

PPIAF Assistance in South Asia

Technical Assistance for Enabling Environment Reforms and Public-Private Partnerships (PPPs)

Since 1999 PPIAF has supported various regional activities in South Asia that have supported the disseminating of best practices for infrastructure reform, built the capacity of government officials and regulators, and examined ways to overcome financing constraints for infrastructure projects. PPIAF has also provided support for the establishment and strengthening of the South Asia Forum for Infrastructure Regulation (SAFIR) through a series of activities.

Dissemination of International Best Practices

In 1999 PPIAF provided technical assistance to examine pro-poor, small-scale private sector participation in the South Asia region. The objective of the activity was to assess the potential scope for private sector participation in small-scale tertiary infrastructure, with average investments expected to be less than \$200,000. The activity identified the nature of existing private investment in tertiary service provision to the poor, documented best practices to promote investment in targeted sectors, and identified potential barriers to private sector participation. Case studies from a wide variety of infrastructure sectors in Bangladesh, India, and Nepal were also a central focus of the study.

An analysis of the case studies found that existing initiatives were usually pro-poor and additional private investment in small-scale initiatives should be encouraged. The cases, however, illustrated that existing policies for small-scale initiatives were unclear and identified a need for a comprehensive strategy to encourage private sector participation in these initiatives. Additional barriers to investment were also identified, including a lack of public funding to expand successful projects.

A parallel study was funded by the United Kingdom's Department for International Development, which focused on the role played by civil society in tertiary infrastructure provision. A roadmap was developed from the findings of both studies to provide regional policymakers with guidance on an integrated approach to encouraging private sector participation in the target sectors.

In 1999 PPIAF also provided technical assistance to identify best practices for policy and financing approaches to foster small-scale infrastructure investments from small and medium enterprises (SMEs) in South Asia. The PPIAF-funded study examined the importance of SMEs in providing infrastructure services in Bangladesh, India, and Nepal. The study outlined the policy and fiscal constraints facing SMEs and highlighted innovative policies from various countries in the region.

In its findings the report noted that the flexibility and agility of SMEs allowed them to provide commercially viable services where large public-sector companies had failed. SMEs were able to provide services to low-income customers on a full cost recovery basis because they tailored the services delivered to the customers' ability to pay. The report also found that in addition to the services provided by SMEs, the firms also benefited low-income communities by creating direct and indirect employment opportunities.

The report identified several common policy constraints restricting SME growth, including high barriers to entry in most markets and policies that favored larger companies over SMEs. Taxation and pricing policies were also identified as obstacles.

The inability of SMEs to access long-term financing was highlighted by the report as one of the primary policy failures in the region. Very few of the SMEs in the region were well-capitalized despite the significant capital needs of most of the enterprises. The report found that most forms of equity and long-term loans were unavailable or inaccessible to SMEs and recommended policies such as special infrastructure equity funds to address the situation. Other suggested additions included equipment supplier financing and mechanisms to facilitate small-scale public-private build-own-operate and build-operate-transfer schemes such as the use of intercepts on development budget transfers.

Despite these constraints, the report identified several innovative policies for supporting SMEs, including Nepal's de-licensing of small (less than 1 megawatt) hydropower schemes and Bangladesh and Nepal's programs to foster market entry for wholesale small-scale power provision. Several lease and management schemes for rural power generation in Nepal and water supply in India were also noted. The report also discussed licensing policies that enabled SME multi-service providers in Bangladesh and India, and policies that facilitated collaboration between SMEs and large companies in all three countries. The main recommendation of the report was to share these best practices across the region and encourage countries to adopt successful policies from one another.

Capacity Building

In 2000 PPIAF provided support for a two-week training course on infrastructure finance and regulation. The course, "Frontiers in Infrastructure Financing in South Asia," was held January 15–25, 2001, in Goa, India. The training discussed trends in global infrastructure project finance, innovative financing structures, risk management strategies, legal issues in contract design and negotiation, international financing opportunities, and regulatory issues for PPPs. The session was attended by 92 participants.

