



Technical Assistance Report

Project Number: 53081-001
Knowledge and Support Technical Assistance (KSTA)
August 2019

Strengthening Fiscal Governance and Sustainability in Public–Private Partnerships

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
PFM	–	public financial management
PPP	–	public–private partnership
TA	–	technical assistance
VGF	–	viability gap funding

NOTE

In this report, “\$” refers to United States dollars.

Vice-President	Bambang Susantono, Knowledge Management and Sustainable Development
Director General	WooChong Um, Sustainable Development and Climate Change Department (SDCC)
Cluster Head Chief	Chiara Bronchi, Chief Thematic Officer, SDCC Bruno Carrasco, Chief of Governance Thematic Group, SDCC
Team leader	Hanif Rahemtulla, Senior Public Sector Management Specialist, SDCC
Team members	Erik Aelbers, Country Specialist, Pacific Department Joao Pedro Farinha Fernandes, Senior Financial Sector Economist, Central West Asia Department (CWRD) Anqian Huang, Senior Finance Specialist, South Asia Department (SARD) Marjorie Anne Javillonar, Project Analyst, SDCC Navendu Karan, Senior Finance Specialist, SARD Yuji Miyaki, Public Management Specialist (Taxation), CWRD Vivek Rao, Principal Financial Sector Specialist, Southeast Asia Department Rachana Shrestha, Senior Public Management Officer, Nepal Resident Mission Laisiasa Natakubu Tora, Economist (Public Finance), CWRD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE TECHNICAL ASSISTANCE	3
A. Impact and Outcome	3
B. Outputs, Methods, and Activities	3
C. Cost and Financing	4
D. Implementation Arrangements	4
IV. THE PRESIDENT'S DECISION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	8
3. List of Linked Documents	9

KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 53081-001
Project Name	Strengthening Fiscal Governance and Sustainability in Public-Private Partnerships	Department/Division SDCC/SDTC-GOV
Nature of Activity Modality	Capacity Development Regular	Executing Agency Asian Development Bank
Country	REG (All DMCs)	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Public sector management	Public expenditure and fiscal management	0.40
Finance	Infrastructure finance and investment funds	0.10
	Total	0.50
3. Strategic Agenda	Subcomponents	Climate Change Information
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	Some gender elements (SGE) ✓
	Institutional development	
	Institutional systems and political economy	
	Public financial governance	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	
	Knowledge sharing activities	
Partnerships (PAR)	Implementation	
	International finance institutions (IFI)	
	Private Sector	
	Regional organizations	
	South-South partner	
Private sector development (PSD)	Conducive policy and institutional environment	
	Promotion of private sector investment	
5. Poverty and SDG Targeting		Location Impact
Geographic Targeting	No	Regional High
Household Targeting	No	
General Intervention on Poverty	No	
SDG Targeting	Yes	
SDG Goals	SDG9, SDG16	
6. Risk Categorization	Low	
7. Safeguard Categorization	Safeguard Policy Statement does not apply	
8. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.50
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.50
Cofinancing		0.00
None		0.00
Counterpart		0.00
None		0.00
Total		0.50
Currency of ADB Financing: USD		

I. INTRODUCTION

1. In line with the Asian Development Bank (ADB) Strategy 2030 operational priority of strengthening governance and institutional capacity, this knowledge and support technical assistance (TA) responds to developing member country (DMC) requests to strengthen public sector capacity to catalyse infrastructure investments—including through public–private partnerships (PPPs)—in fiscally responsive, development-relevant ways.¹ The TA complements ADB’s private sector operations by supporting operations departments to create improved conditions to engage the private sector. Aligned with ADB’s PPP Operational Plan 2012–2020,² the TA will support DMCs in improving institutional and regulatory structures to manage PPP appraisal, vet and manage risk, and carry out monitoring and evaluation of PPPs.³ The TA will (i) strengthen the traction of PPP development efforts; (ii) promote fiscally sound public financial management (PFM) frameworks for PPPs; and (iii) improve government capacity to design, implement, and manage PPPs (drawing on lessons from international experience).⁴ The TA is included in the 2019 results-based work plan of ADB’s Sustainable Development and Climate Change Department.⁵

II. ISSUES

2. High quality, fiscally sustainable infrastructure is a key driver of economic growth and poverty alleviation. The Asia and Pacific region suffers from significant infrastructure deficits, particularly in terms of quality, quantity, and accessibility. These deficits are particularly severe in energy, transport, and water and sanitation.⁶ Persistent infrastructure gaps have direct implications for human development and constrain growth for many countries. Improving infrastructure is an explicit goal of the 2030 sustainable development agenda. Substantial investment from public or private sources is required to address these infrastructure gaps.⁷ ADB 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.⁸ Because the private sector is better equipped to manage key PPP-related risks, the public sector is increasingly turning to the private sector to explore the feasibility of PPPs as a means of developing and managing critical infrastructure.⁹

3. While private sector participation in the development and operation of public service assets is becoming an increasingly viable infrastructure development strategy, in developed

¹ Asian Development Bank (ADB). 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

² ADB. 2012. *Public–Private Partnership Operational Plan 2012–2020*. Manila.

