



# **Financing Infrastructure Development and Public-Private Partnership (PPP) Framework for Myanmar**

Summary of Analytical Paper based on  
DICA-JICA Discussion Series on PPP for Infrastructure

March 2016

# Acknowledgement

- This paper was prepared as part of the activities under the DICA-JICA Discussion Series on PPP for Infrastructure. The objective of the series is to promote PPP related actions outlined in the 2014 Long-term Foreign Direct Investment Promotion Plan (FDIPP) of the Directorate of Investment and Company Administration (DICA).
- The co-authors\* thank inputs from the PPP Task Force Members of the government of Myanmar led by U Aung Naing Oo, Director General, DICA, and lecturers and participants who contributed to the discussion in this series. Any faults, however, rest with the co-authors.
- The views expressed in this paper are those of the co-authors and do not necessarily reflect those of the organizations that the PPP Task Force Members and co-authors belong to.

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# 1. Introduction

## (Discussion Series FY2015/16 Activities)

1. **Objective:** To provide learning opportunities for various aspects of PPP framework for private sector-led infrastructure development initiatives
2. **Target participants:** FDIPP PPP Task Force (inter-ministerial)
3. **Three components:** (a) In-country preparatory sessions (Sep to Dec, see below), (b) Study tour to Indonesia and the Philippines (Jan to Mar) and (c) Wrap-up Session

	Topic	
1.	Kickoff Meeting	- Introduction of FDIPP / - Infrastructure Development Needs in Myanmar based on 3 Master Plan Studies / - Discussion on Outline of the Activities and the Way Forward
2.	TA for PPP Institutional Framework in Myanmar	- Overall picture of PPP institutional framework (PPP policy, process, institutional responsibilities, oversight mechanism) / - Legal and regulatory framework (legislation, sector regulation) / - Public financial management framework for PPP (tariff, subsidies, guarantee etc.) / - Institutional capacity development
3.	Case Study in Myanmar (Power)	- Outline of PPP projects in power sector (characteristics, business model, demarcation of public and private, risks and countermeasures, stakeholders etc.) / - Case of Myingyan IPP, YESC and MESC Corporatization and Future Prospects (including project formulation process)
4.	Case Study in Myanmar (Telecom)	- Outline of PPP projects in telecom sector (characteristics, business model, demarcation of public and private, risks and countermeasures, stakeholders etc.) / - Case of JOA with MPT (including project formulation process)
5.	Infrastructure Finance and Project Development	- Finance structure for PPP / - Considerations for the government to enable the private party to raise finance and successfully implement the PPP project (e.g. bankability, debt management, risks, guarantee etc.) / - Role of external advisors
6.	Legal and Regulatory Framework for PPP in Infrastructure	- Legal aspects of PPP infrastructure projects / - Laws and regulations for the operations of private firms (investors' confidence) / - Service quality standards / - Conflict resolution
7.	Wrap-up of the discussion series	- JICA's instruments to promote PPP / - Summary of preparatory sessions / - Preparation for country visit program

## 2. Financing Infrastructure Development and PPP

### 2.1 Infrastructure Development Needs

- The coverage and quality of infrastructure in Myanmar is low compared to other developing countries, including its peers in Southeast Asia. According to the Global Competitiveness Index 2015-2016, Myanmar ranked 134th out of 140 countries in terms of infrastructure quality.
  
- According to Chhor et al. (2013), the required infrastructure investment to sustain an average 8% annual economic growth up to 2030 was estimated at USD 320 billion, including about 60% of the investment needed for residential and commercial real estates. Sector studies indicate the following needs.
  - Power generation, transmission and distribution (residential on- and off-grid residential only) facilities up to 2030: USD 66.6 billion
  - National network transport infrastructure up to 2030: Myanmar Kyat 48 trillion (roughly USD 40 billion)
  
- In addition to the aggregate financing requirements, there are many non-financial needs to modernize and streamline implementation of infrastructure development. (ADB, JICA and WB Joint Country Portfolio Review 2015)

## 2. Financing Infrastructure Development and PPP

### 2.2 How is Infrastructure Development Financed in Myanmar?

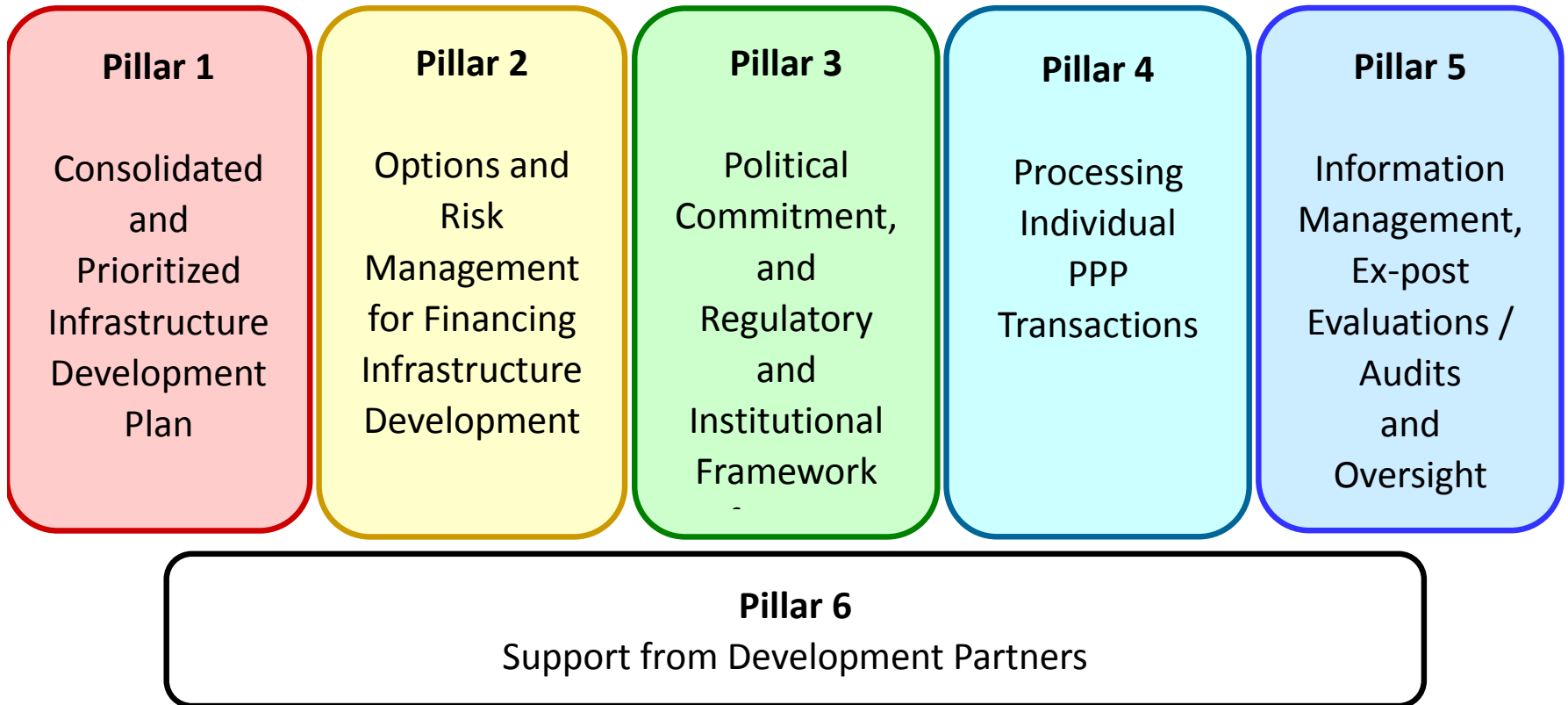
- Due to limitations in data availability and transparency, especially for those activities implemented off-budget, the entire picture of how infrastructure development is financed currently is unknown. Capital expenditure is currently at 5.6% of the GDP, which is significantly lower than the required infrastructure investment needs.
- According to the Ministry of Electric Power, out of the total generation capacity of 4,412 MW as of April 2014, around 10% or 440 MW is run by independent power producers (IPPs), and roughly 20% or 840 MW is run by Joint Venture between the private sector and the government.
- In the road sector, there have been many PPPs since 1996. As of March 2013, a total of 61 Build, Operation and Transfer (BOT) concessions contract over a period of 40 years have been awarded to 29 private companies, covering approximately 5,585km.

