

# PPP PROJECTS IN BELARUS: DOES IT BREAKTHROUGH IN PUBLIC SERVICES?\*

*Yuri Krivorotko<sup>1</sup>*

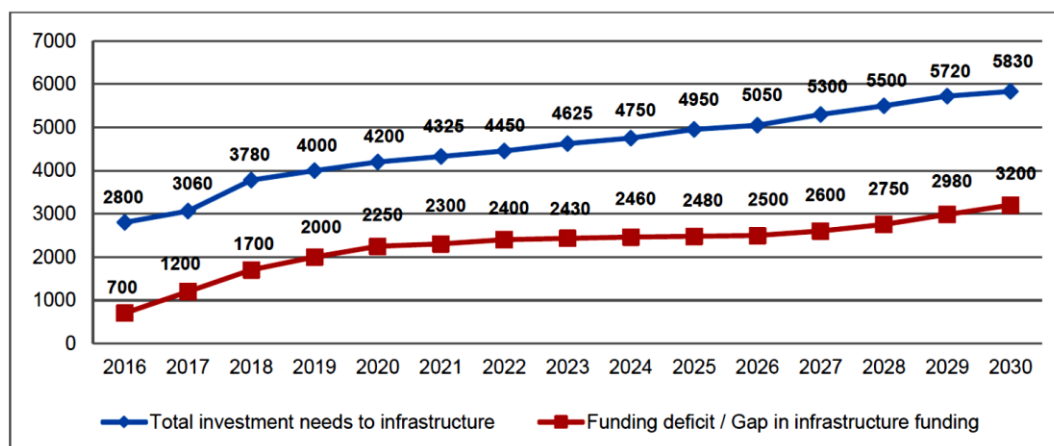
*Nowadays a PPP concept is quite widespread among statesmen, legislators, representatives of business and experts in Belarus. What is it: fashionable name, craze or real need for a present economic life? The latest events in Belarusian economy and finance vividly show that the PPP role becomes even more demanded and urgent. It interests scientists, practitioners, experts to explore PPP's experience both in EU and Post-Soviet countries and to use all its positive in infrastructures' development and public services providing.*

## Why PPP is needed in Belarus?

In condition of recession Belarus is faced with challenges one of which is need of capital investments in modern infrastructure under the very limited opportunities of the budgetary funding. Moreover, the tendency to decrease of budget funding is traced in recent years. According to the governmental infrastructure plan the share of infrastructure investment to GDP is reducing every year. If in 2006 this indicator was 1.2 percent, then in 2014 – 0.8 percent. It indicates the need to search new funding mechanisms for infrastructure projects. It mechanism should improve the living standards of population and maintenance of social standards level in comparison of last years. In the long term till 2020 the funding needs for creation of infrastructure facilities are estimated at \$17.9 bn., and from 2021 to 2030 – \$50.5 bn.

Figure 1.

### Infrastructure's investment needs and budget deficit for covering infrastructure investments from 2016 to 2030 (in min. USD)



Source: Author compiled, based on data of the Ministry of Economics of the Republic of Belarus

\* DOI 10.21868/PGnG.2017.2.2.

<sup>1</sup>Yuri Krivorotko, Doctor of Economic Sciences, Professor, "Lev Sapieha" foundation, Minsk, Belarus

As the figure shows, an annual average gap between infrastructure investment needs and budgets' capacity to fund it has been planned as an amount of \$1.57 bn. during 2016-2020 and \$ 2.41 bn. during 2021-2030. It is expected that the gap of funding should be covered by means of PPP projects. Thus nothing remains how to go on the way of financing by means of PPP's.

### PPP pilot projects in Belarus

Currently only seven from 63 submitted PPP projects started to be implemented: two for road infrastructure, two for thermal and electric energy and three for welfare sphere.

Table 1.

