

‘WHERE IT STANDS’ Defining APEC’s Infrastructure Agenda

**Proceedings of the 1999
APEC Public-Business/Private Sector Dialogue**



Asia-Pacific Economic Cooperation

**APEC GROUP ON ECONOMIC INFRASTRUCTURE
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FOREWORD FOR PROCEEDINGS

The 2000 APEC Public/Private Sector Dialogue hosted by The Australian APEC Study Centre was the sixth annual exercise to bring together key players from academia and public - private sectors to explore ways to meet the needs for roads, water, telecommunications and energy through cooperative endeavours. The Dialogue successfully brought together twenty-five delegates from sixteen APEC economies to discuss the theme of "Defining APEC's Infrastructure Agenda".

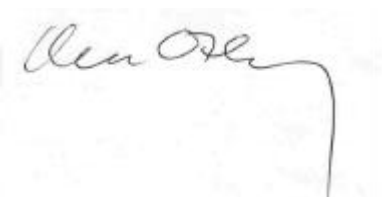
The Dialogue was a considerable success, notably in engaging the participants to formulate new approaches to common goals of planning, financing and regulating private investment in infrastructure. The breadth and quality of the presentations ensured topical and stimulating discussion. The presentations of numerous case studies and opportunity for smaller intensive discussions enabled participants to pinpoint and address their concerns in lively and engaging discussion.

The Australian APEC Study Centre would like to formally acknowledge the generous support of the Dialogue by the Australian Agency for International Development, Australian Department of Industry, Science and Resources, and the Victorian Department of State and Regional Development.

The Australian APEC Study Centre would like to acknowledge the Professor Bambang Soedjito, Chair of the Group on Economic Infrastructure (GEI), Mr Chris Summers (GEI) and Mr Mohan Mathews of the APEC Secretariat for their invaluable support in the development and delivery of this Dialogue.

On behalf of the Australian APEC Study Centre, I wish to express my sincere appreciation to all speakers, chairs, and participants for their contribution to the success of the event. I wish every success for its continued, critical role in the promotion of infrastructure development in APEC economies.

With Best Regards

A handwritten signature in dark ink, appearing to read "Alan Oxley", is written over a light grey rectangular background. A vertical line is drawn to the right of the signature.

Alan Oxley
Chairman
Australian APEC Study Centre

OPENING REMARKS

Alan Oxley
Chairman, Australian APEC Study Centre

Professor Bambang Bintoro Soedjito, colleagues, distinguished guests,

We start to meet today to define APEC's Infrastructure Agenda.

This is a significant time to do this. It is now just over three years since currencies in three APEC economies in Asia started to plunge, precipitating a major crisis in the East Asian region. It is time to review the impact of that crisis on the Infrastructure agenda.

I understand as well that a strategic decision has been taken by APEC officials to shift Infrastructure issues to the ECOTECH agenda and away from the Economic Committee of APEC. The point was to shift the focus towards operational issues and implementation and away from economic analysis. It is accordingly a doubly appropriate time to define the APEC agenda.

We reflect a lot about the APEC work program here at the Centre. We have been puzzled for a long time why infrastructure issues have not taken a more central place in the APEC Agenda. Before the Asian currency crisis, it was clear that one of the great challenges facing APEC economies was to meet the enormous demand for infrastructure.

Almost every economy in East Asia had grown at rates that demanded substantial installation of new infrastructure. Growth would be constrained in future if the rate of provision of new infrastructure was not accelerated.

In 1994, the World Bank reported that new infrastructure was not being installed at the required rate. It had previously advised that the only way this need could be met would be if infrastructure were installed and operated by the private sector. Not nearly enough of this was happening. A growth bottleneck was emerging.

The currency crises diminished this problem in the short term. Recession in several countries reduced the pressure for new infrastructure. It is now accepted that growth rates in the East Asian region are unlikely to return to those of the eighties and nineties.

A substantial demand still remains. Furthermore the currency crises have created new problems. Governments have less money to spend. They are less able to cover part of the risk of financing of new infrastructure. This means that it is more important than it ever was that for projects to meet market requirements if they are to be financed.

Full financing by the private sector requires the regulatory environment governing the commercial and financial transactions to be transparent, predictable and legally certain. It is also essential that governments ensure when they lay the basis for privatized infrastructure that projects reflect fully the situation of the market. As Michael Klein of the World Bank has pointed out to you in advance, the costs of services supplied by infrastructure must reflect commercial realities.

If they do not, there will not be investment. Effective competition regimes and market oriented regulation is another necessity.

In a nutshell, many of the changes to laws and institutional arrangements which are required to prevent a recurrence of what happened in 1997 are now also requirements to foster private investment infrastructure.

While the immediate need to provide infrastructure may be less pressing because growth is slower, the task is now more difficult.

This is natural area for attention by APEC.

It is clear from the conference program that this is a group which knows its business. The program is highly directed. A great deal of consultation went on among key participants about the results to be achieved. I commend you for that. This maximizes the high level of expertise among participants and optimizes the prospects for success.

You have the opportunity to give a dynamic focus to how APEC deals with infrastructure issues. There are lessons to learn from other areas of work in APEC. I suggest you separate the question of what resources are required to deliver a program from sorting out the form and content of a program.

If a good program is developed, then member states will be drawn to support it. There are substantial resources available already in the existing programs of the World Bank, the Asian Development Bank and the donor agencies of aid providers among APEC economies.

This has worked in other areas. APEC programs to support recovery from the effects of the currency crises were developed and adopted by APEC Finance Ministers. They provided political guidance to general programs which coordinated resources provided by bilateral donors as well as the multilateral financial institutions.

We understand this at the Australian APEC Centre, since we are delivering one of those programs. That is a three-year program to enhance the capacity of Regulators of the Life Assurance industry to manage an industry which has a vital role to play in mobilizing resources for investment.

We see prospects for mounting a comparable program for enhancing the capacity of government officials to create the right environment for facilitating provision by the private sector of infrastructure and stand ready to share our experience about how such capacity enhancement programs can be defined and mounted.

Creating a program is not rocket science. To paraphrase a rule of thumb from management schools, "Stick to the knitting". There is no need for new or exotic approaches or slogans. It is clear what has to be done. The trick is to lay down practicable approaches which will meet requirements and do this in a way that will attract donors.

This Dialogue is supported by the Australian Development Assistance Agency, as well as the Federal Department of Industry Science and Resources and the Victorian Government. Private Sector representatives have been generous as well with their time and support. This is living example of how donors will support well-designed activities.

You have a difficult but exciting challenge. I wish you the best of luck with the endeavour.



ASIA-PACIFIC ECONOMIC COOPERATION GROUP ON ECONOMIC INFRASTRUCTURE

INTRODUCTION

Business-public sector and wider community Dialogues have been inspirational to APEC's cooperative work for infrastructure and related economic development since their inception in 1995. The Dialogues have addressed a wide range of themes in sustainable development, the future of urban structural and transport interactions, the pursuit of economic and community goals through the interaction of Information Technology and Communications industries, infrastructure and urban development. But recurring throughout this has been the need, prospects and measures to catalyse, support and appropriately regulate private sector innovation, investment and delivery of infrastructure services. This is where the dialogues commenced in 1995, and the 2000 Dialogue was a timely review of the progress economies have made since then as well as needs for the future.

The 2000 Dialogue focussed in subject matter and invitees, on bringing together policy makers, regulators, program managers and key representatives of private industry to look at how well the messages of earlier Dialogues had been assimilated and the progress made at the policy, regulatory, program and investment mobilisation levels. Our host economy Australia, through the Australian APEC Study Centre, supported by the Australian Agency for International Development, Australian Department of Industry, Science and Resources, and the Victorian Department of State and Regional Development, brought together highly placed practitioners from developed and developing economies together with critical situation reviews and forward-looking discussion contributions from the World Bank and Asian Development Bank's private sector investment arms and PECC's representative.

The focused participation and discussion sessions allowed the group to rapidly review and critically assess the overall progress of the representative developing economies in the region, including through and beyond economic crisis as well as comparable initiative in selected developed economy environments. The discussion demonstrated that the principles put forward by the private and public sector in earlier Dialogues had been well appreciated and great strides made in adapting investment regimes and infrastructure planning and management. The discussion also threw into a clear light the huge volume of work still to be achieved in policy adaptation, regulation and management in the public sector and in private sector capacity development and adjustment to effectively operate in the demanding environment of infrastructure services, where multi-faceted public interests, including long term service effectiveness had to be seen to be placed in clear balance with the critical needs of investment promotion.

Particular note can be taken of the impacts of continuing decentralization and democratization of the development and investment processes in economies. Whilst there is a visible trend to concentration of capital and expertise in large businesses, such as in telecommunications and power, market restructuring is opening the possibility of much wider range of medium and smaller scale service providers who need an accessible, effective and consistent environment in which to work. This highlighted the need for an extension of practical dialogue and skills development among new generations of regulators and their business partners to ensure that the needed environment and capacities could be put in place; and in a manner responsive to local needs as well as incoming investment. The assessment that there is a need for continuing cross exchanges and Dialogue on issues and evolving solutions is reinforced by the views of the highly experienced body of participants in this Dialogue that spanned energy, transport, telecommunications and other urban services sectors and related Economic Infrastructure as whole to sustainable regional and sub-regional economic development.

Because of, rather than despite its focused participation, this Dialogue provides a valuable perspective on continuing policy, regulatory, and capacity development needs of economies and the business sectors in partnership. It also again suggested that there was an important role for such Dialogues to bring together more than understanding, through pro-active development and testing among peers of innovative ideas to resolve local as widely experienced challenges. This calls for the dialogue to continue to be fluid, and to be open to a broader range of private sector participation than can practically be brought together at a single physical meeting.

The Melbourne Dialogue affirmed that both the nature and agendas of Dialogues need to continually to evolve, to maintain a close relationship to immediate needs as well as long term regional aspirations. We would like to warmly thank the Dialogue participants and the Australian APEC Study Centre for their contributions to that process.