## 2. Financing Infrastructure Development and PPP

### 2.3 Assessment: What is Currently Lacking in Myanmar?

<p><b>1. Legal &amp; policy framework</b></p>	<ul style="list-style-type: none"> <li>➤ Public debt management law enacted to allow Ministry of Finance to supervise and monitor government debt</li> <li>➤ <b>Lack of laws, regulations and policies regarding the systematic use of PPP / private sector finance for infrastructure development</b></li> </ul>
<p><b>2. Strategic investment plan</b></p>	<ul style="list-style-type: none"> <li>➤ New government can review &amp; update DP supported master plans for strategic decision-making (transport, electricity, Yangon (urban &amp; transport) (JICA), energy (ADB), electrification (WB), etc.)</li> <li>➤ <b>Lack of multiple-year prioritized infrastructure investment strategy with financing plans linked to medium-term fiscal framework</b></li> </ul>
<p><b>3. Fiscal risk management</b></p>	<ul style="list-style-type: none"> <li>➤ Highly concessional loans available (MDBs, JICA, etc.) under debt sustainability framework</li> <li>➤ <b>Lack of rules, institutions and capacity to make decisions on the mode of financing (public or PPP/private) &amp; assess/manage fiscal impact, risks and liabilities</b></li> </ul>
<p><b>4. Promotion of PPP</b></p>	<ul style="list-style-type: none"> <li>➤ A few pioneering success stories of PPP/private sector finance (such as Myingyan gas fired power plant) with support from MDBs, DICA-JICA Partnership for PPP in Infrastructure under FDIPP</li> <li>➤ <b>Lack of institution with capable staff that can promote use of PPP for infrastructure development</b></li> </ul>
<p><b>5. Line ministries and organizations</b></p>	<ul style="list-style-type: none"> <li>➤ Learning international practices of infrastructure finance and implementation through concessional loan projects financed by MDBs, JICA, etc.</li> <li>➤ <b>Currently, PPP projects are typically awarded to investors thru direct and non-transparent process</b></li> <li>➤ <b>There is a room for improving efficiency of SEEs in charge of infrastructure</b></li> </ul>

# 3. Pillars of a Functioning PPP Framework for Financing Infrastructure Development in Myanmar





# 3. Functioning PPP Framework

## 3.1 Consolidated and Prioritized Infrastructure Development Plan

### (1) Rationale for Public Investment and PPP Framework for Infrastructure Development

#### First Wave

of Private Sector Participation in Infrastructure Development (late 1980s to mid 1990s)

- Risk transfer to the private sector without public sector funding to the extent possible
- Utilizing private sector finance to build, then relying on revenue from users to repay
- Higher project risks, longer project preparation and limited successful cases

#### Second Wave

of Private Sector Participation in Infrastructure Development (after around 2005)

- Public-Private Partnership (PPP) models to share risks and to provide direct/indirect support from the government
- User affordability and viability of investment both examined
- Project structure more complicated than the First Wave models

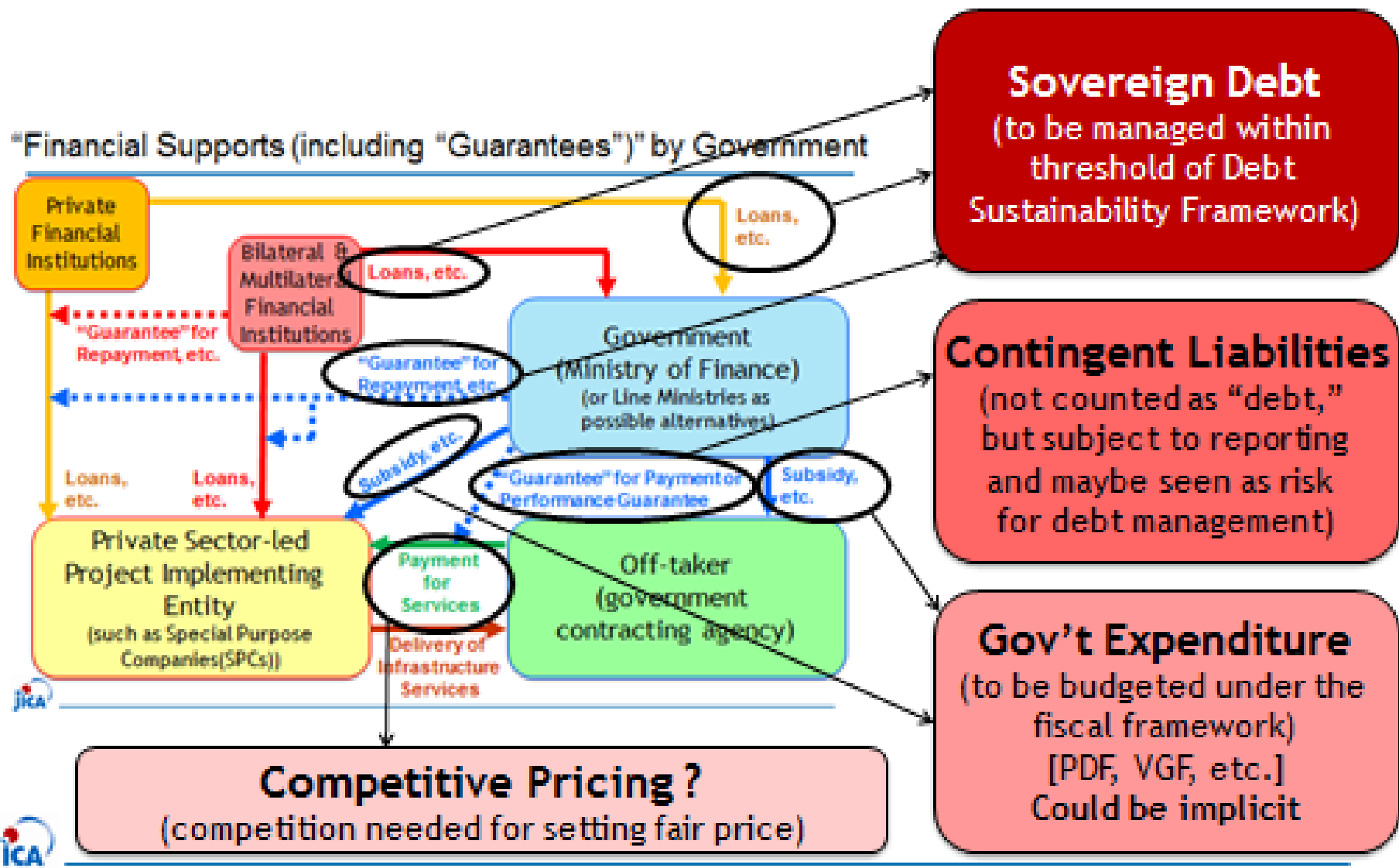
## 3. Functioning PPP Framework

### 3.1 Consolidated and Prioritized Infrastructure Development Plan

#### (1) Rationale for Public Investment and PPP Framework for Infrastructure Development (continued)

- In Myanmar, although there is a broad understanding that the government must play a key role in infrastructure development and a growing interest in private sector led investment, mainly from the perspective of spending less from government pocket, there is no recognition that appropriate public sector fiscal and financial intervention is required for private sector led initiatives, coupled with a fiscal management framework for both public and private sector funded projects over the life-cycle of the infrastructure assets.
  
- Going forward, the government of Myanmar needs to recognize that public fiscal and financial intervention is required for infrastructure development, and one of the ministries, or supervisory institution above the authorities of each ministry, must be tasked to assess, monitor and manage fiscal impact of those interventions.

