Asian Development Bank Institute

Central Asia Regional Economic Cooperation

Infrastructure Investment and Managerial Oversight: A Pathway to Regional Growth

Eugene Chao

Tokyo/Uzbekistan/Philadelphia-Virtual
Sept 23, 2020

Outline

No.	Theme
1.	Introduction: Two Distinctive Asset Classes
2.	Define Question and Map out Solution *- Case Studies: Ankara, İstanbul and Tashkent*
3.	Privatization vs. SOE: Mistakes and Lessons *- Case Studies: New York*
4.	Asset Recycling Program vs. Debt Transfer Scheme
5.	Conclusion

ADB

Conference theme:

ADB- CAREC: Unlocking Private Investment in Sustainable Infrastructure in Asia

Title:

Infrastructure Investment and Managerial Oversight: A Pathway to Regional Growth

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Abstract:

Infrastructure investment is a common scheme to boost economic productivity and carrying it out involves multilateral decisions. Many cities within the membership of the central asian regional economic cooperation (CAREC) are either in the transition stage of repositioning cities' long-term competitiveness or in the development stage of large-scale metropolitan planning. Common facts have been found in these two settings: the outstanding commitments on the modernization of efficient infrastructure systems and the transformative mindset to recapitalize city's assets: both developable and underutilized lands within the central business districts (CBDs) and surroundings. Although the CAREC Transport Strategy 2030 has defined the scope of increasing regional corridor connectivity and planned to strengthen the cross-border transport and trade within central Asia, does the project carrier (i.e., grant receiver) has a mechanism to ensure the project/investment will create the most value? What scale and magnitude of investment are enough to achieve the intended return, environmental, social and governance (ESG) outcome and livability? Is there an interrelation or a contradiction of investing in different infrastructure assets? What are the corresponding measures to avoid the likelihood of investment offset? How could government policy, legislative enforcement, and managerial strategy complement each other to maximize synergistic value to further empower a nation's growth and the region's long-term competitiveness?

The article marries investment discipline and managerial oversight. First, prior to the fund allocation, a preliminary action is to decide what kind of city and region do people want? Cities built around transit would look and operate drastically different from cities built around cars. The examination of the interrelation between transit and highway investments and the corresponding measures to create livable cities and an integrated multimodal transport system is well-thought out. Second, investment decision-making criteria, to thrive well in the fund returns (e.g. net profit, retained and distributed earnings), need to strike a good balance between opportunity cost of capital, governance, managerial oversight, and shareholder value. Third, the review of selected case studies' transformational and investment experiences within and across the region offers common mistakes and meaningful lessons to facilitate decision-makers and investors go through the learning curve quickly to capture early results and mobilize capital in shaping better project success. The case-study method distills insightful grappling from transitioning and progressive projects' cause célèbre managerial conflicts, investment trade-offs, and corresponding measures to alleviate offset. It is time to renew the regional interest in paying systematic attention to the transformative process of investing in infrastructure.

Keywords: *Infrastructure Investment Decision Making, Policy Governance, Livable Cities, Regional Competitiveness*

Experience in Russia and Uzbekistan

ЗАМЕСТИТЕЛЬ МЭРА МОСКВЫ
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Профессору университета штата Пенсильвания (США) эксперту по вопросам транспорта и городского планирования В. Вучику

Уважаемый г-н Вучик!

От лица Правительства Москвы и от себя лично этим письмом я хотел бы выразить Вам свою благодарность за нашу встречу и сотрудничество в рамках делового визита в сентябре 2018 года с целью изучения последних достижений транспортной системы города Москвы. Уверен, что состоявшаяся встреча выведет наше сотрудничество на качественно новый уровень.

Для нас было очень важно познакомиться друг с другом лично, обменяться мнениями о важных аспектах транспортной политики и укрепить деловые и дружественные связи между Москвой и международным экспертным сообществом.

Пользуясь случаем, я хотел бы еще раз поблагодарить Вас за высокую экспертную оценку о развитии транспортной системы города Москвы и интересную дискуссию, посвященную решениям в сфере транспорта. Я уверен, что открытое обсуждение и обмен опытом приведет к совершенствованию московского транспорта и станет ключом к будущему успеху.

Надеюсь на расширение сотрудничества в решении транспортных задач, а также налаживание эффективного взаимодействия в разработке и реализации совместных проектов.

М. С. Ликсутов

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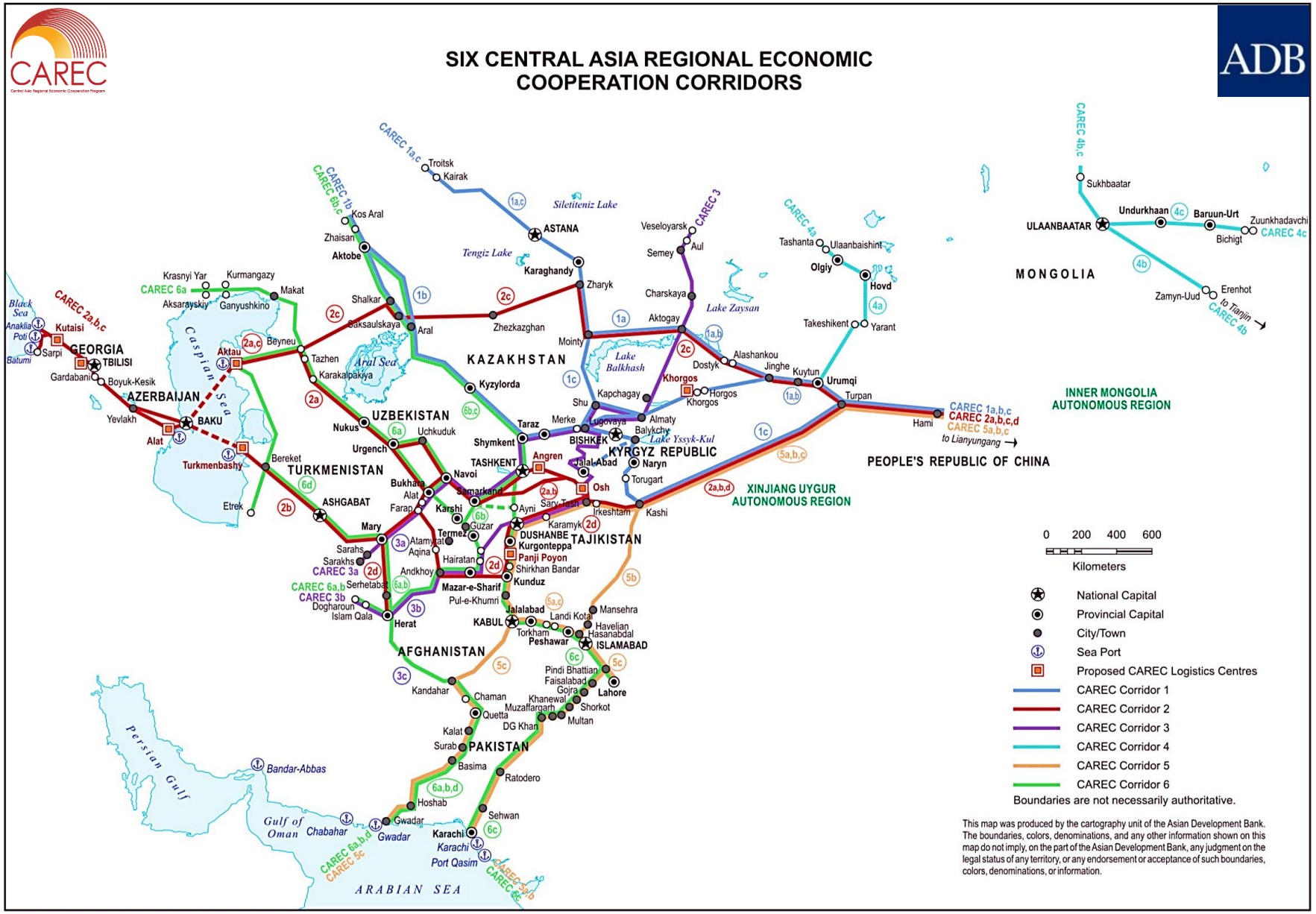
Темы для обсуждения

1. Пересмотр и оптимизация маршрутной сети автобусных перевозок с увязкой с линиями метрополитена.
2. Рассмотрение вопроса нужны ли городу маршрутные такси (маршрутки).
3. Необходимость и расположение придорожных парковок.
4. Регулирование перекрёстков (светофорное, знаками дорожного движения).
5. Оптимальное расположение и определения типов пешеходных переходов в условиях города Ташкента.
6. Решения по сдерживанию роста автомобильного потока в городе.
7. Создание мультимодальной модели городского транспорта.
8. Создание и развитие велосипедной и пешеходной инфраструктуры.
9. Необходимость в строительстве многоэтажных парковок.
10. Разработка механизма управления и координации транспортных потоков в городе.
11. Развитие и совершенствование перевозок легковых такси (в том числе создание стояночных площадок).
12. Регулирование грузовых перевозок в городе (в том числе создание стояночных площадок).
13. Необходимость создания скоростного трамвайного сообщения.
14. Целесообразность перехода с эксплуатации дизельных автобусов на электробусы.
15. Целесообразность строительства эстакад, мостов и других видов дорожных развязок.
16. Внедрение проекта «VISION ZERO».
17. Целесообразность совместной работы с архитектором Ян Гейл.