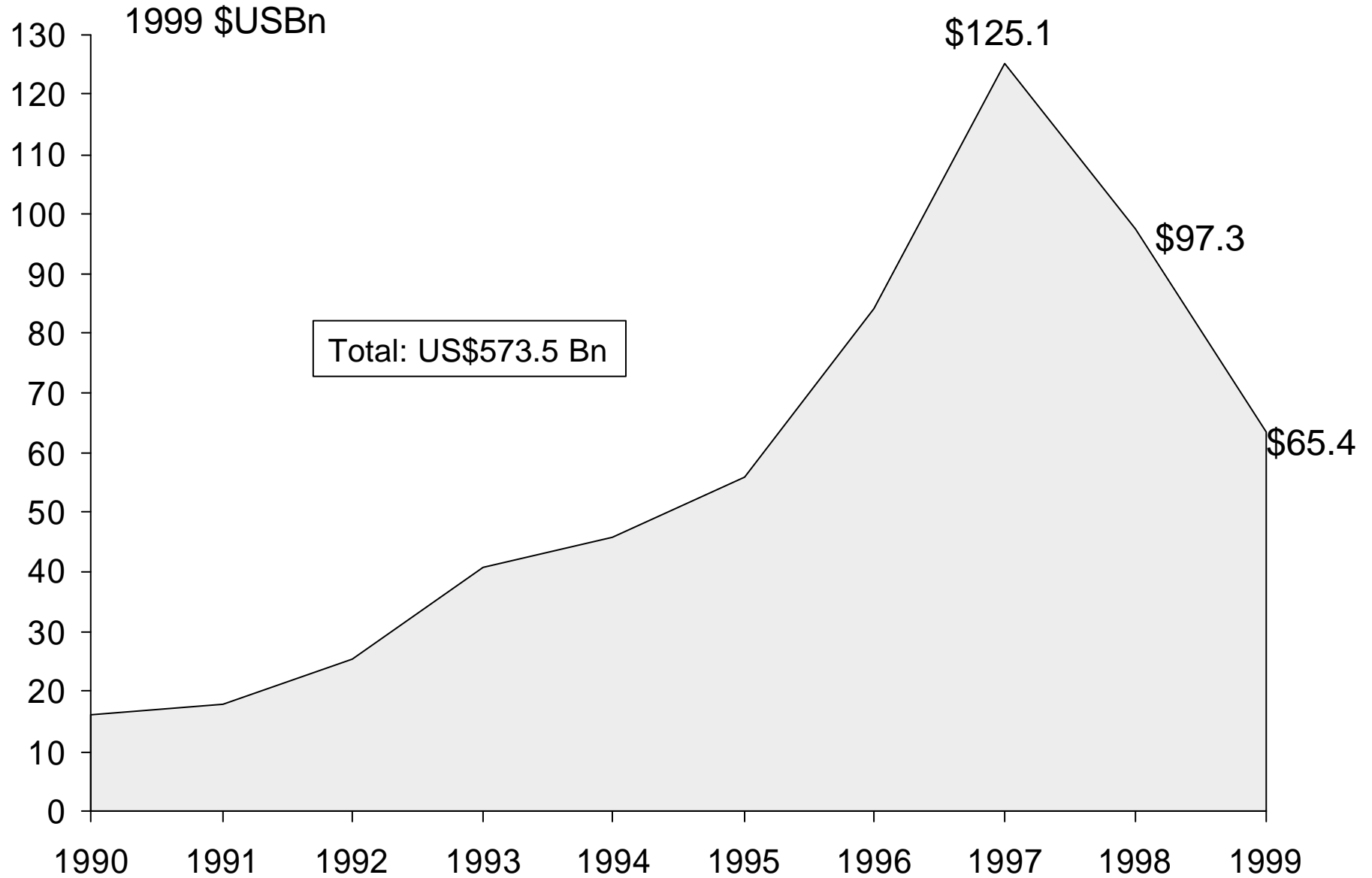
Bambang Bintoro Soedjito
Chair



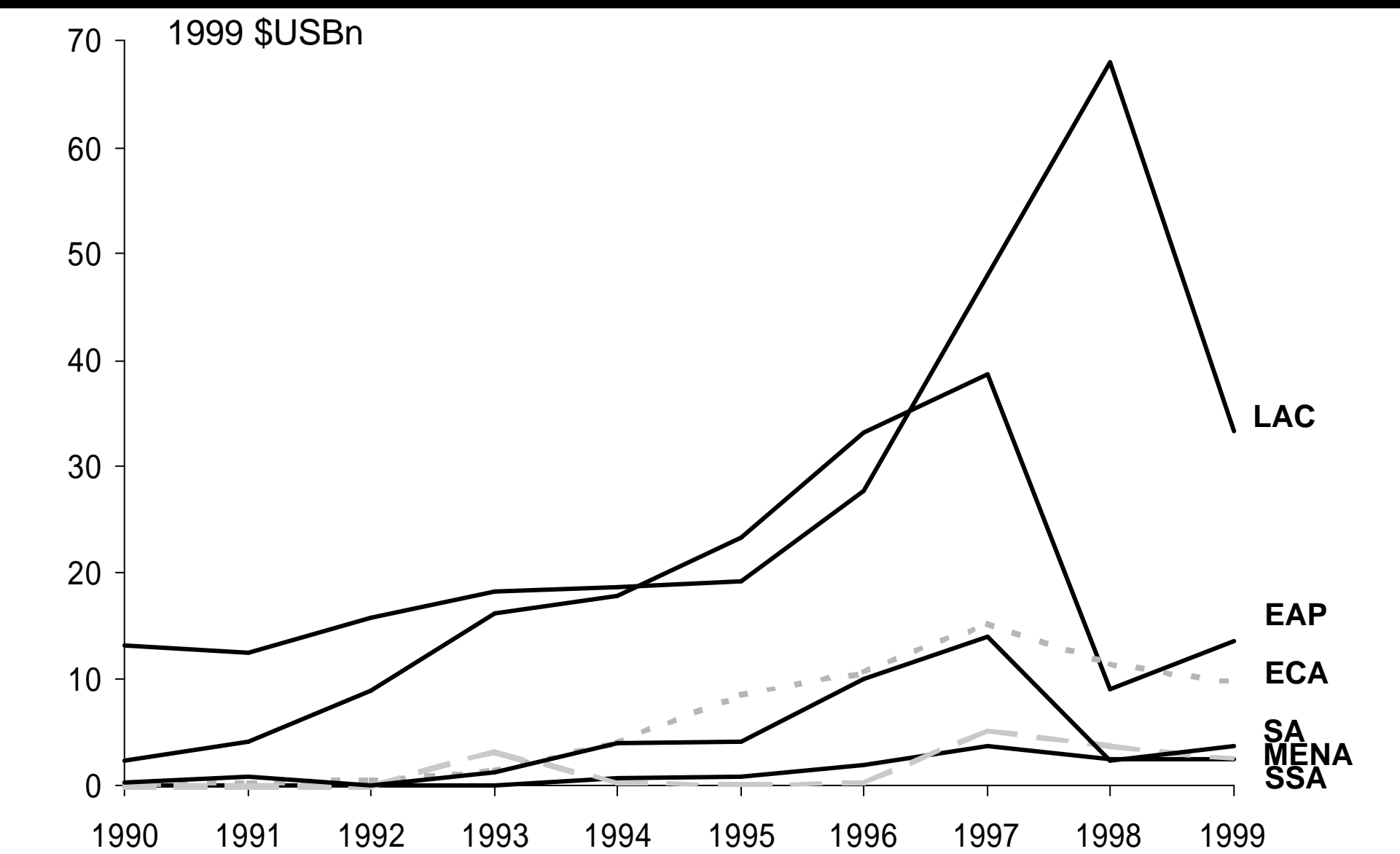
Perspectives on Private Infrastructure Ventures

Presentation by Michael Klein for the APEC 2000
Public Private Sector Dialogue

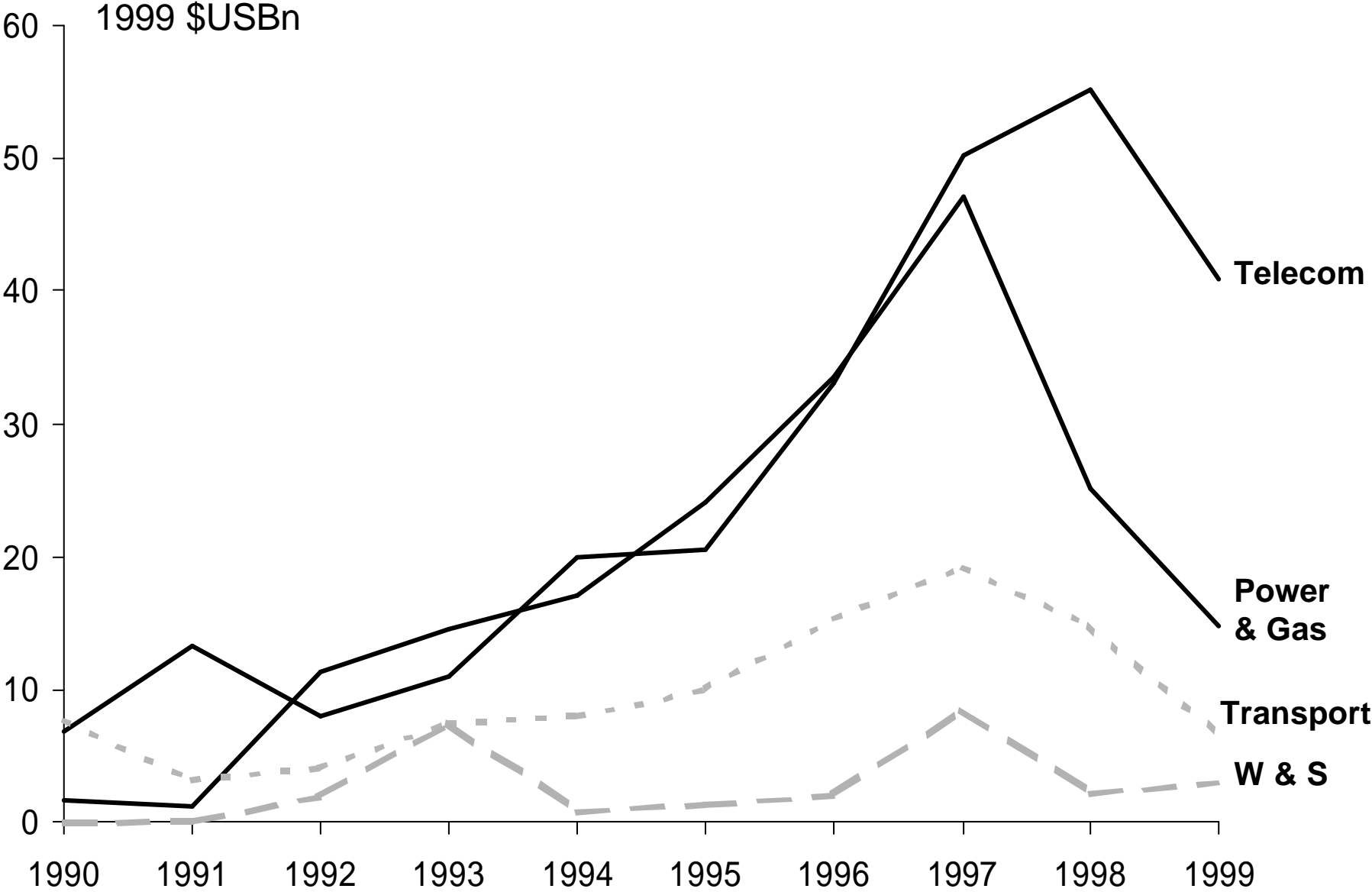
Annual Flows to PPI Projects in Developing Countries



Annual Flows - By Region



Annual Flows - By Sector

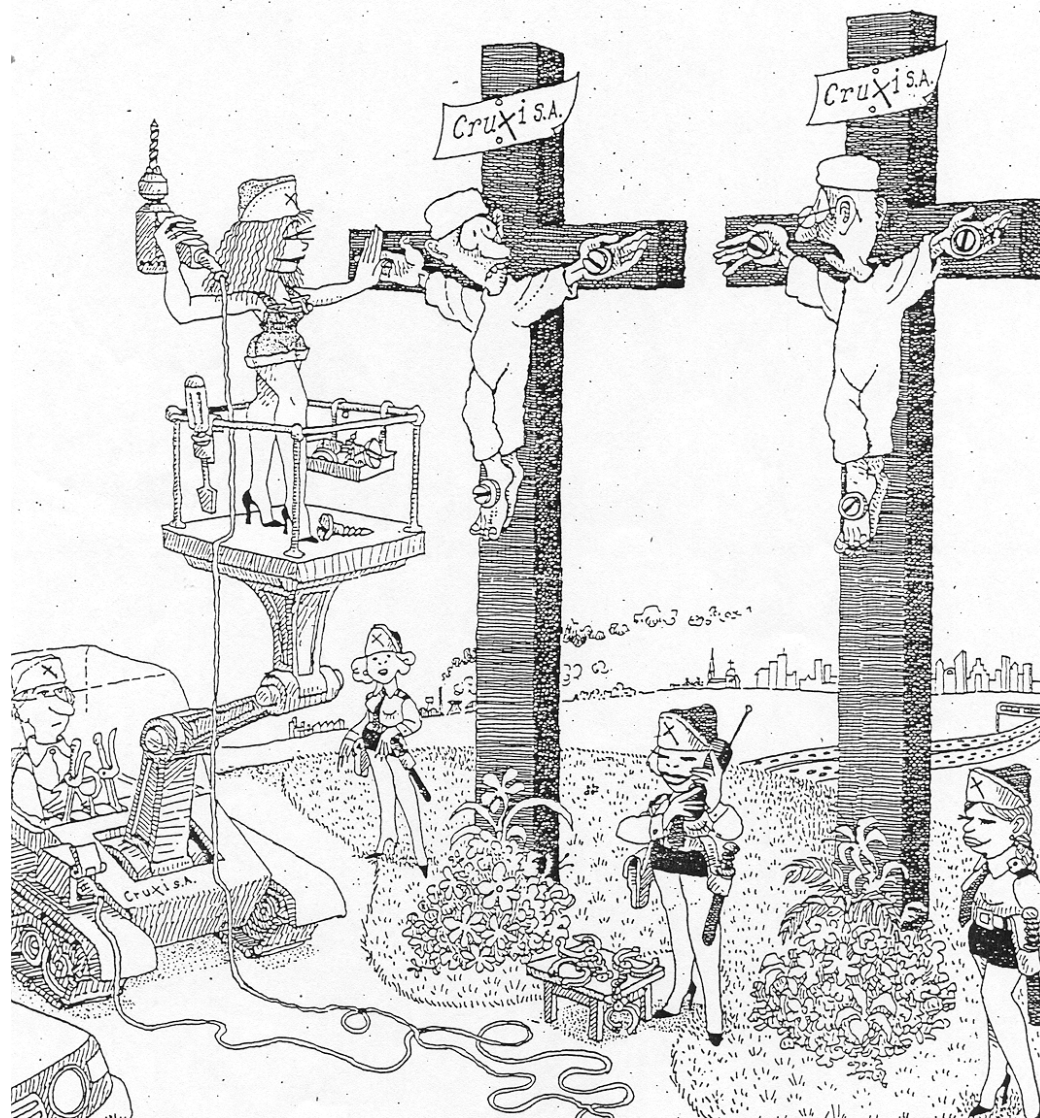


A 30 year perspective

- The 1980s: Trailblazers (Chile, England and Wales, New Zealand, United States)
- The 1990s: Private Infrastructure Euphoria (over 140 countries embrace private infrastructure ventures)
- The 2000s: Work-outs and structural reform

