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**Governance in Public Private Partnerships for
Infrastructure Development
Draft**

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Preface

The Public Private Partnership (PPP) Alliance of the United Nations Economic Commission for Europe (UNECE) was established to improve the awareness, capacity and skills of the public sector in developing successful PPPs in Europe. To this end, amongst other things, the Alliance prepares guidelines on best practices in PPPs. At a recent Meeting, the PPP Alliance agreed, in light of the lack of information available on the topic, to prepare guidelines on the subject of good governance in PPPs.

The following document has been prepared by the Secretariat in collaboration with experts of the PPP Alliance. Its contents were developed with reviews at the Forum on “Good Governance in Public Private Partnerships for Infrastructure Development (November 17, 2003), Palais des Nations Geneva, at the 3rd Meeting of the PPP Alliance in Barcelona, September 2004, at a meeting of experts under the auspices of the Canadian Council for Public Private Partnerships and with the government of Canada in Toronto in November 2004, and finally at the 4th meeting of the PPP Alliance in London, October 2005.

Membership in the PPP Alliance is by invitation to experts in the public and private sectors and in NGOs. The Alliance carries out its work in cooperation with the EU, EBRD, EIB and the OECD. The PPP Alliance is a subgroup of the Working Party on International Legal and Commercial Practice (WP.5).

Executive Summary

Public Private Partnerships are becoming increasingly commonplace for infrastructure development. However, during the course of their development and operation, such projects frequently encounter problems resulting from a lack of governance. This lack of governance makes PPPs more expensive for the government and less attractive for potential investors. It decreases the benefits – fiscal, social and economic etc. - that can be drawn and increases the risks – political, contractual and financial, etc.

Improving governance can help maximize the benefits and minimize the risks in PPPs. Improvement in governance requires governments to acquire new skills in public management and to establish new institutions and procedures. Governments will need to focus on supervision and regulation, rather than on direct ownership and controls. In addition to these new skills, new sources of expertise and qualifications are required to ensure that PPPs also contribute to sustainable development. Once applied, these skills increase the transparency and accountability of infrastructure projects and add significantly to the contribution which the project makes to sustainable development. Acquiring these new public management skills, however, is not easy.

One technique to assist governments and the private sector to acquire this new expertise is through benchmarking best practices in specific projects. Benchmarking of the procedures and practices involved in delivering PPP projects can highlight what needs to be done to meet the new public management standards. It allows the key stakeholders in PPPs, i.e., the government, the private sector, the employees and NGOs, to measure their performance in improving governance in PPPs. It can increase the attractiveness of countries to foreign investors as well as ensuring that the projects will be successful. Currently, there are few, if any, mechanisms for benchmarking the achievement of governance in PPP projects.

The UNECE PPP Alliance, in response to this challenge, has worked to provide an innovative benchmarking scheme whereby progress within the key areas of transparency, public accountability and sustainable development can be measured. The PPP Alliance has been working with PPPs since the 1990s, and was a pioneer in creating the basic building blocks of PPPs. The UNECE PPP Alliance is in a unique position because of its close connections with both government and the PPP Industry.

Introduction

PPPs are a form of contractual arrangement in which government and private companies assume co-responsibilities for the delivery of infrastructure services. Through these partnerships, it is anticipated, the advantages of the private sector – dynamism, access to finance, knowledge of technologies, management efficiency, and entrepreneurial spirit - will be combined with the social responsibility, environmental awareness, local knowledge and job generation concerns of the public sector.

The benefits derived from PPPs can be significant. However, many countries within the ECE-region still have steps to take before the full potential of PPPs can be realised. Critical in this regard is the role of government. Governments need to develop new skills for managing and implementing PPP projects that will contribute directly to project transparency, accountability and sustainable development. Governance is the critical ingredient for moving forward in PPPs. This document defines the challenges, best practices, and tools for good governance.

The concepts of PPPs and governance are closely linked. A major problem of some of the less successful PPPs of the 1980s and 1990s was that governments did not establish the necessary governance processes, and this lack of governance affected the partnerships' outcome.

<i>Public Private Partnerships</i>	<i>Governance</i>
<p>PPPs have some common characteristics:</p> <ul style="list-style-type: none"> ● They involve concessions or other contractual arrangements with public bodies (federal, state or local) whereby the private sector makes a service available to the general public. ● They involve risk sharing between the partners. The best formula for sharing risks is that it is allocated to the party that is best able to manage, and therefore minimise, the cost of risks. ● They provide private sector management and expertise, not only the capability of raising finance. ● Service contracts are different from PPPs in that in service contracts the public authority retains overall responsibility for operation and maintenance (O&M). 	<p>Governance in PPPs refers to the degree that a government can realise the potential benefits and address the risks through exercise of political, economic and administrative authority. This requires a number of interlinked public management skills.</p> <p>Good Governance has three key outputs:</p> <ul style="list-style-type: none"> ● Transparency is the degree to which information is open and available to all participants. ● Public Accountability is the degree to which people and authorities entrusted with public resources can be held accountable for the success or failure of fulfilling their responsibilities. ● Sustainable development, i.e., ensuring that the needs of the present are met in a socially responsible manner without sacrificing the ability to meet

<ul style="list-style-type: none"> • PPPs must not be confused with privatization. While privatization means transferring a public service or facility to private sector, PPPs constitute a way of introducing private management into public service. 	future needs.
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These Guidelines provide recommendations using case studies of specific PPP projects. They also provide a tool for the implementation of these recommendations through the development of key benchmarks in good governance in PPPs that define the criteria for success, and further propose a certification scheme for improving good governance in PPP projects.

This guide is organized as follows:

- Chapter 1. Benefits and Risks.
PPPs can provide major benefits if implemented correctly, and the first half of Chapter 1 is devoted to a description of these benefits. These include fiscal, social, economic, and technological benefits. Risk is also an important concept in PPPs, because addressing and distributing risk effectively is a key to realizing project benefits. The second part of Chapter 1 is therefore a discussion of the primary types of risks encountered in PPPs.
- Chapter 2. Importance of Governance in Realizing Benefits and Reducing Risks. Realising benefits and reducing risks in PPPs requires a new set of public management skills and a structured approach to governance. These skills are identified in Chapter 2, along with an implementing structure, to include the establishment of a PPP Unit that coordinates the necessary expertise. In this chapter, we also present some of the key outputs of good governance: transparency, public accountability and sustainable development. These governance outputs can be measured to assess a government's progress towards creating the environment for a successful PPP.
- Chapter 3. Toolkit and Certification
Based upon the key outputs of governance, Chapter 4 provides a detailed benchmarking methodology and presents a potential UNECE-led certification scheme.
- Chapter 4. Case Studies
This document contains many references to real-world PPPs which illustrate the central themes of this report, and we have included the full case studies in this Annex.

1.0 Benefits and Risks

1.1 Benefits

In the absence of sufficient government funding for infrastructure projects, PPPs are frequently the only viable alternative for implementing projects of this kind in emerging market economies. There is no other way of rising to the financial, commercial and logistical challenges these projects represent. However, PPPs can offer a wide range of advantages to the countries that adopt them, beyond immediate project financing considerations. These include the following:

1.1.1 Fiscal Benefits

Easing budgetary constraints

By harnessing private sector funding, PPPs enable projects to proceed with little or even no capital expenditure by the host government (although some level of revenue expenditure and/or some form of subsidy by governments are often still required.) The capital cost of the project is thus not reflected against the government's balance sheet or borrowing limits. This can have the effect of easing the debt burden of the host government and releasing public resources for other purposes, such as spending on welfare or education. In fact, it is even possible on occasion for new budgetary revenues to be created from (for example) revenue sharing arrangements, concession fees and similar charges, and taxation. In many instances, the revenue costs can also be passed on to the consumer, as in, for example, the case of toll roads and bridges where costs may be met in full by the service users. The effect of these steps can be to improve the country's credit rating (and, of course, its commercial image) and thus its ability to attract foreign investment for other purposes.

Value for money

The current environment of fiscal restraint means that issues of efficiency, financial prudence and value for money are fundamental. The private sector's special expertise and know-how can be deployed at all levels on PPPs, and a commercial management approach adopted.

Optimal risk allocation

PPPs involve a substantial allocation of risk to the private and public sector partners, to include but not be limited to: risks of cost overruns, completion delays, regulatory change, operational standards and inaccurate demand projections. These risks must be allocated to the partner, private or public, best suited to mitigate the risk and control costs. The effect is that the projects in question will frequently achieve better value for money and benefit from greater efficiency gains than they otherwise would if retained wholly under government control. Ultimately, this can have a further knock-on effect on government spending levels by lowering the project's revenue cost over its lifetime. The process of allocation of identified risks to the private sector also

insulates the government from those risks. Typically, much of the burden of project development and maintenance is shifted to the sponsors in the private sector. This, in turn, reduces the contingent risks the government would otherwise have to face.

Accurate costing

PPPs help governments to assess the real costs of a project within the framework of the economy as a whole. Accurate costing is essential if private finance is to be attracted. They allow a benchmark to be established which can be used to measure the cost and efficiency of other similar projects, which in turn can help to foster the efficient management of the public sector.

1.1.2 Social and Economic Benefits

Speed of delivery

By deploying private sector finance, and freeing projects (at least in part) from constraints on public sector spending, PPPs can accelerate the pace at which infrastructure projects are launched. This can enable projects to be implemented in circumstances where they otherwise might not be feasible. In turn, this accelerates the provision of the social and economic benefits which these projects offer.

Modernisation

PPPs can help promote economic modernisation. New infrastructure can be put in place, new technology given a role to play in growing industries, and new telecommunications networks introduced. Their private sector emphasis means that PPPs have to respond to changing commercial or consumer demands. If they do not, they are likely to fail. By contrast, economic systems which emphasise or impose planned levels of output as the primary objective, as opposed to a demand-led approach to service provision, can impede responsiveness to change and inhibit economically sustainable innovations.

Reliability

PPPs can also be completed more reliably on time and within budget than public-sector projects. In PPPs, the risk of cost and time overruns is borne (primarily) by the private sector. The tight contractual arrangements involved usually result in the more effective management of this risk.

Efficiency

PPPs also promote the efficient development and management of infrastructure services and place a premium on the flexible and innovative approach of the private sector. Service provision is commercialised. This encourages high (and internationally competitive) standards of performance and efficiency.

