

HLAN CHI PROGRAMME

Cities & Infrastructure for Growth, Myanmar

Growth, Infrastructure and Public Procurement in Myanmar: Mind the Gap

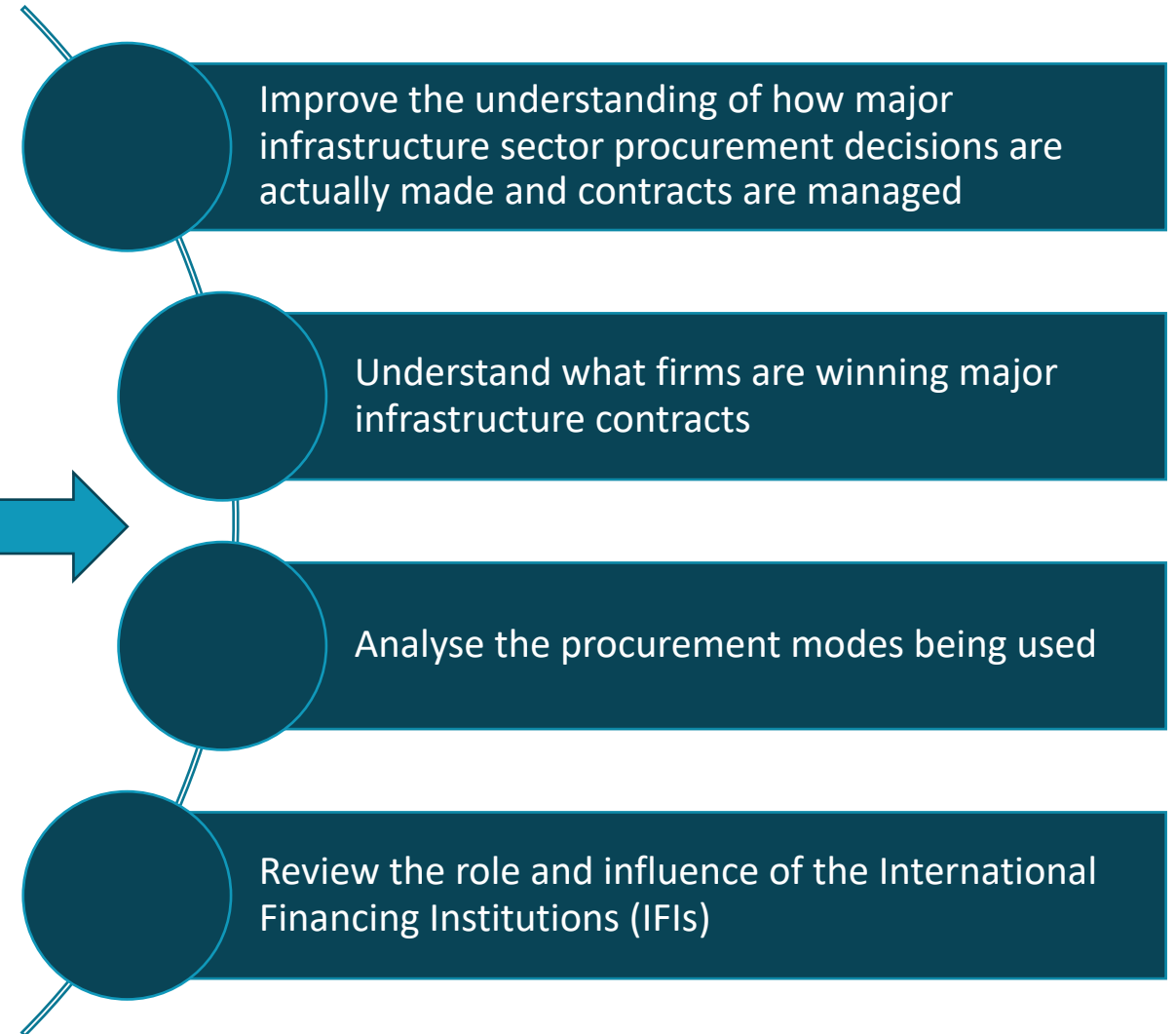
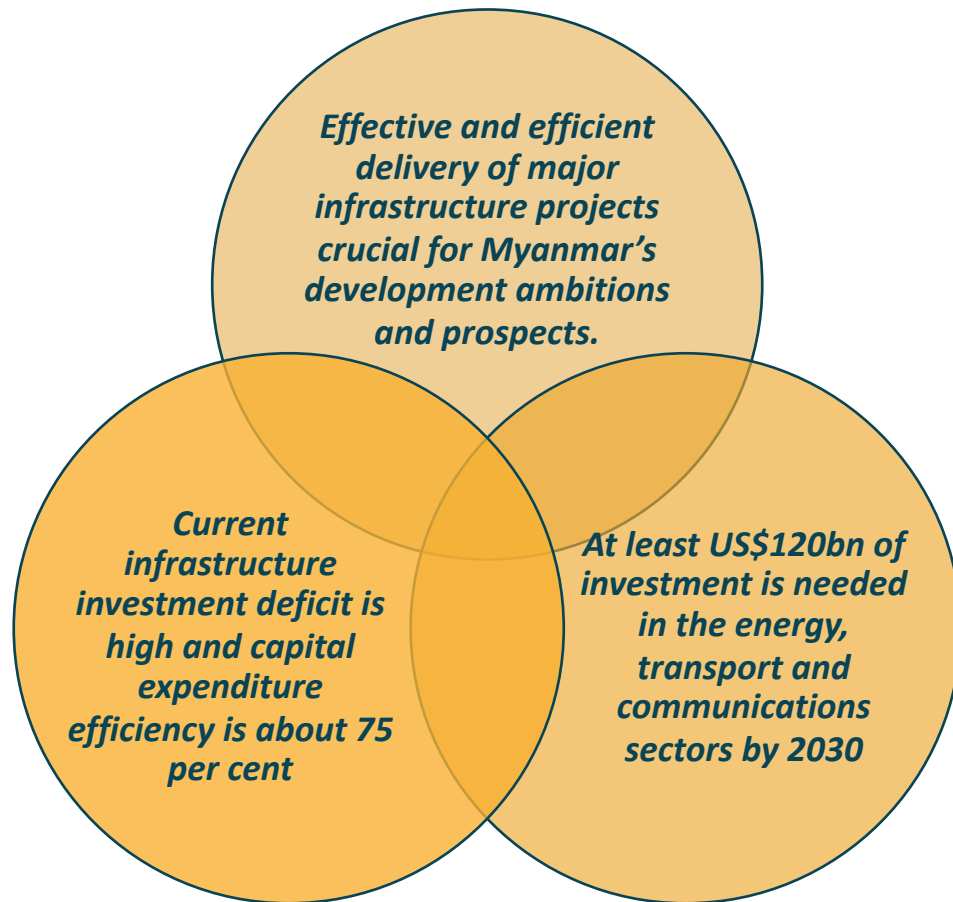
British Chamber of Commerce Myanmar: 30 07 20



