

## **Policy Dialogue on Public-Private Partnerships (PPP) for Infrastructure Development in South Asia**

### **The “Kathmandu” Statement on Public-Private Partnerships for Infrastructure Development in South Asia**

The policy dialogue on Public-Private Partnerships (PPP) for Infrastructure Development in South Asia, organized jointly by UNESCAP and the National Planning Commission, Government of Nepal, was held on 22-23 September 2015 in Kathmandu. The policy dialogue was attended by officials handling public private partnerships - in the governments and private sector from South and South West Asian countries, representatives of multilateral development banks and regional funds, the SAARC Secretariat, think-tanks among other stakeholders. Participants discussed and shared experiences of South Asian countries with public private partnerships in infrastructure development and building capacity in administering the PPP programmes.

The policy dialogue was addressed by honourable Finance Minister of Nepal, honourable Minister of Physical Infrastructure and Transport of Nepal, the Secretary General of SAARC, Vice-Chairman and members of the National Planning Commission among other dignitaries.

The policy dialogue observed that South Asian countries do suffer from wide infrastructure gaps in energy, transport, urban infrastructure, drinking water and sanitation among others. Closing them would require resources of huge magnitude estimated to be ranging between USD 2.5-3.0 trillion over 10 years.

Closing the infrastructure gaps and providing public services is a part of the 2030 Agenda for Sustainable Development including the 17 Sustainable Development Goals that will be adopted by leaders of 193 member states of the United Nations on 25 September 2015.

It was recognized that PPPs can play an important role in supplementing the resources of the governments in mobilizing the staggering resource requirements needed for closing the infrastructure gaps. Therefore, a number of South Asian governments like India, Bangladesh and Pakistan have adopted PPP policies, and others including Nepal and Bhutan are in the process of adopting them. Already many useful experiences- successful as well as unsuccessful ones- are now available from the South Asian countries. As PPPs are complex and challenging to administer, sharing of experiences and lessons across the region was very critical.

Some of the issues and key recommendations that came up in the discussion at the policy dialogue included the following:

#### *General Principles*

1. PPPs should be promoted as a mechanism to mobilize additional sources of finance for addressing critical infrastructure challenges that are hampering economic growth and sustainable development. Blending the capital and knowhow of the private sector with public resources should result in better public services delivery;

2. PPPs should not be seen as a panacea as this procurement method is not suitable for all types of infrastructure projects. The expectations about PPP need to be managed;
3. PPP structures should be used to improve the efficiency of infrastructure services, to provide long-term solutions and to reduce the life-cycle costs of infrastructure projects;
4. A convincing track record should be established by starting with demonstration projects that will drive confidence and will create the momentum for more PPP projects<sup>1</sup>;
5. Trust should be built with the private sector by sustaining policy commitment and ensuring a stable policy environment where governments don't renege on their commitments (for example regarding tariffs adjustments) ;
6. Awareness about the rationale for PPP should be raised to secure greater acceptance by the public at large and successful PPP stories should be publicized;

#### *Success factors*

7. Payments to the private sector partners should be tied to the achievements of Key Performance Indicators (KPI) in order to align the incentives of the public and private partner;
8. Private partners may be allowed to explore additional sources of revenues from the public infrastructure asset to enhance the viability of the projects (e.g. real estate development and commercial activities). Sufficient safeguards should however be in place such as spelling out clearly the commercial activities allowed to be undertaken, ensuring the income streams are defined and ring-fenced;
9. Risks should be allocated in such a manner that PPP projects are attractive and bankable while the public interest stays protected. In this respect, allocating demand risk has been particularly challenging as illustrated through several cases;
10. An appropriate "user pays principle" should be applied, where possible, to limit impact on public budgets as PPP does not mean free infrastructure;
11. Infrastructure development should be properly coordinated. For example, a Hydro Power Plant project relies on the development of transmission lines to be connected to the grid. Likewise, a port project depends on land connectivity such as road and rail to be able to deliver its services. The government should develop its part of the infrastructure to avoid wasting private investments;

#### *Capacity Building*

12. Developing the capacity of government officials is recognized as a key priority for taking forward the PPP agenda in developing countries. Capacity should not only be built at the central level but should also include sub-national levels and the private sector. Capacity building programme should cover all the phases of PPP projects including the management of projects post-award ;