1. Introduction: Two distinctive asset classes: Highway vs. Rail

Regional: Trucks

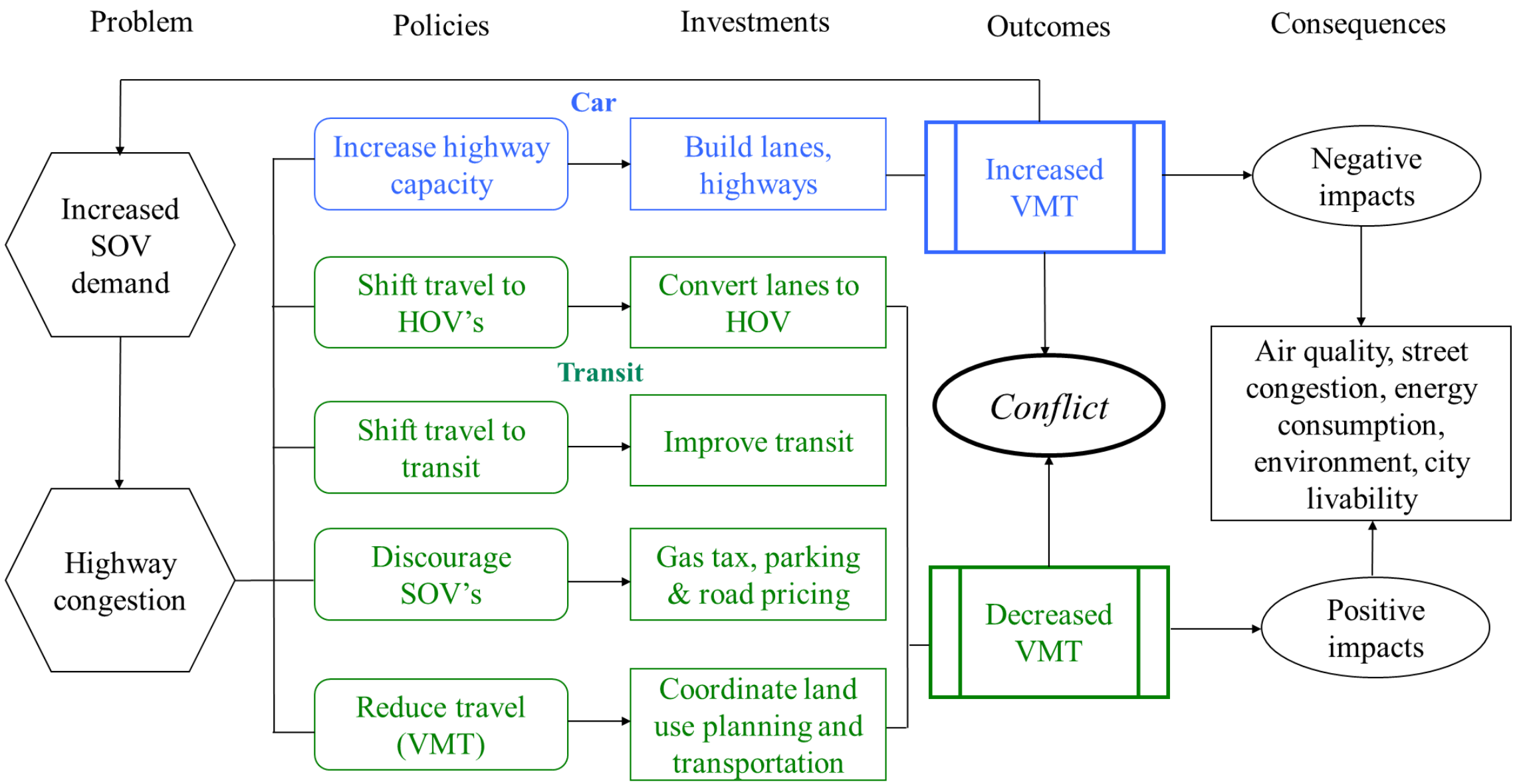
City: Cars



Regional: Freight

City: Transit

Offsetting consequences of conflicting policies and investments: Car vs. Transit



Quō Vādis: Infrastructure Investment

1. What kind of city do people want? Is there a definitive investment mechanism to ensure we are investing in the kind of city we want to create?

"The ***investment solution*** *needs to extract the maximum synergy between infrastructure investment and city/ regional development"*

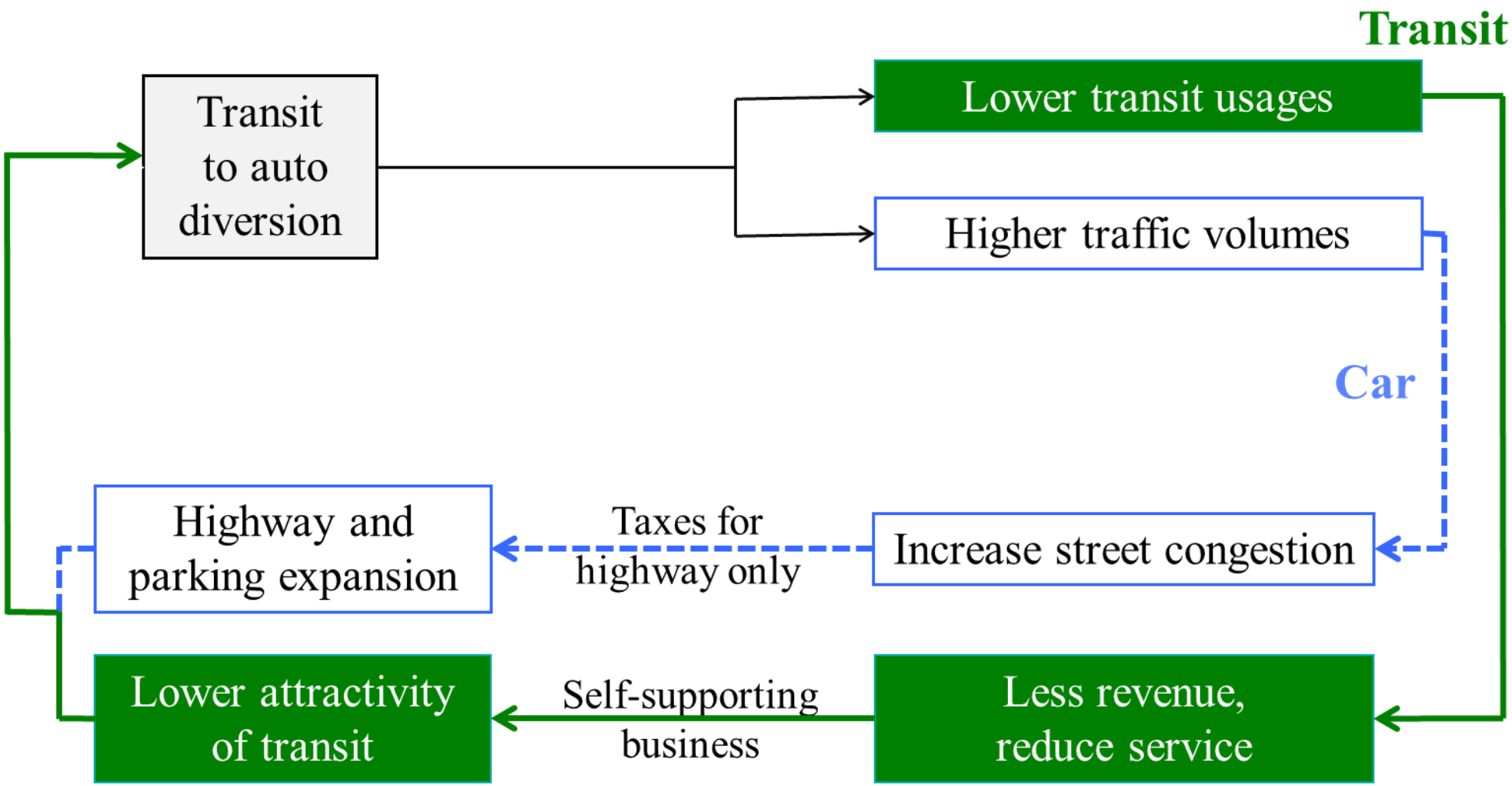
2. What [scale] of government spending are enough to achieve an intended outcome? vs. What is the [quality] of growth? Growth at what cost? Growth, but how long can it be sustained?

"The ***solution*** *shall help the economy to redirect resource for productive uses and precipitate in efficient allocation to the highest return activities at a much lower cost."*

3. Which investment will create the most return? What is the countermeasure to avoid investment offset?

"The ***solution*** *shall ensure the most aggregated ESG return generating from the system optimal, not from the individual equilibrium."*

2. Define Question: The Collision of Cities and Cars and Vicious Circle



Note: The vicious circle concept also applies to the freight rail to cargo truck diversion

