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The path to successful PPP projects

Mr Mathieu Verougstraete

Economic Affairs Officer

UNESCAP – Financing For Development

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 "*

Privatization

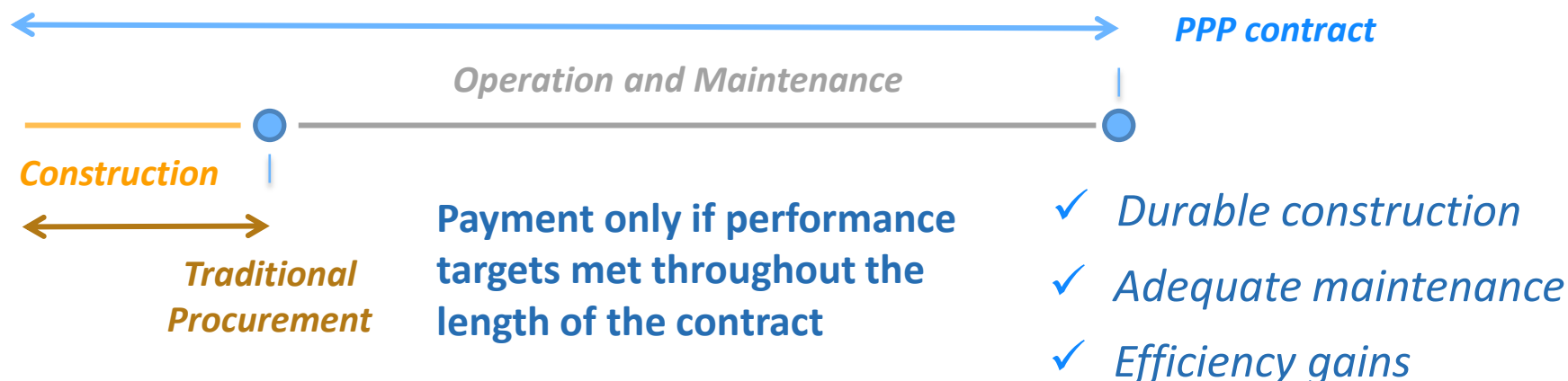
Source: PPP Reference Guide 2.0

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



Other PPP Benefits

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



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

86 % of public infrastructure projects are above budget

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



PPP Limitations

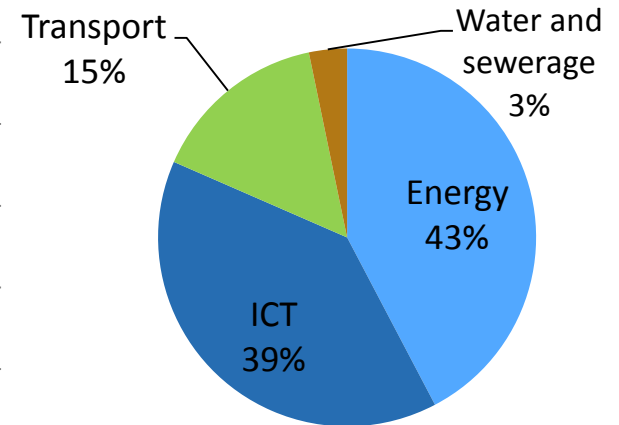
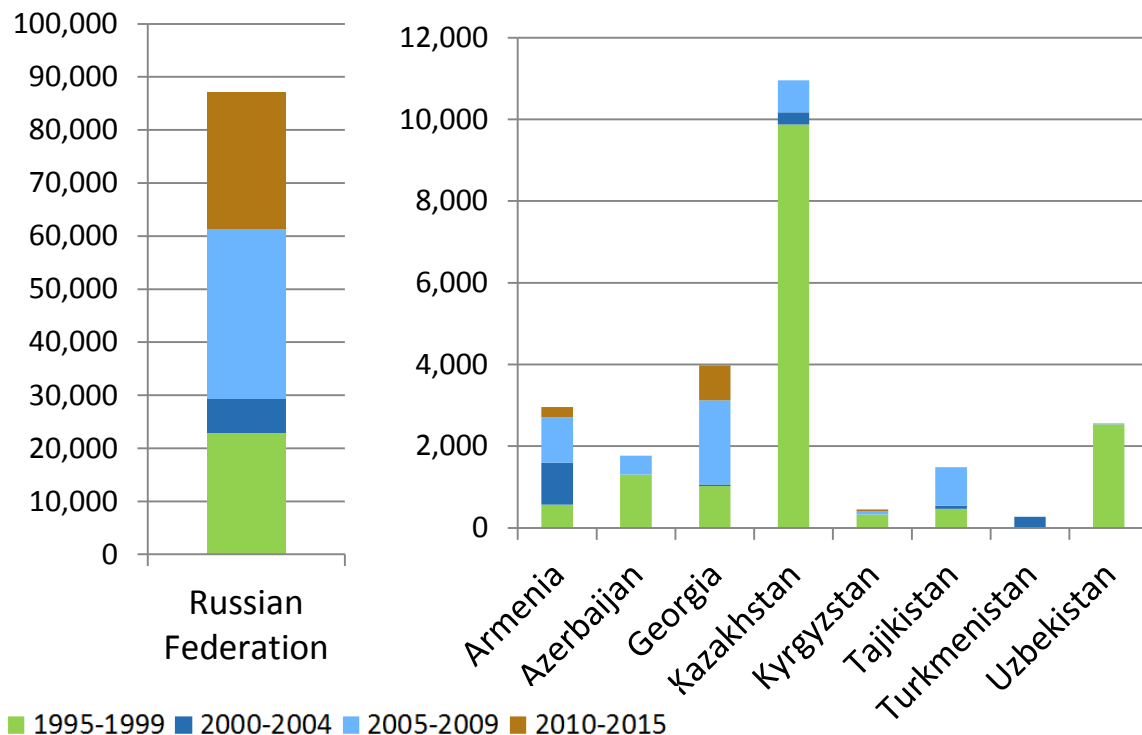
- **Not free:** users and/or tax payers have typically to pay for the project to be delivered profitably
- **Public guarantees = contingent liabilities:** fiscal risk has to be properly assessed and monitored
- **Complex arrangement:** high transaction costs / internal capacity constraints / not suitable for all projects (limited flexibility)
- **Private sector capacity** to take such long-term commitments / enough competition?
- **Possible public resistance**



PPP Track record in the region

Resources mobilized

- Over \$ 100 billion mobilized since 1995 (mainly driven by Russian Federation)... but limited deal flow in recent years.
- Few deals in transport except Russia and Georgia / Armenia to a lesser extent

