PPP in South Each Asia: Trends and Initiatives

UNITED NATIONS - ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Workshop on “Public-Private Partnerships (PPPs) for Infrastructure Development in Lao PDR”
15-16 September 2014
Our Infrastructure Advisory Group is recognised as a global leader advising Governments in the infrastructure sector. Our global team numbers more than 1,000 people worldwide has advised on more than 800 transactions and we have industry teams specialising in key sectors including:

- Power
- Transport
- Education
- Courts
- Waste
- Utilities
- Health
- Defence
- Regeneration
- Property transactions
- IT
- Telecoms
- Emergency services
- Prisons

We have more than 100 infrastructure sector advisors based in the Asia Pacific and with presence over 10 countries in Asia. The specialist skills of our team include a broad range of professional services from one of the world’s leading advisory firms. Our core skills are co-ordinated in a seamless way to provide clinical analysis of the issues and innovative solutions to the infrastructure sector including:

- Lead Advisory
- Finance Raising
- Accounting
- Risk Management
- Business Cases
- Due Diligence
- Financial Model Review
- Tax Structuring
- Feasibility Studies
- Economic Analysis & Modelling
PPP in ASEAN
Infrastructure snapshot

- Most ASEAN economies continue growth momentum at 4-6% per annum, dampened by global financial uncertainty.

<table>
<thead>
<tr>
<th>Country</th>
<th>Forecast economic growth rate 2014(f) source – WB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>3.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.6</td>
</tr>
<tr>
<td>Laos</td>
<td>8.1 (2013)</td>
</tr>
</tbody>
</table>

- Significant infrastructure investment is required to sustain the growth trajectory responding to the evolving needs of these economies. ADB estimates that ASEAN nations will need to spend approx $60bn a year to address the current infrastructure deficits.
- Asian economies are able to identify infrastructure needs; however the actual success of the infrastructure projects is mixed.
- Priority sectors include roads, ports, railways, water, sanitation and energy.
PPP in ASEAN
Funding requirements - overview

Projected infrastructure requirements in ASEAN, 2006 - 2015 (US$ billion) (ADB)

<table>
<thead>
<tr>
<th>Sector</th>
<th>New capacity / maintenance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>170.3</td>
<td>46.0</td>
</tr>
<tr>
<td>Transport</td>
<td>95.6</td>
<td>61.2</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>98.8</td>
<td>60.6</td>
</tr>
<tr>
<td>Telecom</td>
<td>30.9</td>
<td>32.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>395.6</strong></td>
<td><strong>200.5</strong></td>
</tr>
</tbody>
</table>
PPP in ASEAN
Overview

- Lack of proper infrastructure has been a significant barrier to economic growth
- Insufficient government budget to meet the scale of infrastructure requirement
- Desire to have greater private sector involvement in infrastructure development, delivery and management
- Framework to have private sector investment and operational efficiencies to develop public infrastructure

Developed and Pipeline of PPP Projects

- Singapore – sports, schools, water
- Malaysia – health, roads, waste to energy
- Thailand – rail, roads,
- Indonesia – water, power, rail, roads
- Philippines – rail, airports, water, schools

Developing a PPP framework

- Vietnam
- Cambodia
- Sri Lanka
- Myanmar
- Laos
PPP in ASEAN
Overview

COMMON THEMES / TRENDS

► Specific regulation to support PPP funding and implementation
► Centralised PPP Centre to facilitate development of PPP framework and project preparation
► More time and resources applied to project selection and preparation phase
► Competitive and Transparent tender process
► Project pipeline
► Strong political support
PPP in ASEAN
Overview

Greater Support and Funding Available - Development and Multilateral Agencies working collaboratively to assist governments to develop and fund projects
► ASEAN Infrastructure Fund (AIF) – funded by 9 ASEAN nations and Asian Development Bank
► Singapore PPP Bank – recently set up by Temasek with banks
► AICOE – set up by Singapore government and ADB to provide government with funding to hire transaction advisors
► Indonesian Infrastructure Fund / Indonesia Infrastructure Guarantee Fund – supported by development agencies to fund projects in Indonesia
► Direct Loans develop and infrastructure projects from development agencies to co-lend to projects

Establishment of dedicated teams within the government to promote, facilitate and implement PPP investment and projects eg
► Philippines PPP Centre
► Indonesia – SMI / Bappenas
► Malaysia – PFI Unit
► Thailand - SEPO
Indonesia
Quick PPP Snapshot
Indonesia

- Indonesia upgraded to “investment grade” status in 2012
- It is estimated $150bn of required infrastructure development to underpin growth, Government will be able to fund around 30%. Rest is expected from private sector participation
- Four key PPP government agencies to facilitate PPP development: Bappenas, Indonesia Infrastructure Fund, Indonesia Infrastructure Guarantee Fund and PT SMI
- PPP Framework developed. Recent enactment of Land Acquisition Act to support PPP
- Projects in Transportation, Energy, Water

Challenges
- Legislative changes around land procurement should facilitate progress for transport projects
- Decentralised / Multitier decision making
- Sufficient long term liquidity in the domestic financial markets to support long term projects
- Ongoing progress in the regulatory environment
Quick PPP Snapshot
Thailand

- Government announced in 2012 5 year plan for nearly $76bn of expenditure (public and private) expected on infrastructure projects,
  - nearly $20bn investment in water sector – mainly related to flood prevention and expected to be small projects
  - $40bn announced for transportation projects
- PPP is supported by government for infrastructure development and incentives made available to develop certain sectors, eg renewable energy
- A special agency, SEPO, developed to oversee PPP Projects and PPP Law.
- PPP Law/Policy developed. PPP Law/Policy being updated, initiating a PPP project development fund, exploring setting up business trusts/infrastructure funds
- Liquid domestic banking market and international banks/companies active in Thailand

Challenges
- Long term investment requires political stability
- Early experiences of overestimation of revenues from PPP projects
- New PPP law introduced to facilitate wider application of PPP
- Approval and decision making process for pipeline projects
Malaysia
Quick PPP Snapshot Malaysia

Government launched Economic Transformation Program to enable Malaysia to reach first world status by 2020

- Over US$20 bn in oil and gas, healthcare, infrastructure, property development, retail and tourism. Government indicated that government would fund circa 20%, remainder should come from private sector

- Long history of concessions and IPP development in rail and power

- Dedicated PPP Unit (UKAS) within Prime Minister’s Department leading on PFI and privatisation program with projects in the road sector, healthcare sector (public hospitals) and waste to energy. Simplified procurement process.