The Solution: Managerial Strategy and Policy Governance

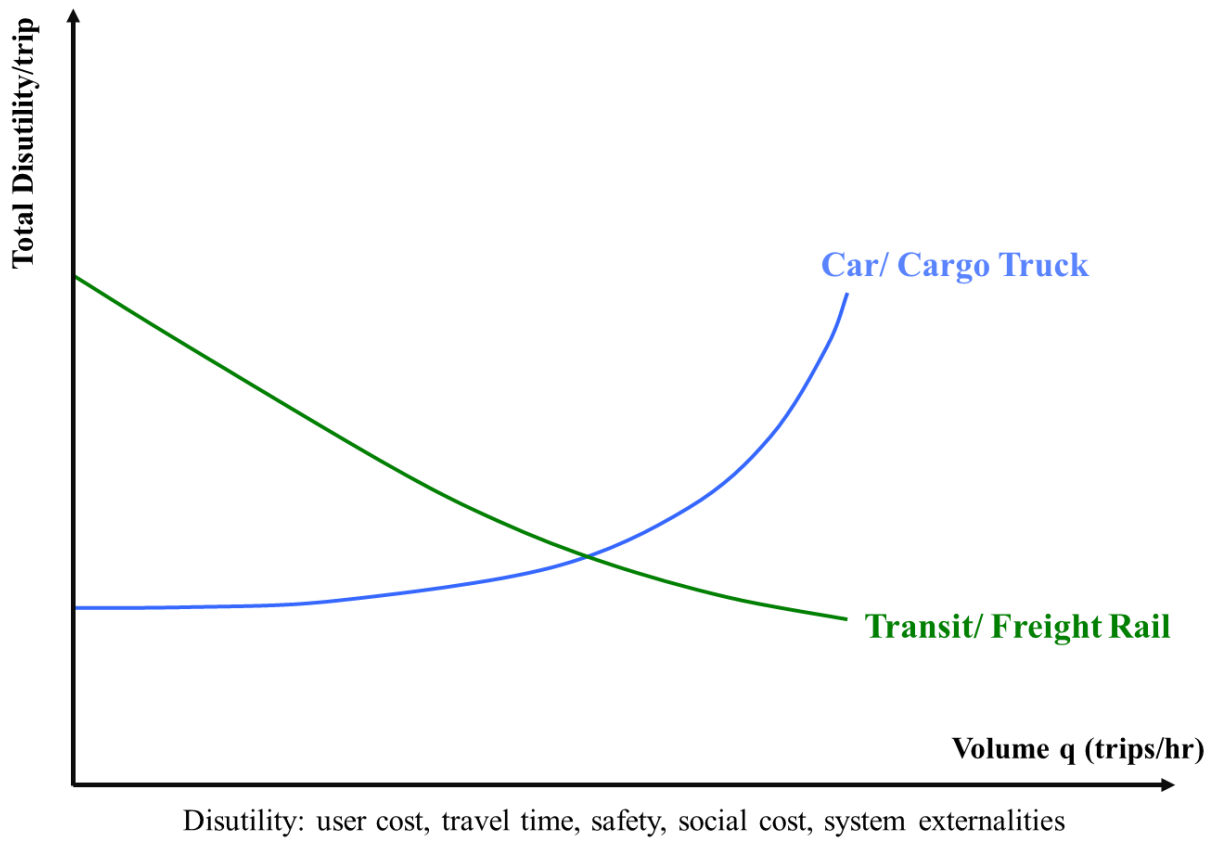


Figure 2.2
Interrelation between travel disutility and volume: Car vs. Transit

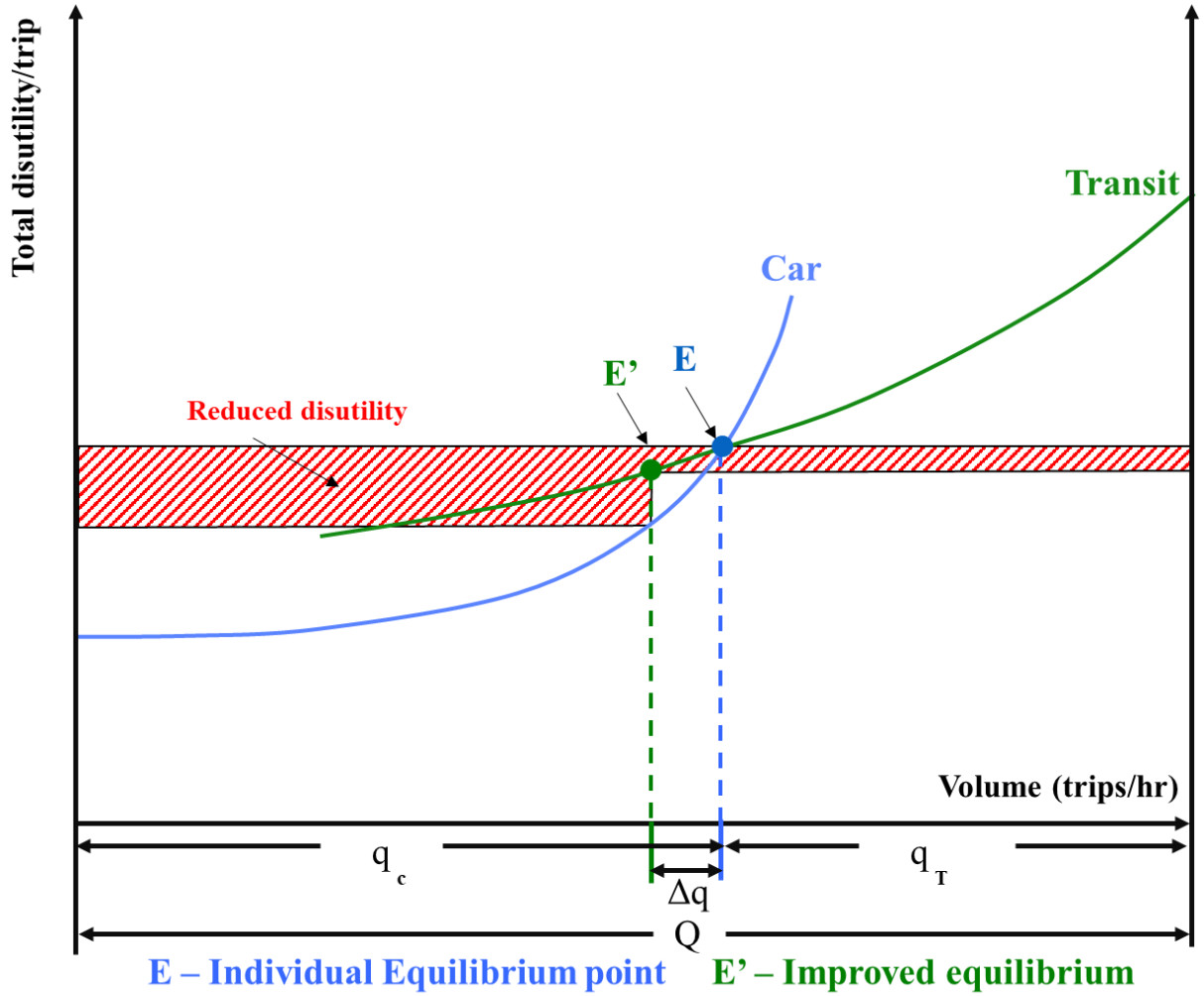
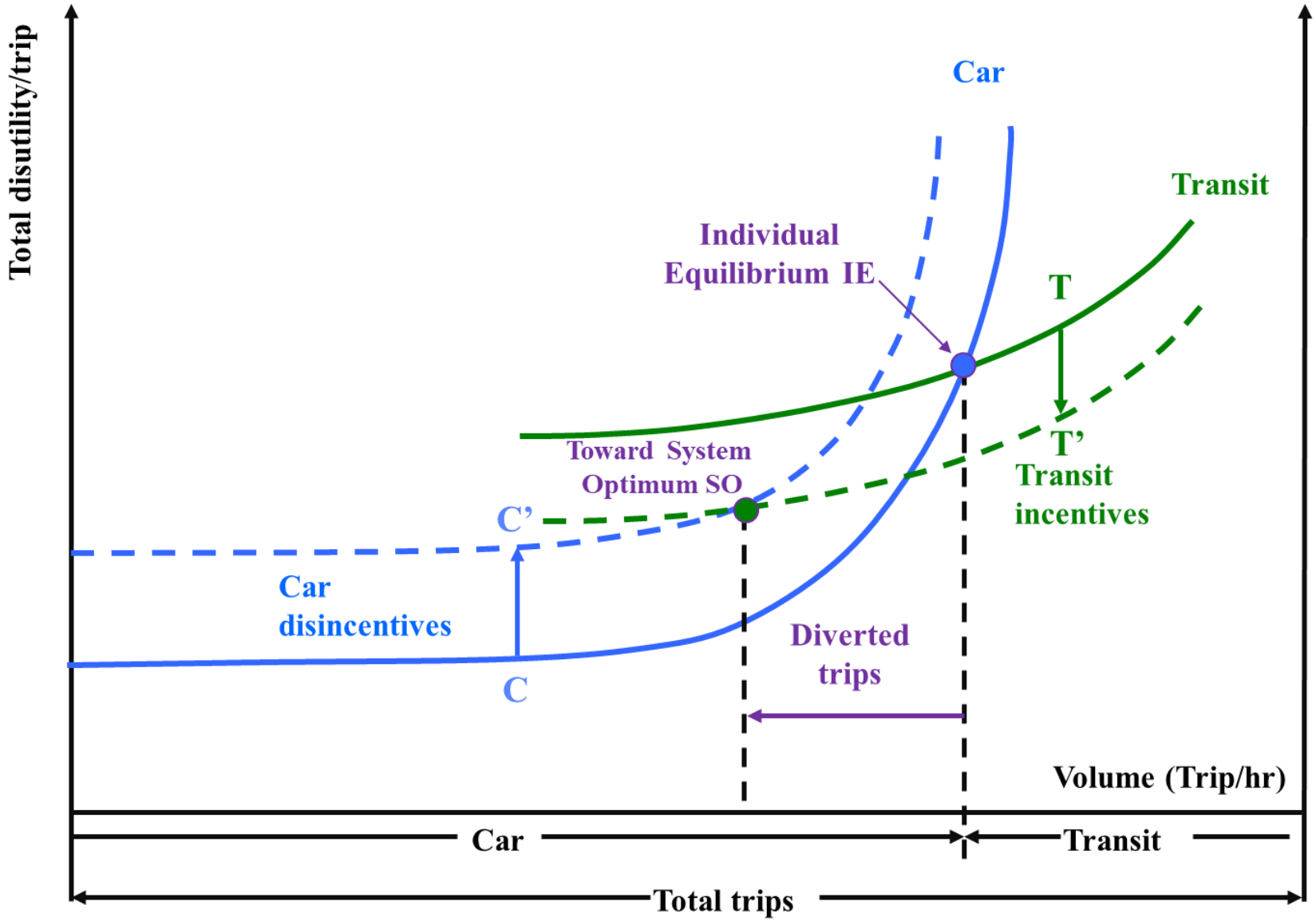


Figure 2.3
Travel distribution between cars and transit

Transportation policies for shifting the individual equilibrium point toward system optimum



