

Experience of Financing PPPs in KZ

**PPP DEVELOPMENT
CENTER**

November 2, 2016

- I. Introduction
- II. Role of Kazakhstan PPP Center
- III. History of PPPs in Kazakhstan
- IV. Profile of current stock of projects with PPP in Kazakhstan
- V. Case Study –Risk, Stress and Failure
 - a. PPP projects in the world – observations
 - b. Factors that affect negatively
 - c. Factors that influence project outcomes
 - d. Other factors – common features
- VI. Conclusion, summary of lessons learned

ABOUT KAZAKHSTAN PPP CENTER

Established in July 17, 2008

Sole shareholder is Ministry of
National Economy of the
Republic of Kazakhstan



Leading Infrastructure Think-Tank for the Government
Significant Experience and Knowledge in the Analysis of Concession and Budget Projects
Recognition from the IFC, EBRD, Legal Firms and other Investors

OUR SERVICES

Expertise & Valuation

Expertise and valuation
of PPP and budget
funded projects for the
Government

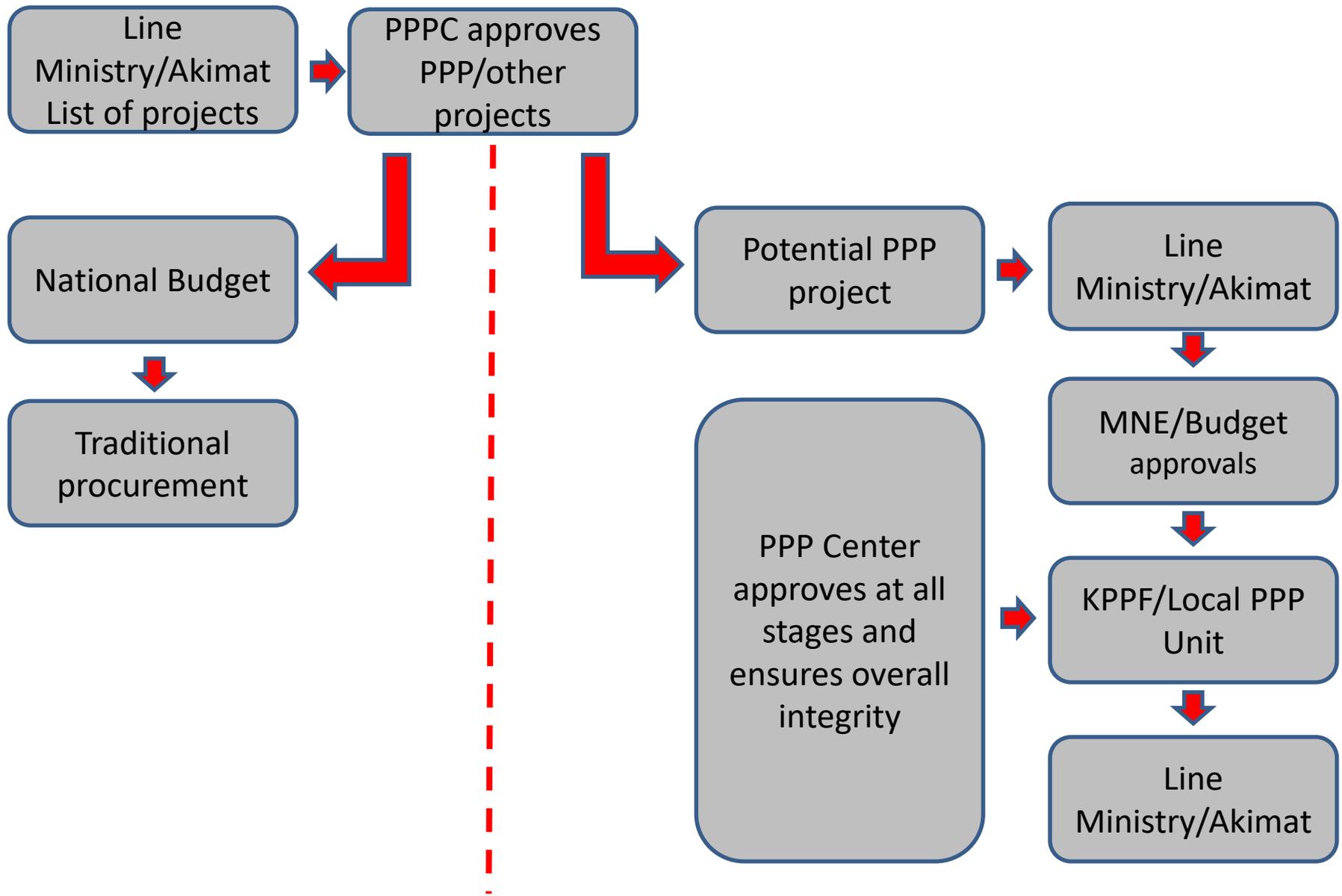
Research & Analysis

Research on PPPs,
legislation and project
implementation issues

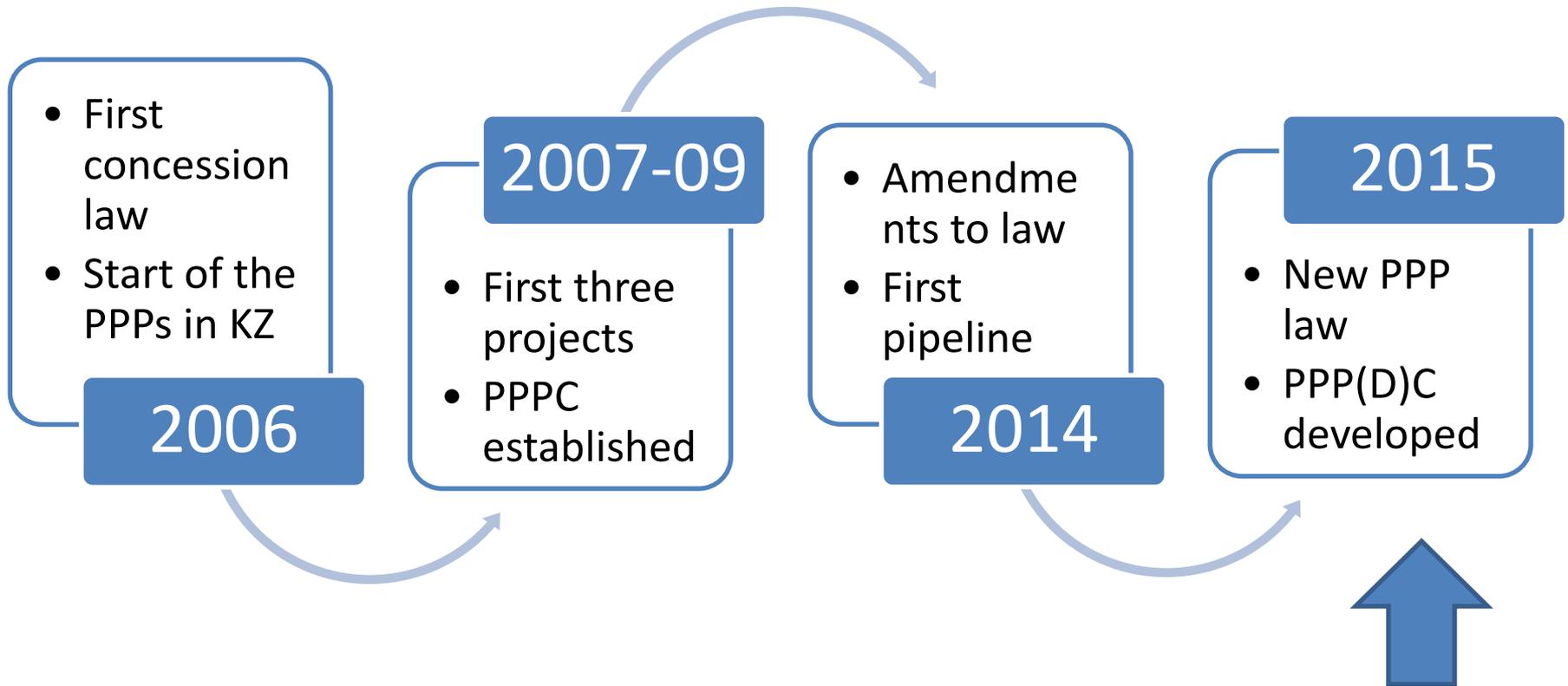
Methodology & Consulting

Methodological and
consulting assistance for
the projects

Role of Kazakhstan PPP Center



History of PPPs in Kazakhstan



Meanwhile 11 contracts signed for PPP kindergartens in 2015
In 2016 there were 6 contracts for kindergartens, ambulance, sports center signed

Total projects in the “pipeline” – **270 projects** in Education, Healthcare, Transport, Sports&Leisure, Construction, Housing, Utilities, Renewables, Agriculture, Logistics, Telecom, IT, Urban development, etc. – **TOTAL of \$ 3bln**

Majority of these projects are aimed at **local investors and companies**. A good option for emerging PPP destination with capable local contractors. However...

