

ASEAN PPP: From Institutional Development to Streamlined Implementation

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Key Issues :

- *Regulatory reform and institution building for public–private partnership (PPP) have been promoted in ASEAN member states;*
- *PPP, however, would not be a practical approach to fulfilling growing infrastructure demand, considering its lengthy procurement process;*
- *Key considerations for streamlined implementation include consistent preparation activities, utilisation of a project development fund, a single champion at the top, or simpler approval process for small-scale projects.*

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There is a growing momentum to set ambitious infrastructure development targets across member states of the Association of Southeast Asian Nations (ASEAN). With the aim of mobilising private resources, ASEAN member states have begun to put in a great deal of efforts to upgrade their enabling frameworks for public–private partnership (PPP). Yet, evidence suggests that implementation of PPP projects on the ground has fallen far behind expectations. This policy brief emphasises the importance of realistic and consistent project planning, preparation, and offering in streamlining the implementation process to accelerate PPP market development in ASEAN.

Growing Infrastructure Demand in ASEAN

The infrastructure demand of ASEAN member states is not just huge but also diverse. ERIA (2015a) emphasises the importance of infrastructure procurement planning suitable to each development stage. By classifying types of infrastructure, the study prioritised 761 representative projects in ASEAN, with an estimated project cost of at least US\$500 billion, under the concept of connectivity and innovation.

The latest figures as of 2015 show us that ASEAN member states have been increasingly ambitious in setting out national infrastructure development targets. Indonesia alone identified its infrastructure funding needs in 2015–2019 to be approximately US\$400 billion (Rp4,796 trillion) (BAPPENAS 2015). The Government of the Philippines listed over 3,000 infrastructure projects with an estimated investment target of US\$150 billion (₱6,993 billion) in 2013–2017 and beyond (NEDA 2015). Thailand has approved an eight-year transportation infrastructure

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programme for 2015–2022 with total project cost of around US\$100 billion (B3.3 trillion) (IE Singapore 2015).

Progress in Regulatory Reform and Institution Building for PPP

The question then arises as to how ASEAN member states realise these goals given their limited budget. In this context, a commonly cited term is public–private partnership (PPP), a long-term contractual relationship between the public and the private sectors to share risks involved in infrastructure procurement. PPP, when properly applied, could relax short-term fiscal constraints while reducing a long-term life cycle cost in infrastructure delivery.

At the national level, the first step in initiating a PPP programme is to establish a robust enabling framework for PPP. According to a survey conducted by ERIA (2015b), all ASEAN member states have been quite active in upgrading law, regulation, or implementation guidelines specific to PPP since 2009 (Table 1). Notably, at the time of writing, with assistance

from international agencies, progress has been made or is ongoing in countries such as Viet Nam (issuance of a new PPP decree), Lao PDR (draft of PPP decree), Cambodia (review of Law on Concession), and Myanmar (discussion on National PPP Policy). Additionally, the majority of ASEAN countries have or are planning to set up a focal point for PPP in ministries or as a separate governmental agent as of July 2015. The dedicated centre or unit could facilitate a national PPP programme by preparing and soliciting a project pipeline to the market, coordinating inter-governmental issues, or identifying policy directions on PPP.

The Main Challenge: Lengthy Procurement Process

Despite all efforts in enhancing institutions, the implementation of PPP projects on the ground has not fully materialised in ASEAN. According to an analysis on monitoring data of potential infrastructure projects in ASEAN based on ERIA (2010), projects initially pursued under a PPP procurement scheme (as of 2010) had

