

Executive Summary

Country Fiscal Situation

1. The ASEAN member states have different levels of infrastructure policy, financing method, and financial capacity:
 - a) Singapore and Brunei have abundant domestic financial resources to build infrastructure;
 - b) Malaysia, Indonesia, Thailand, and the Philippines have been adopting Public-Private Partnership (PPP) programmes progressively to address financing gaps and tap the private sector's competency;
 - c) Although PPP has not yet been formalised in Cambodia and Viet Nam, private sector participation has become increasingly important in their infrastructure development;
 - d) Laos and Myanmar are still facing multiple challenges: lack of fiscal resources, low capacity, lack of regulatory framework, and challenging fiscal sustainability.
2. Five ASEAN countries—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—share some common characteristics of a mature capital market. Such characteristics may include all or most of the following:
 - a) A regulated banking sector with central bank oversight
 - b) Public and private ownership of financial institutions
 - c) Local currency bond issues in domestic and regional capital markets
 - d) Services that include projects and conventional corporate finance
 - e) The capacity to underwrite debt and particularly bond issues

- f) Foreign exchange and interest rate hedging facilities, and financial intermediation services for syndicated debt with domestic and foreign financial institutions.
3. In the ASEAN, Malaysia, Indonesia, Singapore, and Thailand meet the criteria of mature capital markets but have only minor levels of infrastructure financing. In the present times, two of the pitfalls of domestically sourced infrastructure finance are when sovereign credit ratings drops and when differences between international and domestic interest rate settings widen.

Regulatory Framework

1. Indonesia, the Philippines, Thailand, and Viet Nam have issued specific regulations on PPP. On the other hand, Singapore, Malaysia, and Brunei have PPPs without having specific regulations. In Singapore, PPP is part of its Best Sourcing Framework, a policy that requires the public sector to market test its services and opt for the most efficient and effective way of procurements, including engaging its private sector. Singapore, Malaysia, and Brunei may not need to enact a special law on PPP as they already have a solid foundation of regulations as a basis for their PPP policy. Other countries in the ASEAN---i.e., Cambodia, Lao PDR, and Myanmar---have not yet developed a PPP system; thus, private sector participation is practiced without any specific PPP framework.

Potential Financial Sources

1. The potential financial sources in the region may be classified as: (a) domestic (owned financial sources): (b) predominantly government funded (in Brunei's case); (c) combination of government and private financing (Singapore); and (d) private sources (such as in Indonesia, Malaysia, the Philippines, and Thailand's cases). The role of the capital market is important as an intermediary or channel of funds.
2. Intra-ASEAN sources of financing: The potential is high for all members but still has limited channels.
3. Extra-ASEAN sources of financing: Potential is high especially from long-term funds that include pension funds, insurance funds, and

sovereign wealth funds. The problem, however, lies in how to attract the investment.

ASEAN PPP Direction

1. To move forward, PPP in the ASEAN should move towards improving and strengthening several aspects of its regulatory framework, process, and capacity building, as well as private sector development; effectively mobilising financial resources; and enhancing regional coordination.
2. There are other areas that need more attention, including how to (a) increase certainty and confidence of potential investors, especially those resulting from regulatory framework; (b) manage optimal risk-sharing arrangements between public and private sectors; (c) provide well-prepared and sustained projects; (d) maintain an effective connection between the functional PPP unit and the PPP centre in the region; (e) systematise capacity building and effective evaluation; as well as (f) open and channel funds from larger financial resources.
3. The articulated direction for PPP development (or PPP Direction) flags the important issues to be addressed in developing PPP in the region. Differences in development and policy stages across member states may pose a challenge to the adoption of uniform PPP tools as normally practised in advanced economies. The ERIA, thus, will start by providing PPP guidelines tailored for ASEAN economies and highlight the uniqueness of the region. These special characteristics are recognised as “PPP in an ASEAN Way”.

