The path to successful PPP projects

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Infrastructure Challenges

- Around $20 billion per year
- Infrastructure Needs
  - Current Infrastructure Spending (2015)
  - $15 billion (8% of GDP)
- $2 bn

Improving Public Expenditure Efficiency
- Assumption: 10% savings

Increasing Revenue Base
- Assumption: Raising financing through the private sector by 10-15% of infra needs

Strengthening PPP environment

- Reversing decline in revenue mobilization (challenging with rising deficit and debt)

- Investment needs to significantly increase...
  ... and be environmentally, socially and economically sustainable!

- Public resources alone cannot fill the gap
  - Private and PPP
PPP Definition

Long term (relationship beyond construction phase)

Contract based

"A long-term contract between a private party and a government agency, for providing public services and/or developing public infrastructure, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance"

Source: PPP Reference Guide 2.0

✓ Mobilizing resources
✓ Achieving a long-term solutions
✓ Transferring risks to the private sector
Other PPP Benefits

- **Long-term solution**: quality infrastructure for > 20+ years

  - Payment only if performance targets met throughout the length of the contract
  - **PPP contract**
  - ✓ Durable construction
  - ✓ Adequate maintenance
  - ✓ Efficiency gains

- **Risk transfer**: If the project costs more than planned → private sector covers the difference

  86% of public infrastructure projects are above budget

  Source: Flyvbjerg et al. / data: 258 Infra Projects over 1910-2000 (Europe / USA / Japan)
PPP Limitations

- **Not free**: users and/or tax payers have typically to pay for the project to be delivered profitably

- **Public guarantees = contingent liabilities**: fiscal risk has to be properly assessed and monitored

- **Complex arrangement**: high transaction costs / internal capacity constraints / not suitable for all projects (limited flexibility)

- **Private sector capacity** to take such long-term commitments / enough competition?

- **Possible public resistance**
PPP Track record in South-East Asia
Country Breakdown

- Indonesia / the Philippines = largest market recently
  ... Viet Nam lagging behind / around $2.4 billion over 4 years

Private Investment (2012-16) as % of GDP

- Cambodia: 0.0%
- Indonesia: 1.8%
- Lao PDR: 59.6%
- Malaysia: 1.2%
- Myanmar: 2.9%
- Philippines: 4.6%
- Thailand: 2.2%
- Vietnam: 1.4%

Source: World Bank PPI Database
Governments have a role to play...  
... to create an enabling environment for PPPs

**PPP Enabling Environment**

**Policy Formulation**
- Stable long-term vision
- High level politicians championing PPP
- Track record building

**Legal & Regulatory Frameworks**
- Clear legal basis (competent authorities,...)
- Adapted procurement rules
- Effective dispute resolution mechanisms

**Institutional Capacity**
- Clear process (who’s approving what and when)
- In-house expertise (PPP Units?)
- Guidance materials (model contracts,...)

**Financial Support**
- Project Development Fund
- Capital Grants (VGF,...)
- Guarantees
### PPP Enabling Environment Planning Actions

- ESCAP “PPP Readiness” assessment

#### Legal and Regulatory Provision for PPPs

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Definition of PPP</td>
</tr>
<tr>
<td>2.</td>
<td>Legal basis for PPPs</td>
</tr>
<tr>
<td>3.</td>
<td>Authority and procedure for acquiring rights of way</td>
</tr>
<tr>
<td>4.</td>
<td>Regulatory framework for PPPs</td>
</tr>
</tbody>
</table>

#### PPP Policy Framework

- Legal and Regulatory Provision for PPPs
- PPP Policy Framework
- PPP Capacity
- PPP Process: Selection and Contracting
- PPP Process: Post Selection
- Social Dimension of PPPs
Most countries have enacted **PPP Law in the Asia-Pacific region** ...

... but some countries have simply issued *guidelines / policy documents*

Source: ESCAP’s review of 42 Asia-Pacific countries
PPP Legal & Regulatory Frameworks
PPP Decree in Viet Nam (2015)

- Consolidate previous decrees (largely unimplemented)
- Dedicate specifically to the identification, preparation, and implementation of PPP projects (clarify roles and process) + establish Project Development Facility
- Introduce new PPP Models (e.g. availability payment based contract) and provide a framework for unsolicited proposals (no detailed guidelines though)
- Increase flexibility for the Lender’s step-in rights, government support (no cap) and use of foreign governing law / foreign arbitration

but...

