Presentation to the UN (OHRLLS) – 18th - 20th May 2021

Developing Bankable Transport Infrastructure Projects: Case Studies, Experiences and Learning Materials for LLDCs and Transit Countries

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PPP Overview and Case Studies (Air & Roads)

PPP Overview

Introduction:

- The PPP Knowledge Lab defines a PPP as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. This means that it is a contractual relationship between a government and a private business venture. The business venture delivers and funds public services using a capital asset thereby sharing the associated risks.
- The rationale for PPPs is based on the claim that PPPs have the potential to close the infrastructure gap by leveraging scarce public funding and introducing private sector technology and innovation to provide better quality public services through improved operational efficiency

Types of PPP

- **Build-Own-Operate (BOO):** BOO projects can be likened to the actual privatisation of a facility because often there is no provision of transfer of ownership to the host government. At the end of a BOO concession agreement, the original agreement may be renegotiated for a further concession period.
- **Build-Operate-Transfer (BOT):** The facility is paid for by the investor but is owned by the host. The investor maintains the facility and operates during the concession period.
- **Build-Own-Operate-Transfer (BOOT):** Ownership of the facility rests with the constructor until the end of the concession period, at which point ownership and operating rights are transferred free of charge to the host government.

Types of PPP

- **Build-Transfer-Operate (BTO):** The private sector finances a facility and, upon completion, transfers legal ownership to the public sector. The agency then leases the facility back to the private sector under a long-term lease. During the lease, the private sector operates the facility.
- **Design-Build-Finance-Operate (DBFO**): The private sector partner finances the project and is granted a long-term right of access of about 30 years. The DBFO partner is given specified service payments during the life of the project.

Types of PPP

Public-Private Partnership (PPP)					
Contract Type	**Design-Build-Finance-Operate (DBFO)**	**Build-Transfer-Operate (BTO)**	**Build-Operate-Transfer (BOT)**	**Build-Own-Operate-Transfer (BOOT)**	**Build-Own-Operate (BOO)**
Construction	Private Sector	Private Sector	Private Sector	Private Sector	Private Sector
Operation	Private Sector	Private Sector	Private Sector	Private Sector	Private Sector
Ownership	Public Sector	Private Sector during construction then Public Sector	Private Sector during Contract then Public Sector	Private Sector during Contract then Public Sector	Private Sector
Who pays?	Users or Offtaker	Users or Offtaker	Users or Offtaker	Users or Offtaker	Users or Offtaker
Who is paid?	Private Sector	Private Sector	Private Sector	Private Sector	Private Sector

Case Study: Restructuring of Russian Railways

Background

- The dissolution of the Soviet Union caused economic dislocations that had catastrophic consequences for the rail industry and between 1990 and 1995, freight traffic plunged by 52% and passenger traffic by 30%.
- The significant traffic declines without corresponding operational reforms reduced both asset and staff productivity.
- Investment in new equipment and maintenance declined - the number of track-kilometers subject to speed restrictions increased by about 30%.

Railway Reform Plan,1997 (Edict Number 426) with following objectives:

- Stabilize quality and safety;
- Preserve a pan-Russian institution and ensure economic development;
- Ensure system interoperability;
- End cross-subsidies;
- Improve tariff-setting supervision;
- Increase transparency of financial flows in the industry;
- Reduce system costs; and
- Meet demand for transport services.

Case Study: Restructuring of Russian Railways

Decree Number 448 refined the goals by adding:

- End cross-subsidies;
- Improve tariff-setting supervision; and
- Increase transparency of financial flows in the industry.

Way Forward:

- Need for finance from private sector to develop the railway reform strategy.
- Need to create an enabling environment for private sector participation and increased competition in the railway sector.

The Reform (3 phases):

- Separation of Regulations and Operations;
- Separating Functions; and
- Establishing a Joint-Stock Holding Company and Developing Competition, and later on passenger service reform.

Case Study: Restructuring of Russian Railways

Results

- Freight transportation underwent the most significant reforms, and market performance results were impressive.
- Between 1995 and 2009, freight turnover improved by a dramatic 87% before succumbing to the effects of the 2008 global economic crisis.
- RZD saw an increase in demand for new rapid transit trains, with the highest passenger traffic increase seen on the Mosco-Smolsnek route and the Moscow-Belgorod route.
- Passenger turnover on rapid transit trains grew 25% to 2.5 billon passengers per km in 2015.

Case Study: Restructuring of Russian Railways

Lessons Learnt:

- Typically, crisis is the best driver for reforming the railways. Government agreed to embark on a restructuring process only after a few years of financial crisis forced it to confront the fiscal implications of railways operations and management.
- Restructuring is a long process. Russia approached reforms gradually, leaving RZD as the dominant party. Reforms have taken over 15 years, the years between 2000 and 2010 were the most active, which is longer than was originally planned, but progress was steady. As a result, reforms succeeded in expanding rail freight traffic, expanding market share, reducing freight rates, restoring operational productivity, and attracting private capital to profitable sector elements such as high-value freight.
- Introducing private companies into provision and maintenance of rolling stock may prove beneficial. In Russia it brought more than $50 billion of capital to the railway sector, freeing up RZD's capital for the improvement of freight services.

Case Study: Zvartnots Airport Expansion Project, Armenia.

Background:

- 2010-Board of Directors of the Asian Development Bank (ADB) approved a direct loan of $40 million to Armenia International Airports (AIA) for the Zvartnots Airport Expansion Project (Phase 2).
- To finance the construction of a new landside terminal building and installation of equipment and facilities to supplement the air-side concourse which was built during phase 1 of the modernization program (ADB, 2013).
- Co-financing for phase 2 also consisted of $40 million from the European Bank for Reconstruction and Development (EBRD) and €15 million from Deutsche Investitions-und Entwicklungsgesellchaft (DEG) (ADB, 2013).
- AIA was given the exclusive right to administer and operate Zvartnots International Airport (ZIA) and its related property and equipment and conduct all business for a period of 30 years.

Private Sector Participation

- ZIA is privately owned and is working closely with the government and regulators to open Armenian skies to allow operators to compete for landing and take-off slots on a competitive basis.
- AIA's positive governance behaviour—such as timely audited financial accounts, transparent reporting, open engagement with the government and regulators, and sympathetic support for residents requiring relocation from the airport apron—provides a benchmark for private sector operators in Armenia (ADB, 2013).