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International Conference on Taking Public-Private Partnerships Forward:
New Opportunities for Infrastructure Development in Transition Economies

Moscow, Russian Federation, 21-22 October 2008

**REPORT OF THE INTERNATIONAL CONFERENCE “PUBLIC-PRIVATE
PARTNERSHIPS: NEW OPPORTUNITIES FOR INFRASTRUCTURE
DEVELOPMENT IN TRANSITION ECONOMIES”**

I. ATTENDANCE

1. The International Conference on Public-Private Partnerships on New Opportunities for Infrastructure Development in Transition Economies took place on 21-22 October 2008, Moscow, Russian Federation. The Conference attracted over 600 participants representing public and private sectors from 30 countries, representatives from the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO).

II. OBJECTIVES AND KEY ISSUES

2. Promoting best practice in efficient public-private partnerships is one of the five thematic areas in the Programme of Work for 2007-2008 of the UNECE Committee on Economic Cooperation and Integration (CECI). Public-Private Partnerships (PPPs) are agreements between governments and private entities under which the private sector finances, designs and operates public infrastructure, assets and services on behalf of the state, in return for a fee or payment. They offer benefits in technology transfer, management skills and financing for infrastructure development.

3. The Conference was organized by the United Nations Economic Commission for Europe, Vnesheconombank and the State University - Higher School of Economics and other partners in the Russian Federation with support of ESCAP. The first day of the Conference discussed the policy and institutional requirements for successful PPPs and was organized in cooperation with the Vnesheconombank of the Russian Federation, which has recently established a PPP Center. The second day of the conference on building the capacity to do PPPs was hosted by the State University – Higher School of Economics, an institution, which already provides training for government officials at federal, regional and municipal levels.

4. The objectives of the Conference were threefold: (a) to present policies, plans and current state of thinking of the government for PPPs; (b) to discuss the progress made in developing a strong market for PPPs in the region and the key policy, institutional, financial and capacity-building challenges that still remain to be addressed; and (c) to launch a new initiative in PPP capacity-building for more effective project implementation for the Russian Federation and other countries in the region that will sustain progress and build success in the emerging PPP market.

5. This Conference was also organized as a part of the United Nations Development Project on Public-Private Partnership Alliance Programme for Capacity-Building in Infrastructure Development and Provision of Basic Services, jointly implemented by ESCAP, UNECE and ECA.

6. PPPs are currently spreading gradually throughout the UNECE region and the key issue that was discussed during the Conference is how to make PPPs more prevalent in emerging markets where there is a huge interest in their potential. While the focus is countries with economies in transition, PPPs also provide excellent investment opportunities to enterprises from all the UNECE member States. Other important issues raised at the Conference included the ways of increasing the institutional and organizational capacity to undertake PPPs in the Russian Federation and the transition economies, especially, the setting up of PPP Units both at the federal and subregional levels, as well as how the financial crisis might affect the PPP market. The concluding document of the Conference presented in Annex I.

III. OPENING OF THE CONFERENCE

7. Speakers at the opening session included Chairman of the Vnesheconombank, Executive Secretary of the UNECE, Rector of the State University – Higher School of Economics, representative of the Ministry of Economic Development of the Russian Federation, and President of the Russian Union of Industrialists and Entrepreneurs. Speakers elaborated on four themes on ‘Taking PPPs forward’:

(a) Creating effective institutions. Both the UNECE Executive Secretary and the Chairman of the Vnesheconombank stressed the need to create effective institutions such as PPP Units. One of the goals of the PPP Unit which was identified by speakers was to lower PPP transaction costs by creating an enabling environment that is stable and predictable. PPPs have a reputation for complexity and expense and so the PPP Unit needs to both simplify procedures and lower the costs, for example through standardizing PPP contracts.

(b) Upgrading knowledge through training. All speakers referred to the need to improve skills, noting that not enough resources are invested in capacity-building. Taking into account the large costs involved to develop a PPP project, it was commented that it was regrettable that so little is invested in the development of the skills of officials to manage and ensure the project's long-term success. Training, however, needs to be supplemented by 'on the job' experience. Several speakers also mentioned the role that the private sector could play in training by providing their expertise, knowledge and resources but to date this was not happening systematically.

