



# Policy Brief

**Development of Public-Private  
Partnerships (PPPs) for financing water  
infrastructure in Central Asia**

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## Introduction

Increasing water demands by growing populations, increased variability of water availability due to climate change, outdated water infrastructure, and the lack of public funds have underlined the need for new investment solutions for water infrastructure projects in Central Asia. Public-private partnerships (PPPs) are useful tools for the government to access private sector knowledge and funding. This policy paper aims at examining pros and cons associated with these partnerships.

This policy brief integrates a review of academic literature, the analysis of current policy frameworks and the empirical evaluation of the current situation in Central Asia related to the opportunity of implementation of PPP water project.

## Literature review

PPP is not a simple formula to address the multiple issues of failing public water utilities in the developing world. In many instances, PPP projects have proved to be complex undertakings that carry strong political risks and large uncertainties as to the magnitude and timing of the expected benefits. Contractual targets are difficult to set and baseline data is rarely reliable – the PPPs can create opportunities for conflict. Private operators do not always deliver and tend to seek renegotiations to their advantage. Many obstacles can lead to conflicts and costly early termination of the contracts. Even considering these possible risks, the overall success rate of water PPPs is more positive than is commonly believed. PPP projects for urban water utilities have brought significant benefits to tens of millions of people in the world.<sup>1</sup>

In recent years, all Central Asia countries enacted specific PPP laws, that demonstrate political commitment of the respective governments to use PPP as a tool to attract foreign direct investment and to liaise the collaboration between the public-private sectors in the active projects.<sup>2</sup>

## Policy context

The water infrastructure in Central Asia is mainly subsidized by the national governments. Since the subsidies and the fees collected from the customers are not sufficient for the maintenance, operation and investment in new infrastructure, additional funding sources for new sustainable investments are required.

## Analysis of findings

### Potential Benefits of PPPs

The implementation of PPPs in Central Asia can have a number of advantages. First of all, since not all of the funding will come from the government, the financial burden for the countries will be limited. Additionally, since the countries will have an additional partner involved, the risks of the project will be shared between each party. Other benefits include:

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<sup>1</sup> Marin, P. (2009). Public private partnerships for urban water utilities: A review of experiences in developing countries. World Bank Publications 53017. Retrieved from <https://openknowledge.worldbank.org/handle/10986/2703>

<sup>2</sup> Chikanayev, S. (2021) Public Private Partnership in Central Asia: comparative analysis of legal regulation <https://gratanet.com/laravel-filemanager/files/3/PPP%20in%20Central%20Asia%20-%20Comparative%20Analysis%20of%20Legal%20Regulation.pdf>

- The government will have access to technology from the private sector that will improve the efficiency of the newly developed projects;
- The government will have access to the private sector’s “know-how” related to project management, project design, financial management etc.;
- PPPs will generate new revenue streams for governments in the form of taxes.

### Challenges & considerations

For the successful implementation of this type of partnership, contracts have to be carefully negotiated and political support for all the parties involved is necessary. It is important to set realistic performance targets so the expectations can be managed on all sides. Additionally, strong governance structures and regulatory frameworks are necessary to ensure that PPPs put public interests first and remain accountable to the people.

### Central Asia context

The recent adoption of laws supporting PPPs in Central Asian nations highlights a growing interest in this model for infrastructure development. Governments within the region must carefully evaluate the potential benefits and risks of PPPs within the context of their unique regulatory environments, specific water sector needs, and overall investment goals. Although major changes have been made to PPP legislation during the past few years, procedures governing PPPs are complex in the region.

### **Recommendations**

- Seek international assistance to assess the current PPP legislation of each country. The updated legislation needs to make sure that the risks for each country when developing PPPs are low but at the same time the legislation is “investor-friendly”. The same legislation should also promote transparency of funding and activities. Each national legislation should also facilitate the development of regional PPP projects.
- Following the update of the national PPP legislation, create a regional PPP hub which will be responsible for identifying potential regional PPP projects, advertising PPP opportunities for funding and overseeing implementation processes of the projects.

### **Way Forward / consulting mechanisms**

#### Refine national PPP frameworks

Secure international technical assistance to review and optimize PPP laws in every country. Focus on:

- Limiting the risks of the government in the PPP projects;
- Making sure that protective measures for the government are still creating an investor-friendly environment;
- Making sure that the PPP laws are transparent and the PPP investment processes are predictable.

## Establish a regional PPP hub

Key responsibilities of the hub:

- Identification of possible PPP regional projects;
- Advertise PPP opportunities;
- Share knowledge and build capacity in the region related to PPP projects.

The governments need to actively engage civil society organizations and NGOs representing water users into these projects. These organizations will ensure that social and environmental sustainability aspects are highly considered.

Considering the significant work of the governments from the last few years, we can safely say that the draft framework for implementation of the PPP projects is in place. Central Asia countries currently need only minimal international assistance to review the current PPP laws and to make them more appealing for the future investors. After the review on a national level of the PPP laws, a regional framework for this type of investments needs to be developed.