³ The TA project will draw on the ongoing evaluation of ADB’s support for PPPs covering the period 2009–2018, which examined the effectiveness and sustainability of ADB’s approach to PPPs in addressing previously identified challenges and supporting evidence-based outcomes. The evaluation draws on lessons learned from ADB operations departments and the Office of Public–Private Partnership.

⁴ In view of the operating environments and varying economic profiles of ADB DMCs, ADB bases its PPP operations on four pillars: advocacy and capacity development, enabling environment, project development, and project financing.

⁵ The TA first appeared in the business opportunities section of ADB’s website on 10 July 2019.

⁶ ADB. 2017. *Meeting Asia’s Infrastructure Needs*. Manila.

⁷ The G20 Principle for Quality Infrastructure (2019) places renewed emphasis on quality infrastructure investment, including efforts to mobilize financing from various sources—particularly the private sector and institutional sources including multilateral development banks—thereby contributing to closing the infrastructure gap, developing infrastructure as an asset class, and maximizing the positive impacts of infrastructure investment according to country conditions.

⁸ A. Deep, J. Kim, and M. Lee. 2019. *Realizing the Potential of Public–Private Partnerships to Advance Asia’s Infrastructure Development*. Manila: ADB / Korean Development Institute.

⁹ International Monetary Fund (IMF). 2016. *Analyzing and Managing Fiscal Risks—Best Practices*. Washington, D.C.

jurisdictions, DMCs in particular should be cautious about approaching it as a panacea. PPPs can be financially advantageous compared with traditional public procurement if the cost of transferring risks to the private sector is lower than the private sector's cost of finance.¹⁰ Pricing of risk and competitive tension become the critical determinants of relative efficiency in these partnerships, which can explain the difficulties and costly mistakes that most countries experience with PPPs, at least initially.¹¹ International experience has identified many reasons why PPPs might not bring desired benefits. Such reasons include strategically wrong assumptions about future income streams and inaccurate estimates of risk transfers from the public to the private sector.¹² Given the complexity of PPPs, DMCs need to build robust policy, regulatory, and financial frameworks and strengthen PFM and government institutional capacity.¹³ Prudent approaches to developing PPPs and sustained efforts to create dedicated expertise on PPPs in public institutions, supported by ADB TA, can be crucial to helping DMCs extract positive development impacts from PPPs.

4. Four factors can help DMCs have more success with PPPs. First, PPP development can only deliver its promise of value-for-money if it is integrated within effective public investment management frameworks. The positive impacts of infrastructure cannot be guaranteed by a "business-as-usual" approach that simply targets the quantity of infrastructure projects. Improved public investment planning and management are critical to enhancing the efficiency of public infrastructure investment, including through PPPs.

5. Second, stronger public investment management will result in more predictable, credible, efficient, and productive infrastructure investments that avoid the main sources of chronic renegotiation cycles: unsolicited proposals and opportunistic bidding (optimism bias). Strengthening institutions could close-up two-thirds of the public investment efficiency gap.¹⁴ Most countries must still benefit from building stricter oversight of PPPs and better integration of 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 and produce the targeted fiscal advantages. Caution is advised to guard against advice that promotes PPPs as a fiscal magic bullet or a "lifter" of fiscal constraints. DMCs should look to avoid the frequent and costly mistakes of the first movers in the PPP space, and ADB needs to be at the forefront of this broad transfer of knowledge and reform effort. This will require a regional approach to ensuring effective sharing of experiences and lessons learned.

6. Third, fiscal risk management systems in DMCs that enter the PPP space must be established from ground-zero. For instance, regarding viability gap funding (VGF), many jurisdictions have either weak regulatory frameworks or limited experience in assessing the level of VGF required to ensure bankability. PPPs imply fiscal commitments (contractualized or not)

¹⁰ In addition, value-for-money from PPPs reflects (i) private sector access to better technology, (ii) more effective project execution, including revenue collection, and (iii) benefits from bundled construction and management.

