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STATUS OF PROGRAMME IMPLEMENTATION

PROMOTING BEST PRACTICE IN EFFICIENT PUBLIC-PRIVATE PARTNERSHIPS

**REPORT ON THE CONSULTATIVE MEETING BETWEEN THE GOVERNMENT OF
THE REPUBLIC OF KAZAKHSTAN AND THE BUSINESS ADVISORY BOARD ON
PUBLIC-PRIVATE PARTNERSHIPS**

Note by the secretariat

I. BACKGROUND

1. At its third session (3-5 December 2008), the Committee on Economic Cooperation and Integration recognised public-private partnerships (PPPs) as a framework to reconcile the need to generate commercial interest with public concerns and the lack of that could be used to increase attractiveness of market mechanisms in developing economies and countries with economies in transition (ECE/CECI/2008/2, paragraph 31 (d) (iii)). The Committee recommended to take due consideration of the challenges related to the current global financial and economic crisis in the future activities under the subprogramme (ECE/CECI/2008/2, paragraph 31 (i)) and supported the proposal to organize jointly with the Economic Research Institute of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan an international event on “Public-Private Partnerships facing global challenges” within the framework of the II Astana Economic Forum in March 2009 (ECE/CECI/2008/2, paragraph 31 (m)).

2. One of the key requirements for implementing an effective public-private partnership (PPP) programme is the achievement of high-level political support for the programme from the government. However, obtaining this support can be challenging. There are few occasions and opportunities for high-level policymakers to listen to experiences and exchange views on PPPs. Building the technical capacity of public authorities to deliver PPPs at the working level receives attention. By contrast, insufficient consideration is given to building fundamental understanding of the PPP model at the highest echelons of government.

3. Recognising this gap, the United Nations Economic Commission for Europe (UNECE) took an initiative in 2008 and established a Business Advisory Board on PPPs, comprising high-level business leaders with broad experience in PPPs. The goal of the body is to exchange experiences with senior government officials on setting the basic policy parameters for a PPP programme, as well as to road test potential projects before they are presented to the market, in order to determine their attractiveness to the private sector.

4. Kazakhstan has given a high priority to PPPs in its economic development model. While rich in natural resources, it is a landlocked country and has a critical need to create a modern infrastructure to enable its goods to be transported to international markets. Due to a lack of sufficient resources available from the state budget and the huge costs of upgrading or building from scratch an adequate transport system, the Government has come to embrace the PPP model, recently developing new legislation and, in August 2008, establishing a PPP Center. Accordingly, given this strong interest in PPP, it was proposed at the occasion of the country's Second Economic Forum to hold a consultation between the newly established Board and the Government of the Republic of Kazakhstan on 13 March 2009 in Astana, Kazakhstan.

5. The Prime Minister of the Republic of Kazakhstan gave support to this meeting which was co-chaired by the Minister of Economy and Budget Planning of the Republic of Kazakhstan and the Chairman of the Business Advisory Board. The meeting was opened by the Executive Secretary of the UNECE. A large number of ministries and agencies attended the Consultative meeting, including the Ministers of Economy, Transport and Health, the Vice Minister of Finance, a representative from the Ministry of Energy and Mineral Resources and the Chairman of the Kazakhstan PPP Center. The UNECE Business Advisory Board was represented by the following private companies: Deloitte Touche, Pinsent Mason, and Mott Macdonald, as well as by the EBRD, International Road Federation and the German Federal Ministry of Finance.

6. The Kazakhstan PPP Center has elaborated a concept for PPP development in the country, which sets out a strategy for implementing a PPP programme. Amongst some of the goals is the wish to broaden the focus of the PPP model to include not just the transport sector but other sectors, like social services, health and education. In addition, the Government wishes to make the enabling environment in the country more attractive for private sector investments.

II. OBJECTIVES OF THE MEETING

7. The objectives of the Consultative meeting were threefold:

- (a) Provide the Government with an assessment on the prospects for attracting private finance to Kazakhstan for PPPs;

- (b) Identify the ways that PPPs can be used to attract private finance; and
- (c) Examine how PPP can be used as part of an efficient response to the current financial crisis.

III. SUMMARY OF DISCUSSIONS

8. At the opening session, speakers included the Minister of Economy and Budget Planning of the Republic of Kazakhstan, the Executive Secretary of the UNECE and the Chairman of the UNECE Business Advisory Board on PPPs. Speakers elaborated a number of themes on role of the Business Advisory Board, assistance it can provide and key challenges for countries in getting started in PPPs.