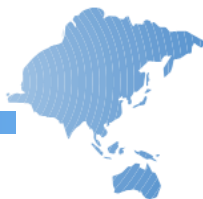
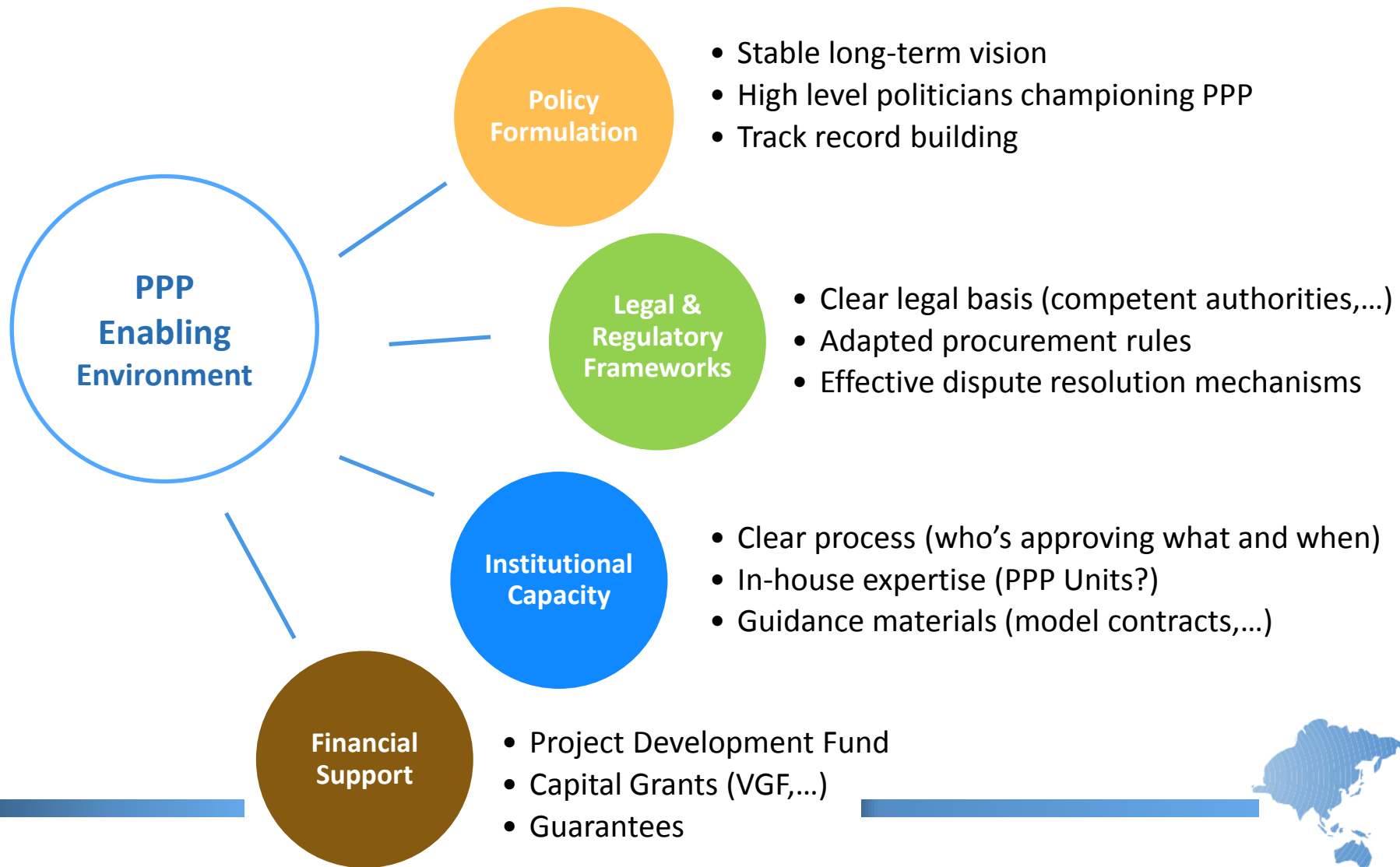


Source: World Bank PPI Database



Governments have a role to play...

... to create an enabling environment for PPPs

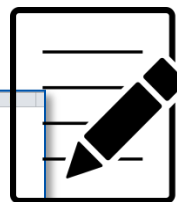


PPP Enabling Environment Planning Actions

■ ESCAP “PPP Readiness” assessment

	A	B	C	D	E	F	G	
1	Legal and Regulatory Provision for PPP							
2	Please add your scores into the green fields (4= very good; 3=good; 2=moderate; 1=fair; 0=poor)			Average assessment by:				
3				Government	Domestic private sector	International private sector		
4	Establishment of clear legal basis for PPP process	41	Legal basis for private sector participation in PPP is clearly defined	<add number>	<add number>	<add number>		
5		42	Limited restriction on participation of foreign investors in PPP projects					
6		43	Judiciary understands and accepts PPP policy framework	Scaling Guidelines Very good (4): Judiciary has demonstrated acceptance and understanding of PPP policy framework. Good (3): Judiciary accepts PPP framework, but lack of experience or understanding may interfere with judicial implementation. Moderate (2): Acceptance of PPP framework in the courts is expected, but only based on precedents in related law. Fair (1): The judiciary has undermined PPP policy, or is expected to be hostile based on precedent. Poor (0): The judiciary is hostile to PPP policy. Rationale: The judiciary may not behave predictably toward PPP projects if the framework does not have clear legitimacy, accepted by the courts. Furthermore, practical understanding of the process and its rationale will improve the predictability and fairness of dispute resolution.				
7	44	Authority and procedures are clear for acquiring rights of way						
8	Adequacy of structures providing for economic regulation of PPP projects	45	Regulatory authority is clear for all PPP types expected					
9		46	Price and quality of PPP monopolies regulated to protect consumers and others					
10	Implementation of economic regulation (including quality and fairness issues)	47	Price regulation sufficiently flexible to adjust to major cost changes					
11		48	Powers and resources are adequate to regulate PPP					
12		49	Accounts of PPP projects available to regulators and subject to effective query					
13		50	Regulators demonstrate competence, independence and efficiency					
14	Regulatory Environment, total:			0	0	0		
15				Maximum score for this category: 40				
16	Legal and Regulatory Sheet2 Sheet3							

Cell C6 commented by UNESCAP



Questionnaire to identify key bottlenecks...

