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Draft Guidelines for new approaches for successful PPP capacity building

Conference room paper submitted by the secretariat

Summary

<p>An expert team led by Mr. Arthur Smith prepared a draft guidelines for new approaches for successful PPP capacity building using the experience of the PPP capacity building project jointly implemented in Belarus by the UNECE and UNDP in 2013-2015. This work was launched at the UNECE International PPP Forum in Hong Kong in May 2017. The secretariat is circulating the draft guidelines as received for information only.</p>
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<p>The Working Party is requested to take note of the draft guidelines, with a request for this work to be finalised in the coming weeks.</p>

A Model for Public-Private Partnership (PPP) Capacity Building

Overview. The public-private partnership model is increasingly being employed by governments around the world as a tool to help address their need for infrastructure and infrastructure-based services. This trend is particularly pronounced in developing and transition economies; the World Bank had documented the use of PPPs in more than 134 developing countries, across which PPPs constitute between 15 and 20 percent of total infrastructure investment.¹ This broad experience demonstrates that governments generally find the implementation of a successful Public-Private Partnership (PPP) programme to be a challenging and complex process. The challenges have been well-documented, and include, but are not limited to: achieving and sustaining the institutional capacity to carry out such a programme, implementing the legal and regulatory frameworks to enable and support PPPs, enabling investment and strengthening local financial markets, and creating the appropriate government structures (such as the unbundling of vertically-integrated government utilities).

Governments frequently find achieving institutional capacity to be among the most intractable of these challenges. The successful development and implementation of a PPP programme requires not just a comprehensive knowledge of the PPP process and how it works, but also entirely new skill sets, as Government officials are required to set objectives, define desired outcomes, and evaluate and select from alternative private sector solutions, as opposed to defining and purchasing a solution through a traditional public procurement. Government officials need to understand and apply commercial principles to develop PPP projects and evaluate private proposals. The acquisition and retention of this knowledge and skill set requires both extensive training and a knowledge management strategy which will ensure the maintenance and expansion of this capacity over time.

This paper explores a new approach to development of PPP institutional capacity which was introduced through a joint United Nations Economic Commission for Europe/United Nations Development Programme (UNECE/UNDP) project in Belarus. The project was financially supported by the European Union, and implemented with the full support and participation of the Government of Belarus. The results of the project have been an exceptionally rapid development of PPP institutional capacity, as Belarus has advanced from a pre-PPP stage to having well-defined projects being brought to market within a span of three years.

The structure of this paper is as follows:

- An overview of the Belarus capacity-building project and its outcomes
- A discussion of the typical challenges encountered in capacity-building efforts
- A discussion of how the Belarus project addressed these issues, and how this approach might be replicated.

The Belarus PPP Capacity Building Project. The idea of undertaking a PPP capacity-building effort in Belarus arose from the Belarusian government's deep appreciation of the role of infrastructure as the basis for sustainable and inclusive economic growth. The nation's key infrastructure sectors were facing acute shortages of financing for their most critical modernization and upgrading projects, and were also affected by acute gaps in management capacity and market-oriented operational approaches. PPP was identified as a potential tool for achieving more efficient infrastructure development.

In 2012, the Government of Belarus requested assistance from the UNECE in assessing its readiness to launch a national PPP program. The resulting National PPP Readiness Assessment Report, prepared by a team of experts organized by UNECE, provided a detailed list of concrete recommendations and implementation steps to support development of a successful PPP initiative in Belarus. The desired course

of action was clear, but implementing the recommendations detailed in the assessment report e.g., developing institutions and procedures, elaborating a national infrastructure plan, and driving the PPP implementation) would require significant resources. Recognizing this need, the local UNDP office and UNECE approached the EU Delegation in Belarus, which agreed to finance such a project with 1 mil. EUR under the Eastern Neighborhood Partnership Initiative (ENPI) Programme.

The UNDP/UNECE project “**Capacity development to support the implementation of Public Private Partnership (PPP) in Belarus**” (hereinafter – UN PPP project) was implemented in cooperation with the Government of Belarus (acting through the Ministry of Economy in Belarus) – as national executing entity, UNDP as the implementation body selected by the EU and UNECE as co-implementing agency.

The UN PPP project was conducted over the period August 2013 through November 2015. The main objective of the project was to strengthen the capacity of Belarus to deliver infrastructure projects and public services using the Public-Private-Partnership (PPP) mechanism. The project aimed at increasing the capacity of the public and private sectors, and of society at large in Belarus, to engage in the PPP process with a view to developing, promoting, delivering, operating and managing PPP projects for infrastructure and public services development.