At the turn of the century

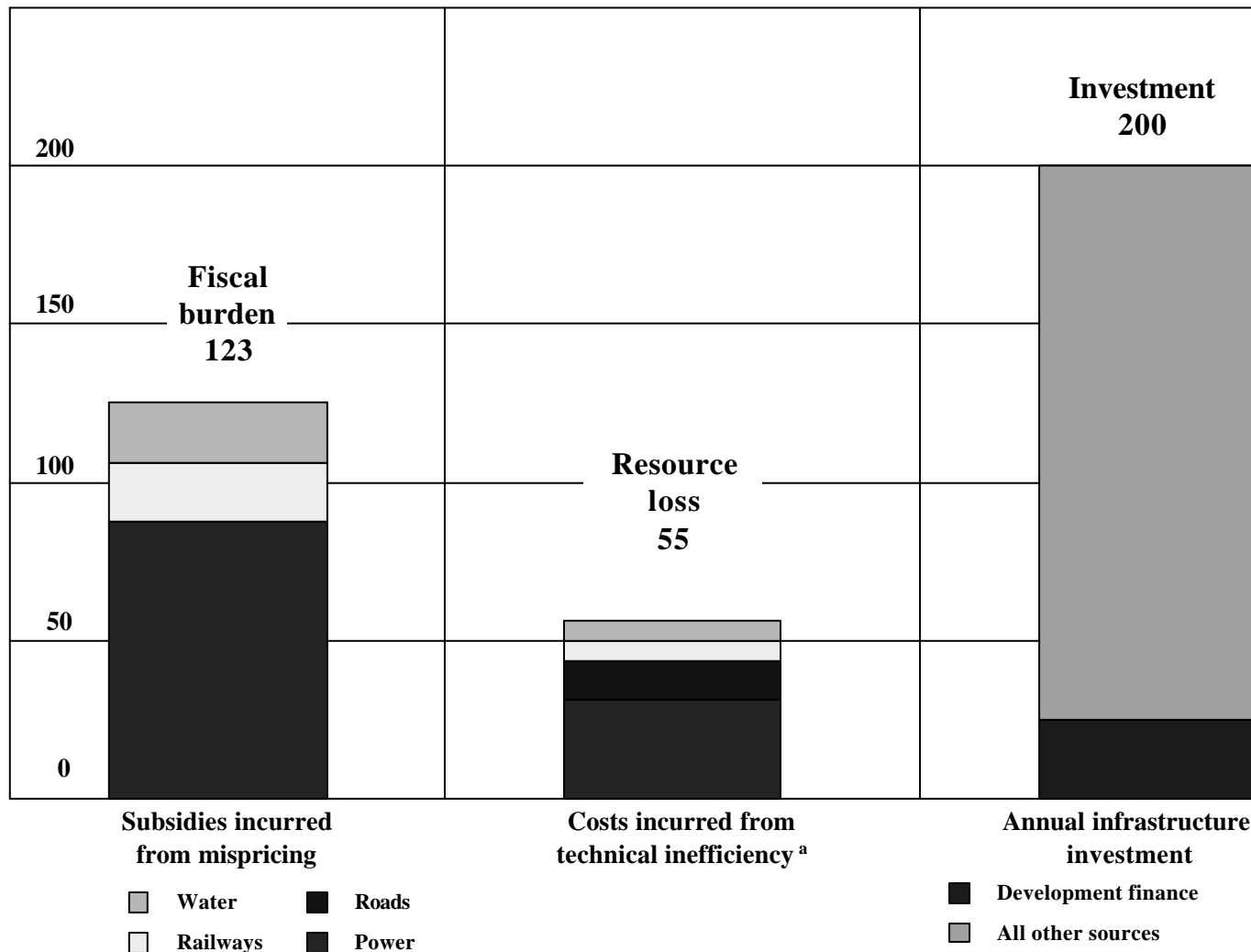
- Incomplete reforms
 - Inadequate consumer prices (e.g. Asian IPPs)
 - Excessive regulatory zeal (e.g. UK water)
 - Excessively complex markets without basic acceptance of market forces (e.g. California)
- Problematic politics of reform
 - Corruption under the guise of reform
 - Disappointment with results (Latin America, New Zealand)



~ SÍ, EL MÉTODO SIGUE SIENDO ANTICUADO, PERO HAY QUE RECONOCER QUE LA COSA MEJORO MUCHO LUEGO DE LA PRIVATIZACION.

Estimated costs of mispricing and technical inefficiencies

Billions of U.S. dollars
250



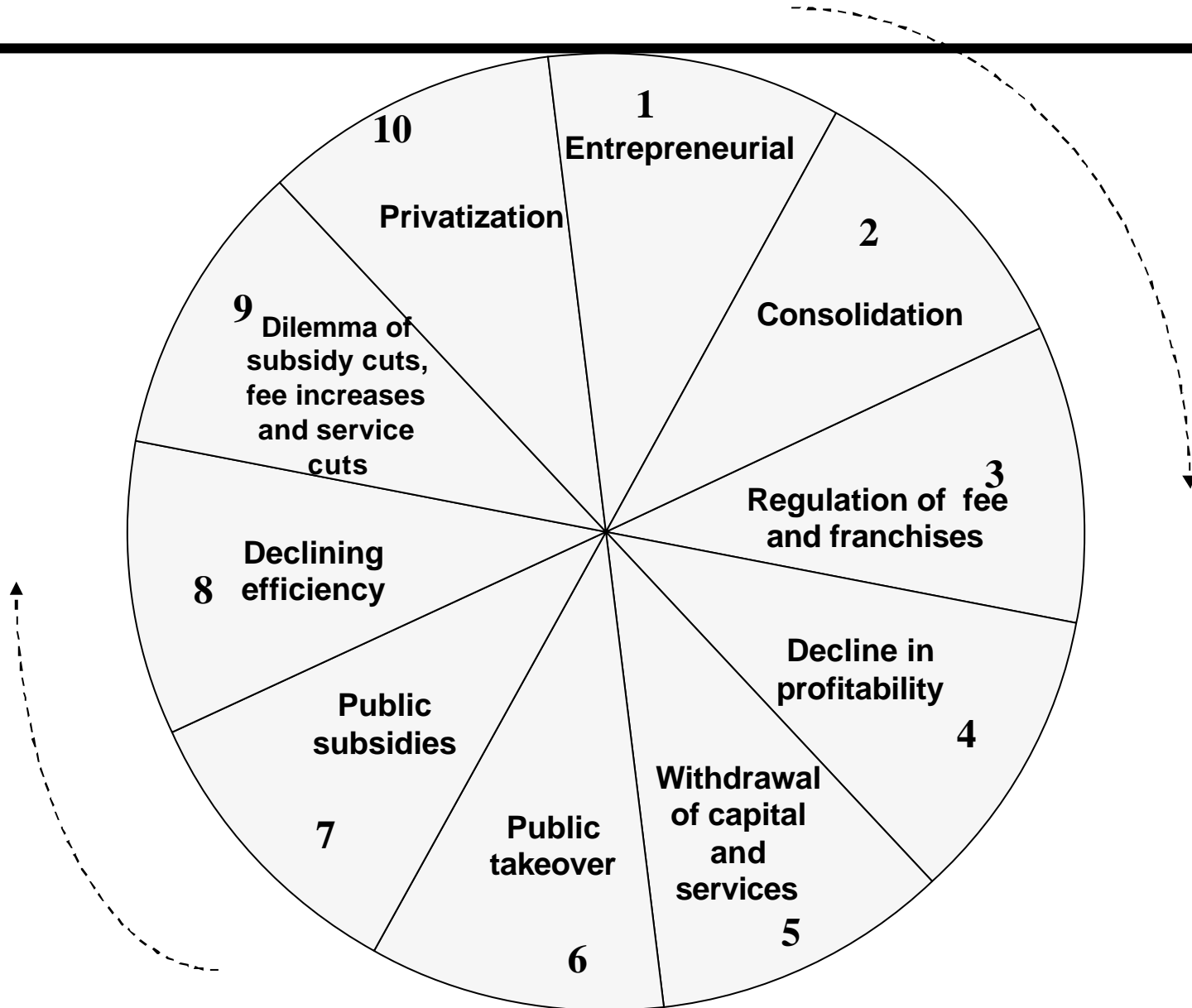
a. Costs for the water sector are due to leakages; for railways--fuel inefficiency, overstaffing, and locomotive unavailability; for roads--added investment caused by poor maintenance; for power--transmission, distribution, and generation losses.

Source: WDR 1994.

2010: Consumer tariffs

- Fiscal constraints remain - extra robustness required to protect against financial crises
- Continuing shift from taxes to user fees
- More cautious use of government guarantees; move to asset sales
- Telecommunication tariffs cover costs
- Energy tariffs come closer to cover full cost
- Water remains dependent on tax finance

Privatization - Nationalization Wheel



2010: Regulatory Risk

- New regulators exercise discretion with varying success
- Experiments with natural monopoly assets:
 - debt-financed non-profit firms (e.g. UK water)
 - re-nationalization (e.g. Malaysia sewerage)
 - re-bidding of management contracts (US water)
- The fundamental issue: freedom to fail with service continuity

2010: Real Competition

- Acceptance of market pricing
 - Efficient demand side management
 - Effective hedging tools
- New technology
 - Distributed generation (fuel cells, micro-turbines)
 - Mobile telecommunications
 - Water desalination plants

Finance

- Financial market deregulation and globalization continues
- Large infrastructure conglomerates with strong internal cash flow emerge
- Active M&A market
- From debt to equity
- The true cost of capital of private vs. public ventures

Olympic Facility Financing

Presenter: Bob Leece

Chief Executive

Olympic Roads and Transport Authority

Deputy Director General

Olympic Co-ordination Authority



SETTING THE SCENE

“The most successful games ever”

The Sydney Olympic Games

- More than 5.5 million people to Sydney Olympic Park (Homebush Bay)
- Sold more than 6.7 million tickets nationally
- Hosted 17,500 athletes and officials
- Hosted 21,000 accredited media
- Employed 50,000 volunteers

This was the largest and most complex organisational challenge in peacetime.



OVERVIEW

- Olympic Coordination Authority formed in 1995 to provide Olympic venues and facilities and coordinate Government activities
- Masterplan developed for Homebush Bay with three key elements
 - Urban Core of sporting and entertainment facilities
 - A new suburb for Sydney including the Olympic village
 - Major metropolitan parkland



OVERVIEW

LEGACY

- **28 permanent venues**
- **Construction completed**
 - very high standard
 - 9 months ahead of time
 - under budget



OVERVIEW

FINANCING

- Capital Works Program \$3.3 billion
- Public Sector \$2.2 billion
- Private Sector \$1.1 billion
- No debt for the people of NSW from the Olympic Construction Project



GAMES FINANCING - OCA

• Permanent Facilities	\$3.3 bn
• Overlay	\$0.4 bn
• Operational/Services	\$0.6 bn
• Government Services	\$1.0 bn
	<hr/>
Total	<u>\$5.3 bn</u>



Commonwealth Contribution

	<u>\$million</u>
Facility construction	175
Sport	145
Security	53
Support Services	30
Paralympics	43
Tourism	20
Other	67
	<hr/>
	533



Models for infrastructure funding

- Public/Private partnership
 - Private sector funded - BOOT schemes
 - Private sector capital contributions and full operating risk
- Government funded with reduced operating risk.



BOOT MODEL

- **Delivery/completion risk**
 - Fixed price contracts
 - Industrial Relations
 - Contracting
- **Financing risk**



BOOT MODEL

- **Operating Risk**
 - 30 year period
 - operation
 - maintenance
- **Revenue Risk**
 - competition/events
 - concessions
 - food and beverage

“Certainty of Delivery”



BOOT PROJECTS

- Stadium
- SuperDome



BOOT Contracts

	<u>Govt</u>	<u>Private</u>	<u>Total</u>
Stadium	\$130 m	\$570 m	\$700 m
SuperDome	\$142 m	\$55 m	\$197 m
Village	\$64 m	\$526 m	\$590 m



Public/private partnerships

STADIUM AUSTRALIA

- 110,000 seat stadium delivered
- 80,000 seat stadium legacy
- Total Project cost \$700 million
 - Public Sector \$130 million
 - Private Sector \$570 million



Public/private partnerships

SYDNEY SUPERDOME

- **Indoor multi-use arena**
- **21,000 seats**
- **Total Project Cost \$200 million**
 - Public sector \$140 million
 - Private sector \$60 million



DEVELOPMENT RISK PROJECTS

- Village
- Hotel



Development Risk Project

ATHLETES' VILLAGE

- **Long term residential/commercial development risk**
- **Highest standard at minimum cost to Government.**
- **Certainty of delivery**
- **1000 dwellings constructed prior to Olympics**



Public/private partnerships

ATHLETES' VILLAGE

- **Total project cost \$590 million**
 - Government \$74 million
 - Games (SOCOG) \$139 million
 - Private sector \$377 million



ATHLETES' VILLAGE *continued*

- **Allocation of risks**

- ⊠ Consortium

- plan and design
 - construct and fit out
 - finance
 - market and sell

- ⊠ Completion guarantee



Development Risk Project

NOVOTEL/IBIS HOTEL

- 168 four star rooms
- 150 three star rooms:
- Full conference facilities, meeting rooms, restaurants and bars
- Fully funded by private sector \$60 million
- Operated by private sector
- Capital payment for land paid to Government
- Annual rental to Government



NOVOTEL/IBIS HOTEL *continued*

- **All risks assumed by private operator:**
 - financing
 - design and construction
 - maintenance and operations
 - revenues and profits



Shared Financial Contribution + Operating risk assumed by other parties

- Penrith Whitewater Stadium
- Tennis Centre
- Ryde Aquatic Leisure Centre



PENRITH WHITEWATER STADIUM

- Contributions

\$million

OCA 3.5

Penrith Council 1.5

International Federation 1.5



PENRITH WHITEWATER STADIUM (continued)

- **Allocation of risk**

Construction and delivery risk

- Pacific Power

Operating and maintenance risk

- Penrith Council

- **Revenues**

- Penrith Council



NSW TENNIS CENTRE (Homebush Bay)

- Contributions
 - OCA \$29 million
 - Tennis NSW \$7.3 million
- OCA assumed construction and delivery risk
- Tennis NSW
 - 40 year lease
 - Revenue and operational risk



RYDE AQUATIC AND LEISURE CENTRE

- Owned by Ryde Council
- Contributions

		<u>\$million</u>
-	OCA	8
-	SOCOG	3
-	Ryde Council	16
		<hr/>
		27



RYDE AQUATIC AND LEISURE CENTRE

continued

- **Allocation of risk**

Construction and delivery risk

OCA

Operating and maintenance risk

Ryde Council

Revenue risk

Ryde Council



Government funded with reduced operating risk

	<u>\$million</u>
ROYAL AGRICULTURAL SOCIETY	388
- Exhibition halls	
- Sportsground	
- Pavillions	
DUNC GRAY VELODROME	41
AQUILINA RESERVE	30
- Softball	
- Baseball	
- Athletics track	
WRAMS	16



Shared Risks

Delivery OCA

Financing OCA

Operating

- RAS
- Velodrome - Bankstown Sports Club
- Aquilina - Blacktown Council
- WRAMS - private sector



WATER RECLAMATION AND RECYCLING SYSTEM

(WRAMS)

- Provides recycled water to the whole Sydney Olympic site including the Stadium, SuperDome, Hotels, the Showground, Tennis Centre, Athletes' Village and areas of the public domain.
- Recycled water is to be provided to the new residential suburb of Newington in 2001



Conclusion

Key Issues

- Strategic decision to seek partnership with private sector.
- Massive Olympic infrastructure development project would not have been possible without private capital.



