Is public-private partnership a solution to the infrastructure backwardness of Tajikistan?

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Tajikistan: GDP per capita growth (%)



Inflow of remittances and national poverty rate in Tajikistan



Economic vulnerability remains

- UNCTAD (2016) Tajikistan is vulnerable to external shocks due to its heavy reliance on aluminium, cotton and remittances. The economy is characterized by low competitiveness and limited private sector development.
- IMF (2015) rising budget deficits and a chronic savings—investment gap have further increased the country's dependence on external sources of finance (official development assistance, loans and remittances).
- In late 2016, the Tajik government had to bail out some of the country's largest banks by injecting almost \$500 million to prevent a full-scale financial crisis and run on domestic banks.

Need for infrastructure investment

- Tajikistan is a landlocked country, but is also heavily dependent on Northern route for trade and transit
- After independence, country's infrastructure steadily deteriorated due to the civil war, and lack of adequate maintenance. Poor quality and scale of obsolete infrastructure are thought to be restricting Tajikistan's economic and social development.
- In 2017, World Bank's Logistics performance index estimated the quality of trade and transport-related infrastructure in Tajikistan at 2.1 (on a scale of 1 to 5, where 1=lowest and 5=highest), an extremely low ranking. Likewise, Tajikistan scored poorly on the quality of overall infrastructure in the World Economic Forum's Global Competitiveness Index 2017/18 (3.3 out of 7).

Cost of infrastructure investments

- The 2016-2030 National Development Strategy (NDS) and 2016-2020 Mid-Term Economic Development Strategy emphasize the importance of investment as a driver of growth.
- NDS requires US\$118 billion for full implementation over 15 years , amounting to 16.5 times of the current GDP and 54.5 times of current gross investments.
- The construction of the 3,600 MW Rogun Hydropower Plant ("HPP") at the cost of \$4 bln is the de facto centerpiece of the Strategy.
- In June 2018, the Ministry of Transport of Tajikistan unveiled its ambitious plan to build and renovate about 30 road projects at the cost of \$2.7 bln. The most expensive project in the list of promising road projects is the project "Rehabilitation of Khorog-Kulma section of Dushanbe-Kulma highway" (395 km) at the cost of 568 million USD.
- Given the vast needs for infrastructure investment, the question is if PPP can become a viable alternative to budget-financed and debt-financed schemes?

Challenges of PPP in infrastructure finance in Tajikistan

- Limited absorption capacity
- Limited institutional and regulatory capacity
- Dichotomy between profitability and social ends
- High political risks in the medium- and long-term
- Urbanisation vs. rural development dilemma
- Regional infrastructure linkages
- Environmental protection
- Funding challenge

Legal acts adopted for the PPP development



Institutional structure of PPPs in Tajikistan



Methodology of this study

- Case study approach compare two early PPP projects (Pamir Energy and Dushanbe-Chanak toll road projects) on a range of criteria, such as:
- ✓ Transparency and communication
- ✓ Innovative financing schemes
- ✓ Local capacity building
- ✓ Proper risk allocation
- ✓ Economic viability
- ✓ Social considerations

More about case studies

- Pamir Energy and Dushanbe-Chanak toll road examples of the PPP in two of the most needed sectors – power and transportation industries
- They seem to be coming from two different approaches to PPP – one is widely considered as a success story (Pamir Energy) and the other as a project (Dushanbe-Chanak road) wrapped in murky deals by the people in power
- The picture may not be so black-and-white, and our goal is to find out this

New Infrastructure Business Model: the Case of the Pamir Power Project, Tajikistan

- Poverty Focused Diagnostics
- Innovative Financing Arrangement
 - Blending of Concessional with non-Concessional Financing (loan and equity financing)
 - Joint World Bank Group Project (IDA/IFC)
- Involves Subsidies for Usage Charges to Households
- Ensures Cost Recovery But at a Reasonable Pace

Pamir Power Project: Key Features



- Despite its high risk, the project is a model of collaboration between private and public partners, between IFC and IDA and between the World Bank Group and donors.
- Innovative solution providing affordable energy to low-income region while ensuring a commercial return to private investors.
- Zero cost to Government to meet its social protection obligations.