# PFM Implications of Private-sector led Infrastructure Development

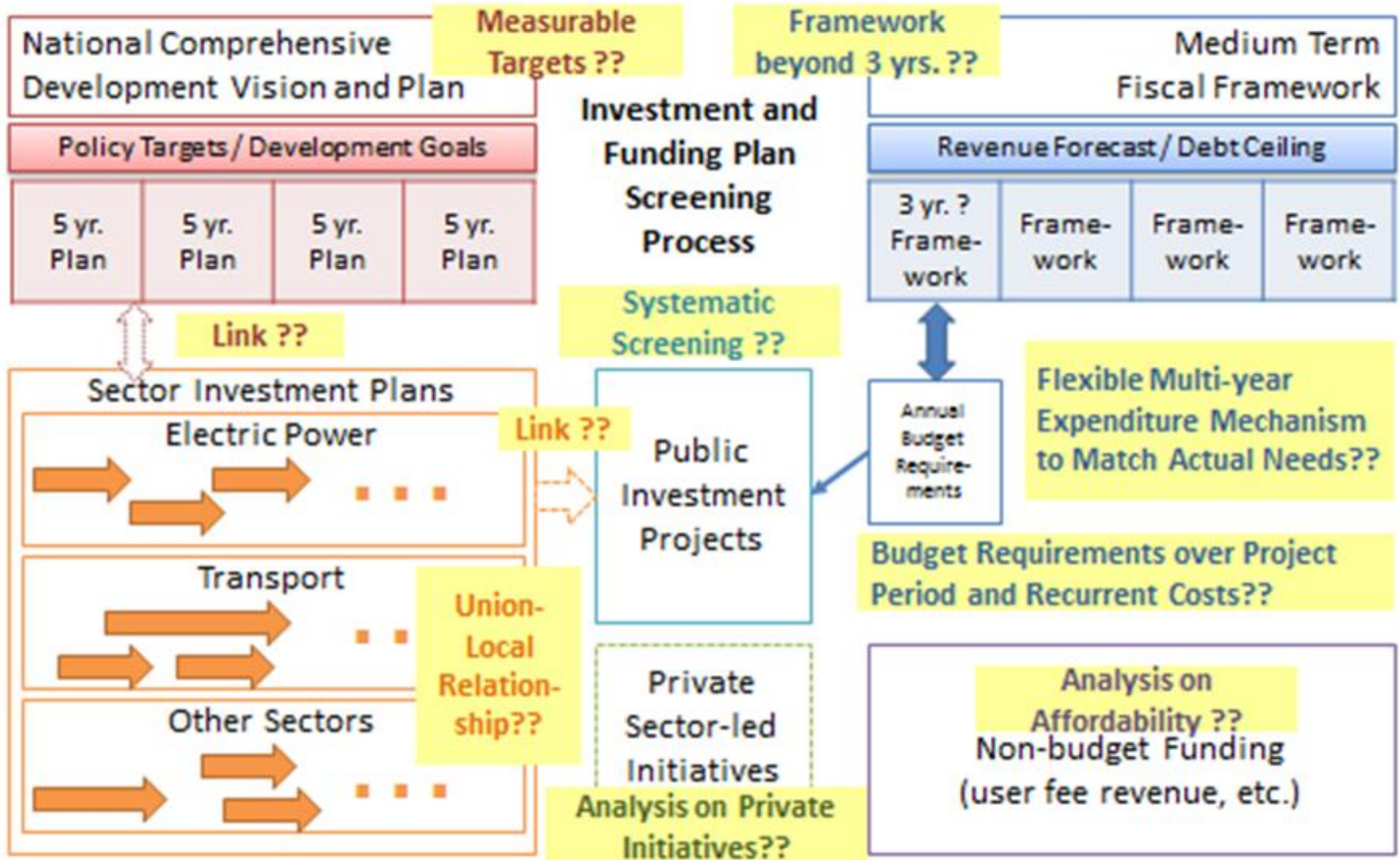


## 3. Functioning PPP Framework

### 3.1 Consolidated and Prioritized Infrastructure Development Plan

- (2) Consolidated and Prioritized Investment Plans across Sectors, Union-Local Levels and Funding Sources
- Currently, Myanmar does not have a cross-sector, cross-ministry plan that consolidates and prioritizes infrastructure projects that contribute to social and economic development. Sector plans with lists of key infrastructure projects managed by a ministry or several ministries have been drafted with help from development partners over the past few years, but it is not clear how these plans and project lists are connected to the approval process by the government and the single-year budgeting process.
  - The selection of financing mode for each of the project is also not systematic. Line ministries appear to be initiating such selection, but there are no guidelines or principles as to what extent the public sector should be financially responsible for preparation, construction and operation/maintenance of each infrastructure project.

# Illustration of Possible Areas of Improvement for Myanmar's Investment Plan



## (2) Consolidated and Prioritized Investment Plans across Sectors, Union-Local Levels and Funding Sources (continued)

- Going forward, Myanmar needs to develop a multiple-year, consolidated and prioritized infrastructure investment plan (cross-sector, cross-ministry project list) consistent with national development strategies and medium-term fiscal framework, in order to develop a credible pipeline of PPP projects attractive for the private sector and manageable for the government.
- Infrastructure investment projects, including those by PPP, need to be linked to development goals and funding plans. Corresponding to the reform on the development planning side, a broader and longer application of the fiscal framework is also needed.
- Based on efforts to improve development planning and fiscal management, an integrated screening and management of sector investment projects for both public investment and private sector-led Initiatives can be established.

# 3. Functioning PPP Framework

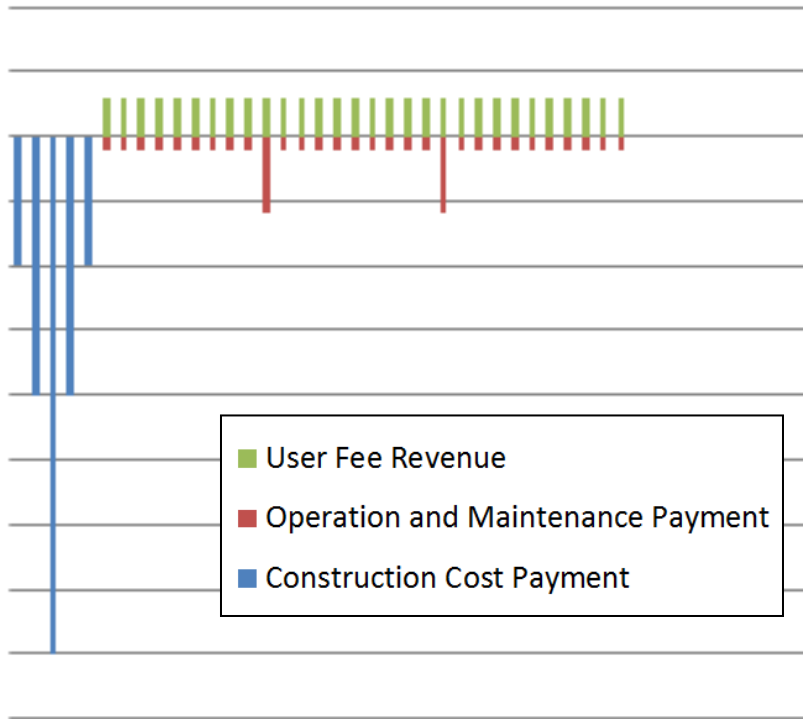
## 3.2 Options and Risk Management of Financing Infrastructure Development

### (1) Modes of Financing Infrastructure Development

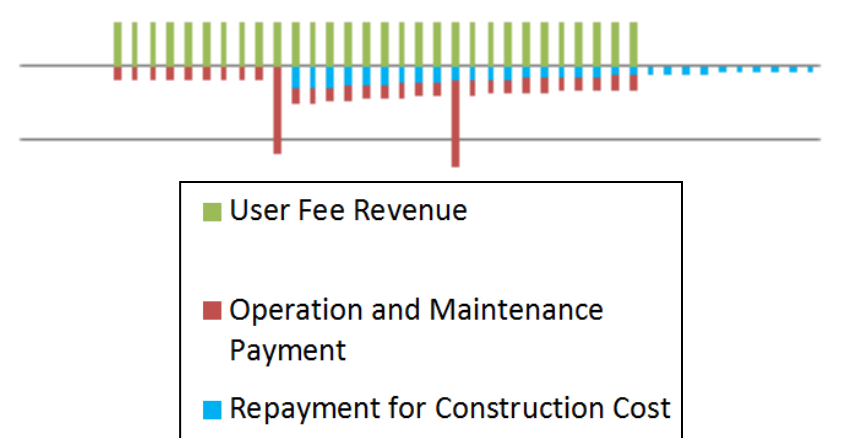
- Although many patterns and variations exist, there are mainly three modes of financing infrastructure development in developing countries like Myanmar.
- The first mode is to use government expenditure only and cope with the special characteristics of the cash flow time profile of infrastructure development.
- The second mode is to take sovereign concessional loans from multilateral development banks and other international development finance institutions, sending the responsibilities of the government to pay for the huge upfront investment cost into the distant future.
- The third mode is to invite private investors to finance the construction cost, and make payments to the private investor during the operational phase.

# Typical Cash Flow Profile of Infrastructure Development

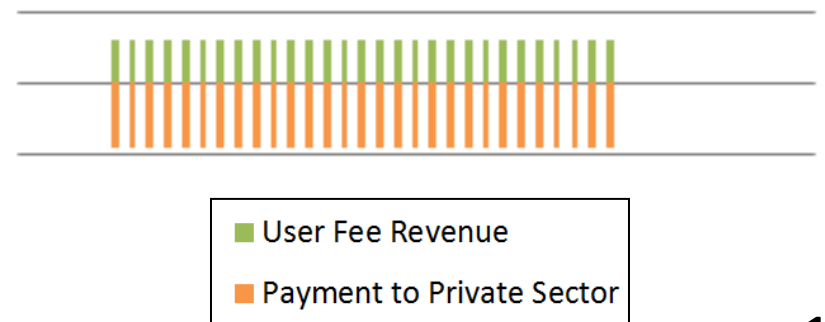
## Finance Mode #1 Government Expenditure Only



## Finance Mode #2 Sovereign Concessional Loan



## Finance Mode #3 Private Investment and BOT





## (1) Modes of Financing Infrastructure Development (continued)

- Currently, Myanmar does not have a cross-sector, cross-ministry plan that consolidates and prioritizes infrastructure projects, and there is no decision-making regarding the mode of financing for projects at the national level. Line ministries appear to be deciding which projects are to be financed by private sector funds, but it is not clear to what extent the availability of budget and sovereign loan resources, as well as the fiscal impact of the selection of the mode of financing, is studied by the line ministries.
- In the future, as Myanmar develops a multiple-year, consolidated list of national priority infrastructure projects, the government is recommended to conduct a macro-level simulation to understand the rough aggregate funding requirement amount from the private sector (including those in the form of PPP) to fulfill the investment needs, taking into account the projection of budget, inputs from SEEs and sovereign concessional loans available for infrastructure during the same period.

# 3. Functioning PPP Framework

## 3.2 Options and Risk Management of Financing Infrastructure Development

### (2) Financial Structure and Fiscal Support for PPP

- Direct fiscal support that can be offered during the preparation of the PPP include covering the cost for (a) project development, (b) land acquisition, and (c) due diligence.
- Direct fiscal support that can be offered during the construction phase of the PPP include (a) tax incentives and (b) project finance. Viability gap payment based on a pre-determined level and condition to make up for the limited profit or deficit from user fee income could help the private sector mobilize funds for project finance.
- Direct fiscal support that can be offered during the implementation phase of the PPP include (a) revenue support (availability payment, etc.), (b) mechanism to mitigate the risk of off-takers' non-fulfillment of its obligation, and (c) tax incentives.

## (2) Financial Structure and Fiscal Support for PPP (continued)

- In Myanmar, there are no rules for selection of financial structure and duration of private sector engagement in PPP infrastructure projects. Line ministries appear to be making the decisions. There is no established mechanism to provide fiscal support to facilitate the participation of the private sector in infrastructure development at different stages of their engagement. This implies that all cost and risks born by the private sector is basically added onto the demand for payments when investors participate in a PPP scheme.
- As for risks that cannot be addressed by raising the price, such as the risk of the off-taker not fulfilling the payment obligations against the infrastructure services, foreign companies and lenders request for government guarantee as they do in other developing countries.