(c) Improving cooperation to disseminate knowledge and the flow of information. As each country begins its PPP programme, it is important to avoid 'reinventing the wheel' which is costly and wasteful. Accordingly, the UNECE Executive Secretary referred to the need to establish a regular exchange of information between PPP Units already well established with others which are starting out in PPPs. Such exchanges might also involve secondments of persons for a short period to operational PPP Units for on the job learning.

(d) Clear rules and regulations. Some speakers mentioned the lack of information on projects coming to the marketplace. There was no transparent procedure, for example, by which this was done. A representative of the Ministry of Economic Development of the Russian Federation mentioned that there were several options regarding the revising the legal framework for PPPs: first, either to develop a completely new PPP law or to revise the existing one. It was also declared that it would be a mistake, if revisions of the legislation were done on an ad hoc basis.

IV. SUMMARY OF DISCUSSIONS

A. Session 1. "PPPs for infrastructure development and delivery of public services"

8. This session explored the policies that can make PPPs an innovative tool for improving infrastructure and public services. Representatives of the Government of Saint Petersburg, PPP Center of the Vnesheconombank, Institute of Regional Policy of the Russian Federation, Ministry of Infrastructure of Spain, Investor Council of Ukraine, Partnerships UK, UNDP and U.S. Chamber of Commerce addressed this question drawing from their experience in doing PPPs. They described the sectors where PPPs have already made a significant difference and shared their experiences in the latest policy approaches to PPPs.

9. The main pole of attraction for PPPs is the transport sector. Transport, for example, is where the Russian Federation is spearheading its programme. A representative from Saint Petersburg identified four projects in detail: the western high speed diameter, Orlovsky Toll Tunnel, elevated express (light railway) and the Pulkovo Airport as examples of projects either underway or being developed in the transport sector. In Spain, a huge programme of toll roads over the last 50 years has transformed the country and opened up the region for tourism. In other countries, a shift in sectors is occurring, such as in the United Kingdom, where projects are taking place in hospitals and schools.

10. The balance sheet on the performance of PPPs has been positive. PPPs are everywhere delivering tangible improvements in public services and satisfaction is clearly demonstrated in the use of the model by all concerned. In the United Kingdom, over 80 per cent of PPP projects have been delivered on time in contrast with projects procured exclusively by the public sector. Success is leading to the wider use of the PPP model. In Spain, for example, the concession model has been growing dramatically in the last ten years and the Government is using the model as means of mitigating the worst effects of the current economic downturn.

11. The lessons from international experiences in PPPs suggest that one of the keys for success is competition. The United Kingdom, for example, not only has contestability led to improved delivery of the private sector, but has also improved traditional public procurement. At the same time, PPPs are complex and public sector skills are difficult to develop and retain. Critical too is the need for a high level commitments and clarity in the requirements for PPPs and communications and development of the market for PPPs. One off deals are much less valuable than full scale programmes of investments in PPPs.

B. Session 2. “Strengthening the organizational capacity for successful PPP programme with a focus on the Russian Federation”

12. This session highlighted the key elements in developing a PPP market in the Russian Federation, and involved the representatives of the State Duma, Russian Union of Industrialists and Entrepreneurs, Federal Agency for Management of Special Economic Zones, business community and Vnesheconombank.

13. In terms of the existing organizational capacity to undertake PPPs in the Russian Federation, speakers mentioned a number of constraints that was holding back the PPP model in the country, notably the heavy handed bureaucracy and slowness in taking decisions, the length of time for each application to be considered (almost 2.5 years) by the investment fund, and the need for a special resolution to be adopted for each project to be approved, etc. At the same time, there were also some positive trends, amongst them, the law on concessions, the creation of the Investment Fund of the Russian Federation, and the existence of special economic zones where PPPs could be established.