Building upon the success of the 2001 training course, PPIAF provided support for a follow-up training course in 2002. The course was part of the World Bank Institute's "Market Solutions for Development" program, which provides systematic coverage of trends in global infrastructure project finance market. The second course was held in Goa, India, in January 2002.

In 2004 PPIAF co-sponsored a regional conference on universality of infrastructure services with the Global Partnership on Output-Based Aid (GPOBA), Water and Sanitation Program (WSP), and Infrastructure Development Finance Corporation of India. The objective of the activity was to expose government officials, regulators, consumer organizations, and other stakeholders to innovative ways of increasing access to basic infrastructure services while addressing affordability concerns. The conference was held on December 6–7, 2004 in New Delhi, India and included participants from Bangladesh, Nepal, Sri Lanka, and India. The discussions at the conference centered on four key themes: i) universal access: definition and rationale; ii) legal, policy, and regulatory frameworks; iii) sources of funding; and iv) the nature and effectiveness of delivery mechanisms.

Following the conference consensus was achieved on the need for multiple solutions to address the challenge of expanding infrastructure services to the poor. Participants noted that different regions and countries required unique approaches, which needed to address an array of factors unique to each context before implementing specific mechanisms. The conference featured case studies from the Philippines, Guatemala, Nepal, and Sri Lanka that were found to provide an enriching learning experience to participants. Overall, agreement on several key points can be inferred from the totality of the conference discussions: i) governments and regulators share a common goal of sustainable growth and universal service provision, and should work together to achieve this goal; ii) small enterprises that are focused on serving segments of the underserved population are effective and should be encouraged; and iii) there is a need for universal service guarantees to address the quality of service that is delivered.

In 2005 PPIAF supported a workshop for public officials to share their experiences in strategic communications on infrastructure policy reforms. The workshop was aimed at frontline decision-makers from across the South Asia region and over forty government officials from Bangladesh, Laos, Indonesia, Pakistan, and India attended the conference. The workshop, "International Experience in the Use of Consultations and Communications in Reform and Infrastructure Projects," was held on February 15–17, 2006 in Bangkok, Thailand.

The aim of the seminar was to assist officials to internalize and institutionalize the concept of strategic communications in their organizations and projects, as well as to help them build capacity for communications professionals. In line with these objectives, the sessions were delivered at two key levels: first, to study and establish the linkage between communication support and development effectiveness; and second, to establish an enabling environment to develop skills and capacity. Case

studies on the effective use of communication in infrastructure reforms and a DVD on communication tools were distributed to participants. The group achieved consensus on the need for early and continuous communication and consultation with stakeholders to ensure the success of projects in reform and infrastructure sectors. The compilation of results, evaluations, and recommendations from the workshop were presented in a final report in March 2006 and disseminated to the participants.

In 2010 PPIAF supported a series of PPP awareness and capacity building workshops in South Asia. The objective of this activity was to assist national governments, policymakers, and other stakeholders to better understand the fundamentals of PPPs. The seminars also addressed sector specific issues to encourage governments to think through PPP options for strategic infrastructure development and explore PPP opportunities. Five workshops were held in Bhutan, Nepal, Sri Lanka, Bangladesh, and India between December 2010 and June 2012. The workshops were held in partnership with the International Finance Corporation (IFC), DevCo, and the WBI. Following the workshop in Bhutan, the government requested PPIAF assistance to develop a pipeline of PPP projects. This follow-up support is ongoing.

In May 2012 the IFC organized a forum in the Middle East and North Africa region to assess the region's PPP market and PPP needs following the global financial crisis. The forum also provided an opportunity to build awareness of PPP fundamentals among the region's governments and other key stakeholders. PPIAF supported the participation of delegations from Afghanistan and Pakistan in the conference. While PPIAF groups these countries in the South Asia region, the IFC includes them in the Middle East and North Africa region, hence their participation in this conference.

