

Good Governance in Public-Private Partnerships



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POSITION IN A NUTSHELL

**Goal - Trying to attract finance into infrastructure/
public services to better connect our region,
improve the welfare of ordinary citizens and bring
essential services closer to those in need**

3. PPPs offer an important mechanism for meeting this challenge
4. However, they are complex and good governance is critical
5. Achieving success will require commitment to capacity-building of public administration and local private sectors
6. Kyrgyzstan might adopt UNECE's capacity building approach as they embark on PPPs



WHAT IS A PPP?

- **The term PPP is used with a wide variety of meanings, but for this purpose...**
 - *Innovative long term contractual arrangements for developing infrastructure and providing public services by introducing private sector funds , expertise and motivation into areas that are considered the preserve of government*
- **An old concept which has found a new life:**
 - A long term contract between public and private partners to design, finance, construct, operate and maintain an asset
 - With payment over the life of the contract to the private partner made either by govt or by the user (tolls, fares, *etc.*)
 - With the asset reverting to public sector ownership at the end of the contract

What are PPPs contd?

- An alternative to traditional public sector procurement.
- In typical public sector procurement, the public entity sets out specifications, designs it and has to fund the asset;
- Operation and maintenance are entirely handled by the public authority
- By contrast in a PPP, public sector specifies the 'outputs' not 'inputs'

What are PPPs ? Contd..

- Up to the private sector to meet these long term output specifications.
- Company receives payment over the life of the Contract that repays the financing costs and gives a return to investors
- Service fees are subject to deductions for failure to meet output specifications
- Result is that significant risks relating to costs of design, cost of time overruns , market demand etc. , are transferred to the private sector



WHY PPP?_

- **Access to capital**
- **Certainty of Outcome**
- **Off balance sheet borrowing**
- **Innovation**
- **Transfer of risk**

THE GROWTH OF PPPs IN EMERGING MARKETS

3 Distinct Evolutionary Phases

Stage One

- Define policy framework
- Test legal viability
- Identify project pipeline
- Develop foundation concepts (PSCs etc)
- Apply lessons from earliest deals to other sectors
- Start to build marketplace