PPP in an ASEAN Way

1. The PPP in an ASEAN Way has three main features: (a) It recognises the different stages of the PPP policy development; (b) It has special support for cross-border connectivity initiatives; and (c) It supports the involvement of the domestic private sector.
2. The PPP policy development has two broad categories of transaction:
 - a) *Lite PPP* - Policy and implementation frameworks that expedite projects and reduce transaction costs. Lite PPP is suitable for small- to medium-size projects (US\$20 million to US\$50 million) that feature a state availability payment model (for example, education and health services), and does not involve

currency mismatch risks.

- b) *Full PPP* - Projects of over US\$50 million in value that require a comprehensive policy framework to address problems of currency mismatch, design and construction complexity, demand risks and different stakeholders (e.g., the government, investors and sponsors, affected parties).
3. There is a need for policy provisions that recognise regulatory enhancement for complex projects so to insulate them from implementation delays in, for example, environmental approvals, regulatory exemptions or normal procurement procedures. However, an *ad hoc* approach to large and complex projects should not eliminate the need for wider regulatory reform so as to improve the attractiveness of doing business in the country, to support foreign direct investment (FDI) for PPP projects, to improve governance and to reduce uncertainty.
4. The concept PPP in an ASEAN Way looks at infrastructure development in the region as an integral part of the cross-border connectivity and not as independent and separate projects. That is, more cross-border collaboration among member countries enhances regional connectivity.
5. Also, PPP in an ASEAN Way supports the involvement of the domestic private sector. Domestic private companies should in fact play an important role, where benefits cover employment, technology transfer, local currency, local sub-contractors, domestic insurance and financial services, and opportunities for international collaboration.
6. One of the first steps to take is to provide ASEAN member states with suitable PPP guidelines, which would be derived from the PPP concept (i.e., PPP in an ASEAN Way) and PPP Direction. This document should describe the characteristics of PPP "in an ASEAN way", and the elements of the PPP framework whose components are tailored toward the ASEAN characteristics.
7. To be able to devise practical and workable PPP guidelines and supporting technical documents as well as to keep all ASEAN member states aligned about the subject, there should be constant input and feedback from stakeholders via the PPP Forum. The PPP Forum should ideally be run by the ASEAN Secretariat (or the *ASEAN Connectivity Coordinating Committee*) with active participation from relevant

ministries/institutions responsible for infrastructure or PPP projects in each country. The ERIA may facilitate the forum.

8. While the PPP Forum works to gather ideas, small and limited support can be extended in the forms of technical assistance and capacity building. Such move would serve various purposes such as: (a) to provide real support to the member countries that need it urgently; (b) to be able to assess the real capacity to support PPP once the PPP Centre of Excellence is established; (c) to showcase that the ASEAN member states are serious about properly implementing PPP in infrastructure development; and (d) to identify potential stakeholders who can help in PPP development within the region.
9. The PPP Forum, PPP guidelines, and member states' support for capacity building and technical assistance will increase the demand for more effective regional cooperation. Such efforts can then be institutionalised once the PPP Centre of Excellence is established. The centre should exist to improve the development of PPP in the region and increase the utilisation of financial resources.
10. In the implementation of its mandate, the centre shall further consider past lessons learned on PPP, the existing PPP progress in the region, as well as expectations and future targets. It should work closely with PPP units in the ASEAN member states. For countries that have yet to establish their own PPP unit, it is strongly advised that they do so at the earliest. A well-designed and functional PPP unit can significantly improve PPP implementation in a country. However, designing an effective PPP unit is not easy as the country needs to consider at least these following aspects: (a) governmental system; (b) the degree of authority to advise, decide and approve a PPP project; (c) potential conflict of interests; and (d) budgetary support.
11. The Centre of Excellence is neither a lender nor a donor. Its functions are: (a) to support the establishment and development of a PPP unit in each country; (b) to design a systemised capacity building scheme for the requesting country; (c) to give advice and technical assistance to the PPP unit; (d) to accumulate and disseminate PPP knowledge and good practices across ASEAN member states; and (e) to assist countries and external parties (investors, donors, sponsors) in realising PPPs.