Comparison of Two Investment Schemes

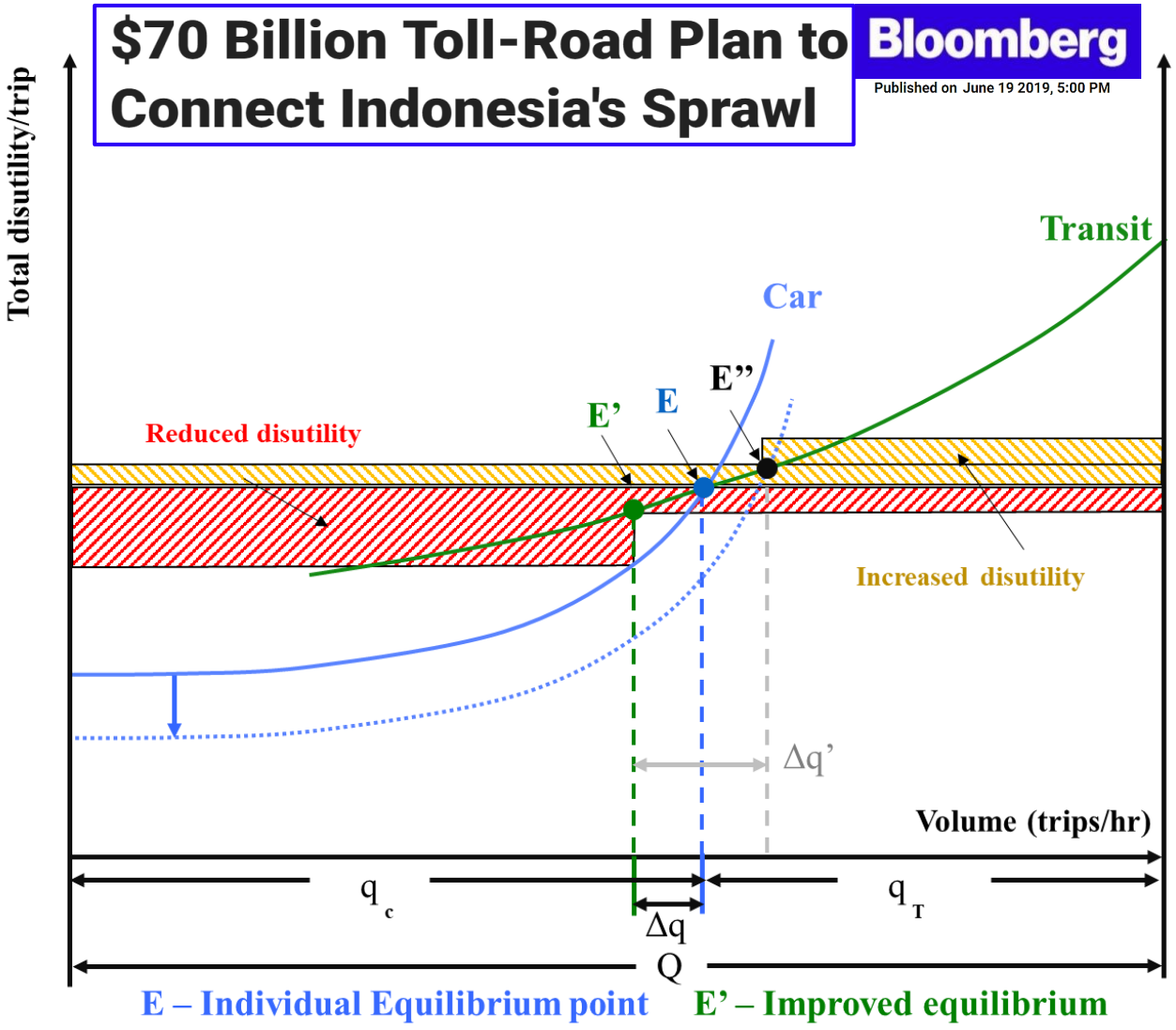


Figure 2.5
Negative consequence of ONLY investing in car-related infrastructure

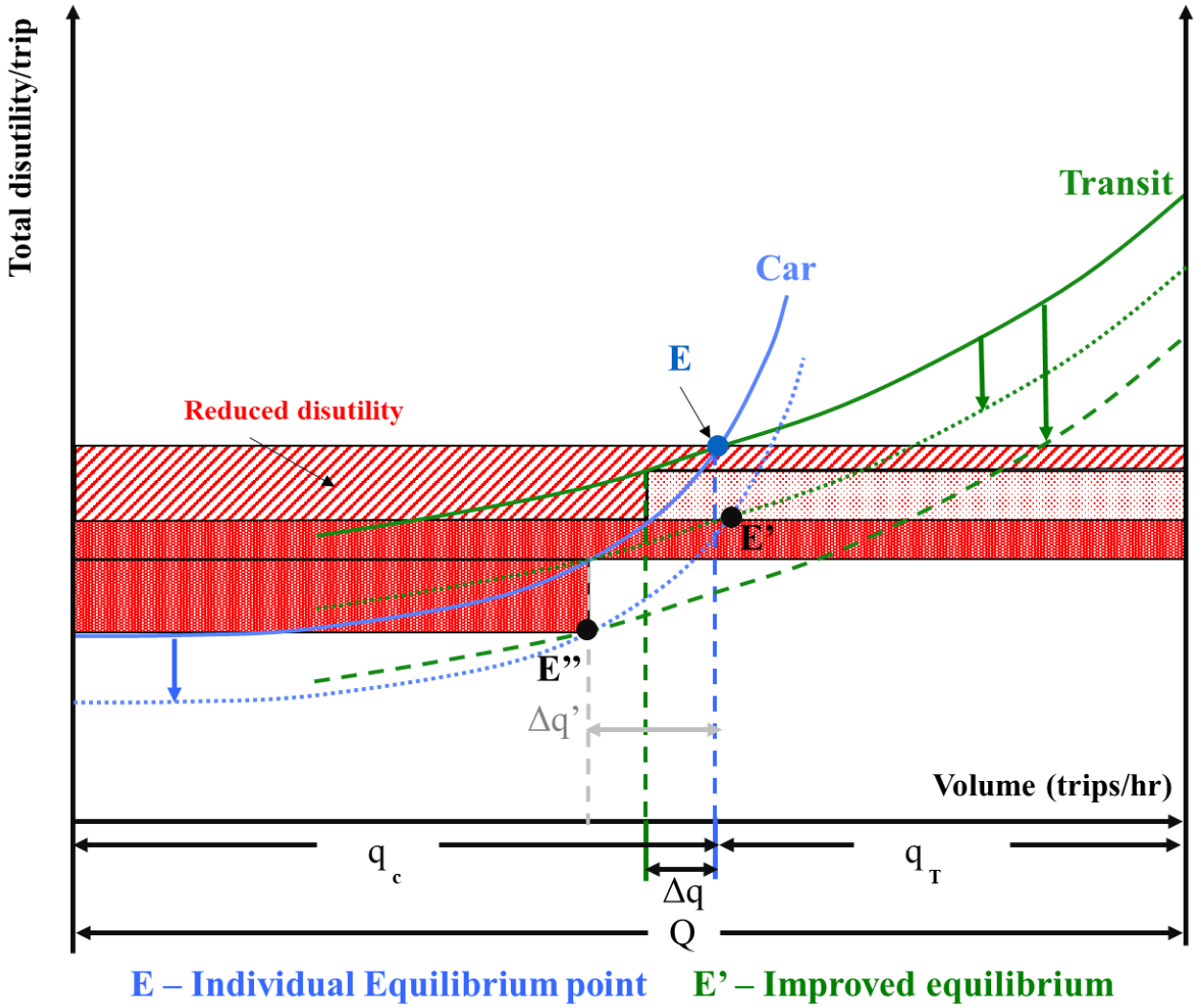
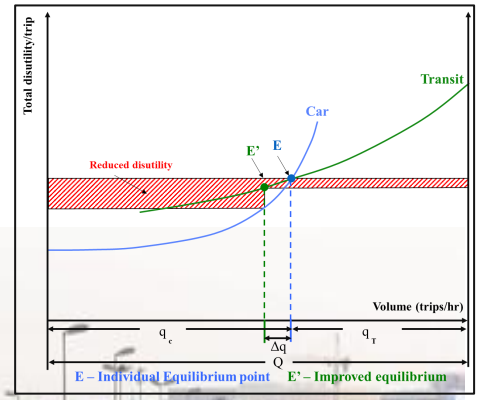


Figure 2.6
Positive return on investment: capital put into transit > car infrastructure

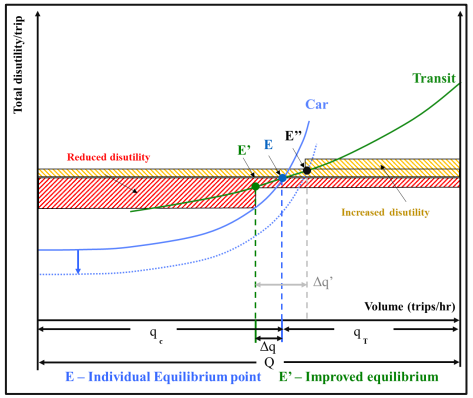
Major transportation challenges in Turkish cities

High density minibus (dolmuşlari) occupied urban areas in Ankara



An overcapacity BRT in parallel with a congested highway in İstanbul

Consequences of busway conversion into a HOV roadway



Opening busway to HOV's

Busway: increased volume

Freeway: lanes less congested

HOV/ paratransit users

Reduced travel time for HOV passengers

Bus users

Decreased performance (reliability, speed, safety)

