Turkish PPP practice: Challenges and recent capacity building initiatives

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Public Private Partnership Department

www.kalkinma.gov.tr
Outline

• Legal regulations and covered sectors
• Main institutional structure
• Project pipeline and recent trends
• Current issues and new perspectives
• Capacity building initiatives
Outline

• **Legal regulations and covered sectors**

• Main institutional structure

• Project pipeline and recent trends

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### Models & Legal Framework & Sectors

<table>
<thead>
<tr>
<th>Build-Operate-Transfer</th>
<th>Build-Operate</th>
<th>Build-Lease-Transfer</th>
<th>Transfer of Operating Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law No 3996, 3465 and 3096</td>
<td>Law No 4283</td>
<td>Law No 5396, 652, 6428 and 351</td>
<td>Law No 4046, 5335, 3465, 3096</td>
</tr>
<tr>
<td>Motorway</td>
<td>Thermal Power Plant</td>
<td>Hospital</td>
<td>Airport</td>
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<tr>
<td>Port</td>
<td></td>
<td>College</td>
<td>Port</td>
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<tr>
<td>Airport</td>
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<td>Dormitory</td>
<td>Power Plant</td>
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<tr>
<td>Marina</td>
<td></td>
<td>School</td>
<td>Electricity distribution</td>
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<tr>
<td>Border Gate</td>
<td></td>
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<tr>
<td>Power Plant</td>
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</tbody>
</table>
Legal regulations and covered sectors

- Railway
- Electricity Production Facility
- Motorway
- Sport Facility
- Convention Center
- Marina
- Hospital
- Border Gates
- Cultural and Touristic Investment
- Seaport, Airport
- Communication
- Agriculture
- Train Station
- Water, Sewage
- Mining
- School, Dormitory
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How PPP projects are authorized

1) Preparation Stage

- Strategy Papers
  - Development Plan
  - Medium Term Program
  - Yearly Program
  - Investment Program
  - Sectoral Strategies

- NEEDS ANALYSIS

- Feasibility Analysis
  - Financial Analysis
  - Economic Analysis
  - Legal Analysis
  - Public Sector Comparator

- AUTHORIZATION APPLICATION
2) Authorization Stage
How PPP projects are authorized

3) Tendering and Approval Stage

- TENDERING PERIOD
- SELECTION OF PRIVATE PARTNER
- SIGN THE DRAFT CONTRACT

DRAFT CONTRACT
TECHNICAL SPECIFICATIONS
INSTITUTIONAL SPECIFICATIONS

APPROVAL OF THE RELATED MINISTER
Outline

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### Project portfolio

<table>
<thead>
<tr>
<th></th>
<th>Projects in Operation</th>
<th>Projects in Financial Close/Construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Number</strong></td>
<td>164</td>
<td>35</td>
<td>199</td>
</tr>
<tr>
<td><strong>Project Contract Value</strong></td>
<td>43,3 billion $</td>
<td>72,3 billion $</td>
<td>115 billion $*</td>
</tr>
</tbody>
</table>

* In 2015 prices
Aggregate value of projects

Distribution of Contract Values by Years

* In 2015 prices
PPP by models

Distribution of Project Numbers by Models

- Build-Operate-Transfer; 100
- Build-Operate; 5
- Build-Lease-Transfer; 16
- Transfer of Operating Rights; 78
Sectoral distribution by numbers

- **Motorway Projects**: 34*
- **Energy Production Facilities**: 76
- **Airport Projects**: 19
- **Railway Projects**: 1
- **Industrial Inf. Projects**: 2
- **Border Gate Projects**: 13
- **Marina Projects**: 15
- **Harbor Projects**: 22
- **Health Facility Projects**: 16
- **Culture and Tourism Projects**: 1

*29 of 34 motorway projects are motorway service facilities.*
Sectoral distribution by contract value

- Airport Projects $66
- Motorway Projects $11.6
- Health Facility Projects $9.5
- Border Gate Projects $0.37
- Energy Production Facilities $22
- Marina Projects $1.7
- Harbor Projects $2.5
- Railway Projects $0.24
- Industrial Inf. Projects $1.3
- Culture and Tourism Projects $0.13

* In 2015 prices
North Marmara Motorway Project (3rd Bosphorus Bridge)

- BOT model
- 95 km motorway by its completion, will include 3rd Bosphorus Bridge
- Investment Cost: $2.4 bil.

- Planned to be opened in 2017
- Construction period: 2.5 years
- Operation time: 7 years 8 months 20 days.