The forum, which was held on May 22–23, 2012 in Beirut, Lebanon, was co-hosted by the Government of Lebanon, the IFC, and the Arab Financing Facility for Infrastructure. The intent of the forum was to bring together public and private practitioners of PPPs to identify obstacles to infrastructure development and learn from both successful and unsuccessful experiences. In doing so, the forum aimed to: build understanding and capacity on how to generate a more substantial pipeline of PPP projects in the region; design and implement sustainable PPP projects; and build consensus on the development of an appropriate enabling environment to support the PPP agenda. The forum was attended by over 200 public and private participants and was opened by His Excellency Mohamed Safadi, Minister of Finance, Lebanon, on behalf of His Excellency Najib Mikati, Prime Minister of Lebanon.

The forum provided unanimous agreement on the use of PPPs to fill the need for more and better infrastructure in the Middle East and North Africa region in order to drive local and regional economic development to meet the needs of a rapidly growing and urbanizing region. However, it was noted that the lack of PPP deal flow in the region could be attributed to an inadequate policy framework to support PPPs, lack of investor protection, and a lack of government capacity and commitment. While the policy framework would take time to develop, it was suggested throughout the forum that regional governments should focus on smaller, less complex, replicable PPP deals to demonstrate government commitment to successful PPPs.

South Asia Forum for Infrastructure Regulation (SAFIR)

SAFIR was formed in May 1999 by infrastructure regulators in the South Asia region to assist regulatory agencies to build their capacity to overcome new and anticipated future challenges. Functioning under the umbrella of the International Forum for Utility Regulation, SAFIR sought to build the regulatory decision-making and response capacity in the region. PPIAF provided support for the establishment of SAFIR by sponsoring an intensive two-week course for regulatory agencies on infrastructure regulation and reform. The course was held from February 7–18, 2000 in Agra, India and was attended by 73 participations.

In 2000 PPIAF provided further support to SAFIR for capacity building activities amongst the forum's members. A regulatory strategy workshop was held in Dhaka, Bangladesh in September 2000. The workshop included four main sessions and a breakout session, each of which evaluated various aspects of infrastructure regulation systems. The first session concentrated on the establishment of regulatory regimes and their gaining legitimacy in controlling the operators in the infrastructure projects. In evaluating the establishment of regulatory regimes and conferring legitimacy upon the regulatory

authority, an important issue discussed at some length was the balance between consumer protection and providing a healthy business environment suitable for the investors in the infrastructure sector. In the second session, the speakers evaluated the review and appeal of regulatory decisions within the South Asian context. The regulatory regime and the review and appeal process with respect of infrastructure regimes were also examined. The speakers further evaluated the prospect of proposed reform of infrastructure regulatory regimes in some South Asian countries. The third and fourth sessions related mainly to competition and issues relating to regulation of the infrastructure sector. During these sessions various regulatory issues such as tariff, competition, licensing, quality control, and dispute settlement were reviewed, including comments from the participants, who were mostly officials from various regulatory authorities from this region.

Building on the previous PPIAF-sponsored course in February 2000, a two-week training program on regulatory strategy was held in Sri Lanka from December 4–15, 2000. Sixty-five participants attended from Bangladesh, Bhutan, India, Mozambique, Nepal, South Africa, Sri Lanka and the United States of America attended the training course. In addition to the two workshops, PPIAF also provided on-going assistance to the SAFIR Secretariat to build its communications capacity.

In 2002 follow-on PPIAF assistance was provided to assist SAFIR to conducting a workshop and disseminate information on consensus building for regulatory reviews. The intent of the workshop was to understand the legal aspects of regulation, with particular reference to alternative regulatory practices and alternative dispute resolution mechanisms. Apart from this, PPIAF also provided continued support for maintaining SAFIR's website and publishing newsletters, and maintaining SAFIR Secretariat.