#### PPP projects in Belarus

DESCRIPTION	LOCATION	EXPECTED OUTCOMES	WORTH /INVESTMENTS	GOVERNMENT'S CONTRIBUTION	DURATION
<b>Road infrastructure projects</b>					
Reconstruction of the highway M10	Russian Federation border – Gomel – Kobrin	Highway extended from 109.9 to 184.0 km	343.0 mln.USD*	Land	2017–2019
Construction of a through street in Gomel city, a bridge over the 'Sozh' river and five overpasses	Gomel city	n/d	199.3 mln.USD*	Land	2019–2020
<b>Energy efficiency projects in the utilities and communal sector</b>					
Construction of a waste incineration plant	Mogilev city	Municipal solid waste utilised, thermal and electric energy produced	130.0 mln.USD	Land, municipal waste objects	2014–2016
Construction of a hydro- electric power station on the "Dvina" river	Beshenkovichi (Vitebsk oblast)	Electric energy produced and supplied in the region (33Mwt - 130 mn. Kw/h).	186.0 mln.USD*	Land	2017–2020
<b>Welfare projects</b>					
Construction of two pre-school institutions	Minsk city and Minsk oblast	Number of places in pre-school institutions increased	25.7 mln.USD*	Land	2017–2019
Reconstruction of the block of buildings of Grodno hospital No.3	Grodno city	Number of beds in the institution increased, new technology procured	200.0 mln.USD*	Land, infrastructure	2016–2019
Reconstruction of the museum, tourist and recreation complex	Brest city	Tourism infrastructure improved	31.0 mln.USD*	Land , infrastructure	2017–2020

\*) preliminary data

Source: Author compiled, based on data of the [Center for Public Private Partnership](#) under the Ministry of Economics of the Republic of Belarus

The table above characterizes the pilot projects only which capture 27 percent of the national infrastructure plan of the Republic of Belarus for 2016–2030. These figures give an essential optimism in infrastructure development by means of PPPs. It should be noted, however, that since the PPP pilot projects started to run between 2014 and 2016, it is too early to provide any comment on them but some preliminary analysis of success factors and components may be done. However, there are risks of PPP projects to be failed due to deterioration of investment climate in Belarus where foreign investments for 9 months of 2016 has been decreased on 2.4 bn. USD<sup>2</sup> as compared to the same period of 2015.

### Progress and shortcomings in PPPs

Some progress in developing the legal and regulatory framework of PPP is evident: the Law on public-private partnership<sup>3</sup> has been adopted by the Belarusian Parliament in the end of 2015. The Law on PPP includes forms and spheres of implementation of partnership, obligation of partners, sources of financing, a guarantee of the rights of partners, mechanism of replacement of the private partner in case of his inability to fulfill the obligations, without terminating agreements, settlement of disputes, etc.

Some changes on regulatory environment of PPP have been brought by the recent additions to the Budget Code of the Republic of Belarus.<sup>4</sup> Now from local budgets of different levels: oblasts, rayons, urban and rural budgets on infrastructure projects and programs concerning PPP can be funded. It gives a good reason for adoption of independent decisions for PPP's projects implementation at all local levels.

However, some shortcomings about Law should be highlighted. Firstly, the Law was submitted very generally and has many problematic issues and bottlenecks. There is, for instance, no legislative explanation of PPP's types, ways and models. Secondly, PPP formation procedures are insufficiently accurately registered, tariff regulations need to be enclosed in the normative documents. Thirdly, the legal regulation of a concession contract has not been changed and it is regulated now by the Investment Code through a specific concession agreement and not the Law on PPP. This issue is particularly important for private partners and needs to be complexly regulated by Law on PPP. It would be guarantee good relationships between government and private partner in terms of expenses and outcomes, for example, in sales, costs and profit sharing, taxes, other payments. Fourth, no progress in risk management has been noticed so far, hence it is difficult to talk about improvement of relationship between the partners. The rearrangement of the obligations and risks between the parties should not focus on the private partner only. Government should not limit itself to transfer land for construction or to supply of municipal waste, it should be involved in all cycles of production as an equal partner. *Table 2* summarizes all progress and shortcomings in PPP's development.

---

<sup>2</sup>[https://charter97.org/ru/news/2016/11/12/230830/?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+charter97+%28Charter%2797+-+News+from+Belarus+%28in+Russian%29%29](https://charter97.org/ru/news/2016/11/12/230830/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+charter97+%28Charter%2797+-+News+from+Belarus+%28in+Russian%29%29)[accessed December 20, 2016]

<sup>3</sup> The Belarusian Law on PPP is available at [pravo.by](http://pravo.by)[accessed December 20, 2016]

<sup>4</sup>[http://www.minfin.gov.by/upload/bp/act/zakon\\_301215\\_342z.pdf](http://www.minfin.gov.by/upload/bp/act/zakon_301215_342z.pdf)[accessed December 20, 2016]

Table 2.