## (2) Financial Structure and Fiscal Support for PPP (continued)

- Tax incentives for foreign investment for infrastructure PPP and other purposes are complicated, and tax authorities appear to have no clear understanding of the entire picture.
- Going forward, the government needs to start by recognizing that PPP for infrastructure development is not free lunch, and past PPPs implemented based on unregulated, ad-hoc decisions have fiscal consequences, despite the absence of explicit fiscal support mechanisms.
- A comprehensive study to understand the fiscal impact resulting from past decisions to implement infrastructure PPP projects may help raise such awareness by higher authorities in the government. Studying the different types of financial structure (BOT, BTO, JV, etc.) and their suitability to various sectors/sub-sectors, as well as the cost and risks for the private sector in each structure, could be useful to guide future systematic decisions.

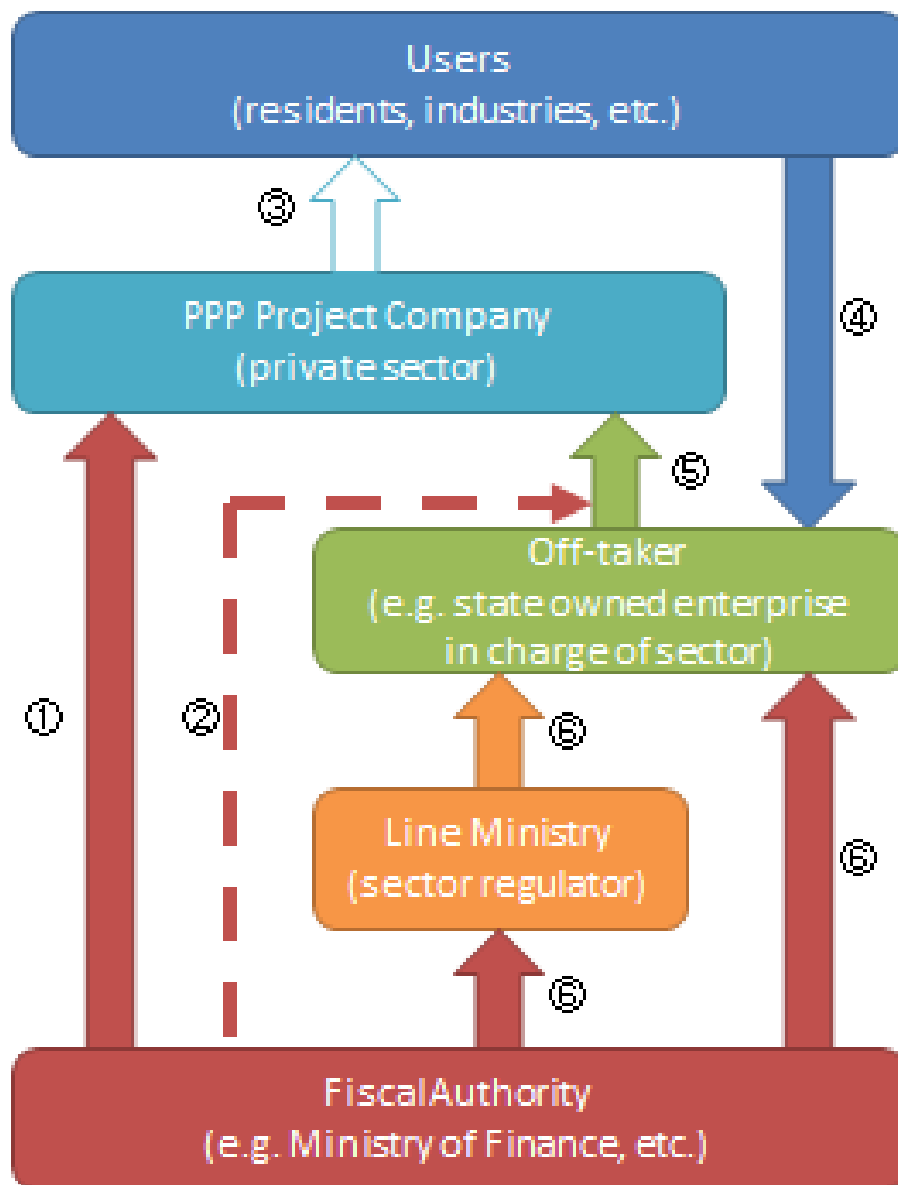
# 3. Functioning PPP Framework

## 3.2 Options and Risk Management of Financing Infrastructure Development

### (3) Risk Management of Infrastructure Finance

- In Myanmar, explicit, implicit and potential government expenditures stemming from PPP transaction for infrastructure development is not clearly recognized by the fiscal authorities. There is no government support mechanism during the preparation and construction phases of the transaction. The Ministry of Finance does not offer government guarantee for payment by off-takers, although an alternative line ministry guarantee has been sought in recent transaction based on international practices.
- As in the case of electric power, there seems to be no systematic analysis regarding the fiscal implication of changing user fee levels, not just for PPP transactions but the sector as a whole.
- Annual budget to the SEEs are decided at an aggregate level, without detailed analysis of the income and expenditure, including PPP transaction.

# Typical Flow of Funds and Services under PPP



① Direct fiscal support by the government during the preparation and construction stages (such as funding F/S, tax incentives)

② Government guarantee of payment obligations by the off-taker

③ Provision of infrastructure services

④ User fee revenue

⑤ Payment to the private sector for infrastructure services

⑥ Budget to the off-taker

### (3) Risk Management of Infrastructure Finance (continued)

- Going forward, it is advisable that the first action required for the government of Myanmar is to establish a mechanism to provide appropriate fiscal support for and to analyze the fiscal implications of implementing infrastructure projects, not just for PPPs but those financed and run by the public sector, by involving the fiscal authorities in the decision making process of user fee levels and monitoring the management of related SEEs.
- It is important to address to the higher authority that simply inviting the private sector does not solve the deficit stemming from the difference between the cost and the revenue, and that raising user fee revenue is a socially and politically sensitive topic similar to tax increase.

# 3. Functioning PPP Framework

## 3.3 Political Commitment, and Regulatory and Institutional Framework for PPP

### (1) Policy Direction

- There is neither clear policy direction nor a single definition for PPP in Myanmar, and therefore, PPP is often misperceived as free lunch, an asset construction without any risk and cost borne by the government.
- In order to avoid such misperception and enhance common understanding of the PPP program, it is suggested to have a single working definition in PPP in the context of Myanmar. Then, the government of Myanmar must consider for what purposes specifically the government needs to promote PPP in infrastructure, followed by identification of the scope of program and guiding principles. In other words, without clear policy direction, it would be difficult to set out program scope and implementing principle.
- At early stages, there will be a lot of trial and error, and the use of PPP program could be limited to economic infrastructure sector with relatively sufficient user fee revenues that make it easier to attract private sector investment, and then gradually be expanded to social sector including health and education.



# 3. Functioning PPP Framework

## 3.3 Political Commitment, and Regulatory and Institutional Framework for PPP

### (2) Legal and Regulatory Framework

- There is neither legislations specific to PPP program nor laws and regulations that clearly define private sector involvement in public infrastructure facilities, although some relevant provisions may be found in Foreign Investment Law of 2012, Myanmar Citizens Investment Law of 2013, and State-owned Enterprise Law of 1989.
- Myanmar will eventually require specific legislation to fully utilize PPP. However, it will take time to prepare and enact the PPP law that sufficiently reflects both international practices and Myanmar context. A tentative alternative is to provide a lighter but explicit basis for the PPP program, such as through regulations and policy papers issued by the President or guidance notes on the details of PPP transactions. The government must clarify for what purposes and how the government intends to promote PPP.