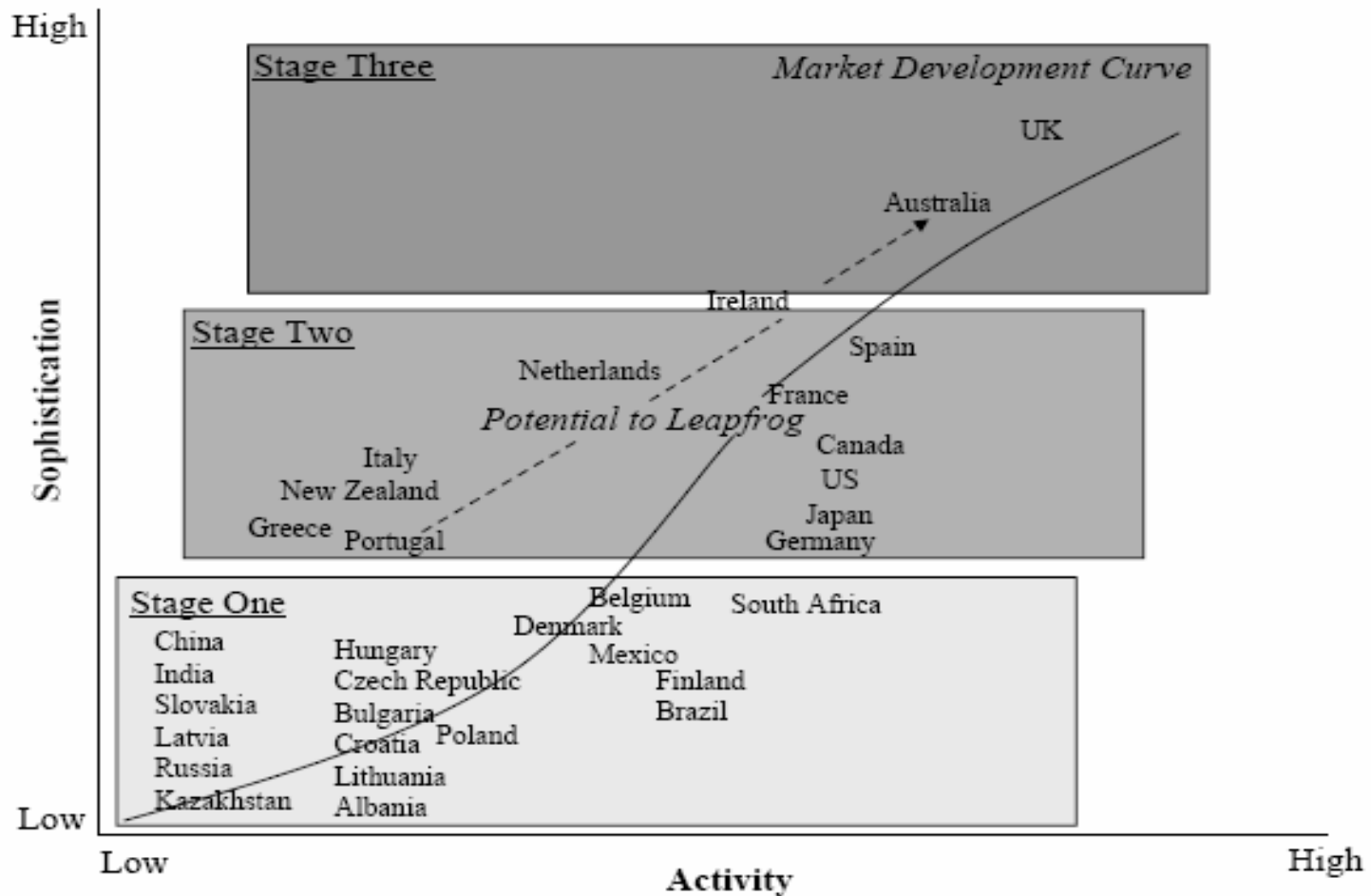
Stage Two

- Introduce legislative reform
- Publish policy and practice guidelines
- Establish dedicated PPP units
- Refine PPP delivery models
- Continue to foster marketplace
- Expand project pipeline
- extend to new sectors
- Leverage new sources of funds

Stage Three

- Fully defined, comprehensive “system”
- Legal impediments removed
- PPP models refined and reproduced
- Sophisticated risk allocation
- Committed, long-term deal flow
- Long-term political consensus
- Use of full-range of funding sources
- Thriving infrastructure investment market involving pension funds and private-equity funds
- Well-trained civil service applying lessons from PPP experience

PPP MARKET MATURITY CURVE



Source: Deloitte

KEY CHALLENGE:

Improving governance and institutional certainty

TO AVOID:

- Protracted negotiations
- Lack of transparency in partner solution
- Conflict of interest
- Cancellation of projects

UNECE GUIDELINES ON PROMOTING GOOD GOVERNANCE IN PPPS

7 PRINCIPLES

- ② A coherent PPP policy
- ③ Strong enabling institutions
- ④ Legal framework “fewer, better, simpler”
- ⑤ Cooperative risk sharing and mutual support
- ⑥ Transparency in partner selection
- ⑦ Putting people first
- ⑦ Achieving sustainable development

Misconceptions...

PPP pilots
will start the
process...

No!
**You need a policy
framework with
direction,
responsibilities and
goals.**

PRINCIPLE 1. POLICY



Principle 1. PPP Policy

- A PPP Policy is needed to fix a “roadmap”
- Strong social objectives, e.g. increasing accessibility for disadvantaged
- Core values and principles (fairness, continuation of services, improved quality)
- Consultation within Government
- Consult investor community
- Identify the right projects to get started

Misconceptions...

PPPs focus on
ring fencing
the project...

No!
**You need to build the
skills within the
government and set up
the right institutions.**

**PRINCIPLE 2. CAPACITY
BUILDING**



Principle 2. Capacity-Building

INTERNALLY

- Train personnel for the required skills for PPPs
- Establish PPP Unit
- Offer National PPP training programmes, guidelines

EXTERNALLY

- At same time use qualified consultants to help on projects

Misconceptions...

PPPs ...
prescriptive
rules and tight
control...

No!
**Overall framework
should be simpler,
fewer and better.**

PRINCIPLE 3. LEGAL



Principle 3. Legal 'Fewer, better and simpler'

- Fewer laws - removal of constraints
- Better laws - knowable, secure and predictable
- Simpler laws - bundling projects, 'competitive dialogue'

Misconceptions...

PPPs provide
assets to
governments
at no risk and
no cost

No!
**Governments must
assume some risk
and offer some
subsidy.**

**PRINCIPLE 4. RISK
SHARING**



Principle 4. Risk

- Cooperative sharing and mutual support
- Risk sharing key to PPP success
- No science to allocating risks
- Yes to some government subsidy but with care

Misconceptions...

PPPs ...no
tender
required...

No!
**Competition allows for
the best partner and
the best project.**

**PRINCIPLE 5.
PROCUREMENT**



Principle 5. Procurement

- Open and transparent
- Opportunities should be made public
- Non-discrimination
- Zero tolerance to corruption
- Choosing the right partners

Misconceptions...

Keep people
out: they do
not
understand
the technical
matters...

No!
**People have to be put
first.**

**PRINCIPLE 6. PUTTING
PEOPLE FIRST**



Principle 6. Putting People First

- Define the public interest
- Consult with people
- Inform: disclose information in contracts
- Oversee by objective third party
- Involve independent auditors

Misconceptions...

...you have to choose between profit and social and environment development...

No!
Project can make profit and achieve social and environmental goals.

**PRINCIPLE 7.
ENVIRONMENT**



Principle 7. Environment

- The 'Green case' works for PPPs
- Provide incentives to the private sector to adopt green criteria
- Avoid politically correct 'add ons' that mean nothing

CASE STUDIES

Demonstrate that projects which apply the Good Governance principles achieve success...

