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# ***PPP and regional infrastructure networks***

Mr Mathieu Verougstraete

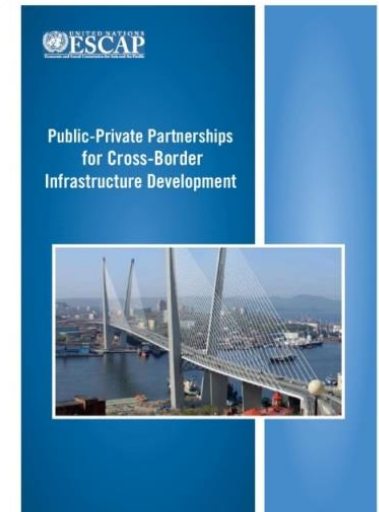
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Economic Affairs Officer

**UNESCAP – Financing For Development**

# PPP and Cross-Border Projects

- Regional connectivity  
= priority of many countries seeking new drivers of growth
- Cross-border linkages have to be developed  
→ *Can PPP be used for transboundary projects?*
- Little information is available
  - *What has been the experience so far?*
  - *What challenges emerge from examining these project?*
  - *What conclusions can be drawn for future policy actions?*
- ESCAP produced a paper on the topic  
[http://www.unescap.org/sites/default/files/S4\\_PPP-for-Cross-Border-Infrastructure-Development\\_0.pdf](http://www.unescap.org/sites/default/files/S4_PPP-for-Cross-Border-Infrastructure-Development_0.pdf)



# Private investment in cross-border project

## *Experience in Energy: Power Sector*

*Clear economic case with energy-rich countries and energy-deficient ones*

*Large track record of private investments in power generation through  
Power-Purchase Agreement (PPA) with independent power producers (IPP)*

- **Hydropower** (e.g. Lao/Thailand, Bhutan/India)
- Paravani river HPP between Georgia and Turkey

*\$150 million project completed in 2014  
sponsored by a Turkish conglomerate (includes a  
32-km transmission line connecting to Turkey)*



- *Other renewable energy sources possible as long as they offer a cost-efficient solutions*
- *Sufficient transmission capacity and grid interconnections among countries?*  
*CASA-1000 project connecting Tajikistan-Kyrgyzstan with Afghanistan-Pakistan*
- *Energy security → Trust required*

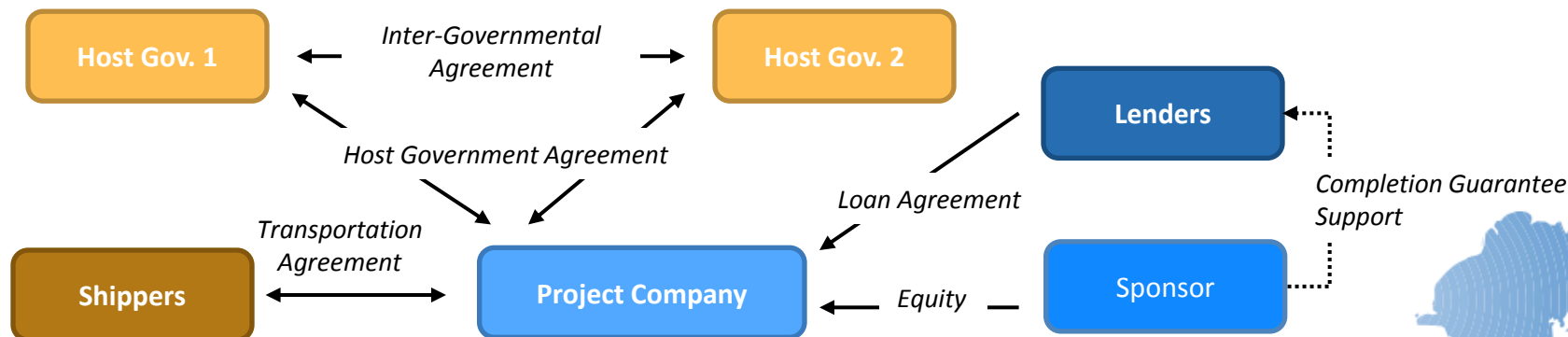


# Private investment in cross-border project

## *Experience in Energy: Oil and Gas Pipelines*

***\$1.1 trillion required for oil and gas transport infra in Asia/Eurasia btw 2014-2035 (IEA)***

- Long distance = high environmental and social risks + maintenance and security challenges
- Political risks with several countries involved
  - ✓ *Baku–Tbilisi–Ceyhan (BTC) – Oil Pipeline*  
(Azerbaijan / Georgia / Turkey)
  - ✓ *Central Asia-China gas pipeline*  
(Turkmenistan / Uzbekistan / Kazakhstan / China)
- Typical project structure: Strong off-takers needed



