

## **SPEECH OF INFRASTRUCTURE WORKING GROUP**

### **“HOW TO MAKE PPP WORK”**

*Presented by  
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The IWG would like to raise a few suggestions about how to make PPP work.

#### **1. Current Status**

There have been hardly any projects complying with the PPP scheme under Decree 15 and Decree 63 (the *PPP Regulations*).

- Our best information suggests that there have been no PPP projects for which viability gap funding has been obtained based on Decree 15.
- Although there is a lot of confusion in the press about what is a PPP, we are not aware of any PPP Projects under the PPP regulations which have been completed by private sponsors of any sort or which have been project financed by private banks.

#### **2. Why have there been no Genuine PPP Projects?**

Various reasons:

- PPP is complicated, not just in Vietnam, but everywhere in the world.
- State support cannot be unlimited, so there will inevitably be political issues.
- PPP can only be sustainable if it is done well and fairly. This means building up a class of experts who can administer the program. As the success of the Power BOT projects in Vietnam has shown, this takes time.
- The expertise needs to be sector specific – roads are different from railways, which are different from waste water plants etc and Vietnam specific.

There are some specific bottlenecks:

- There are no guidelines or manuals on how to obtain VGF, so private investors and ASAs do not know how to benefit.
- VGF is the central element of PPP. The absence of VGF principles mean that many sponsors and ASAs think PPP will take a very long time. So it appears that they are not very interested.
- PPP is too prescriptive. The BOT regulations worked well in the power sector because they were relatively general and could be interpreted flexibly where necessary. The PPP regulations are highly prescriptive. And often the requirements are too complicated to meet in a timely fashion.
- Tenders have proven difficult and no better for Vietnam than privately negotiated projects.

#### **3. What might work?**

There are a lot of new ideas that one can come up with, but these will just distract. The IWG believes the sector needs a combination of short-term, medium-term and long-term support, working together.

- Short-term - Pilot projects. If these are custom-designed, they can establish market knowledge that sets a base for later projects. Particularly around risk allocation.
- Medium-term – New Law. A new law that is carefully designed to overcome some of the existing issues will help enormously. These are covered in the IWG paper.
- Long-term investment in administrative capacity.

We are aware that currently there are attempts to do pilot PPP projects. The problem is that these are struggling to get through the existing PPP regulations and inadequate administrative capacity. To cure this, the pilot projects could be set up by special Decision of the Government Office as was the case for the Phan Thiet – Dau Giay road project. The learning from them would then be imported into a new PPP Law and into greater administrative experience.

In terms of specific issues to solve, the IWG would suggest focusing on:

- Risk allocation principles in each infrastructure sub-sector.
- Clear principles on viability gap funding and on how to obtain Government support where there are risks that cannot be borne except by the Government.
- One example of this might be foreign exchange availability.
- Another is change of law. A company can build a power plant that complies with today's environmental laws and lock itself into a fixed tariff, but it cannot do that if it is responsible for spending \$100 million tomorrow to comply with tomorrow's environmental laws.