Canada: The Vancouver Landfill Project

France: The Centre Hospitalier Sud
Francilien

Israel: The Cross-Israel Highway

Tajikistan: The Pamir Power Project

USA: The Chesapeake Forest Project

But things go wrong in PPPs

- **Canada Highway 407 – traffic risks too high so no willing bidders:**
 - Government built toll road for Cn\$1.4 bill
 - waited 2 yrs until operational
 - sold for Cn\$3.1 bill + cost of adding 45 km
- **UK Channel Tunnel Rail Link – too little risk allocated to private sector**
 - awarded to bidder seeking lowest subsidy
 - forecasts too optimistic & debt guaranteed
 - government had to provide more subsidy

Examples of what can go wrong

- **Argentina concessions** – tolls too high
 - no effective regulation of tolls
 - tolls rose rapidly causing public outcry
 - contracts were suspended, tolls lowered and reinstated with subsidy of \$57 mill p.a.
- **Poland A2 Motorway** – toll for HVs too high
 - tolls for largest HVs 10 times that for cars
 - HVs diverted onto secondary roads
 - toll for HVs suspended
 - concessionaire due large compensation

Does it matter if PPPs go wrong?

- PPP contracts typically long term -- up to 35 yrs, sometimes 99 yrs
- Client (government) must live with mistakes for a VERY long time
- When there are problems, solutions usually complex and expensive
- Makes client (government) look ineffective and discourages serious bidders for future projects
- Most problems can usually be avoided

UNECE work in PPPs

- Guidebook on promoting good governance in PPPs
- Training Toolkit on “How to do PPPs”
- Team of Specialists on PPPs
- Cooperation with international partners (UNESCAP , EBRD, EU, World Bank)

UNECE WORK IN PPPs

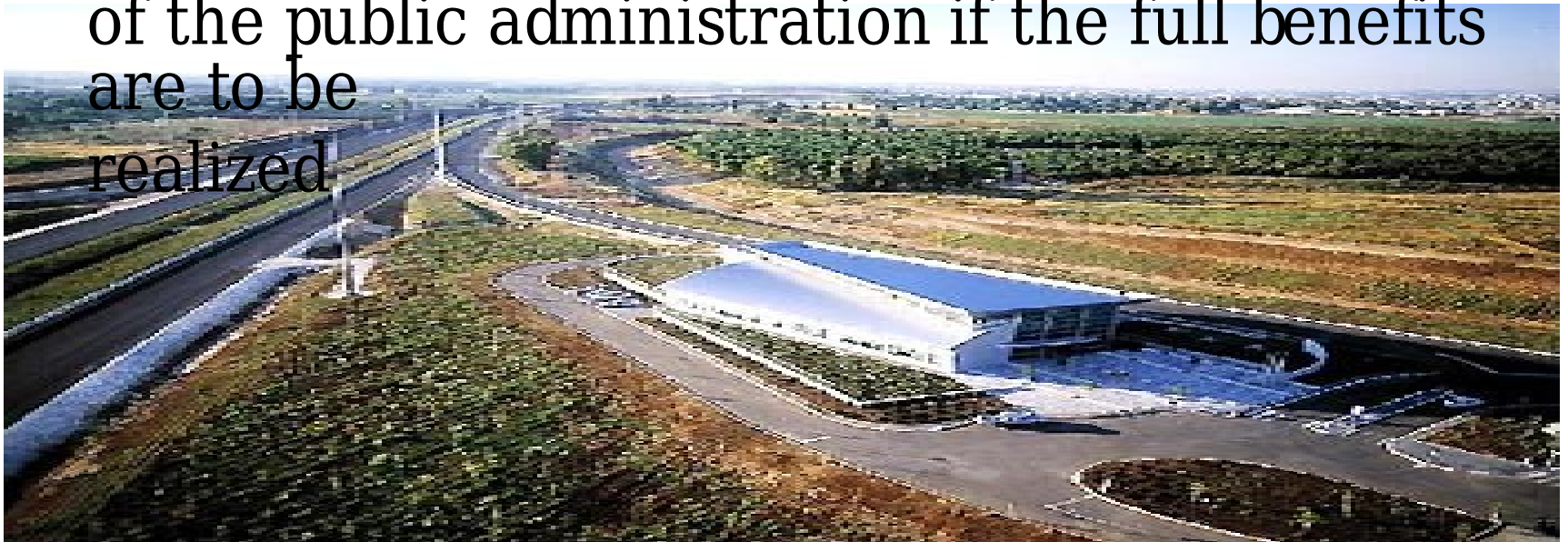
main challenge

Huge interest in topic

- Lack of knowledge, skills and governance to do PPPs
- Establishing a PPP Centre on Capacity Building and Information Sharing
- Adopting a 'Learning by Doing Approach'

IN CONCLUSION

- PPPs are an instrument that continue to be of great interest to governments...
- But they are not a quick fix and require good governance which takes time to build
- A commitment should be made to the training of the public administration if the full benefits are to be realized



THANK YOU FOR YOUR ATTENTION!

FOR MORE INFORMATION

Please visit: <http://www.unece.org/ceci/ppp.html>

Or contact: geoffrey.hamilton@unece.org