Hlan Chi – Cities and Infrastructure for Growth

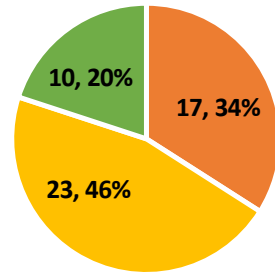
- **Aims to create *sustainable and equitable economic growth***
- A UK Government **Grant Facility of » USD 25 million** – to assist Myanmar accelerate its economic growth through sustainable urban development
- Assists Myanmar's cities improve infrastructure to help businesses grow by creating & safeguarding economic and employment opportunities
- Offers technical assistance to enable its partners implement their economic development ambitions & objectives – this supports:
 - Linking spatial & economic planning, incorporating social aspects & climate change
 - All levels of government to better plan, deliver & manage infrastructure projects
 - Leverage increased investment into infrastructure assets & services
 - Maximising revenue for capital and recurrent investment in infrastructure & services

Context & Objectives



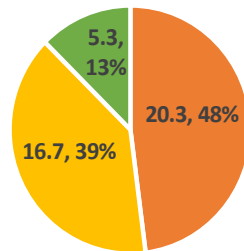
Projects database

Projects profile (number of projects and % of total)



Energy Transport Urban Infrastructure

Projects profile (Value of projects in USD Billion and % of total)

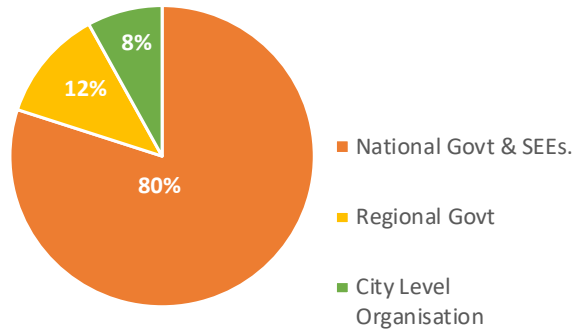


Energy Transport Urban Infrastructure

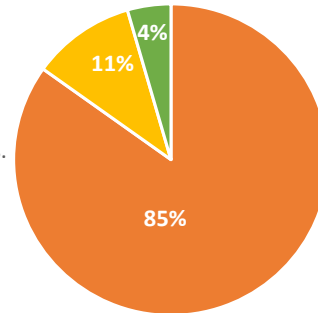
- Total: 50 projects of US\$42 bn across energy, transport and urban development
- Energy: 34% (17 projects) of the total projects with cumulative value of US\$20.3bn are for the energy sector.
- Transport: 46% (23 projects) of the total projects with cumulative value of US\$16.7bn are linked to the transport sector.
- Urban Development: 20% (10 projects) of the total projects with cumulative value of US\$5.3bn are linked to urban infrastructure development.

Who's dominating the procurements?

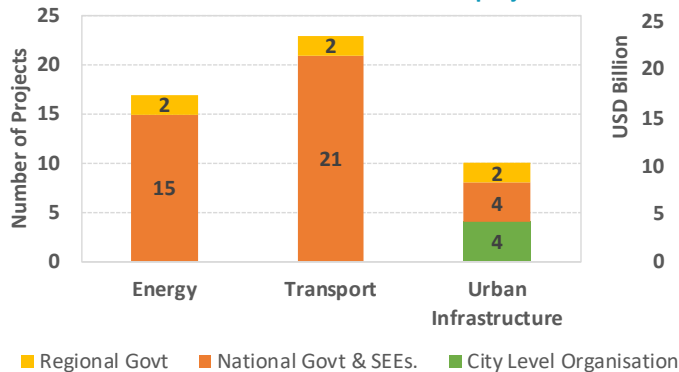
Distribution based on number of projects



