



Hong Kong round table on Enhancing Private Sector Financing for Sustainable Transport

Hong Kong, June 4-5, 2015



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List of Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
BRICS	Brazil, Russia, India, China and South Africa
COP21	Conference of the Parties
ESG	Environmental, Social, and Governance
EU	European Union
G20	Group of Twenty
GIF	Global Infrastructure Hub
GII	Global Infrastructure Initiative
KAS	Konrad-Adenauer-Stiftung
MDB	Multi-Lateral Development Bank
NDB	New Development Bank
NPV	Net Present Value
O&M	Operating and Maintenance
OPEC	Organization of the Petroleum Exporting Countries
PPMC	Paris Process on Mobility and Climate
PPP	Public-Private Partnership
SDGs	Sustainable Development Goals
SLoCaT	Partnership on Sustainable, Low Carbon Transport
SPVs	Special Purpose Vehicles
ST	Sustainable Transport
UNFCCC	United Nations Framework Convention on Climate Change
UN-ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VfM	Value for Money

Introduction

Twenty-seven experts on Transport and Sustainable Development from nine different countries in the Asia-Pacific region took part on June 4-5, 2015 in the “Hong Kong round table on Private Sector Financing for Sustainable Transport”¹. Facilitator for the round table was Cornie Huizenga (CH), SLoCaT Partnership.

Initiated by the [Konrad-Adenauer-Stiftung \(KAS\) – Regional project Energy security and Climate change Asia-Pacific](#) and the [Partnership on Sustainable, Low Carbon Transport \(SLoCaT Partnership\)](#) the Hong Kong round table aimed to advance the dialogue on private sector financing in sustainable transport beyond the current status quo to meet climate change targets and sustainable development goals.

2015 is a critical year for the two major global processes on sustainable development and climate change. For sustainable development, the [Post-2015 Development Framework](#) and a final list of Sustainable Development Goals (SDGs) are to be adopted by world leaders in September 2015. In the context of climate change, a global agreement is likely to be reached at the 21st Conference of the Parties (COP21) of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris, France in December 2015².

These international processes will set out quantified targets to guide the directions for sustainable development and climate change action in the next 15 years. In short, the international community is coming to a consensus on what and how much needs to be done to achieve sustainable development goals and climate change mitigation and adaptation priorities. The role of the transport sector in achieving sustainable development and climate change action is indispensable.

Considering the urgency and scope of change required by these commitments, it is critical to quickly scale up current levels of funding for sustainable low carbon transport infrastructure and services. Much of the additional funding will be required to develop transport infrastructure and services that currently do not exist, particularly in developing and emerging economies.

The two-day round table was structured in the following sessions: (1) opening and welcome remarks, participants introduction, scope and objectives, and round table methodology; (2) stakeholder identification and analysis; (3) problem analysis; and (4) solutions analysis for selected topics; and (5) drafting recommendations.

Private sources of financing and competences will need to play a key role, but greatly expanded compared to today. Institutional investors manage very large funds but do not currently invest heavily in sustainable transport. A better understanding of how to engage with them is important.

Comments made during the round table were not attributed to individual people or their organizations. During Sessions 2 to 4, the boundary between discussion about stakeholders, problems and solutions was often blurred in discussion. In documenting the discussions that took place, and to avoid repetition, the key thoughts have been organized to follow the session structure more closely.

¹ An overview of the program is shown in Annex 1 and the list of participants is shown in Annex 2.

² Refer [<http://www.cop21paris.org/>].

Session 1: Opening

The facilitator explained that the central question of the round table was to identify how to scale up private investment in sustainable transport in particular to access the very large reserve of privately managed funds for sustainable transport.

Introductory remarks were made by Dr. Peter Hefele, Director of the Regional Project Energy Security and Climate Change in Asia-Pacific of KAS, who explained that this round table aimed to enhance learning from people with first-hand experience in implementing sustainable transport, to aid KAS in making recommendations to decision makers in politics and business.

Cornie Huizenga also provided an overview of the significance of global processes that are expected to be brought to critical junctures in 2015 (refer above). He also explained that the earlier London round table³ held March 25, 2015 talked a lot about the developing countries with the participants were primarily drawn from the multi-lateral development banks, bilateral development agencies, private banks, academia and other private sector organizations. The Hong Kong round table differs in that, by design, it targeted people from Asia to discuss and share first-hand experiences.

Each participant was asked to introduce themselves and provide a brief summary of their expectations for the round table or to make relevant comments. A sample of their statements is provided below:

- Some other potential sources for financing in the transport sector in future are: (i) Asian Infrastructure Investment Bank (AIIB), an international financial institution proposed by the government of China; and (ii) The New Development Bank;
- (NDB), formerly referred to as the BRICS Development Bank, a multilateral development bank operated by the BRICS states⁴;
- It took about 20 years for Korea to become a world leader on PPPs. One of the main initial obstacles to PPP development in Korea was that public transport had very low user fees and there remains resistance to high tariffs in general;
- A long term sustainability agenda perhaps may not fit well with private sector investment criteria;
- In addition to talking about the best practices in financing sustainable transport, it is important to discuss the worst practices in order to learn from the failure; and
- UN-ESCAP will be holding a workshop in Singapore in October 2015 on how capital markets can be a financing source for PPPs targeting institutional investors.

A sample of their expectations is listed below:

- Learn new ideas (discovering new learning and including discovering new obstacles);
- Discovering the subsequent steps after setting up a regulatory framework (in the case of the Philippines);
- Discussing how to facilitate financing in sustainable transport – it concerns more than only infrastructure but also transport systems, services and connectivity; and
- Bringing experiences from different sectors (e.g. energy sector) and apply them to transport – private sector involvement in MDB projects is significant for the energy sector but small in transport.