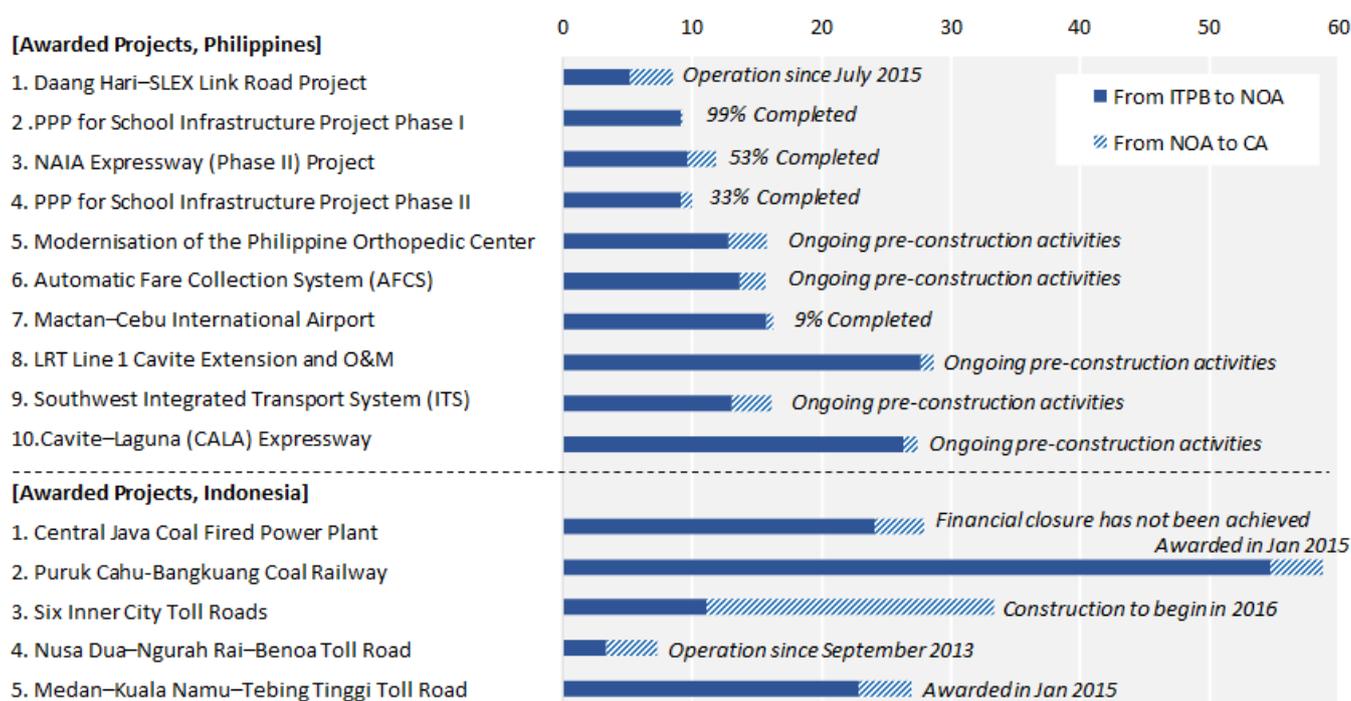
Table 1. Regulatory and Institutional Frameworks for PPP in ASEAN Member States

Country	Regulations/ Guidelines Specific to PPP	Government Organizations for Promoting PPP
Brunei Darussalam	National PPP Guidelines (underway)	Department of Economic Planning and Development
Cambodia	Law on Concessions (2007) and preparation of its implementing rules (underway)	The establishment of centralized agencies in the Ministry of Economy and Finance (MEF) is under discussion
Indonesia	Presidential Regulation No. 38 (2015)	National Development Planning Agency (BAPPENAS), Ministry of Finance (MOF)
Lao PDR	PPP Decree (underway)	The establishment of the PPP Unit is under discussion
Malaysia	Revised Guidelines on Public Private Partnership (2009)	Public – Private Partnership Unit (3PU, UKAS)
Myanmar	Adoption of National PPP Policy (under discussion)	-
Philippines	Amended BOT Law (1994) and Implementing Rules and Regulations	PPP Center
Singapore	Revised Public Private Partnership Handbook (2012)	No separate body dedicated to PPP
Thailand	The Private Investment in State Undertaking Act B.E. 2556 (2013)	State Enterprise Policy Office (SEPO)
Viet Nam	The Decree on Public-Private Partnership Investment Form (2015)	Ministry of Planning and Investment (MPI)

Source: Excerpts from ERIA (2015b), status as of July 2015.

Figure I. Length of Tender from ITPB to CA (via NOA): Philippines and Indonesia

[Unit: Months]



Note: ITPB = Invitation to Pre-qualify and Bid, NOA = Notice of Award of Preferred Bidder, CA = Concession Agreement. Status of each project (italics) is based on information as of 15 October 2015.

Source: Compiled by author from public information.

shown little progress during 2012–2014, compared with those under public mode (see Appendix). Specifically, PPP projects either under the conceptual or the feasibility study stage are less probable (by around 18 percent) of proceeding into the next implementation levels (feasibility study or construction stage) compared to public projects, controlling for sectoral and country differences.