¹¹ M. Sawyer. 2008. Private Finance Initiative and Public Private Partnerships: The Key Issues. In P. Arestis and M. Sawyer (ed.). *Critical Essays on the Privatization Experience*. Basingstoke, United Kingdom: Palgrave Macmillan.

¹² G. A. Hodge and C. Greve. 2007. Public-Private Partnerships: An International Performance Review. *Public Money and Management*. 37(2). pp. 133-140. Even in emerging markets that have decades of experience with PPPs, such as India, "Public-private partnerships are [still] floundering, mainly due to the opportunistic behavior of private sector partners, regulatory uncertainty and poor value-for-money to the government." K.V. Pratap. 2014. Floundering Public Private Partnerships. *Economic and Political Weekly*. No. XIX, No. 15.

¹³ V. Vecchi et al. 2017. Government Policies to Enhance Access to Credit Infrastructure-Based PPPs: An Approach to Classification and Appraisal. *Public Money and Management*. 37(2): pp. 133-140.

¹⁴ IMF. 2015. *Making Public Investment More Efficient*. Washington, D.C. The IMF define efficiency of public investment as the relationship between the value of the public capital stock and the measured coverage and quality of infrastructure assets.

that must be carefully weighed (from both a project proposal perspective and a consolidated fiscal risk management angle) prior to commencing negotiations on PPPs.¹⁵

7. Finally, unstable local-currency markets in DMCs heighten fiscal risks and make it more difficult to attract private sector participation in infrastructure investments, especially from foreign investors. DMCs need to become more aware of fiscal- and financial-related preconditions needed for sustainable infrastructure development.

8. **ADB experience.** During 2009–2018, ADB approved 792 projects and TA interventions with PPP-related components (totaling \$51.0 billion, including 435 TA grants totaling \$660.0 million).¹⁶ In line with ADB's PPP Operational Plan 2012–2020, this TA will support ADB operations departments in advocating for a fiscally responsible approach to PPPs within DMCs (Pillar 1), and in nurturing the institutional and policy environment required to make PPPs an effective procurement modality (Pillar 2). The TA will also complement work under Pillar 3, coordinated by ADB's Office of Public–Private Partnership, on structuring PPP transactions to enable a flow of well-prepared and well-structured projects capable of drawing external finance.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The TA is aligned with the following impact: fiscal sustainability of PPP investments in infrastructure projects promoted in DMCs. The TA will have the following outcome: capacity to integrate fiscally sustainable PPPs improved in selected DMCs.¹⁷

B. Outputs, Methods, and Activities

10. **Output 1: Policy, legal, regulatory, and institutional frameworks for public–private partnership development and management strengthened in DMCs.** To enhance fiscal sustainability in PPPs in DMCs, ADB will support the review of the legal, policy and regulatory frameworks for public investment management. This output will produce (i) assessments of PPP policies and/or laws, based on international experiences and reflecting national priorities, and practical solutions for integrating PPP options within line ministries' infrastructure investment planning processes; (ii) recommendations to support DMCs define institutional responsibilities and processes for implementing PPP policies and managing the PPP process flow (with an emphasis on environmental sustainability and gender equality); and (iii) recommendations to help DMCs improve PFM and procurement policies, laws, and practices—including VGF structures—to ensure sound fiscal management of PPPs.¹⁸

¹⁵ PPP contracts always imply fiscal contingencies and can have direct liabilities (e.g., fixed payments including viability-gap payments, availability payments, shadow tolls, or output-based payments), contingent liabilities (e.g., payments if a risk occurs), and implicit service delivery risks to the government.

¹⁶ This is based on data provided by the Office of Public–Private Partnership. This comprised (i) 249 sovereign projects totaling \$36.6 billion, (ii) 108 nonsovereign projects totaling \$13.7 billion, and (iii) 435 TA grants totaling \$666.0 million. Pillar 4 received the largest share of ADB assistance at \$21.9 billion, while Pillar 1 received the least at \$4.4 billion.

¹⁷ The design and monitoring framework is in Appendix 1.

¹⁸ Several international financial institutions, as a capacity development effort, have developed methodologies/tools that serve important pedagogical purposes in conveying the basic structure of questions and exercises that should determine a PPP decision-making process. One such example is SOURCE.