Conclusion

Key Issues

- **Substantial work in planning and development stages to ensure:**
 - fundamentals of projects understood
 - projects structured to produce optimal result
 - risk and responsibility clearly identified



Conclusion

Private Sector Benefits

- **Risks undertaken**
 - delivery/completion
 - financing
 - operation and maintenance
- **Certainty of delivery**
- **For BOOT project**
 - facility returned to Government.



Conclusion

Key Issues

- **Sporting facilities difficult to finance.**
- **Public/Private partnership**
 - co-operation essential during operating period.
- **Best outcomes if parties continue to work together.**



Conclusion

Key Issues

- **Flexibility - over time things change - must be flexible to address jointly.**
- **Beware changing risk allocation in operating period**
 - serious consequences for**
 - government**
 - private sector**
- **Development and financing fees not sustainable at current levels.**



Conclusion

Key Issues

- **Result**
 - Facilities of the highest quality.
 - Delivered ahead of time.
 - Optimised government funding



REGULATION OF WATER AND SEWERAGE SERVICES: THE PHILIPPINE EXPERIENCE

Mr. Rex V. Tantiogco
Chief Regulator, The Metropolitan Waterworks and Sewerage

Introduction

The MWSS Network serves an area of 203,393 has. Covering a total of eight cities and 29 municipalities. Its assets include four treatment plants, 14 reservoirs, 406 kms of primary distribution network 556 kms of secondary network and 3,353 kms of tertiary network. The MWSS served a population of 10.8 million (1995) and 754,000 household connections that represent about 60 percent of the population with a domestic average consumption of 111.3 liters/cap/day. Water losses (non-revenue water) amounted to 55% to 60% of treated water output of the system.

Section 2 (c) of Republic Act 6234 provides for the jurisdiction of the MWSS:

“The System shall own and/or have jurisdiction, supervision and control over all waterworks and sewerage systems in the territory x x x.”

The Privatization Process

Under Republic Act No. 8041 (The National Water Crisis Act of 1995) as implemented by Executive Order NO. 286 (December 1995) and 311 (March 1996). The MWSS was mandated to enter into arrangements that will result in the participation in any or all segments of operations of the MWSS facilities. The government divided the network into two service areas, the west zone and east zone. Each zone has its own water treatment facilities and is geographically contiguous.

The bidding was done through a two-envelope process. The first envelope contained the technical and business submissions and included the strategic, operational and organizational aspects, a financial submission containing capital expenditures, amount and sources of debt and equity, cash flow financing and target returns and financial performance. The second envelope contained the bid rate. The bid rate was a percentage of the pre-privatization MWSS water rates. The first envelope was evaluated first to limit the bidders to those with strong technical and financial capabilities in utility operation and also ensure that foreign sponsors were among the top operators. The second envelope was then opened to determine the winners.

A total of four bids were submitted. The concession was awarded to the bidder with the lowest percentage/tariff bid. The Manila Water Company Inc (MWCI) submitted the lowest bid for both the west and east zones but the bidding rules disallowed them from operating both zones. MWCI won the east zone concession with a bid of P2.32 per cubic meter while Maynilad Water Services Inc. (MWSI) won the west zone with a bid of P4.96 per cubic meter.

The Agreements were embodied in a Concession Agreement executed on February 21, 1997. The Concessionaires assumed operation on August 1, 1997. Under the Concession Agreement, the MWSS handed over responsibility for managing and expanding the network to the two private companies. Ownership of all fixed assets was however retained by MWSS. However, while operational and investment responsibility were given to the private operators, the operation and maintenance of common infrastructure is the responsibility of the joint venture company which is to be formed by the Concessionaires.

The objectives of the privatization were, to improve and expand the delivery and coverage of water and sewerage services, increase the efficiency in operating the network, minimize tariff impact and transfer the financial responsibility in the provision of water and sewerage services to the private sector while allowing them a fair rate of return.

The Regulatory Office

Article 11.1 of the Concession Agreement provides:

“11.1 Organization

The MWSS Board of Trustees shall establish and fund a regulatory office (the “Regulatory Office”) to be organized and operated in a manner consistent with the description contained in Exhibit A hereto, subject to such changes thereto that the MWSS Board of Trustees may make from time to time, and shall have the functions and powers described in that Exhibit. Decisions of the Regulatory Office requiring action by the MWSS Board of Trustees, including decisions affecting the level of Standard Rates, shall promptly be submitted to the Board in accordance with Section 7.1 hereof.”

The Concession Agreement provides that the MWSS Board of Trustees (BOT) establishes the MWSS-Regulatory Office (RO) consistent with its provisions: The MWSS-RO has five members. Each regulator will have a term of five years except for two of the initial members whose terms are three years. One of the five regulators serves as the director (presently known as the Chief Regulator).

To ensure the impartiality of the Regulators – the members shall not have any present or prior affiliation with MWSS or either of the concessionaires (or any affiliate of either the concessionaire.) A member may be removed only by a majority vote of an Appeals Panel. Removal of a member constitutes a major dispute as provided under Art.12.3. of the Concession Agreement.

The MWSS-RO functions as a committee and the affirmative vote of the three members is required in decisions affecting the Concession Agreement. Certain matters like early termination, drawdown of performance bonds, final approval of water and sewerage rates, government guarantees require the confirmation and approval of the MWSS BOT.

The MWSS-RO is organized as shown. There are four regulatory areas, each headed by a regulator.

- Chief Regulator – responsible for chairing regulators’ meetings, hiring and dismissing professional staff, serving as spokesperson of the MWSS-RO; the Chief Regulator may from time to time prescribe procedural or administrative rules governing the activities of the RO.
- Technical Regulation – responsible for operations monitoring and water and sewerage quality;
- Financial Regulation – responsible for financial audit, asset monitoring, and tariff control and monitoring;
- Customer’s Service Regulation – responsible for customer complaints and metering efficiency; and
- Legal and Administration – responsible for legal and administrative matters

Functions of the Regulatory Office

The functions of the MWSS-RO can be broadly classified into two main functions: its monitoring and determinations functions.

The monitoring functions include monitoring concessionaire performance relative to its obligations: (1) in the provision with its service obligations – includes the monitoring of the continuity of water supply at the required pressure, monitoring compliance of the water and sewerage with the Philippine National Drinking Water and the Department of Environment and Natural Resources standards and financial obligations – arrange the independent technical and financial audit of the activities of the concessionaires; (2) compliance with the provisions of the concession agreement; (3) financial performance; (4) asset management – includes monitoring the reported, audited infrastructure assets and the enforcement of its related provisions; and (5) annual rate adjustment, the “C” factor.

Its determinations functions include computing periodically: (1) extraordinary price adjustments, the “E” factor; (2) rate re-basing adjustments, the “R” factor; (3) assessment of penalties; (4) amendments to service obligations; (5) early termination amounts; and (6) payments due to events of termination.

The Rate Adjustment Process

The water rates can be adjusted three ways. First, the annual rate adjustment or the “C” factor. This is based on the consumer price index as computed by the National Statistics Office. Second, the extraordinary price adjustment (EPA), the “E” factor. This accounts for the financial consequences of unforeseen events, which are beyond the control of the concessionaire. The concessionaire lists eleven (11) grounds for extraordinary price adjustment (GEA). And third, rate re-basing adjustment, the “R” value (every five years, with the first being optional and at the discretion of the MWSS-RO). Tariff levels are set that will allow the concessionaires to recover over the life of the concession operating, capital maintenance, investment expenditures, business taxes and other payments to debt service and earn a rate of return on such expenditures. The sum of the C, E and R factors is the adjustment limit.

Annual Inflation Adjustment

The annual inflation adjustment, the “C” value, is the percentage change in the Consumer Price Index for the Philippines as published by the National Statistics Office between July of the weighting year and July of the prior year.

Extraordinary Price Adjustment

In computing for the “E” value the MWSS-RO first determines whether there is a ground for an EPA. The concession agreement lists 11 GEAs and includes, amendments to service obligations, changes in law, government regulation rule or order, breach in the concession where an appropriate remedy has not been made, unanticipated receipt of grant or below market financing, material change in the basis of the computation of the consumer price index, changes in foreign exchange rates, events of force majeure, unpaid penalty owned by the concessionaire to the MWSS-RO, specific bidding assumptions, have proven to be incorrect in a material way, cost over runs and effects on the financial performance of the delay of the Umiray Angat Tunnel Project.

When a valid ground has been determined the MWSS-RO then determines the financial consequences of the event. The “E” value is computed as the percentage ratio of the net present value (NPV) of the financial consequences of the GEA to the NPV of the revenues that would

have accrued to the concessionaires during the remainder of the concession reckoned from the charging year. The “E” can be determined as frequently as yearly as long as an event is a GEA.

Rate Re-basing

Every five years, the water and sewerage may be re-based. It is the intention that during the rate re-basing period the rates will be set at a level that will permit the concessionaires to recover over the 25-year period of the concession operating, capital maintenance and investment expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service of MWSS loans and concessionaire loans incurred to finance such expenditures and to earn a rate of return on these expenditures for the remaining term of the concession in line with rates on these expenditures being allowed from time to time to operators of long term infrastructure concessions arrangements in other countries having a credit standing similar to that of the Philippines.

Challenges

The experiences in tariff adjustment and dispute resolution underscored the need for the MWSS-RO to preserve and sustain the gains of privatization. Fortunately, the Concession Agreement allows re-negotiation of water tariff through pre-agreed processes embodied in the tariff adjustment provisions. For example, the single biggest factor is the extraordinary price adjustment petition is foreign exchange devaluation. The contract provides a price adjustment mechanism for this. Another issue is the dispute on the correct determination of the appropriate discount rate (ADR). This issue deals with the timing of price re-negotiation through the determination of the appropriate discount rate. The contract allows the determination of the appropriate discount rate during a rate re-basing period.

Another challenge is creating a strong regulatory office through consistency and transparency in its decision making process. This is being addressed by the MWSS-RO as it develops guidelines in the evaluation of the EPA petitions and builds the capability of the MWSS-RO staff. However, one issue that must be addressed is the “independence” of the MWSS-RO. Ideally, a Regulatory Office draws its independence and mandate from legislative action. However, the MWSS-RO is a creation of the Concession Agreement. While the responsibility of operating and managing the office has effectively been given to the concessionaires, the tariff setting power is still with the MWSS Board of Trustees consistent with its charter. For policy makers, it is important to consider creating an independent regulatory office complementary to its privatization efforts. Sustaining the privatization is greatly influenced by the independence, strength and credibility of the regulatory body.

ADDRESS TO APEC INFRASTRUCTURE SYMPOSIUM

Alan Moran

Director Deregulation Unit, Institute of Public Affairs

Standing here in front of so many distinguished people from many countries on the day the new leader of the world is decided is humbling. So much so that when I thought of ways of dignifying this lunch with some deep aphorism, I reached for a quote from George W Bush. One that fits the future that this conference is looking towards was made two years ago when the president said,

“I believe we are on an inevitable trend towards more freedom and democracy—but that could change.” The trend is, after all, evitable.

There are a great many issues regarding infrastructure that are being aired today and tomorrow. By its nature, infrastructure is the building block on which prosperous modern societies rest. I want to address two prime matters in that provision.

The first of these is whether provision should be by the public sector or by private enterprise, and I know there is far from a clear dichotomy between the two.

Secondly, I want to talk about governance of the “essential facilities” or natural monopolies that infrastructure very often means.

Privatisation

Australian competition reform commenced under a Commonwealth Labor Government. Although it may have been senescent in its ability to handle the budget that government proved remarkably inventive in obliterating the sanctuaries from competition that had shielded government monopolies. For ideological reasons the Labor Party prefers to pretend that ownership is not important, that properly focussed government owned firms can perform just as well as private firms.

In fact, the theory and outcome proves just the opposite.

Private firms operate more effectively because they need to do so. Their management is under constant surveillance either by the stock market and ratings agencies or by an equally focussed parent company.

Public sector firms, by contrast, are often responsible to nobody in particular. Governments of both political persuasions often use them as resting places for political allies. NSW has tried to ensure its corporatised businesses are responsibly managed but even so has installed a variety of ex Labor politicians and even an ex-Communist wannabe federal politician on their boards.