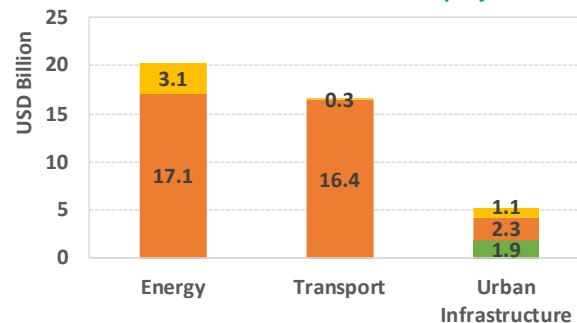
Distribution based on Value of projects



Distribution based on number of projects



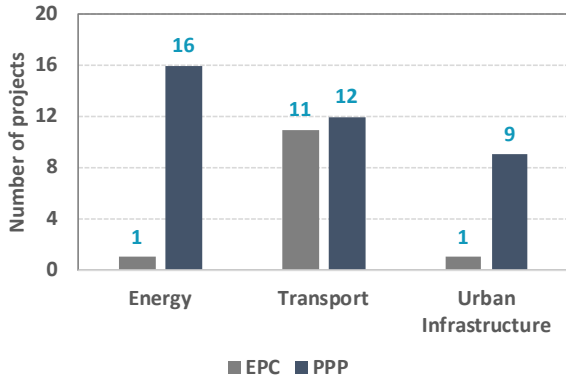
Distribution based on Value of projects



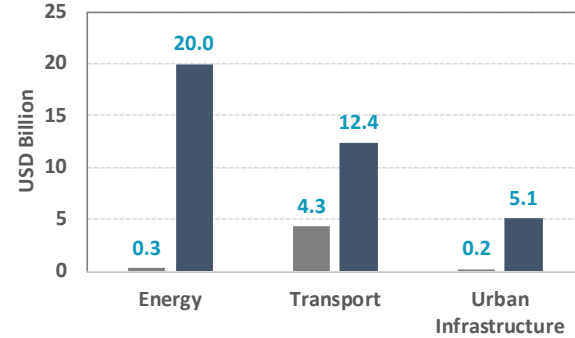
- ❑ The Union Government Implementing Government Authorities (IGAs) are the market driver in the infrastructure sector; 40 projects with a cumulative value of US\$36bn have been initiated by the Union Government's Ministries or SEEs;
- ❑ Ministries of: Electricity and Energy; Construction and, Transport and Communications, are the lead players procuring major projects
- ❑ Among the regional governments, Yangon and Mandalay Regional Governments are the most active procurers in terms of sub-national government agencies.
- ❑ Minimal large infrastructure procurement by city level governments (YCDC, MCDC etc) – Only 1 project initiated by YCDC
- ❑ Other city level Organisation (SPV) – NYDC, established initiated more projects than YCDC

Modalities of Procurement – EPC vs PPP

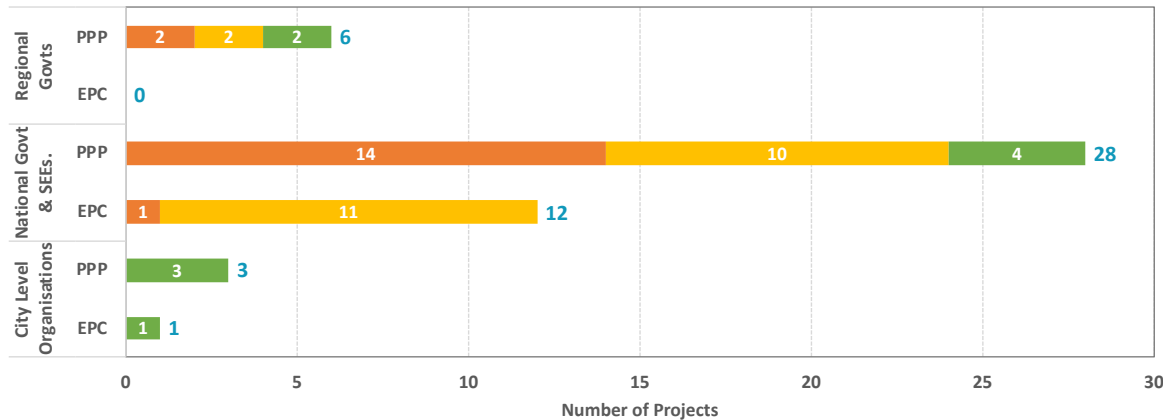
Distribution based on number of projects



Distribution based on value of projects



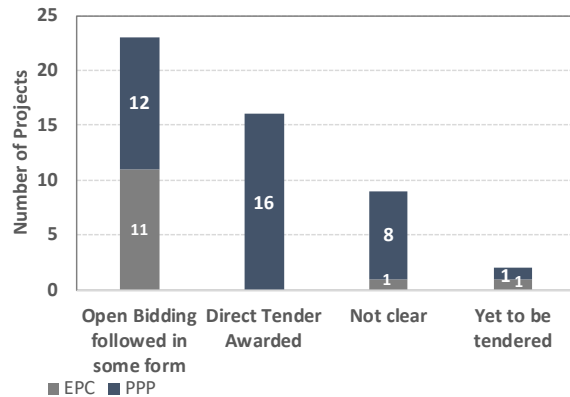
Distribution based on number of projects