³ Refer to <http://slocat.net/event/1427> for summary of the London workshop.

⁴ Brazil, Russia, India and China.

Prior to the round table opening, each participant was asked to rate the following question from a 1 (low) to 5 (high):

How likely is it that we double investment in sustainable transport (ST) in the next 5 years?

Out of 25 responses, the distribution of ratings is shown in Figure 1. On balance, participants tended to be cautious in their ratings with an average score of 3.0, very similar to rating of 3.3 made to the same question at the London round table. A snapshot of reasons for the ratings is shown below.

Reasons for the “pessimistic” scores (scoring less than 3):

- Concerns with institutional readiness to scale up investment from the private sector
- Being realistic with the current political and governmental constraints
- Short time frame to double investments
- Problem is how to prepare our legal environment for the institutional investors (more on the financing side, for example, the lending limits of Central bank, rather than a liquidity problem).

Reasons for the “optimistic” scores (scoring 4 or 5):

- The optimism reflects what we desire to happen
- There is huge need to invest in sustainable transport
- Institutional investors hold a lot of liquidity – capital supply is not the problem
- We already have major leap from what we have had in 2010
- The new 2015 global initiatives have the potential to be transformational and there is an opportunity to “shape the future”.

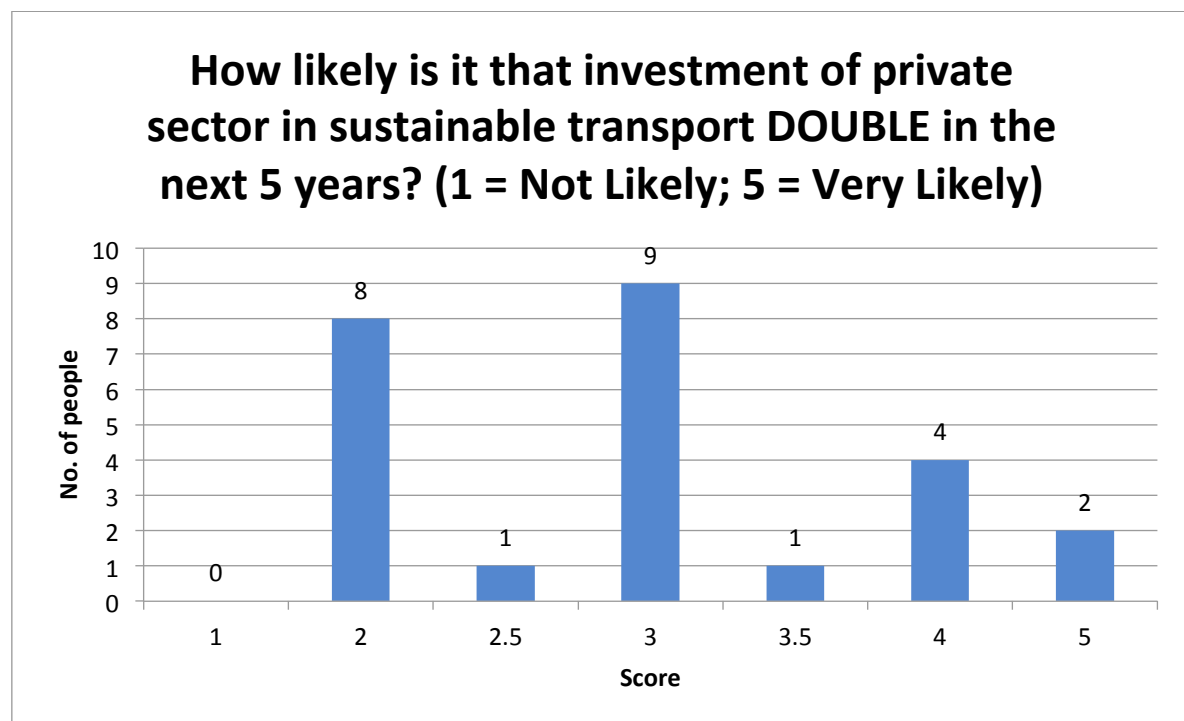


Figure 1: Round table Participant’s Rating of Prospects for Increased Private Sector Financing for Sustainable Transport

Session 2: Stakeholder Identification and Analysis

Who are the stakeholders when it comes to private sector financing of sustainable transport? The following were identified through a participatory brainstorming exercise among participants but are not necessarily exhaustive indicating the broad range of interests that need to be considered to address the round table objective thoroughly. Refer to Figure 2.