**Progress and shortcomings in Belarusian PPP's development**

<b>Progress</b>	<b>Shortcomings</b>
<b>In legal and regulatory environment area</b>	
Law on PPP adopted	Law is submitted very generally
PPP added to the Budget Code	Absence of legislative explanation of PPP's types, ways and models
PPP projects based on long term governmental Infrastructure plan adopted by the Central government	PPP formation procedures are insufficiently accurately registered
Forms and spheres of partnership's implementation, partners' obligations, sources of financing, a guarantee of partners' rights are determined by the law	Tariff regulations need to be enclosed in the normative documents
There are mechanisms of replacement of the private partner in case of his inability to fulfill obligations	Legal regulation of a concession contract does not regulate by the Law on PPP. Absence of legal protection's interests of concessioners
<b>In partner interaction area</b>	
Organisational procedures and forms that provide a reliable platform for partner interaction are declared	Absence of effective governance structures and dispute resolution mechanisms
	Absence government preferential treatment of PPP-related tasks (procurement procedures and other)
	Absence of concession form in PPP projects
<b>In risk management area</b>	
	All obligations and risks are focused on the private partner

*Source:* author compiled**Obstacles to be overcome**

In addition to the shortcomings it should be focused on obstacles to PPP's formation and management. They are:

1. Weakness of financial market in Belarus. Most of PPP projects faced funding difficulties by private investors, government, international financial institutions. PPP partners must be provided with financial instruments.
2. Belarus has not attained sovereign credit rating assigned by international rating agencies. That is a prerequisite seeking to obtain long-term debt financing instruments in international bond market. Funding by international financial institutions is a good instrument seeking to promote PPP.
3. Risk insurance is problematic. Lending risk assessment in Belarus, carried out by some authoritative insurance agencies, show that the country belongs to group seven, i.e. high lending risk countries.
4. Long-term budget planning is an important in long-term contracts therefore it is necessary to reconsider an approach to budget planning and allow drawing up plans for 3-5 years. The barrier for long term planning is a high

inflation rate. For example, an inflation rate in Belarus<sup>5</sup> for a last decade 19.58 percent makes long-term planning very complicated.

5. Absence of efficient spending techniques. Efficient spending (value for money) depends on several factors, such as the chosen funding model, the selected private partner, etc.

6. Deficit of competent local specialists and experts in PPP in Belarus who are able to control fulfillment of contractual obligations of the private partner regarding works, costs, quality, services, efficiency, etc. Such experts should be recruited by each ministry engaged with PPC projects.

7. Absence of concessional ways of PPP formation. In fact, there are no concession contracts in PPP practice. This is a serious obstacle in real partnership and PPP development as a whole. The main reason why there are no concession contracts in Belarus is that the governmental part does not wish to bear equal responsibility in fulfillment of its obligations by the concessional agreement. Another reason that the government is unwilling to lose control over state ownership assets. In addition, there are no regulations protecting the interests of the both parties. So, Belarusian government badly needs in scientifically grounded strategy for concession development.

8. PPP project formation and its administration should be decentralised and not bureaucratic. Nowadays PPP projects in Belarus are developed by the central government and controlled by the ministries. It is no secret that power and administration in Belarus are centralized and projects are considered and approved by the central government. The public as well as local authorities have no voice in PPP projects' decision-making although projects are implementing in their territories. Absence of the third party of PPP – civil society represented by public organizations. At decision making of PPP project implementation, the authority do not consult public, associations, non-governmental organisations. In other words, those people to whom public services are intended to provide and who have to be active actors in sustainable development situation. Civil participation in PPP has to be implemented through creation of local action groups (LAG). They have to connect the public and partners, observe balance of interest and represent the interests of all available local groups operating in the most various welfare branches. At decision making the share of private partners and associations has to make less than 50 percent of local representatives. *Table 3* characterizes main barriers and ways to overcome them.