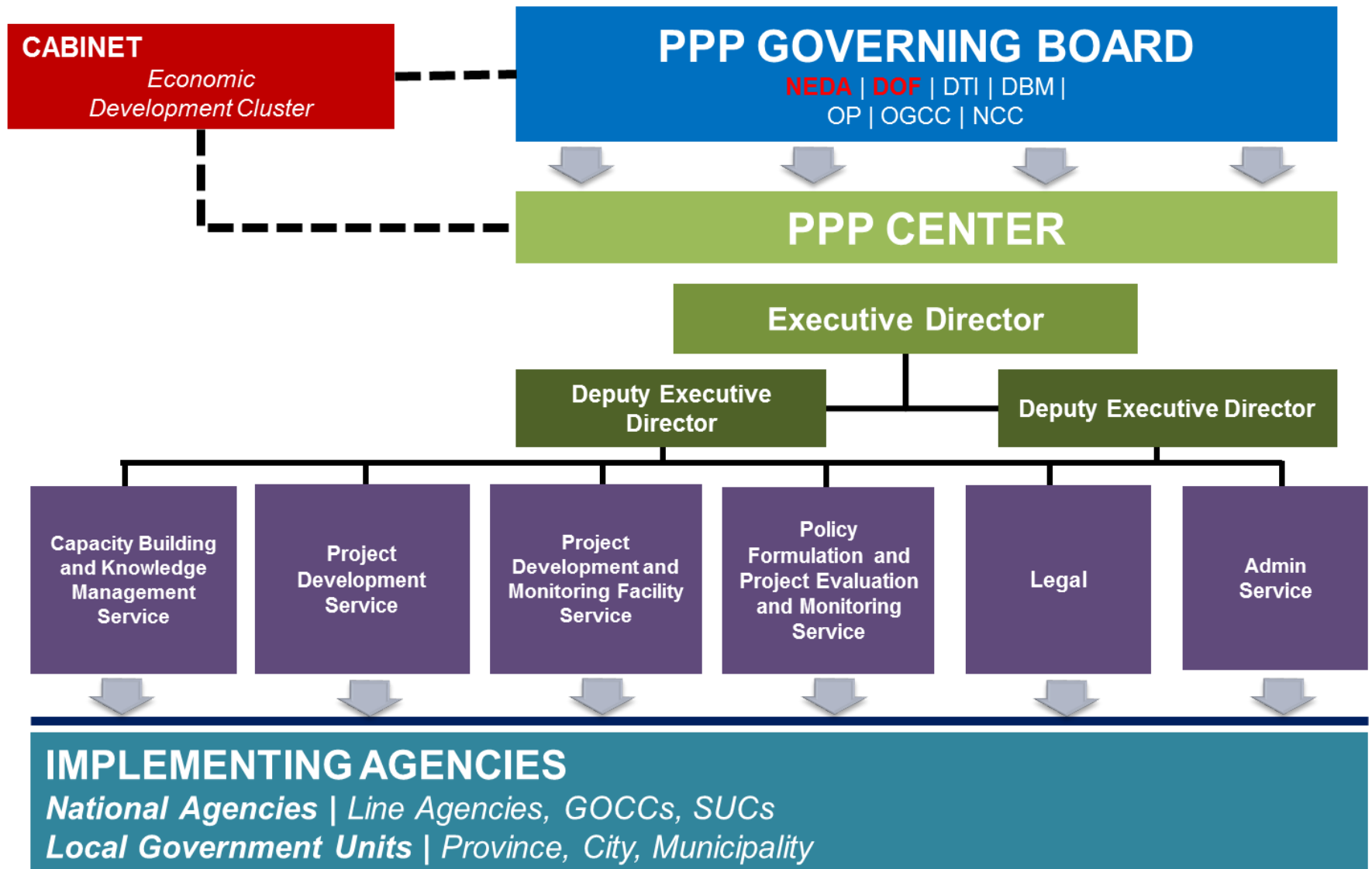
# 3. Functioning PPP Framework

## 3.3 Political Commitment, and Regulatory and Institutional Framework for PPP

### (3) Institutional Framework

- In Myanmar, there is no dedicated PPP unit or agency in the government, whereas the private sector and development partners have been expecting a focal government entity to firstly establish and PPP institutional framework, and eventually serve as streamlined, dedicated organization such as PPP center in the Philippines. It is recognized the role of Ministry of Finance is a key factor for successful PPP program to handle risk management and guarantee issues and establishment of the PPP unit in each line ministry is needed to actually prepare and implement the PPP projects.
- Going forward, Myanmar needs to establish (or realign) government institutions with different roles to enable balanced decision-making on infrastructure finance (such as those that (a) prepare prioritized infrastructure development plans, (b) assess and manage fiscal risks, (c) manage the process of PPP, (d) deliver infrastructure services, and (e) promote domestic and foreign investment).

# PPP Institutional Framework in the Philippines



(Source) The PPP Center (2016)

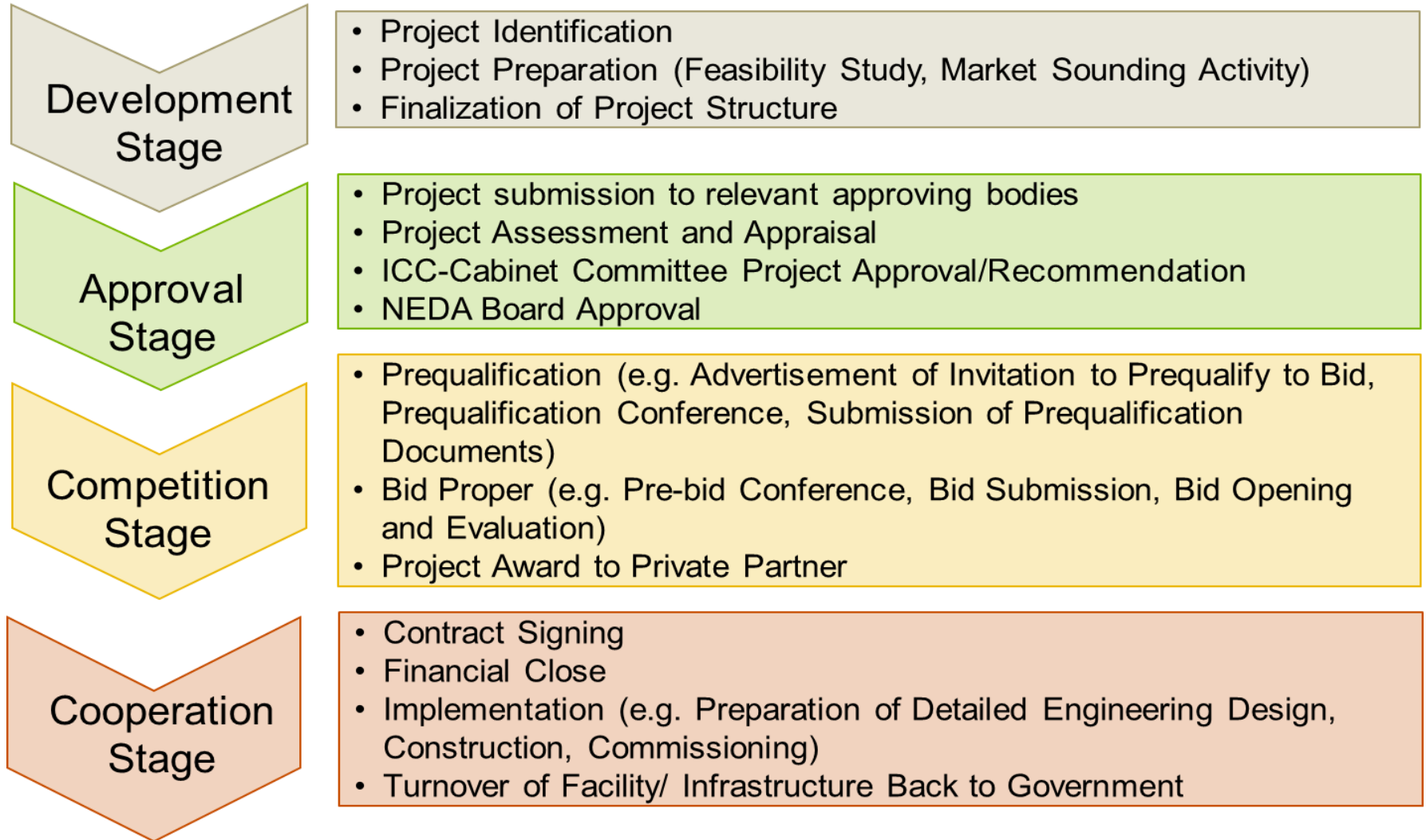
# 3. Functioning PPP Framework

## 3.4 Processing Individual PPP Transactions

### (1) Project Identification and Approval

- Currently, project origination in PPP is on ad-hoc basis, not streamlined. Some projects are selected by the government initiatives or from the sector master plans, and others are unsolicited proposal by private sector. The government has a 5-year National Comprehensive Development Plan (NCDP). However, it does not either include Public Investment Program or have no substantial linkage to sector master plans. Thus, there is no systematic project origination process across government.
- Going forward, the government has to create a systematic and comprehensive planning and decision making process. If the line ministry has developed a sector master plan, the list of project in the plan can be used as a long-list of potential PPP projects, provided that they are scrutinized nationally. The next step is to develop “pre-F/S” for screening purpose. Line ministries probably do not have previous experiences in preparing “pre-F/S” and “F/S” suitable for PPP projects, establishment of guidelines and standardization of formats, in addition to training for concerned staff are needed.
- Unsolicited proposals may not be recommended in the initial stages of PPP framework development to avoid confusion.

# PPP Process in the Philippines



# 3. Functioning PPP Framework

## 3.4 Processing Individual PPP Transactions

### (2) Project Structure and Contract Design

- Appraisal needs to be conducted to justify the project to implement as a PPP project, and it requires criteria to do so. The main questions to be addressed in the criteria are (a) technical and economic feasibility (i.e. cost-benefit justification) of the project, (b) financial (commercial) viability, (c) value for money compared to the traditional procurement, and (d) fiscal responsibility. It also requires assessment of legal grounds and environmental and social sustainability in accordance with the relevant laws and regulations.
- Structuring a PPP project means allocation of risks, rights and responsibilities to each party, and eventually the allocations is to be stipulated in a PPP contract. This process is usually undertaken in parallel with appraisal, since the information obtained the feasibility study, in particular, technical feasibility and economic viability, is a key for structuring the project. In project structure, there are three main elements- (a) risk allocation, (b) type of PPP, and (c) payment mechanism.