Access to international finance

PPPs attract investment from both international and domestic sources. This can be an advantage in itself in countries which need to encourage investment, especially hard currency investment from abroad. It will help them access the global banking and capital markets and develop a domestic investment environment.

Fostering local capital markets

This in turn helps to stimulate the development of existing local capital markets and acts as a catalyst in the creation of new ones. The funding requirement of PPP projects tends to be comparatively large, and the financing mechanisms involved tend to be necessarily sophisticated. This stimulus to financial activity is both direct, as new funding is raised, and indirect, as "spin-off" benefits accrue.

Indirect benefits

PPPs can also generate significant indirect benefits for the economy as a whole. On the supply side, improvements in service provision can enhance private sector productivity. On the demand side, higher incomes can generate increased demand for infrastructure services. The projects themselves also increase demand for local industrial goods and services. This can lead to a "virtuous circle" of infrastructure development and a developing market economy (indeed, the two tend to be mutually dependent).

1.1.3 Technological Benefits

Technology transfer/exchange

PPPs attract experts and organisations of international standing and experience: contractors, engineers, consultants, financiers, lawyers and other professionals. For that reason, they can be powerful catalysts for technology transfer and exchange. Access can be gained to ideas, information and expertise extending well beyond that which is available within individual countries or organisations.

Training

Local staff can be trained and the operational methods and techniques of local firms enhanced by exposure to international management techniques and state-of-the-art technology.

Innovation

The involvement of leading technical experts and experienced financiers also assists in assessing the real feasibility of a project. Its costs and risks will be meticulously examined, and imaginative solutions to apparently difficult problems can be found. If a project concept is not, in fact, viable, this can be ascertained before resources are unnecessarily expended.

1.2 Risks

Proper identification and allocation of risk is a key element in Public Private Partnerships, because PPPs involve a genuine transfer of risk from public to private sector. Unlike other publicly-financed projects, PPPs are not backed by sovereign guarantees. Instead in most PPPs, loans are repaid on the basis of revenue streams with varying degrees of risk. If these risks are not properly managed it can impair the ability to pay back the loan. Overall, the public sector has considerable difficulty in persuading the private sector contractor to assume undefined or unquantifiable risks for projects.

Investors will only invest in a fairly predictable business environment where risks can be largely quantified. The bigger the risk, the larger return investors will require before committing to a project. Addressing and reducing risks is therefore in the interest of both the public and private sectors. Reducing risk and uncertainty means more investment opportunities for the private sector, lower costs for the public sector, and a more secure project environment for both.

Optimal risk allocation in PPPs requires that the party best able to control and mitigate the risk should carry it, with due consideration to the impact on that party's project costs. Allocating risk in an optimal way is hence only possible after the risks have been thoroughly identified and analyzed. Excessive risk transfer from the public to private sector may reduce the cost-effectiveness of a project. There are many different types of risks facing PPPs, including political risks, contracting risks, demand risks, technological risks, commercial risks, financial risks, and force majeure.

1.2.1 Political risks

Political risk is the extent to which changes in government and government policy can have an adverse effect on investors in PPPs. Changing the contract terms or conditions after a PPP is in place can create major difficulties, and also damage a country's image as an attractive place for investment. The most well-known political risks are those of expropriation and revolution, but in reality even small changes in, for example, the taxation regime and labour regulations can make previously feasible PPPs unfeasible. The long term of most PPP contracts makes these kinds of projects particularly vulnerable to political risk, and this will be reflected in the cost of financing. Several international rating agencies make assessments of political risks, which help investors to quantify this factor.

1.2.2 Contractual risks

Contractual risk is the risk of an event where the parties in a PPP contract fail to meet their contractual obligations, either by intent or because the business conditions have changed in such a way that meeting the obligations is impossible. In PPPs, the private party usually bears the contractual risks. The terms of the PPP contracts can often be politically sensitive, though, and private operators have sometimes been forced to reduce tariffs and toll prices due to political or public pressure.

1.2.3 Technological risks

Technological risks arise from the fact that new and better technologies may emerge over the life of a PPP project. This risk is particularly difficult to quantify.

Technological risk is not evenly distributed among all areas and industries, and is considered to be higher within IT, for instance, than within roads and highways. No industry is safe from technological risk, though, because new ground-braking innovations may end up changing entire industries. The arrival of commercial airliners, for example, rendered largely obsolete the industry of cruise liners that previously had moved millions of people across the Atlantic, while the advent of the automobile removed some of the previous limitations in city planning.

1.2.4 Commercial risks

Commercial risks derive from the uncertainty associated with revenue and cost estimates.

PPPs may end up having fewer customers and lower demand than expected, and this is a risk that is usually borne by the private sector. Predictions of demand will often have to be based on historical data, and it is often hard to develop good projections of how price sensitive potential customers will be.

Construction cost estimates are a major contributor to commercial risks; cost overruns can be significant and change the assessment of a project's viability. Operating costs may also be an important commercial risk factor, and fluctuations in energy prices, for instance, may impact a project's balance sheet.

1.2.5 Financial risks

Financial risks come from different types of fluctuations in the price of capital. Two of the most important types of financial risks facing PPPs are exchange-rate and interest-rate risks.

Exchange-rate risk is particularly important if foreign capital is used as a source of finance. Even though the returns in local capital turn out as expected, this may not cover the expected return in the foreign capital if the local currency has lost some of its value. Cost efficient ways of hedging against currency fluctuations may involve giving away some or all of the potential profit in the case of beneficial developments in the currency market, and finding financial institutions that are willing to construct the necessary financial instruments could turn out to be very difficult in non-major currencies.

Interest rate fluctuations are another important source of financial risk. Low interest rates make it easy for companies to find projects where the expected return is higher than the required risk-adjusted return. Increased interest rates can make previously profitable PPPs unprofitable. Interest-rate risks can be eliminated in a number of ways, for instance by borrowing at fixed rates or simply by raising capital through bonds or stocks. Interestingly, institutional investors like pension funds, which used to invest heavily in government bonds, are now looking to PPPs for long-term investments with predictable returns.

The financial risks are usually carried by the PPP, but the public sector should be very much aware of financial risks and their implications for potential private sector contractors.

1.2.6 Force Majeure risks

Force Majeure risk refers to the types of risks that are completely outside of the control of the different stakeholders in PPPs, but these can still be addressed if it is possible to identify them. The most common examples of force majeure risk are natural disasters like earthquakes and flooding.

A natural disaster can affect a PPP directly through damage to its fixed assets. These types of direct effects can be addressed in the design of the PPP, but there is always a limit to how much money should be put into protection against highly unlikely events; a balance must be struck.

A PPP can face serious losses even if the infrastructure it manages survives a force majeure, because of a sharp drop in demand from the local municipality or the general public.

2.0 Governance skills and expertise

Despite their many benefits, PPPs often fail to reach their full potential because of a lack of PPP skills and institutions within both the public and private sectors. Some early PPPs proceeded without adequate public sector management control, and risks were, as a result, not properly addressed and distributed.

2.1 Public Management

The role for Governments in PPPs changes from one of direct ownership and control to supervision and regulation. PPPs are complex, and require the public sector to acquire a wide range of new skills as seen below.

Some Government responsibilities for PPPs	
<p>Framework</p> <ul style="list-style-type: none"> ● Adopting legal provisions to enable the granting of PPP contracts ● Establishing or identifying regulatory authorities ● Managing government support to infrastructure projects ● Managing public relations and information <p>Project identification and analysis</p> <ul style="list-style-type: none"> ● Identification and prioritizing projects amenable to partnerships ● Hiring advisers ● Performing a preliminary review of project costs and benefits (without duplicating the analysis to be performed by the private sector), especially in cases where the government will be assuming some of the market risk ● Reviewing legal and regulatory issues ● Determining preliminary selection criteria ● Granting permission for the project to go ahead (for example the opening of the bidding process) ● Setting a timetable for the project 	<p>Design of PPP arrangements</p> <ul style="list-style-type: none"> ● Choosing legal instruments ● Allocating responsibilities ● Choosing and designing pricing rules and performance targets ● Determining bonuses and penalties ● Determining duration and termination ● Designing adaptation mechanisms to new or unforeseen circumstances ● Choosing and designing dispute settlement mechanisms <p>Contract award</p> <ul style="list-style-type: none"> ● Choosing the award method ● Making decisions about prequalification and shortlisting ● Determining bid structure and evaluation method ● Determining bidding rules and procedures ● Proceeding with the bidding ● Negotiating <p>Exercise of regulatory function through autonomous regulatory agency</p> <ul style="list-style-type: none"> ● Implementing regulatory rules

<p>Enabling and supporting measures</p> <ul style="list-style-type: none"> ● Granting permits and other necessary authorizations (such as rights of way and environmental permits) ● Determining the form of government support for the project 	<ul style="list-style-type: none"> ● Supervising and monitoring ● Enforcing rules (for example imposing penalties)
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Some of the key public management skills required are the ability to: create a long-term political commitment for PPPs; identify sectors where PPPs are the best option; prepare contracts and organize procurements; develop optimal financial and risk-sharing mechanisms; balance the interests of different groups of stakeholders; measure PPP performance; and coordinate and mobilize necessary PPP expertise.

2.1.1 Mobilising long-term political commitment

Public-Private Partnerships are usually designed to last for at least 30 years, and both the public and private sectors need to show a long-term commitment to be viewed as serious potential business partners. Clear long-term political commitments are therefore needed by governments which wish to facilitate successful PPPs. In contrast, perception of political instability or potentially radical political changes can discourage investors from participating in a project.

Implementing PPPs means that the government must evaluate the aggregate of its long-term government commitments. This is because PPPs can go on for much longer than even long-term government budgeting. A specific appropriation process that takes long-term commitments into account has two direct effects:

1. Improved affordability evaluation for each project. Availability of public finance within the entire lifespan of the project should be taken into account in cases where end-user payments are not big enough to achieve economic equilibrium.
2. Concerns about eventual transfer of costs from current to future generations are reduced.

2.1.2 A Change in Thinking

Underpinning the new skills and management qualities is a new public sector perception of the capability and role of the private sector. By choosing to transfer the management of its services and public facilities to the private sector, the public authority must have the confidence that the private sector can match its own efficiency, possesses the necessary competence fulfil the contract terms over the full life cycle of the partnership, and that the private sector partner is able to provide the necessary funding and then design, construct and manage the project it plans.