---

<sup>5</sup>[http://fin-plus.ru/ru/info/inflation\\_index/Belarus](http://fin-plus.ru/ru/info/inflation_index/Belarus)[accessed December 20, 2016]

Table 3

**Barriers of PPP and ways to overcome them**

<b>Barriers</b>	<b>Ways to overcome (policy recommendations)</b>
Financial market weakness, lack of financial tools	<ul style="list-style-type: none"> <li>• Security market development, real privatization process of State ownership development</li> </ul>
Absence of sovereign credit rating	<ul style="list-style-type: none"> <li>• Implementation of International Financial Institutions (IFI) recommendations</li> </ul>
Country's high lending risk	<ul style="list-style-type: none"> <li>• Policy trust of the IFI to Belarusian economy</li> </ul>
Short-term budget planning (planning for 1 year only)	<ul style="list-style-type: none"> <li>• Budget's planning horizons expansion; Budget planning on 3-5 years; Introducing measures for inflation rate decreasing</li> </ul>
Lack of advanced techniques of efficient spending	<ul style="list-style-type: none"> <li>• Using of value – for- money (VFM) method in PPP projecting</li> </ul>
Lack of national specialists and experts in PPP's	<ul style="list-style-type: none"> <li>• Permanent training of the national specialists and experts in PPP; Involvement of foreign experts and consultants into a PPP's project management</li> </ul>
Absence of concessionary models in PPP's practice	<ul style="list-style-type: none"> <li>• Creation of legal system protecting the interests of concessioners; Concession legislation should be included into the Law on PPP</li> </ul>
Centralised management of PPC projects	<ul style="list-style-type: none"> <li>• Decentralisation of PPP project administration; Transfer PPP project administration to the regions; Elimination of the central government's excessive control over the PPP projects</li> </ul>
Lack of civil society participation into PPP project implementation (absence of public control over the PPP projects )	<ul style="list-style-type: none"> <li>• Expansion of civil participation in PPP project decision-making; Creation of local action groups (LAG) as the third side in partnership</li> </ul>

Source:author compiled

**List of references:**

- Bovaird, T. (2004). Public–private partnerships: From contested concepts to prevalent practice. *International Review of Administrative Sciences*, 2004, Vol. 70, No. 2, pp. 199-216.
- European Commission (2003). *Guidelines for successful public–private partnerships*. Retrieved 14 November 2012 from [http://ec.europa.eu/regional\\_policy/sources/docgener/guides/ppp\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/ppp_en.pdf).
- Grimsey, D., Lewis, M. (2004). *Public Private Partnerships: The Worldwide Revolution in Infrastructure Provision and Project Finance*, Edward Elgar, Cheltenham
- Proekty gosudarstvenno-chastnogo partnerstva v regionah [PPP projects in regions] (2015). Dannye Kazahstanskogo tsentra gosudarstvenno-chastnogo partnerstva. Analitika. Retrieved 9 February 2015 from <http://www.kzppp.kz/ru/project/table>
- Valuzhitskij, V. I. (2015). *Razvitie gosudarstvenno – chastnogo partnerstva v Respublike Belarus: ot teorii k practice* [Public – private partnership's development in the Republic of Belarus: from theory to practice]. Sbornik nauchnyh statej XI mezhdunarodnoj nauchno – prakticheskoy konferentsii“ Gosudarstvennoe regulirovanie ekonomiki i povyshenie effektivnosti deyatelnosti sub'ektov hozayistvovaniay. 16-17 apreliya 2015. Minsk, Akademia upravleniay pri Prezidente Respubliki Belarus.

- [https://charter97.org/ru/news/2016/11/12/230830/?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+charter97+%28Charter%2797+-+News+from+Belarus+%28in+Russian%29%29](https://charter97.org/ru/news/2016/11/12/230830/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+charter97+%28Charter%2797+-+News+from+Belarus+%28in+Russian%29%29)
- [http://www.minfin.gov.by/upload/bp/act/zakon\\_301215\\_342z.pdf](http://www.minfin.gov.by/upload/bp/act/zakon_301215_342z.pdf)
- [http://fin-plus.ru/ru/info/inflation\\_index/Belarus](http://fin-plus.ru/ru/info/inflation_index/Belarus)