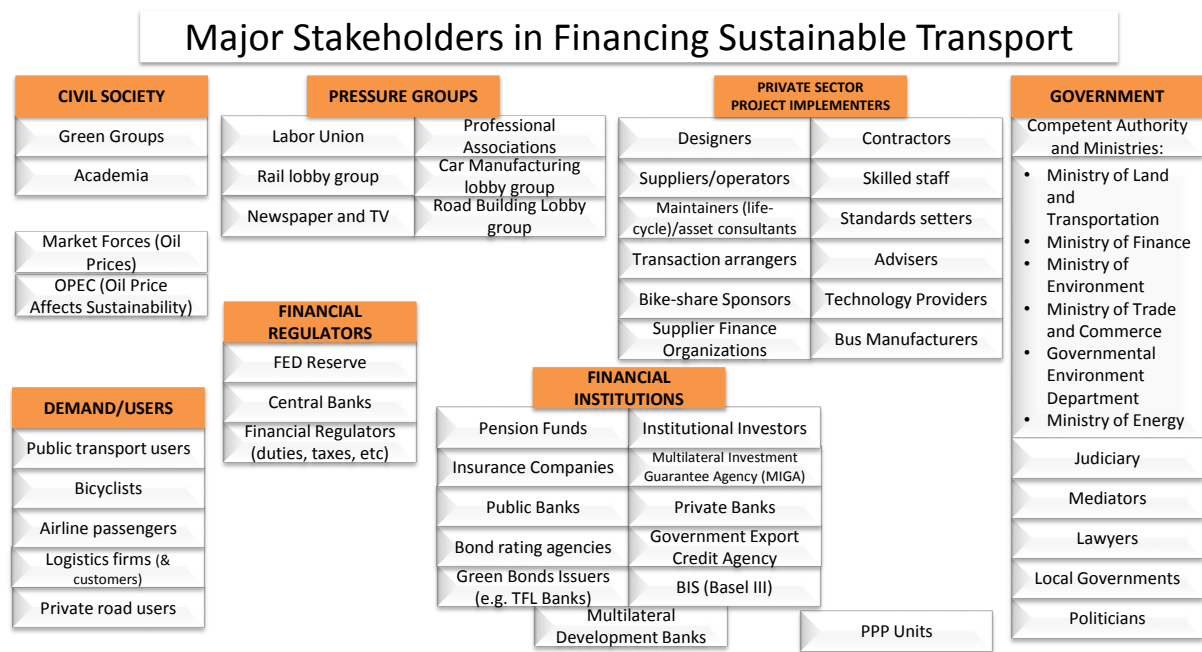


Figure 2: Stakeholder Identification

Discussion

Financial Regulators. The US Federal Reserve and Central Banks were identified as providing key investment signals to investors through monetary policy and setting of interest rates. Global oil prices also have a key influence. The Organization of the Petroleum Exporting Countries (OPEC) is therefore an important stakeholder.

Financial Institutions. Institutional investors were identified as being very important due to the large funds they manage. Sustainability is not main driver yet in institutional investment. And it appears a small proportion of their investment is being made in infrastructure, let alone sustainable transport, at present. Korea is working within the framework of the APEC Business Advisory Council that includes investors or business people from each APEC economy, to attract more interest by institutional investors.

Government Development Banks play an important role. In India, private banks are changing their mind set to PPP projects on the topics on revenue, risk-sharing and allocation; there is an emerging recognition that PPPs and concessions are important, aided by a supportive regulatory framework. In several Asian countries, it is currently only the private banks, mainly domestic, that participate in PPPs. Insurance companies play a vital role for risk insurance including political and non-commercial risks (Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group). Multi-Lateral Development Banks (MDBs) play an important role particularly since the United Nations Conference on Sustainable Development, Rio de Janeiro, Brazil, held June 2012 where they made a joint USD 175 billion commitment to invest in more sustainable transport. MDBs can also offer concessional finance or loans with lower interest rates than private banks. Green bond issuers are

important but are held back by differing definitions of sustainability. Bond-rating companies and the scope of their work are therefore very important. Export credit agencies acting as intermediaries between national governments and exporters to issue export financing. Basel III rules and the EU Capital Requirements and Directives and Regulations for banks significantly restrict the ability of banks to engage in long-term, non-recourse project financing (financing in which loan repayments can only come from the profits of a project and not from the assets of the borrower). Bond financing may therefore be an attractive alternative to bank loans.

Government agencies. A wide range of government agencies were seen to have important roles including those of finance, commerce and trade, transport, energy, environment, justice, science and technology and others. A key requirement is they are competent and have sound supporting governance and legal frameworks. Where these frameworks are not comprehensive, the judiciary may have an important role in acting in the public interest (e.g. clean air legislation in India). Legal frameworks are very important particularly for commercial contracts including PPP concessions. Dispute resolution is a key issue – without unbiased, clear and time-bound procedures potential investors would be deterred. Poor dispute resolution procedures can threaten the completion and integrity of operation of sustainable transport projects after contracts are signed. In view of continued urbanization proceeding globally, local governments have a vital role to play in future. Further, sustainable transport is often the realm of local governments according to the principal of subsidiarity. However, national government enabling frameworks are needed and direct support to local governments may be needed in some cases. Politicians and political parties have a very important role in setting overall policy direction that can support or hinder enhanced sustainable development.

Public-Private Partnership (PPP) Units exist in many countries and their scope and duties can vary widely. A recent good example is the PPP Centre in the Philippines whose mandate has been expanded from conceptualization to contract implementation but to date still requires external financing support. Related to these, is a new initiative by the G20⁵ that decide in 2014 to establish the Global Infrastructure Initiative (GII), and its Global Infrastructure Hub (GIF) that is tasked with making recommendations on best practice approaches to delivering and financing infrastructure projects, of which private sector financing is a part. In 2013, APEC established a form a public-private partnership (PPP) centre in order to enhance capacity of the APEC member countries to develop bankable PPP projects.

Private Sector Project Implementers. These consist of a wide variety of bodies that overlap with private financial institutions such as investment banks that may put together a consortium consisting of contractors, suppliers, consultants and lenders to participate in tenders for PPP projects or other major contracts whether being procured by the public or private sectors. Under a PPP, they provide finance, technology and knowledge. At a simpler level, bus and train suppliers may offer financing as part of their bids in response to public sector tenders. In some developing countries, external construction companies with support of their governments may act as project developers and focus only on projects with clear revenue streams such as toll roads. The role of the private sector for research and development in embryonic technologies is also important.

Users. Users are important as if they do not find the sustainable transport projects meets their travel needs they will not use them affecting the realisation of planned economic, social and envi-

⁵ The Group of Twenty (G20) is the premier forum for its members' international economic cooperation and decision-making. Its membership comprises 19 major economies plus the European Union. Refer to [<https://g20.org/about-g20/>].

ronmental benefits and financial returns. They are also voters at local, provincial and national levels and their experiences with sustainable transport can influence political agendas.