# Private investment in cross-border project

## *Experience in Transport*

***Few examples of cross-border projects (exception border crossing points, bridge, tunnels)***

***Regional transport networks are often combination of national infrastructure***



- *Road projects have attracted significant private interest (mainly toll roads)  
Traffic needs to be sufficient...*

- *Ports and airports national infra with clear regional dimension  
well-suited for private investments (operational efficiency &  
maximizing sources of revenues such as shops, hotels, etc.*



- *Rail projects more complicated due to low financial viability and  
lack of interoperability*

***Public funding will be required for the ambitious development in the region***

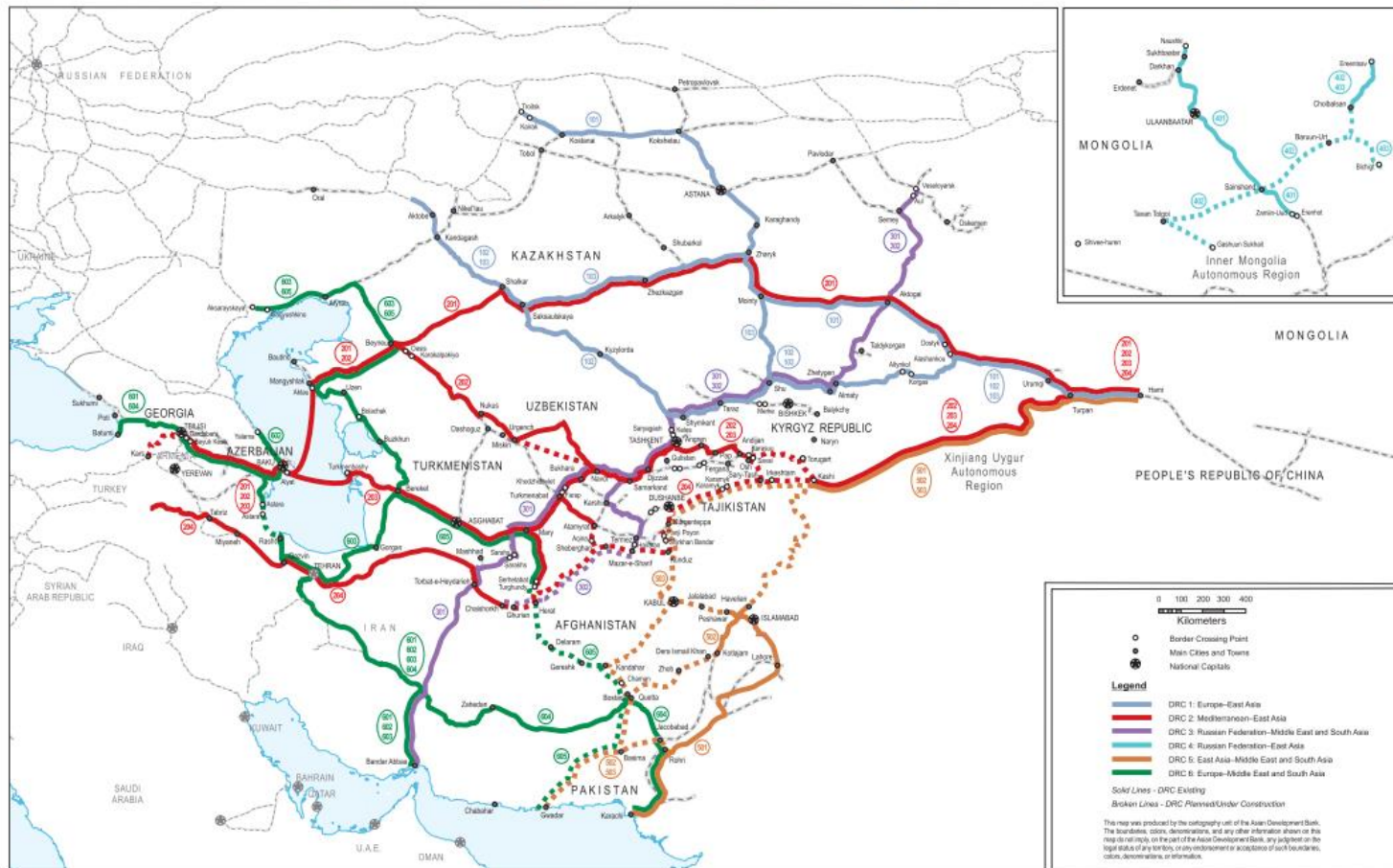
***Building missing links in the Trans-Asian Railway network = around \$60 billion***