Dushanbe-Chanak highway

- In 2010, the Government of Tajikistan revealed that it planned to raise \$20 mln annually to repay the \$280 mln loan.
- While going from end to end costs roughly \$12 US Dollars for regular 2 axle vehicles, it can top to \$100 for semitrucks.
- This is the only toll road in the entire Central Asia with about 5 cars going through each toll plaza every minute in every direction.

Type of Model	Description	Level of	Asset	Most common
		risk for	Ownership	sector in
		private		developing
		sector		countries
Service contract	Contract for infrastructure support services	Low	Public	-Utilities
	such as billing			-Railway services
Management	Contract for management of a part/whole of the	Low/	Public	-Utilities
contract	operations	medium		
Lease contract	Contract for management of operations and	Medium	Public/	-Water sector
	specific		private	
Build-operate-	Contract for investment in and operation of a	High	Public/	-Energy sector
transfer contract	specific component of the infrastructure service		private	-Highways
				-Sanitations/
				desalination plants
Concession	Contract for financing and operations and	High	Public/	-Airports/
	execution of specific investments		private	ports/rail
				-Energy networks
Divestiture/	Contract of transfer of ownership of public	Complete	Private	-Telecoms
privatization	infrastructure to the private sector			

Transparency in awarding concession and communication

Dushanbe – Chanak Tollroad

In 2010, the Government of Tajikistan awarded the implementation, management and maintenance of the road from Dushanbe to Chanak (Sughd) to a private-sector company, Innovative Road Solutions (IRS) (registered in the British Virgin Islands) . Reportedly, no tender was held for the contract to operate the toll road. According to the reports, the government gave concessions to the IRS and that control of the highway would be returned to the government after about 30 years.

The project was awarded without tender in accordance with the 1997 version of the Law on Concessions.

The decision was communicated to the public after the fact and accompanied with insufficient public relations work among the population affected by it. The company is secretive in disclosing information to the public concerning its revenues, expenses, and profits.

Pamir Energy

Aga Khan Fund for Economic Development (AKFED) founded Pamir Energy in 2002, which took over power generation, transmission and distribution assets in Gorno-Badakhshan autonomous region on 25 year concession terms. Pamir Energy entered into a public-private partnership with the Government of Tajikistan, under which it has an exclusive concession to supply power to the whole region until 2027. The project was awarded without tender in accordance with the Law on Concessions. The decision was explained well to the public and all important documents were made public. The initial investment for the project was \$26 mln, but it grew over the last 15 years to \$53 mln.

Innovative financing schemes

Dushanbe – Chanak Tollroad	Pamir Energy
Initial project cost - \$296 mln	Initial project cost - \$26.4 mil.
Loan from Chinese Government - \$280 mln	Final construction cost - \$31.35 vky
Repayment period – 30 years	Equity investors:
Revenue generated – unknown	AKFED - \$ 8.2 mil.
Maintenance expenses – unknown	IFC - \$ 3.5 mil.
How much revenue is directed to repay principal and	Debt-providers:
interest - unknown	IFC – \$ 4.5 mil.
	IDA - \$ 11.17 mil.
	Grants:
	Switzerland Government - \$ 5 mil. for subsidizing
	households' electricity fees
	Concession period - 25 years

Local capacity building

Dushanbe – Chanak Tollroad

IRS has trained and improved capacity of road construction specialists, miniasphalt producing plants, modern road machinery to maintain the Dushanbe-Chanak road in a proper condition and ensure safe and uninterrupted traffic yearlong.

Pamir Energy

Pamir energy relied on local insight and building on local capacity to bring electricity to the area. Working in very harsh climate and difficult elevated terrain, in remote areas, posed additional transportation and logistics challenges. The company also learned from natural hazards, especially the devastating floods in 2007, to take into account disaster risks and mitigate their impact.