- Legal and Regulatory Provision for PPPs
- PPP Policy Framework
- PPP Capacity
- PPP Process: Selection and Contracting
- PPP Process: Post Selection
- Social Dimension of PPPs

- ✓ Bhutan
- ✓ Cambodia
- ✓ Lao PDR
- ✓ Myanmar

... and to plan government actions



PPP Enabling Environment Planning Actions













Score 0-100 where 100=best.

Mature (80-100)

Developed (60-79)

Emerging (30-59)

Nascent (0-29)

	Georgia		Kazakhstan	
OVERALL SCORE		41		58
1) REGULATIONS		36		54
2) INSTITUTIONS		1		88
3) MATURITY		62		60
4) INVESTMENT & BUSINESS CLIMATE		62		62
5) FINANCING		34		28

Source: EIU (2017) - Infrascope

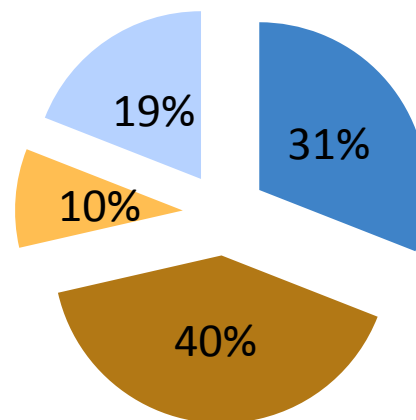


PPP Legal & Regulatory Frameworks

- Objectives, Scope and Models of PPPs
- Institutional Responsibilities (Approval, ...)
- Financial Support Mechanisms
- Procedures (Procurement, Dispute Resolution, etc.)

*Most countries have enacted **PPP Law** in the Asia-Pacific region ...*

*... but some countries have simply issued **guidelines / policy** documents (mainly in South Asia)*