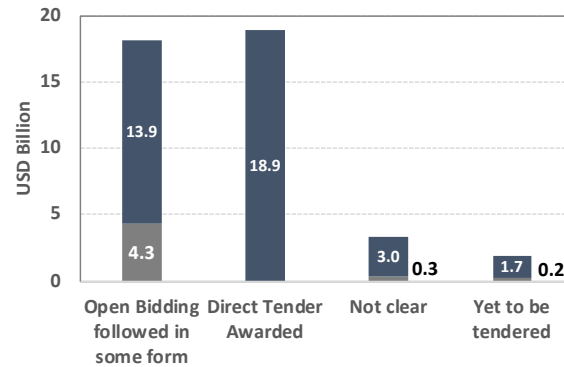
- ❑ 74% of the projects that have been procured or are in process of procurement are on PPP basis with a total value of US\$37.4bn. New solar RFPs in process.
- ❑ Variants of DBFOT (design, build, finance, operate and transfer) exists with a majority involving either long-term concessions or land leases.
- ❑ In the energy sector, most of the projects have a concession period of 30 years. The exception is the 5-year concession period for the recent fast track power procurements.
- ❑ In the transport sector, the ports and logistic hubs have been tendered on 50-year land leases, with 10+10 extension option.
- ❑ The Department of Highways under MoC has a history of adopting 40 year, extendable up to 15 years in three tranches of 5 years each, BOT contracts for highways.
- ❑ In the urban sector, primarily area based mixed use developments, the projects have been tendered on 50-year land leases with an option for two approval-based extensions of 10 years

Modalities of Procurement – Direct Award vs Open Bidding

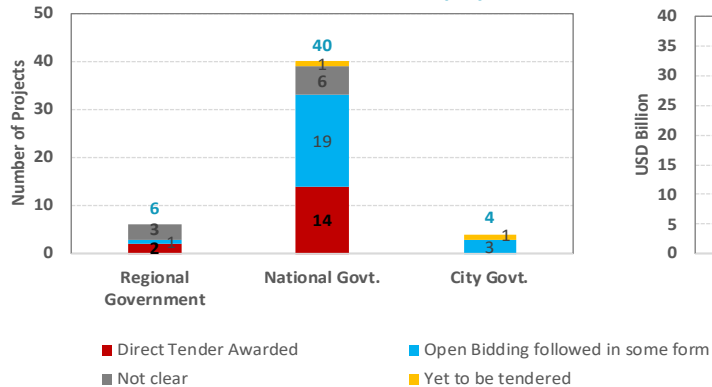
Distribution based on number of projects