The workshop was held on August 3–4, 2002 in Dhaka, Bangladesh. Forty-five participants attended the workshop, including regulators from various infrastructure sectors, members of judiciary, and practicing lawyers from Bangladesh, India, Pakistan, Sri Lanka, and Nepal. The workshop enabled discussion and capacity building on issues relating to legal aspects of regulation. The proceedings of the seminar were compiled in a publication "Legal Aspects of Regulation in South Asia" and distributed following the workshop.

PPIAF provided further assistance to SAFIR in 2003 to support additional workshops and training sessions, as well as ongoing administrative and communication tasks. Two offerings of the core training workshop were organized under this activity. The first was held in October 2004 in Pakistan, while the second was held in October 2005 in Agra, India.

A workshop on the regulation of competition was held in Pakistan in March 2006 in conjunction with the Lahore University of Management Sciences. Finally, a compilation of legal orders and regulations issued by SAFIR members for the electricity and telecoms sectors was compiled and published with PPIAF support.

In 2007 PPIAF provided further assistance to support the development and implementation of SAFIR's program for fiscal years 2007 and 2008. The objective of the activity was to develop a strategic plan for SAFIR, deliver two core training programs, and organize annual regional workshops for SAFIR's members.

A draft strategic plan was produce, which identified possible key roles for SAFIR to enhance its relevance in the region and utility to its members. The plan recommended SAFIR focus on identifying areas of key concern for regulatory bodies in the region and use its broad membership to facilitate knowledge transfer on these topics. In addition to providing a platform for regulators to interact with regulated entities, the report also recommended SAFIR compile cross-sector databases on legislation and regional performance. Finally, the report suggested SAFIR assist policymakers to address issues regarding the creation of regulatory agencies and frameworks, as well as promote cooperation between regulators of difference member countries.

The strategic plan outlined three potential options for SAFIR: i) carry on with its existing structure and delivering training programs; ii) focus on making training programs and workshops the cornerstone of

SAFIR's work program; and iii) retain the training programs but focus on developing activities that actively promote independent regulation in the region. The third option would require considerable changes to the forum's structure and financing to align it with the new objectives. The main conclusion of the report was that the challenge before SAFIR was to find a niche it seeks to occupy for the future and detail out an action plan towards achieving that desired position.

The draft strategic plan and action points for SAFIR were presented for discussion and feedback at a steering committee meeting in July 2007. The action points included specific objectives that SAFIR should focus on (funding requirements, member involvement, indicators of success) and critical successor factors corresponding to the action points. Consensus was achieved on the following action points: i) a sub-committee should be formed to examine the training program content; ii) a capacity building workshop combined with the steering committee meeting should be continued, and research initiated on other relevant matters for the workshop; and iii) SAFIR should act as a platform to facilitate twinning arrangements between members.

PPIAF funding also supported the following activities the eight delivery of the core training course in Sri Lanka on April 1–8, 2007. Thirty-six participants from Bhutan, India, Pakistan, and Sri Lanka attended the training. A regional workshop on regulatory impact assessment was also conducted as part of this activity. The workshop was held in Delhi, India, in September 2008. Finally, PPIAF supported the South Asia Conclave on Enabling Regulation for Investment in Infrastructure, which was held in New Delhi, India on November 3–4, 2009.

PPIAF's support to SAFIR assisted the organization to grow its membership to 34 paying members in 2008. PPIAF's ongoing support also strengthened the organization's administrative and communications capacity. The Executive Committee constituted in 2008 has acted on several recommendations of the SAFIR strategic plan prepared with PPIAF funding. A permanent secretariat was established in 2008 and SAFIR's legal status has been formalized. The core training program on infrastructure regulation has since been refined and its duration reduced to five days. SAFIR has further consolidated its position as a well-established network of regulators and provides a useful forum for regulators and utilities across countries and sectors to network and exchange views and experience on infrastructure regulation.