2.1.3 Identification of PPP opportunities

Mechanisms need to be put in place to evaluate whether a PPP project is a viable option, and this is done by evaluating whether private financing can be justified, and by constructing a public sector comparator. A public sector comparator is a model of how much it would cost for the public sector to offer the same services without relying on a private partner. Besides obtaining a figure for the project alternative costs, experience shows that public sector comparators provide essential information and introduce a higher degree of consistency in PPP proposal evaluations.

2.1.4 Legal skills

A prerequisite for successful PPPs is a credible legal and regulatory framework that protects private sector interests and property rights and enables commercial contracts to be legally enforced. It is also of vital importance that the government agencies have the necessary authority to grant concessions and licenses, and this is often made possible through specific concession laws.

No contract can be totally complete, because not all the information regarding the PPP is available at the time of contracting. It is therefore important to have mechanisms in place that can solve disputes and potential conflicts of interests in a cost-efficient manner.

2.1.5 Procurement skills

Government procurement in terms of PPPs is very different from the traditional way of providing public services, because PPPs require clear specifications of outputs instead of inputs.

Establishing a PPP usually involves a formal procedure that must be predictable, transparent and fair in order to attract as much interest from potential private investors as possible. A sound PPP procurement process usually involves a number of steps, each requiring different types of skills, and extensive coordination is required.

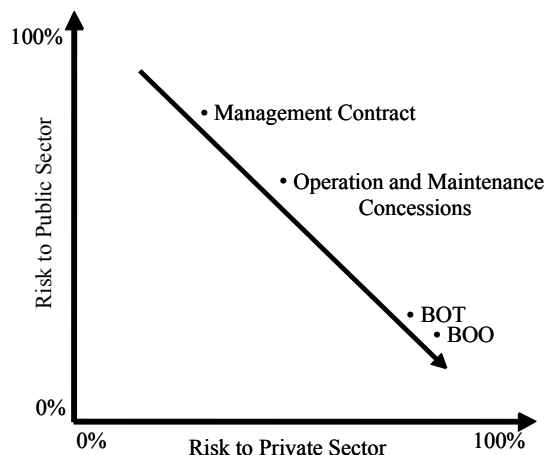
2.1.6 Finance and Risk Distribution skills

Introduction of PPPs creates a need for an understanding of private sector logic within the public sector, especially in the area of finance and risk management.

There are two reasons for this, i.e.: knowledge about private sector logic makes it easier to create successful PPP models, and distribute risk between private and public partners.

The government must be prepared to take on at least some of the risks of the project, and that is especially true for risks that the public sector to a large extent controls. The government can, for instance, issue guarantees against political risks. Some projects may not be commercially viable on their own, and the government may therefore have to take on some of the commercial risks. Risk distribution will to a large extent also depend on the type of contract chosen:

Diagram 1 – Allocation of Risk



In a traditional management contract, the government transfers responsibility for a full range of activities within a specific field, such as operations and maintenance, to a private entity. Remuneration is then based on Key Performance Indicators (KPIs), and the contract rarely lasts longer than five years. Operation and Maintenance Concessions are longer term, and the scope is more substantial. A BOT (Build-Operate-Transfer) is when the private sector is required to finance, construct, manage and maintain the facility for a period that is usually longer than 20 years. The facility is then transferred to the public after the contract expires. BOOs (Build, Own, Operate) are quite similar, with the exception that the facility is owned by the private entity after the contract expires. These latter two categories can be crafted as PPPs, as are many concession-type contracts. A management contract typically retains overall responsibility and much of the risk in the Government sector, and is not a true PPP.

The early stages of a PPP project are usually the most risky. Particular attention should therefore be paid to how the benefits of less expensive refinancing at a subsequent low-risk stage should be distributed between the public and private sectors.

2.1.7 Communication Strategy

Public support is a requirement for the success of any PPP project, and clear communication is therefore essential. Different groups of stakeholders may have fundamentally different views on PPPs, and different priorities and expectations.

A clear communication strategy should be an integral part of any PPP project, especially within politically sensitive areas. Communication about PPPs is a never-ending process, and information that can be shared without jeopardizing the intellectual property rights of the private sector should be shared. The opposition to PPP projects should not be allowed to provide an unbalanced portrayal of what the project means for the public.

All partners should be involved in the process of communication, and public and private partners should cooperate on a common communications strategy. This will ensure a consistent message, and reduce potential confusion. Fairness and confidentiality should be ensured throughout the process.

2.1.8 Stakeholder Management

Stakeholders are those that have a particular interest in PPPs, as individuals or as a group. There are essentially two types of stakeholders: internal stakeholders, such as employees, and external stakeholders, to include customers and public interest groups. Employees are particularly important, because their motivation may directly influence the efficiency of the PPP.

Stakeholder Consultation brings PPP stakeholders together for exchange of ideas and opinions, and this approach has many benefits. Most importantly, information is shared instead of being kept secret, and this makes it easier to make well-informed decisions to the benefit of both the PPP and the community. Stakeholders should be involved as early as possible, but the ideal way of involvement may vary depending on the scope of the PPP and the political and cultural context. Stakeholder Consultation has also proven to greatly reduce the risk of adverse publicity, because problems, real or perceived, can be identified and addressed at an early stage.

Stakeholder Consultation can be quite time-consuming, but the potential benefits of reaching a mutual understanding and obtaining business critical information far outweigh the drawbacks.

2.1.9 Performance Management

Governments must be able to measure the performance of PPPs in an objective manner to ensure that the service requirements and specifications are fulfilled. This should be done by using KPIs that are agreed upon beforehand. KPIs must be quantifiable, and should leave no latitude for differing interpretations.

Finding the appropriate KPIs is not an easy task, and too-detailed measurements could generate both obstacles to private sector innovation and unnecessarily high expenses for the Government agency responsible for performance assessment.

The Key Performance Indicators will be different for different Public Private Partnerships, but some of the most common ones are:

- Quantitative measures of use/capacity
- Quantitative measures of quality
- Quantitative measures of customer satisfaction
- Quantitative measures of environmental impact

2.1.10 Auditing and Accounting

Auditing is necessary for verifying that PPPs are in compliance with their contract terms, and to verify the correctness of the processes leading to the establishment of a PPP. Auditors should get involved as early in the PPP procurement process as possible to identify potential problems before they can affect the project cost and schedule. Typical tasks of an external auditor would include:

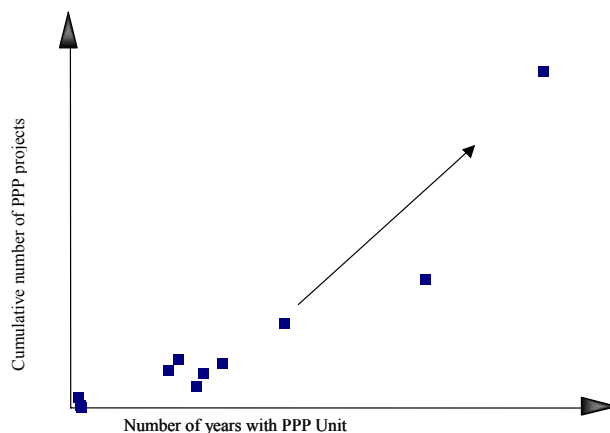
- Reviewing the PPP procurement process. External auditors should, at a minimum, be involved in the process before the Invitation to Negotiate is issued.
- Auditing the accounting treatment of PPPs, particularly on whether the assets in a PPP should be included in the balance sheet of the public sector or not.
- Identifying and addressing conflicts of interests.
- Ensuring contract compliance throughout the life of the PPP.

Auditors reduce risks faced by both government and private sector participants, and can often give governments advice on new PPP policies.

2.1.11 PPP Units

Successful governance of PPPs is a very complex task, and requires expertise in a wide range of fields, to include business, contracting, economics, law, accounting and auditing. However, not even highly specialized expertise is enough if it is not managed and coordinated in an optimal way. Most countries that are serious about achieving successful PPPs have therefore established national PPP units that participate in projects at many different levels, to include pre-tender, evaluation and procurement. The countries with PPP units are also those where PPPs have the greatest relative importance:

Diagram 2 – Relative importance of PPPs



A PPP Unit should have competence, at a minimum, within the following areas:

- The public sector in general, and particularly technical expertise in potential PPP sectors
- Creation of business cases
- Organization of PPP
- Legal Issues, especially on procurement and contracts
- Finance
- Project Management

PPP Units typically have three different functions: project initiation, project support, and consultation as a PPP advisor.

Project initiation: The projects unit should be responsible for identifying PPP opportunities and evaluating and recommending PPPs. Governmental and local entities that choose not to follow its recommendations should have to justify this. The advice and recommendations given by the unit should be available to the public, and the unit should report directly to the parliament, or equivalent national body.

Project support: The PPP unit should be a meeting point for both private and public sector entities with an interest in PPPs. The unit should be able to support the government in setting up successful PPPs, and be responsible for creating or buying the necessary skills. Possible tasks include:

- Establishing PPP “best practice”
- Addressing PPP challenges, and providing assistance on taxation, accounting, and other issues
- Establishing standard PPP processes and contracts
- Ensuring that PPP recommendations and advice are up-to-date
- Preventing PPP failures by monitoring common pitfalls
- Supplying public service training

The unit can be organized like a network where most of its members are working directly with PPPs, but it will be most effective if it is organized under a single ministry that has been given the necessary power to act as a true central authority.

PPP advisor: A central PPP unit with substantial PPP competence can be valuable as an advisor for the government. The unit can also have an important role in guiding private sector companies in entering the PPP business. Advice will typically be provided in the following areas:

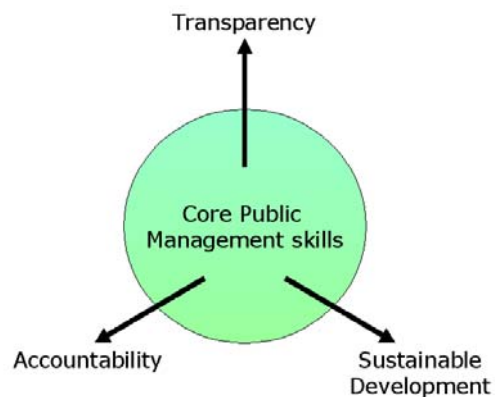
- Helping governmental entities create PPP strategies

- Providing support on determining whether potential PPP projects are actually suitable as PPPs
- Providing advice on establishing new PPPs
- Helping PPPs with serious problems to resolve them
- Hosting private and public sector interaction to help create a mutual understanding

Governments have to decide on the type of PPP Unit that best corresponds to their policy objectives and governmental structure, and different countries have chosen different models.

