



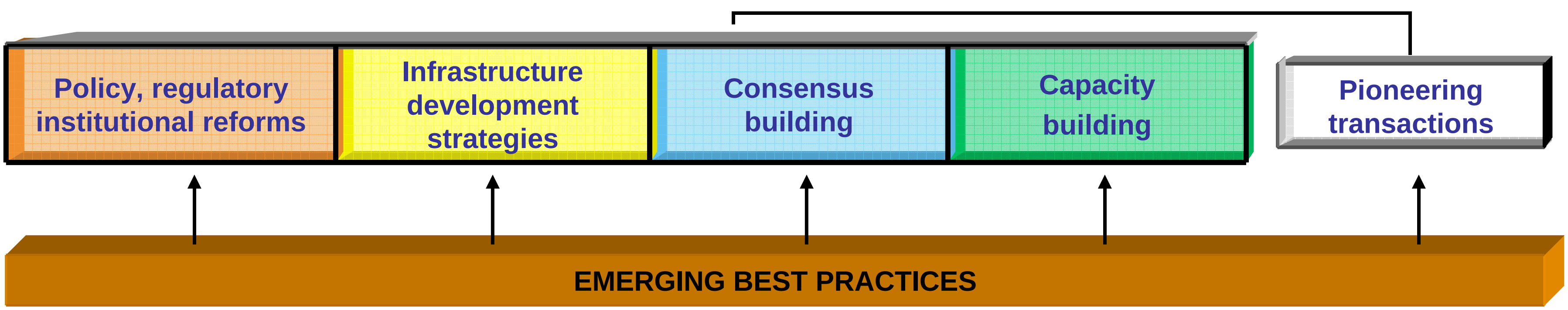
Enabling Environment for Infrastructure

ADB Transport Forum
Manila, September 2008

PPIAF

Overview of PPIAF

- **Public-Private Infrastructure Advisory Facility (PPIAF)** is a multi-donor technical assistance facility
  - *Grants* not loans
  - Global facility: regional offices in East Asia & Pacific (Manila), South & Central Asia (Delhi), and Africa (Nairobi & Dakar)
- Helps developing countries improve the quality of infrastructure
- Supports efforts of governments to realise the full potential of private sector involvement in infrastructure
- Can finance a range of advisory and related activities in a single country or across multiple countries



Why Need to Develop Upstream Enabling Environment?

	US$m	No. of projects	Share of Total Global Value
Total Global PFI projects[1]	**343,330**	**656**	**100.0%**
Regions:			
Americas	73,208	137	21.3%
AsiaPac	85,831	133	25.0%
EMEA	184,290	386	53.7%
AsiaPac core new infrastructure[2]	**27,552**	**73**	**8.0%**
India	10,888	26	3.2%
Australia	6,001	17	1.7%
South Korea	4,801	13	1.4%
Japan	1,729	6	0.5%
Singapore	960	2	0.3%
China	800	3	0.2%
SUBTOTAL 6 AsiaPac Nations	**25,178**	**67**	**7.3%**

Notes:

1. From *Project Finance International* database of completed projects, Jan 2007 to Aug 2008, all sectors and all countries with project size over $US50m.

2. Core new infrastructure in all AsiaPac countries includes: roads, rail (heavy, LRT, etc), airports, seaports, BOTs and PPPs (including social infrastrcture). It excludes: financings of exisiting assets (refinancings, privatisations), mining, petrochemicals, refineries, industrials, telecommunications.

- Asia well represented in overall completed project financings
  - Predominantly mining, oil & gas, industrials, petrochemicals, telecommunications
- But very low 'core new infrastructure' financed by private sector
  - Shows new roads, rail, seaports, airports, power, water, social infrastructure
  - Mostly India (roads & power) and PPP programs in Australia, South Korea
- Very (very!) little from developing Asian nations

PPPs: Lessons Learned (last 20 years)

1. ***Depoliticising tariffs.*** *Affordability, willingness to pay and cost recovery.*

2. *Smart **risk allocation** between private investors, government and end-users.*