11. **Output 2: Public financial management and fiscal risk management for legacy and new public–private partnerships strengthened in DMCs.** This output will support DMCs in coming up with PPP-specific approaches to PFM and fiscal risk management through diagnostic assessments and technical support for (i) developing capacity within ministries of finance to assess the fiscal implications of PPPs; (ii) evaluating and controlling governments' fiscal exposure to PPPs; (iii) integrating PPPs within medium-term expenditure frameworks; and (iv) strengthening fiscal reporting and accounting of PPPs.¹⁹

12. **Output 3: Policy experience on creating fiscally sustainable public–private partnerships disseminated to DMCs.** The regional approach of this TA allows for the ADB team to produce knowledge products, including guidance notes and other practitioners' tools and technologies, as well as board policy awareness initiatives to strengthen fiscal sustainability in the PPP policy space.

C. Cost and Financing

13. The TA is estimated to cost \$500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The key expenditure items are listed in Appendix 2.

D. Implementation Arrangements

14. ADB will administer the TA with the Governance Thematic Group as the executing and implementing agency. It will report to the Thematic Advisory Service Cluster on TA progress and consult with relevant sector and thematic groups during implementation. It will select, supervise, and evaluate consultants; oversee the consultants' activities to ensure timely and effective achievement of the outputs; organize workshops as needed for government capacity building; and provide staff to act as resource persons in workshops. The Governance Thematic Group has consulted closely with the Office of Public–Private Partnership and with ADB operations departments to ensure the TA is linked to new or ongoing PPP initiatives adopting a differentiated approach of assistance for DMCs.²⁰

15. The implementation arrangements are summarized in the table.

¹⁹ One stand-alone activity under this output, to be available to all participating DMCs, is the development of a standard support package for DMCs that are willing to audit PPPs that are either becoming or are likely to become the focus of renegotiation attempts and problems. The objective of this activity is to (i) develop the capacity of DMC audit authorities to undertake a function that developed countries undertake as a matter of course, (ii) support policy dialogue to develop consistent and fair frameworks for PPP renegotiations, and (iii) highlight the need for formalized PPP processes that maximize transparency and accountability.

²⁰ Operations departments have initially identified DMCs for participation in the TA aligned with existing ADB programs/projects including Armenia, Azerbaijan, Bangladesh, Indonesia, Kazakhstan, Kyrgyz Republic, Nepal, Uzbekistan and Viet Nam. As part of the process of selecting DMCs for the TA, the Governance Thematic Group will issue a call for subproject proposals to operations departments, with selection based on criteria such as operational relevance, links to country partnership strategies, degree of institutional complexity, innovation, gender mainstreaming, and learning potential.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	30 August 2019–31 December 2022		
Executing agency	ADB (SDTC-GOV)		
Implementing agency	ADB (SDTC-GOV)		
Consultants	To be selected and engaged by ADB		
	Individual Selection	International expertise (16 person-months)	\$254,000
	Individual Selection	National expertise (20 person-months)	\$54,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank; SDTC-GOV = Governance Thematic Group; TA = technical assistance.
Source: Asian Development Bank

16. **Consulting services.** ADB will engage consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.²¹ The TA will require 16 person-months of international and 20 person-months of national consultant inputs with expertise in governance, PPPs, PFM, procurement, anticorruption, and/or capacity and institutional development, including operating within and across sectors and themes. The Governance Thematic Group will manage all consultants unless otherwise agreed with operations departments. Where appropriate, output-based contracts will be considered for administrative efficiency and for a simplified disbursement process.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis for Strengthening Fiscal Governance and Sustainability in Public–Private Partnerships, and hereby reports this action to the Board.

