21st APEC Finance Ministers' Meeting
Beijing, China
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Joint Ministerial Statement
Annex A - The Implementation Roadmap to Develop Successful Infrastructure Public-Private Partnership Projects in the APEC Region

I. Introduction

1. Well-designed, sustainable and resilient infrastructure enhances economic growth, boosts productivity and promotes job creation. Regional infrastructure also facilitates smooth flow of goods, services and people across borders, improves regional connectivity and promotes sustainable development. Given the huge infrastructure needs and limited financial resources of governments in the APEC region, PPP offers a viable alternative to traditional procurement methods to support infrastructure development. The APEC Finance Ministers' Process can play an important role in promoting PPP, recognizing that successful PPP projects expand public infrastructure supply, improve service quality, provide value for money, and maximize the use of private sector capital and know-how through sharing of risks and responsibilities, while keeping in mind that PPP is a means to an end rather an end in itself.

II. Purpose

2. The roadmap aims to carry forward the Multi-Year Plan on Infrastructure Development and Investment (MYPIDI) endorsed under Indonesia's presidency of APEC in 2013 and guide APEC's future work in developing infrastructure PPP projects, especially to assist government officials of APEC member economies to better understand, prepare, structure and implement infrastructure PPP projects and appropriate financing arrangements. It draws on the experiences shared through a number of case studies in the selected sectors of transport, energy, telecommunication and water, contributed voluntarily by APEC member economies, as well as previous work of other fora such as G20 and international organizations (IOs) such as the Asian Development Bank (ADB), the World Bank Group, the APEC Business Advisory Council (ABAC) and the Organization of Economic Cooperation and Development (OECD). The roadmap focuses on implementation, with which government officials of member economies, developing economies in particular, can get useful reference and a sense of direction at each step towards a successful PPP project.

3. As there is no one-size-fits-all approach suitable for all economies, especially considering the differences and diversity among APEC member economies, the roadmap is designed to serve as a reference for government officials of APEC member economies to process and implement PPP projects with appropriate adjustments reflecting their specific domestic conditions.

III. The Roadmap

4. Characteristics of PPP. PPP is based on the long-term contractual relationship between public and

private sectors. It is therefore complex in nature, especially given uncertainties and risks in project life cycle, and long-term commitment and interaction of various stakeholders including government, private sector, consumers or users of the service, and general public. Government needs to play a leading role in carrying out PPP, including in the areas of rigorous legal protection, strong institutional capacity, and good planning, preparation and supervision of PPP projects and their financing arrangements.

5. Enabling Environment. A clear, consistent and predictable enabling policy and legal environment for private participation is a cornerstone for successful implementation of PPPs. The legal framework needs to clearly specify, among others, private sector investment rights and obligations, transparent and standardized procurement processes, capacity for different institutions to enforce contracts, fair and contractual arbitration processes, and remedial actions for payment defaults. Well-defined sector-specific regulatory mechanisms including clear guidelines on how to set and adjust user charges/tariffs are also integral aspects of a contractual arrangement. In the absence of a PPP-specific framework, a general legal and regulatory framework which allows the private sector to participate in the provision of infrastructure and public services is a basic requirement.

6. Planning. An infrastructure investment plan or priority list is a useful way for a government to demonstrate top-level political commitment and to indicate the potential flow of future projects. A continuous project pipeline with a clear timetable for each will also increase private investor's willingness to participate in infrastructure projects. A high-quality, integrated master plan generally sets out the level of investment required, the socio-economic benefits expected to be realized, the links between private and public investment, and the areas where government expects PPP to play a role. Such a plan would prioritize projects at all government levels using robust cost-benefit analysis, and clearly identify how each project fits into the overall infrastructure plan, the appropriate financial and delivery mode and how resources will be allocated. The designing and implementation of PPP projects should draw upon the quality elements, good practices and principles including social and environmental considerations.

7. Project Selection. Not all projects are suitable for PPP and bad choices can lead to lengthy and expensive procurement processes with limited or no results. Therefore, each government should try its best to select promising project in terms of commercial feasibility in advance and in-depth upfront feasibility study are necessary to ensure a project is suitable for PPP modality and can achieve value-for-money, reflecting the concept of life-cycle cost. A structured and consistent screening process for large complex projects is a critical first step to identify viable PPP projects. It should firmly establish the business model for the project to function as a PPP. This include defining the output requirement, assessing overall financial and socio-economic costs and benefits within the government's strategic objectives, identifying the sources of revenue and the project's bankability, and most importantly, evaluating the benefits of private sector participation and private sector interest in the project. This process should allow the government to compare a range of options for combining public and private financial resources. In cases where unsolicited infrastructure proposals are deemed appropriate, a transparent and robust process will be required to ensure the effectiveness and integrity of projects.