Sometimes such appointees have considerable influence. Thus, the management of the largest NSW electricity distribution business, conscious of a need to keep cost competitive with the nimble privatised Victorian competitors, recommended a strategy that would have halved the workforce. The public sector-oriented board had a better idea—save money by getting rid of a management that would prune so many union members. On an even grander scale, public corporations acting with undue lack of restraint resulted in the debacles in the early 1990s when State corporatised businesses in Victoria, South Australia and Western Australia racked up such losses that they brought down the Labor Governments.

At other times there is a lack of commercialism on the part of the management. Some see evidence of this in the disastrous contracting that one of the NSW generators engaged in with a Victorian private retailer, losing somewhere between \$300 and \$500 million. State politicians are also liable to interfere to the detriment of the businesses. For example, one of the NSW generators was seeking to buy its own coal supply but the government vetoed this when it realised that the intention was to make some economies that would involve reducing the labour force.

But profligacy is not necessarily the hallmark of government owned businesses. Indeed, the normal behaviour is excessive caution due to the vast number of restraints the businesses have imposed on them by governments constantly worried about the political fall-out if one of their businesses goes bad. This adds a domain that is not present to anywhere like the same degree with privately owned businesses.

What we have seen with the infrastructure that has been privatised in Australia is a vast carving out of excessive costs and innovations that were not considered possible. In the case of electricity, we have seen generation businesses increase their availability to operate from 70% when they were run as an arm of government to the dizzy heights of 85% as corporatised entities and up to 95% since privatisation. We have seen distribution businesses branch out into telecommunications, activities that would have surely not been allowed of a state controlled enterprise. We have seen with Melbourne's City Link one of the most innovative road projects anywhere in the world.

It has been argued that the private prisons in Victoria have not performed well. This would need to be tested. But it is clear that private prisons in North America have proved so cost effective that few states are building any public ones now.

In short, however infrastructure is defined, the case for it being privately owned is unassailable. Private ownership means:

- reduced susceptibility to political arm twisting inhibiting flexibility and adding costs
- management responsible to the sea of shareholder, predators debt holders and others all seeking to ensure their money is safe and getting the best possible return; important in this respect is the market for corporate control—a below par firm will see its share price deflated to such a level that it becomes vulnerable to take-over or its parent, fearing for its own on-going existence will divest.
- the possibility of having diversity and limited experimentation; in electricity privatisation, some of the buyers have put more management effort into retailing, others into lowering costs, others into diversification and others into seeking synergies with similar industries.
- privatisation with overseas ownership, offers the possibility of leveraging off experiences to make innovations without suffering from the hard knocks that often accompanies such activity.

Corporatisation, the preferred approach in Australia for shifting businesses away from government oversight, barely makes a dint in the deficiencies of government ownership. Even though corporatisation means a board of directors operating under company law and making decisions accordingly, it is a bold Board that will take an issue at variance with the government's wishes. Thus, if a shareholder minister writes to the board drawing attention to the government's support of centralised wage bargaining rather than individual contracts, as the government of Queensland—and probably NSW—has done, I doubt the Board would give licence to the CEO to move ahead with individual contracts even though they may save 10% plus in labour costs.

Corporatisation can be a useful half-way house to privatisation where a previous state monopoly is being split into several entities which are placed in competition with each other with the objective

of injecting some competitive tensions into the market. This is the approach used in those Labor controlled state governments with either an ideological aversion to privatisation or an inability unable to move because of their union support base.

But this still suffers from many of the disadvantages of public ownership. In addition, it places Minister-shareholders in impossible conflicts of interest. Rob Lucas, the South Australian Treasurer, tells of these when he was the shareholding minister of the five entities formed out of the previous electricity business. He relates that briefings at each of the businesses would often outline their capital investment plans to overcome a supply problem. Each business would have similar plans and if all were set in motion their goals would not be reached. But as a shareholder minister he faced a dilemma. On the one hand he was obliged not to divulge confidential information to competitors. And on the other hand he could see the potential for wasteful expenditure by concerns for which he was responsible. And a further more fundamental problem was that he was never quite sure whether the proposals he was hearing were those he had heard before from the business briefing him or whether it was from one that was ostensibly a competitor.

Regulatory Excess

As the Director of Deregulation at the Institute of Public Affairs, I have expressed concern at the imperialistic behaviour of Australian regulatory bodies. Those bodies, with the ACCC at the pinnacle, include the National Competition Council (NCC), State regulatory bodies like the Victorian ORG and some quasi-regulatory bodies like the National Competition Code Administrator, NECA, with which I have an association.

While the two most important bodies, the ACCC and the NCC—and particularly the latter—have undertaken very useful work in promoting competition their zeal is undermining some of the very drivers that efficiently bring new infrastructure. Promoting competition can have adverse effects on efficient infrastructure development if the regulatory authorities insist upon conditions of access that the developer finds onerous. It is all very well to argue that extant facilities are best opened to all at prices that simply cover their marginal costs. However such approaches, even in a diluted form, will assure the goodies are not there to be shared in the first place. There is inadequate recognition of this by Australian regulatory bodies. Perhaps this is because they are loath to relinquish regulatory control. Indeed, they have sought to expand such control into new areas.

This is amply illustrated by Duke Energy's Eastern Gas Pipeline, which is now carrying gas between the Bass Strait and Sydney.

Under the national Gas Code, pipelines are generally envisaged to be natural monopolies. Their prices are regulated and they are not allowed to discriminate between potential users.

Two alternative regulatory routes are in place.

The first is through the National Competition Council (NCC). This establishes the need for regulation, then passes the baton to the Australian Competition and Consumer Commission (ACCC) to determine prices.

The alternative is for the ACCC to accept an 'undertaking' by the pipeline owner on price and other conditions. At least according to the ACCC, this pre-empts the need for NCC involvement.

A fundamental issue with this important pipeline is why should there be any regulation at all? Its construction means there are two transmission pipelines serving the Sydney region, one from Bass

Strait and one from the Central Australian Moomba field. Such rivalry is the very definition of competition, the absence of which provided the initial rationale for regulation.

The NCC however claims that the two pipelines both need to be controlled because they traverse different paths. But it is rarely the case that two competitive products are identical and if we were to use their differences to justify regulation, almost everything would be covered. Two robust competitors, as long as they do not collude, are usually sufficient to bring the required efficiency driving customer focus. With the Eastern Gas Pipeline and Moomba line, we have Coke versus Pepsi, Ansett versus Qantas. In such cases, as few as two rivals prevents price-gouging and promotes cost savings far more effectively than regulation. And it does so without the price distortions and paper-burden costs that are inevitable with regulation.

The NCC further argues that even if the lines were *parallel* regulation would be necessary because each of the lines would have 'market power'!

The distressing aspect of all this is the negative value the regulatory authorities add. If each new pipeline needs to pass an exhaustive regulatory review before it can seek customers, there will be far fewer pipelines built. Companies will be unwilling to leave their money hostage to an unnecessary regulatory regime and consumers will lose fuel choice options. Ironically, not only will this mean fewer opportunities for increased income but it will mean fewer competitive pressures.

The regulators' gas decisions are based on a misplaced assumption that pipelines are natural monopolies that can charge any price they choose. For a start, they are subject to competition from electricity and other fuels. Moreover, although the pipes are difficult to duplicate in full, they can be partially by-passed, thereby limiting their owners' pricing latitude. Curiously, the regulators cite possible 'uneconomic by-pass' as a major reason to keep the price low. Yet the price cap they imposed does not prevent gas pipeline owners from reducing prices to meet competition. Regulators' suggestions that the avoidance of uneconomic by-pass is a reason for them to impose low prices implies a pompous self-deceit on their part. They are saying that the owners would be too stupid to determine for themselves when to meet a competitive threat with price action.

The ability of rival firms to by-pass existing lines and of rival fuels to win market shares provides strong disciplines on price gouging. It should be left to the competitive process as much as possible to drive down prices. Where a regulator attempts to do so, we run the risk of prices being set too low with inadequate incentive to upgrade and maintain the facilities.

Gas is not the only case where the NCC has sought to impose price reductions on private businesses where capital is sunk. It had previously tried to force Rio to open its railways in WA to a then competitive iron ore producer. In that case a rather strangely based legal decision and the eventual merger of the two firms thwarted it. But is seeking to force the opening of a privately built railway to a rival firm the way to encourage new infrastructure?

The NCC is dwarfed in importance by the ACCC as an Australian regulator. And the ACCC has its own ambitions to exercise control. This is illustrated in the spat it has with Telstra who hired Professor Ordovery to examine the extent of the control. This was found to have increased from 38% to 76% of the firms' business.

Even if Professor Fels is correct in his retort that this increase is misleading as it occurred simply because of the commencement of regulatory control where none was needed previously, 76% of the telecommunications business is an awful large slice of a pie that has legions of new competitors entering the market.

My colleague Jim Hoggett has argued persuasively for a considerable trimming of the ACCC's regulatory powers in telecommunications. He points out it is an industry with no lack of new entrants and some of these are of a comparable or greater scale and technological sophistication as Telstra

He goes on to say "If there was a need five years ago for the current highly intrusive level of regulation then the operation of the regulation should have led by now to a point where some of it could be dismantled."

Contrary to this, the ACCC calls for further powers. Such calls suggest that the existing structure may be, perversely, generating its own amplification. The ACCC seeks the power to direct persons to do what it thinks would conform to competitive behaviour. An example might be a direction to enhance or replace technology. This is an astonishing expansion of government control and one that would considerably augment the ACCC's powers and bring unfortunate increases in bureaucratic controls.

These access matters, the general Part IIIA controls and the specific Telecom Part XI are presently before the Productivity Commission. In the interest of enterprise rather than the central planners seeking to assume control of infrastructure development and access, it is to be hoped that the outcome is a considerable diminution of the regulators' powers.

On that note let me finish with another quote from our new President. Governor Bush said

"We are ready for any unforeseen event that may or may not occur."

Well, there are so many unforeseen events that have occurred in American politics in recent weeks it is just as well some did not occur.

All I can add is my satisfaction at having a man in the White House who got there notwithstanding some human fallibilities rather than a man whose febrile imagination claimed credit for more inventions and insights since Gallileo and rivals the late President Ceausescu for claimed innovations.

Our regulators are no more infallible and for the most part have no business experience. We must ensure they do not prevent the beneficial operations of robust competition in the name of moulding the outcomes of that competition in their own image.



Key Policy Issues in Infrastructure: an investor perspective

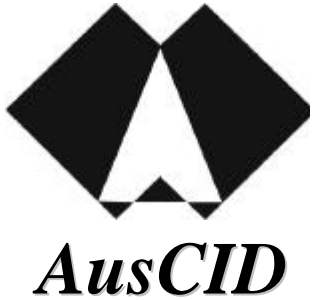
Australian Council for Infrastructure Development

**Dr Raphael Arndt
Director - Policy**



Overview

- **Who is AusCID?**
- **Why is infrastructure important?**
- **Value for money: Public Private Partnerships**
- **A role for Government**
- **Impediments**



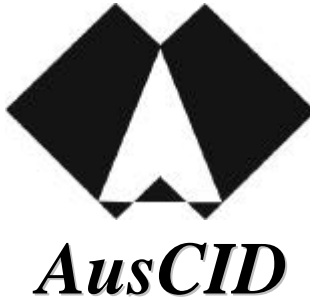
Who is AusCID?

- **Principal industry association for private investment in Australian public infrastructure**
- **105 members - over A\$60 billion of infrastructure**
- **Operating since 1992**



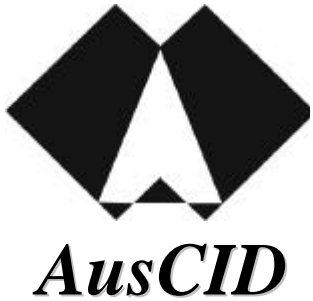
Why is infrastructure important?

