

IMPACT STORIES

PPIAF Supports Developing Highway PPPs in Lao PDR



Since 2012 PPIAF has assisted the Government of Lao People's Democratic Republic (Lao PDR) to attract much needed private sector investment and participation into the country's under-served highway network. The government identified a priority PPP highway project in 2012 with the PPIAF assistance, and recently decided to move the project forward as the first road PPP in the country. PPIAF's early-stage assistance has helped the country to realize its potential to attract private sector investments and has stimulated the government to develop an institutional framework to enable PPP projects to be delivered.

Over the past several decades Lao PDR has experienced rapid economic development, averaging 8% annual GDP growth. To achieve the country's development goals, strengthen regional trade links and reduce rural poverty, Lao PDR requires significant investment across infrastructure sectors. Traffic volume in the country has been growing significantly, mirroring the growth rate of the country's GDP. The number of vehicle (including motorcycle) registered increased from 200,000 in 2002 to 1.3 million in 2012. Fast-growing traffic volume requires an improved road network, especially for sections serving large traffic volumes on the national roads. While there are tremendous demands for infrastructure development in the country, the government resources available to fund such projects are finite and innovative financing options can be used to fill the funding gap. In light of the scarcity of public funds, the government is aiming to mobilize more resources from the private sector through a public-private partnership (PPP) arrangement to finance the expansion of the country's transportation network.

PPIAF SUPPORT

In 2012 PPIAF provided a \$50,000 technical assistance grant to assist the government in developing its highway network. Under the PPIAF grant, a sector needs assessment was conducted, which identified the upgrading of Lao PDR's National Highway 13 (NR13) as a priority investment project with a possibility of PPP arrangements. Stretching from the Chinese border in the north to the Cambodian border in the south, the NR13 runs through the capital city of Vientiane and is the most heavily traveled route in the country. As the backbone of the country's road network, the NR13 is a priority corridor critical to achieving the government's land-linked vision aimed at strengthening the regional trade links. In July 2013 PPIAF provided a subsequent grant of \$145,330 to undertake a PPP options analysis study that assessed the viability of using a PPP model for delivering the NR 13 project. The study recommended that the government develop a full-scale feasibility study and to seek for a transaction advisor to undertake a full structuring and market sounding exercise to prepare the project for investment. The study also recommended that the government establish the institutional readiness and capacity required for it to be an effective grantor to the NR 13 project, as well as future PPP projects.

OUTCOMES

As a result of PPIAF's first technical assistance in 2012, the government identified the NR 13 as a potential PPP project and reached the consensus to develop the NR 13 as the pilot PPP in the transport sector. Based on the consultation with its stakeholders and PPIAF's recommendations on the pilot PPP, the government decided to pursue a feasibility study of the NR13 with additional PPIAF assistance. Government officials also strengthened their capacity to identify and screen potential PPP projects through PPIAF's assistance.

The second PPIAF grant in 2013 provided a preliminary viability assessment of the NR13 project under a PPP structure. As a result of the assistance, the government identified the possible PPP options for delivering the NR13 projects. In October 2013 the government decided to develop the NR13 project as a road PPP transaction, in line with the recommendations of the PPIAF-supported study. Accordingly, the government has decided to retain the International Finance Corporation as a transaction advisor to prepare the NR13 project for investment and to promote private investors. The government is also moving ahead with the full-scale feasibility study, which will be financed with a credit from the International Development Association.

The government has also requested further PPIAF assistance to build the institutional framework for PPPs and strengthen the government's capacity to implement the NR13 project, as well as future projects in the transport sector. PPIAF will remain engaged with the Government of Lao PDR for the next several years while the full-feasibility study is under preparation and the NR 13 project transaction is structured.

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

This program of institutional support is envisaged to encompass the area of regulatory and institutional framework and contract management. It will include the development of tolling policy, guidance and tools to help the government to make key decisions through the project cycle such as:

- a cost benefit analysis framework
- an affordability analysis tool and;
- contract management procedures and tools

DONOR COORDINATION

PPIAF's further support for transport sector PPPs will be coordinated with the Asian Development Bank's on-going technical assistance on PPP policy and legal and regulatory framework development across different sectors and project development in health and education sector. It is expected that both pieces of technical assistance will complement each other in order to effectively build an enabling environment for PPP implementation at both the sector level and the program level.

RELATED PPIAF ACTIVITIES IN LAO PDR

- 2012: Transport Sector Enabling Environment Assessment and Pipeline Screening, **\$50,000**
- 2004: Options for Institutional Arrangements and Regulation for Private Sector Delivery of Transport Services, **\$110,000**