- PPP Guidelines
- PPP Law
- Concession Law
- No PPP Law / Guidelines

Source: ESCAP's review of 42 Asia-Pacific countries



PPP Legal & Regulatory Frameworks

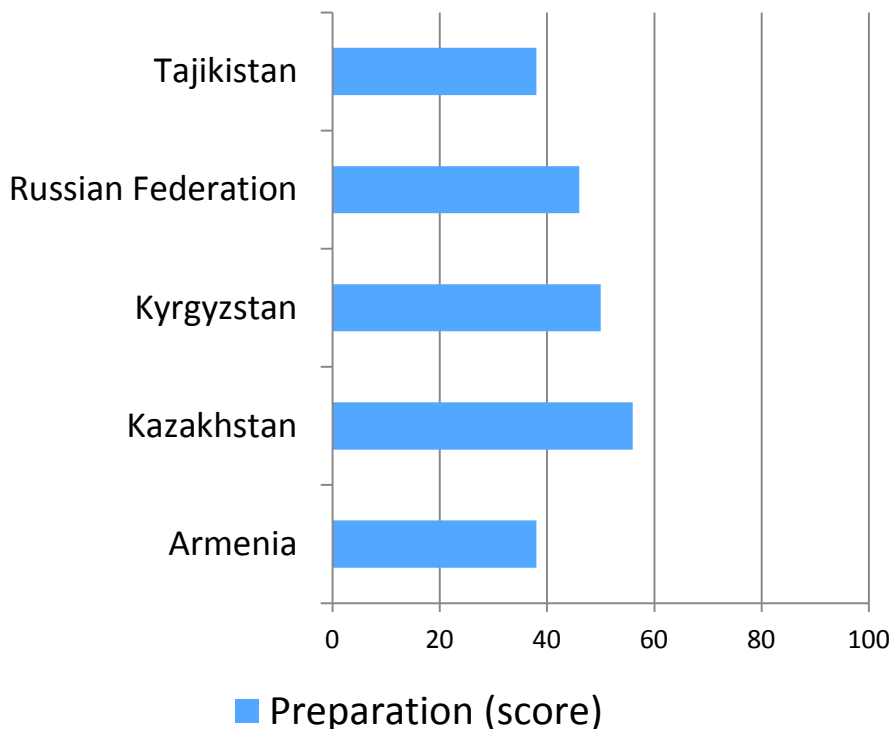
North and Central Asia

Country	Regulatory Framework	Remark
Armenia	No PPP Law / Guidelines	Procurement Law covers PPP calls for open bidding or competitive dialogue
Azerbaijan	No PPP Law / Guidelines	Law on Public Procurement sets the basis for procurement, rules of tenders, selection of contractor, etc.
Georgia	No PPP Law / Guidelines	PPPs are governed by general public procurement and investment laws
Kazakhstan	PPP Law	Law on PPPs and Law on Concession (2015)
Kyrgyzstan	PPP Law	PPP law from 2012
Russian Federation	PPP Law	Federal Laws On Concession Agreements (2005); and On Public-Private Partnership and Municipal-Private Partnership (2015)
Tajikistan	PPP Law	
Uzbekistan	Concession Law	
Turkmenistan	Concession Law	Law on Foreign Concession is the most relevant for PPPs, but needs improvements



PPP Preparation

Good Practices



Good practices :

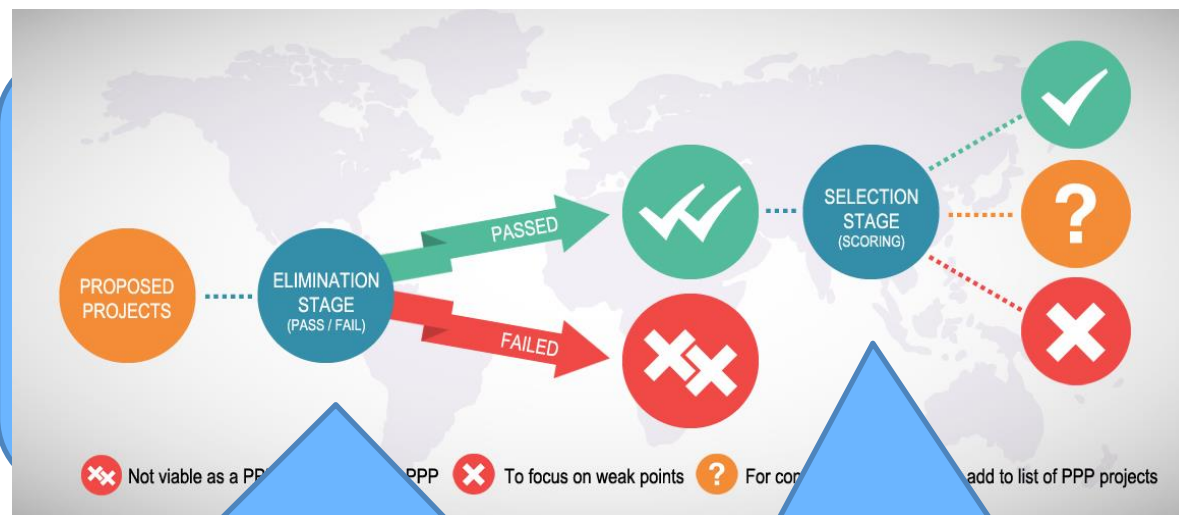
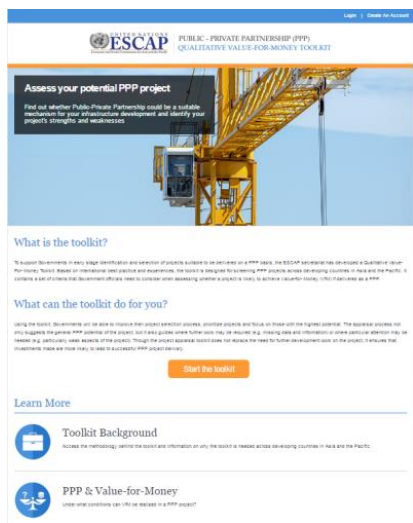
- Assessment of long-term financial implications (prior MoF approval)
- PPP project prioritized along other public investment (planning process)
- Project justified in terms of socioeconomic analysis, market assessment, procurement method, etc. (legal requirements + methodology)
- Draft contract included in RFP
- Standardized contracts / consistency