3. *Managing the **contingent liabilities** (public money support to PPPs).*

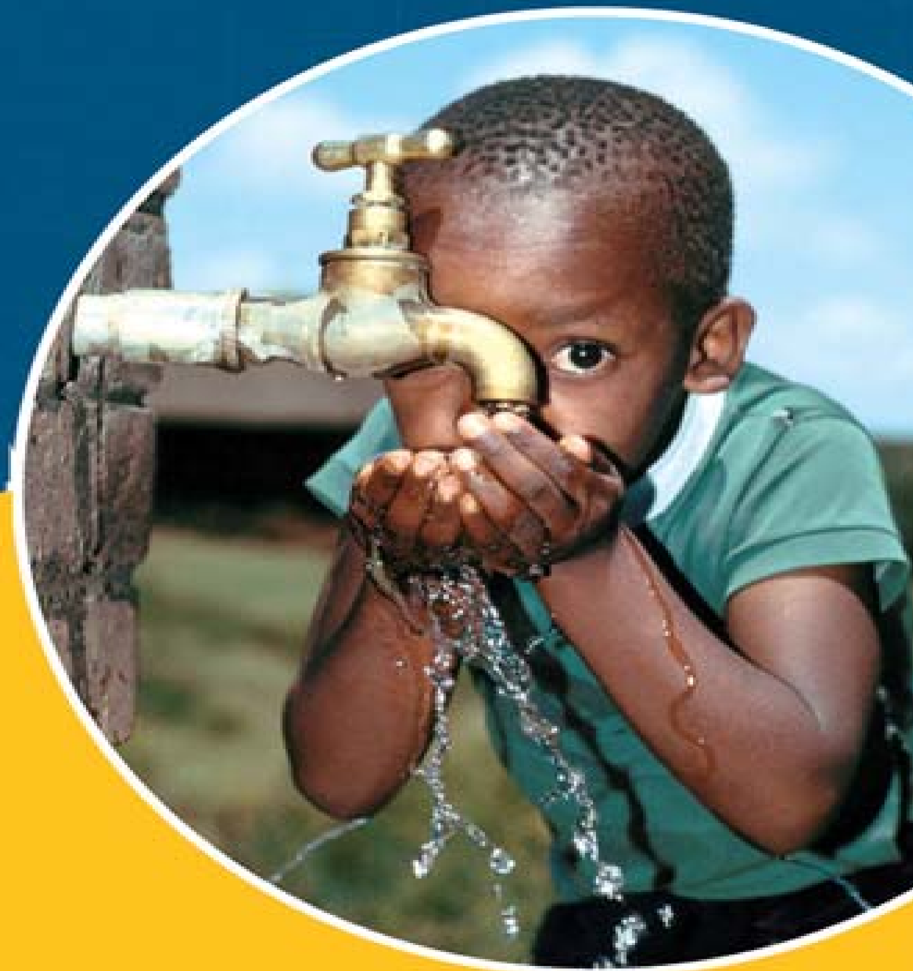
4. *Building adequate **institutional capacities**. The "time" trap. Decentralisation of infrastructure service provision.*

5. ***Governance** and corruption.*

6. ***PPP performance** has shown proven results only in developed economies (i.e. UK, Australia, etc) and in a handful of developing economies (i.e. Chile, South Africa, Malaysia, etc).*

PPIAF

PPIAF in East Asia & Pacific



VANUATU: Developing a Multi-sector Utilities Regulatory Agency

PPIAF Funding: $277,500

- Assistance on establishing and strengthening a Utility Regulatory Authority (URA)
- In conjunction with AusAID
- PPIAF funding for draft legislation and other legal documents to formally establish URA
- URA intended as multi-sector regulatory agency covering electricity, water and telecommunications
- 26 November 2007: Parliament passes bill to establish URA

MONGOLIA: Integrated South Gobi Infrastructure Strategy

PPIAF Funding: $700,000

- Approved April 2008; initial workshop undertaken in May with Government officials to identify issues on developing an infrastructure strategy for South Gobi
- Follow-on consultation workshop on possible infrastructure development options before end-2008
- Activity driven by discovery of impressive pipeline of world-class mineral deposits in South Gobi
  - Need for adequate provision of water resources and infrastructure services
  - Appropriate assessment of environmental risks
  - Leverage the mining developments to promote broader regional development of Southern Mongolia
- The activity will help Government identify infrastructure development options, including financial, environmental, and social implications arising from mining developments in South Gobi

PHILIPPINES: Privatisation of Philippine Transmission Company

PPIAF Funding: $74,100

- Electric Power Industry Reform Act provides framework for power sector restructuring – includes privatisation of National Transmission Corporation (Transco) via concession
- Latest round of bidding was fourth by Government for Transco concession
  - Three previous rounds aborted with no outcome: poorly planned and implemented bidding processes, high levels of uncertainty, few if any bidders
  - Round #4 (completed December 2007) was transparent, included partial off-take agreement
- Activity helped Government obtain a third-party independent assessment of the bidding process and concession agreement to enhance prospects of success
- Activity contributed to successful bid of US$3.95 billion
  - Final award requires approval of Congress and Senate, process well underway