- **To Australia**
 - **Australia is a small economy**
 - **Infrastructure costs are significant**
 - **We must improve services and reduce costs**
- **To other APEC economies**
 - **Seek to attract and capture investment**
 - **Infrastructure reduces business costs**



Value for money

- **Australia - total public spending falling**
- **Developing economies - funds insufficient to meet demand**
- **Demand for quality**
- **Ensure taxpayers/aid dollars used wisely**



Public Private Partnerships

- **Public and private sector's work together**
 - Each is responsible for the aspects of service delivery they do best

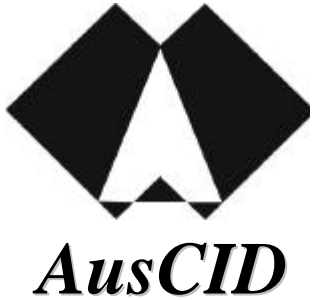
PRIVATE	PUBLIC
<ul style="list-style-type: none">• Design• Construction• Operation• Maintenance• Finance• Risk management	<ul style="list-style-type: none">• Strategic planning• Regulation• CSO's• Planning and facilitation• Core service delivery• Consumer protection



Benefits of PPPs

These benefits have been recognised:

- **~100 countries**
- **Developing countries - 1900 projects, US\$580b**
- **UK - 250 projects, £9b**
- **Australia ~100 projects**



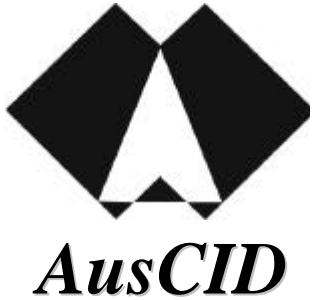
A role for Government

- **Industry restructuring**
- **Coordinated/strategic planning**
- **Knowledge management**
- **External knowledge retention and research**
- **Remove impediments**



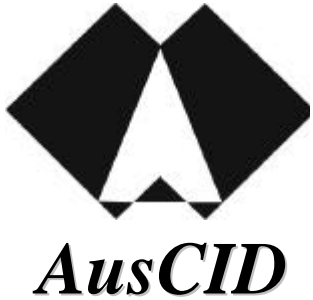
Impediments

- **Legislative reform**
 - In Australia tax reform
- **Industry restructuring**
- **Remove bureaucratic obstructions**
- **Poor regulation**



Regulation - the vision

- **Light-handed**
- **Incentive Regulation**
- **Pro-competitive**



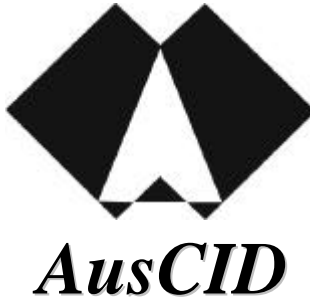
Regulation - the reality

- **High cost regime**
- **Lack of stability and predictability**
- **Distorted incentives**



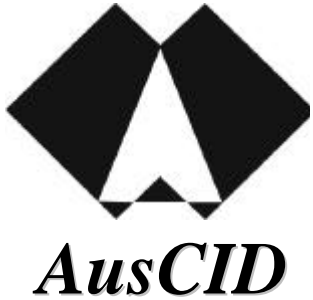
Regulation - the implications

- **Capital strike**
 - AusCID survey of members
- **Opportunities for other countries**
- **Lack of new investment**
 - Degradation of service



Summary

- **Infrastructure must be improved to maintain growth/jobs**
- **Public funds are stretched**
- **Seek value for money - PPPs**
- **Important role for Governments**
 - **Legislative reform/Industry restructuring**
 - **Regulation**
 - **Strategic Planning**
 - **Skilled/trained bureaucracy**



Key Policy Issues in Infrastructure: an investor perspective

Australian Council for Infrastructure Development

**Dr Raphael Arndt
Director - Policy**

ENCOURAGING AND MANAGING COMPETITION

Possible Issues for Discussion

Professor Peter Forsyth, Dept of Economics
Faculty of Business and Economics, Monash University

Competition and Coordination

How much competition should there be? Do network industries work better when producers are coordinated rather than competitive? Examples: Telecommunications, Rail.

Vertical Separation

How much vertical separation is desirable/ necessary to enable competition in the competitive sectors of infrastructure industries? Examples: Rail, Telecommunications, Electricity.

Access to Essential Facilities

Does regulation of access to essential or bottleneck facilities work well in enabling competition to develop? Can it lead to long-term problems of under-investment?

Regulation and Quality

Are there problems of supply reliability (electricity) and congestion (airports) developing that are due to price regulation? Are governments being drawn in to sort out problems in privatised infrastructure industries?

Government Ownership and Competition

Can competition develop and survive on level terms when there are government owned firms competing which have possible access to subsidies?

Universal Service Obligations

Is direct budgetary provision of USOs the best option? Do governments still impose non-commercial requirements on commercial businesses?

Regulation and Investment

Are regulators controlling investment programs, through their ability to approve/disapprove price changes conditional upon investment programs?

Risk and Innovation

Does regulation stultify risky investment in innovation? Can innovators (e.g. new firms in telecommunications) gain access to essential facilities without access price regulation?

Regulatory Approach

Can governments achieve light-handed regulation? Do regulators inevitably become closely involved with the performance of the industry, partly to defuse political problems?

REGULATORY MEASURES: FACILITATION NOTES

Chris Summers

Advisor to Deputy Chairman for Production, Trade and Infrastructure
National Development Planning Agency (Indonesia)

Session IV: New Approaches

Regulatory measures to facilitate innovation in operations, funding risk management, and 'ownership'. Selecting and regulating the government and independent regulation maintaining efficient regulation while providing for hearings and appeals.

The purpose of this Roundtable is to discuss policy and regulatory changes that have been introduced or may be considered by economies, including those outside of the APEC region.

Participants are asked to share a general appreciation of how the developing regulatory process in economies that they are familiar with to address any of the following:

- innovation in operations
- new or improved funding mechanisms
- risk management
- 'ownership'

And to consider where there is still major work to be done and how this might be facilitated.

Regulatory Measures and Innovation in Operations

- 1) For this discussion we might consider three types of 'innovation':
 - a) To *improve the way a given service is delivered*, for example:
 - i) improving pressure levels and continuity of service in an operating water supply scheme
 - ii) introducing cost cutting measures or value increases such as improve water taste where the major benefits will occur beyond the end of existing concessions
 - b) To *generally improve services*, for example:
 - i) provide efficient access to exchanges and land networks to enable new satellite based telecommunications, and more efficient protocols such as XDSL to compete with ISDN
 - ii) better multimodal transport links and computerised administration through ports that hold strong monopoly positions
 - c) To *better link infrastructure service provision with potential initiatives in productive investments, trade, or changing user lifestyles*, for example:
 - i) road and transportation network and hub providers working with regional planners and private sector to develop new schemes and industries in tandem
- 2) There may be a conflict between regulatory measures to protect service obligations and other public interests, versus, less regulated markets in which rapidly innovation and change are important objectives in improving infrastructure services.
 - a) For instance in rapidly changing and complex telecommunications markets are there regulatory models to provide generic protection for universal service access to protect new entrants, which are more efficient than closely prescribed service definitions and requirements?
 - b) Are there good examples of the former, and do they suggest this is efficient, or does it introduce a heavy overhead of dispute and litigation?

- 3) In areas where open markets are less workable:
 - a) Are there good models for concessions such as long-term water supply concessions which provide sufficient incentive for innovation during the concession period?
 - b) For instance the South Australian scheme where performance improvements in the short run benefit the operator, with a new performance benchmark being established periodically. Have such schemes proved to be practical successes?
 - c) Are there other options such as short concession periods with practical methods to overcome the major asset transfer problems?
 - d) Can the asset transfer problems be overcome by a separation of ownership and operation?
- 4) Long-term performance-based road maintenance is an example of the latter. This is an area where there is already a developing best practice and useful results? Or easy and area where closer study of existing schemes and further trials are needed?

In Summary:

- 5) Is the encouragement and enabling of innovation a major problem?
- 6) Is this problem generally well understood among policymakers, politicians, and community?
- 7) Are there major sources of good practice experience that can be studied and shared through cooperation?
- 8) Is this a high priority for your economy, or your industry?

Regulatory Measures and New or Improved Funding Mechanisms

- 9) In some economies traditional financiers have started to take a more flexible approach to debt financing for infrastructure projects where there is uncertainty in short term cash flow but strong underlying fundamentals. Is there much evolving interest and experience in this from traditional financiers and outlet barriers that need be overcome?
 - a) For instance in Indonesia regulations on shareholding and debt did not provide for preference shares in the past.
 - b) Traditional concession approaches and BOT contracts have tended to deal with natural uncertainties and variations in markets as 'risks' to be born rather than providing for 'automatic' adjustments of concession conditions and durations to deal with these as normal elements of the business.
- 10) In some economies, such as Australia, pension funds and insurance organisations have shown an ability and interest to become major long-term investors in infrastructure who value the long-term prospects more highly than financiers who are more concerned with the reliability of short term debt service. Are there lessons learned about the barriers to these forms of finance joining in infrastructure ventures and how to overcome them?
- 11) Infrastructure services with their underlying strong long-term prospects potentially provide a demand-led market development for insurance funds, pension funds, and mutual schemes.
 - a) Is there efficient understanding of the potential for this and the necessary interactions, and regulatory measures, among stakeholder ministries and industries in developing economies?
 - b) Who are the institutional partners, sources of expertise, and what would be the most effective approach for developing and sharing knowledge on this huge potential source of funds and wealth generation?
- 12) In the mid-1990s addressing the lack of institutions with the capacities for due diligence and coverage of risk to support the financing and risk management of local investment in infrastructure was identified as a major potential area for international cooperation. A protocol for cooperation between export credit agencies resulted from this in 1997.
 - a) Has this resulted in any support to infrastructure investment in participating economies/industries?

- b) Is this an area of cooperation between institutions in developed economies with large risk carrying capacity and skills, and a commercial interest in the growth of sound investment in developing economies that needs to be re-examined and rejuvenated?

Regulatory Measures and Risk Management

- 13) This subject is closely related to the discussion above on funding mechanisms. Participants may choose to extend the risk aspect of those discussions.
- 14) A most effective way of combining measures to encourage innovation, encourage more flexible approaches to finance, and improved risk management is to encourage the development of competitive open markets.
 - a) However structuring competitive open markets, in telecommunications and transport, as well as in power has been a relatively complex or new experience in developed economies as well as in developing economies.
 - b) Are policymakers, regulators and existing stakeholders in developed and developing economies able to draw on a well understood basis for determining where market based developments would be the most effective way to handle risk and how to go about it?
- 15) Take-or-pay agreements have been a major source of problems and sustainability issues in the region, for instance, in Indonesian and the Philippines power generation. Are the limited circumstances in which take or pay is still the most effective way to allocate risk clearly understood? Are there preferable options in the absence of open markets?
- 16) The role and impact of sovereign guarantees or letters of comfort by government has been a controversial issue for many years. Investors who have asserted this to be essential in some markets are quite willing to operate on an open market basis without guarantees in other markets.
 - a) Are the continued requests by private investors a natural but unnecessary safeguard that governments should reject on principle? Or are there still circumstances where this is the most effective, or even the only way for urgent investments to be committed?
 - b) Are there alternatives for this?
 - c) Is it reasonable and effective for the MFIs to take on this role and can that be priced and implemented in a sustainable manner? Or are there major legal capacity and effectiveness constraints to this?
 - d) In 1997 the possibility of the major IFIs using their financial and technical capacity, as well as their close links to governments to contribute to this was being examined. Is this an area that could and needs to be reinvestigated?

Regulatory Measures and ‘Ownership’

- 17) The significance of ‘ownership’ is difficult to clarify. Some examples may help:
 - a) In Indonesia a lack of the perceived sense of community ownership and trust of the toll road schemes was often quoted by decision-makers as a reason for holding down toll road tariffs to the level where new schemes have become difficult and immense potential savings to road users and economic efficiency benefits are lost.
 - b) Municipal governments, their enterprises and even non-government organisations have resisted proposals for privatisation or even private sector operation of water supply schemes because of a sense of lost ‘ownership’.
 - c) Where large concessions have been put in place often a view has grown amongst the public and their representatives that they are unable to protect their interests in effective service provision.
- 18) In affluent economies where the cost of infrastructure services is relatively low, accessibility and quality of service are more important to users. ‘Ownership’ may not be a major issue. But it is in developing economies where institutions and users most fear loss of control of infrastructure services and a lack of direct support to community development needs.

- a) Is the 'market' an effective and acceptable way to ensure that user interests are seen to be safeguarded?
- b) Are there more effective models?
- c) Are there well-developed examples of regulating to ensure public and private infrastructure providers work closely with wider community interests to plan and deliver services? Or is this an instance of the type of over-regulation that in the end reduces the quality and efficiency of services to users?
- d) Is a system of independent regulators, and provision for open public hearings on infrastructure plans and actual service delivery an effective way to meet 'ownership' needs?

DEVELOPING AND PERFECTING LEGAL AND POLICY MEASURES TO ACCELERATE INFRASTRUCTURE CONSTRUCTION OF ENERGY AND TRANSPORTATION

Wang Qingyun
Deputy Director General, Department of Basic Industries, SDPC

Good-morning, Ladies and Gentlemen,

First of all, I would like to express my sincere gratitude to the host for giving me the opportunity to learn from and exchange ideas with the other member experts. Meanwhile, I have the honor to represent China to explore the way to develop energy and transportation infrastructure together with you. And the conference will contribute everybody's more understanding of China, which brings extensive, various forms of exchange and cooperation between China and other member countries in the field of infrastructure.

In the following I am going to give a general introduction of China's laws, regulations and policies infrastructure-related.

1. Developing laws and regulations, opening fields of infrastructure to attract investment from private sectors in an accelerated construction thereof.

The Chinese government has developed a series of laws and regulations as well as preferential policies with the aim of attracting private investment to solve fund shortage and also protect their legal rights and benefits to contribute the rapid development in order to meet the needs of the economy and social development.

1) Developing and issuing the *Interim Provisions on Guiding Foreign Investment Direction* and the *Guideline on Catalogue of Foreign Investment* for the purpose of opening the fields of infrastructure construction.

According to the regulations above, the foreign-invested projects are classified into three categories as following: the encouraged, the restricted, and the prohibited.

Within the encouraged projects, the projects are invested and operated by foreign investors, with large amount of investment and long recovery period (coal, power, local railway, highway and port). It can enjoy present favor policy and expand the scope of business-related on the approval by authorities. With the exception of the construction and operation of power networks, pipeline networks for urban water supply/drainage, natural gas and heating, the operation and management of post, telecommunication, air traffic control, all the other energy/traffic-related projects will be open to foreign investors and private investors.

