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STATUS OF PROGRAMME IMPLEMENTATION

PROMOTING BEST PRACTICE IN EFFICIENT PUBLIC-PRIVATE PARTNERSHIPS

**REPORT OF THE INTERNATIONAL CONFERENCE ON
KNOWLEDGE SHARING AND CAPACITY-BUILDING
ON PROMOTING SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIPS
IN THE UNECE REGION**

Note by the secretariat

Summary

The International Conference, which was organized by the Government of Israel in cooperation with the UNECE Committee on Economic Cooperation and Integration (CECI), discussed the main challenge in Public-Private Partnerships (PPPs) throughout the UNECE region. While PPPs have become an important element in international economic policy, PPPs require a blend of different skills, as well as changes within the public administration. In particular, the lack of knowledge, skills, and training of government officials in PPPs constitutes a main obstacle to their development. The Conference explored these issues and agreed on ‘a way forward’ (presented in an Annex). The ‘way forward’ sets some targets and strongly emphasizes the need for training and capacity-building of government officials in the foundation skills of PPPs.

I. ATTENDANCE

1. The International Conference on Knowledge Sharing and Capacity-Building on Promoting Successful Public-Private Partnerships in the UNECE region took place on 5-8 June 2007 in Tel Aviv, Israel. The Conference attracted over 300 participants representing public and private sectors from around 30 countries in the UNECE region, representatives from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the United Nations Economic Commission for Africa (UNECA), as well as the European Bank for Reconstruction and Development (EBRD).

II. KEY ISSUES

2. The theme of “Promoting best practice in efficient public-private partnerships” is one of the five thematic areas in the UNECE Committee on Economic Cooperation and Integration (CECI) Programme of Work for 2007-2008.

3. Public-Private Partnerships (PPPs) offer benefits in technology transfer, management skills and financing for infrastructure development. All these assets are needed by governments lacking resources in their own budgets to improve and expand basic services to the population in the UNECE region. Despite the interest in PPPs, there are still unfortunately too few fully functioning PPPs in the region, especially amongst transition economies. PPPs require a blend of different skills, as well as a cultural change within the public administration – and there are no rapid solutions. In particular, the lack of knowledge, skills, and training of government officials in PPPs constitutes a main obstacle to their development. The Government of Israel, in cooperation with the UNECE, organized the International Conference to address this obstacle. Discussions were held on the important challenges facing governments today, such as the new role which PPPs demand, the different skills and contrasting ‘mindsets’ PPPs require, and the need for leadership, as well as the ability to negotiate and build partnerships. Other topics included the different ways to address these challenges, including the need to set up PPP units, mobilize private funding, work with the private sector, address risk allocation and transfer, among others.

4. Having discussed these issues, the Conference agreed on ‘a way forward’. The ‘way forward’ sets some targets and strongly emphasizes the need for training and capacity-building of government officials in the foundation skills of PPPs. Among other recommendations, this document proposes working alongside partners, such as the European Union and EBRD, towards developing practical methods and solutions for enhancing knowledge, improving policy implementation by seeking new cooperation approaches at senior government level, and finding ways to support the development of guidelines on good governance in PPPs and training tools for capacity-building. This ‘way forward’ accordingly brings the cooperation between CECI and national, regional and international bodies on PPPs to a new level.

III. OPENING OF THE CONFERENCE

5. Ms. Tzipi Livni, the Vice Prime Minister and Minister of Foreign Affairs of Israel and Mr. Paolo Garonna, Deputy Executive Secretary of the UNECE, opened the Conference.

IV. SUMMARY OF DISCUSSIONS

A. Session 1: Cross-country dialogue. Experiences of PPPs in the UNECE countries and lessons learned

6. The session raised issues touching countries at different stages in PPP development, including those that have had a fairly long experience of PPPs and those at the early stages. The key question asked was whether the PPP experience of the early starters should inspire the newcomers or alternatively counsel caution. In addition, the question was raised whether there are sectors where PPPs work well or where PPPs are not advisable and too complicated to be worthwhile. In response to these questions, the following recommendations were made to governments:

- (a) PPPs are not a passing trend; they have become an important element in international economic policy.
- (b) It is crucial to provide leadership, vision and enthusiasm for the PPP process and take into account the wishes and desires of the members of the public.
- (c) Governments might consider to start with transport as a number of other governments have done with success; other recent successes have been seen in health, water, education, innovation, energy and basic services as well as new sectors, such as culture.
- (d) It is important to make the process as transparent as possible, to establish PPP units at the heart of policymaking, as well as at line ministries, and to use the new tools such as the EU recommendations on 'competitive dialogue' to facilitate PPP procurement.
- (e) Negotiating on risk allocation must be taken seriously based on the fact that the private sector increasingly wants to discuss risk sharing options rather than being presented with a *fait accompli* by governments, particularly regarding demand and regulatory risks.

B. Session 2: Financing and accounting of PPP projects

7. The issues discussed are challenging for countries starting off in PPPs. Project financing in many types of PPPs is a specialized form of non-recourse finance based on project contracts and on the revenue stream from the project. Not only is a strong regulatory framework necessary, but the policy framework also needs to be stable and transparent. There is often not enough capacity to finance projects and the institutions for financing are not always present.