Auto users

Some reduction of travel time for other auto users

Steeling of passengers by HOV's

Loss of bus passengers

Encouragement of HOV's

Deterioration of bus service

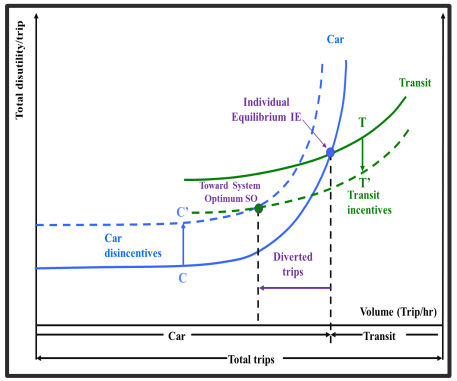
Attraction of more SOV's

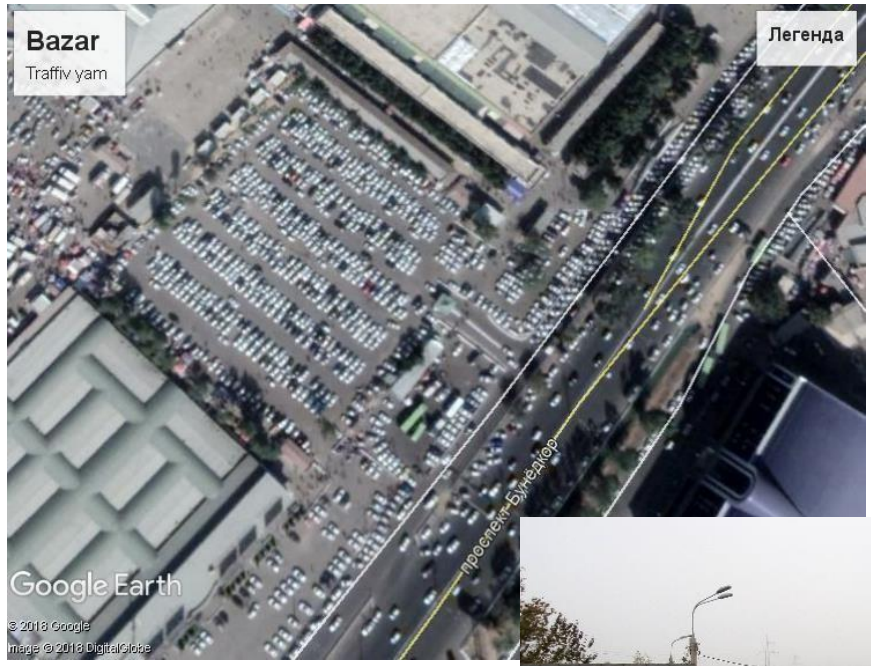
Benefit

Loss

HOV – High-occupancy vehicle
SOV – Single-occupancy vehicle

Transportation challenges in Tashkent

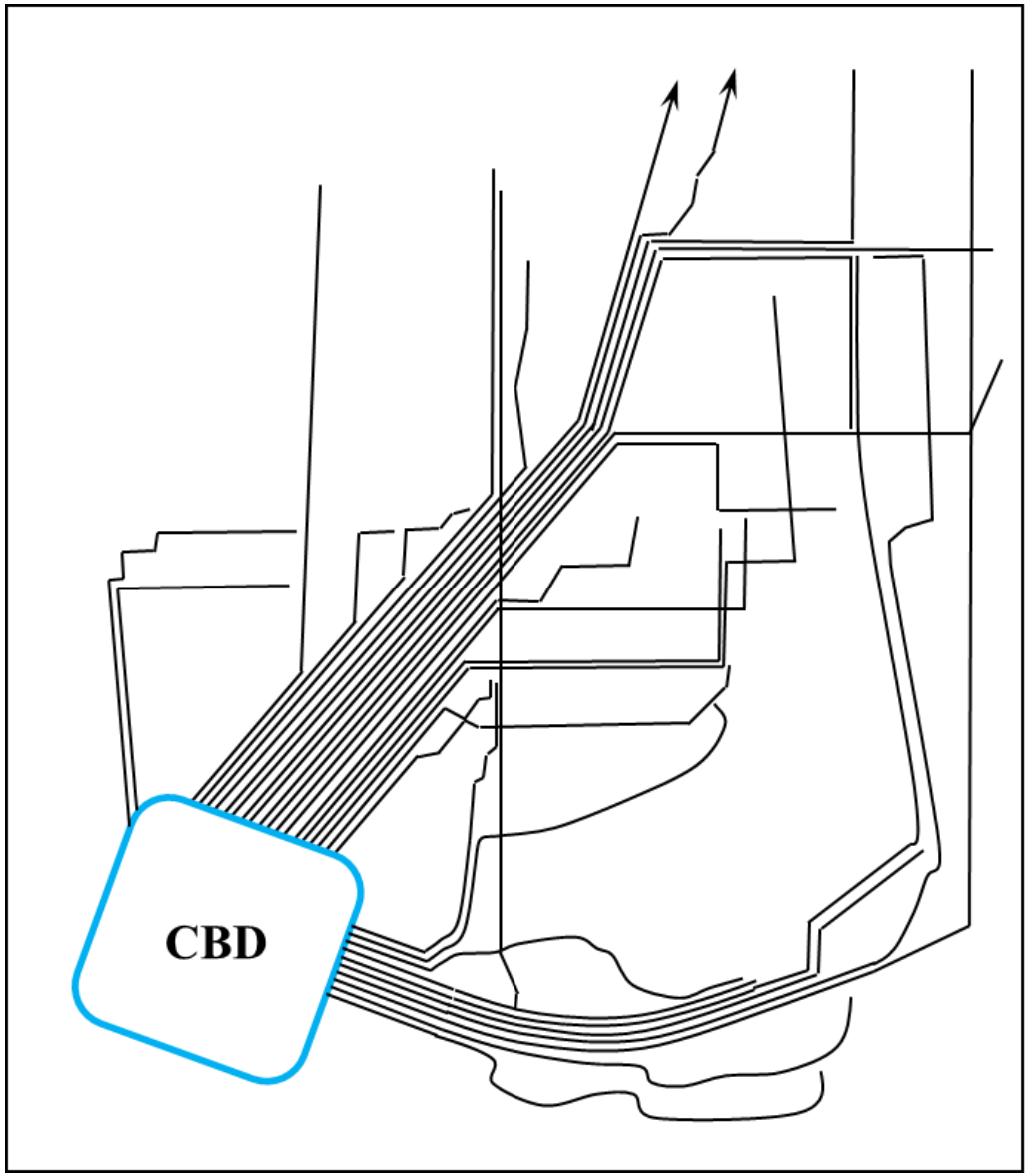




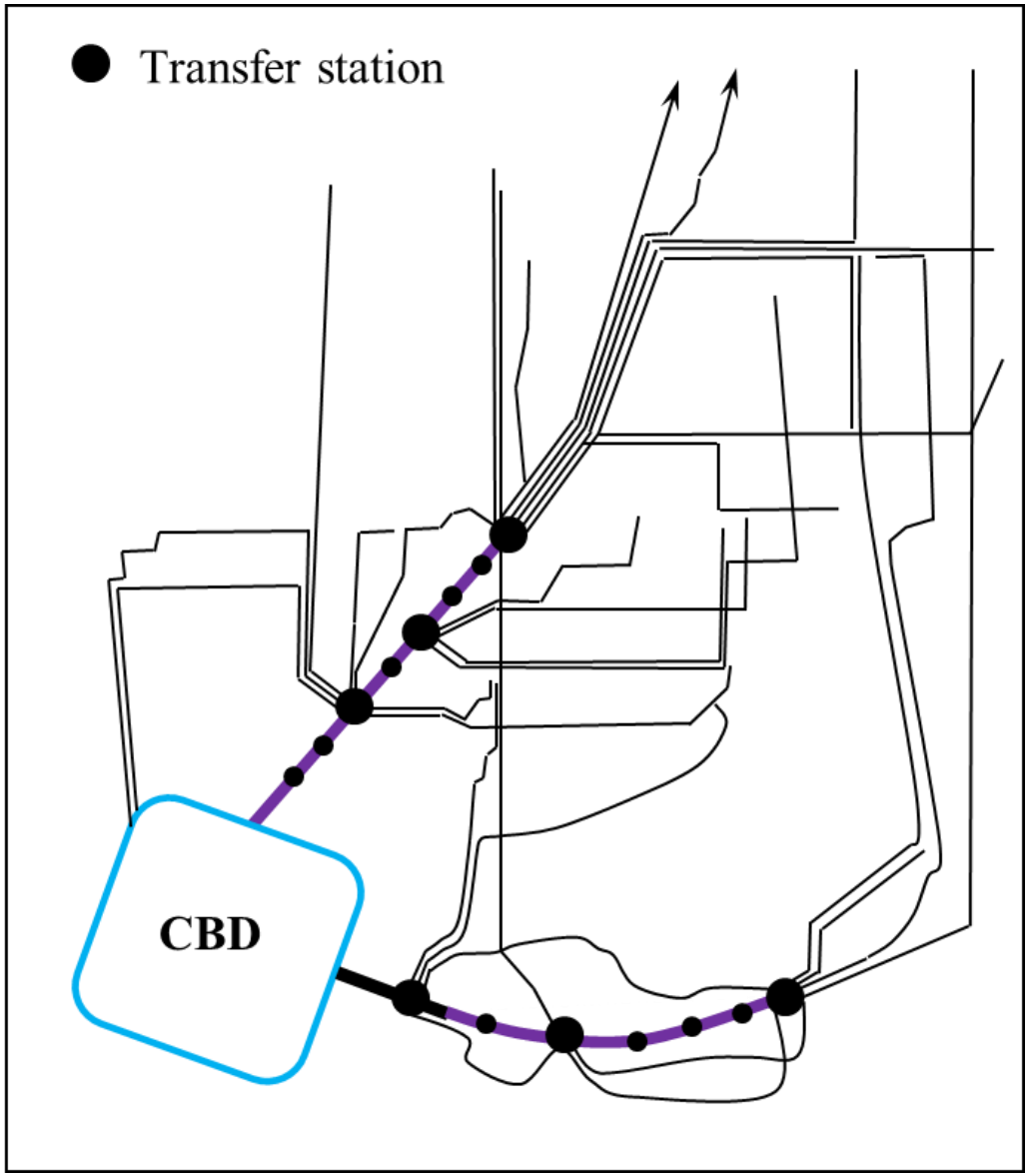
Parking and traffic situation near the major Bazar

Bus and high density minibus in Tashkent

Bus route consolidation and coordination

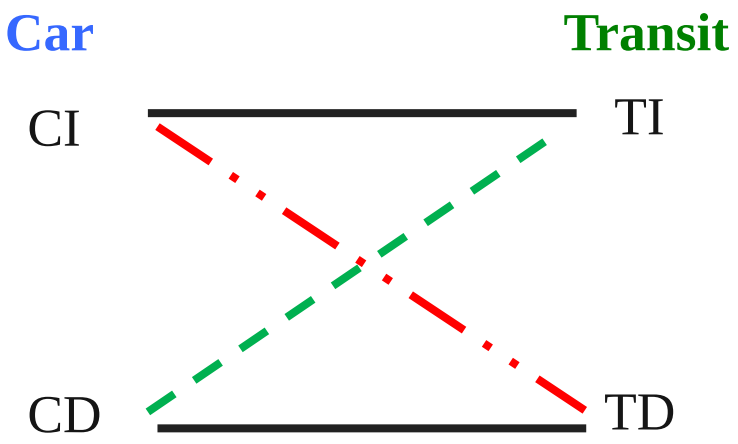


Existing: Independent bus lines compete on the main street and various sections



Proposed: **Trunk BRT or LRT** with feeders – balanced and synergistic value

Table 1. Policies toward car and transit modes and their impacts on intermodal balance

Policy Type	Investment	Mobility	Modes and Policies
Incentives	High	Increased	
Disincentives	Low or Negative	Decreased	

Legend for Policies

- Leads to balanced intermodal system
- May not influence intermodal relations
- Increases imbalance favoring car

CI: Car Incentive
TI: Transit Incentive
CD: Car Disincentive
TD: Transit Disincentive

3. Privatization vs. SOE: Mistakes and Lessons

DECREE
PRESIDENT OF THE REPUBLIC OF UZBEKISTAN

ON MEASURES TO CREATE AND ORGANIZE THE ACTIVITIES OF THE COUNCIL OF FOREIGN INVESTORS UNDER THE PRESIDENT OF THE REPUBLIC OF UZBEKISTAN

In order to further improve the investment climate in the country, expand the attraction of foreign direct investment in priority sectors of the economy and other important areas, organize a high-quality investment process taking into account international best practices, and also in accordance with the Decree of the President of the Republic of Uzbekistan dated August 6, 2018 No. PP- 3900 "On measures to further expand and deepen partnership with the European Bank for Reconstruction and Development":

1. Create a Council of Foreign Investors under the President of the Republic of Uzbekistan (hereinafter - the Council).

2. Define the main tasks of the Council:

advising the Government of the Republic of Uzbekistan on the most important areas of investment, industrial, technological and innovative development of the country based on the most successful experience and achievements of world practice;

direct participation in creating a favorable investment climate and effective mechanisms to stimulate domestic and foreign entrepreneurs to invest in priority sectors of the economy, as well as regions of the country, with the aim of organizing modern production of competitive export-oriented products, as well as promoting the active attraction of investments, primarily foreign direct investment, and the development of mutually beneficial trade;

ensuring effective interaction between government bodies and business entities with foreign companies, banks, investment and other structures, international financial institutions and foreign government financial organizations;

identification and analysis of key factors preventing the attraction of investments and investor activity, including foreign ones, ensuring the maintenance of a favorable business environment and investment climate in the republic;

development of effective proposals aimed at eliminating the factors holding back investment processes by the joint efforts of state bodies, international financial institutions and foreign governmental financial organizations, foreign companies, banks, investment and other structures operating in the Republic of Uzbekistan;

assistance in improving the support mechanisms for exporters, the consistent development of trade infrastructure, e-commerce system, creating favorable conditions for the promotion of domestic goods and services to foreign markets, the formation of efficient transport corridors, modern logistics chains;

the introduction of positive foreign experience in the processes of creating and using modern product quality management systems, the consistent implementation of measures to ensure compliance of domestic goods with international standards and technical regulations, increase their competitiveness, support the use of advanced information and communication technologies;

preparation of proposals and recommendations for further improvement of the legal framework in the field of regulation of investment activity in the Republic of Uzbekistan;

identifying priority areas and developing effective measures to improve the international image, increase the position of the Republic of Uzbekistan in international ratings and indices.