2) Developing professional laws and administrative regulations of energy and transportation industries in order to standardize and guide the infrastructure construction and protect the investors' benefits.

China has developed a complete set of laws and regulations on energy and transportation sectors, which mainly symbolized by the "Law of Coal", "Law of Electric Power", "Law of Energy Saving", "Regulations Governing Cooperative Development of Onshore Petroleum Resources", the "Law of Railway", the "Law of Highway", and the "Law of Civil Aviation", to make the construction and management of energy and transportation infrastructures adaptive to the socialist market economy system.

These laws and regulations are important to regulate the investment behavior, to ensure the engineering quality and to protect the investors' benefits. For instance, the "Law of Highway", which "encourages both the domestic and overseas economic organizations to invest in the construction of highways. The companies engaged in the development and operation of highways can raise capital by means of issuing stocks or corporate bonds in accordance with the stipulations of laws and regulations." "Highway construction must meet the requirement of technological standards for highway engineering. Without being tested and acceptance or rejected no highway can be put operation." It is explicitly stipulated in the "Regulations Governing Cooperative Development of Onshore Petroleum Resources" that "the Chinese government protects the cooperative development activities conducted by foreign firms participating in the cooperative development of onshore petroleum resources, as well as their investments, profits and other legal rights and benefits."

3) Developing the "Law on Bidding and Tendering" to guarantee the openness, equality and fairness of bidding for construction projects including those of energy and transportation infrastructures, in order to protect the State, the public interests, and the legal rights and benefits of participants involved in the bidding/tendering activities, to increase the economic benefits of the projects, and to ensure the quality thereof.

2. Actively strengthening bilateral and multilateral cooperation and exchange to enhance the level of infrastructure.

China takes an active part in various bilateral and multilateral exchange and cooperation to absorb advanced technology and experience concerning infrastructure for enhancing its level of infrastructure. Apart from participating in APEC activities actively, China is currently carrying out exchange and cooperation with such economies as the U.S., Russia and Japan as well as a number of international organizations such as the World Bank and the Asian Development Bank. Such exchange and cooperation have provided us with opportunities to learn advanced technology and draw on experience, while enabling the Chinese infrastructure managers, builders and operators to widen their sphere of vision together with deepened insights. These are helpful for China to enhance its level of infrastructure as a whole. At present, we are carrying out joint research with the ADB on the corporation, leasing and securitization concerning highway construction and utilization, which is expected to be completed early next year.

3. Developing relevant policy measures in line with the needs of reform and development to promote the construction of infrastructure.

Energy and transportation infrastructure will remain to be one of China's strategic priorities in long-run. In order to facilitate the development in this to meet the needs of social and economic development, China will develop relevant policy measures for the coming five years in line with the real conditions of the economy.

Part One: Energy

1) Speed up the pace of reform and gradually establish managing system for the energy industry that is adaptive to the socialist market economy so as to guarantee the industry's development in terms of structural system.

The structural reform of the power industry can be as one of the central tasks for energy development, striving for a substantial breakthrough thereof, while continuously deep reform of the coal and oil/natural gas industries. The basic setup practicing is "separation of plant from network, entering the network on a price-competitive basis, supervision and control by the government," so as to reach the objectives of "supply separated from transmission with competition for power supply" and users independently selecting their power suppliers.

2) Readjust the energy financing policy and study the establishment of a foundation for energy structural adjustment aimed at stepping up the efforts in the restructuring of the energy industry.

As far as policy is concerned for the development of clean, quality and renewable energy such as hydropower, the central government allows those established companies engaged in valley cascade development to issue their long-term bonds for hydropower development with additional allowance to prolong the term of relevant loans.

It is planned, on a pilot basis, to sell part of the shares of State-owned power plants to the non-power domestic enterprises other than those operating power networks, the public and foreign firms. The income there from is to be used as the state fund for energy structural adjustment mainly aimed at supporting the development of clean coal technology, new energies development, construction of environmental protection facilities, as well as developing hydro-power generation and supporting energy construction in the western regions.

3) Establishing and perfecting the macro-control system that stresses economic and legal means supplemented with necessary administrative measures including:

- Establish and perfecting the laws/regulations system for environmental protection to reduce the effects of energy production and consumption on the environment;
- Improve pricing and fee-collection policies to expand the energy market;
- Popularize the practice of pricing in the light of rich and exhausted seasons or peak and valley hours;
- Abandon power consumption-restricted measures;
- Implement preferential pricing for entering into power network for electricity generation from new energies;
- Abandon the “dual-rail system” for natural gas pricing and practice unified price; and
- Carry out serious research on a plan for the reform of natural gas pricing based on the needs of development of market economy.

At the same time, some necessary administrative measures are to be reserved to carry out macro-control over those areas market mechanism is out of order, such as closing up small thermal power plants, small coal mines, and forcibly eliminate products of both high-energy-consumption and with poor utility.

4) Study and develop measures and policies to contribute the energy and infrastructure construction, which include developing specific preferential policies in the light of the regional specific conditions, including a complete set of encouraging and supporting policies for reducing or exempting taxes, prolonging the terms of loan, rendering loans with discounted interests, and increasing capital input from the central government, for the purposes of attract foreign capital and channeling the eastern funds towards the western regions.

Part Two: Transportation

1) Establish transportation market system and further deepen the reform concerned.

By pushing forward the reform of administrative system, we are to effectively transform the governmental functions by “separating administration from enterprises”, to establish a modern enterprise system and setting up in an all-round “market entry”. It is expected that railway, civil aviation and port will be the priorities in the future five years. Concurrently with “separating administration from business”, and opening, equal and ordered “market entry” system is to be established. Following the law of market economy, laws and regulations are to be perfected for transportation, and the industry’s construction and operating behaviors are to be regulated.

Reform is to be energetically pushed forward in the system of investment and financing for construction by implementing categorized management of investment and cultivating and perfecting construction market.

Investors, channels, and forms of investment must be verified in order to give a momentum to verify the operators of transportation and marketing. A macro-control system is to be established and perfected in order to regulate the market, meanwhile, the market is to adjust the investment behavior in order that the investors make their decisions on the basis of market analysis.

2) Open the fund channels to accelerate the transportation infrastructure construction.

Establishing an adjustment mechanism utilizing government investment. For those infrastructure construction projects that are completely the public benefit-oriented, the government will bear all the investment. For those projects that are partly for the public and partly for operational interest, the government will bear only the necessary investment. The government foundation system is to be perfected, namely, to establish the stableness of such fund by changing taxes to fees. After the conversion of fees into taxes of highway transport, the funds for highway construction and maintenance must be guaranteed and be increased firmly. Necessary financial bonds are to be issued for the construction of transport facilities in the west region.

Actively utilizing foreign investment in the construction and operation of transportation infrastructure. While continuously increasing use of loans by international financing organizations, foreign governments and domestic financing bodies in the construction of traffic facilities, flexible preferential policies are to be adopted to absorb domestic and overseas investment in the construction and operation of traffic infrastructure.

Establishing an Industrial Investment Foundation for transport industry and issuing long- and mid-term construction bonds, so as to fully attract the public capital and resident-held cash into infrastructure construction. The government may grant some setting quotas for subsidies or set a certain return ratio under the controllable maximum.

3) Reform of pricing. This reform is aimed at establishing a mechanism for transportation price formation that is flexible to the market system. Competitive prices such as those of highway and waterway transportation and harbor handling are to be set by the transportation operators itself in the light of market fluctuation. For those of monopolistic transportation such as railway, air and pipeline transmission, the government's pricing authorities will guide prices or limit maximum price, while the operators are entitled to set price within the limitations. As to charge prices, such as the standard for highway fee collection, the government's pricing authorities will set the maximum price, allowing enterprise to set price to float below the limit. Transportation enterprises are required to make full use of the market mechanism to establish a pricing structure composed of various forms of pricing. With respect to prices for passenger transportation, a variety of forms for fluctuated and discounted prices can be practiced.

4) Pushing forward the progress of transport and transportation technologies. This include applications of modern technology in the development of high-speed railway to improve vehicles for railway transportation; optimizing the aircraft fleet structure by adopting advanced technology and economical and practical aircraft models to raise economic benefit of aircraft usage. Intelligent control of transportation is to be push forward energetically, with emphasis on the application of E-business in industry, and the acceleration of construction of the port-based EDI system, and setting-up of the EDI System along the Yangtze River.

5) Supporting the transport development in the western regions. That means to lure investment both at home and abroad towards the western construction by adopting flexible policies, such as relaxing limits on the charging level for highway transportation in the west areas.

4. Amending and perfecting the existing laws and regulations while developing new ones to create favorable legal environment.

Along with the gradual establishment and perfecting of the socialist market economy and the improvement and variation of the macro-economic environment for China's entry into the WTO, part of the existing laws and regulations can no longer satisfy the needs for the development of infrastructure. They need to be amended and perfected in addition to some newly developed laws so as to provide legal guarantee for activities concerning the construction and operation of infrastructure.

For instance, the existing "Law of Electric Power" stipulates that "the electricity pricing should be accompanied by rational compensation for costs and the rationally determined income to be calculated into the tax," and that electric capacity-increment fee should be charge on new users. These regulations go against the law of the market economy and restrain the development of power market, further lead to unfair competition among investors. Only by revising such stipulations can the power market be developed and a fair competition environment be created. For another example, up to now, China has not developed a "law of port" although port is an important kind of infrastructure. Such a law is urgently needed in order to regulate the activities concerning port construction, operation and management.

Ladies and Gentlemen, basically, China has established a set of laws and regulations of governing infrastructure investment. Construction and management of infrastructure have been incorporated into an orbit of legal system. Meanwhile, China is currently carrying out a large-scale infrastructure construction, which provides an excellent environment and opportunity for mass investors. I believe, more extensive exchange and cooperation between China and other APEC members will come, and China welcome their taking an active part in the Chinese infrastructure construction on an equal, fair, and open basis.

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The Policy for Development of Infrastructure in China

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Wang qingyun
December 2000

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**I. Review of the
development of
infrastructure in
China**

**II. Policy for the
development of
infrastructure in
China**

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I. Review of the development of infrastructure in China

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? 43%? 32%

•The period of serious scarcity

- Early of 1980's, infrastructure in China was rather backward. Being the bottleneck, it not only checked but also hindered to some extent the social and economic development of the country. In economic life, the production of coal depended on the capacity of transportation, the output of electricity was determined by the production coal and the total production was governed by the output of electricity.
- In 1980, the output of standard coal was 640 million tons. the output of electricity was 300.6 billion kwh which only accounts for 26.5% of the present generated energy. The total volume of freight transport was 5.5 billion tons and 12 billion ton-km which were respectively 43% and 32% of that of 1997.

I. Review of the development of infrastructure in China

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•The period of quick development

•The government has decided to strengthen the construction of infrastructure and make it one of the central tasks of the economy's key projects. Over the past 20 years, through increasing investment and the implementation of relevant preferential policies, infrastructure has been developed rapidly. With the changing of the serious lagged condition, infrastructure is now giving a firm support to the development of the national economy and social undertaking

Energy situation by 2000 in China

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The installing capacity of electricity in 2000 is 315 million kW . The output of electricity had reached 1300 billion kWh.

The output of coal in 1996 had reached 1.397 billion tons
The output of crude oil had reached 161 million tons
The output of natural gas had reached 2.5 billion kilosteres
The per unit GDP energy consumption has been reduced by 50% last 20 years

TRANSPORT INFRASTRUCTURE IN CHINA BY 2000

- ⌘ 68,000 kms of Railway**
- ⌘ 1.4 million kms of Highway
and 15000 kms of
Expressway**
- ⌘ 110,000 kms of Waterway**
- ⌘ 129 Civil Airports**

II. Developing and Perfecting Legal/Policy Measures to Accelerate Construction of Infrastructure for Energy and Transportation

**Point one:
Developing laws and
regulations while opening fields
of infrastructure to attract
investment from private sectors
in an accelerated construction
thereof.**

Point one----1

Aimed at attracting investment from private sectors to solve the problem of fund shortage while protecting the investors' legal rights and benefits in the basic construction in an effort to accelerate the development in this regard to meet the needs of national socio-economic development, the Chinese government has developed a series of laws and regulations as well as preferential policies.

Point one----1

- **Developing and issuing the “Interim Provisions on Guiding Foreign Investment Direction” and the Catalogue for The Guidance of Foreign Investment Industries” for the purpose of opening the fields of infrastructure construction.**

Point one----1

•The regulations divide the foreign-invested projects into three categories: within the first category, apart from enjoying preferential treatment as stipulated by the relevant Chinese laws and regulations, those foreign-invested projects of large amount and long recovery period involving construction and operation of energy and transportation infrastructure (such as coal, electricity, local railway, highway and port) will be entitled to extend their related operational scope upon approval by the authorities.

Point one----1

•According to the Category, except for the construction and operation of power distribution, the operation of pipeline networks for urban water supply/drainage, natural gas and heating, the operation and management of telecommunication, and the air traffic control, all the other energy/transportation-related projects will be open to foreign investors in addition to absorbing investment from private sectors

Point One----2

Developing professional laws and administrative regulations on energy and transport industries in order to standardize and guide the infrastructure construction and protect investors' benefit.

