FDI and Role of the Private Sector in Sustainable Cross-Border Infrastructure Investment

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Defining Cross-border Investment

Pillar I
Connectivity

Cross-border infrastructure is defined as infrastructure that facilitates the regional connectivity between two or more countries bringing benefit to all countries involved.

Pillar II
Hard Infrastructure

Regional connectivity requires both soft and hard infrastructure crossing borders.

Pillar III
Soft Infrastructure

Developing cross-border infrastructure network can bring inclusive and sustainable socio-economic development in the long-run.

Pillar IV
Benefits
How are cross border investments different from domestic projects?

- **Long Maturation Cycle**
- **Political Considerations**
  - Political vs. Economic
- **Insufficient Rationale for Cross-border Projects**
- **Large Capital Needs**
  - Hard vs. Soft
- **Long-term Foreign Currency Denominated Liabilities**
Energy Sector

Hard Infrastructure
- Power stations/plants,
- Hydropower dams,
- Electricity grids,
- Transmission lines,
- Converter stations and
- Gas/Oil pipeline

Benefits
- Seller: additional sales revenue for operating entity and additional tax revenues for government
- Buyer: additional consumer surplus by receiving lower-cost power compared with alternative energy sources

Soft Infrastructure
- e.g. GMS Inter-governmental Agreement - Power trade; ASEAN MOU - Trans-ASEAN Gas Pipeline (TAGP)

E&S risks in NT2
- Broader range of stakeholders identified through consultation process
- Contractual and financial obligations to mitigate known and unknown impacts
- E&S about 10% of costs

Nam Theun 2 Dam

Transport Sector

CAREC Facilitation Strategy

Benefits

Derived by facilitating trade, movements, tourism and general connectivity

How to measure?

Risks

Demand
Resettlement
Right of way
Regulation

Hard Infrastructure

Highways, Railways, Airports or Seaports, Bridges and Tunnels, and Border-crossing Facilities

Soft Infrastructure

e.g. SASEC Trade Facilitation Program; CAREC Joint Transport and Trade Facilitation Strategy; Cross-Border Transport Agreement

Private sector more inclined to participate in cross-border transport projects where services can be ring-fenced with certainty from off-take agreement

Benefits Derived by facilitating trade, movements, tourism and general connectivity

How to measure?

Risks Demand Resettlement Right of way Regulation

**ICT**

**Master Plan for Asia-Pacific Information Superhighway (AP-IS)**

**Benefits**
Facilitates flow of information increasing speed with which society functions and benefits

**Hard**
e.g. Submarine cables, Terrestrial connections and Telephone lines

**Soft**
e.g. Technology

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**Inland Waterway Transport (IWT)**

**Prone to both Environmental and Social Risks**

**Benefits**
Increasing water transport, socio-economic development and tourism development of riparian countries

**Hard**
e.g. Ports, Bridges, Vessels, and a Network of waterways linking rivers, canals, lakes and creeks

**Soft**
e.g. Agreement on Commercial Navigation on Lancang-Mekong River

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**Social sectors**

**Health/Education/Tourism**

**Benefits**
e.g. Harmonization of definitions and reporting procedures for college entrance tests, communicable diseases, curriculum

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**Limited regional cooperation in these sectors**

**Tourism**

Private sector-led industry
Cross border infrastructure projects are politically significant and hold a strategic position.

Even if there is private sector involved, the public sector e.g. governments and state-owned entities (SOEs), will retain a significant stake.

**Modalities of FDI and Private Sector Participation**

**Modalities**

- Special Purpose Vehicle (SPV)
- Joint Venture (JV)
- Direct contracting for services and products e.g. Joint company hires private companies for small contracts – managing logistics centers
**Special Purpose Vehicle (SPV) Modality - Nam Theun 2**

**Special Purpose Vehicle (SPV)**
Direct private investors or FDI in a public SPV that is set up for a particular cross-border project.