Pressure groups. Various type of industry groups exist and can lobby governments, and influence the public in positive or negative ways in regards to sustainable transport. While not strictly a pressure group, the media does have an important role in shaping public opinions. Labour unions may strive to protect their jobs or promote certain social causes with differing impacts on sustainable transport outcomes.

Civil society including academia and Non-Government Organizations for environmental or social causes also has an important role in providing factual information and advocacy.

Session 3: Problem Analysis

The guiding question for this session was “what is in your view, the most important problem hampering greater involvement of private sector in sustainable transport?”

The problems identified by the participants through a brainstorming exercise were categorized into four themes: (i) inadequate project and program frameworks and enabling mechanisms; (ii) inadequate treatment of risks and viable business models; (iii) low investment by institutional investors; and (iv) insufficient capacity for effective scaling up of sustainable transport projects and associated private sector financing.

Inadequate project and program frameworks

A key barrier to scaling up sustainable transport is the lack of an adequate pipeline of well-prepared projects that meet desired economic, social and environmental criteria and to make them attractive for private sector involvement. Key contributing factors are a lack of capacity and resources.

Many countries struggle with how to analyse whether public procurement using the best available means (including using private contractors in innovative ways) is superior to a PPP concession where the private consortium provides finance, knowledge and technologies. The established metric, known as the Value for Money (VfM), balances the increased cost of private finance with the expected cost-efficiencies the private sector’s knowledge, technology and ability to manage key risks can bring to a project, versus that for conventional procurement by the public sector using the most efficient conventional means.

Private sector investment in toll roads, ports and airports is relatively common as tolls and charges and therefore revenues can often be charged according to what the market can bear. In sustainable urban transport, user tariffs set fairly high to recover investment and operating and maintenance (O&M) costs, may be unpopular with users.

Local governments have a vital role to play in scaling up sustainable transport but more so than national government agencies may lack capacity or not be credit worthy. National governments may also not sufficiently empower local governments to raise revenue or provide urban infrastructure and services including sustainable transport.

In several countries, due to the lack of a transparent, predictable, and enforceable regulatory framework, supported by good governance arrangements, there is lack of trust between government and potential private sector investors. For example, sustainable transport infrastructure has a long life, is of high cost, and demand and revenues take time to ramp-up, so a private sector

concessionaire needs confidence that its rights will be respected for the duration of its concession period.

Election cycles that are typically short (4 years or so) may bring uncertainty, and potential abrupt change, that can discourage private investment. Current incentives may favour current investment patterns often focused on road building and use of private cars even where other modes may be superior in economic, social and environmental terms.

Inadequate treatment of risks and viable business models

A lack of knowledge by public sector agencies of how lenders and associated private parties perceive risks and incentives, and the returns they are looking for, hindering a scaling up of private investment in sustainable transport. Even where suitable knowledge exists, government procedures on procurement, for example, may prevent effective private sector investment. Commonly, procurement rules may favour the lowest initial purchase cost and not take into account that life-cycle costs that may be cheaper in Net Present Value (NPV) terms where the initial investment is higher but O&M is lower. The initial investment and O&M trade-off is commonly a key issue in private investment in transport infrastructure. Risk registers, where they exist, are often rudimentary and not project-specific. Due to a lack of knowledge, government may attempt to allocate risks that are not manageable by the private sector potentially deterring bidders, or making the life-cycle cost of a winning tender, poor VfM compared to the public sector executing the project itself using conventional procurement. Given that priority projects (prioritized according to desired economic, social and environmental criteria) may not be fully cost-recovering when acceptable tariffs are charged.

A challenge for governments in some jurisdictions is to establish a PPP contracting model that can be attractive to the private sector but is not perceived to involve public and private collusion. Potential investors are more willing to invest if there is a good track record by governments with designing and respecting particular types of sustainable transport projects. Unique or very large investment projects may be viewed differently to lower investment and more routine types of projects.

Low investment by institutional investors

There was a general consensus that: (i) institutional investors manage very large quantities of pooled funds; and (ii) their need for long term steady returns is consistent with the long-term nature of infrastructure slow build-up of demand and revenue. Yet in reality, institutional investors rarely invest in the infrastructure sector, including transport whether considered 'green' or 'sustainable' or otherwise.

Lack of agreement on what constitutes a 'green' or 'sustainable' bond or other debt instrument appears to be holding back institutional investment. There are some descriptions of what constitutes a 'green' bond but a classification that is comprehensive and universally applicable is needed. 'Green' bonds were seen as closely associated with project bonds to be used for financing infrastructure but in developing Asia the potential for project bonds as a means of financing appears undeveloped. In part, country environments and the nature of infrastructure projects may be perceived to be too risky compared to Government-issued debt. Overall, available information suggests institutional investment in infrastructure including transport is low compared to investment in corporate bonds and short-term Government debt. It was also considered that many sustainable transport projects may be relatively small and to be attractive to institutional investors needed to be aggregated into much larger investment packages.

India has early examples of green bonds but several other countries represented at the round table (Philippines, Vietnam, Mongolia, Bangladesh and Korea) do not exhibit substantial action on green bonds (or similar) in general or in transport in particular at present.

Insufficient capacity

There is a lack of sufficient knowledge, applied skill and practical experience in many aspects of the 'project cycle'⁶, designing contracts with optimal risk transfer, contract management including mediation and dispute resolution and other matters. In some cases, basic information on why and how the public sector may employ the private sector to deliver and operate infrastructure and services to the benefit of society is poorly developed. In several cases, the prevailing policy and regulatory environment may deter or prevent private investment in some transport sub-sectors e.g. railways. These constraints impact on the knowledge and experience of government agencies with PPPs.