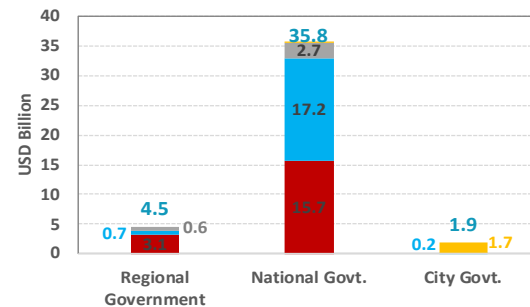
Distribution based on value of projects



Distribution based on number of projects

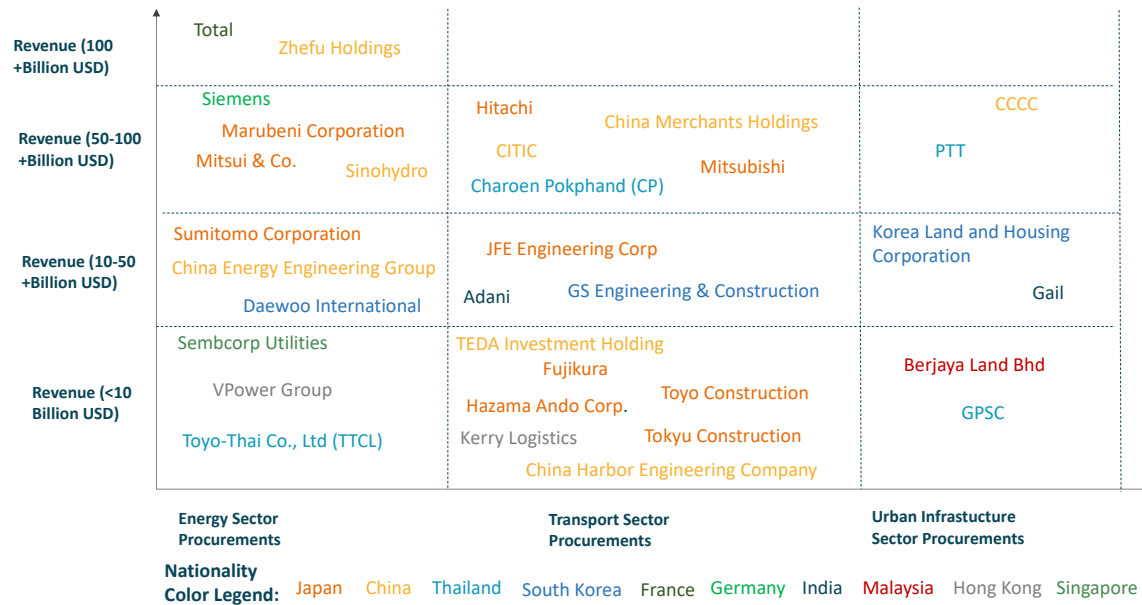


Distribution based on value of projects



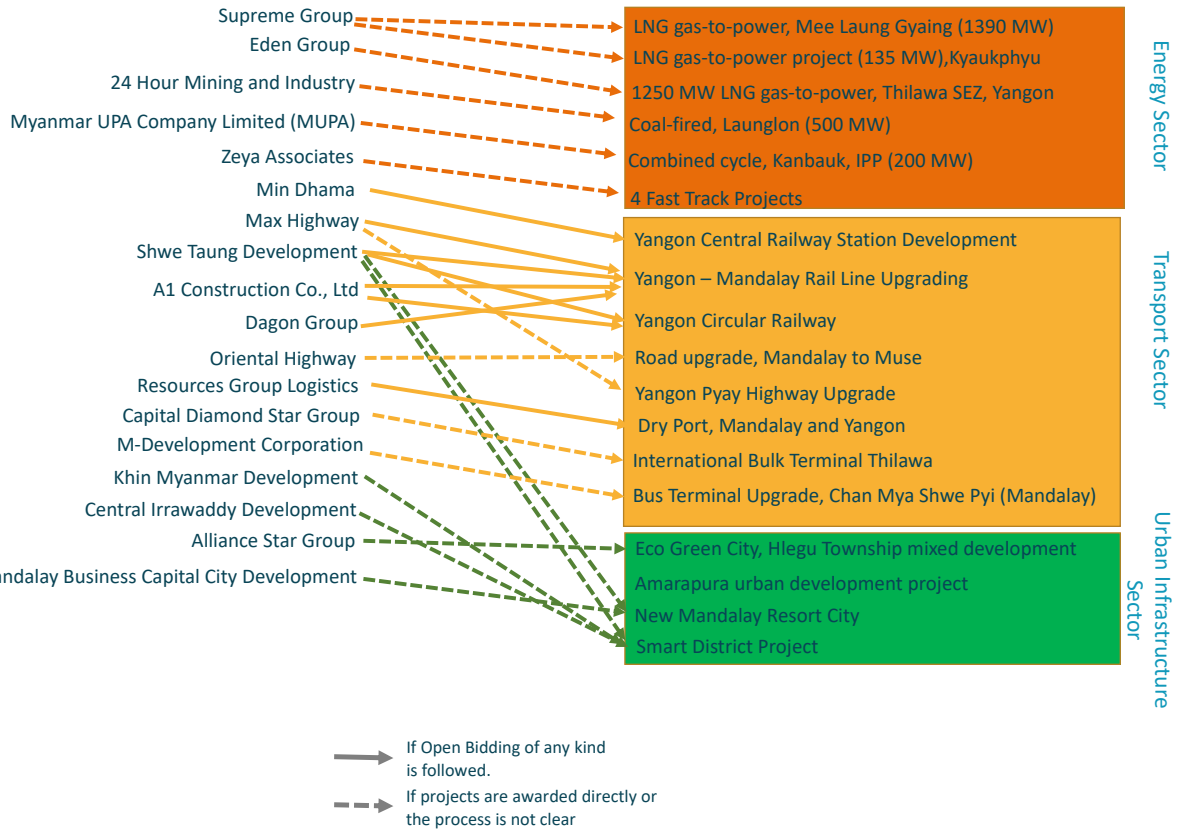
- ❑ Sixteen projects, with an estimated combined project cost of US\$19bn, were awarded directly to private operators without any open tender.
- ❑ In twenty-three projects, with an estimated combined project cost of US\$18.2bn, some form of open tender was followed as part of the procurement process.
- ❑ For nine projects, with an estimated combined project cost of US\$3.3bn, the information available doesn't clearly indicate if some form open tendering was followed or not; this suggests at least restricted disclosure of the procurement processes followed.

