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Joint Ministerial Statement
Annex A. Diversifying Financing Sources and Fostering Private Sector Involvement in Infrastructure Investment in APEC Economies

1 We, APEC Finance Ministers, recognizing the complexity of infrastructure finance and the role of private sector in infrastructure investment, agree on the following policy statement and support the implementation, on a voluntary and non-binding basis, of the following recommendations:

Diversified sources and instruments for the finance of infrastructure

2 The analysis of diversified instruments is essential to provide the foundation for the identification of effective financing approaches, instruments, and vehicles that could broaden the financing options available for infrastructure projects and increase as well as diversify the investor base. This also has the potential to lower the cost of funding and increase the availability of financing in infrastructure sectors or regions where financing gaps might exist. The formation of local capital markets, including in local currency denominated debt and equity, is an important step in securing long-term financing for infrastructure projects and can increase the options available for governments. By using 'blended finance' - the strategic use of public finance and developing financing to mobilize further additional private investment - governments can de-risk and mobilize private investment in infrastructure[1].

3 Regarding equity instruments, there are several key areas to consider including the establishment of robust unlisted infrastructure equity markets and the ability of equity funds (cross-border investment) to access infrastructure assets in the local market. Listed equity instruments including trusts, open- and closed-end funds, could be reviewed as potential models for infrastructure across APEC economies.

4 In most economies, commercial bank lending is the dominant source of debt financing for commercially financed infrastructure. A financial system dominated by banks may mean higher risk of overexposure for the banking system. This, and the call for diversification of financing sources plays in favor of encouraging the development of capital markets. Traditional lending may be complemented by (i) the syndication of bank loans through capital markets, allowing banks to recycle capital for new projects, (ii) the development of a robust project finance market (such as project bonds) as an alternative to traditional infrastructure loans, (iii) the formation of lending consortia through debt funds, direct investment by institutional investors, and other key stakeholders such as Multilateral Development Banks (MDBs) and governments, and (iv) securitization which supports the bundling of small-scale loans in order to reach scale and diversification.

[1] G20/OECD Guidance Note on Diversifying Sources of Finance for Infrastructure and SMEs

5 The financial attractiveness of a project is reliant in part on its stage of development and whether its revenues are proven, compared to the type and extent of risks that are present at that stage. Through strengthening policy frameworks and regulations, governments could promote reliable long-term funding basis of infrastructure projects (including through relevant cash-flow structures) so as to ensure the flow of revenue streams is adequate to attract private investment.

Institutional investors and promoting infrastructure as an asset class

6 There is a large potential to expand investment by public and private institutional investors – particularly multilateral and national development banks, pension funds, insurance companies, Sovereign Wealth Funds (SWFs) and mutual funds. Governments may review financial regulations that may potentially pose unintentional barriers to infrastructure investment by institutional investors, taking into account prudential, investor protection, and overarching financial stability objectives.

7 In order to attract institutional investors to the full spectrum of infrastructure assets, such assets need to be structured as attractive investment opportunities, providing revenue streams and risk-return profiles that match investors' return expectations and liability structures.

8 Policy recommendations could identify opportunities to catalyze greater private sector participation in financing infrastructure projects across multiple stages. It may also be possible to identify a potential framework for cooperation amongst the main stakeholders as a way to promote stable and diversified financing for infrastructure.

9 To arrive to a full understanding of the drivers and impediments of infrastructure investment, detailed analysis of infrastructure assets is required. A standard template for data collection on infrastructure assets, including historical cash flows and qualitative information on project characteristics and sustainability could help promote infrastructure as an asset class and may be considered for APEC economies.

Public-Private Partnerships, Effective transaction design and Risk Allocation

10 Improving PPP knowledge, models and expertise will assist in further attracting private capital into infrastructure investment. Some international organizations highlight for instance that three elements[2] are especially useful to define governments' support of PPP and therefore create a suitable institutional environment: i) establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities; ii) ground the selection of Public-Private Partnerships in Value for Money; and iii), use the budgetary process transparently to minimize fiscal risks and ensure the integrity of the procurement process. The enabling environment is fundamental in attracting private sector investment, with the rule of law, enforcement of contracts and regulatory quality found to be of key importance to infrastructure markets[3].

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[2] OECD Principles for Public Governance of Public Private Partnerships

[3] GIH InfraCompass (May 2017), *Set your infrastructure policies in the right direction*

11 Increasing levels of private investment and financing in PPPs will entail significant risk transfers to the private sector, placing risk allocation at the center of every PPP transaction which is crucial for long-term viability. A deep understanding of the risk allocation principles, measures and government support arrangements is a precondition to attract private sector capital. Consequently, risks need to be clearly classifiable, measurable and contractually allocated to the party best able to manage them. Effective contractual arrangements align the service delivery objectives of the government with the private sector's objectives to generate profits at an expected level of risk.

Risk mitigation instruments and techniques

12 In promoting the judicious use of risk mitigation techniques, governments and development finance institutions can use public financing (at either concessional or market terms) to enable the viability of infrastructure projects. This is particularly important in APEC developing economies where investment is sometimes further hindered by inadequate policy frameworks and governance. A variety of risk mitigation techniques including guarantees, insurance and hedging, as well as syndication, and debt subordination provide relevant tools to facilitate private investment.

13 Contractual arrangements, insurance, and guarantees are the most effective instruments for mitigating or transferring commercial risks in several APEC economies. To mitigate political risks, joint ventures or alliances with local companies and political risk insurances were reported to be the most effective instruments, along with co-investment platforms and funds. Tools for managing currency risk such as hedging instruments or matching cash flows are important for developing APEC economies.

Infrastructure project pipelines

14 Building project pipelines is conducive to encouraging private sector involvement in infrastructure, and may benefit from a concerted APEC effort to increase or expand capabilities, project preparation facilities, and technical assistance. The formation of a project pipeline may be a prerequisite for certain infrastructure finance strategies, such as for instance, establishing the use of project bonds through local debt markets. The development of standardized documentation, accompanied by capacity building instruments like tool-kits and training programs, information dissemination and communication strategies, has helped empower authorities to not only develop a pipeline of commercially viable PPP projects but also to implement the projects on the ground.

15 Good practices that bring about public investment efficiency should be considered. Infrastructure development is typically hampered by issues such as poor project selection, delays in design and completion of projects, complicated procurement practices, cost over-runs, right of way issues and failure to operate and maintain assets effectively. The infrastructure project pipeline should, thus, focus on efficiency and promote viable and priority projects. A robust system for project evaluation, pricing and analysis should be in place so that the pipeline is aligned with national development goals and the most appropriate financing scheme is chosen.

Further work

16 Taking this statement into consideration, we call for further work to identify and analyze good practices and approaches in our economies, relevant to the issues addressed in this Statement, which can guide and support the voluntary implementation of these policy messages; and ask the OECD, in cooperation with other international organizations including MDBs, to report on these good practices by our next 2018 and 2019 meetings.