8. In exploring the conditions for attracting private finance into PPPs, speakers emphasized that governments had to go through an evolutionary process involving different stages. Governments at the first stage should begin to leverage the new financing sources required by setting up the overall regulatory environment, while encouraging a strong capital market to provide long-term debt and involving credit rating agencies to secure the senior debt. Speakers emphasized that lenders to PPPs were highly risk averse and governments needed to put in place

a variety of risk mitigating measures. At the same time, speakers argued that the time was right for PPPs. A number of bright spots could be detected on the horizon, namely the growing interest of the institutional investors in PPPs and also that of the private equity funds. Speakers also recommended that international organizations, such as the UNECE, provide a platform for mobilizing these new sources of financing to invest in PPPs.

C. Session 3: Recent trends and global experiences in PPPs facilitating the expansion of PPPs to foreign markets

9. The session provided further insights into the development of PPPs. Various countries, such as the Netherlands and Italy, demonstrated their success in developing a project portfolio; and amongst countries getting started in PPPs, the Russian Federation has already laid a good legislative basis while Ukraine has demonstrated a strong determination to go forward.

10. However, the session also underlined the gap in matching hopes with concrete success. Despite the rhetoric the number of fully working PPPs in transition economies and elsewhere is limited. Only a very few countries in the world have achieved the final stage in their PPP evolution. A major barrier to moving up the learning curve and reaching higher stages in development is the huge imbalance between the skills of the private sector on the one side and those of the public sector on the other.

11. Speakers agreed that the public sector needs support to develop its capacity and agreed that international cooperation was a promising and cost-effective way to build capacity. In this regard, the United Nations is developing a capacity-building project that will include the elaboration of tools and instruments to address this pressing need. As PPPs develop, training will continue to be needed and new initiatives to build this capacity are urgently required.

12. It was a consensus that the focus of PPPs should be the improvement of public services for the population, especially those who are socially and economically disadvantaged. It was also stated that the PPP projects work well only if they are well understood and supported by the public and consumers of services.

D. Thematic session 1: PPP projects in the sector of transport

13. The critical role of PPPs in transport is acknowledged, as PPPs most often begin in transport and then move to other sectors. Getting started in successful PPPs not just builds the expertise but also creates the financing and other institutions for future PPP projects in other sectors. One of the key recommendations emerging from this session, was to create an international facility within the United Nations to exchange experience and to set standards in PPPs in different sectors.

E. Thematic session 2: PPP projects in non-transport sector and financing PPP projects

14. The panel discussed the main contribution of PPPs in different sectors:

- (a) In the 'non-traditional' PPPs, such as culture and heritage, PPPs contribute to economic development. For example, renovation and rehabilitation of historic

buildings create jobs, both directly through construction and indirectly through tourism. Such projects also promote small businesses. The Russian experience highlighted an ambitious programme of output-based projects combining public and private funds in the pipeline.

- (b) In the water sector, the Ashkelon Desalination plant - the world's largest project using reverse osmosis technology (membrane) - provides an answer to problems not only in the Mediterranean regions, but in China and India as well. This tool can be replicated in other countries of the UNECE region. It is also an environmentally friendly solution.
- (c) PPPs in the health sector require education of stakeholders to increase knowledge and acceptance of the private sector's role. Such projects will bring innovation and finance, but the key element is human capital.
- (d) Financing PPPs – bankability and financing, various considerations in finance structures, sources of finance and recent trends in financing PPPs.
- (e) Overall, PPPs mobilize private financing and the role of financial institutions must not be forgotten in the partnership. What is 'bankable' depends both on the country in which the projects are located and the point in time when the project comes to market. In addition, no project will achieve financing without a proper identification and allocation of risk; and new sources of financing are available for PPPs via infrastructure funds and private equity.

F. Drafting Committee

15. The Drafting Committee agreed to finalize the version of Guidelines on Good Governance in PPPs submitted to the Conference and to present it to the next session of Committee on Economic Cooperation and Integration in December 2007. It also agreed that the Guidelines should be a basis for the elaboration of a series of distinct briefing notes and training modules for concrete capacity-building in the UNECE region. The Drafting Committee also made comments on the outline of a comparative review of the performance of PPPs in both advanced market economies and transition economies and agreed on the draft concluding document of the Conference. It was further agreed that a small expert group meeting would be held in Geneva to review the full version of the comparative review report.

V. PRACTICAL EXPERIENCES

16. On the third and fourth days of the Conference, participants had an opportunity to visit examples of PPPs in the transport, water and innovative sectors of the economy in order to benefit from Israel's practical experience in this area. The following site visits took place:

- (a) Weizmann Institute of Science
- (b) Ashkelon Desalination Plant
- (c) Ashkelon Technological Industries
- (d) The Cross-Israel Highway (Highway 6)

(e) Light Train of Tel Aviv.