If we take a look at individual PPP projects, historical performances have been mixed both within and among countries. Figure I traces back lead times taken from tender announcements (through announcement/advertisement of Invitation to Pre-qualify and Bid [ITPB]) to

Concession Agreement during the procurement of 15 awarded PPP projects in the Philippines and Indonesia.¹

Overall, all 10 projects in the Philippines have shown stable performance in that the average lead time from ITPB to CA is estimated to be 16 months. The figure is on par with Australian cases with the average procurement period (from expression of interest to financial close) of 14–19 months (KPMG 2010). Nonetheless, projects awarded in 2014–2015 (Nos. 5–10 in Figure I) had consumed longer tendering time than those closed in 2012–2013 (Nos. 1–4 in Figure I) because of multiple issues related to right-of-way, withdrawal of qualified

¹ Ten projects of the Philippines are from those listed as already awarded in 'Status of PPP Projects' published by the PPP Center of the Philippines (http://ppp.gov.ph/wp-content/uploads/2015/10/PPP-Projects-Pipeline-Chart_15OCTOBER2015.pdf). Five projects of Indonesia are those that have finished contract signing (as of May 2015) among projects categorised as already tendered (six Jakarta toll road projects are consolidated as one project) in BAPPENAS (2015)

bidders from the bidding, appeals from defeated groups for a winner's disqualification, or changes in project/financial terms.

Figure 1 also shows that Indonesia has been struggling to conclude tendering of PPP projects, having an average lead time of 31 months. The first PPP project awarded, Central Java Coal Fired Power Plant, has often been cited as controversial due to prolonged land acquisition. There is an exceptional case (Nusa Dua–Ngurah Rai–Benoa Toll Road) awarded within a short period, but its tender was issued with a 'right to match' scheme given to a consortium of state-owned enterprises; then the project was awarded shortly to the public entity. The same seemingly shortcut structure was also adopted in other toll road projects. In Indonesia, despite the fact that a number of projects have been listed in yearly PPP books, those pipeline projects have been easily put on hold or dropped out, encountering constraints such as on uncertainties in the provision of viability gap funding/guarantees, rejection from society, or other regulatory issues.

As those examples, if tendering takes two to three years or more, governments and investors would avoid the use of PPP and take the easy way out (for instance, governments may use direct appointment with ad hoc arrangements rather than competitive bidding). The next key step for sound ASEAN PPP development, therefore, would be to promote a streamlined process for project procurement before, during, and after tendering. To do so, major challenges would be on how to shortlist projects in government investment plans, prepare priority projects in line with market expectations, inform clear government commitments to the market, or coordinate smoothly with stakeholders during implementation.

Next Steps

Given the challenges, the following are some of the proposals for ASEAN to consider, especially those initiated to build a framework for PPP.

Planning and Preparation

Prepare shortlisted projects ready to market in a realistic and consistent manner.

The first PPP project in a new sector could potentially be a milestone for following projects. The impact of one failure in corporate decision making is quite huge. On the other hand, the structure of a pilot project, if successfully designed and implemented, could be replicated in next projects in the same sector. Before opening to the market, therefore, one should prepare a realistic and consistent structure (especially the provision of viability gap assistance or guarantees) and procurement timeline, which has not been always the case in ASEAN. Although sufficient time should be used to arrive at competitive terms through consultation with the private sector, unreasonable delay, cancellation, or sudden change of government attitude could aggravate the reputation of a country's PPP programme going forward. It is true that publishing a list of pipeline projects is a great help for investors, but it should not be a long list of semi/pseudo PPPs lacking government commitment.

Create a virtuous cycle in project pipeline development through a project development fund.

In order to design a project and facilitate transactions consistent with market requirements, renowned and qualified advisors, albeit expensive, should be hired. The Philippines, with external assistance, fuelled the initial fund of a project development and

monitoring facility to tap into international consulting firms. Currently, said facility started revolving from reimbursement of funds from winning bidders. The increase in success rate by properly managed preparation activities and transactions in ongoing projects would lead to the development of a robust and sustainable project pipeline in the future.

From Offering to Implementation

A single champion for PPP at the top with staff from the public and the private sectors

A similar debate is sometimes overheard in a couple of member countries over which governmental agency should be the focal point for PPP. A successful champion, to the contrary, should be flexible yet solid in decision making and not captured by vested interests or non-cooperative actions by related stakeholders. For a single country to have a solid and similar vision on the project offered to the market, a single champion at the top is highly recommended. Developed PPP units around the globe, including in ASEAN, are staffed with a mix of business-oriented experts and civil servants to ensure quality and timeliness in engaging with 'clients'.

Assume risks in land acquisition.

Problems in acquiring lands have been a major impediment in PPP projects globally. The private sector is incapable of tackling this in most cases. Infrastructure projects easily face difficulties without effective interventions by the governments from the very beginning of the procurement stage. At the same time, accelerating procedures may not solely be the solution to the complex and delicate issue. Government should be responsible for the whole process from site selection, public

consultation, management of compensation packages, value assessment, to instalment of a smooth execution mechanism (such as through a special Land Fund in Indonesia) in this critical matter.