2.2 Obtaining the Benefits from Good Governance

Diagram 3 – Key Outputs of Good Governance



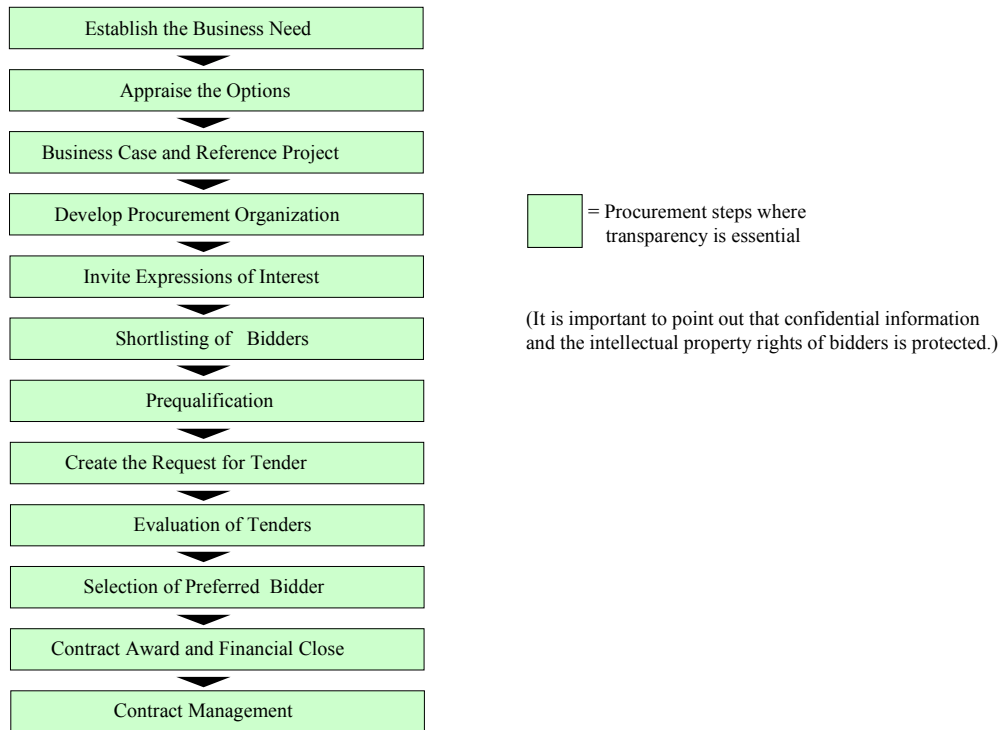
Public management skills and expertise in PPPs improves transparency and accountability and increases the contribution which PPPs make to sustainable development.

2.2.1 Transparency

Transparency refers to the degree to which information is open and available to all the participants in a project. Applying transparent procedures at all stages of the PPP process limits the use of bribes and other forms of corruption. In particular, attention should be given in each step of the tendering process to ensure that transparent procedures are in place, i.e., in Request for Tender preparation, advertisement for tenders, formulation of evaluation criteria, and tender evaluation. Transparency should also be applied if projects encounter problems and disputes occur. This requires the establishment of effective dispute resolution procedures. The ultimate beneficiaries of transparency are the citizens. They should no longer be seen as ‘outside’ the project and should have the opportunity to be consulted and informed at every stage.

Diagram 4 – Different procurement phases require different types of transparency

(The specific structure of the procurement process may vary based on country-specific procurement laws)



2.2.1.1 Tendering Process

D47 Motorway Project (Czech Republic)

In order to improve the infrastructure to meet EU standards on D47. in the Czech Republic a PPP project was proposed to improve the motorway. In March 2001, a consortium company was awarded the construction for an 80 km Motorway without a competitive tender process. In April 2003, the Czech government decided to cancel the contract due to strong criticism of the contract price and apparent contract omissions. These problems could have been avoided by a transparent tendering process. It became clear that a significant amount of money could be saved by cancelling the contract even though a possible penalty for early termination might have to be forfeited. A parliamentary commission was appointed to investigate circumstances of the conclusion and subsequent termination of the contract. A compensation for the constructing consortium was agreed in July 2003. Now, the Czech Government has decided that the D47 motorway project should be reinitiated but this time using traditional methods. *(See the Annex for more details)*

Countries have made considerable progress in establishing open and transparent procurement procedures in PPPs and the benefits are being realised. The procedures include a requirement to prepare in advance a feasibility study for the project, open tendering and known criteria for the award of contracts, and mechanisms that deter and punish offenders.

A Danish Sports Facility

A local authority in Denmark of around 20,000 inhabitants implemented a new PPP financing system in 2001 wherein public assets were sold to private enterprises and then rented back. No Danish community up until that time had been able to offer such high standards of service through public funds. However, following a newspaper investigation it was alleged that companies had given money to the soccer club in return for obtaining contracts from the local authority. The mayor was a shareholder of the company and chairman of the soccer club, which was to play in the new soccer stadium.

(See the Annex for more details)

2.2.1.2 Dispute Resolution**The London Underground**

The London Underground infrastructure has been run as a PPP since 2003, while the Underground is still owned and operated by Transport for London (TfL). The London Underground has initiated a major new form of arbitration that has implications for other projects around the world and could become a 'test case'. The special role of PPP Arbiter was created by the Greater London Authority Act 1999, which establishes its functions and duties. The 'Arbiter' determines disputes on the key commercial aspects of the PPP agreements, in particular at the seven year Periodic Reviews, and gives guidance on any aspect of the Agreement when requested by one or both of the parties. The essential new aspect is that the Arbiter is 'on call' continuously in order to deal with disputes and to solve them as quickly as possible.

(See the Annex for more details)

Properly managed, conflicts within PPPs should lead to creative and constructive outcomes. They should lead to the renewal of confidence and trust which is the basis of the partnership. A typical threat to a project occurs when the public authorities, sometimes reacting to pressure from civil society, intervene to change the rules after agreement has been reached. Governments should consult and inform the private sector partner before making amendments to the agreement.

Another type of dispute, which must be resolved efficiently, concerns those projects where the dispute halts the delivery services on which so many depend. A good example is the dispute resolutions system applied in the London Underground project.

New quick methods of solving disputes have had to be developed in order to avoid disruption of essential services to the travelling public. Litigation is not a viable solution in cases where quick remedies are required. Generally mediation and efficient arbitration is of importance in PPPs.

2.2.1.3 Involving Citizens

Zurich Stadium Project

An interesting example of consultation with the public occurred when the Zurich city authority decided to build a soccer stadium. The Green Party had been opposed to the construction of the stadium on environmental grounds and local residents reacted against the project as well, because of concerns over increased traffic congestion that would result from the project. A referendum was held to solve the dispute. It was called to approve both the planning permission and the city decision to provide land and funding worth a total of CHF 37.5m, 10% of the total project's cost. The referendum results were: 63% of the inhabitants agreed to the private plan and 59% agreed with the financial participation. This transparent process increased public acceptance of the project.

(Please see the Annex for more details on the Zurich Stadium Project)

There are several ways the interests of all stakeholders can be taken into account. Public scrutiny by a referendum before the final approval of a project generates a better understanding by the community in the project. It encourages an open debate. Such a debate can prevent challenges to the project being raised subsequently, which can thus avoid costly delays to the project.

The typical argument that PPPs are too 'technical' for the ordinary citizens to understand is not valid. Open debate encourages participation and a better understanding of the project. Referenda are typically used in Switzerland. There are, however, many other methods, open public consultation, community meetings etc. which can be used to achieve such desirable outcomes.

2.2.2 Accountability

Public Accountability refers to the process by which people and authorities entrusted with public resources can be held accountable for their success or failure in fulfilling their responsibilities. This can be done through auditing to ensure that the public has received value for money and through a management control system (identifying targets and ways to measure achievement, rewarding compliance etc.) that monitors the private sector in achieving the objectives of the project throughout its operation. In addition, the full cost of the project to the public must be fully disclosed. There should be effective monitoring and public reporting of results by an entity or person independent from the Government (e.g., UK National Audit Office, and the Canadian Auditors General).

.2.2.2.1 Auditing

The Mapeley PFI project: Sale of land and building by the Inland Revenue UK

In the UK, the government's tax authority (the Inland Revenue and Custom Excise (IRCE)) in order to raise capital for the Exchequer proposed a PPP through a transference of the ownership and management of buildings belonging to the IRCE in a lease back for 20 years. For £220m 600 buildings went to a consortium "Mapeley", which was chosen as the preferred bidder. The Inland Revenue said at the time of the operation that it was dealing with a UK registered company. However, 18 months later, it stated that the company was based offshore in Bermuda. This raised therefore, the possibility that valuable assets were to be shifted beyond the reach of the UK tax authorities to a company registered in a tax haven, a development which could impact on the assessment of the projects cost-effectiveness.

(See the Annex for more details on the Mapeley PFI)

An independent audit office is useful in ensuring that the public receive "value for money" from the PPP project. Accountability means amongst other things providing basic information on the pricing of projects. Proper cost and benefit analyses should be undertaken before projects begin, and the facts and figures should be made publicly available. Auditors can bring this data to the attention of the public. In the UK, a review by the auditor's office of the sale of land and buildings by the Inland Revenue revealed a weakness in the information about the financing of projects and a lack of information about the company which was awarded the contract. At the same time, it also shows the importance of review authorities to ensure that good governance is achieved. In this case, not only was the UK Parliament Select Committee informed but also all the files were made available on the Internet.

2.2.2.2 Performance Management

Scottish Schools

Under a scheme in Glasgow a PPP project is ensuring that schools are serving deprived areas and giving children Internet access for the first time. The project is designed to increase educational standards, to improve pupil attendance, to prepare them for the Information Age, and to raise the morale, commitment and dedication of teachers. School projects are implementing progress in several aspects of education in order to make attendance of pupil more attractive and to improve school results. Contracts align the private sector to the achievement of improved social standards e.g. the private contractors may incur penalties if they do not achieve the improvements in education standards agreed in the contract.