The project design focused on three planned components:

- Disseminating knowledge on different aspects of PPP;
- Supporting establishment of the National PPP Unit;
- Developing instructional guidelines for identification and appraisal of pilot PPP projects in two select infrastructure sectors.

By implementing the above mentioned activities, the project envisaged the achievement of the following objectives:

- Building capacity and training different stakeholders involved in the PPP process to develop and implement PPP projects as a tool for attracting private investment;
- Strengthening institutional capacity through a proposed National PPP Unit as an engine of PPP development in Belarus;
- Promoting the potential of public infrastructure development to attract private capital through the identification and appraisal of selected pilot PPP projects.

The outcomes of this programme were notable, as Belarus successfully built its national PPP capacity and launched its initial PPP project. The following table summarizes some of the key intended outputs of the project, the activities conducted to achieve these outcomes, and the actual outputs.

Intended Outputs	Planned Activities	Actual Outputs
Component 1: Disseminating knowledge on different aspects of PPP	Activity 1.1. Introducing a PPP concept to stakeholders	- Introductory conference “International Best Practice in Public-Private Partnerships: Lessons for Belarus”; - Study tour on PPP best practices to Germany; - Workshop and Roundtable Discussion “What PPP Unit for Belarus? Lessons from International Best Practice”; Event “PPP Days in Belarus”

		- Regional PPP awareness raising seminars (Brest, Mogilev, Grodno)
	Activity 1.2. Training of PPP Focal Points/trainers	- Training event – PPP Masterclass – in Geneva and Bern (35 people) - Training event in Minsk (30 people); - Training materials produced in Russian and English
	Activity 1.3. Public information campaign	- Provided input on design of an information and communication strategy for the project; provided comments on the design and maintenance of the PPP website.
Component 2: Support to establishment of the National PPP Unit	Activity 2.1. Providing support to the establishment of the National PPP Unit	- Roundtable discussion "Practical Steps to establish the National PPP Unit in Belarus"; - Institutional support to the PPP unit (governance structure, manuals, terms of reference for staff members and assistance in the recruitment process); - Twinning agreement arranged with Partnerschaften Deutschland in Berlin (the German PPP Unit); - PPP Unit Personnel trained in various aspects of PPP (in international locations) – by Partnerschaften Deutschland; - Apprenticeship of four PPP Unit Staff at the UNECE International PPP Centre of Excellence in Geneva and at Partnerschaften Deutschland; - Inter-ministerial infrastructure board established; the UN provided substantive comments to the terms of reference and structure of the Board - Preliminary assessment of how the Belarusian PPP Center complies with the benchmark requirements of an open, fair, non-discriminatory and competitive tender process by representatives of the UNECE PPP Business Advisory Board.
Component 3: Developing instructional guidelines for identification and appraisal of pilot PPP projects in two select infrastructure sectors	Activity 3.1. Improving the Legal framework for PPP	- Workshop held in conjunction with the PPP Days in Belarus event. The UN provided substantive input to the programme, identified the international experts, including members of the UNECE PPP Business Advisory Board, and participated in the event; - Participation in the Parliamentary hearings on “PPP: International experience and prospects for Belarus”; - Round Table Discussion and Seminar on “The PPP Legal Framework in Belarus after the Adoption of the PPP Law: What Next?” - Consultative meeting of the UNECE PPP Business Advisory Board and Standing Committee of the House of Representatives of the National Assembly of the Republic of Belarus on Economic Policy - First reading of the Belarusian Draft PPP Law by the

		National Assembly of the Republic of Belarus - Recommendations for the formation of secondary PPP legislation/regulations in the Republic of Belarus by UNECE PPP experts
	Activity 3.2. Assisting in the preparation of a National Infrastructure Plan (NIP)	- Study on the guidelines for the development of a National Infrastructure Plan for Belarus. Recommendations by the UNECE PPP BAB to the Government on further, practical steps to advance PPP in Belarus.
	Activity 3.3. Identification and appraisal of selected pilot PPP projects	-Delivered technical support for the development of proposals for pilot PPP projects; -Screening of PPP project proposals developed by Belarussian entities by experts from the UNECE PPP Business Advisory Board; - Substantive contributions to the sessions of the Inter-ministerial Infrastructure Board devoted to a review of the pilot PPP project proposals; - Appraisals of four PPP pilot projects by UN PPP experts in support of the Inter-Ministerial Infrastructure Coordination Board; - Technical assistance to the PPP Centre in Belarus for the appraisal of three final candidate PPP pilot projects; - Developed Strategic Service Models for the of Health and Transport sectors; - Joint meeting of the UNECE PPP Business Advisory Board and the Inter-Ministerial Infrastructure Coordination Board to discuss and assess pilot PPP projects;

All of the project activities were successfully implemented and the related outputs achieved by the end of November 2015 (and the Law on Public-Private Partnerships of the Republic of Belarus was approved by the Parliament of Belarus in December 2015). The analysis of the short-term impact reveals the following:

Legal framework. The support provided by the UN helped in creating awareness of the PPPs, created the opportunity to discuss the PPP law at the legislative level, and through the legal technical assistance, facilitated the process of drafting the law, framing the debate and – ultimately – the adoption and promulgation of the law.

