



Regional: Strengthening Fiscal Governance and Sustainability in Public-Private Partnerships

Project Name	Strengthening Fiscal Governance and Sustainability in Public-Private Partnerships	
Project Number	53081-001	
Country	Regional	
Project Status	Proposed	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA: Strengthening Fiscal Governance and Sustainability in Public-Private Partnerships	
	Technical Assistance Special Fund	US\$ 500,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	Finance - Infrastructure finance and investment funds Public sector management - Public expenditure and fiscal management	
Gender Equity and Mainstreaming	Some gender elements	
Description	<p>1. In line with Asian Development Bank (ADB) Strategy 2030 (S2030) operational priority of strengthening governance and institutional capacity, this knowledge and support technical assistance (TA) responds to the requests of developing member countries (DMCs) to strengthen public sector capacity to catalyse infrastructure investments including through public-private partnerships (PPPs) in fiscally-responsive, development-relevant ways. The TA complements ADB's private sector operations by supporting operational departments in creating the proper conditions for the private sector in general to engage more effectively. Aligned to ADB's PPP Operational Plan 2012-2020, this TA will support DMCs in improving current institutional and regulatory structures to manage PPP appraisal, vetting and risk management, monitoring and evaluation, thereby (i) strengthening the credibility of PPP pipeline development efforts; (ii) using proper public financial management (PFM) frameworks for PPPs; and (iii) improving government capacity to effectively design, implement and manage PPPs (with lessons from international experience). The TA is included in the Sustainable Development and Climate Change Department's 2019 results-based work plan for the Governance Thematic Group (SDTC-GOV).</p>	

Project Rationale and Linkage to Country/Regional Strategy

High quality, fiscally-sustainable infrastructure is a key driver of economic growth and poverty alleviation. Asia and the Pacific suffer from significant infrastructure deficits, particularly so in terms of quality, quantity, and accessibility, with significant gaps in energy, transport, water and sanitation. These persistent infrastructure gaps have direct implications for human development and are a binding constraint to growth in many countries. Infrastructure is central to the 2030 sustainable development agenda as an explicit goal and as a key enabler. Substantial investment from public or private sources is required to address these infrastructure gaps. Our DMCs will need to invest \$26 trillion between 2016 and 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum. Due to private sector advantages in the management of key risks (i.e. the key drivers in PPPs' value-for-money), the public sector is increasingly turning to the private sector to explore PPPs as a means of developing and managing critical infrastructure.

While private sector participation in the development and operation of public service assets is increasingly becoming a viable infrastructure development strategy alternative in developed jurisdictions, caution should still be expressed about approaching it as a panacea, especially in DMCs. In the simplest of terms, PPPs can be a financially advantageous alternative to traditional public procurement if the price of transferring risks to the private sector according to risk preferences and management capabilities is lower than the higher cost of finance that the private sector partners face in the market. Pricing of risk and competitive tension become the critical determinants of relative efficiency in these partnerships, which can explain the difficult experiences and costly mistakes with PPPs that most countries go through, at least initially. Sustained efforts to creating dedicated expertise on PPPs in public institutions, supported by ADB TA, can be crucial to help DMCs extract positive value from PPPs aligned to delivery of expected development benefits.

First, better governance is required to improve both the volume and quality of infrastructure investments decisions and overall implementation. The positive impacts of infrastructure cannot be guaranteed by a 'business-as-usual' approach that simply targets the quantity of infrastructure. Improvements in public investment management must significantly enhance the efficiency of public investment.

Second, PPPs value-for-money advantages are not automatic. PPP development can only deliver its promise of value-for-money if it is properly integrated within effective public investment management frameworks. Countries with stronger public investment management institutions have more predictable, credible, efficient, and productive investments, and can avoid the main sources of chronic renegotiation cycles: unsolicited proposals and opportunistic bidding (optimism bias). Strengthening these institutions could close-up to two-thirds of the public investment efficiency gap. Most countries must still benefit from building stricter oversight of PPPs and a better integration between national strategic planning with fiscal budgeting and PPP planning. Only with a systematic approach can a country's pipeline of PPPs add value-for-money in general and produce the promised fiscal advantages on average (or, at the very least, avoid the fiscal problems and implementation failures that past and current international experience can offer many examples of). Caution must be exercised against advice that promotes PPPs as either a fiscal magic bullet, a 'lifter' of fiscal constraints, or as an alternative input-driven infrastructure financing mechanism. Developing countries need to seek to avoid the frequent and costly mistakes of the first movers in the PPP space. There is a need for ADB assistance to be at the forefront of this broad knowledge transfer, lessons learning and reform effort. This will require a regional approach to effective and systematic effort at knowledge sharing of experiences and lessons learned.

Third, fiscal risk management systems in several DMCs that have entered the PPP space must also be established from ground-zero, which raises fundamental concerns about the sequencing recommended in past advice by international financial institutions. For instance, regarding viability gap funding, many jurisdictions have either weak policy and regulatory frameworks in place and/or limited experience in assessing the level of viability gap funding required to ensure bankability. PPPs imply fiscal commitments (contractualized or not) that must be carefully weighed (from both a project proposal perspective and a consolidated fiscal risk management angle) prior to commencing negotiations on PPPs. Effective infrastructure governance requires a systematic approach. DMCs need to build robust governance functions across the infrastructure cycle. In the case of PPPs, these are considerable challenges to the public sector, in terms of the inherent complexity in policy and legal reforms, process and institutional responsibilities, PFM, governance and institutional capacity, but also in terms of the required level of competency that must be built.

ADB experience. In line with ADB PPP Operational Plan, this TA will support ADB operational departments in advocating for a fiscally-responsible approach to PPPs within DMCs (Pillar 1) and in the developmental of the institutional and policy infrastructure required to pursue them as an effective and efficient procurement modality (Pillar 2). It will also complement work under Pillar 3 coordinated by the Office of the Public Private Partnership (OPPP) on structuring PPP transactions, described in the PPP Operational Plan as 'the missing link to enable a flow of well-prepared and structured projects, capable of being externally financed'.

Impact	Fiscal sustainability of PPP investments in infrastructure projects promoted in DMCs (ADB Strategy 2030)
Outcome	Capability to integrate fiscally sustainable PPPs in ADB projects improved in selected DMCs
Outputs	Policy, legal, regulatory and institutional frameworks for PPP management strengthened Public financial and fiscal risk management for legacy and new public-private partnerships strengthened Policy experience on creating fiscally-sustainable PPP disseminated
Geographical Location	Regional

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services	ADB will engage the consultants and carry out procurement following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.
Procurement	ADB will engage the consultants and carry out procurement following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

Responsible ADB Officer	Hanif Rahemtulla
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Responsible ADB Division	SDTC-GOV
Executing Agencies	Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines

Timetable

Concept Clearance	09 Jul 2019
Fact Finding	-
MRM	-
Approval	-
Last Review Mission	-
Last PDS Update	10 Jul 2019

Project Page	https://www.adb.org/projects/53081-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=53081-001
Date Generated	13 July 2019

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