(See the Annex for more details about the PPPs in Scottish Schools)

Many countries have established mechanisms to ensure that PPPs live up to their concession agreements, and this can be done in a number of different ways. For example, some governments publish reports on the success of PPPs in meeting targets such as achieving completion dates and meeting cost/performance goals. Others do consumer studies to determine if the public has found the services to be an improvement on those that had been previously delivered by the state.

The example from Scotland demonstrates how governments can use a wide array of performance indicators and penalties to ensure compliance with a PPP concession. The private sector profit motive is here used to achieve improvements in educational standards and in class attendance. A non-profit organization would not face the same incentives.

2.2.2.3 Taxation and Accounting

PPPs can provide a major advantage to governments facing budgetary constraints, because the debt of the PPPs need not, in many cases, be reflected on the balance sheet of the public sector (the EU provides specific guidance on the balance sheet treatment of PPPs). However, information on the size of financial transfers made into the project by the state should be open and accounted for. The public must know what the obligations of the future generations to pay back the debt will be.

Eurostat¹ recommends that the assets involved in a public-private partnership should be classified as non-government assets, and therefore recorded off balance sheet for government, if both of the following conditions are met:

1. the private partner bears the construction risk, and
2. the private partner bears at least one of either availability or demand risk

Eurostat's rule means that the analysis of risks borne by the parties is the key element of the accounting of the impact on the government deficit of PPPs.

2.2.3 Sustainable Development

Initially, the main reason for governments' interest in PPPs was financial. The private sector could provide the finance for a project which could not be paid for out of the national budget. Increasingly the motivation for PPPs is changing. Governments see the resources that the private sector has at its disposal as critical for addressing such concerns as poverty, disease, illiteracy and homelessness. Also, environmental concerns are becoming a factor for selecting the PPP method. Investors in PPPs too have a financial motivation for taking environmental considerations into account, because the effective use of resources and reduction of waste both in design and construction, means lowered whole life costs, and hence higher margins. Citizens too demand more attention from their governments to the social and environmental impact of projects.

¹ For more information, see http://epp.eurostat.cec.eu.int/cache/ITY_PUBLIC/2-11022004-AP/EN/2-11022004-AP-EN.HTML

While the importance of sustainable development has grown in the rationale for PPPs there is still a need for additional progress. Projects should be evaluated more according to the achievement of socially desirable affects. Infrastructure services in PPPs should be made more accessible to the socially and economically disadvantaged. In addition, more attention needs to be given to the employment impacts of PPPs both in terms of the project's impact on local employment and on its effects on the employees who work in the PPP project.

2.2.3.1 Life-cycle costing

Vancouver Landfill Cogeneration Plant

The City of Vancouver, British Columbia owns and operates a landfill site that receives 400,000 tonnes of solid waste annually. The site produces landfill gases as a by-product of waste decomposition, including methane, a greenhouse gas that contributes to global climate change. In January 2001, the City issued a competitive Request for Proposals to select a partner, which would finance, design, build, own, and operate a beneficial use facility. A private partner selected by the City designed, financed, and constructed a cogeneration plant, which uses the landfill gas as fuel to generate enough electricity to supply 4,000 to 5,000 local homes. The private partner sells this power to a local utility. Waste heat from the power generation process is recovered as hot water, which is sold by the private partner to a large (32 acre), nearby greenhouse complex for heating purposes. Using the landfill gases in this manner results in reduction of greenhouse gases equating to the removal of 6,000 vehicles from Canada's roads. The City is receiving approximately \$400,000 annually from its share of the power and energy sales. Since the City's annual operating costs for landfill gas collection are approximately \$250,000, the PPP has turned an expensive environmental program into a net revenue generator for the City of Vancouver.

(Please see the Annex for more details on the Vancouver Landfill Cogeneration Plant)

Governments can introduce into PPPs strong incentives – adding environmental criteria for winning the tender etc.. to make the business sector give appropriate attention to protecting the environment. Environmental protection is in the interest of everyone, including the private sector, because any reduction in waste and inefficiencies over the lifetime of the project results in higher margins. However, establishing the necessary lifetime costing can be a challenge, because assessing all future costs of potential damage to the environment is difficult. New environmental treaties like the Kyoto Protocol generate new environmental requirements, and associated costs. This aspect was taken into account by the City of Vancouver that in 2000. The Vancouver Landfill Cogeneration Plant shows how life-cycle costing can help to demonstrate the long-term economic benefits of environmental programs.

2.2.3.2 Environmental Improvement

The Chesapeake Bay Forest

The Chesapeake Bay is one of the United States richest bio habitats, supporting over 3,600 species of plants and animals, and providing fishing, recreation, tourism, and other employment opportunities for the region. However, growing population pressure and loss of undeveloped land have reduced the environmental quality of the Bay. The State awarded an innovative PPP contract to a lumber company. Harvesting of timber is allowed only where consonant with the environmental objectives of water quality and wildlife habitat. The State and timber company share the profits generated from the sale of timber.

(Please see the Annex for more details on how PPPs help protect the Chesapeake Forest)

Environmental improvement is gradually becoming a prominent factor in PPPs. Environmental preservation goals can be achieved by well-structured PPPs, as seen in the Chesapeake Forest Case. The government had clear environmental objectives in this project as well as profit maximization for the private sector.

2.2.3.3 Social Protection

Tajikistan Pamir Private Power

A good example of a PPP providing social protection is the Tajikistan Pamir Private Power Project operating in one of the poorest countries in the region. The project established a special social protection tariff scheme. The tariff will increase gradually over 10 years with additional flexibility but the key objective is that the tariff and the especially mobilized funds will ensure that those who cannot afford the current prices will nevertheless receive electricity.

(Please see the Annex for more details on the Tajikistan Pamir Power Plant)

PPPs can be designed specifically to achieve social objectives such as poverty alleviation and protection of weak and vulnerable groups. The power project in Tajikistan shows that it is possible to attract the private sector into a scheme that improves the social welfare in one of the poorest countries in Central Asia. The schools projects in Glasgow extended and improved services in disadvantaged parts of the city. In local mass transit schemes in many European cities, poor areas are reached by such schemes and charges are affordable. All these projects have desirable social effects, e.g. the creation of employment in poor regions as well as use of local expertise and small businesses.

2.2.3.4 Safety and Security

Channel Energy Poti Port Project

In Georgia, the increasing traffic flows from Europe through the Black Sea ports of Odessa, Varna and Constantza to the Caucasus has placed strains on old infrastructure that badly needs new investment. The Port of Poti is strategically located and is a gate to the Caucasus and Central Asian states economies. As part of the enlargement project and in response of an urgent need for investment Channel Energy (Poti) Ltd. was set up as a joint venture between Channel Energy Ltd. (EIRE) and Poti Sea Port (Georgia) under the sponsorship of the Tower Holding group. One of the key concerns was to avoid serious oil spill.

(Please see the Annex for more details on the Poti Port Project)

Ventspils (Latvia), Multi-Purpose Terminal in Baltic Sea Port

Another example on how PPPs can increase the levels of safety and security is found in the Baltic Sea Port of Ventspils, Latvia. With funding from the European Bank for Reconstruction and Development (EBRD) the project will upgrade the rail network at Latvia's main port. This will increase the efficiency of Latvia's railway transport service and reduce environmental and safety threats at the port by routing some chemicals and oil products away from heavily populated areas.

(Please see the Annex for more details on the Baltic Sea Port in Ventspils)

Many public services within areas like transportation and health raise critical concerns about security and safety. However, these issues are now being considered in an increasing number of PPPs. One critical element is environmental safety in large-scale energy projects, which involve shipping huge quantities of oil. As shown in the above case studies, procedures must be put in place to ensure that safety and security concerns are met in PPP projects. Governments need to scrutinise the safety aspects of PPPs, and the companies must demonstrate awareness of safety concerns and implement appropriate commercial practices.

3.0 Toolkit: Benchmarking and Certification

The challenge in improving governance in PPPs is to support governments and the private sector to implement real change. Thus using the criteria and evidence from the case studies the guidelines present some benchmarks of good governance in PPPs

3.1 Benchmarking success

Benchmarking is a good way for policy makers to improve their compliance with good governance standards within individual projects. Policy makers can use the following indicators below to measure progress in achieving good governance. The model presents benchmarks based on the ingredients of good governance previously identified. The indicators are scaled from 1 to 5, being 1 very poor, 2 poor, 3 moderate, 4 good and 5 very good. Once the indicators are graded, they should be added within each sub-sector and then divided by the maximum possible result and then by 100 to achieve a percentage. Each section is divided into thematic subsections, which contain desired conditions measured by specific indicators.

The model below is preliminary, and will have to be further tested and developed. The specific grading criteria for each indicator, e.g. what it takes to get a score of 5 for the “award procedure”, are still under development and testing these indicators against specific cases will add to, and refine the indicators.