14. There was, however, a number of pressing needs for the country to address before PPPs could become mainstream. The most pressing was the need to elaborate a comprehensive strategy for PPP development in the Russian Federation at federal, regional and municipal levels in order to create necessary institutional framework. There was as well the need for a PPP law to clearly determine the role and authority for government officials to do PPPs. Furthermore, there is a need to assign an effective team to manage the PPP programme. In addition, insufficient attention was being given by the Russian Federation to using the PPP model in such sectors as health, education, and energy.

15. Several speakers discussed how the country might resolve these issues. Focusing first on specifics, the advantages that could be obtained by undertaking PPPs in special economic zones, were mentioned. Sixteen zones have been established in the country with positive effects on investment generation and employment. Representatives of two leading Russian companies also highlighted the opportunities that could be reaped by focusing efforts on developing PPPs in the

water sector. On the more general ways of resolving these problems, speakers identified the need for legislative change, the elaboration of a strong professional, management team – such as found in a PPP Unit – and a commitment to developing and training personnel to achieve a high level of professionalism at federal and regional levels in PPPs.

C. Session 3. “Implementing an effective PPP programme with a focus on international experience”

16. This session highlighted international experience in implementing a PPP programme successfully. Representatives of PPP Units and other PPP agencies from France, Germany, Greece, Kazakhstan, Netherlands, Spain, Russian Federation, United Kingdom, United States of America and the European Investment Bank exchanged views on the role of ministries and agencies, the applicability of the models for countries recently starting out with the programmes, and effective strategies to develop a successful PPP programme.

17. There was no single model identified but rather a variety of different routes and strategies. Countries such as France, for example, which have a long standing tradition of cooperation between public and private sectors, have recently used new legislation to revitalize the PPP programme, creating a more level playfield and easier access to PPPs by foreign companies. Spain’s experiences over fifty years show that the toll road programme has proved to have provided value for money. The guarantees for the early projects from the state cost less than the income received by taxes generated for those projects. The lessons to be drawn is that the state should act to mitigate risk in areas such as exchange rate risk, support lending by according creditors ‘step in rights, and take seriously the question of political risk. In the Netherlands, the transport sector has used PPP successfully. In the United States, despite the increasing use of PPPs – currently more than 1,000 new PPPs are created annually – there is still a reluctance to expand PPP authorities at the federal level. There is no central PPP Unit in the United States and implementation is exclusively at the state level. Nor is there a singly standard model but different types, such as user fee based concession, “Private Finance Initiative (PFI)” type concessions, savings based PPPs and others.

18. Notwithstanding the heterogeneity in approaches to PPPs, all speakers confirmed that successful implementation was based on upgrading the skills within governments. In the Netherlands, the Government has promoted the learning of PPPs through actually doing them: ‘learn and copy’ has been the watchword. The experiences of a project, for example, in one city have been copied and replicated in another city in the country.

D. Round Tables

19. The Round Tables were held in parallel break out sessions discussing the following themes:

- (a) Incorporating the PPP mechanism into regional and municipal development strategies;
- (b) Implementing the best legal framework; and
- (c) Developing the financial market for PPPs.

20. The reports from each of these discussions were presented by the Chairpersons to the UNECE secretariat.

E. Day 2. “Enhancing professional skills in PPPs”

21. The first set of modules of the UNECE Toolkit “on How to do PPPs” was presented to around 200 participants representing government authorities at federal, regional and municipal levels, private sector and representatives of the institutes and universities. The topics of the first set of modules were defined by the UNECE Team of Specialists on PPPs during its first session in February 2008, namely: (i) launching PPP programme; (ii) how to PPPs in roads; (iii) creating the right legal and regulatory framework; (iv) writing a PPP business case; (v) regional and municipal governance of PPPs; and (vi) risk evaluation and allocation.

22. The State University – Higher School of Economics has translated the draft modules from English into Russian, adapting materials to reflect the Russian context. Each module was presented by its authors (EBRD, Partnerships UK, UNECE, Dublin Institute of Technology, USA National Council for PPPs). Overall, the feedback from participants was encouraging. The modules now are in demand and while they are being finalized, interested parties can access them through the CECI PPP Information Exchange Platform.