Good practice in dealing with unsolicited projects also involves subjecting these proposals to a competitive test.

8. Project Preparation. Screened PPP projects need to be well-prepared and structured before they are brought to the market. Robust due-diligence and preparation of technical, legal, financial, economic, environmental and social issues are necessary for government to assess trade-offs and select an optimal structure for the transaction that is attractive to potential private investors. Government can facilitate the creation of project preparation facilities, such as dedicated fund for feasibility studies to ensure that funds are available to help cover a portion of project preparation costs. Expense recovery mechanisms could help these facilities to become self-sustainable, as could equity stakes in the projects, where appropriate. To improve project readiness, it is useful for governments to develop a checklist and gateway reviews that could indicate whether a project is ready to proceed to the next stage and finally be brought out to the market. Management capacity in the government, particularly in contracting agencies, needs to be further developed, through for example hiring specialist advisors, to more effectively and efficiently bring projects forward to completion. For markets at an early stage of development, delivering quality examples of successful PPP projects within a reasonable time, rather than focusing on quantity of projects, is a most effective strategy for attracting investors.

9. Procurement. A transparent and competitive tender process provides an optimal framework for receiving the highest value for money proposal for a project. To improve efficiency of procurement, it is important to set tight but achievable deadlines and ensure that people in the highest positions from both the private and public sectors are involved and committed. Active and transparent consultations between the private sector and the government are important throughout the pre-proposal, pre-bidding and pre-structuring processes. Standardization of PPP contracts can help improve transparency, consistency and efficiency of procurement processes, as can standard clauses for issues which will need to be dealt with in all PPP contracts. However as needed, in the context of a tender for a specific project, adjustments may have to be made to certain terms and conditions, to improve risk allocation or bankability of a project, depending on feedback from the bidders, and taking into consideration government's goal and policies.

10. PPP Contract. The project contract is the instrument that governs the partnership and captures how risks are allocated and mitigated throughout the project life-cycle. It should outline respective roles and responsibilities of public and private sectors, service obligations, project revenue stream, key performance indicators, contract monitoring mechanisms, dispute resolution mechanisms and termination terms. Given the long-term nature of PPP, the contract should leave appropriate flexibility to enable it to adapt to potentially changing environments. Flexibility, however, should not compromise predictability.

11. Risk Allocation. Risk allocation is at the core of good practice PPP. Improper allocation of risks could result to a failure of the bid process, higher price and costs, service delays or poor quality. The basic principle is that risks should be borne by the party that is best suited to manage and mitigate

them and at the least cost. Defining this risk allocation clearly in agreements, to be specified in advance at early stage of development of each project, can help attract more private sector participation and ensure the soundness of public balance sheets. Generally, risks associated with design, performance, technology, construction and operation are typically allocated to the private sector, while other risks such as political, legal and regulatory risks are better managed by the public sector. Risks arising from interest and currency fluctuations, pricing structure and unforeseen events can be shared by both the public and private sectors. Risk associated with natural disasters should be integrated at the planning, design and construction levels to reduce the potential impact of natural disasters, thereby reducing the PPP financial risk.

12. Government can adjust its role over time as the market develops, and more sophisticated and successful projects emerge and the private sector feels more comfortable in assuming the risks. In developing economies or sectors where benchmarks to evaluate risks are not yet available or the private sector does not have sufficient understanding of the market, government can consider developing benchmark projects based on similar projects from other developing economies, and provide strong support. These benchmark transactions could serve as the starting point for subsequent projects, after which the private sector can become more comfortable in baring the risks.

13. Project Financing. ―Greenfield‖ or newly built infrastructure PPP projects are inherently highly capital intensive and project finance is an effective way to increase the availability of financing if adequate risk allocation is achieved. Developing the long-term local currency financial market can facilitate greater participation of local banks, operators and other market players in infrastructure project financing. Promoting long-term investment by institutional investors -- such as pension funds, insurers and sovereign wealth funds -- can also expand the financing channel for infrastructure, and it can be facilitated by an enabling regulatory framework for long-term infrastructure investments, including a clear exit process through the transfer of shares. Multilateral Development Banks (MDBs) can also assist PPP projects through the use of innovative financing package including loans, equity investment, loan guarantee and project bond insurance. The challenge of obtaining private investment for a ―brownfield‖ project that has been operating for a period of time is somewhat lessened because actual experience and performance of the project is known, which reduces risk.