²¹ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

DESIGN AND MONITORING FRAMEWORK

Impact the TA is aligned with Fiscal sustainability of PPP investments in infrastructure projects promoted in DMCs (ADB Strategy 2030) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Capacity to integrate fiscally sustainable PPPs improved in selected DMCs	a. By 2022, at least two ADB operations integrating fiscally sustainable elements into PPPs in selected DMCs approved (2018 baseline: 0)	a. Concept papers and RRP	Deterioration of the government's fiscal situation Weakening of government political support for PPPs Business-unfriendly decisions of the government
Outputs 1. Policy, legal, regulatory, and institutional frameworks for PPP development and management strengthened in DMCs 2. PFM and fiscal risk management for legacy and new PPPs strengthened in DMCs 3. Policy experience on creating fiscally sustainable PPPs disseminated to DMCs	1a. By 2022, at least two country-specific PPP assessments completed (2018 Baseline: 0) 2a. By 2022, technical advisory support to at least one DMC on PPP-specific approaches to PFM and fiscal risk management provided (2018 Baseline: 0) 3a. By 2022, one guidance note on preconditions for fiscally sustainable PPP published (2018 Baseline: 0)	1a. PPP assessments; consultant reports 2a. TA monitoring report; draft PPP approach papers 3a. Published guidance note	Delays in legal and regulatory policy reforms caused by vested interest or weak capacity
Key Activities with Milestones			
1. Policy, legal, regulatory, and institutional frameworks for PPP management strengthened in DMCs			
1.1. Undertake PPP assessments in DMCs in cooperation with operations departments and OPPP (Q3 2019–Q4 2022)			
1.2. Provide quality assurance for assessments and support dialogue with DMCs (Q3 2019–Q4 2022)			
1.3. Maintain central repository of assessments and document good practices to promote attention to PPPs, PFM, governance, and institutional issues (Q3 2019–Q4 2022)			
2. Public financial management and fiscal risk management for legacy and new public–private partnerships strengthened in DMCs			

<p>2.1. Identify target PPP projects in consultation with operations departments and OPPP (Q3 2019–Q4 2022)</p> <p>2.2. Provide direct technical support to relevant ministries (Q3 2019–Q4 2022)</p> <p>3. Policy experience on creating fiscally sustainable PPP disseminated to DMCs</p> <p>3.1. Conduct quality assurance for the design of activities, including a peer review mechanism (Q3 2019–Q4 2022)</p> <p>3.2. Organize dialogue with DMC stakeholders (Q3 2019–Q4 2022)</p> <p>3.3. Disseminate results, findings, and lessons to interested parties at ADB and in DMCs, and integrate them in knowledge and learning exercises (Q3 2019–Q4 2022)</p> <p>3.4. Prepare a draft how-to guidance note in cooperation with ADB operations departments (Q3 2019–Q4 2022)</p> <p>3.5. Disseminate knowledge products to DMCs through regional knowledge and learning exercises and forums (Q3 2019–Q4 2022)</p>
<p>Inputs</p> <p>ADB: \$500,000</p>
<p>Assumptions for Partner Financing</p> <p>Not Applicable</p>

^a ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila. ADB = Asian Development Bank, DMC = developing member country, OPPP = Office of Public–Private Partnership, PFM = public financial management, PPP = public–private partnership, Q = quarter, RRP = report and recommendation of the President, SDCC = Sustainable Development and Climate Change Department. TA = technical assistance. Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
	ADB^a
A. Consultants	
1. Remuneration and per diem	
a. International consultants	254.0
b. National consultants	54.0
2. Out-of-pocket expenditures	
a. International and local travel	31.0
b. Reports and communications ^b	2.0
B. Printed external publications ^c	4.0
C. Training, seminars, and conferences	
1. Travel cost of ADB staff acting as a resource person ^d	11.0
2. Participants ^e	90.0
3. Resource persons ^f	28.0
4. Travel cost of ADB support staff ^g	6.0
5. Miscellaneous administration and support costs ^h	2.0
D. Miscellaneous administration and support costs	3.0
E. Contingencies	15.0
Total	500.0

ADB = Asian Development Bank.

Note: The Technical Assistance is estimated to cost \$500,000, of which contributions from ADB are presented in the table.

^a Financed by ADB's Technical Assistance Special Fund (TASF-other sources).

^b Includes translation costs.

^c Includes editing, printing, and translation costs. Printed materials will be disseminated during knowledge and learning events to external clients as well as to relevant ADB resident missions. Estimated total number of copies is 200.

^d Allocated for four ADB staff as resource persons for external regional workshops on PPP to cover travel costs.

^e Includes airfare, hotel accommodation, daily subsistence allowance, and miscellaneous travel expenses of regional workshop participants (70 in total) to and from ADB member countries in accordance with the Memorandum on Use of Bank Resources: Regional Technical Assistance and Technical Assistance vs. Internal Administrative Expenses Budget, issued by ADB's Budget, Personnel, and Management Systems Department and Strategy, Policy and Partnerships Department on 26 June 2013.

^f Includes minimal honorariums, airfare, per diems, and miscellaneous travel expense allowances of resource persons (six in total) to and from ADB member and, possibly, non-member countries.

^g Covers ADB staff's support services (travel and related costs for secretarial, logistical, and administrative services) for assisting with the implementation and administration of the technical assistance.

^h Covers event collaterals, workshop kits, and miscellaneous items such as, but not limited to, bags and flash drives.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53081-001-TARreport>

1. Terms of Reference for Consultants