Allow a simpler approval procedure for small-scale projects.

One big hurdle for ASEAN PPP is that the individual project's size does not always meet a critical mass for achieving economies of scale. As Zen and Regan (2014a) propose, introducing PPP-Lite option, with a threshold of US\$50 million, for instance, should be considered. In ASEAN, Thailand is reportedly planning to allow the implementation ministries to approve projects worth less than BI billion (about US\$30 million) without any vote by a PPP Policy Committee, which is required for large-scale projects (ERIA 2015b).

Regional Issue

Synergise regional cooperation initiatives in knowledge sharing and financial support

There is a momentum in sharing knowledge and experiences among PPP focal points in ASEAN member countries. An ASEAN PPP Centre of Excellence, once formalised, could be a platform for nurturing national PPP units through knowledge transfer (Zen and Regan 2014b). Similar initiatives have been discussed in the Asia-Pacific Economic Cooperation, such as the creation of a knowledge portal and standardisation of PPP terms and practices (2015 APEC Finance Ministerial Meeting Joint Ministerial Statement). The region also has established the ASEAN Infrastructure Fund or Credit Guarantee and Investment Facility (as an ASEAN+3 initiative), which aims to expand its outreach to project bonds. Discussions should

be made on how those initiatives from different origins could be synergised with each other for these to be truly utilised by ASEAN for future market development. ■

Appendix

ERIA had been monitoring the progress of individual infrastructure projects in ASEAN member countries by categorising each implementation status into four stages: (i) conceptual, (ii) feasibility study, (iii) construction, and (iv) operational. The projects were identified in the Comprehensive Asia Development Plan (CADP) submitted by ERIA as important for enhanced connectivity of the region (ERIA 2010).

Using the monitoring data, I analyse the characteristics of projects which had not shown any progress during the period 2012–2014 compared with those which had progressed to the next implementation stage.² In order to do so, first, among the list of projects in the CADP list, I select projects that were under either the conceptual or feasibility study stage as of the base year 2012.³ Then I assigned number ‘1’ for projects which remained to be in the same project stage (i.e. still in either the conceptual or feasibility study stage) until 2014, and ‘0’ for those whose status was upgraded during the same period (e.g. from the feasibility study stage to the construction stage, or from the conceptual stage to the feasibility study stage).

Appendix Table. Estimation Results on Project Progress and Characteristics

Variable	Dependent Variable: 1 if ‘No Progress’, 0 if ‘Progress’	
	Probit coefficients	Probit marginal effects
	Procurement Modality (= 1 if PPP; = 0 if Public)	0.504 [0.205] **
Sector (Base=Airport)		
Energy/ Power	-0.663 [0.493]	-0.259
Industrial Estate/ Special Economic Zone	-0.351 [0.554]	-0.138
Port/Maritime	-0.744 [0.504]	-0.29
Railway	-0.48 [0.485]	-0.187
Road/ Bridge	-1.035 [0.475] **	-0.394
Water/ Sanitation	-0.949 [0.538]	-0.362
Country Dummy	Yes	-
Constant	1.129 [0.491]	-

Number of observations = 264; Prob > chi2 = 0.0005; Pseudo R2 = 0.1071

Note: ** denote significance at 5% level. Standard errors are reported in parentheses. The following projects were eliminated in the estimation: projects in India, China, Brunei Darussalam, and Singapore as well as medical and telecommunications sector (due to their small sample size); cross-border projects; soft infrastructure projects; and ambiguous and untraceable projects.

² ERIA started the project monitoring in 2011, but I use the data only from 2012 as the definition of the four categories was changed between 2011 and 2012.

³ Therefore, projects under construction as of 2012 are excluded (in addition to those already in operation) primarily because the possibility that they could have moved to the operation stage in 2014 largely depends on the construction schedule of each project.

I use a simple specification as follows:

$$X_{i,2012-2014} = \beta_0 + \beta_1 Private_{i,2010} + \beta_2 Sector_i + \beta_3 Country_i + \varepsilon_i$$

where X_i is an discrete indicator equal to 1 if the category of project i 's status remained the same in 2012–2014 while 0 if project i had shown progress in status category during the period. $Private_i$ takes 1 if the projects were sought under the PPP mode as of 2010 while 0, under the public scheme. $Sector_i$ and $Country_i$ are dummy variables controlling for sectoral and country differences, respectively.

The Appendix Table reports results using a Probit model. The probability of 'no progress' in implementation is higher, if the projects are under PPP mode at 5 percent significance level. Marginal effects from the estimation suggest that to be PPP projects will reduce probability of moving to a next implementation level by around 18 percent, compared to public-type projects.

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