Projects of \$100 mln and more that can attract top-contractors and PPP:

1. High-speed internet access for rural areas – approx. \$200mln
2. Light Rail transit in Almaty – approx. \$ 300mln
3. Asfendiyarov Medical university project in Almaty – approx. \$100mln
4. Almaty railway bypass – approx. \$200mln
5. Shymkent bypass toll road – approx. \$ 150mln
6. Desalination plant in Manghystau region – approx. \$200-250mln

Why healthcare PPPs might fail in emerging countries – KZ case

Two big projects were announced in 2014 to help cope with East Kazakhstan's needs for new and innovative healthcare facilities – one for children only and a general hospital.

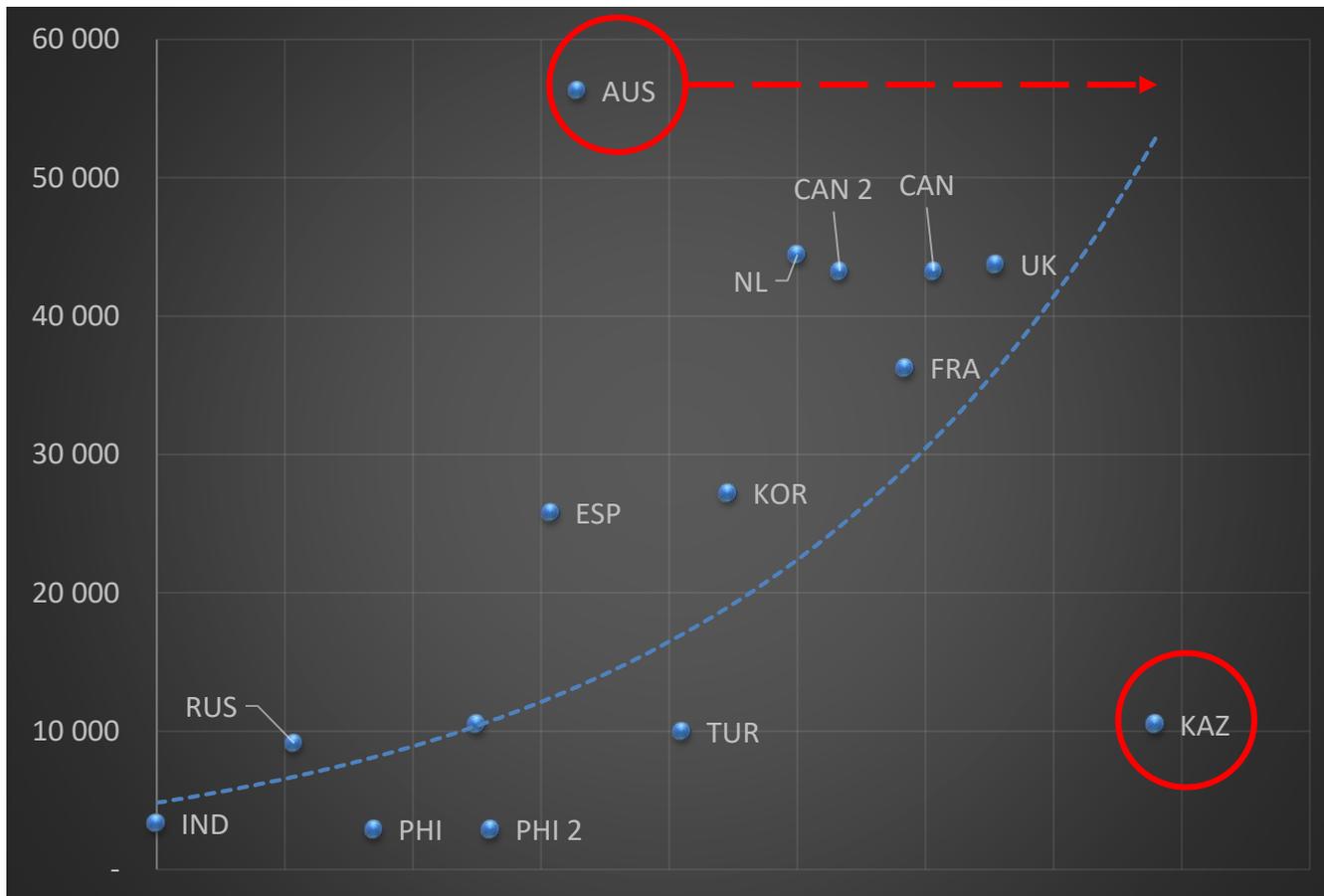
At the time (2014): construction needs valuation was \$55 and \$70 mln accordingly.