Korea's experience with PPPs dates back to the 1997 Asian financial crisis, and in that time, has built a corps of experienced professionals with extensive knowledge of PPPs, and infrastructure development in general, supported by a favourable policy and regulatory framework. The Philippines, with its PPP Centre initiated in 2011 built on its 20 years of experience with private investment in infrastructure (BOT type projects in energy) to develop a more comprehensive approach to PPP. Since 2011, with the assistance of a USD 20 million project developing and monitoring fund it has unlocked large investments in about 10 infrastructure projects. Once a PPP Centre successfully completes a PPP concession, then relevant skills in contract management for implementation and operation arise, including dispute resolution. In attempting to scale up PPPs, several countries have faced the question on what should the role of a PPP Centre be, where should it be located and how should it operate vis-a-vis the sector agencies (e.g. Highways, Transport etc.). Key issues are capacity, incentives and financing. A variety of structures are feasible and can function well if all relevant agencies are incentivized, have adequate capacity and sufficient financing is available to properly structure high priority projects so that they are bankable i.e. ready to be financed. In some countries, the organization of government agencies may not assist good project preparation or PPP development (e.g. lack of coordination between agencies) or devolvement of authority to the appropriate level.

Local government has a key role to play in planning and preparation of high priority projects but outside of the larger cities of Asia technical capacity and knowledge is limited. The complexity of high value infrastructure investments, including transport, means that in general Local Governments will need extensive central government and external support from MDBs and bilateral development agencies. Building capacity in PPPs was identified as being a long-term activity requiring a customized approach to each country and sub-national jurisdiction's circumstances.

Over-arching problems

Participants agreed that private sector financing for sustainable transport in the Asia Pacific region is being held by the "lack of an enabling environment with a transparent, predictable and enforceable regulatory framework providing adequate flexibility in structuring Public Private Partnership (PPP) projects." The importance of an appropriate enabling environment is indicated by the Problem Tree shown in Figure 3 that highlights the links to the key problems discussed below.

⁶ A term commonly used by international development agencies, the 'project cycle' refers to the various stages from country programming to project completion and evaluation. Further information on the project cycle as defined by the Asian Development Bank, a regional development bank, can be found at: [<http://www.adb.org/projects/cycle>].

Participants furthermore agreed that there is a need for greater involvement of institutional investors in the funding of sustainable transport in Asia if the region is to be successful in meeting investment targets for sustainable transport set by the 2015 global processes on Sustainable Development and Climate Change.

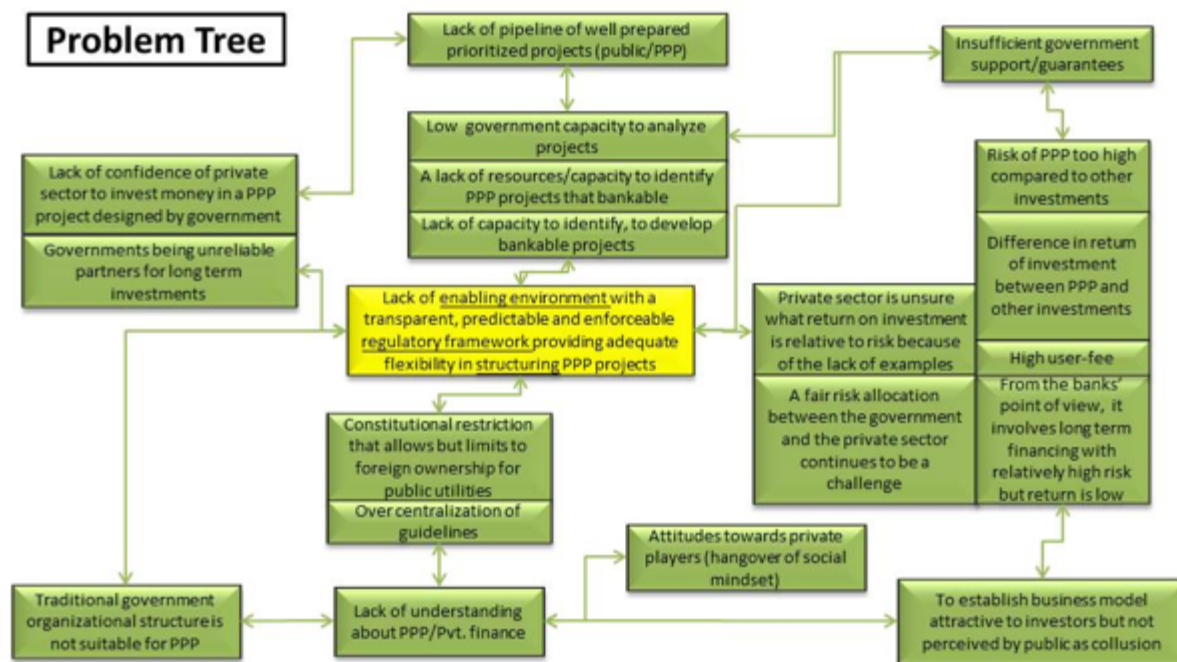


Figure 3: Problem Tree on greater involvement of private sector in sustainable transport

Problem topics for break-out groups to develop potential solutions

A series of individual problems were identified by participants and these were grouped into three topics for subsequent analysis and prescription by the break-out groups:

- Policy framework for PPP including tariff setting and circumstances for providing financial support/ subsidies;
- Institutional investment and perceived risk; and
- Design of a capacity building, and awareness raising program for private sector investment in the Asian region.