Benchmarking		Score				
Transparency		1	2	3	4	5
	Participation of citizens					
	<i>Consumers' organizations</i>					
	Involvement in projects					
	Media exposure					
	Proposal of projects by civil society and/or NGOs					
	<i>Use of constitutional tools for decision-making process</i>					
	Inclusion of referendum in the Constitution					
	Regularity of its use					
	Level of citizens' awareness of its existence and purpose					
	Public Procurement					
	<i>Selective procedure</i>					
	General applicable law for all tender processes					

		Specific laws according to the sector							
		Harmonized rules under regional unification initiatives							
		Corporate governance requirements							
		Award procedure							
		Tender appeal procedure							
		<i>Open Participation and non-discrimination</i>							
		Companies whose headquarters are not based in the country are eligible in tender processes							
		Early publication of tender offers in local and international newspapers							
		Open competition rules							
		Level playing field							
		<i>Good negotiation platform</i>							
		Expertise and dedication of negotiators							
		Independence of judgment							
		Defined goals and objectives in the negotiation process							
		<i>Coordination</i>							
		Special governmental agency in charge of coordinating the project proposals and commencement of tender process							
		Web site information and on-line pre-registration							
		<i>Organized data gathering</i>							
		Centralized database with possible and actual contractors							
		Due diligence on the bidders' financial and technical performances							
		<i>Contractors' registry</i>							
		Qualification of contractors according to specific standards							
		Contractors' updated profile							
		Regular advertisement of status of contractors							
		<i>Due authorization to grant permits, concessions or licenses</i>							
		Legal delegation of authority to officials to sign on behalf of the government							
		Regulation about permits and/or licenses at a national level							
		Divulgence of information about granted permits, licenses and/or concessions							
		Strong anti-corruption measures							

		<i>International level</i>							
		Anti-bribery Convention							
		Ratification of the OECD Convention							
		Implementation of its requirements							
		Proposals in international for anti-corruption measures							
		Participation in specialized inter-governmental organisms for combating corruption							
		<i>National level</i>							
		Enforcement measures							
		Criminal law reforms							
		Anti-corruption independent Agency							
		Independency from all three powers (public, private and facilitators)							
		Publication of reports on corruption issues							
		Divulging of information and reports							
		Educational programs							
		Criminal prosecution							
		Rate of prosecuted cases							
		Rate of sentences imposing imprisonment and economic penalties on defendants							
		PPP unit							
		<i>Creation of legislation</i>							
		Amount of projects presented to Legislative body							
		Amount of proposed bills passed by Legislative Body							
		<i>Existence of specialists taskforce</i>							
		Diversity of specialists backgrounds							
		Independence							
		<i>Identification of projects</i>							
		Updated database of possible projects							
		Frequent contacts with private sector and civil society							
		Project "hunting"							
		Private initiatives and/or unsolicited offers							

		<i>Right to challenge</i>							
		Number of times used							
		Outcome							
		<i>Education and dissemination of information</i>							
		Special programs at different levels to disseminate information on PPPs							
		Access to media							
		Publications							
		Organization of conferences, seminars and/or workshops on related topics							
		<i>Issuance of guidelines and advisory notes</i>							
		Publication							
		Advertisement							
		<i>Measure of performance</i>							
		Ad campaign							
		Informative web page							
		Number of visits registered in the website							
		Public awareness of the existence and assigned tasks of the Unit							
		Dispute Resolution							
		<i>Contractual level</i>							
		Easy dispute mechanism on interpretation and application of clauses							
		Frequency							
		Clear arbitration clause							
		Choice of law clauses							
		Existence of a choice of forum clause							
		<i>Post-contractual period</i>							
		Conflict prevention							
		Flexibility							
		Consultation with independent experts							
		Use of mediation							
		Permanent team of experts assigned to solve conflicts							

		Participation of consumers							
		Extended use of class action							
		Establishment of consultation procedures							
		Performance of Ombudsman							
Public accountability									
Public servants' responsibility									
		<i>Awareness for the consequences of their decisions</i>							
		Appointment based on merits and open election							
		Presentation of personal financial statements							
		Definition of civil torts regarding public officials' performance							
		Criminal and civil prosecution for irregularities on PPPs projects							
		Level of citizens' scrutiny and participation in the appointment process							
Accounting and auditing									
		<i>Clear accounting treatment of assets involved in PPPs</i>							
		Off-balance sheet allocation							
		Definition of ownership of assets							
		Risk assessment							
		Risk assumption by the private sector							
Independent auditing									
		Participation of independent auditing firms selected by transparent, open procurement							
		Independent permanent auditor assigned to the project							
		Reports directly to PPP unit							
Performance of private company									
		<i>Performance and output milestones definition</i>							
		Stepped or banded thresholds							
		Involvement of experts in stepped or banded thresholds analysis							
		Payments based on performance assessments							
Tax									

		<i>Tax advantages</i>							
		Tax reduction according to investment							
		Progressive elimination of tax burdens							
		Elimination of double-taxation irregularities							
Sustainable development									
		Long-term infrastructure goals							
		<i>Inclusion of PPP policy in national program</i>							
		Creation of PPP Unit							
		Legislation							
		Assignment of PPP projects in national and/or state budget							
		Outline of comprehensive national infrastructure projects							
		Clear definition of sectoral goals							
		Special treatment to problematic and/or urgent national infrastructure needs							
		<i>Annual plans and programmes</i>							
		Publication of plans							
		Access to media							
		Education programs at all levels (primary, secondary and university)							
		Feasibility studies							
		<i>Technical</i>							
		<i>Financial</i>							
		<i>Profitability study</i>							
		Commercial development							
		<i>Sustainability</i>							
		Compromise of private sector for long-term projects							
		Financial performance of private sector in social infrastructure							
		Public control							
		<i>Value for money</i>							
		Contracts							

3.2 UNECE Certification on good governance practices

The benchmarking above can be used to ensure compliance with good governance in individual projects, and thereby reduce the risks faced by both the public and private sector. This risk reduction is in the interest of both contracting parties, because reduced risk means that the government will have to pay a lower risk premium to attract investors, and because reduced risks give the private sector more and safer investment opportunities.

Benchmarking is an excellent tool, but is most effective when the results can be compared between different projects, countries and continents. This is only possible if a neutral party recognized as an objective authority by both governments and potential PPP investors conducts the benchmarking.

The UNECE PPP Alliance could, in cooperation with other highly regarded organizations, fill such a role, and it also has more than 50 years of experience on making standards on everything from secure electronic data interchange to standards for sustainable development. The benchmarking outlined in this chapter could eventually be used to create a Certification for PPP projects to help ensure and document compliance with standards of good governance.

4.0 ANNEX - Case Studies

1. Transparency

a. Danish Sports Facility

A local authority in Denmark of around 20,000 inhabitants implemented a new PPP financing system to increase funding availability for local projects. The financing mechanism consisted of selling public assets, such as school buildings, kindergartens and cleaning services, to private enterprises and then renting them back with a provision that the municipality may buy them back after a number of years. The scheme also included a project for the construction of a sports arena and a soccer stadium as well as a nautical centre under a contract of 20 years. The scheme was based on provisions of the Danish tax system; which allowed the leasing company tax advantages that were not available to the municipality. In 2000, a sale and leaseback agreement was signed with a financial institution. The sale and leaseback contract was not formally offered as part of a tender process.

At first sight the impact of the project was positive. No Danish community had been able, up until that time, to offer such high standards of service through public funds. School children were provided with free personal computers, pensioners were offered free trips and the new sports facilities were of an international standard. Following a newspaper investigation, however, it was alleged that companies had given money to the soccer club in return for obtaining contracts from the local authority. The mayor was a shareholder of the company and chairman of the soccer club, which was to play in the new soccer stadium.

Lessons Learned:

- EU's procurement rules for tender and contracting should be followed; Public Accountability is critical for the success of PPPs. The local council was not effective in accounting for payments.
- A formal tender process should be implemented. In this case it was not, so that potential conflicts of interest were not identified.
- The local community should be consulted about the procedures and contract formalities of the project.
 - A transparent procurement process can prevent corruption. There are ongoing investigations to determine whether payments were made by the private companies in the form of sponsorships of local sports clubs as prerequisites for the awarding of public works contracts by the council.

b. The British Embassy in Berlin

Subsequent to the reunification of Germany, the German Government moved from Bonn to Berlin and later was followed by the major embassies. The British

Government decided to return its embassy and chose its pre-war site close to the Brandenburg Gate. The old building had been demolished in 1945 but the British Government retained ownership of the site.

The project was procured through the Private Finance Initiative (a PPP approach which originated in the UK) and after EU tender bid, the Foreign and Commonwealth Office (FCO) signed a contract with a German consortium, which financed, constructed and will manage the building for 30 years. The six-storey building provides 9,000m² in total and houses around 125 UK-based and locally engaged staff. Final adherence to the design was not a requirement of the procurement process but the rights were assigned and decided in favour of the preferred bidder.

The FCO faced difficulties, because they had to undertake a novel form of procurement abroad. The exclusive feature of the project documentation is that it would be for the development of a facility outside the UK and consequently inquiries of governing law and conflict of laws arises. It was decided at an early stage that the project agreement would be an English law contract.

In parallel with this the underlying property interest was the grant by the FCO of a German law-building lease. While the jurisdiction of the German Courts in relation to the building lease cannot be entirely excluded, both the project agreement and building lease have been structured so as to place virtually exclusive reliance on dispute resolution procedures, should problems arise in the future.²

The project was successfully completed and this shows that despite the potential complexities, an effective structure was found by implementing common law structure of design, build, financing and operation of the facility overseas.

Lessons Learned:

- Project agreements can be cross border. This one was governed by English law but adapted to major German law-related financial and tax issues.
- Introduction of dispute resolution clause mechanisms early in the project managed to reduce the legal complexity of the project.

c. The London Underground

The London Underground has initiated a major new form of arbitration that has implications for other projects around the world and could become a 'test case'. The special role of PPP Arbiter was created by the Greater London Authority Act 1999, which establishes its functions and duties. The 'Arbiter' determines disputes on the key commercial aspects of the PPP agreements, in particular at the seven year Periodic Reviews, and gives guidance on any aspect of the Agreement when requested by one or both of the parties. He is able to require parties to provide

² "Public-Private Partnerships, UK Expertise for International Markets." International Financial Services London – CASE STUDIES.

information and to carry out inspections, consult appropriate parties and do what he considers appropriate to prepare for giving directions or guidance. The Arbiter has an office comprising a Director, supported by technical, commercial and legal advisers and administrative staff. An essential aspect of this function is that the Arbiter is 'on call' continuously in order to deal with disputes and to solve them as quickly as possible.

Lessons Learned

- Contracts should be clear in considering an efficient dispute resolution mechanism. In this case, a dedicated Arbiter function was established. Although arbitration is widely accepted in contracts, it may also be useful in cases to consider other alternatives such as mediation.
- An expensive and exhausting litigation process may interrupt the project development or operation and damage important commercial relations.
- The project's public image and that of both public and private partners may be seriously damaged through a litigation process.

2. Public accountability

a. The Mapeley PFI project: sale of land and building by the Inland Revenue UK

Case Facts

In March, 2001 the UK government's tax authority (the Inland Revenue and Custom Excise), in order to raise capital for the Exchequer, proposed a PFI through a transference of the ownership and management of buildings belonging to the IRCE in a lease back for 20 years. For £220m 600 buildings went to a consortium "Mapeley" who was chosen as the preferred bidder. The Inland Revenue said at the time of the operation that it was dealing with a UK registered company. However, 18 months later, a review by the auditor's office identified that in the company was based offshore in Bermuda. This raised therefore, the possibility that ownership of valuable assets was to be shifted beyond the reach of the UK tax authorities to a company registered in a tax haven.