Projects were tendered in August 2015 amid 70% devaluation of the national currency.

Tenders did not close eventually. So what went wrong?

PPP projects worldwide

GDP (p.c.) and PPPs by type* (<http://infrappworld.com> data)



Some thoughts:
As GDP grows, countries do more Social & Health PPPs

Lower GDP countries do infra PPPs to foster growth.

AUS: more transport projects due to the territory

KAZ: more (planned) Social & Health than could be predicted by a regression line

Important notice: outcomes apply to state level projects. Municipalities still should find the balance between S&H and infra PPPs

* - CAN 2 and PHI 2 are based on domestic data (Canada PPP Council and PPP Philippines Center accordingly). No significant change observed

Negative factors

1. Incorrect capital needs valuation (in any currency) – outdated.
2. No hard currency risk coverage provided. Devaluation “killed” the project.
3. Project is a local with certain restrictions for the project sponsors in terms of state support.
4. More than a year from a tender announcement to an actual tender.
5. Private party feedback was not taken into consideration in full

Factors that influence projects

1. Confusing approval and development scheme – too many players.
2. Change of law – new PPP law introduced in November 2015 but announced in full details before the tender.
3. Overoptimistic expectations regarding the private party equity share and interest to the project.
4. Excessive (in the view of international investors and PPP companies) regulation of the construction price estimates by the state.
5. Business model chosen is BTO with a demand risk – already hard even for developed markets

Other common factors

1. Local PPP institutions lack capacity and coordination. Checks and balances didn't work out properly.
2. Changes in regional authorities influenced project timeline.
3. Low profile – projects were not widely marketed/tested. Projects were linked to few sponsors.
4. Let's do it our own way – rejecting best practices is not always proper. They can be useful.
5. There were additional projects in the same region competing for attention.

Conclusion, summary of lessons learned

1. Some factors can be changed, some not. It needs to be understood beforehand.
2. Big name advisors and other “signs” of the best practices might not work without institutions.
3. Lenders are all the same around the world – unless you create your own. Soft currency issues exist.
4. Overoptimistic expectations and “investment-grade ratings” don’t help close projects.
5. Communications are vital. So are people. Project champion is as important as other members and other teams. Capacity building can help.