Session 4: Solutions Directions

Group 1: Policy Framework for PPP (including tariff setting and financial support/ subsidies)

The scope of this topic was recognised to be broad. A key concern of some of the participants was how to identify the level of financial support or subsidy that should be paid to public transport operator where socially acceptable fares were set by government for policy reasons. Other participants saw this issue as part of a broader set of concerns that relate to effective public investment management and the role of PPPs in delivering public infrastructure and services. The group recognised the linkage to public investment frameworks but made the key assumption that sustainable transport projects that are selected to go forward under PPP procurement would be of high priority in economic, social and environmental terms. It was also assumed that the public sector has an adequate procedure for identifying when public or private sector delivery is optimal using appropriate VfM assessment methodologies. The implication was that governments would be able to identify appropriate risk registers and determine how risks could be optimally allocated between

the public and private sectors. In reality, this subject was considered to be an area requiring considerable capacity building in future (refer below). The potential for corruption to lead to sub-optimal outcomes was mentioned by some participants and a sound governance framework was considered essential.

The discussion to this point highlighted that Governments have the key responsibility for identifying priority infrastructure and services, and making associated decisions, for their constituents. Particularly where public sector planning and investment frameworks are weak or short-term in nature it was recognised unsolicited proposals from the private sector can play a valuable role. The intellectual rights of proponents of such bids need to be protected, but such proposals, also need to satisfy the same economic, social and environmental criteria, as other projects (i.e. be in the public interest).

Tariffs for urban public transport are often set for social reasons and may not recover all the investment and O&M costs of the public transport services. Subsidies, or financial support, provided by the public sector, may be warranted in such cases. In part, subsidies may be regarded as a second best solution to charging motorists for the full social costs of their travel (congestion, externalities). The group recognised that the question of a correct level of subsidy was not necessarily easily calculated but could be built up from detailed technical information on construction, labour, fuel and other variable costs (although reliable information is rarely available to the public sector). In such cases, competitive tendering where bidders state the value of financial support (or the payment) they need is the accepted way of ensuring subsidies/ payments are not excessive. It was considered that project owners should prepare their own confidential estimates of subsidy/ payments to ensure bids are not too low (indicating contracts may fail during implementation) or too high (indicating insufficient competition or collusion).

Sound PPP contract types are needed to permit a successful, diligent private sector tenderer to make an adequate return on their investment taking into account their cost of capital and the risks they incur. Demand and revenue, and the associated whole-of-life O&M, risks are a greater challenge than risks posed by the construction phase. Some participants thought sovereign guarantees would therefore be important. A counter view is that government guarantees may reduce lenders' discipline if they feel too safe. A need for PPP contracts, standardized to the extent possible, was identified supported by sound regulatory and governance frameworks were needed to facilitate effective contract negotiation. The need for sound contracts and regulatory frameworks was considered essential to ensure PPP contracts were respected over their life to instil investor confidence.

In the case of certain sectors (e.g. energy, electricity and particular types of transport where competition is limited) that may be dominated by public monopolies or private monopolies, a role for an independent tariff regulator, was suggested by some participants but no consensus was reached.

The group also briefly discussed how to expand sources of financing for sustainable transport. Pricing of externalities was mentioned. Systematic application of appropriate land value capture mechanisms was also mentioned.

Group 2: Institutional Investment and Perceived Risk

The key focus was on overcoming barriers to scaling up investment by pension funds, mutual funds sovereign wealth funds etc. in sustainable transport infrastructure and associated services. The discussion of risk here differed from treatment of risks in design of PPP contracts but shared

common ground since perception of project risks (construction vs. operation) and more importantly the risks associated with whole-of-life O&M, was identified as key barriers to institutional investment in sustainable transport via project bonds. Equity investments are also a potential avenue for institutional investors but would appear to require significant scrutiny of each project, with associated transaction costs, that would rarely be appealing.

Currently, most debt financing in Asian countries is issued by corporates for short periods (around three years) or consists of short term government debt. Recognising the potential for project bonds (desirably 'green'/ 'sustainable') the Philippines has experimented with project bonds but lacks a regulatory framework that can effectively minimise key risks. Institutional investors have not participated in recent PPP projects that tend to be of the *net cost* type (those that rely on revenues from users providing the main income but concessionaires may require financial support or the reverse situation where they may offer a one-off premium to government, in both cases determined by competitive tender). However, there has been no strong demand for less risky contract types such as those that use *availability* payments for the services and activities provided. Particularly at the local government level, the short political cycles, imply high political risks. It was stated that the regulatory framework of the Philippines' Insurance Commission does not permit institutional investors to pool financing. There are also restrictions on expanding the number of insurance providers possibly because the state-owned Government Services Insurance System competes directly with the private market.

On the issues of institutional investors and the green or sustainability credentials of projects institutional investors generally refer to the sustainability impacts of projects as Environmental, Social, and Governance (ESG) factors, which indicate the long-term performance advantages of their investments. Nonetheless, ESG factors are often also put under the category of non-financial indicators, which indicates that there is a lack of consensus among the institutional investors that ESG factors offer significant commercial opportunities and direct financial return. Compared to other private sector stakeholders, institutional investors are more interested in investing in projects with quick returns. This appears to be barrier for institutional investors in according higher priority to investment in sustainable transport.

The group discussed some potential ways to turn ESG factors into financial factors including: (i) tax concessions on green or sustainable project bonds (as in the US); (ii) interest rate deductions according to the carbon mitigation potential of the projects; and (iii) government commitments to purchase sustainable transport vehicles and technology.