Risk allocation

Pamir Energy		
Due to the mixture of financing schemes		
(loans + equity), the risk is diversified		
among shareholders. However, ultimate		
risks rest with the private contractor –		
Pamir Energy.		

Economic viability

Dushanbe – Chanak Tollroad

There is no publicly available data that shows financial viability of the project. The fact that there is no alternative to the Dushanbe-Chanak tollroad complicates assessment of economic validity of this project. It is reported that IRS is exempt from all taxes and customs duties with the exception of payroll taxes in order to keep the toll rates down. But monopolistic nature of the company will inevitably lead to perverse incentives for the company and setting toll rates at much higher rates than socially optimal level.

Pamir Energy

Power generation increased from 135 000 MWh/year in 2002 to 200 000 MWh/year in 2014 and 167 932 MWh/year in 2015. Total losses in the transmission and distribution network reduced from 39% in 2006 to 19.9% in 2010 and 13.38% in 2015 (Administration of GBAO region, 2015). 96% of residents now have electricity for 22-24 hours per day in winter. Electricity sales increased from 119 000 MWh/year in 2003 to 167 932 MWh/year in 2015. The rest is exported to Northern Afghanistan. The collection rate jumped from 40% in 2002 to

100% in 2015.

Social considerations

Dushanbe – Chanak Tollroad

IRS has repeatedly been accused for charging excessive toll rates irrespective of the income level of users. In April 2010, when the tolls were introduced, residents of the village of Khushyori in the Varzob district north of the capital Dushanbe staged a demonstration demanding that people living near the capital city be exempted from the tolls. Many people commute to Dushanbe daily and come to the capital to do shopping for necessities.

It has been reported that many people have been cut from intra-regional trade due to the toll rates. IRS does not offer discounted tickets to the poor and the vulnerable.

Pamir Energy

\$5 mln from the Swiss Grant Fund and USD 4 million generated from interest rate spread (the interest rate gap between IDA credit to the GoT and GoT on-lent to Pamir Energy) were provided to the project company to support the affordability of electricity tariffs for the poor households. It allowed to provide a subsidy to consumers based on consumption level: residents who consume less electricity pay a low tariff, but residents who have high bills pay a higher tariff. According to Pamir Energy Company (2016), in 2016 the average tariff level was 3.25 US cents; but the tariff for residential consumers was 2.75 US cents and that for nonresident consumers is 5.16 US cents.

Overall conclusions

- Both PPP projects have been awarded by the GoT without formal bidding process, but their mission (raison d'etre) was different
- Pamir Energy embraced transparency and accountability in terms of financial reporting, while Innovative Road Solutions has become a closed company
- In the case of the Dushanbe-Chanak tollroad, the risk associate with the original loan repayment stayed with the GoT, while in the case of Pamir Energy majority of risks is transferred to the private operator
- Both PPP projects have contributed to the local capacity building and economically benefited the local population
- Pamir Energy was additionally supported by the international donors and GoT to provide subsidized tariffs to population through lower overall tariffs and use of lifeline tariffs structure. On the other hand, IRS has mainly ignored social responsibility towards the poor and vulnerable.
- Both models of PPP have shown their resilience as they have weathered natural disasters and delivered services to the target audience.

Policy recommendations

- Simplify processes used at identification, bidding, contract negotiation, implementation, and monitoring and evaluation stages of PPP projects
- Introduce changes to the laws and regulations governing PPP projects and explicitly specify cases when the authorities can deviate from the competitive processes
- Disband PPP Council and delegate its functions to PPP Center. This will take out one additional layer of bureaucracy from the decision-making process
- Increase accountability of PPP projects and introduce corruption preventive measures such as openness and transparency in the government decision-making
- Do functional review of the business processes in the Government to eradicate conflicts of interest, nepotism and corruption. and policy recommendations
- Introduce proper monitoring and evaluation schemes to assess the PPP projects against efficiency, effectiveness and value for money priciples

Thank you for your attention!