3. To establish that:

The Council is an advisory body under the President of the Republic of Uzbekistan;

The composition of the Council is made up of leaders and representatives of foreign companies, banks, investment and other structures, international financial institutions and foreign government financial organizations, including the European Bank for Reconstruction and Development, which also carry out investment and business activities in the Republic of Uzbekistan in the prescribed manner, and also other participants;

The Council operates in the form of plenary and interim sessions. Plenary sessions of the Council are held once a year, interim sessions - at least twice a year;

coordination of the work on the plenary sessions of the Council is carried out by the Administration of the President of the Republic of Uzbekistan, of intermediate sessions by the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan;

UZIPA
INVESTMENT PROMOTION AGENCY OF UZBEKISTAN

IJGlobal
Project Finance & Infrastructure Journal

Uzbekistan's privatisation programme

Published 12 Aug 2019 **Last Updated** 05 Sep 2019 10:21

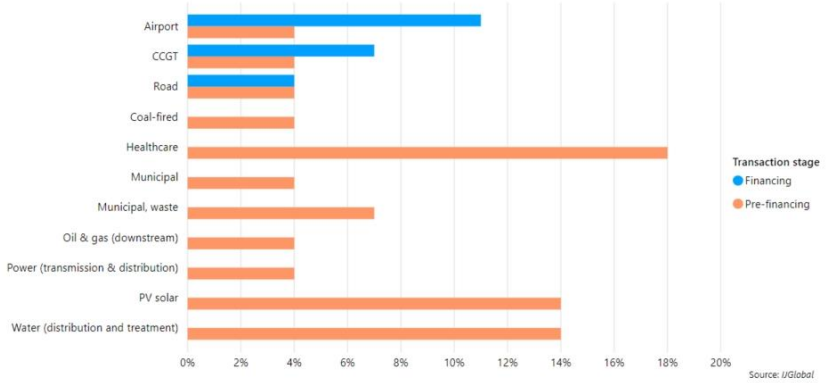
David Doré Contact Author

Average of 75+% of state-owned enterprises shares are up for sale to investors

Industry	State-owned enterprise	Location	Shares up for sale (%)
Construction	Kvarts	Fergana region	74.98
Construction	Kizilkumtsement	Navoi region	35.9
Electric power	Novo-Angren TES	Tashkent region	99.59
Electric power	Angren TES	Tashkent region	99
Oil & gas	Andijanneftegazkuduktamirlash	Andijan region	100
Oil & gas	Fergana neftebaza	Fergana region	100
Oil & gas	Gulistan Neftebaza	Syrdarya region	100
Oil & gas	Uzneftegazkuduktamirlash	Bukhara region	74
Oil & gas	Neft va gaz kuduklarini sinash	Kashkadarya region	73.87
Oil & gas	Bukhoroneftegazparmalash	Bukhara region	51.24
Oil & gas	Kashkadaryaparmalashishlari'	Kashkadarya region	51
Oil & gas	Surkhan parmalash ishlari	Surkhandarya region	51
		Average:	**75.9**

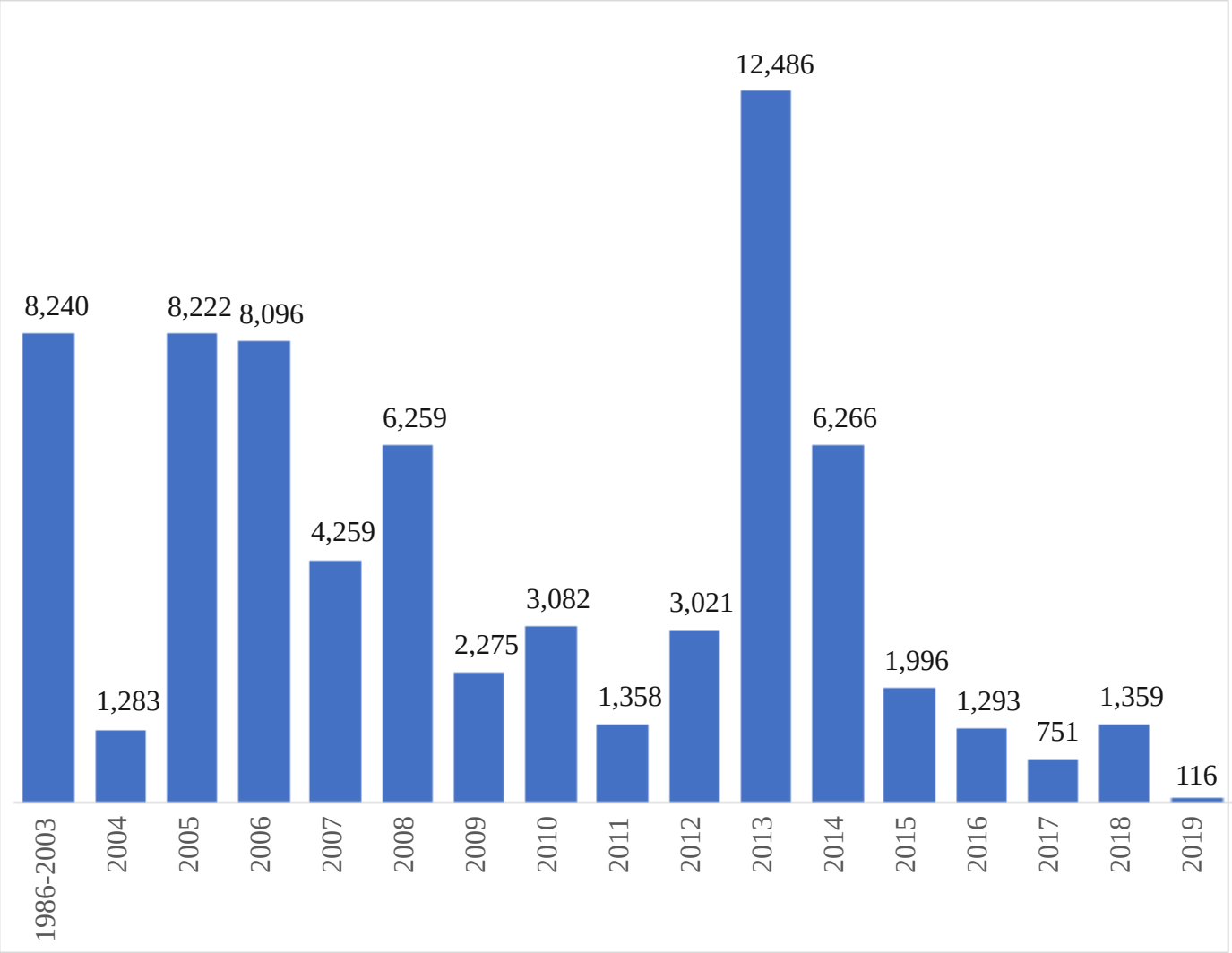
Source: *IJGlobal*

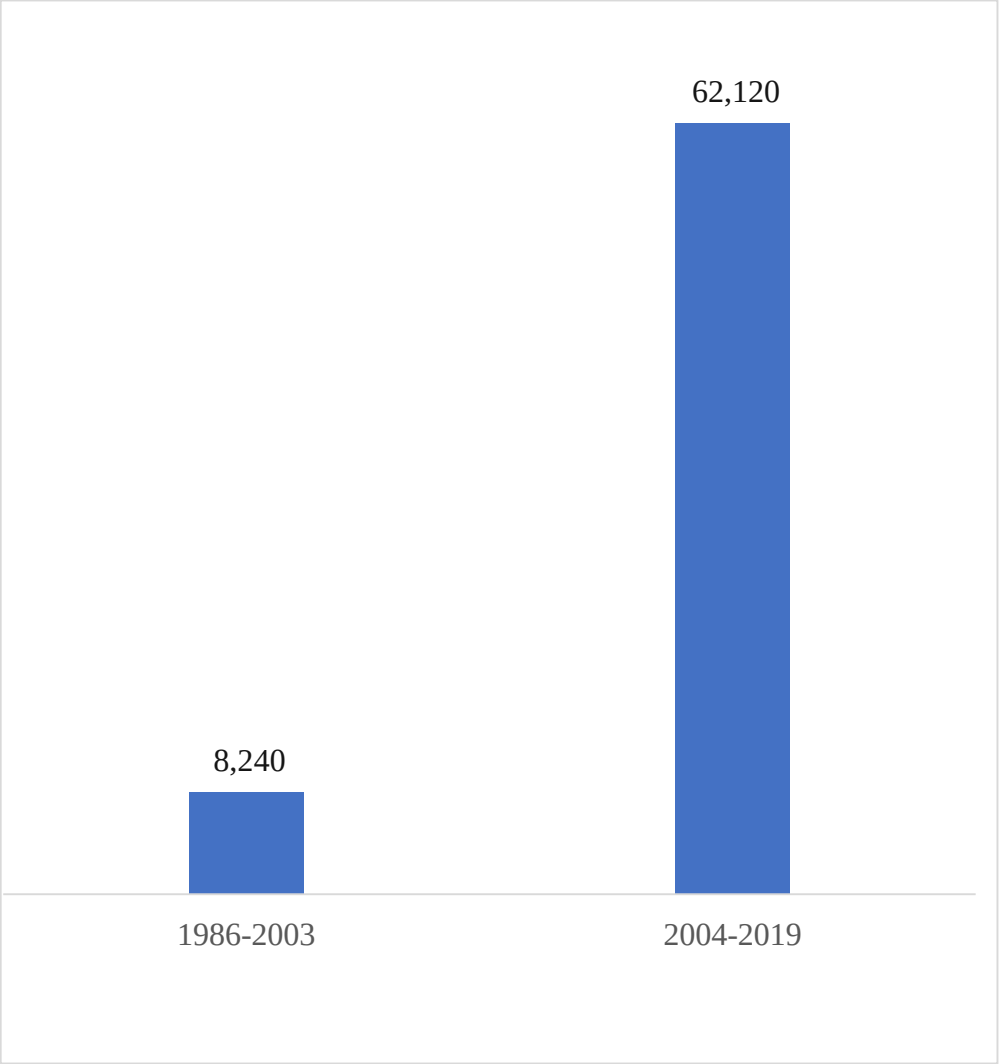
Projects in financing and pre-financing by sub-sector, as at 12 August 2019