Infrastructure Development Strategies

In 2002 PPIAF provided assistance to the Private Infrastructure Donor Group (PIDG) to fund a pre-feasibility study for an infrastructure financing facility to serve the Asia region. The assistance was based on a previous PPIAF study, which examined constraints to infrastructure investment in Sub-Saharan Africa and resulted in the creation of the Emerging Africa Infrastructure Fund. The objective of the 2002 pre-feasibility study was to determine the status of private sector participation in infrastructure in selected countries within the Asia region, analyze the financing gaps that prevent projects from being implemented, and identify possible options to address these gaps. The study aimed to assess the potential creation of a facility as a means to address the financing and other market gaps identified by the report.

The PPIAF-funded pre-feasibility study proposed the establishment of a second financial institution, Asia Private Infrastructure Financing Facility (AsPIFF), which was to play a catalytic role in the development and financing of smaller projects, particularly in the urban poor and rural sectors. The report recommended AsPIFF target 11 Asian countries (Cambodia, Indonesia, Laos, Philippines, Vietnam, Bangladesh, Nepal, Pakistan, Sri Lanka, China, and India), and recommended a further detailed feasibility study.

The proposed AsPIFF was conceptualized as a medium-sized, customer oriented one-stop-shop with the flexibility to package and deliver tailored solutions from its suite of financial products. The report envisioned a facility that included both hard-and local-currency loan products packaged with scaled-down versions of products offered by other international financial institutions, as well as windows that could channel products of other PIDG entities, especially GuarantCo, DevCo and the Technical Assistance Facility, within the Asia region.

The report's main recommendations included: i) AsPIFF investments should have a strong pro-poor focus and improve the availability of infrastructure services in peri-urban and rural areas; ii) investments must improve markets by spreading the impact of trade beyond major cities; iii) projects eligible for support should be at least 51% owned by the private sector sponsors and involve either construction of a greenfield infrastructure project, financing of an acquisition of a government-owned infrastructure facility, or expansion of an existing facility; iv) project costs should fall within \$5–\$100 million in size, with a target range of \$5–\$50 million; v) projects should possess acceptable market fundamentals, including satisfactory revenue streams and appropriate capital structure; and vi) investments must be able to attract at least one other commercial lender apart from AsPIFF.

The report further recommended that the PIDG should consider establishing a mini-infrastructure apex program to focus on operators of the infrastructure services in Asia, particularly small and medium enterprises. The study was presented at a conference on February 5, 2004 in Singapore to a wide audience of private sector representatives and donor, as well as at the meeting of the PIDG. It was decided to consider a study on the suggested program, focusing on projects with investments of less than \$5 million. The follow-up study was undertaken with support from PPIAF and addresses issues that small and medium enterprises face in establishing and operating companies that provide services that directly meet the needs of the poor.

As a follow-on to PPIAF's support for AsPIFF, the United Kingdom's Department for International Development funded a second phase feasibility study/design for the creation of the AsPIFF facility. The objective of the second phase was to test the concept for AsPIFF by taking the initial concept and through additional market research and soundings, including discussions with potential investors, to move the concept forward so that it is in a state that could be taken to market. The AsPIFF design report considered the initial AsPIFF concept, provides a rationale for AsPIFF in terms of need and justification, reviews the different high level implementation options considered, outlines a business and financial plan, and finally proposes an implementation route-map, including associated timeline.

In 2006 PPIAF provided support for a study to enhance the understanding of issues concerning private sector investors and operators in infrastructure projects in Bangladesh, India, Pakistan, and Sri Lanka. The main objective of the activity was to identify and document key issues relating to policy, legal, regulatory, and financing that were perceived by the private sector when making investment decisions. This activity surveyed local and international investors, financiers, and operators who were active in the South Asia region. While over 550 firms were invited participate, the survey's success was hindered by a poor response rate. The final analysis was also constrained by the low response and, based on the responses received, was primarily reflective of investor perceptions in India.