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<sup>1</sup> Existing infrastructure (brownfield projects) might be more suited for the first PPP projects in a country as "greenfield" projects tend to be more challenging. PPP projects with clear cash flow generation could also be prioritized in the early stage of PPP development

13. Designing capacity building programmes should be based on an in-depth assessment of the training requirements as different groups of stakeholders have different needs (e.g. decision makers vs. professional staff) and different sectors might necessitate different approaches ;
14. Resources and expertise provided by development partners - such as ESCAP, the World Bank and ADB - should be capitalized to build capacity at the national level. For example, this could be done by activities such as “Train the Trainers” and by using training materials developed by these partners. Resources from countries in the region could also be accessed and used across the region for capacity building activities (e.g. training modules developed in India, which cover different target groups) ;
15. Funding for capacity building should not overly depend on donor funding but should be integrated into national budgets to ensure the sustainability of these activities. Systems of cost-recovery should also be explored as well as the possibility to identify nodal institutions capable of delivering capacity building programme at the national and sub-national level;
16. Web-based solutions should be developed as they provide a flexible and cost-efficient way of building capacities while reaching a large number of people. In this respect, the ESCAP PPP online training course and the Indian Toolkits are useful tools that could be further exploited by countries in the region ;
17. Regional co-operation should be encouraged to enable knowledge sharing as countries can learn from difficulties that have emerged in other countries. This would avoid replicating the same mistakes across the region. With this in mind, forums such as this policy dialogue should be organized on a more regular basis ;
18. Manuals should be developed to guide government officials in each of the PPP project phases (i.e. to identify, prepare, tender and monitor these complex transactions). These manuals should also cover the key clauses that have to be included in PPP contracts (e.g. Model Concession Agreements (MCAs) is a way of doing that). Model contracts should, however, not be overly restrictive and should allow customization. Post-award contract management guidelines and manuals should developed to give a step by step approach for managing PPP concessions through different stages of the project life cycle ;

#### *PPP Project Phases*

19. Procedures should be streamlined for project approval to ensure reasonable timelines. Land acquisition and environmental clearances should be dealt with early on in the project cycle to avoid delays in project implementation. The example of land fund was mentioned as a mechanism to speed-up land acquisition without having to go through the whole budgetary process;
20. More emphasis should be put on project selection and preparation. Sufficient time should be devoted to these tasks. An unplanned and rushed bidding process can result in failures to attract any private investors ;
21. Transparency should be ensured in the whole PPP process, especially for project selection and procurement, and good governance principles should be strictly applied. These are preconditions for attracting good investors. Unsolicited proposals should be dealt with due caution;

22. A strong framework for post-award project management should be set-up including adequate dispute resolution mechanisms and procedures for contract renegotiation. Sufficient resources should be allocated for this purpose ;

#### *PPP Enabling Environment*

23. A long-term vision for the sector should be established by having an approved PPP Policy, which ensures a wide-support within the government and clarification regarding institutional responsibilities while offering perspective as regards the flow of projects to be developed under a PPP mechanism ;
24. A strong legal and regulatory framework should be developed which should provide clarity on the rules and procedures to be followed, on sectors eligible for PPP implementation and on the type of PPP that can be used. The legal basis should, however, not be too strict and should remain a facilitator for PPP development rather than become a constraint;
25. The conditions should be in place to attract a large number of private firms so there is a competitive environment during the bidding process (for example this could be checked through market sounding activities prior to bidding) ;
26. Capacity building activities should also cover the private sector so local companies can more easily participate in PPP projects. Capacity of local companies can also be built by having local companies participating in a consortium with foreign investors;
27. The development of the local financial sector should be fostered to provide long-term financing required for PPP projects. Ways to diversify the financing sources of PPP projects should be explored (for example mechanisms such as long term lending institutions (IIFCL), takeout finance, infrastructure debt fund, credit enhancement, securitization and bond markets);
28. Public financial support is required to make some projects financially viable and instruments should be developed for this purpose (for example Viability Gap Funding and guarantee mechanisms). PPP liabilities should nevertheless be carefully assessed and monitored to ensure fiscal sustainably.

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