Source: https://ijglobal.com/articles/141846/uzbekistans-privatisation-programme

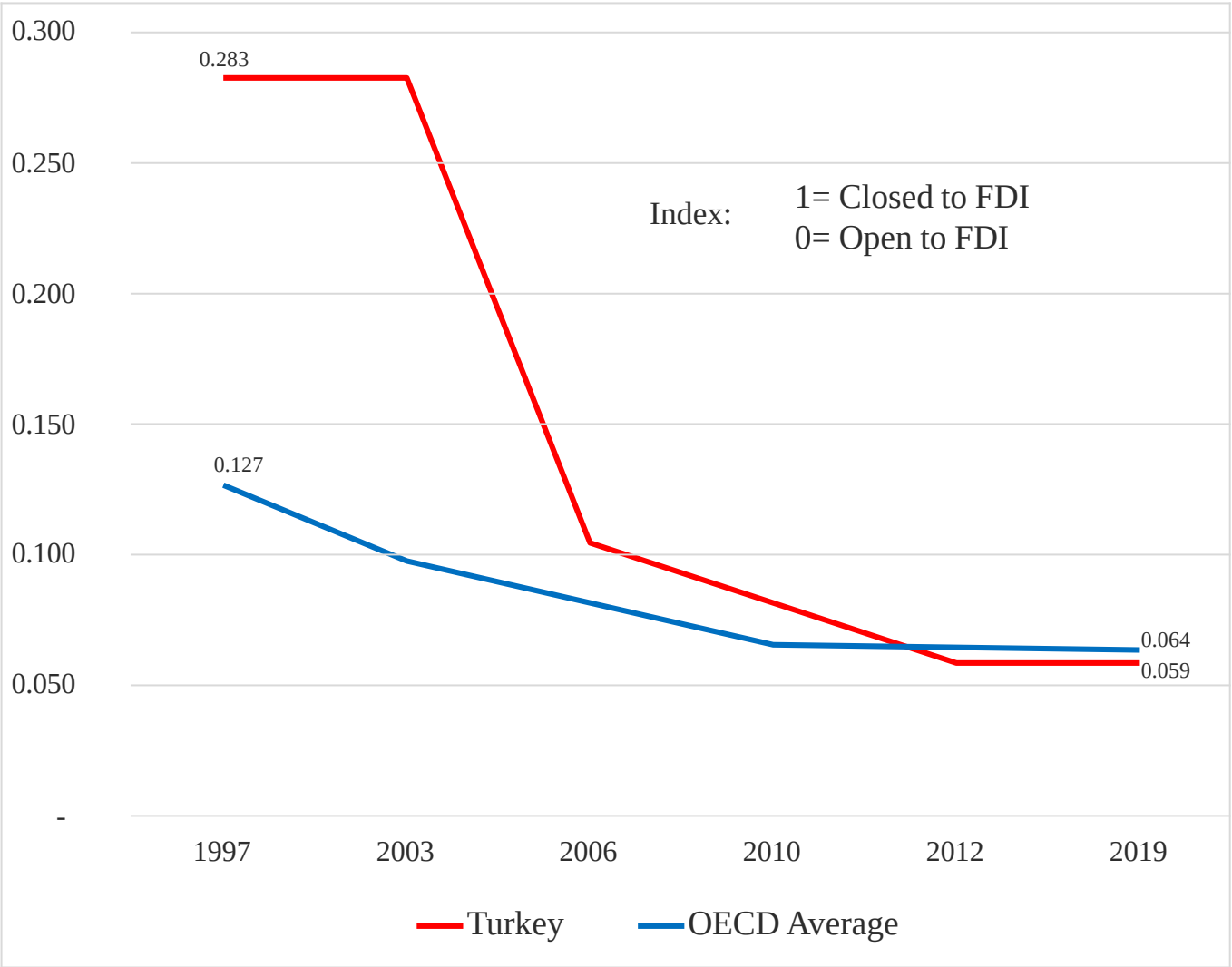
Turkish privatization before and after 2003

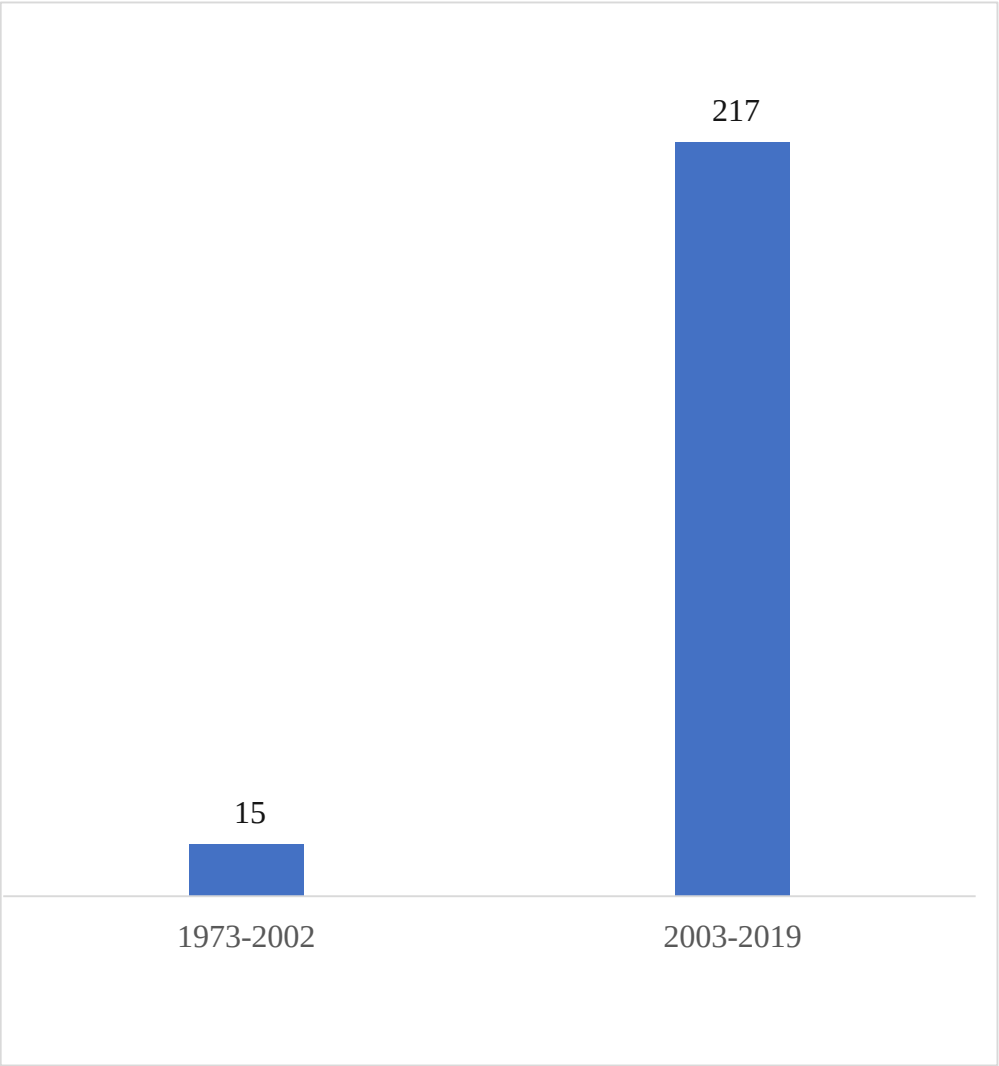




Source: Turkish Privatization Authority, Sectors across manufacture, service, and energy

Turkish government openness and foreign direct investments (FDI)





Source: OECD. ***Note:*** The FDI Regulatory Restrictiveness Index measures a country's statutory restrictions on foreign direct investment in 22 economic sectors.

Source: Central Bank of the Republic of Turkey

Institutional governance of privatization

Advantages (A) and **Disadvantages (D)** of a single public transit agency compared to various private operators:

1. Goal-setting: Main goal is providing service, not achieving optimum profits.

2. Unification: Unifies different modes, fares, and network, providing an integrated, intermodal transit system.

3. Consolation: Economies of scale achieved by consolidation of lines, network, fleets, and management, not by market share or buyout other modes (e.g., U.S. Trolley movements in 1940-70s).

4. Coverage: Profit sharing between lines allows coverage along less profitable lines.

5. Arms of government policy: Tighter coordination of government regulations and subsidies.

1. Negligence: Neglect financial performance due to subsidy lead to inefficiencies and deficits. The hazard of growth, profitability, and services (i.e. unprofitable routes).

2. Union hijack: Labor unions may use monopolistic position to force excessively high wages or inefficient practices. In some states, legislatures revoked the prohibition of strikes against public transit agencies.

3. Innovation: Lack of competition once eliminated, lack of motivation for innovation in service.

4. Poor trade-off: Larger regional agencies sometimes orient their attention to regional systems at the expense of local services, which are essential for urban and suburban neighborhoods.

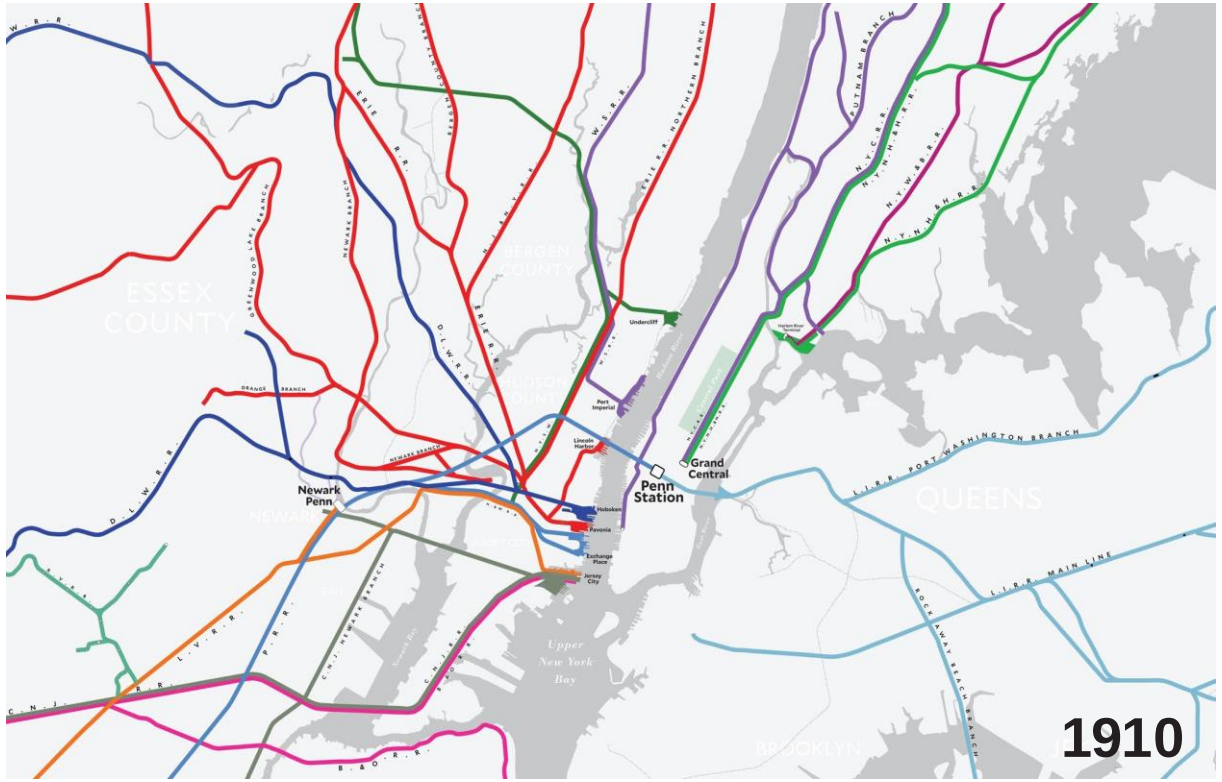
Public Transport: regulated social service, not a free market system

- "Free Market" is the best mechanism to provide competition, economic efficiency, meeting the needs of customers, etc.