# Typical Risks, Allocations, Management Actions and Possible Mitigation Methods

	Name	Allocation		Management Action Required for Government	Possible Mitigation Method (for investor)
		Gov't	Private		
Project design, construction and O&M risks	Land acquisition risk	○		Specify gov't responsibility in PPP/BOT contract. Prompt budget allocation and land acquisition.	Gov't land subsidy. Compensation for delay loss (Gov.)
	Environment/Social risk	○		Specify approval schedule. Prompt Administrative procedure.	Compensation for delay loss (Gov.)
	Technical risk / O&M risk		○		Selection of reliable contractor Design liability guarantee / Performance based payment
	Project Completion risk		○		Selection of reliable EPC contractor EPC performance guarantee in contract
Project finance risks	Sponsor risk	○	○	Strong Commitment for the Investment	Limit ownership changes for initial several years
	Financing risk		○		Prepare solid security package for lender
Market risks	Demand risk	○	(○)	Minimum revenue guarantee / Take-or-Pay Contract (Gov.)	Thorough survey and security of demand
	Off-taker risk (ex. Water Supply / Waste Treatment)	○	○	Prior confirmation of financial situation of the off-takers. Payment guarantee (Gov.)	
	Material risk	(○)	○	(Water Supply Project) Grant of water right throughout the project life / Compensation for unexpected deterioration of quality and quantity of source water	
	Tariff risk	○	(○)	Adopt appropriate tariff level for Private Project Specify tariff formula in contract. Commitment & Guarantee for regular tariff revision.	
	Network risk	○		Specify network scenario on contract. Minimum revenue guarantee (Compensation by Gov. in case network doesn't develop according to original plan)	
Project external risks	FX rate risk	○	○		Indexation to tariff adj. , export revenue portfolio
	Interest rate risk		○		
	Currency conversion	○		Specify conversion conditions and agree with SBV, MOF (100% of conversion)	
	Regulatory risk	○		Specify taxation/reg. regime in contract. Support by special treatment in regulation (ex. Preferential taxation, compensation and exemption from unexpected changes in regulation ).	
	Political risk/Force majeure	○	(○)	Buy-Out and compensation clause in contract	IFI/ECA insurance package

# 3. Functioning PPP Framework

## 3.4 Processing Individual PPP Transactions

### (3) Contractor Selection

- The main goal of transaction stage is to select the private party that will implement the PPP project, and there are several steps to be taken- (a) decide procurement strategy, (b) market the PPP project, (c) qualify bidders, (d) manage the bid process, and (e) achieve the financial close.
- Currently in Myanmar, there is no standard bidding process and documents, and all the process and documents are prepared for specific projects. No information is disclosed referred to clarifications and evaluation of bids to third parties.
- Having standardized bidding documents with PPP contract and applications for government approvals (e.g. guarantee application) creates efficiency and smooth bidding/transaction process and maintain consistency across projects.



# 3. Functioning PPP Framework

## 3.4 Processing Individual PPP Transactions

### (4) Implementing and Managing Project and Contract

- Implementing and managing project and contract involves monitoring and enforcing the project to fulfill the requirement defined in the PPP contract and managing relationship between public and private parties. Given the nature of PPP contracts, in the long term and with uncertainties, the main objectives of contract management is (a) to maintain a high standard of services delivered, (b) to maintain contractual responsibilities and risk allocations in practice, and (c) to act effectively in response to charges in external environment.
- Dispute resolution mechanism should be included in the PPP contracts. Quick actions, having teams with right skills and appropriate level of decision-making authority, following the process specified in the contract are the key for minimizing the cost of disputes.
- The final task in PPP contract management is to handover of the assets and operation at the end of the contract them. This procedure should be clearly specified in the contract including asset assessment, payment, handover requirement.

## 3. Functioning PPP Framework

### 3.5 Information Management and Ex-Post Evaluations / Audits

#### (1) Information Management: Stocktaking of PPP Transactions

- Information management system or database is needed to monitor PPP projects in accordance with required service standard. The system should be located in coordinating/controlling bodies (e.g. PPP unit) and/or implementing agencies that actually input data and information.

#### (2) Ex-Post Evaluations / Audits

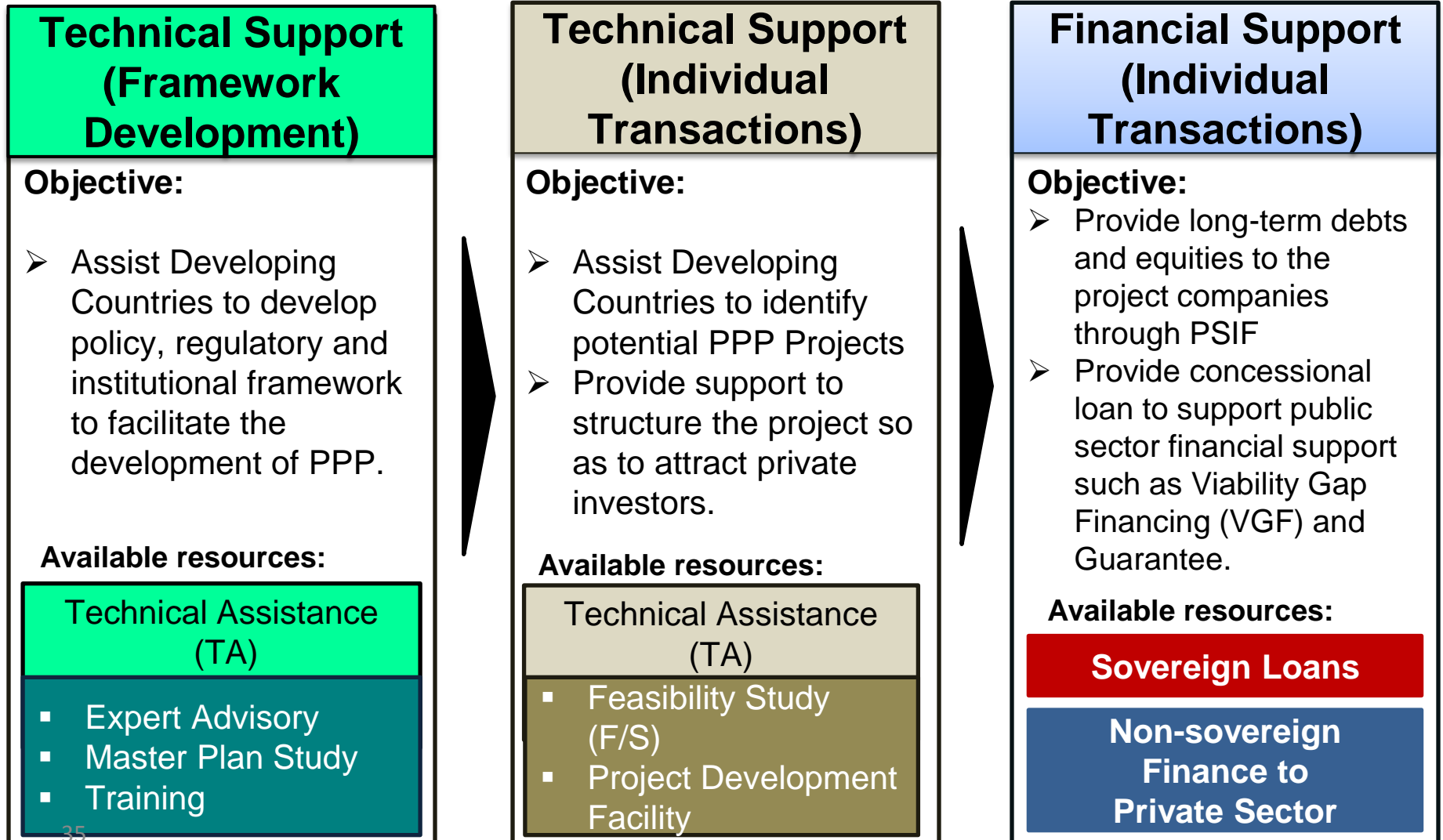
- The International Organization of Supreme Audit Institutions (INTOSAI) suggested that audit entities review PPP projects soon after transaction and carry out further review over the project period.

#### (3) Oversight

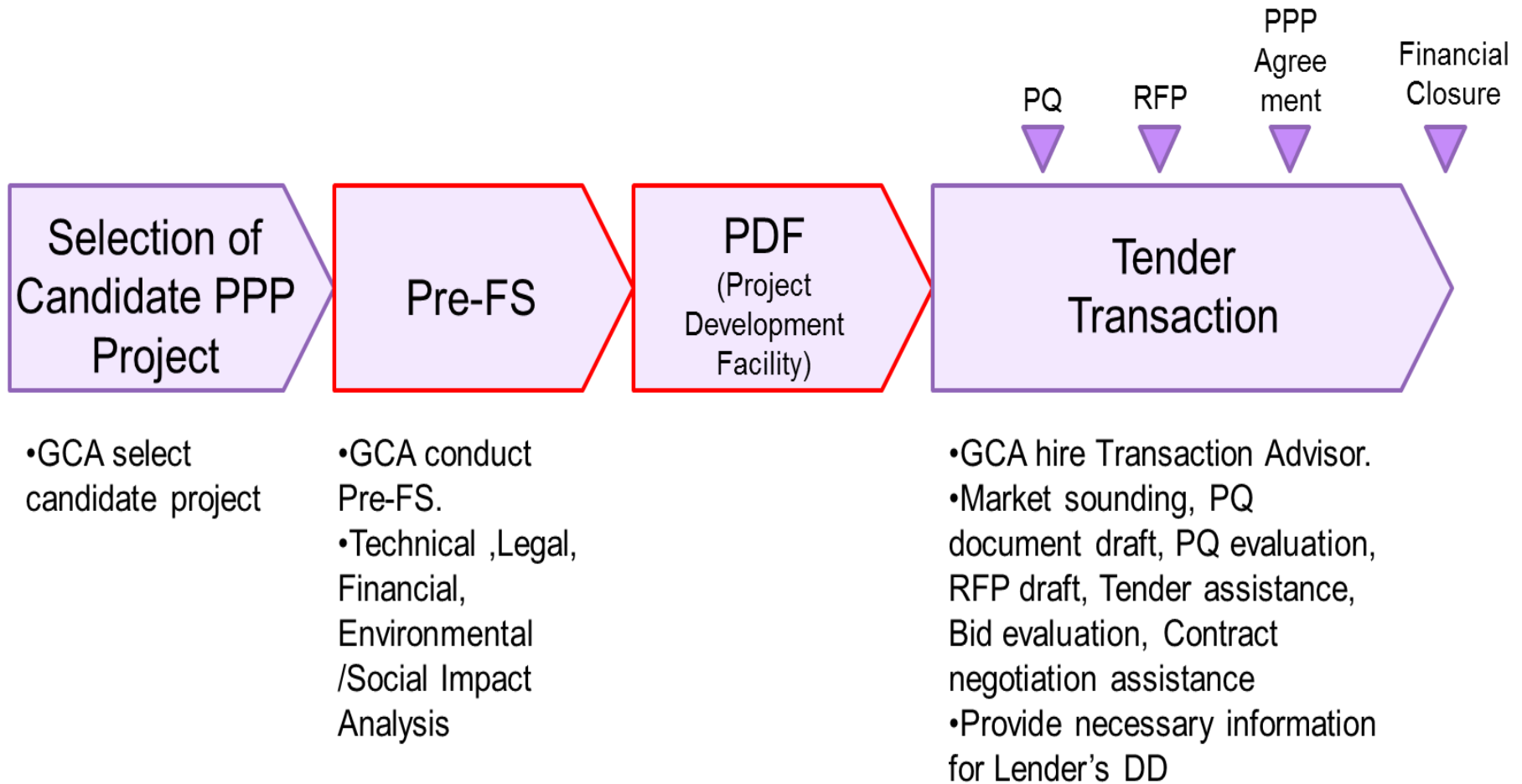
- Role of the legislature is to define PPP framework by legislation and the limitations to commitments. The legislature also receives and reviews related report to PPP program including budget documents and financial documents. In some countries, the legislature approval is required for PPP projects.