Who's Winning? – International Players



- About 75% of the projects, worth US\$35bn or 84% of the total value of projects in the CIGM database, were won by international firms directly or via majority positions in joint ventures with local firms
- The scale and complexity (technology, contract management, operations) of the major infrastructure tenders and awards is generally outside the capability of domestic infrastructure players.
- As a result, international firms dominate the market. Market entry and successful bidding has tended to favour JV arrangements with local players in a minority position.
- The sector is dominated by Chinese, Japanese, Thai and Korean firms, in part, linked to wider geo-political interests of their host countries.
- Almost all the Chinese firms (Sinohydro, CITIC, China Merchants Holdings, CCCC, China Energy Engineering group) are Chinese State-Owned Entities (SOEs) with multi-billion-dollar revenues

Who's Winning? – Local Private Sector



- ❑ Myanmar firms are minority players in the major infrastructure projects market; the domestic market structure is characterised by firms of limited scale and capabilities.
- ❑ Of these local firms, only three companies perform well on the Centre for Responsible Business scorecard: Max Myanmar, Shwe Taung and Dagon Group are within the top ten ranked companies.
- ❑ A common strategy to enter the large project market is to team up with international players either through joint ventures or as sub-contractors.
- ❑ Local players may of course exercise rent-seeking influence but the extent of this is unclear; at a minimum, local interests are mediated by the lead firm's willingness to assume the weight of commercial risks and the returns commensurate with those risks.

Performance Evidence I

Public Procurement Review

- ❑ The current procurement system is not sufficiently developed to meet Myanmar's Sustainable Development Plan's ambitions or policy objectives.
- ❑ To the extent that there is a national procurement framework, as given in the Presidential Directive 1/2017, in practice it is highly restricted in terms of scope and coverage.
- ❑ There is a need for better procurement planning across IGAs and practical supporting guidelines and templates
- ❑ Conflict of interest safeguards and strategic oversight of the procurement process are needed to strengthen transparency, accountability and confidence.

Performance Evidence II

Efficiency at Risk

- ❑ Current procurement practices are not efficiency driven. About 50% of major projects reviewed used negotiated direct awards or opaque procurement processes.
- ❑ There is no readily available evidence demonstrating how non-competitive bids are assessed against efficiency criteria;
- ❑ There is no evidence of yardstick benchmarking or comparative cost assessments to negotiate terms, conditions and prices.
- ❑ There is no current, reliable and market tested schedule of rates to assess bid costs.
- ❑ The choice of non-competitive negotiated direct contract awards is high risk in terms of exposure to conflicts of interest and rent-seeking.