17. The site visits provided the participants with the opportunity to talk directly with the senior officials and project managers of fully operational PPP projects and see for themselves first-hand how PPPs are contributing to economic prosperity. Not only were each of the projects from different industries, they were also at different stages in their development, which provided further key insights. The site visits also highlighted the value of seeing the physical plants and technologies linked to the economic and financial basis of the projects. All in all, these informative visits to projects in Tel Aviv and its environs provided valuable inspiration, as well as an indispensable framework for the organization of further PPP study tours elsewhere in the region.

ANNEX

‘WAY FORWARD’ (CONCLUDING DOCUMENT OF THE CONFERENCE)

The Conference approved the text of the following concluding document:

“The first regional meeting of representatives of governments, private sector and academia was held in Tel Aviv, Israel to identify the challenges in implementing PPPs for infrastructure and economic development and the solutions in practical capacity building programmes. It attracted over 300 participants representing public and private sectors from about 30 countries in the UNECE region, representatives from UNESCAP and UNECA, as well as the EBRD. Ms. Tzipi Livni, the Vice Prime Minister and Minister of Foreign Affairs of Israel and Mr. Paolo Garonna, Deputy Executive Secretary of the UNECE, opened the Conference. The participants discussed national experiences in PPPs, their financing and the ways and means of building capacity within governments to achieve successful PPP programmes.

The Conference

Acknowledged:

- (a) The role of Israel as one of the leading countries in PPPs.
- (b) The importance of PPPs in promoting efficient and inclusive economic and social infrastructure as demonstrated by the presentations and site visits conducted during this Conference.
- (c) The benefits and challenges of implementing successful PPPs.
- (d) The need to improve PPP policies and strategies for successful programme implementation.
- (e) In particular the need to acquire skills and the need for PPP units to manage the process.
- (f) The importance of having easy access to information on PPP case studies and best practices, as well as sharing knowledge within and between countries.

Recognized:

- (a) The importance of international cooperation in capacity-building.
- (b) The usefulness of the UNECE work on the Guidelines on good governance in PPPs and of the forthcoming Comparative review on the performance of PPPs in the UNECE region.
- (c) The important work of other international organizations in the areas of developing guidelines and capacity-building, and the good coordination and cooperation being established between these organizations and UNECE.
- (d) The valuable new initiative in PPP capacity-building of the European PPP Expertise Centre (EPEC), a joint project of the European Commission and the European Investment Bank to help develop PPP policies for the benefit of EU Member States.

- (e) The important work of EBRD in financing infrastructure PPPs, in improving the legal environment for concessions, and in building trust between the public sector and private investors by promoting and adopting best practice PPP methods and products.

Agreed on the following in order to ensure effective follow-up to the Conference:

- (a) ***To launch*** a PPP capacity-building programme which, within the next two years, will aim to train at least 200 officials from public and private sectors from countries with economies in transition of the UNECE region, and to develop foundation skills and better understanding of PPPs.
- (b) ***To sustain*** this with the preparation of training modules for use in the region, and accrediting personnel to provide PPP training, and creating complementary synergies among UNECE, EBRD and EPEC. In this connection, to finalize the UNECE guidelines as a "setting the scene" document that will facilitate development of such training modules.
- (c) ***To invite governments:***
 - (i) To select specific areas for training;
 - (ii) To mobilize their PPP Units to share experience amongst themselves and to cooperate in PPP foundation training in various sectors;
 - (iii) To host high level consultations between their ministers in PPP areas and top level private sector representatives with a focus on PPP policymaking and implementation; and
 - (iv) To host further PPP site visits for government officials and other interested parties that represent good practice in PPPs.
- (d) ***To invite investors*** to share their experiences and expectations in the area of PPPs.
- (e) ***To invite international and national training bodies*** to support the development of the training programme.
- (f) ***To invite the UNECE Committee on Economic Cooperation and Integration:***
 - (i) To strengthen its network of experts on PPPs and to consider establishing a team of specialists on PPPs at its second session in December 2007; and
 - (ii) To organize regular regional capacity-building meetings, in cooperation with interested governments.
- (g) ***To invite the UNECE secretariat:***
 - (i) To continue and strengthen its cooperation with other United Nations Regional Economic Commissions, in particular UNESCAP and UNECA within the framework of the United Nations Development Account Project "Public-Private Partnership Alliance Programme for Capacity-Building in Infrastructure Development and Provision of Basic Services";

- (ii) To continue its work on PPPs within the framework of the programme of work of the UNECE Committee on Economic Cooperation and Integration with a focus on capacity-building;
 - (iii) To continue developing the Virtual Platform for exchange of information on PPPs as a cost effective tool to exchange best practices in PPP policies and experiences and an opportunity for governments to find potential partners; and
 - (iv) To report on the Conclusions of the Conference to the PPP forums of the other United Nations Regional Economic Commissions.
- (h) ***To encourage participants of the Conference*** to participate in the Asia-Pacific Ministerial Conference on Public-Private Partnerships for Infrastructure Development to be held in Seoul, Republic of Korea on 2-5 October 2007
- (i) ***To thank the Government of Israel for hosting the Conference and to invite it*** to report to the second session of the UNECE Committee on Economic Cooperation and Integration (December 2007) on the results of the Conference.

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