Some experts believe the sale will theoretically eventually cost the Government millions of pounds in lost revenues from capital gains tax, although this is not easy to quantify because UK-based companies may make arrangements that entitle them to tax relief. Information disclosed to the UK Parliament and to the public by the Government was not accurate or was incomplete. The exact contract structure was revealed fairly late in the procurement process and the press release incorrectly stated that the contract was signed with a UK-based company. A financial crisis affected Mapeley UK, which then sought contract price increases soon after the signing of the

contract, demonstrating a poor due diligence and accountability process during tender evaluation that should be improved.

Lessons Learned

- Government officials should be fully informed about key circumstances related to PPP contracts.
- Governments should take into account the reduced tax income from companies registered in tax havens when designing PPP contracts and procurement processes. While the audit process worked as intended, and identified this issue, it should have been identified earlier, during tender evaluation.
- Accurate evaluation of the financial capacity and soundness of the bidder is a key aspect of tender evaluation.

b. The Zurich Soccer Stadium project

Case Facts

A project to build a new football stadium in Zurich was proposed which included a shopping centre alongside the stadium. The Green Party was however opposed to the construction of the stadium on environmental grounds. The local residents reacted against the project as well, because of concerns over increased traffic congestion that would result from the project. To solve the dispute a referendum³ was called to approve both the planning permission and the city decision to provide land and funding worth a total of CHF 37.5m, which is 10% of the total project's cost. In September of the year 2003, the referendum results were: 63, 26% of the inhabitants agreed to the private plan and 59, 19% agreed with the financial participation. Credit Suisse will finance the project with a loan of CHF 370m among a consortium of other private investors. The project involves improvements in the public transportation network with a new tram and bus line to meet the rise of traffic.

Lessons Learned

- Public scrutiny by a referendum before the final approval of a project provides benefits. Participation is positive as it generates a better understanding by the community through an open debate.
- Full consideration should be given to project-related impacts, such as traffic congestion, noise pollution, etc., prior to project approval.

c. D47 Motorway Project (Czech Republic)

³ The referendum is a sort of halfway house between a pure form of direct democracy in which the citizens assemble and discuss the issues before taking a direct vote on them, and representative democracy in which the citizen's direct participation is limited to going to the polls and casting a ballot for one's preferred candidates. In some countries, referendum has been included in their Constitutions, as a way of introducing more direct forms of democracy. The two main justifications for direct democracy are 1) that it leads to better outcomes, and 2) that it leads to better citizens (Pennock, 1979, pp 438-45). See Mueller, Dennis, *Constitutional Democracy*, Oxford University Press, 1996.

Case Facts

In order to improve the infrastructure to meet EU standards and the expected greater use of motorways, a PPP project to improve the D47 motorway was proposed. It was intended to be the first motorway project in the Czech Republic to be built using a payment structure based on shadow tolls. In March 2001, a consortium company was awarded the construction for an 80 km Motorway in the Czech Republic (northeast Moravia). The company, it was announced, would manage the Motorway for 30 years and the Government would pay an annual toll based on the number of vehicles that used the motorway. The contract stipulated several conditions regarding the final price, including risks involved in the buy-out of property and receipt of land-use permits (these risks were covered by the Government).

In April 2003, the Czech government decided to cancel the contract due to strong criticism of the price and apparent contract omissions and the fact that a significant amount of money could be saved even though a possible penalty for early termination might have to be forfeited. Environmental groups, in addition, claimed that the construction would severely damage the environment and urged that an alternative route be considered. A parliamentary commission was appointed to investigate circumstances of the award and subsequent termination of the contract. A compensation for the constructing consortium was agreed in July 2003.

Now, the Czech Government has decided that the D47 motorway project should be reinitiated but this time using traditional methods, i.e. constructing companies are chosen by tender. The financing will come partially from the State Transport Infrastructure Fund, partially through issuance of bonds and partially from loans from the EIB.

Lessons Learned

- A competitive tender process should be arranged before any contract is granted.
- Environmental Groups should be consulted.
- An efficient and impartial dispute resolution system should be considered in advance.

3. Sustainable Development

a. Tajikistan Pamir Private Power Project

In Tajikistan, one of the poorest countries in the region, the International Finance Corporation (IFC) and the Aga Khan Fund for Economic Development (AKFED) together with the Tajikistan government are working for the development of a new electricity generation and distribution project in Gorno-Badakhshan region for 250,000 residents. A new company was established, 70% owned by AKFED (a group of private, non-denominational development agencies) and 30% by IFC. The project will cost \$26m. In addition, the Swiss Government provided \$5m to maintain the

tariff increase required in the early years in line with the national tariff and to support a minimum consumption amount. The company will control and operate all existing electricity generation, transmission and distribution facilities in Gorno-Badakhshan under a 25-year concession, complete with a partly constructed hydroelectric plant increasing its capacity from 14MW to 28MW. It also will operate another 8KW plant in the city of Khorog and construct a river regulating structure at the upstream Yashikul Lake to ensure adequate flow in winter and rehabilitate other assets including substation, transmission and distribution lines.

Lessons Learned

- A concession can successfully grant a legal, regulatory, environmental (including deforestation and pollution), financial and technical framework with a parliamentary approval that reduces political risk of future changes.
- Political and social risk can be mitigated by a social protection scheme tariff.

b. Scottish Schools

In Scotland, more than half of all expenditures on PPPs have been directed towards schools. In 2001, school PPPs accounted for 10% of all capital expenditure committed by the Scottish Executive. In March 2003 it was announced that almost £750m would be invested in rebuilding or refurbishing more school buildings under the second stage of a programme that already includes £1.2bn since June 2002. The project will provide the quality working environments and access to world class IT enabling pupils and teachers to work together, productively and efficiently, to raise standards and maximise the individual potential of every participant. As of May 2002 there were 89 school PPP projects, representing £2.6bn capital value, some of them with excellent teaching and learning facilities, such as swimming pool, a gymnasium, fitness suite and a floodlit artificial grass pitch. The project also provided an email address for each pupil. The main goals on the Schools PPP Project are to increase educational standards, to improve pupil attendance, to prepare them for the Information Age, and to raise the morale, commitment and dedication of teachers.

Lessons Learned

- PPPs within the school sector can improve educational standards and give more value for money.
- PPPs can have a substantial social impact. Schools are set up in many of Glasgow's so-called "deprived" areas.
- Pupil attendance can be made more attractive and school results can be improved through school projects.
- PPPs in education can take many different forms; the range of PPPs completed or in procurement has expanded in response to the diverse needs and circumstances of different local educational authorities.
- Incentives in the contracts can be used to align the private sector return to the achievement of improved social standards, and the private contractors may incur

penalties if they do not achieve the improvements in education standards agreed in the contract.

c. Sofyiska Voda, Bulgaria

Bulgaria has a well-developed water supply system servicing 99% of the population but the system itself is in a very poor condition. Around 3% of the population connected to drinking water supply systems uses water with dangerously high levels of nitrates, oil and serious microbiological contamination. Infrastructure systems for water supply and wastewater treatment and disposal are currently undergoing far-reaching transformation in Bulgaria. The country's water strategy is focused on improving the quality and complying with EU environmental standards.⁴

Sofijska Voda⁵ has taken over operating responsibility for the water and wastewater system for Sofia under a 25-year concession agreement. The Municipality of Sofia holds 25% of the shares. The EBRD's finance of EUR31 million will support Sofijska Voda's capital expenditure programme for the first five years of the concession, including start-up costs. The sponsor group will provide combined subordinated debt and equity, which together with funds generated internally by the company bring the total amount of the five-year project to EUR94 million. Initial investments will concentrate on the rehabilitation of the water and sewerage networks to reduce leakage and infiltration, ensure reliable supply as well as streamline billing and financial management. In 2002, the company completed 71 rehabilitation projects on the water supply network and 15 projects on the sewerage networks in the city, resulting in improved quality of service for about 25,000 habitants.

Sofijska Voda is combining sustainable resource development with demand management, which includes leakage control, accurate metering and the promotion of water efficiency to the customers. This process aims to slow down the increase in overall demand for water and that should transform the condition and performance of the city's water and wastewater networks by combining social and economic progress.

The residents of Sofia will benefit from the country's first privately managed water and wastewater company. The funds will help the company improve maintenance of the city's pipe system, enhance customer service, promote a more efficient and easy-to-use billing system and to improve the environmental conditions.

The private involvement through the concession agreement resulted in a commercial success with a strong social impact.

⁴ Similar to many of the countries in the region, Bulgaria's water and wastewater infrastructure suffers from decades of severe underinvestment and needs around EUR 3.6 billion to adapt with European Union standards. About EUR 1.77 million is needed for rehabilitation of the water supply network and reduction of water losses.

⁵ Joint Stock Company is majority owned by International Water UU - Sofia, whose parent companies include Bechtel Enterprises Holdings Inc., Edison SpA and United Utilities plc.

- The Company provides services to a population of about 1.3 million people and operates and maintains a water supply network of an overall length of 3,500 km, and 1,700 km of sewerage network, the two water treatment plants in Bistritsa and Pancharevo, and one wastewater treatment plant.
- The capital investment programme of EUR 78m over the first five years and minimum US 150m over the next 15 years is required by the concession agreement for extension and rehabilitation of the water distribution network and improvement of the quality of drinking water and also implementation of measures for reduction of the water losses along the water supply network. The use of the resources and the collection and treatment of sewage is now more efficient.
- The revenue collection improved by implementation of a new billing system. The tariff reform was initiated in order to reach alleviation of the cross-subsidies. However the tariff for water and wastewater treatment services increased but they are still competitive and affordable and at the same time consumers enjoy better quality of service.⁶
- The project promotes environmental benefits.