World Bank – Benchmarking of PPP Procurement 2017



PPP Project Screening ESCAP Value-for-Money Toolkit

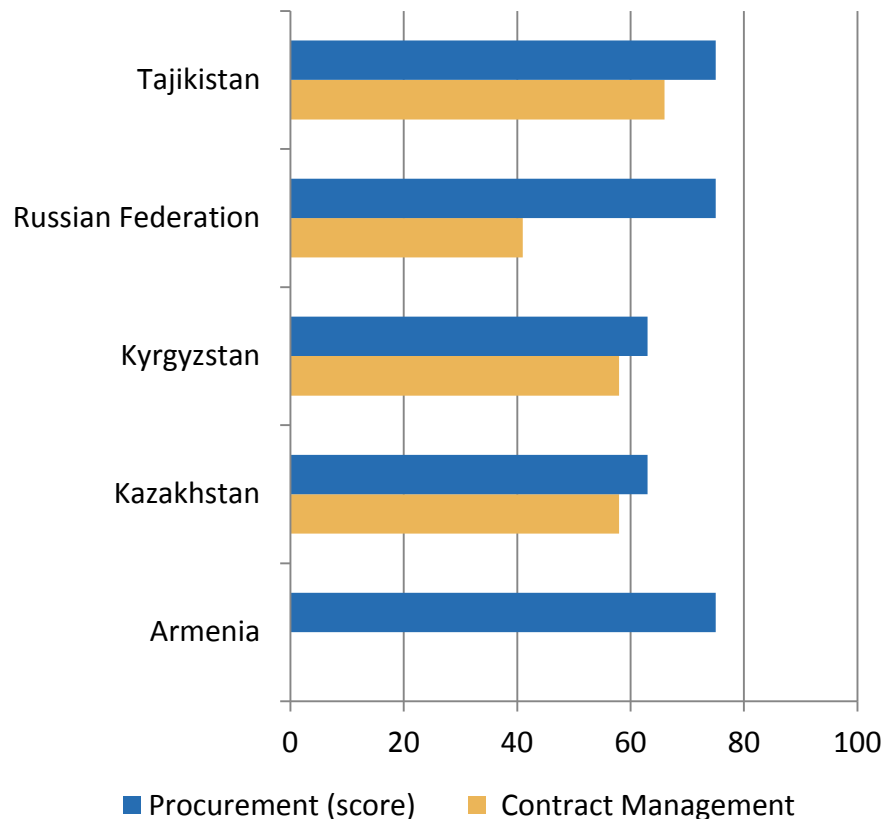
<https://ppp.unescap.org/>



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

PPP Enabling Environment

PPP Procurement & Contract Management



*Good Practices to ensure **transparent & fair competition** in procurement include:*

- *online publication of procurement and award notice,*
- *evaluation according to the criteria stipulated in the tender documents,*
- ...

*Good Practices in **contract management**:*

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



Institutional Arrangements

Country	Institutional Framework
Armenia	No formal PPP Unit
Azerbaijan	No formal PPP Unit
Georgia	No formal PPP Unit
Kazakhstan	PPP Unit
Kyrgyzstan	PPP Unit
Russian Federation	Several central PPP Units
Tajikistan	PPP Unit
Uzbekistan	No formal PPP Unit
Turkmenistan	No formal 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