EAP: Performance Based Contracts (PBCs) in Road Maintenance

2 Activities,
Total PPIAF Funding: $144,800

- Move to engage private sector to undertake maintenance and rehabilitation of roads for extended periods, with payment based on asset performance rather than inputs/outputs
- Training module developed and delivered in Thailand and China – regional attendance
- Similar training then undertaken for Indonesia, Cambodia and the Philippines – all looking to include PBCs in their national roads programs
- PBC pilots underway or planned in China, Thailand and Indonesia

VIETNAM: Ho Chi Minh City Non-Revenue Water Reduction PSP

2 Activities,
Total PPIAF Funding: $150,000

- NRW a major issue for water utilities in developing nations
- High NRW levels (av. 35%) affect financial viability of utilities
- PPIAF support to identify options for reducing NRW in HCMC
  - Developed performance based contract (PBC) to reduce water loss by 10% or 125,000 m^3 in six years
  - Overall utility management to remain with Saigon Water Company (SAWACO)
- Follow-on activity to help SAWACO evaluate bids for PBC
  - Capacity building for SAWACO to ensure selects most cost effective bidder with required technical capacity
  - Competitive bidding with Manila Water successful (July 2008)
- Similar NRW reduction study now underway for Hanoi

GLOBAL: Urban Bus Toolkit

- Provides tools and options for reforming urban bus systems
- Active dissemination and training seminars bringing knowledge to practitioners and policy-makers
- Expert-designed country/city specific course material on practical aspects of implementing public bus and BRT services
- Translation of material into local languages (French, Chinese)
- Global delivery with presentations in 5 different regions
  - Manila
  - Bogota
  - Rabat
  - Washington, DC
  - Ghana

GLOBAL: Knowledge Products

PPIAF

Gridline: Worldwide trend in private participation in roads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GRIDLINES

Sharing knowledge, experiences, and innovations in public-private partnerships in infrastructure

Worldwide trends in private participation in roads

Growing activity, growing government support

Cesar Queiroz and Ada Karina Izaguirre

Private participation in roads revived strongly in developing countries in 2005–06. The activity was concentrated in greenfield projects and in Asia and Latin America. The main reason for the revival has been the willingness of governments to provide support needed to attract the private sector. Nevertheless, governments need to be aware of the potential risks of such support. And because of the monopolistic features of road projects, they also need to ensure good governance so that the public reaps the full benefits of the private sector's involvement.

In the early 1990s a growing number of developing countries introduced schemes of private participation in roads, and by the mid-1990s the private activity had reached levels not seen before, with 50–60 projects a year reaching financial closure and annual investment commitments of $10–12 billion (figure 1).[1] After that, private activity in roads, as in other infrastructure sectors, declined sharply as a result of the economic crises affecting many developing countries and the overall pessimism surrounding private participation in infrastructure (Harris 2003).

In 2005–06, however, private participation in roads revived strongly. Investment commitments to projects with private participation (hereafter, investment) amounted to $10 billion in 2006, just 20 percent below the peak, while the number of road projects was 60, around the 1997 peak. Indeed, roads have been among the most active infrastructure subsectors; investment grew by more than 70 percent in 2005 and by another 50 percent in 2006, contributing strongly to the rapid growth of investment in transport (Torres de Mästle and Izaguirre 2008).

Driving policy makers' renewed interest in attracting private financing to roads is the need for greater investments to keep road networks in acceptable condition and carry out required expansions in a context of public budget constraints. Indeed, when arrangements for private participation or, more generally, public-private partnership are designed well, they can lead to greater financial efficiency (by leveraging public money through the mobilization of private capital, reducing the impact of road investments on the fiscal budget, and creating fiscal space to expand public service delivery in other sectors), better distribution of risks (by transferring design, construction, and performance risks to the private sector, which is best able to manage such risks), and better governance (by increasing the accountability of the service provider through competitive bidding, disclosure policies, and public reporting).

Drawing on the World Bank and PPIAF's Private Participation in Infrastructure (PPI) Project Database, this note analyzes recent trends in road projects with private participation as well as their policy implications.

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PPIAF PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY

Helping to eliminate poverty and achieve sustainable development through public-private partnerships in infrastructure

- After a decline in late 1990s, private participation in roads revived strongly in developing countries in 2005-06
  - Mostly in greenfield projects and in Asia and Latin America
- Reasons for revival
  - Rising demand for transport infrastructure, driven in turn by strong economic growth in many developing countries
  - Willingness of governments to provide support needed to attract the private sector
- But governments need to be vigilant
  - Potential costs and risks of such support (such as contingent liabilities)
  - Given monopolistic features of road projects, need to ensure good governance so that the public reaps the full benefits of the private sector's involvement

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