

APPENDIX B

INTRODUCTION LETTERS PREPARED AND SENT BY THE WORLD BANK AND MOCJ

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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September 8, 1998

Mr.XXXXX

Dear Mr. XXXXX

*Asian Toll Road Development Program
Global Toll Road Study for Selected Asian Countries*

The World Bank in collaboration with the Ministry of Construction of Japan (MOCJ) has launched an Asian Toll Road Development Program, of which the Global Toll Road Study for selected Asian Countries is the first component. One of the objectives of the program is to provide opportunities for Asian countries to learn from the experiences of other countries and to discuss future management of their toll roads by formulating effective institutional and regulatory frameworks. The other objective is to produce a knowledge database on toll roads (Best Practice Tool Kit). The study will target five Asian countries: China, Indonesia, Malaysia, Philippines, and Thailand.

Toll road information from around the world will be collected, assessed, and analyzed. Analysis will be on the following issues: institutional, project financing, regulatory & legal, planning & design, and environmental & socio-economic. The overall research is targeted towards various institutions in the areas of: transport policy and regulation, toll road operation, toll road building, toll road financing, toll road organizations, and international lending institutions.

Subsequently, a three-day seminar on Institutional and Regulatory Frameworks for Toll Roads in Asia will be held in Tokyo, Japan - tentatively scheduled for early 1999. In attendance will be representatives from the five target countries and other notable international toll-road related guests. The proceedings of this event will also be included in the "Best Practice Tool Kit".

An Advisory Committee comprised of members of Road Council in Japan has been set up to provide necessary advice and ensure efficient implementation of the study. We have also set up a Steering Committee in the Bank which is chaired by Mr. Alfred H. Nickesen of East Asia. The Japanese side is chaired by Mr. Jun-ichi Matoba, the Director for Toll Road Development of MOCJ.

A Tokyo-based international development consulting firm, PADECO Co., Ltd., has been engaged to conduct this study. The Expressway Technology Center (EXTEC) and the Express Highway Research Foundation of Japan (EHRF), both affiliated research bodies of Japan Highway Public Corporation, have been appointed as Joint Venture partners to coordinate the study and to give advice to PADECO.

The PADECO consultant team will begin to approach various toll road related institutions in each of the target countries, including your own, per the attached questionnaires. The Bank and the MOCJ are confident that this program will have a positive impact on the future of toll road development across Asia, and sincerely appreciate if you would have interest in the study and establish a contact point within your institution to make a valuable input cooperating with the PADECO consultants.

It is our hope that the study also will additionally function as a catalyst for future collaboration and create a sound platform for mutual cooperation.

Please feel free to contact Mr. Setsuo Hirai, coordinator of the program, if you should have any questions or comments. He can be reached at tel: (202) 458-2637, fax: (202) 522-3223, or e-mail Shirai@worldbank.org.

Sincerely,

(signed) Anthony J. Pellegrini
Director
Transport, Water and Urban Development
The World Bank

Enclosures :

Outline of the Global Toll Road Study for Selected Asian Countries
Points of Discussion and Information Requirement

Outline of the Global Toll Road Study for Selected Asian Countries

1. Background and Objectives

In recent years, there has been increasing need for road improvement in developing countries in response to rapid economic growth. However, this road improvement requires heavy investment. In an attempt to meet the big requirements, the number of developing countries which have adopted toll road systems has been increasing. Road improvements need is considerable in the Asian region and the issue of how the governments should effectively utilize toll road systems including private financing for road improvement is becoming acute.

Under these circumstances and based on experiences on toll roads in Japan, the Ministry of Construction of Japan (MOCJ) jointly with the World Bank (Bank) have decided to launch a “Global Toll Road Study for Selected Asian Countries”. This was done in order to learn from and discuss with the selected Asian countries (China, Indonesia, Philippines, Thailand and Malaysia) how to establish an adequate nationwide toll road system.

One of the objectives of the study is to provide opportunities for Asian countries to learn from the experiences of other countries and to discuss future management of their toll roads by formulating effective institutional and regulatory frameworks. The other objective is to produce a knowledge database on toll roads (Best Practice Tool Kit). The study will target five Asian countries: China, Indonesia, Malaysia, Philippines and Thailand.

2. Scope of Individual Activities

MOCJ and the Bank will carry out the following activities.

(1) Information collection on worldwide experiences in toll roads

Information collection will be carried out regarding legislation of toll roads, organizational structures of toll road agencies, concessions, financing, guarantees, operation and maintenance of toll roads and so on in the world, focusing on Japanese experiences in toll roads.

Activities:

The Bank will collect and sort out information from countries, including but not limited to Japan and five target countries, which have various experience of toll road management.

(2) Discussion with Asian government officials and others concerned on toll roads (co-hosting a seminar)

Activities:

MOCJ and the Bank will co-host a three day seminar in Tokyo for the government officials of the target countries, the Bank and MOCJ staff concerned, and other knowledgeable persons to gather at one place and discuss and determine the most adequate toll road systems for the target countries.

(3) Production of useful “Best Practice Tool Kit”

Based upon the said information collection and the results of the seminar, a “Best Practice Tool Kit” will be produced, which should be useful for the target countries.

Activities:

MOCJ and the Bank will produce “Best Practice Tool Kit” in a trouble shooting manner.

“Best Practice Tool Kit “ will be installed in the Knowledge Management System managed by the Bank and shared with the target countries and MOCJ.