The group made specific recommendations to:

- **Expand financial incentives for institutional investors to invest in sustainable transport.** This may be done through government tax incentives for green investments (tax discount/exemptions), making projects available for pool-financing and insurable, fully discerning the risks in different stages (construction vs. operation), and establishing special purpose vehicles (SPVs) to meet the needs between government, the industry (transport), and the financial investors.
- **A more structured process is needed to effectively increase institutional investment in sustainable transport.** This could be done through marketing 'green/sustainable' transport and actively highlighting the mitigation potentials and co-benefits of transport projects, accessing funds committed by the global investors at the Climate Summit 2014 reserved for low-carbon investments, and possibly establishing a credit enhancement mechanism. Reaching out to investor networks, such as the Asia Business Council and the World

Economic Forum through the Paris Process on Mobility and Climate (PPMC), would be an important step to raise its profile to compete with other low carbon solutions. It is also crucial to create a dialogue between the sustainable development and climate change communities. All of these actions should not only target institutional investors but financial intermediaries who may be aggregating smaller investments into viable larger packages for investment. Targeting fund managers who may make recommendations to institutional investors would also be important.

- **Establish a standardized sustainability rating system.** Rating agencies should provide independent but standardized assessment on the sustainability performance of investments. All of these will contribute to make sustainable transport projects more attractive.

Group 3: Capacity Building

The focus of the group was capacity building on PPP but also the development of public infrastructure for which PPP is one form of infrastructure and service delivery. It was recognised that capacity deficits exist at the levels of government, government agencies, individuals and in the private sector. There was an implicit understanding that the needs varied widely across the Asian region and also within countries. A role was seen for capacity enhancement at the regional level (via APEC, G20 and other initiatives) but very importantly within countries, at all stages of the project cycle from identification, preparation including prioritization, determination of the most suitable procurement modality (public, private), and contract management during implementation and operations and project monitoring.

Based on regional, country and agency-level diagnosis, customised capacity building programs should be developed targeted to all levels of the civil service (e.g. ministerial level, legislators, top level bureaucrats, administrators, heads of departments, mid-level managers and key technical staff), and private sector parties. Training alone would be insufficient if agency structures and supporting regulations do not facilitate effective priority sustainable project (and other infrastructure) development and PPP procurement.

Apart from introductory materials on PPP (e.g. what is PPP, why etc.) capacity building needs to be specific to each country's need and experience with PPP development. Lessons from other jurisdictions (e.g. South Korea) show that development of competence in PPP can take more than a decade. Recent experience in the region shows that with appropriate funding to support project identification, preparation and transaction advisory services more PPPs can be brought to transaction stage. However, once this occurs, demands for effective management of implementation, O&M and monitoring commence, demanding a further range of skills and resources. Capacity building programs therefore need to be long term in nature and targeted.

A wide variety of channels for capacity enhancement were identified: (i) bilateral and multi-lateral through TA and project loans; (ii) regional hubs focusing on knowledge and providing selective support ESCAP (including online training materials and issuing of certificates of completion), Asia PPP Practitioners Network (ADB), Global Infrastructure Hub (G20), and the Asian Urban Infrastructure Network (APEC). Current, capacity building resources need to be better utilized, modified if needed to meet current needs and better coordinated with each other. It was recognised that effective capacity building must provide tangible benefits to all participants to ensure on-going commitment.

A key question was 'Does sustainable transport require a different treatment to infrastructure in general?' The answer to this question based on SLoCaT's experience is that transport due to its strong direct impacts on a multitude of users and vehicles, on externalities, its economic and social

enabling features, and therefore its political economy, requires its own sector-specific treatment. Participants in this group suggested an appropriate capacity building program should be scoped to enhance private sector investment in sustainable transport investment in Asia.

Session 5: Key Recommendations

Round table discussions resulted in a series of key takeaway recommendations in three areas:

Policy Framework for PPP (including tariff setting and financial support/ subsidies)

1. Government's core responsibility is to establish a transparent policy framework that allows:
(i) development of high priority Sustainable Transport projects taking into account the full range of applicable benefits suitably monetised using current best international practice in economic appraisal; and (ii) the identification of the optimum means of procurement, that depending on circumstances, can be public or private.
2. An effective PPP framework should recognize:
 - a. Transport's enabling role for economic and social development;
 - b. Commercial tariffs (forming the basis for agreement between PPP partners) and socially acceptable tariffs (charged to users) may be different; and
 - c. Governments may be willing to provide financial support for the difference between commercial and social tariffs depending on the benefits to be gained by doing so and affordability to government.
3. The selection of appropriate PPP contracting modality needs to be contextual/project specific taking into account government's ability to manage risks, and capacity for sound contract administration, that varies greatly in the Asia-Pacific region.
4. PPP contracts should be standardized to the extent possible to provide clarity, precipitate review and facilitate effective negotiation. This should be supported by a sound legal framework including adequate provisions for (out of court) dispute settlement.

Institutional investment and risk

- 5 Review potential of credit enhancement mechanisms with the aim to improve the risk profiles to increase the attractiveness of sustainable transport projects to institutional investors.
- 6 Introduce standardized sustainability rating criteria for institutional investors that allow for independent assessment of proposed transport investment.
- 7 Conduct further research on financial incentives for investing in sustainable transport projects.
- 8 Initiate more structured dialogue between institutional investors, governments and suppliers of sustainable transport infrastructure and services, to identify additional opportunities to motivate investment in sustainable transport.