- Foreign currency convertibility has to be negotiated on a case-by-case basis
- No provisions for Government guarantees (e.g. minimum revenues)
- Source of funds for VGF has to be identified
PPP Procurement
Good Practices - Principles

Preparation
- LT financial implications (prior MoF approval)
- Project well-justified (socioeconomic analysis, market assessment, procurement method, etc.)
- Draft contract included in RFP
- ...

Procurement
- Online publication of procurement and award notice,
- Evaluation according to the criteria stipulated in the tender documents
- ...

Contract Management
- Establishment of a PPP project management team,
- Regulation of contracts modifications
- Dispute resolution mechanisms in place,
- ...

World Bank – Benchmarking of PPP Procurement 2017
### PPP Procurement Practices in South-East Asia

Viet Nam is performing quite well in terms of PPP Procedures

<table>
<thead>
<tr>
<th>Country</th>
<th>Preparation (score)</th>
<th>Procurement (score)</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>8</td>
<td>20</td>
<td>69</td>
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<td>Indonesia</td>
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<td>46</td>
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<td>Myanmar</td>
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<td>40</td>
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<td>The Philippines</td>
<td>96</td>
<td>85</td>
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<td>75</td>
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</tr>
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<td>Vietnam</td>
<td>75</td>
<td>85</td>
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<tr>
<td>Timor-Leste</td>
<td>33</td>
<td>70</td>
<td>43</td>
</tr>
</tbody>
</table>

Source: World Bank – Benchmarking of PPP Procurement 2017
PPP Project Screening

Pipeline of 108 PPP projects ($16.6 billion)

ESCAP Value-for-Money Toolkit: https://ppp.unescap.org/

- Project within mandate of government
- Eligible within PPP policy/law/framework
- Identified via relevant procedures
- Consistent with relevant development objectives
- Sector readiness
- Private sector readiness and interest
- Government agency readiness
- Project feasibility and readiness
- PPP specific criteria
Institutional Arrangements

South-East Asia

- No formal PPP Unit
- PPP Unit under development
- Several central PPP Units
- PPP Unit

Among 42 Asia-Pacific countries reviewed:

- 20 Central PPP Units
- 3 countries with multiple central entities responsible for PPP
- 6 PPP Units under development
- 13 countries with no central unit

Differences in terms of:

- **Size** (Nb. of staff)
- **Location**: Finance, Planning, etc. + at subnational level, sector level
- **Role**: Policy Formulation, Standardization, Coordination, Capacity Building, Promotion and Technical Support
## Institutional Arrangements
### South-East Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Institutional Framework</th>
<th>Ministry</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>No formal PPP Unit</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Cambodia</td>
<td>PPP Unit under development</td>
<td>Finance</td>
<td>Ministry of Economy and Finance</td>
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<tr>
<td>Indonesia</td>
<td>Several central PPP Units</td>
<td>Planning</td>
<td>MPI</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>PPP Unit under development</td>
<td>Planning</td>
<td>MPI</td>
</tr>
<tr>
<td>Malaysia</td>
<td>PPP Unit</td>
<td>Prime Minister</td>
<td>Prime Minister's Department</td>
</tr>
<tr>
<td>Myanmar</td>
<td>No formal PPP Unit</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>The Philippines</td>
<td>PPP Unit</td>
<td>Planning</td>
<td>PPP Center under NEDA</td>
</tr>
<tr>
<td>Singapore</td>
<td>No formal PPP Unit</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Thailand</td>
<td>PPP Unit</td>
<td>Finance</td>
<td>SEPO under Ministry of Finance</td>
</tr>
<tr>
<td>Vietnam</td>
<td>PPP Unit</td>
<td>Planning</td>
<td>PPP Office under MPI</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>PPP Unit</td>
<td>Finance</td>
<td>Ministry of Finance</td>
</tr>
</tbody>
</table>
# Institutional Arrangements