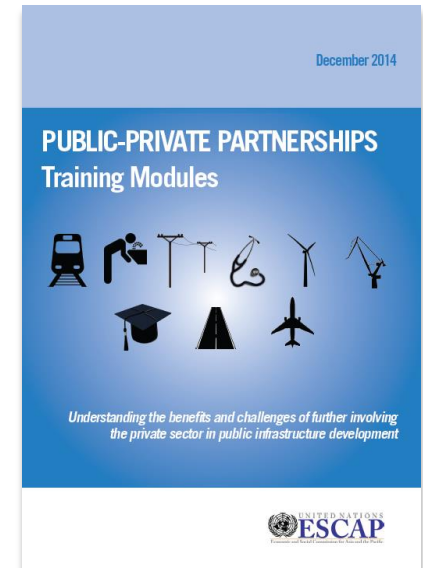
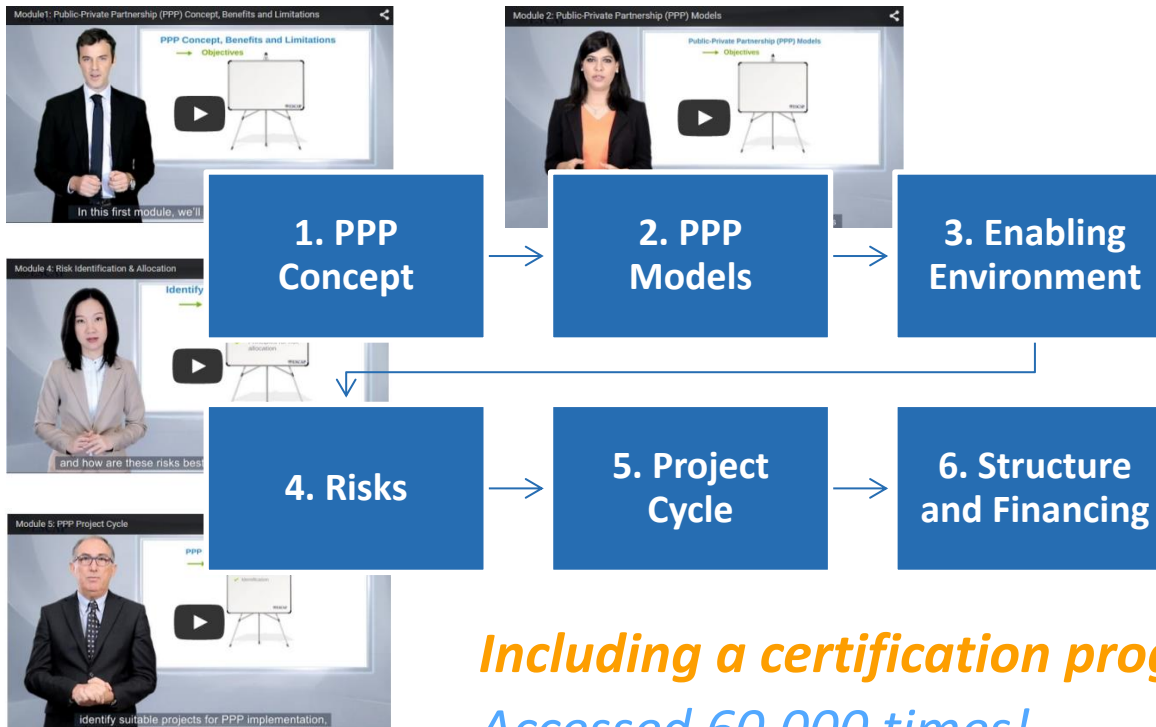
Differences in terms of :

- **Location:** Finance, Planning, etc. + at subnational level , sector level
- **Role:** Policy Formulation, Standardization, Coordination, Capacity Building, Promotion and Technical Support



Capacity building... ... a major constraint

- ESCAP: Free PPP Online Course (6 Modules)



Including a certification programme
Accessed 60,000 times!

- Classroom Training on PPPs (national workshop)



PPP Financial Support Mechanisms

- **Project Preparation Facility** for transaction advisors, prefeasibility and feasibility studies

Kazakhstan, Kyrgyzstan

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

(Dudkin & Väilä, 2005).

- **Viability Gap Funding (VGF)**

Users fees might not suffice to cover investment costs

(India)