Annex

Concluding Document**‘GOING FORWARD’**

The International Conference organized by the United Nations Economic Commission for Europe (UNECE), Vneshneconombank (VEB) and State University - Higher School of Economics (HSE) and other Russian partners brought together representatives of governments, private sector and academia in Moscow, Russian Federation, to identify the challenges in implementing PPPs for infrastructure and economic development and the solutions in practical capacity-building programmes. It attracted over 600 participants from 30 countries, as well as EBRD, EIB, UNDP and UNIDO. 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 high level political interest in the event which is a critical factor in the success of PPP;
- (b) The importance, benefits but also challenges in using PPPs to promote efficient and inclusive economic and social infrastructures, including new sectors such as building up infrastructure for tourism;
- (c) The current financial crisis and the role of PPPs as a mechanism to handle the challenge of this crisis;
- (d) The considerable progress which has been made by the Russian Federation in implementing a PPP programme and additionally the strong interest and desire of countries recently started with PPPs to use this model for their own economic development;
- (e) The valuable work of the PPP Center of the Vneshneconombank in guiding and promoting this process;
- (f) The complexity of PPP transactions, the new demands they make on public servants and the new institutions and skills they require; and
- (g) The associated pressing need to develop new skills, to establish effective PPP Units and the training of public servants.

Emphasized,

- (a) The work already accomplished in the PPP capacity-building by the UNECE Team of Specialists on PPPs, the publication of the UNECE Guidebook on Promoting Good Governance in PPPs, the preparation of training modules, in the cooperation with national training centers, such as HSE;

- (b) The importance of the support of a number of international organizations in PPP capacity-building, including the EBRD, EU, EBRD, EPEC (EIB), the World Bank and UNDP for this programme;
- (c) The important role that the business community can play in providing guidance and expertise, and in this regard the creation of a UNECE PPP Business Advisory Board under the aegis of UNECE Team of Specialists on PPPs to provide policymakers with independent advice on PPP policy parameters and on pilot projects;
- (d) That while there has been considerable experience in PPPs in the UNECE region, such experiences are not yet systematically shared with the countries just getting started with PPPs; and
- (e) The need therefore to intensify cooperation and develop more effective experience sharing and guidance to those developing their PPP programmes.

Agreed the following to ensure an effective follow-up to the Conference:

To invite UNECE and interested PPP Units and/or government departments, and the private sector:

To explore the creation of a PPP Unity Exchange to support capacity-building for public servants in countries getting started in PPPs, to provide a platform for the systematic sharing of best practices and the elaboration PPP experiences as practical and operational guidance, to establish fruitful and mutually beneficial contacts between PPP Units from countries with a track record of PPPs and those countries whose PPP programmes are just starting and to develop a dialogue between private sector and the Units on key issues of common interest.

To invite UNECE in cooperation with the Vnesheconombank:

To continue high level consultations between senior policymakers of the Russian Federation involved in PPP issues and the UNECE PPP Business Advisory Board and other stake holders in the Russian Federation.

To invite UNECE in cooperation with international and national institutions, such as the State University - Higher School of Economics of the Russian Federation:

To complete the PPP training modules and to adapt them to national circumstances as expeditiously as possible, at the same time ensuring their high quality and relevance to the needs of the beneficiary countries.

To invite interested governments:

To host a 'donor and beneficiaries meeting' for the creation of the above mentioned PPP Unity Exchange and to solicit financial support from the private sector, both local and foreign, and the public sector to join the PPP Unity Exchange and to sponsor its work.

To invite the International Organization for Standardization (ISO) and other partners:

To help in implementing the recommendations of the UNECE Guidebook on Promoting Good

Governance in PPPs by exploring the feasibility of developing these recommendations as a standard for good governance in PPPs.

To thank the Vnesheconombank and the State University - Higher School of Economics of the Russian Federation and other partners for hosting the Conference and for the hospitality extended to the participants and to invite them:

To report to the third session of the UNECE Committee on Economic Cooperation and Integration (3-5 December 2008) on the results of the Conference.

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