* In 2015 prices
İstanbul New Airport

- BOT model
- Invest. cost: $13.9 billion
- 4 phases
- Finally,
  - 150 million capacity
  - 4 terminal building
  - 6 runway
  - 16 taxiway
- Construction period: first phase 42 month
- Operation period: 25 years
- Lease amount: $35.5 billion (inc. VAT)

* In 2015 prices
Health Campuses

• There are totally 27 PPP projects which are authorized by High Planning Council by 2015

• The 17 of 27 projects contracts are signed.

• Total bed capacity is 35,100 for authorized 27 PPP project

* In 2014 prices
<table>
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<tr>
<th>Project Pipeline</th>
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- More than 20 health campus projects are expected. (Excluding the 9 projects submitted to the High Planning Council)
- Border gate facilities, large scale ports and marinas are also in the pipeline.
- Motorway projects constitute the majority of pipeline (min. $ 35 billion.)
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The planned PPP projects have to comply with sectoral priorities mentioned in Development Plan, Medium Term Program and Annual Program.
During the preparation of 10th Development Plan, the first PPP AdHoc Committee of Turkey has arranged with more than 100 participants both from public and private sectors.

**Participant Distribution**

- UNIVERSITY: 51%
- CONSULTANT: 21%
- FINANCIAL INST.: 16%
- PUBLIC SECTOR: 8%
- NGO: 2%
- CONTRACTOR: 2%
Problems in Planning and Programming Stage

- Misperception of carrying out PPP projects free of charge
- Misperception: PPP is a quick way of completing projects
- Unplanned bidding process
Problems in Project Designing Stage

- Inadequacy of technical, financial and legal expertise
- Lack of value for money analysis in feasibility reports
- Lack of projection of liabilities (debt assumption, revenue and demand guarantees etc.)
Problems in Financing Stage

- Excessive number of projects and over demand for capital
- Insufficient revenue generation capacity of projects
- Disorganized structure of public guarantees
Problems in Operational Stage

- Lack of coordination among public institutions
- Need for technical consultancy
- Inadequacies in monitoring and evaluation
Policies in 10\textsuperscript{th} Development Plan

- The need for improvement of public institutional capacity is still of importance.
- A strategy paper, which will act as a road map, will be prepared.
- In order to compile the scattered PPP legislation, a framework law will be prepared.
- The coordination of PPP policies and practices will be strengthened.
- An effective monitoring and evaluation system, which is able to measure PPP projects’ risks and effects on budget, will be established.
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Capacity building initiatives

- Preparation of a **PPP strategy** in cooperation with OECD-SIGMA
  - Strategy is planned to cover 4 sections
    - **PPP policy**: sectoral priorities, budgetary thresholds and methodological preferences
    - **Legal framework**: new PPP law, procurement processes and dispute resolution mechanism
    - **Institutional framework**: institutional restructuring and capacity building activities
    - **Financial framework**: financial models, risk assessment and government supports
Capacity building initiatives

Capacity enhancement project with World Bank

- The project is planned to continue 15 months and focus on 4 main tasks.

- Grand municipalities, PPP practicing public enterprises, line ministries and central monitoring agencies are expected to attend the programme.

- A series of workshops and training sessions will be organized.
Capacity building initiatives

Capacity enhancement project with World Bank

• Task 1: diagnostic assessment of PPPs in Turkey
  • Sectoral trends
  • legal basis
  • institutional framework,
  • contract design and management

• Task 2: functional competencies
  • Project identification, prioritization and preparation
  • Risk allocation framework
  • Value for money assessment
  • Monitoring of projects
Capacity building initiatives

- **Task 3: contract standardization**
  - developing key contract provisions (step-in-rights, early termination, etc.)
  - developing sector specific contract clauses
  - developing model specific contract clauses

- **Task 4: financing of PPPs**
  - accessing to capital markets
  - optimizing government supports

- **Task 5: government liabilities**
  - identification and quantification of government liabilities
  - consolidation and management of government liabilities
Capacity building initiatives

- Expected outputs:
  - Improving technical, legal and financial expertise among public officials
  - Diagnostic Report
  - PPP Manual
  - Key PPP Contract Clauses Manual
  - A Guidance Note on Government Liabilities Valuation
Final Remarks

- PPPs require a high-level of expertise for public officials in order to successfully compete with private sector counterparts
- Sectoral, financial and legal competencies are of primary importance
- Long experience of PPPs does not necessarily generate institutional capacity: Institutional competence is built by deliberate, continuous and conscious efforts
- Utilizing the experiences and expertise of other countries and international organizations is the least costly way of learning
Thank you...

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