Project Costs



**SUBSIDIES
NEEDED !**

User fees

- **Guarantees**

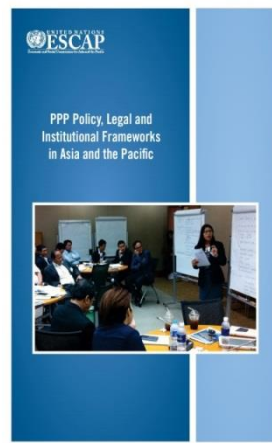
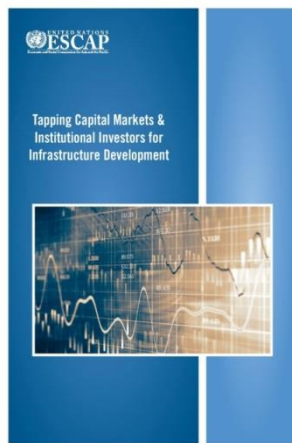
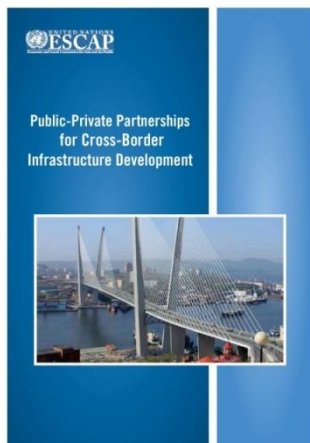
Demand for service might be difficult to predict

Kazakhstan

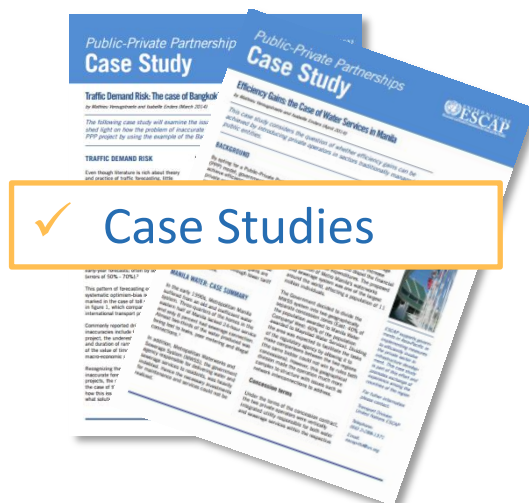
In Australia, a study in 2010 found 5 out of 14 Australian tolled roads were 45% below forecasts



Research Material



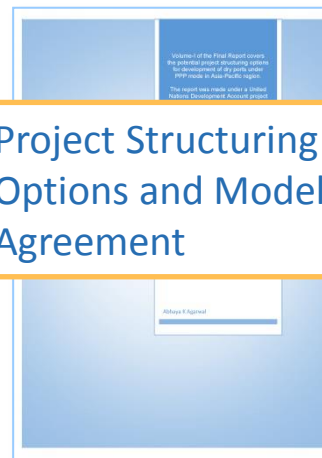
On-going research on
PPP for sustainable
development



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
(Seoul 2007 – Jakarta 2010 – Tehran 2012)



Sub-regional and national workshops

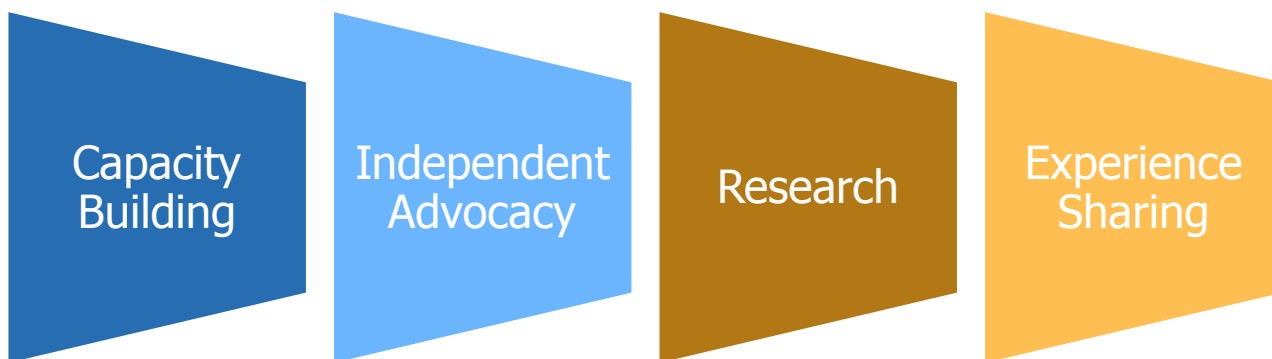


Financing for Development,
(Yearly regional consultation since 2014)



Conclusion

- Should PPP schemes be supported for tackling infrastructure development challenges?
- 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:





Th@nk you

website: <http://www.unescap.org/our-work/macroeconomic-policy-financing-development/infrastructure-financing-and-public-private-partnerships>

Info.: verougstraete@un.org