# Regional infrastructure projects

## *Example of railway regional networks*

Map 1: Central Asia Regional Economic Cooperation Designated Rail Corridors



Source: CAREC Secretariat.





# Regional infrastructure projects

## *Experience in ICT*

### ***Sub-marine and terrestrial fiber-optic cables = Mainly private investments***

- *Usually gathers telecom companies from involved countries (easier for land acquisition and regulatory approvals + secure demand)*
- *Leveraging existing infrastructure (e.g. road and railway) → reduce costs*
- *Example: The Diverse Route for European & Asian Markets (DREAM) - 8,700km high-speed fibre optic link connecting Europe and Asia through 5 countries implemented by MegaFon (Russia) in cooperation with Kazakhtelecom and Interoute (started in 2013)*



# Regional infrastructure projects

## *Typical risk allocation*

	Energy	Transport	ICT
Planning	Public		
Construction & Operation Risk	Private		
Land	Public		
Finance	Private		
Demand Risk	Public	Private / Public	Private
Political Risk	Public		
Regulation	Public		





# PPP & Cross-Border Projects

## *Challenges and Policy Actions (1)*

### Challenges

### Policy Actions

#### ***#1 Complex arrangements***

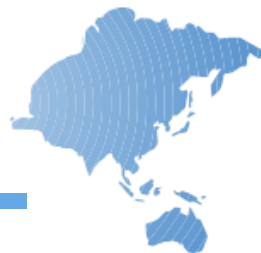
- Building institutional bridge
- Supporting regional platforms
- Addressing bottlenecks at border

#### ***#2 Limited competition (large projects / SOEs)***

- Creating industry benchmarks
- Moderating risk transfer
- Leveraging SOE's appetite for internationalization

#### ***#3 Augmented political risk***

- Securing up-front political support
- Strengthening risk coverage instruments
- Reinforcing governance
- Selecting sound projects



# PPP & Cross-Border Projects

## *Challenges and Policy Actions (2)*

Challenges	Policy Actions
<b><i>#4 Acute land, social and environmental challenges</i></b>	<ul style="list-style-type: none"><li>• Managing social and environmental impacts</li><li>• Acquiring land</li></ul>
<b><i>#5 Disparate regulatory environments</i></b>	<ul style="list-style-type: none"><li>• Enhancing national PPP frameworks</li><li>• Establishing regional regulatory mechanisms</li></ul>
<b><i>#6 Intricate procurement process</i></b>	<ul style="list-style-type: none"><li>• Developing guidelines for cross-border procurement</li></ul>
<b><i>#7 Unbalanced cost and benefit</i></b>	<ul style="list-style-type: none"><li>• Aligning interests</li><li>• Promoting dedicated financial instruments</li></ul>



# Conclusion

- Cross-border infrastructure projects can be developed with private resources, notably when:
  - ✓ Sufficient cash flow to pay back the investment
  - ✓ Manageable level of risks
  - ✓ Strong and stable political backing
  - ✓ Limited administrative and technical barriers
- Cross-border infrastructure projects rely beyond border zones on national infrastructure, which can benefited from PPP structures





# *Th@nk you*

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

Info.: [verougstraete@un.org](mailto:verougstraete@un.org)