3. Estimated Time Frame

September	1998	Beginning of dispatching consultant team.
March	1999	The seminar and the study tour
May	1999	Completion of “Best Practice Tool Kit”

Global Toll Road Study for Selected Asian Countries

Points of Discussion and Information Requirements

Objectives of Data Collection

In recent years, in response to rapid economic growth, there is an increasing need for improvement of roads and highways in the developing countries of the East Asia and Pacific region. The addition of modern highways and other transport infrastructure in these countries has significantly improved travel times and road safety for commercial trucks, buses and passenger cars alike, thereby improving the productivity of the economy and enhancing the quality of life for all people.

For most developing countries in the region, the cost of four and six-lane highways and expressways is well beyond the capacity of public funding to meet. To offset the shortfall, highway tolls and other user charges are in use or under consideration to supplement limited budgetary allocations for new construction.

Many developing countries have also turned to the private sector for support. This support may involve the investment of development capital for preliminary design and traffic and revenue analysis to determine the feasibility of proposed highway corridors for toll financing. At a later time, the investor may acquire debt financing for construction of the project through a build-operate-transfer (BOT) concession arrangement.

In developing countries, however, it is still undetermined how toll highway projects can be successfully financed with the participation of private investors and commercial lenders. There are certain conditions which are very important for foreign investors and lenders in these projects and which, unless met, make it difficult, if not impossible, to complete the financing. Some of the principal conditions are:

1. Adequate traffic volumes and revenues to repay investors and lenders, as scheduled at the outset. Most developing countries have few highway corridors with high traffic densities and they also have limited experience with users' ability and willingness to pay tolls.
2. Sufficient availability of labor, materials, and equipment to efficiently undertake and complete construction and to operate the road thereafter, without interruptions.
3. Country and economic stability, with a clear policy and regulatory framework and access for foreign investors to domestic capital markets.
4. Favorable fiscal conditions, with manageable rate of inflation and interest rate levels for local debt, exchange rate stability, and low chance of currency devaluation.

The above conditions vary between countries and individual highway projects. Other key variables are the maturity of the road network, the role of toll highways in the network, and ability of the country to manage toll roads as an element of the larger network -- as a means to maximize the revenue and minimize financial risk.

Developing countries in the East Asia and Pacific region can benefit from the experience of other countries in the world, as to:

- 1) The appropriate position and role of toll roads as a means of completing their entire highway networks.
- 2) The management of toll roads as separate projects and as systems.

This experience should be evaluated in the context of varying levels of participation by public and private sectors, as well as different approaches to risk allocation and project financing.

Information Requirements

Laws and regulations: Comprehensive roads sector legislation, regulations and ordinances, and BOT policy decrees, if available, which pertain to development of highways and toll roads by public agencies and the private sector. Such matters as procurement, land acquisition and ownership, applicable tax laws, protection of property rights, and contract enforceability should be covered.

Financing: Recent annual reports for implementing agencies, including financial statements for toll facilities. Summary of project debt in place, including interest rates, grace periods, and repayment terms. Description of subsidy and public support for toll road development, including subordinated debt, standby credit facilities for operation, and grants for construction. Summary of construction, operation and maintenance costs for projects implemented by government, public corporations and the private sector. Documentation on principal toll road investors and developers, including project-specific promotional or marketing information.

Toll system: Description of toll collection system and tariff structure for each toll road and the system as a whole. Description of toll rates, percentage of traffic volume, and total revenues by vehicle category. Statement of principles along with procedure and criteria for determining and revising toll rates.

Planning and management: List and provide a map of all existing and planned toll roads, including the actual or anticipated start of operation, overseeing agencies, principal members of consortiums, equity investors, and other important details. Current and/or prior organizational structures of existing and proposed toll road organizations. Traffic forecast data prior to the start of the project, and actual daily traffic volumes since completion and full operation. Construction and operational assessment and/or evaluation plans or reports which may be available. If available, master planning documents for transport infrastructure, highways, and toll roads at the national, regional, or local levels. Multimodal transport corridor studies and environmental impact reports for toll road projects.

Contracts: Examples of contract documents related to BOT or highway concession projects with private sector investment or commercial financing. Such documentation may include agreements for consultant services, including feasibility studies and engineering/design activities and bidding/tendering procedures. Other documentation could consist of preliminary consortium arrangements and project or concession agreements to include services for design, construction, operation and maintenance, insurance contracts, and financing. Documentation related to identification and mitigation of particular commercial/country risks by the public and private sectors would be especially helpful.

[letterhead: *Ministry of Construction, Japan*]

September 8, 1998

Re: Asian Toll Road Development Program
Global Toll Road Study for Selected Asian Countries

Mr.XXXXX

I am honored to inform you that a Global Toll Road Study for Selected Asian Countries has been initiated and is underway as a collaborative effort between the Ministry of Construction, Japan (MOCJ) and The World Bank.

One of the objectives of the study is to provide opportunities for Asian countries to learn from the experiences of other countries and to discuss future management of their toll roads by formulating effective institutional and regulatory frameworks. The other objective is to produce a knowledge database on toll roads (Best Practice Tool Kit). The study will target five Asian countries: China, Indonesia, Malaysia, Philippines, and Thailand.

It would be highly appreciated if you could let us, at the World Bank, know the contact person within your institution who would be able to give valuable input to the study.

The results of the study should become an invaluable road development and policy-making resource for toll road administrators throughout the Asian region. We also hope that the study will function as a catalyst for future collaborative efforts and creates a sound platform for mutual cooperation in the years ahead.

Yours sincerely,

(signed) Jun-ichi Matoba
Chairman of Japan's Steering Committee,
Global Toll Road Study for Selected Asian Countries
Director for Toll Road Development
Road Bureau
Ministry of Construction, Japan