Although progress had been made in developing legal and regulatory frameworks to encourage private sector investment, the survey's findings suggested additional efforts were required. According to the findings, weak legal and regulatory frameworks, a lack of high-quality projects, and weak governance systems identified by investors as key risks that needed to be addressed. Follow-up interviews with some of the respondents indicated that diversifying away from their home markets and expectations of higher returns were the primary factors driving their investment decisions across the region.

Results of PPIAF's Multi-Sector South Asia Regional Activities

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Private Sector Participation in Tertiary Level Infrastructure in South Asia, 2000 • Private Sector and Civil Society Involvement in Local Infrastructure Provision – A Roadmap for Practitioners, January 2001 • Best Practices Policy and Financing Approaches for Small-Scale Infrastructure Providers in South Asia, 2000 • Small-Scale Infrastructure Provision in South Asia, 2001 • Communications material, including SAFIR newsletter, prepared, 2002 • Proposed Asian Private Infrastructure Financing Facility, 2004 • Regulatory Law in Practice: Compendium of Orders in Electricity and Telecommunication Sectors, 2005 • World Bank Survey of Infrastructure Investor Perception of South Asia, 2007
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> • Working Together – Draft Strategic Plan for SAFIR – Connected Thinking, April 2007

Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Training course on infrastructure regulation and reform held in Agra, India on February 7–18, 2000 • Regulatory strategy workshop held in Dhaka, Bangladesh in September 2000 • Training course on infrastructure regulation held in Sri Lank on December 4–15, 2000 • Workshop on legal aspects of regulation held in Dhaka, Bangladesh on August 3–4, 2002 • Seminar on Frontiers in Infrastructure Financing in South Asia held on January 15–25, 2001 in Goa, India • Market solutions for development training program held in Goa, India in January 2002 • Regional conference on universal access to infrastructure and affordability concerns held in New Delhi, India on December 6–7, 2004 • Seminar to present pre-feasibility report on AsPIFF held in Singapore on February 5, 2004 • Training course on infrastructure regulation and reform held in Pakistan, October 2004 • Training course on infrastructure regulation and reform held in Agra, India, October 2005 • Conference on effectively communicating infrastructure reforms held in Bangkok, Thailand on February 15–17, 2006 • Workshop on regulation of competition issues, Lahore, Pakistan, March 2006 • Eight core training course on infrastructure regulation and reform held in Sri Lanka, April 1–8, 2007 • Regional workshop on regulatory impact assessment held in New Delhi, India, September 2008 • South Asia Conclave on Enabling Regulation for Investment in Infrastructure held in New Delhi, India, November 3–4, 2009 • Seminar on building awareness and strengthening capacity for PPPs in South Asia, Bhutan and Nepal, December 2010; Bangladesh, March 2011; India, February 2012 • Regional PPP Forum held on May 22–23, 2012 in Beirut, Lebanon
<i>Knowledge products produced or disseminated</i>	<ul style="list-style-type: none"> • Case studies on effective use of communication in infrastructure reforms and DVD with best practices for communicating reforms to stakeholders disseminated, 2006

Category	Outcomes
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> • SAFIR established in 1999 and strengthened from 2000–2009

<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> • The SAFIR executive committee adopted several recommendations of the SAFIR strategic plan, 2008
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> • Consensus was achieved on the need for multiple solutions to address the challenge of expanding infrastructure services to the poor, 2004 • Consensus achieved on the need for early and continuous communication and consultation with stakeholders was vital to ensure the success of projects in reform and infrastructure sectors, 2006 • Consensus was achieved on several action points for SAFIR's strategic plan, 2007 • Consensus achieved with stakeholders in Bhutan on using PPPs to implement infrastructure projects, 2010 • Consensus achieved on the use of PPPs to fill the need for more and better infrastructure in the Middle East and North Africa region in order to drive local and regional economic development to meet the needs of a rapidly growing and urbanizing region, 2012