Capacity building

9. Capacity building of developing Asian is crucial to identify and develop much needed sustainable transport project pipelines for the development of the region.
10. There is a need to significantly increase the "scale of ambition" in capacity building efforts to achieve doubling of private financing for sustainable transport over the next 5 years.
11. A clear division of labour for concerned stakeholders is necessary in order to prevent fragmentation and/or possible duplication of efforts on capacity building. Individual efforts including on-going undertakings such as the Asia PPP Practitioner Network, the APEC Urban

Infrastructure Network, etc. need to be coordinated in an efficient and well-functioning framework that addresses the needs of sovereign nations, local governments, private sector and development organizations. Coordination is needed with the activities of ESCAP, G20 Global Infrastructure Hub, the APEC PPP centre, MDBs and other agencies active in promoting PPPs in Asia.

12. Capacity building is an ongoing, long lasting activity. In order that capacity building functions well and in a sustainable manner, it should demonstrate concrete benefits for all concerned stakeholders.
13. To take capacity building efforts on private sector financing of sustainable transport forward, discussions at the round table should be followed up by scoping process to flesh out the institutional and financial arrangements for a capacity building program and other details of its scope, form and content.

More information on the Hong Kong round table on Private Sector Financing of Sustainable Transport can be found at: [<http://www.slocat.net/event/1445>] and [www.kas.de/recap].

Annex 1: round table Program

Thursday, 4 June 2015

8.30 hrs	Registration
9.00 hrs	Opening and welcome remarks Dr. Peter HEFELE, Director RECAP Cornie HUIZENGA, Secretary General SLoCaT
9.20 hrs	Participants Introduction
10.00 hrs	Scope and Objectives of the round table
10.15 hrs	Round table Methodology
10.30 hrs	Tea break and group picture
10.45 hrs	Stakeholder Identification and Analysis
12.30 hrs	Lunch Break
13.30 hrs	Problem Analysis
15.00 hrs	Tea break
15.15 hrs	Identification of Group Work topics
16.00 hrs	Wrapping up

Friday, 5 June 2015

9.00 hrs	Introduction of the second day
9.15 hrs	Group work
10.15 hrs	Tea break
10.30 hrs	Presentation and Discussion Group Work Results
12.00 hrs	Lunch
13.00 hrs	Solutions Analysis
14.30 hrs	Coffee Break
14.45 hrs	Drafting Recommendations for Financing Framework for Sustainable Transport
15.30 hrs	Round table Closure
16.00 hrs	End of workshop

Annex 2: List of Participants

ORGANIZATION	NAME	DESIGNATION	LOCATION
Asia Business Council	Jack Maher	Princeton-in-Asia Fellow	Hong Kong
Consultant, Urban Transport Ecology - Sustainable Transportation Analysis & Options	John Ernst	Consultant, Urban Transport Ecology - Sustainable Transportation Analysis & Options	Chiang Rai, Thailand
Department of Public Work and Highways, Manila	Maria Catalina Cabral	Undersecretary for Planning and Public-Private Partnership (PPP) Service	Philippines
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	Frederik Strompen	Project Manager, Sustainable Transport Programme China	Beijing, China
Energy Consultant	Elke Kornalijnslijper	Energy Consultant	Hong Kong
Expert International Cooperation & Migration	Kathleen G. Ferrier	Expert International Cooperation & Migration	Hong Kong
Government of the People's Republic of Bangladesh Roads and Highways Department (RHD)	ABM Sertajur Rahman	Executive Engineer Roads and Highways	Dhaka, Bangladesh
Institution of Civil Engineers Hong Kong Association	CM Lee	Chairman	Hong Kong
Konrad-Adenauer-Stiftung (KAS)	Timm Anton	Research Intern	Hong Kong
Konrad-Adenauer-Stiftung (KAS)	Peter Hefele	Director, Shanghai Office	Hong Kong
Konrad-Adenauer-Stiftung (KAS)	Jenny Lau	Project Assistant	Hong Kong
Ministry of Strategy and Finance, Republic of Korea	Juyong Kim	Deputy Director of Economic Affairs Fiscal Management Division	Republic of Korea
Ministry of Strategy of Finance (MoSF), Republic of Korea	Youngsob Yoo	Deputy Director of the PPP Policy Division	Republic of Korea

Ministry of Transport of Viet Nam	Doan Thi Hong Tham	Official of Environmental Department	Hanoi, Viet Nam
Ministry of Urban Development, India	Mukund Kumar Sinha	Officer on Special Duty (Urban Transport) & Ex-Officio Joint Secretary	New Delhi, India
Partnership on Sustainable Low Carbon Transport (SLoCaT)	Cornie Huizenga	Secretary General	Shanghai, China
Partnership on Sustainable Low Carbon Transport (SLoCaT)	Marco Innao	Research Intern	Shanghai, China
Partnership on Sustainable Low Carbon Transport (SLoCaT)	Alice Yiu	Program Manager	Shanghai, China
PPP Department, Ulaanbaatar	Bekhbat Sodnom	Director General	Mongolia
Reconergy (Hong Kong) Ltd.	Tom Uiterwaal	Founder and CEO	Hong Kong
Resource person/SLoCaT Partnership	Phil Sayeg	Post-2015 Development Process Consultant	Brisbane, Australia
RWI Essen, Tsinghua University in Beijing, Jiangnan University in Wuxi	Andreas Oberheitmann	Professor and Senior Research Fellow	Bochum, Germany
Scania CV AB	Nick Leach	Director, Vehicle Sales Support Asia	Hong Kong
Scania Finance Asia	Lewis Ho	Branch Manager of Scania Credit (Hong Kong) Limited	Hong Kong
The Philippines Public Private Partnership Centre	Christine Antonio	Director	Philippines
United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP)	Mathieu Verougstraete	Economic Affairs Officer	Bangkok, Thailand
University of Delhi	Shreekant Gupta	Professor at Delhi School of Economics	New Delhi, India