# 3. Functioning PPP Framework

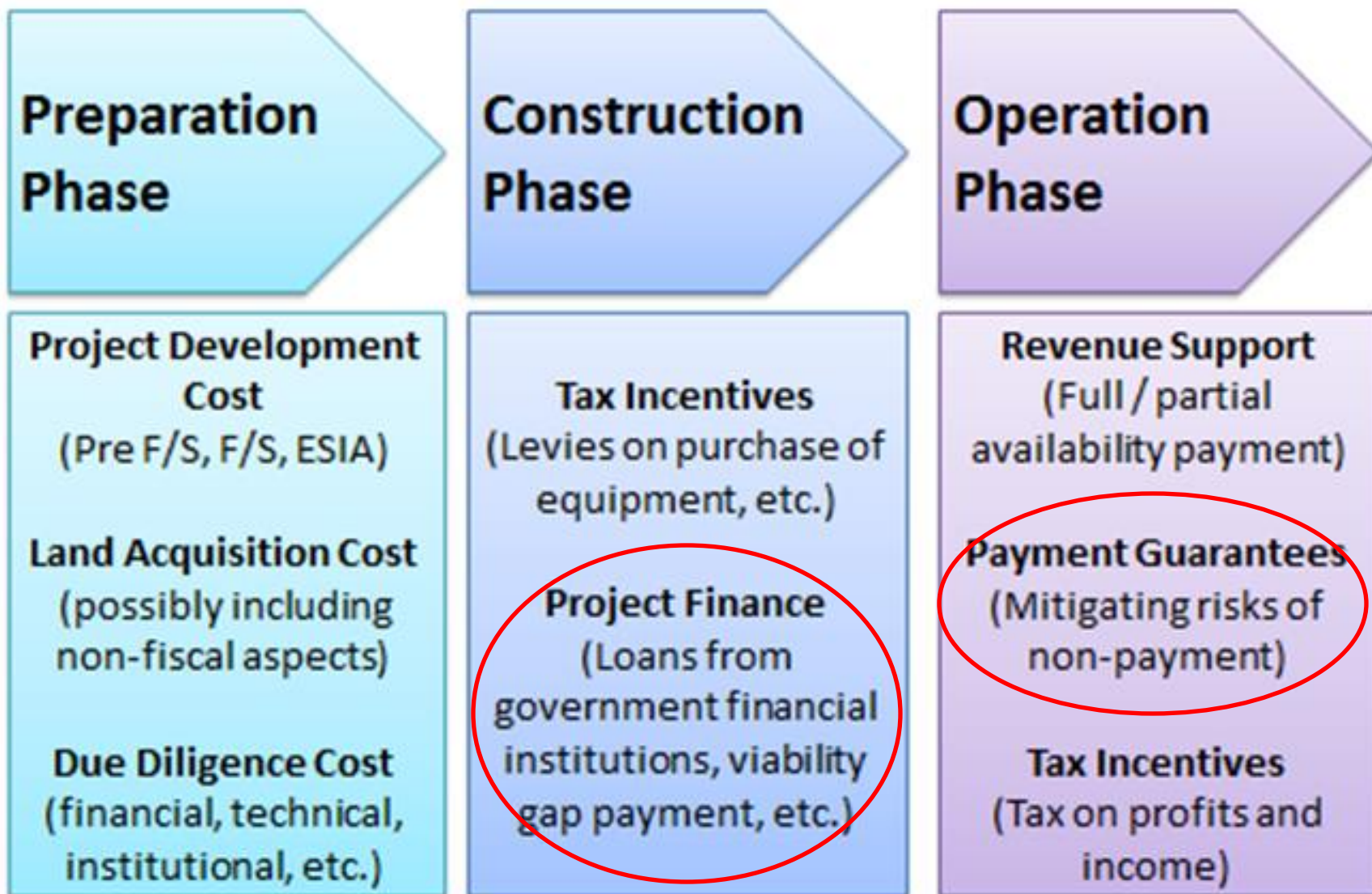
## 3.6 Support from Development Partners



# Points of Entry for Technical Support by Development Partners for Individual Transactions



# Examples of Financial Support by Development Partners for Possible Fiscal Support to Individual Transactions



# Contingent Credit Enhancement Facility for PPP Infrastructure Development (JICA ODA Loan CCEF-PPP)

## (1) Case 1:

Responding to requests from the off-taker to provide short-term financial support

## (2) Case 2:

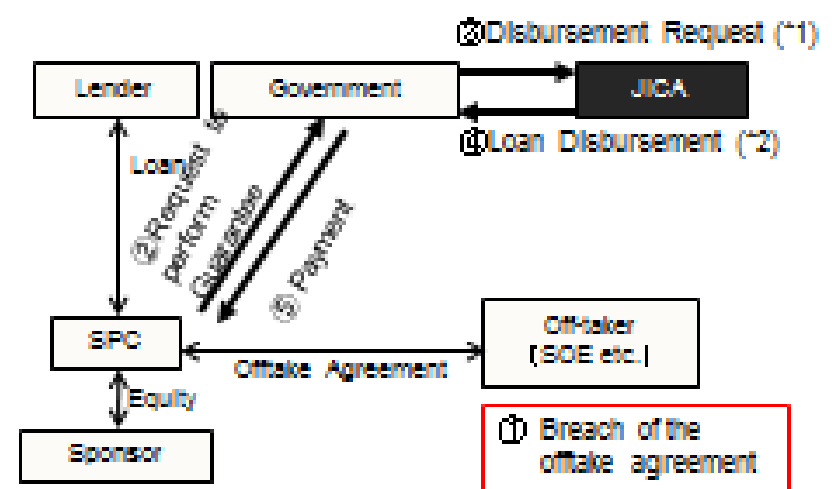
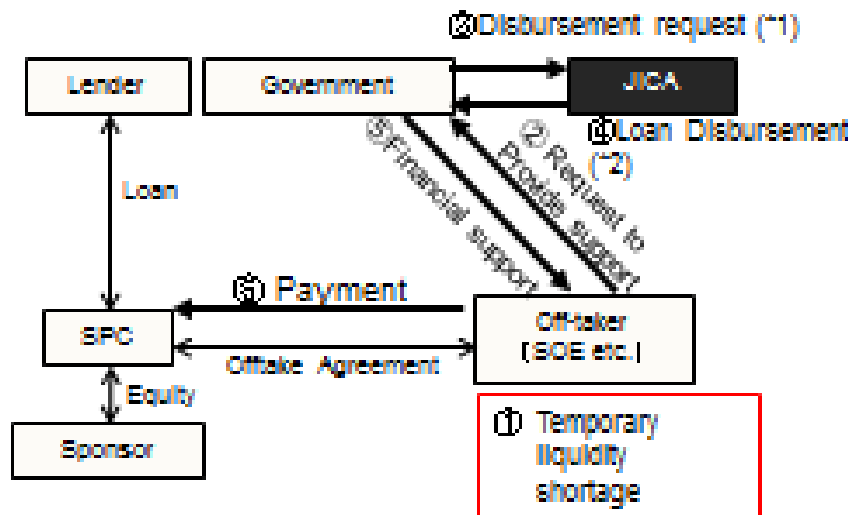
Responding to requests from the project company to perform guarantee obligation

(Assumed cause)

The off-taker faces a US dollar liquidity crunch due to sudden depreciation of local currency and is unlikely to make a payment to the SPC.

(Assumed cause)

The SPC did not receive payment from the off-taker by the due date because of the off-taker's inability to perform the off-take agreement.