As the legal framework was put in place, PPP projects began to be prepared for market, with the initial project being the M-10 highway; the further development of this project is now being supported by EBRD. The project implementation process for this and other PPP projects will, of course, take time, but once the first PPP projects are completed, the public services offered to the Belarus population should be improved and the general awareness and acceptance of the model will increase. The PPP procurement of several kindergartens is expected to follow after the M-10 toll-road PPP. The EU has also provided assistance in the preparation of these projects for market (e.g., the Feasibility Study for the Minsk oblast kindergarten).

By enabling a new way to develop, finance and procure public infrastructure, the capacity-building project will contribute to improving the delivery of infrastructure and related public services in Belarus. Such improvement will ramp-up progressively with the development of the PPP practice within the Belarus Administration and the implementation of future PPP projects.

Inter-ministerial Infrastructure Board (IIB). As a result of this project, this new body has been established with a clear mandate and a broad representation within the senior decision-making entities within the country (15 Ministries, representatives of the central and regional administration, banks, and others). The IIB approved the National Infrastructure Strategy, and is empowered to make decisions at the strategic level on appropriateness of the proposed PPP projects.

PPP Unit. The Unit has been endowed with a clear mandate to provide the technical support both to the project proposing authorities, the IIB and other PPP stakeholders, and is developing the capacity to effectively fulfill this role.

The strength of these outcomes suggests that this project may be a model for PPP capacity-building, both within the region and beyond. The structure of the project is displayed in Figure 1 below. The multi-party donor structure facilitated deployment of the full array of financial and knowledge-based resources necessary for the project's success, while the on-site presence of the local UNDP office provided day-to-day continuity and enhanced communication with the Belarussian principals. Consistent political and institutional commitment to the development of PPP capacity from the Belarussian government promoted the efficient use of donor resources and encouraged the difficult process of effecting institution transformation. Together these factors helped produce the project's major concrete outcomes, such as the passage of a PPP Law which broadly conforms to international best practice, and the development of several apparently bankable initial PPP projects.