9. The UNECE Executive Secretary emphasized a number of challenges that need to be addressed to launch a successful PPP programme, such as setting up a favorable legal and regulatory framework, the development of financial institutions to raise long-term funds from local sources and the need to improve the skills in implementing PPPs amongst local businessmen and public servants. It would be also important to ensure that the members of the public, which are the beneficiaries of PPPs, are adequately consulted and informed on the implications of PPPs implications on the delivery of public services.

10. The Chairman of the Business Advisory Board defined the core focus of the work of the Board which is to recommend options to governments on how best to ensure private sector involvement into their PPP programmes, to provide governments with a sounding board for their PPP policies and projects and advice on how to successfully cooperate with the private sector.

11. An exchange of views took place around the following themes: financing of PPP projects in the current economic crisis; and the political, legal, and institutional preconditions for launching a PPP programme.

A. Financing of PPP projects in the current economic crisis

12. The Minister of Transport of the Republic of Kazakhstan informed the meeting on the current status of the following PPP projects in Kazakhstan:

- (a) Construction and operation of the new “Shar Station - Ust-Kamenogorsk” railway, contract signed in 2005;
- (b) Electrification of the “Makat – Kandygash”;
- (c) Construction of the “Eralievo - Kuryk” railway section that help to develop the Caspian territories of the Republic of Kazakhstan and the transportation service of the Kuryk port; and
- (d) Construction of the “Korgas – Zhetigen” railway section that improve the transit potential of Kazakhstan through the opening of the second international border rail point with China and a number of other rail and road projects.

13. The participants discussed the impact of the financial crisis on PPP projects that are currently being prepared by the Government of the Republic of Kazakhstan. In this regard, the lack of internal and external credit for projects meant that there was a need to prioritize and to find more innovative schemes for filling the financial gap. Members of the Board stated that a combination of subsidies, supports by international financial institutions and bilateral arrangements with other states, export credit agencies and securing lending on exports of commodities, could take the place - even if temporarily - for the lack of lending by commercial banks.

14. The Minister of Finance of the Republic of Kazakhstan stressed that the main problem of current concession projects was paying off infrastructure bonds and finding an insurance companies that were willing to guarantee investment projects in the current financial crisis. The Minister of Economy and Budget Planning mentioned importance to attract alternative financial recourses, national and international.

15. Going forward, the Government was interested in ways in which the Board could assist in structuring projects that could attract funding in the current economic crisis.

B. Political, legal and institutional preconditions for launching a PPP programme

16. A detailed discussion on the institutional and regulatory framework for PPPs also took place, and members of the Board acknowledged the progress that the country had made in developing the legal framework and the creation of a strong and dynamic PPP Center. At the same time, it was advised that despite the urgency to start projects, carrying out of financial modeling for each project was desirable in order to avoid unexpected problems, while in some cases the cheaper option might be to undertake projects as a normal procurement and not as a PPP.

17. A representative of the European Bank for Reconstruction and Development (EBRD) shared its experience based on the consultations on setting up a PPP programme with a number of governments, and on research and analytical materials. The following lessons learned were mentioned:

- (a) The need to learn not only positive lessons but also negative lessons in implementing PPPs, as negative experience can be even more valuable and help to avoid the same mistakes that have been already made by other countries;
- (b) political will is a prerequisite for setting an overall PPP policy and strategy based on the principles of good governance in PPPs;
- (c) Clear differentiation of institutional functions, such as elaboration of a concept and a strategy, regulating function and operational provision of PPP projects; and
- (d) Skills development both in public and private sectors to implement successful PPP projects.

V. CONCLUSIONS AND RECOMMENDATIONS

18. The following conclusions and recommendations for future cooperation were made:
- (a) The Government of the Republic of Kazakhstan recognized the importance of existing experience in PPPs and welcomed cooperation with the members of the UNECE Business Advisory Board on PPPs and the UNECE Team of Specialists on PPPs;
 - (b) As a recommendation for future cooperation, the Government of the Republic of Kazakhstan suggested to establish regular information-sharing between the UNECE Team of Specialists on PPPs and the Government of the Republic of Kazakhstan, in particular with the Kazakhstan PPP Center on Public-Private Partnerships;
 - (c) The Kazakhstan PPP Center requested assistance from the UNECE Business Advisory Board on PPPs in providing comments and recommendations on the Concept of Public-Private Partnership Development in the Republic of Kazakhstan for 2009-2020 and a number of vital issues reflecting current state of PPP development in Kazakhstan;
 - (d) Project support was emphasized, with the Government of the Republic of Kazakhstan being interested in getting practical insights in how to structure specific PPP projects (interest was expressed in a site visit to the Athens ring road which resembles a similar planned project for Astana); and
 - (e) It was recognized that a comprehensive approach was important and the Government of the Republic of Kazakhstan expressed interest in learning how to organize its national PPP programme so that it adequately reaches and responds to the needs of the regional and local authorities.

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