"Free Market" cannot be used when alternative/competing products/services have:

- Very different investment/operating cost ratios;
- Different sources and amounts of subsidies;
- Different positive and negative externalities;
- Different short- and long-term goals. Market is generally sensitive to quantitative short-term achievements; insensitive to long-term qualitative outcomes.
- All these limitations of free market exist in the interrelationship between city/regional development and infrastructure investment, particularly [freight rail vs. cargo] and [public transport vs. cars] competition.

NYC privatization mistake and expense of public transport asset buyout



New York Region Commuter Rail & Waterfront Terminals, 1910. Penn Station and eight waterfront terminals provided many ways between Manhattan and New Jersey.

New York Region Commuter Rail, 2018. Penn station is the primary means of access between New Jersey and Manhattan.

[Harvesting vs. free market]

Reduction of rail network and service between Manhattan and New Jersey in 1910 – 2018

Regional Unified Network and The Bigger Apple

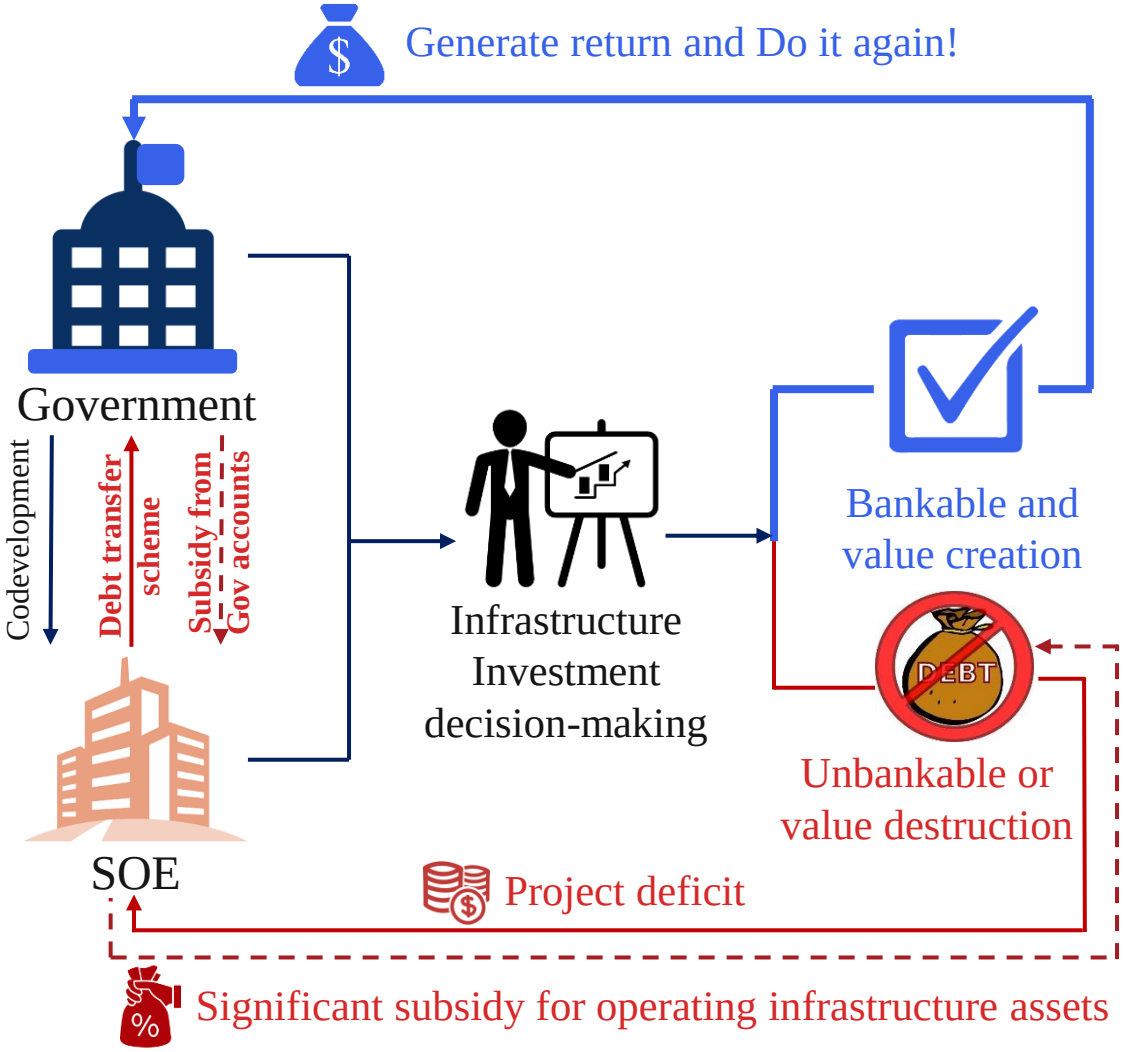
- The Plan to Rebuild New York Regional Transit System

ReThink Studio

THE BIGGER APPLE

ReThinkNYC PLAN 2050

4. Asset recycling program vs. Debt transfer scheme



Asset recycling program of bankable or value creation projects

Debt transfer scheme of unbankable or value destruction projects

Interpreting the motivation of the debt transfer scheme

Dialogue Box

Government decision-maker (G): Five years from now, I won't be here! I need to show people how many metro lines and bridges are going to open during my tenure as soon as possible. Let's build them first and wait for the ridership to grow.

Consultant (C): Underutilized infrastructure assets would be a waste of investment. Do you have a way to boost the asset utilization rate?

G: No, we don't!

C: Would you like to have one?

G: Well, it sounds complicated. Why not simply focus on how many lines and new systems we can open during my five-year term?

What [scale] of government spending are enough to achieve an intended outcome? vs. What is the [quality] of growth? Growth at what cost? Growth, but how long can it be sustained?

5. Conclusion

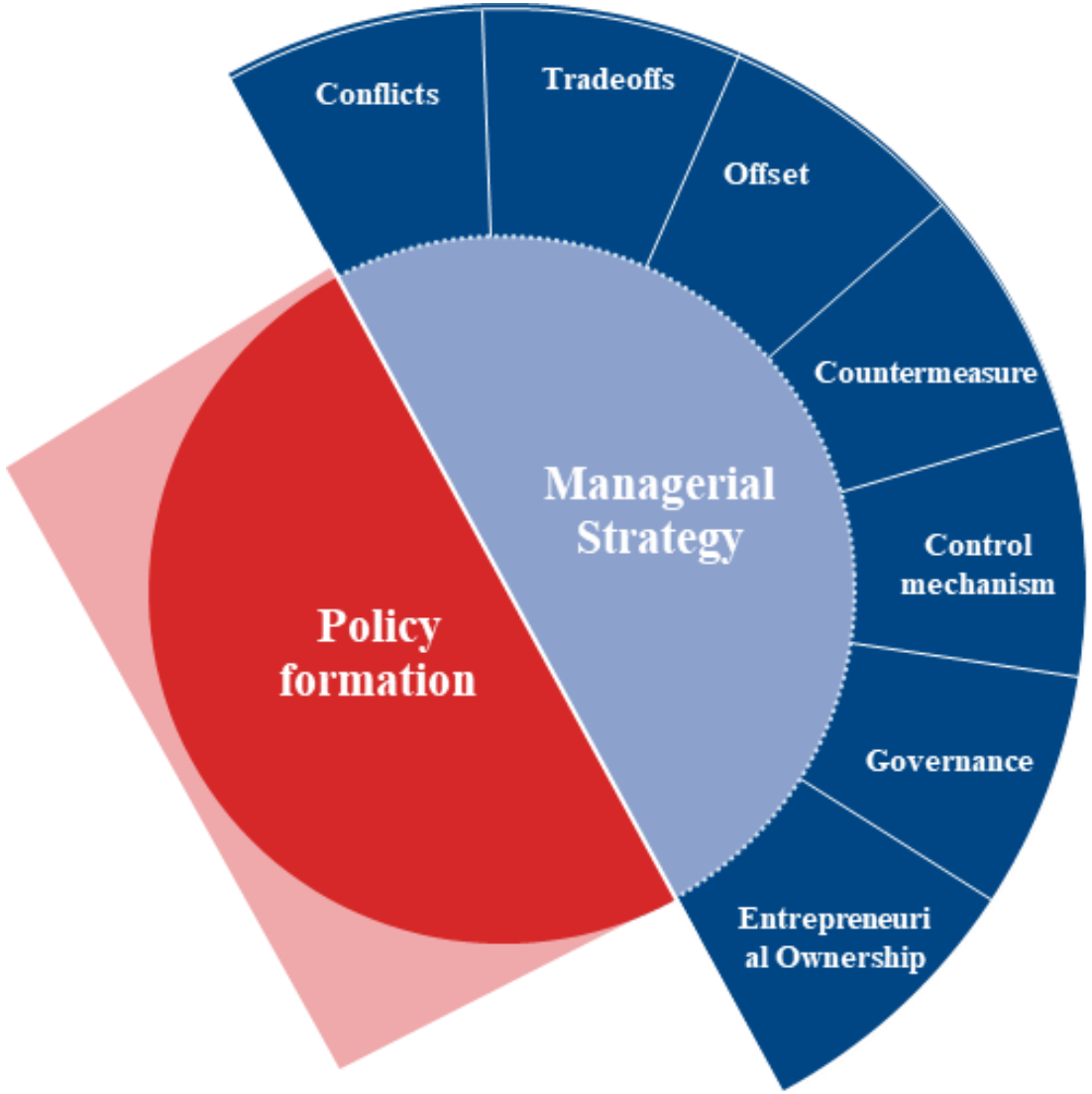
Investment is a mean to accelerate growth, but growth itself is not the goal. The goal is to identify what kind of city/ regional do people want?

Focus on maximizing synergy between **infrastructure investment** and **city/ regional development**

Growth ≠ value creation. Differentiate infrastructure investment scheme [asset recycling vs. debt transfer] of return on scale vs. return on quality

The investment solution is the combination of managerial strategy and policy governance with meticulous examination of Individual equilibrium (**IE**) vs. System optimal (**SO**)

Investment mindset: Make the world in a better place (The incumbent) vs. Fool some people all of the time; Too busy to make $ (The barbarian)



Thank you!