## PPP Unit Function in Viet Nam

<table>
<thead>
<tr>
<th><strong>Policy Formulation</strong></th>
<th>Developing PPP policy and strategy</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Advising PPP law and regulation</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Developing PPP guidelines (project selection, tendering, etc.)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Standardization</strong></td>
<td>Developing standardized bidding documents</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Developing PPP model contracts</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Coordination</strong></td>
<td>Acting as the contact point between the investors and agencies/ministries involved in a project (e.g. helping to secure permits and approvals)</td>
<td>Planned in the future</td>
</tr>
<tr>
<td><strong>Capacity Building</strong></td>
<td>Organizing training courses/workshops</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Conducting research on PPP-related matters</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Promotion / Dissemination</strong></td>
<td>Disseminating a pipeline project</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Collecting PPP data and managing a project database</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Issuing requests for proposals with procurement documents</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Technical Support</strong></td>
<td>Assisting line ministries in identifying project suitable for PPPs</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Conducting prefeasibility/feasibility study</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Performing Value-for-Money assessment</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Managing a project preparation facility</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Participating in the procurement process of PPP projects</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Conducting negotiations on the terms of agreements for PPP contracts</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Supporting line ministries during the contract management phase</td>
<td>Planned in the future</td>
</tr>
<tr>
<td><strong>Quality Control</strong></td>
<td>Acting as the secretariat of the body approving PPP projects</td>
<td>Planned in the future</td>
</tr>
<tr>
<td></td>
<td>Providing recommendations regarding the approval of PPP projects</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Monitoring implementation of PPP projects approved</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Capacity building...  
... a major constraint

- ESCAP: Free PPP Online Course (6 Modules)
  - 1. PPP Concept
  - 2. PPP Models
  - 3. Enabling Environment
  - 4. Risks
  - 5. Project Cycle
  - 6. Structure and Financing

  Including a certification programme
  Accessed 70,000 times!

- Classroom Training on PPPs (national workshop)
PPP Financial Support Mechanisms

- **Project Preparation Facility** for transaction advisors, prefeasibility and feasibility studies
  
  *Viet Nam: PPP Support Project Facility (a $33.9m co-finance by ADB and AFD)*

- **Viability Gap Funding (VGF)**
  
  Users fees might not suffice to cover investment costs
  
  *Viet Nam: Source of funds to be identified*

- **Guarantees**
  
  Demand for service might be difficult to predict
  
  *Viet Nam: No provision for guarantee to cover demand risks*

- **Long-term financing**
  
  Limited capacity of local banks (maturity mismatch) and small corporate bond market

Transaction cost for the public sector is about 2-3% of the project value in Europe

(Dudkin & Välilä, 2005).

In Australia, a study in 2010 found 5 out of 14 Australian tolled roads were 45% below forecasts
Research Material

On-going research on PPP for sustainable development

✓ Case Studies

✓ Project Structuring Options and Model Agreement
International Collaboration

- ESCAP is an active partner in the PPP Knowledge lab together with 11 international organizations

- ESCAP contributed to the 3rd edition of the Reference Guide just published

- Experts contributing to the activities organized by the different partners

- Joint research with the Korean Development Institute (KDI)
Experience sharing
PPP Network

- Promote exchange of information / best practices among the countries of the region

PPP Ministerial Conferences

Financing for Development,
(Yearly regional consultation since 2014)

Sub-regional and national workshops
Conclusion

- Why is PPP not developing faster in the country?
- What have been the main issues with PPP projects implemented so far and what can be done about that?
- What are the key actions government should take to facilitate the emergence of PPPs?
- ESCAP will continue to support its member countries through:

  - Capacity Building
  - Independent Advocacy
  - Research
  - Experience Sharing
Thank you


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## PPP Legal & Regulatory Frameworks
### South-East Asia

<table>
<thead>
<tr>
<th>#</th>
<th>Country</th>
<th>Regulatory Framework</th>
<th>Remark</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Brunei Darussalam</td>
<td>PPP guidelines</td>
<td></td>
<td>2015</td>
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<td>2</td>
<td>Cambodia</td>
<td>Concession Law</td>
<td>Under revision</td>
<td>2007</td>
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<td>3</td>
<td>Indonesia</td>
<td>PPP Law</td>
<td>BAPPENAS Regulation No. 4 of 2015 set out procedural guidelines for PPPs</td>
<td>2015</td>
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<tr>
<td>4</td>
<td>Lao PDR</td>
<td>No PPP Law / Guidelines</td>
<td>PPP Decree under development</td>
<td>N/A</td>
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<td>5</td>
<td>Malaysia</td>
<td>PPP guidelines</td>
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<td>2009</td>
</tr>
<tr>
<td>6</td>
<td>Myanmar</td>
<td>No PPP Law / Guidelines</td>
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<td>N/A</td>
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<td>7</td>
<td>The Philippines</td>
<td>PPP Law</td>
<td>BOT Law</td>
<td>1994</td>
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<td>8</td>
<td>Singapore</td>
<td>PPP guidelines</td>
<td>PPP Handbook sets policies and guidelines</td>
<td>2012</td>
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