Ha Noi can offer more attractive terms to private investors in a new ring road—ADBI Dean

Ha Noi, the Vietnamese capital, is renowned for its congested traffic. The government wants to build a third ring road around the city.

But it doesn't have enough money for such a major project, with two other ring roads already under way. Some of the construction is being funded on a BOT basis—build, operate, transfer, whereby the investor constructs and maintains the ring road and gets the toll revenue for a certain period before handing it back to the public—and official development assistance from the Japan International Cooperation Agency.

However, private investors aren't much interested because the expected returns on investment are too low. How can the government increase the returns to make investment more attractive to private companies?

The Asian Development Bank Institute—or ADBI—recently looked at how to persuade private companies to invest in such things as new highways, railways, and dams. Private investors usually avoid big public infrastructure projects as the returns are not very attractive.

But governments don't always have enough money for such big projects. One way for governments to attract private investors is to share future tax revenues with them so the returns on investment are higher. Governments need to recognize that the projects create beneficial economic spillovers that can be tapped to attract more investors.

A new highway might lead to new businesses and new jobs. These new economic activities would, in turn, boost government coffers with revenue from taxes on property, income, corporations, and sales.

The Tokyo-based Asian Development Bank Institute—or ADBI—has pioneered research into this type of financing. Researchers looked at increases in tax revenue from project spillovers in Japan, as well as developing countries such as the Philippines, Uzbekistan, and India.

They found that after a spike around the time of construction, it usually takes a few years before much income starts flowing to tax collectors.

ADBI Dean Naoyuki Yoshino and Grant Stillman, the institute's legal adviser, have recently argued that gaps in funding for infrastructure can narrow if governments accept that future revenues can be fairly shared with private investors as an incentive.

Such forms of financing are promising for developing countries in Asia. They have huge infrastructure needs. But they have so far not had much success with private–public partnerships, sometimes known as PPPs.

Dean Yoshino says he recently discussed how to attract private investors to big projects with Dao Minh Tu, deputy governor of the State Bank of Vietnam, and Eric Sidgwick, ADB's Viet Nam country director, in Ha Noi. He also spoke on the topic during a visit to the central city of Danang.

> In the past, private-public partnerships failed in many countries because private finance did not receive enough returns from infrastructure investment. In other words, in most infrastructure, returns come from user charges such as highway tolls or water bills, which are regulated by the government. That is one of the reasons PPP was not so successful in Asia.

Here's where future spillover tax revenues come in. Dean Yoshino believes they can be used to make the rate of return more attractive to private investors.

> My idea for increasing the rate of return is to utilize spillover tax revenues along highways and infrastructure. If water supply is good, then property values will go up and private industries will come in and factories can be set up because there is running water. Then the tax revenues in the region—corporate, property, and sales—will increase.
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> If part of those tax revenues are returned to private investors in addition to user charges, then they can keep on collecting revenues every year as long

as those tax revenues come in. And that will change their revenue patterns enormously.

The head of ADB in Ha Noi was glad to hear about my idea. In Ha Noi, they're planning a ring road. However, private investors are reluctant to invest because of the low rate of expected return. And the government does not have enough money to construct a ring road in Ha Noi. If my proposal can be implemented, then the ring road will create huge employment and business. Then tax revenue will keep coming in and private investors will be willing to invest there.

Dean Yoshino says he has since given his presentation to the World Bank and the Center for Strategic and International Studies in Washington. The response has been positive.

Some tax specialists, especially from the World Bank, were very interested in my idea. We will discuss how it can be implemented in the infrastructure projects the World Bank is planning. I hope that Viet Nam will be able to raise money by introducing my idea.

That was Naoyuki Yoshino, dean of the Asian Development Bank Institute in Tokyo, talking about how to attract private companies to invest in a new ring road around Viet Nam's capital, Ha Noi.

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