**Nam Theun 2 Power Company (SPV)**
- **Shareholders**
  - EDF: 40%
  - LHSE: 25%
  - EGCO: 35%

**Debt Financing**
- 72%

**Equity Financing**
- 28%

**Construction**

**Operation & Maintenance**

**Government of Thailand**

**Government of Lao PDR (GOL)**

**PPA**

**Concession Agreement**

**DFIs**

**Risk Mitigation**

**Sub-Contracts via EPC contracts**
Joint Venture (JV) Modality – CASA 1000

Joint Venture (JV)
Countries responsible for implementation through their own arrangements, providing opportunities for private sector participation in the form of PPP

Inter-Governmental Agreement

Government of Kyrgyzstan (GOK)
Government of Tajikistan (GOT)
Government of Afghanistan (GOA)
Government of Pakistan (GOP)

Implementing Entities (JV)

Construction Agreements
EPC Contractor
Consortium Agreement
O&M Agreement

Financing
IFIs

HGA

Successwithease.com
What are the key challenges and risks?
Governments to undertake the projects which bring economic benefits to all stakeholders.

**Emerging Lessons**

**Principles**
- Value for money,
- Economically beneficial,
- Fiscal affordability,
- Whole life costing,
- Four pillars of efficiency — Budget, Infrastructure, Financial and Asset Management

**Guidance**
1) Project Identification and Planning
2) Preparation and Procurement
3) Implementation

**Benefits**
How can E&S benefits be expanded to include more social responsibility? e.g. E&S dimension to enable project financing within and outside

**Difference between Soft and Hard Infrastructure**
Guidance on Cross-border Projects lifecycle

- Project Selection, Scoping & Management
- PPP Suitability & Affordability Tests
- Inter-Governmental Relationship

- Relevant Parties Benefits
- Different Criteria for Different Countries
- National Plans VS. Cross-border Projects

Identification & Planning

Implementation

Cross-border Infrastructure Lifecycle

Preparation & Procurement

- Construction & Operation
- Oversight by the SPVs
- Evolving standards
- Political Stableness

- Feasibility Tests & VfM Assessment
- Contractual Structure Design
- Political & Regulatory Consensus
- Procurement and Financing Schemes
Role of Stakeholders

Role of National Government and SOEs

Most cross-border projects have been financed by the public sector
SOEs normally participate the projects as the implementers

Example: Government policy in GMS Power Trade Project (Cambodia section)

Role of regional entities/influence

Formal or informal institutions are needed for governments to reduce the negotiation costs and manage emerging conflicts

Engagement of private sector and foreign investors should be institutionalized

Example: GMS

Potential Stakeholders

- Bilateral/Multilateral public entities
- Procuring authority
- Prospective bidders
- SPVs
- Contractors & Operators
- Investors
- Service users
- Affected groups
GMS Institutional Structure (2012-2022)

Role of Development Financing Institutions (DFIs)

DFIs such as ADB, AIIB, and World Bank can **stimulate** cross-border infrastructure development from multiple aspects, including providing direct investments and encouraging private sector involvement.

Example: Role of ADB in the **GMS Northern Economic Corridor** project

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Role of affected people and civil society organizations

Cross-border projects E&S risks more complex and rigorous than domestic projects.

Local people and communities bear many negative social and environmental costs.

Civil society organizations can give an effective voice to the affected people and local communities. Public consultation and disclosure involving the affected people are effective to determine proper compensation practices.

Example: **Phnom Penh to Ho Chi Minh City Highway Project**; the Ban Sok (Lao PDR) – Pleiku (Viet Nam) Power Transmission Project

Conclusions

1. Limited cases with private investments or FDI
2. Long-term vision for both hard and soft
3. Conducive environment includes proper regional institutional arrangements and government efforts
4. Stronger involvement of multilateral/bilateral institutions or agencies is needed
5. Win-Win situation
6. Pay attention to stakeholders! E&S impact appraisals and plan the mitigation actions in a participatory process involving the affected people and communities
7. Start early! Planning is as important as construction and operation
8. Beware! Challenges in preparing and managing PPPs
9. Most projects are undertaken by SOEs
   - Involve private sector as contractors such as suppliers, construction companies, trucking, and commercial operations
Thank you!
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