14. Government Support. There are cases where PPP projects have high economic returns, while their financial returns are low. For these cases, it could be desirable to have government financial support, which could be an upfront capital subsidy, on-going payments to supplement user charges, and/or revenue guarantees through viability gap financing (VGF). It may also be the case that government guarantees are needed to ensure the timely performance of obligations of a public sector entity that is off take to the contract not fully credit-worthy. This requires active management of fiscal commitments and contingent liabilities over a medium to long-term horizon to ensure fiscal sustainability. For certain assets located in high density areas, ancillary revenues from retail operations or land-value capture can be significant, and may lower the required government support. Moreover, the VGF requirement can also be used as a ―bidding variable, i.e. to select the concessionaire that needs the smallest subsidy. Many infrastructure projects involve politically

sensitive decisions on such issues as tariffs for the financial viability of public utilities, land acquisition or awarding of contracts. In these cases, political support from higher levels of government is needed to make necessary decisions.

15. PPP Centers or Units. Setting up PPP centers or units, including through collaboration with the private sector, can enhance government's institutional capacity in promoting PPP. Many APEC economies have set up PPP centers or units in their central or local governments, sectorial ministries, or a cross-sector ministry such as the Ministry of Finance. PPP centers or units can act as centers of excellence to help government draw up investment plans, set PPP policies, select, structure, implement, finance and monitor PPP projects, manage long-term contracts with the private sector, coordinate various agencies, and ensure government interests are protected. They can also develop and manage manuals for PPP projects, assess both successful and failed projects to draw lessons and improve future decision making, and act as hubs for recruiting and training PPP experts. To ensure the well-functioning of PPP centers or units, a specialized government team and sufficient clarity and authority are necessary. Scientific results in PPP field should be better tailored to the needs of real economy. Financing increase for PPP researches has to promote progress in developing this sphere.

16. Stakeholder Consultation. PPP projects are typically large infrastructure projects that involve many stakeholders and have significant social impact. Stakeholder engagement and consultation are therefore important to minimize concerns and negative externalities from the project. Engaging local communities in the identification, prioritization and planning of infrastructure projects in their respective localities can not only generate public support for projects but also help in evaluating the affordability or sustainability (from an environmental and social perspective) of projects. This will facilitate prioritization of PPP projects based on a better understanding of the needs of local communities and better utilizing the broader expertise and capital from the private sector.

17. Increasing transparency around PPPs can help to increase participation and understanding of PPPs. Particular attention should be given to issues of resettlement, compensation, and potential direct employment benefits to local communities impacted by the project. While providing services in PPP projects, key performance indicators are always set and include citizens' satisfaction with the services provided to them. In this case, the bonus of an investor depends on performance. This is measured in various ways: sectorial statistics, data of statistic body and surveys.

IV. Early Harvest Actions for the APEC Economies

18. To support the implementation of the MYPIDI, the APEC Finance Ministers call for actions to be taken by governments, the private sector, and international organizations to promote development of infrastructure PPP projects in the APEC region:

Encourage the establishment of more PPP centers or units in the APEC region. In this regard, we appreciate the efforts by the People's Republic of China (PRC), and welcome the recent establishment of the PPP Center within the Ministry of Finance of PRC as a center of excellence to facilitate development of PPP projects and institutional building of governments.

Intensify capacity building, experience sharing and networking of existing and pilot PPP centers through the APEC PPP Experts Advisory Panel, the APEC study centers, Australia's Government Partnerships for Development Facility, Canada's PPP support as well as capacity building initiatives proposed by member economies and international organizations such as ADB and the World Bank Group. In this context, we welcome PRC's decision to commit USD 5 million from the Poverty Reduction and Regional Cooperation Fund (PRC Fund) in ADB to support capacity building and project development on infrastructure PPP, regional cooperation and connectivity in APEC developing economies.

Accelerate capital market development to attract long-term institutional investors through initiatives such as the Asia-Pacific Financial Forum.

Mobilize private sector expertise through initiatives such as the Asia-Pacific Infrastructure Partnership dialogues as well as the ABAC Enablers of Infrastructure Investment Checklist to help governments design bankable projects and necessary reforms.

Mobilize financial and knowledge resources from IOs such as ADB, the World Bank Group, and OECD to support the development of PPP projects and necessary reforms in the APEC region, including technical assistance and transaction advisory services. In this respect, MDBs are encouraged to further pursue innovative, yet financially responsible business models in support of PPP projects. MDBs can also further promote the issuance of local currency bonds and/or local debt financing and help attract long-term investors to fund infrastructure PPP projects. Furthermore, they can provide long-term loans and credit enhancement products to meet specific requirements for infrastructure PPP projects and mobilize private sector finance.

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