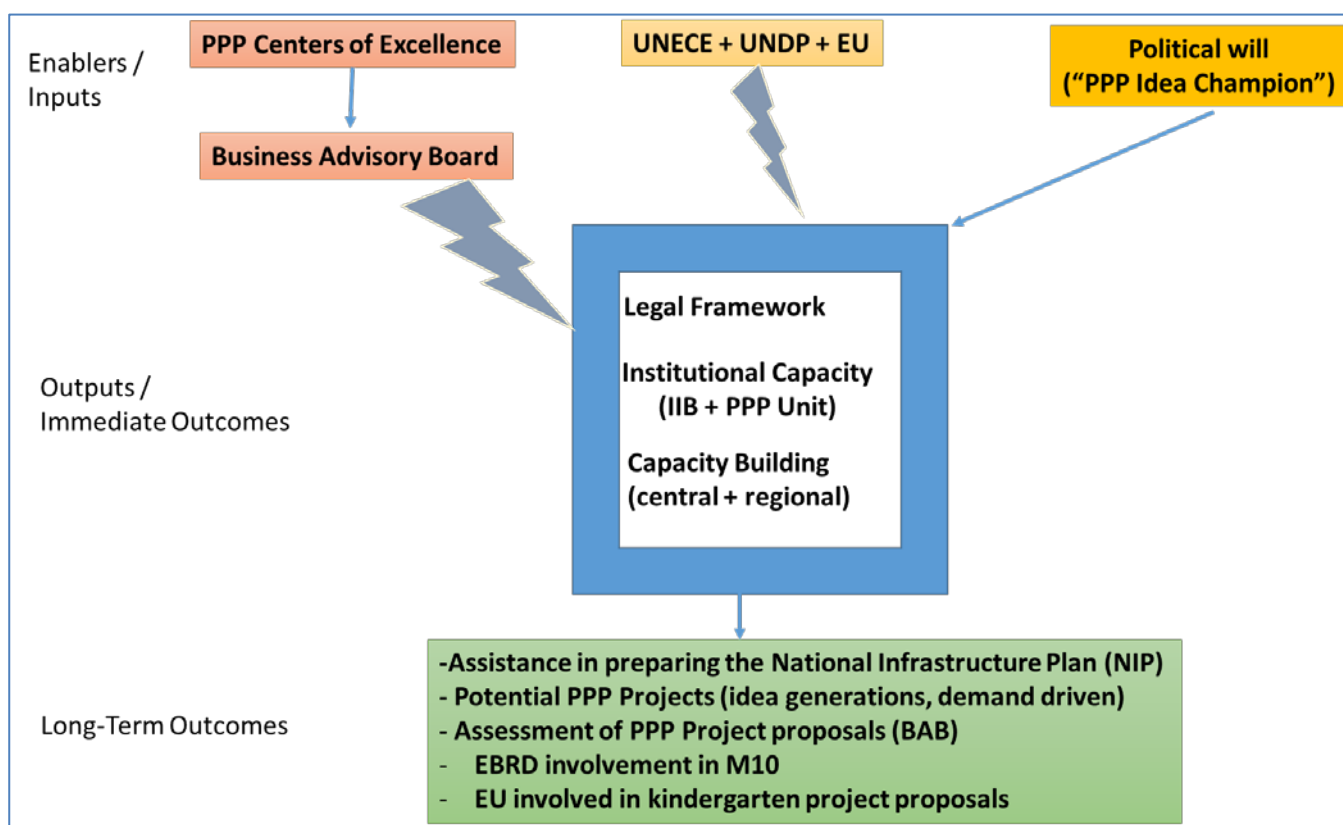


Figure 1: a visual representation of the logical chain leading to the results of the PPP Project in Belarus

The upcoming capacity building on PPPs should also consider the People-first PPP model, and its evaluation criteria (accessibility, equity, efficiency, effectiveness, sustainability and replicability).

Challenges in PPP Capacity-Building. International experience has demonstrated that while countries do experience unique challenges to PPP capacity-building, there are certain challenges which are widely experienced and should be anticipated by policy-makers and planners in their design of capacity building programs. Among such common challenges, we may enumerate:

- Ensuring a strong, stable and visible political commitment to PPPs. Political commitment is essential to maintain momentum for a program, like PPP, which will take several years to fully implement, and to encourage the swift adoption of institutional change (both bureaucratic and cultural).
- Developing the appropriate legal framework. The legal framework needs to support PPP implementation. This may entail the development of a national PPP Law to provide clarity on the definition of PPP, the authority to enter into them, the participating parties and sectors, the role of dispute resolution and use of international arbitration, and other issues. The existing statutory environment also needs to be reviewed to identify and mitigate impediments to PPP which may be embedded in investment laws, procurement regulations, land use restrictions, etc. Building/strengthening Public Sector Capacity and Processes. The use of PPP requires new skills from government managers and planners; not just specific knowledge of the complex PPP project development and procurement processes, but also a new management paradigm of managing strategic service delivery rather than providing services directly. Building a sustainable PPP program requires both the development of these new skills, and also a knowledge management strategy to sustain them over time.
- Building private capacity for engaging in PPPs. Engaging in PPPs also requires a new set of skills from the private sector. While global firms may bring these skills with them to participate in a new national PPP programme, local companies need to understand the PPP bidding and delivery environments. Long-term contracts, non-traditional risk allocation, and whole-life project orientation, for example, require different approaches from private sector participants.

Applying the Belarus Experience – Lessons for Best Practice. (First Draft) General recommendations applicable for capacity building in PPP projects (also derived from data collected from other UNECE projects with capacity building components):

UNECE should continue using the mixed technical-political approach: the technical level brings together state-of-the-art knowledge, while the political dialogue can stimulate the politics in the UNECE member States to intensify the adoption of the best practices;

It is recommended to employ a network of “champions” to lead the work on implementing the recommendations created by PPP Centers of Excellence, a practice frequently observed in policy making. The “champions” would be key political figures in governments of UNECE member States, advocating for legislative changes, eventually involving the private companies in setting national standards;

The PPP Centres of Excellence should initiate a process to establish agreed measuring standards related to their work. The shift from output oriented measuring to outcomes indicators will support UNECE/PPP Centres of Excellence and the Group of Experts in presenting more convincingly the results of their work, especially given the international rhetoric related to results based management and the raising importance of involving the private sector in sustainable development (see the Addis Ababa Action Agenda on financing for sustainable development). Specifically, the capacity building activities should try to shift the results measurement from the output level (number of trainings, number of people trained, number of policy papers released, number of studies/assessments delivered) to outcome level (assess the enduring changes in policies, increased quantity or quality of or of trained people, number/size of PPP projects initiated, etc).

¹ Independent Evaluation Group, World Bank. (2014) *World Bank Group support to public-private partnerships: Lessons from experience in client countries, FY02-12* (pp. vi,9). Washington, DC: World Bank.