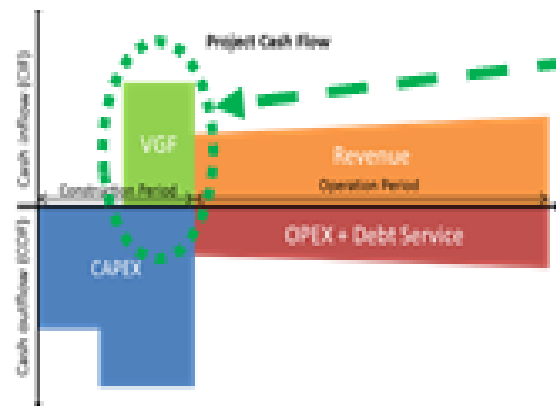
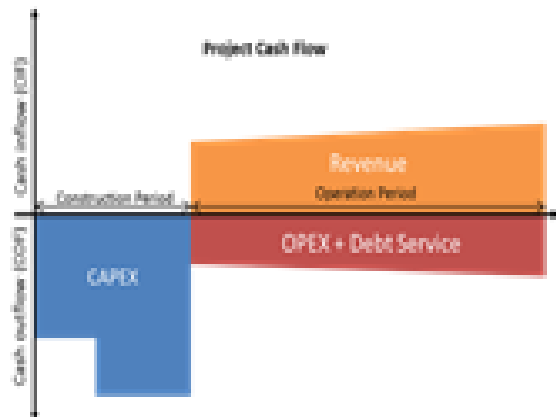


(\*1) Upon receiving disbursement request from the government, JICA will review the eligibility of such request.

(\*2) Amount to be disbursed will be partial (e.g. 95%) of the requested amount.

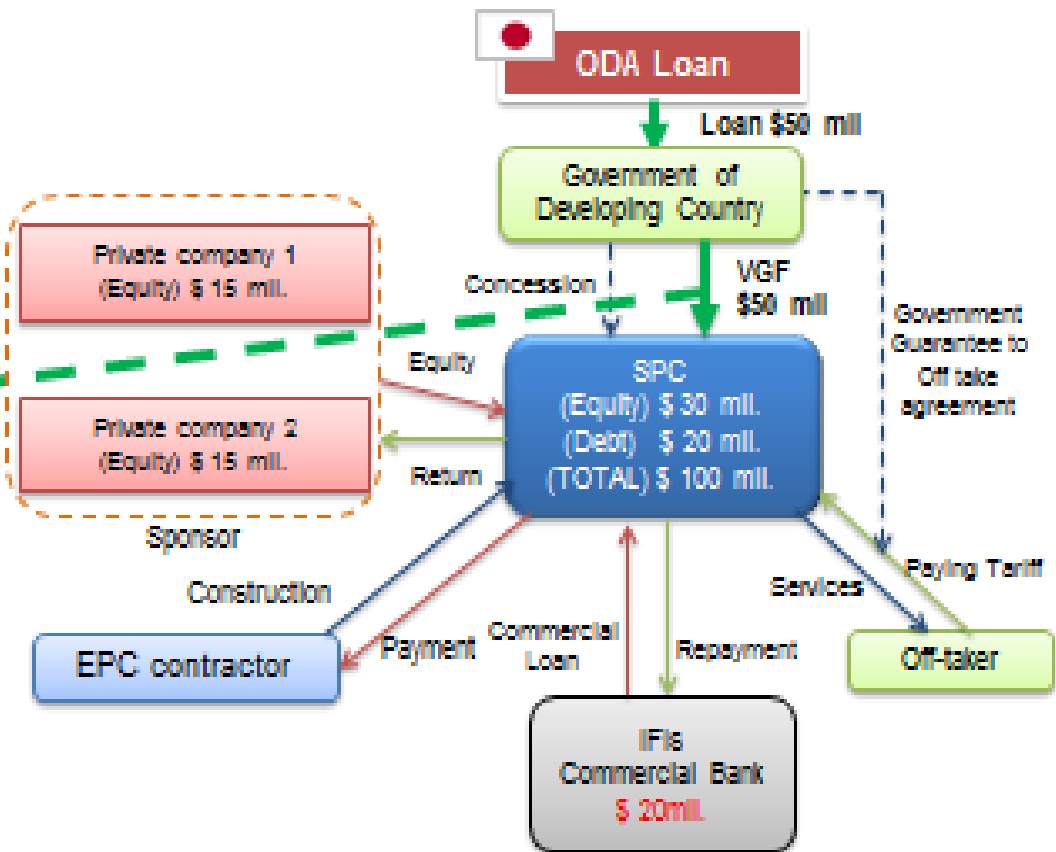
# Viability Gap Funding

A hypothetical case study of comparing total funding cost of ordinary ODA Loans with that of VGF



PPP project  
(Viability Gap Finance)

Project cost: \$100 mil  
Loan amount: \$ 50 mil



## 4. Conclusions and Recommendations

- Despite having experiences in engaging with the private sector in areas like electric power and transport (although not necessarily the best practices and not so transparent), and recent efforts to learn from international experiences, generally speaking, Myanmar still lacks most of the elements required for a functioning framework of PPP for infrastructure development.
- While it is highly improbable for Myanmar to be able to possess the full range of required elements in an instant, and also quite challenging to draw a realistic roadmap in the medium- to long-term due to the rapidly changing circumstances, some key initial steps that would serve as the cornerstone of future PPP framework for infrastructure development in Myanmar can be recommended based on the past mistakes and successes in peer ASEAN countries.



## Pillar 1

Consolidated  
and  
Prioritized  
Infrastructure  
Development  
Plan

#1 Myanmar needs to develop a **multiple-year, consolidated and prioritized infrastructure investment plan (cross-sector, cross-ministry project list)** consistent with national development strategies and medium-term fiscal framework, including those financed by both public funds and private funds (such as PPPs). Unsolicited proposals may not be recommended in the initial stages of PPP framework development to avoid confusion.

## Pillar 2

Options and  
Risk  
Management  
for Financing  
Infrastructure  
Development

#2 Based on a multiple-year, consolidated list of national priority infrastructure projects, the government of Myanmar is recommended to conduct a **macro-level simulation to understand the rough aggregate funding requirement amount** from (a) the private sector (including those in the form of PPP) to fulfill the investment needs, taking into account the projection of other source of funds including (b) Union and State/Region budget, (c) inputs from state economic enterprises (SEEs), and (d) sovereign concessional loans available for infrastructure during the same period.

#3 It is advisable that the government of Myanmar establish a **mechanism to provide appropriate fiscal support for and analyze the fiscal implications of implementing infrastructure projects**, not just for PPPs but also for those financed and run by the public sector, by involving the fiscal authorities in the decision making process of user fee levels and in the monitoring and management of concerned SEEs.

### Pillar 3

Political  
Commitment,  
and  
Regulatory  
and  
Institutional  
Framework  
for PPP

#4 Myanmar will eventually require specific legislation to fully utilize PPP. However, it will take time to prepare and enact the PPP law that sufficiently reflects both international practices and Myanmar context. A **tentative alternative is to provide a lighter but explicit basis for the PPP program, such as through regulations and policy papers issued by the President or guidance notes on the details of PPP transactions.** The government must clarify for what purposes and how the government intends to promote PPP.

#5 Myanmar needs to **establish (or realign) government institutions with different roles to enable balanced decision-making on infrastructure finance** (such as those that (a) prepare prioritized infrastructure development plans, (b) assess and manage fiscal risks, (c) manage the process of PPP, (d) deliver infrastructure services, and (e) promote domestic and foreign investment).

#### Pillar 4

Processing  
Individual  
PPP  
Transactions

#6 Based on efforts to improve and integrate national development planning and fiscal management, **a uniform screening, appraisal and management process for all infrastructure investment projects including both public investment and private sector-led Initiatives (including those in the form of PPPs) should be established.** Guidelines for key documents required for such integrated process, such as pre-feasibility studies (Pre-F/S), F/S, environmental and social impact assessment (ESIA), etc., will facilitate its operationalization. Land issues and available options to solve land issues need special attention of the government and should be clarified in detail in relevant laws and regulations.

#7 Tentative rules to clarify a **single, standard bidding process and templates for key transaction documents (such as power purchase agreement (PPA), performance guarantee document, etc.) would be required** to streamline the transactions under PPP.

### Pillar 5

Information  
Management,  
Ex-post  
Evaluations /  
Audits  
and  
Oversight

#8 A comprehensive **study to understand the fiscal impact resulting from decisions to implement on-going and past infrastructure PPP projects may help raise awareness of the higher authorities in the government about the significance of making such decisions.** Studying the different types of financial structure (Build-Operate-Transfer (BOT), Build-Transfer-Operate (BTO), Joint Venture (JV), etc.) and their suitability to various sectors / sub-sectors, as well as the cost and risks for the private sector in each structure, could be useful to guide future systematic decisions.

### Pillar 6

Support  
from  
Development  
Partners

#9 While learning-by-doing approach appears to be more realistic in the near term, technical and financial **support offered by development partners, particularly those related to individual PPP transactions, should be aligned to the efforts by the government to formulate a single framework** and a unified set of rules for PPP, rather than a one-off support.

#10 In view of the limited capacity and tremendous amount of work required to pave the way for a complete set of functioning PPP framework, **gradual mobilization of larger private sector resources is realistic, starting from a few pilot cases with transparent competitive process** with strong support from development partners. In the interim, Myanmar **should actively seek highly concessional financing from development partners based on careful assessment of debt sustainability** to fulfill the enormous and urgent need for infrastructure development.