Lessons Learned

- EU-candidate countries can use PPPs as a way to achieve social and environmental goals and ensure compliance with the environmental standards of the EU.
- The PPP has strong incentives to use an environmentally sound design because this will increase profitability over the term of the project.

d. The Chesapeake Forest

The Chesapeake Bay is the largest estuary in the United States. The surface area of the Bay and its tidal tributaries is approximately 7,000 square miles, and its watershed comprises 64,000 square miles in six states and the District of Columbia. Historically, the Bay was one of the richest bio habitats in North America; today, it still supports over 3,600 species of plants and animals, and provides fishing, recreation, tourism, and other employment opportunities for the region.

Growing population pressure and loss of undeveloped land have reduced the environmental quality of the Bay. Faced with declining water quality and severe reductions of fish and shellfish populations, governments in the area have made restoration of the Chesapeake Bay an environmental priority.

In 1999, a lumber company offered for sale a tract of 58,172 acres in the Chesapeake Bay watershed, including shoreline property. This land, all in the State of Maryland,

⁶ Valentin Georgiev, April 5, 2001, in *PARI Daily*, "Water tariffs rise disputed in court":

"The Bulgarian Federation of Consumers on 30th March 2001 took court action requesting that Sofia city council's decision to increase water tariffs to consumers by 25.5% to be revoked. The committee and the federation of consumers demand that the classified addendum to the concession agreement (filed to the Sofia City Court) to be disclosed. International Water argued that the increase was justified by the inflation rate and the introduction of a state fee"

included large segments of unbroken forest and more than 4,000 acres of wetlands, as well as established populations of several threatened and endangered species. Much of this land bordered on existing State-owned parkland and forest, creating a unique opportunity to buffer a large area from deforestation and development. However, the State faced several obstacles to this environmentally desirable goal:

- The State lacked funding to acquire the land.
- The State lacked resources to manage the land after purchase (the State estimated that four full-time foresters and associated support services would be required).
- Cessation of timber harvesting would cause unacceptable disruption of the local economy in this largely rural part of the State.

The acquisition of the land was achieved through fairly traditional means. The State purchased one-half of the acreage using State funds, while the remaining 29,000 acres were purchased by an environmental non-profit which transferred ownership to the State. By December 2000, the State owned all of the Chesapeake Forest lands.

The State, working with the non-profit environmental group, then sought to craft a Public-Private Partnership (PPP) with the following explicit objectives:

- Providing a steady flow of economic activity and employment to support local businesses and communities;
- Preventing the conversion of forested lands to non-forest uses;
- Contributing to improvements in water quality, as part of the larger Chesapeake Bay restoration effort;
- Protecting and enhancing habitat for threatened and endangered species;
- Maintaining soil and forest productivity and health; and,
- Protecting visual quality and sites of special ecological, cultural, or historical interest.

To achieve these objectives, the State advertised, negotiated, and awarded a multiyear contract with a lumber company. This innovative agreement allows the company to harvest up to 1,000 acres of timber annually, an environmentally sustainable level. In return, the lumber firm is required to manage the Chesapeake Forest to the State's silvicultural standards. Harvesting of timber is allowed only where consonant with the environmental objectives of water quality and wildlife habitat.

The partners, State and timber company, share the profits generated from the sale of timber, with a 15 percent share of sales revenues also directed to the local county governments. To minimize risk to its private partner, the State agreed to compensate the lumber company for any losses in the first two years. However, this guarantee was never triggered, since the partnership has generated a profit every year since its inception. The lumber company is required to keep a fully accessible and transparent accounting system, open to the State's review, and audited by an independent accounting firm.

This PPP has been a remarkable success. The State is achieving its environmental objectives, without negative impact to the local economy. In the process, it is not only avoiding expenditure of State funds (after the initial land acquisition), but is generating positive revenue flow. This approach may serve as a model for preservation of other environmentally sensitive areas utilizing a PPP based approach.

Lessons Learned

- The preservation of the environment can successfully be used as the main objective of a PPP.
- Environmental quality measures can be used as key performance indicators for a PPP.
- Sustainability can be achieved by assuring revenue to the private sector, maintaining its interest and long-term involvement.
- Governments can use renewable resources, such as timber, to provide long-term financing for PPPs.

e. Vancouver Landfill Cogeneration Plant

The City of Vancouver, British Columbia owns and operates one of the largest landfill sites in Canada. The site serves approximately 900,000 residents and receives approximately 400,000 tonnes of solid waste annually. The site produces landfill gases as a by-product of waste decomposition, including methane, a greenhouse gas that contributes to global climate change.

In 1991, the City began collecting and burning (flaring) the gases to control odours and reduce the gases' environmental impact. This burning created significant heat energy. In 2000, the City began to consider ways to make beneficial use of the landfill gases and heat energy and to further reduce greenhouse gas emissions, in keeping with Canada's commitment under the Kyoto Protocol.

In January 2001, the City issued a competitive Request for Proposals to select a partner which would finance, design, build, own, and operate a beneficial use facility. Although the City had considered building a power plant itself, it decided to solicit private proposals in order to evaluate a broader array of project concepts and maximize the economic, environmental, and social benefits to the City. Five proposals were received, each based on a different approach to landfill gas utilization. Following a detailed and structured proposal evaluation and negotiation process, a 20-year Public Private Partnership contract was approved by the City Council in February 2002.

Under the approved PPP structure, the private partner selected by the City designed, financed, and constructed a cogeneration plant, which uses the landfill gas as fuel to generate enough electricity to supply 4,000 to 5,000 local homes. This power is sold by the private partner to a local utility. Waste heat from the power generation process

is recovered as hot water, which is sold by the private partner to a large (32 acre), nearby greenhouse complex for heating purposes. In addition, using the landfill gases in this manner, rather than burning them, results in further reduction of greenhouse gases, equating to the removal of 6,000 vehicles from Canada's roads.

The City of Vancouver makes no payments to the private partner, but guarantees provision of landfill gases for the twenty-year duration of the agreement. In return, the City receives ten percent of gross revenues from the sale of both the electricity and thermal energy generated by the cogeneration plant.

The project began operation in September 2003, and has achieved all of the City's environmental and social objectives. In addition, the City is receiving approximately \$400,000 annually from its share of the power and energy sales. Since the City's annual operating costs for landfill gas collection are approximately \$250,000, the PPP has turned an expensive environmental program into a net revenue generator for the City of Vancouver.

Lessons Learned

- Governments can use PPPs to turn costs into profits if they see the opportunities.
- PPPs can provide multi-sector benefits, in this case power, heat, and environmental improvement.

f. Channel Energy Poti Port Project, Georgia

The increasing traffic flows from Europe through the Black Sea ports of Odessa, Varna and Constantza to the Caucasus and beyond are overloading facilities at the Port of Poti. Poti, one of the major and oldest sea outlets of Georgia, was established in 1858. The Port of Poti is strategically located as a gate to the Caucasus and Central Asian economies. It is the shortest route connecting Europe with Central Asia and further expansion of the Euro - Asian Transport Corridor known as TRACECA (the new "Silk Road"), will increase cargo transportation by sea via the Port of Poti.

As part of the enlargement project and in response to an urgent need for high investment, Channel Energy (Poti) Ltd. was set up as a joint venture between an energy firm, and Poti Sea Port (Georgia) under the sponsorship of a holding group. The project is funded through European Bank for Reconstruction and Development (EBRD) and Black Sea Trade and Development Bank (BSTDB) parallel loans where the total project cost is USD 30.0 million.

The project aims to provide a least-cost export route for oil products from the Caspian to the Black Sea, to encourage rail traffic and to foster the development of projects planned for the refineries in the Caspian region. Project objectives include: enhancing the service standards in the region through commercially operated facilities under private management; creating greater competition in the private sector; and developing an Environmental Safe Strategy.

The Georgian Ministry of Environment (MoE) and several public consultation meetings initiated by the Georgians Greens identified concerns about the potential trans-boundary impact of the unmitigated oil product spill outside the port and the future of the Kolkheti nature reserve. An Environmental Impact Assessment (EIA) was conducted. The MoE, after review of the EIA, identified the following project requirements:

- Additional technical parameters about the effluent treatment plant need to be presented for approval.
- A detailed oil spills response plan should be developed and coordinated prior to commissioning of the terminal.
- A self-monitoring programme should be developed and agreed, and
- The neighbouring countries should be informed about the project and its potentially adverse trans-boundary impacts under adverse scenarios.

Georgia had also developed its National Oil Spill Contingency plan which aims of achieving safe and environmentally responsible passage through the Strait.

Lessons Learned

- PPPs are an effective way for governments to attract foreign capital to large scale projects.
- Involving special interest groups can reduce risks, and hence also costs.

g. New Multi-purpose Terminal in the Baltic Sea Port of Ventspils, Latvia

Loans provided by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) will help Latvia Railways bring the country's railway infrastructure into line with the needs of a modern high-volume transit route. They will be used to modernise rail track in Latvia's principal rail corridor and to upgrade the rail network at Latvia's main port. This will increase the efficiency of Latvia's railway transport service and reduce environmental and safety threats at the port by routing some chemicals and oil products away from the populated area.

EU-Phare is also providing significant grant funding for rail infrastructure development and technical cooperation funds to help Latvia Railways with its on-going restructuring programme.

Ventspils is the fifteenth largest port in Europe and the largest port specialising in liquid cargo on the Baltic Sea. The project was structured as a Public-Private Partnership between SIA Noord Natie Ventspils Terminal (NNVT) a joint venture company incorporated in Latvia and the Ventspils Port Authorities to build and operate a new multi-purpose terminal in the Ventspils Port that provides connection of different modes of transport. The new terminal will introduce efficiency, innovation and a better service for customers through modern management techniques. Overall,

this project will increase efficiency by providing more balanced traffic flows, and will improve environmental safety.

The total cost of the investment is about EUR 69.0 million where the public financing exceeds EUR 29.5 million. NNVT received a EUR 19.5 million loan from the European Bank for Reconstruction and Development (EBRD) to be used as a private contribution to the PPP and in particular to finance the purchase and installation of cargo handling equipment and other superstructure for the multi-purpose- inter-modal terminal.

An Environmental Action Plan (EAP) was developed and agreed with the Port Authorities and the City Council. The project implementation will comply with national and EU/World Bank environmental and health and safety standards.

Lessons Learned

- PPPs can deliver a higher level of efficiency than traditional ports.
- PPPs can help to attract foreign capital to finance expensive facilities.
- New environmental skills can be obtained from abroad.
- PPPs can be used to ensure compliance with international health and safety standards.