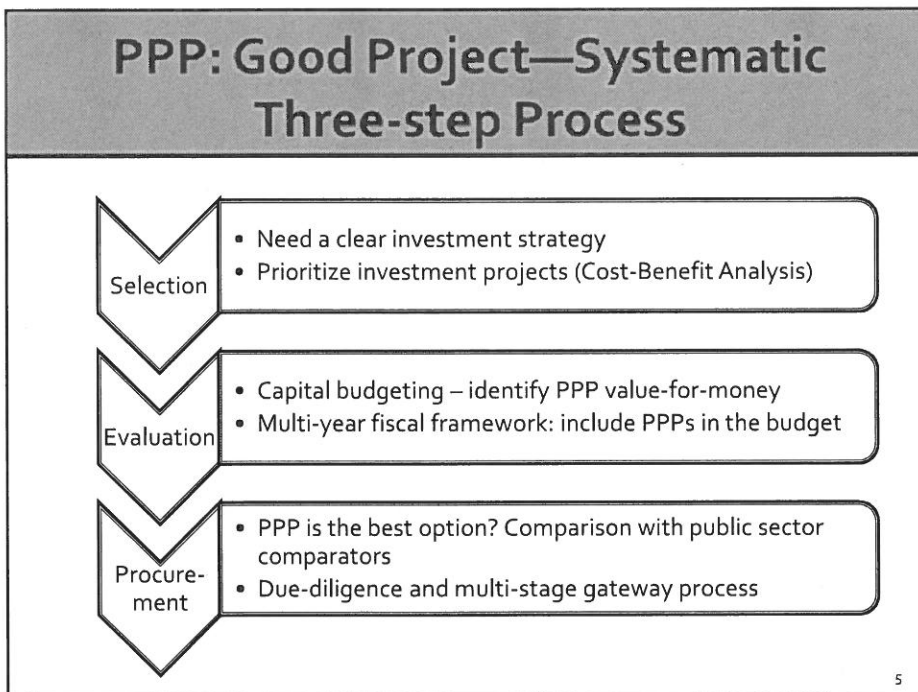
### PPPs and Fiscal Risks

- Policy to manage fiscal risks from PPPs:
  - Good projects
  - Good law and regulation
  - Good institutions
  - Good accounting and reporting

### Role of Financial Sector

- Asia's financial sector could help channel resources to finance infrastructure spending (e.g., through PPP)
- Financial development (deepening and integration) for long-term stable investor base







## PPP: Good Institutions

### Ministry of Finance

- Establish a specialized entity in the MoF to manage validation process
- Validation process focusing on value-for money, fiscal affordability (medium term), budget impact—validating each step in PPPs
- Help build a reputation—lower risk premium and political and regulatory risks

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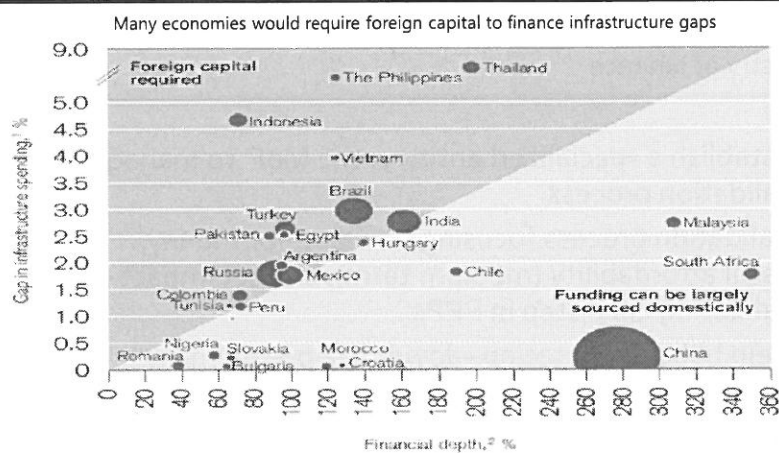
## PPP: Good Accounting and Reporting

### Proper accounting and reporting of fiscal implications of PPP

- Clear disclosure of fiscal position (current and future)—risk-based assessment of fiscal stance
- Complementary approach to incorporate PPP-related costs, including contingent liabilities

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## Infrastructure Financing Falls Behind the Needs



Source: Credit Suisse (2012; 2013)

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## Financial Sector in Asia Could Help Mobilize Resources...

- Financial sector development--mobilize savings to finance infrastructure needs (e.g., through PPP) with further financial:
  - Deepening—facilitating access and development of capital markets
  - Integration—bringing in external finance

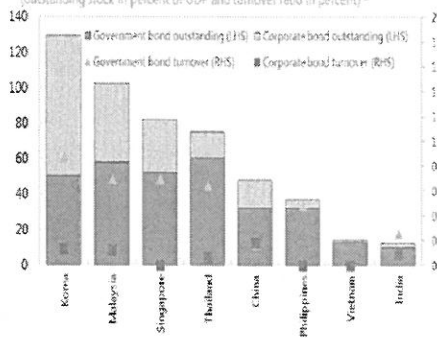
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## Policy: Financial Deepening and Integration

- Further develop capital market to improve financial integration and stable long-term investor base (e.g., pension funds, insurers) in the region

**Bond Markets in Selected Asian Economies**

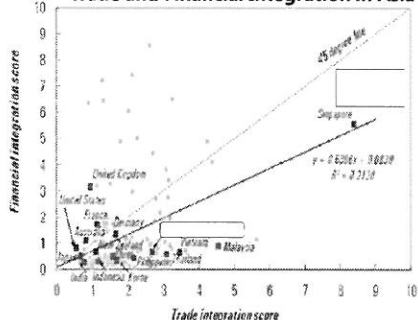
(outstanding stock in percent of GDP and turnover ratio in percent)<sup>17</sup>



Source: ADB

<sup>17</sup> Turnover ratio is the outstanding stock of bonds divided by its turnover volume.

**Trade and Financial Integration in Asia**



Source: IMF staff calculations.

<sup>1</sup> Integration scores measure country ratios (net exports and imports, or capital flows) to GDP over global average.

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Thank You

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