Point One---2

⌘ China has promulgated a complete set of laws and regulation system on energy and transportation sectors mainly symbolized by the “Law of Coal”, the “Law of Electric Power”, the “Law of Energy Saving”, the “Regulations Governing Cooperative Development of Onshore Petroleum Resources”, the Law of Railway”, the “Law of Highway”, and the “Law of Civil Aviation” to make the construction and management of energy and transportation infrastructure adaptive to the requirements of the socialist system of market economy

Point One----2

- ⌘ These laws and regulations are of importance to regulating the investment behavior, ensuring the engineering quality and protecting the investors' interest. For instance, the "Law of Highway" provides "both the domestic and overseas economic organizations are encouraged to invest in the construction of highways. The companies engaged in the development and operation of highways can raise capital by means of issuing stocks or corporate bonds in accordance with the stipulation of laws and regulations. Highway construction must meet the requirement of technological standards for highway engineering.No highway without being tested and acceptance or rejected to be accepted put into use".**

Point One----3

⌘ Developing the “Law on Bidding and Tendering” to guarantee the openness, equality and fairness of bidding for construction projects including those of energy and transport infrastructures, in order to protect the state interest, the public interest of the society, and the legal rights and benefits of participants involved in the bidding/tendering activities, to increase the economic benefits of the projects, and to ensure the quality thereof.

⌘ Point Two:

**⌘ Actively strengthening
bilateral and multilateral
cooperation and exchange to
enhance the level of
infrastructure.**

Point Two

⌘ China takes an active part in various bilateral and multilateral exchange and cooperation to absorb advanced technology and experience concerning infrastructure for enhancing its level of infrastructure. Apart from actively participating the APEC activities with the member as well as number of international organizations such as the World Bank and the Asian Development Bank. At present, we are carrying out joint study with ADB on the corporatization, leasing and securitization for road sector, which is expected to be completed early next year.

⌘ Point Three:

⌘ Developing relevant policy measures in line with the need of reform and development to promote the construction of infrastructure.

Point Three

⌘ Energy and transportation infrastructure will remain to be one of China's strategic development priorities for long time to come. In order to facilitate the development in this connection and meet the needs of the national socio-economic development, China will develop relevant policy measures for the future five years in line with the real conditions of the country.

Point Three---Energy

⌘ Current Reform

- ☒ To deepen the reform in the industries of coal and oil/natural gas, while putting the reform of power industry on priority.**
- ☒ To establish a system of “separating power network from plant, entering network by competition of price-based under supervision and control of the government” to reach the objectives of “supply separated from transmission with competition for supply” and users independently selecting their power supplies.**

Point Three----Energy

⌘ To readjust the energy financing policy and set up energy fund.

☒ To be sell part of the share of state-owned plants to non-power domestic enterprises, public and foreign firms. The income therefrom is to be used as the energy funds for energy structural adjustment.

Point Three----Energy

⌘ To establish and complete macro-control on the basis of legal and regulation, such as:

☒ laws/regulations system of environment protection

☒ pricing and fee-collection policies to expand the energy market

☒ pricing based rich and exhausted as well as peak and valley hours

☒ canceling power consumption restriction to develop the power market

☒ implementing preferential price for entering into power network for electricity generation from new energies

Point Three---Transportation

- ⌘ To push forward the administrative system reform and implement “separating enterprise from the government”**
- ⌘ To put forward qualification of entrance into market**
- ⌘ To speed up financing reform**
- ⌘ To construct and operate the transportation infrastructure through market mechanism**
- ⌘ To utilize of foreign capital extensively**
- ⌘ Reform of price and fee in transportation industry**

Point Three---Western Development

⌘ A series of policies for Western development has been issued by the State Council

- ☒ policy of investment and financing
 - ☒ raise central government investment to western area**
 - ☒ put priority in water conservation, transportation energy**
 - ☒ the favoured tax policy**
 - ☒ the favoured land use and resources use policy**
 - ☒ encourage foreign firm to invest in infrastructure area, service trade area, commerce**
 - ☒ allow to operate RMB business for foreign bank**
 - ☒ open the area of telecommunication, insurance, tourism to foreign businessmen**
 - ☒ allow set up the joint venture company to operate freight of railway and highway****

Barriers to Change and Growth

Presentation by Rik Hart
Industry New Zealand

Current Regulatory Environment

New Zealand has many of the pre-requisites for promoting growth and change:

- ❑ an effective regulatory environment;
- ❑ a robust legal system
- ❑ accountable government
- ❑ open markets
- ❑ good infrastructure
- ❑ educated population
- ❑ ready uptake of technology and innovation

Underlying Issues

BUT economic performance could be better

New Zealand is:

- small
- remote from markets
- highly dependant on primary exports
- vulnerable to overseas shocks

Government Priorities

Government's priorities are:

- sustainable economic development
- greater co-ordination and integration across social, environmental and economic policies
- an inclusive, partnership approach

Governments Role

This involves a new way of doing things:

“In the year 2000, the new 2000 the new government sees its job in general as being to provide leadership, to co-ordinate and facilitate, to be a broker, and where appropriate to fund and provide. We know the limitations of government, and we know that to achieve our goals for employment and prosperity, effective partnerships with the key stakeholders across the economy and society are vital. This is the essence of a smart, active government 21st century style”

(Helen Clark, Prime Minister)

Objectives

To achieve sustainable growth and development we need to:

- identify and build on areas of comparative advantage
- foster innovation
- develop, attract and retain human capital
- attract domestic and foreign capital
- ensure resources to move to highest value activities

Recent Initiatives

The Government has introduced specific measures to deliver on its vision:

- i new institutional arrangements
- ii new policies and programmes

Responsive Agencies

☐ **New Ministry of Economic Development**

- policy advice on economic development, business law, intellectual property, infrastructure industries, consumer interests

☐ **Industry New Zealand**

- advice and information to businesses, industry sectors and regions
- capacity building
- programme delivery
- co-ordinator and facilitator

Regional Initiatives

Regional Partnership Programme

- revitalising communities
- “whole of government” approach
- inclusive - involve all stakeholders
- identify and build on comparative advantage
- funding for development of long-term sustainable strategies
- tailored to specific regional needs

Industry Development

- i Sectoral initiatives (forestry, tourism, creative industries)
- ii Individual businesses
 - capacity building
 - access to advice and information
- iii Major Investment
 - linking potential investors with opportunities in New Zealand
 - identifying barriers to investment
 - funding of pre-feasibility studies

Assessing Results

“Economic development is a journey. The quality of life it produced comes from the quality of that development far more than the quantity”.

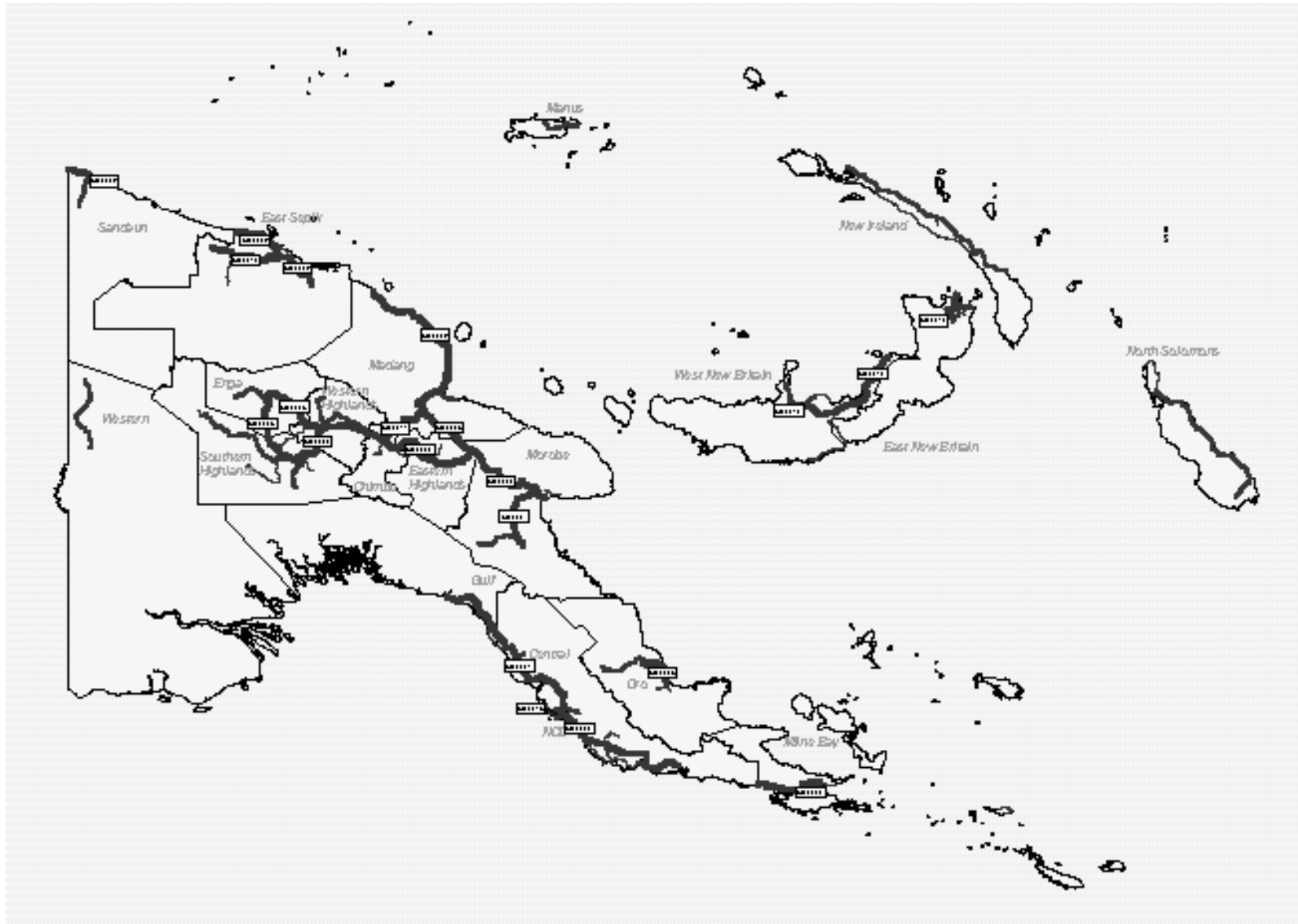
(Jim Anderton, Minister of Economic Development)

Achieving this involves:

- ❑ Ongoing monitoring and evaluation of results
- ❑ Learning from experience;
- ❑ Taking a long-term focus;

within a global environment.

PNG Current National Road Network



PRIVATE SECTOR PARTICIPATION ON INFRASTRUCTURE PROJECTS IN PNG

- Government Objective
- Private Sector Capacity

Objective of Government Policy

- **To maintain, rehabilitate and improve existing infrastructure**
- **To create new transport infrastructures so as to enhance the efficient production and distribution of goods and services and improve transport safety.**
- **To encourage Private Sector Participation under the Government's Contract Out Policy**
- **To assist in the Economic and social development of Papua New Guinea**
- **Government's approach to achieving these are contained in the recently launched "National Transport Development Plan (2001-2010)"**

Private Sector Capacity

- International Firms
- Joint Venture Partnership
- PNG Registered Firms
- Local Indigenous Firms
- **Procurement Procedures for these categories varies, and depends on the Funding Source**
- **International Firms are invited through International Competitive Bidding arrangements.**

Current Road Transport Network

- **The existing road transport network totals some 20,000 km and the responsibilities rests with the National Government (9,500km) and Provincial Governments (10,500km)**
- **Conditions of these roads varies but are generally in a state where immediate Routine and Emergency Maintenance are urgently required due to Lack of maintenance as a result of inadequate Funding.**
- **Some National Roads are in good condition due to funding assistance from Donor Agencies such as Ausaid, ADB, World Bank and the European Union. These are implemented through the National Department of works and Implementation.**
- **95% of these are implemented by the Private Sector as part of the Government Policy of “Contracting Out”.**

Overview of Funding for Maintenance in the Last 10 years

• YEAR	ESTIMATE » (K'million)	APPROPRIATION (K'million)	WARRANT RECEIVED (K'million)
• 1990	46.30	28.00	19.09
• 1991	52.00	28.50	27.14
• 1992	62.10	23.10	21.40
• 1993	76.70	30.75	30.74
• 1994	80.00	28.00	28.00
• 1995	65.00	22.80	17.53
• 1996	77.80	26.00	25.44
• 1997	100.00	25.02	17.00
• 1998	100.36	32.00	17.52
• 1999	100.38	70.00	41.50
• 2000	122.00	20.00	10.50
• 2001	141.00	143.00	00.00

2001- Start of Road Reconstruction and Development

- **NATIONAL TRANSPORT DEVELOPMENT PLAN PROJECTIONS**
- **A) MAINTENANCE K141 MILLION**
- **B) CAPITAL WORKS K147 MILLION**

- **2001 NATIONAL DEVELOPMENT BUDGET**
- **A) MAINTENANCE K143 MILLION**
- **B) CAPITAL WORKS K180 MILLION**

Implementation of the National Development Projects

- **In view of the increased funding for these Maintenance and Capital Works Projects, Private Sector participation is vital to kick start the Reconstruction and Development within the road Transport Sector.**
- **Donor assistance to this sector by AusAID, ADB, World Bank and European Union will require international competitive bidding and contractors and consultants within the region are expected to participate.**
- **Expressions of Interests and Tendering will be advertised through the normal Donor and International Agencies.**

**THANK YOU
AND
WELCOME
TO
THE LAND
OF THE
UNEXPECTED...**