- Active domestic debt capital market familiar with concessions

- Presence of strong domestic sponsors / developers and contractors

Challenges

- Early experiences of overestimation of revenues from PPP projects (road concessions)

- Approval and decision making process and prioritisation of pipeline of projects

- Project preparation and tender process
Philippines
Quick PPP Snapshot
Philippines

► Strong political support to develop infrastructure using PPPs
► Investment grade status achieved in 2013
► Long history of concessions
► Active PPP program. Over $14bn of projects targeted to be rolled out in 2014-2015
► Progressive development to strengthen PPP pilot regulations to support PPP development in more sector. Focus on water, power and transport projects.
► Inter-departmental coordination undertaken by PPP Centre
► Strengthening domestic financial market and strong local conglomerates supporting PPP program
► Transparent tender process (ADB framework)

Challenges
► Reliance on external support and funding
► Capacity building ongoing within government agencies
► Widening the competition
► Management of risk allocation
► Project preparation
Singapore
Quick PPP Snapshot
Singapore

- PPP Projects in the water and utilities, education and sports and leisure sectors.
- Government policy requiring government agencies consider PPP as one of the options for projects with capital expenditure over $50mn. Active policy support required to support continued use of PPP.
- Singapore positioned as a financial hub to support regional infrastructure development.
- Many international and regional banks, infrastructure funds, private equity and sponsors with regional focus based in Singapore.
- Infrastructure activity supporting Singapore’s market positioning.

Challenges
- Lack of a project pipeline.
- PPP champion.
- Identifying the motivation of using PPP.
- Dominant government roles as regulator and operator.
PPP in ASEAN
Recent Finance Developments

► Financing Trends

► International banks continue to play an active role in greenfield project financings
► Capital markets remain relatively undeveloped
► Emergence of regional and domestic banks as more active primary lenders to projects
► Export Credit Agencies, Multilaterals and Development banks increased activity as a source of funding to infrastructure projects and to provide political risk insurance
► Governments more willing to provide or source viability gap funding with private sector investors (supported by multilaterals)
PPP in ASEAN
Different approaches to involve private sector

- **Conventional procurement**
  - The procurement of assets by the public sector using conventional funding
  - Management /service contracts
  - Build, transfer and operate (BTO)
  - Build, operate and own (BOO)
  - Design, build, finance and operate (DBFO)

- **Public Private Partnership**
  - Publicly regulated but privately owned in perpetuity

- **Full Privatisation**
  - Full privatisation

**RISK** (decreasing)
**CONTROL** (increasing)
PPP in ASEAN
Bottlenecks and Challenges

Major Challenges to development of bankable infrastructure projects include:

- Lack of appropriateness of government investment policies
- Lack of appropriate regulatory and Institutional framework to support private sector investment
- Lack of sufficient funding / budget to develop or pay for projects
- Poor project preparation
- Lack of capacity within government to assess and develop, prepare and evaluate projects
- Depth and capabilities of the domestic financial markets
- Inappropriate risk allocation

As the infrastructure projects are long term by nature, investors and financiers scrutinize the investment environment and project risks which may impact adversely their investment.
PPP in ASEAN
Key Success Factors

- Developing bankable projects and implementing policy initiatives take time

- Critical project building blocks
  - Transparent procurement process
  - Selecting the appropriate procurement and financing approach
  - Standardised risk allocation and contract
  - Sufficient resources for project preparation and procurement
  - Government team to undertake procurement (project level and ministry level)
  - Appropriate level of government support and approval process
  - Political will
  - *Design a PPP which can be delivered in Laos context*
  - *Use experienced PPP Transaction Advisors!!*

There is **significant** private sector liquidity and interest to invest and manage infrastructure services.
Successful long term partnerships require a sustainable investment environment and equitable allocation of risk and reward.
PPP in ASEAN
How EY Can Help Governments

- Options Analysis
- Feasibility Analysis
- Economic, Affordability and Financial Analysis
- Assessment of Private Sector Interest
- Develop Reference Project

- Develop Commercial Principles
- Risk Analysis
- Develop PPP Partnership Model
- Payment/Monitoring Mechanisms
- Scenario Testing
- Market Sounding

- Commercial advice on contract & Pay Mechanisms
- Contract Development
- Develop the Finance Plan
- Finance Raising / Advice and Structuring
- Financial Modelling
- Tax Structuring
- Accounting Input

- Develop the Finance Plan
- Finance Raising / Advice and Structuring
- Financial Modelling
- Tax Structuring
- Accounting Input

- Finance Documents
- Financial Negotiations with Lenders
- Drive Financing Process
- Financial close procedures
- Project Development
- Operational / Performance related advice
THANK YOU

Lynn Tho
Head, EY Asean Infrastructure Advisory
Lynn.tho@sg.ey.com
About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

© 2014 Ernst & Young Solutions LLP.
All Rights Reserved.