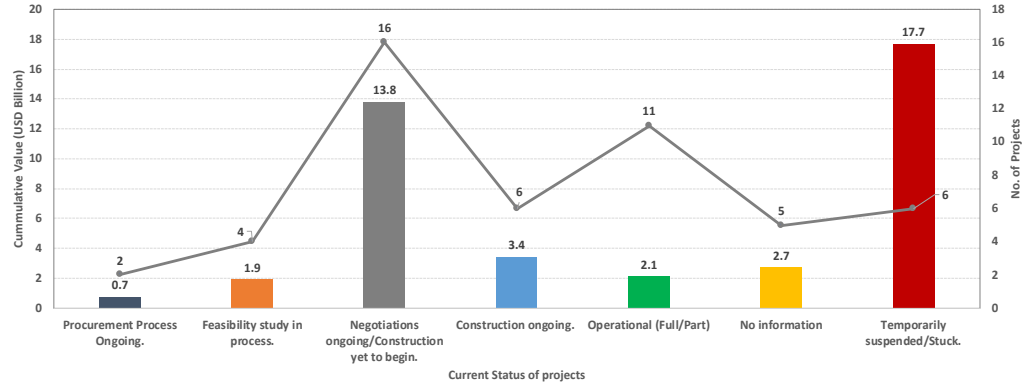
Performance Evidence II

Effectiveness Compromised

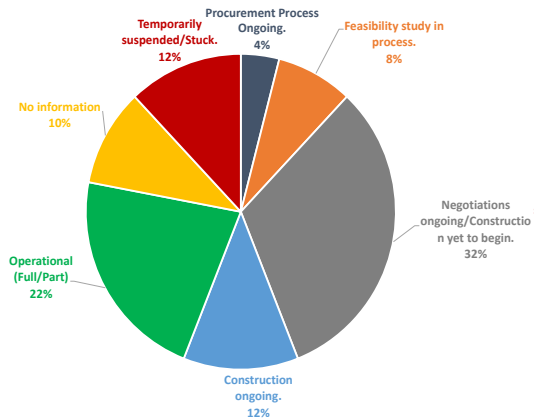
- ❑ Current procurement processes are not effective in delivering much needed infrastructure in a value for money (VfM) manner.
- ❑ Current procurement processes are not performing well in terms of timely and cost-effective delivery of infrastructure, with projects delayed and taking too long to achieve operational status.
- ❑ Non-competitive tenders combined with weak procurement planning, laws, regulations, guidelines and their enforcement expose Myanmar to wider geo-political risks and influences that may undermine the national interest.
- ❑ Overall, the current approach to procurement is falling well short of national needs and not serving the public interest.

Delivery Deficits and Infrastructure Gaps

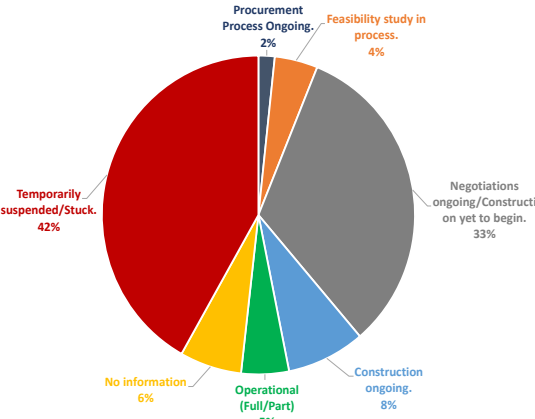
Current Status of Projects



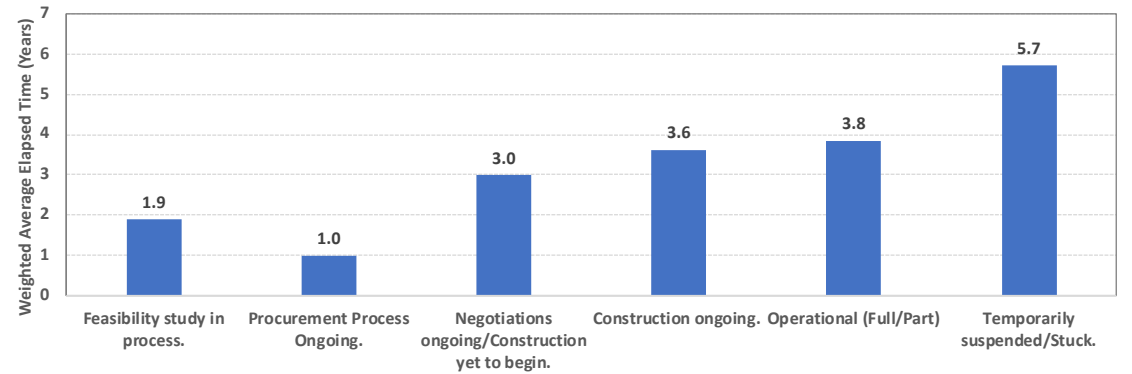
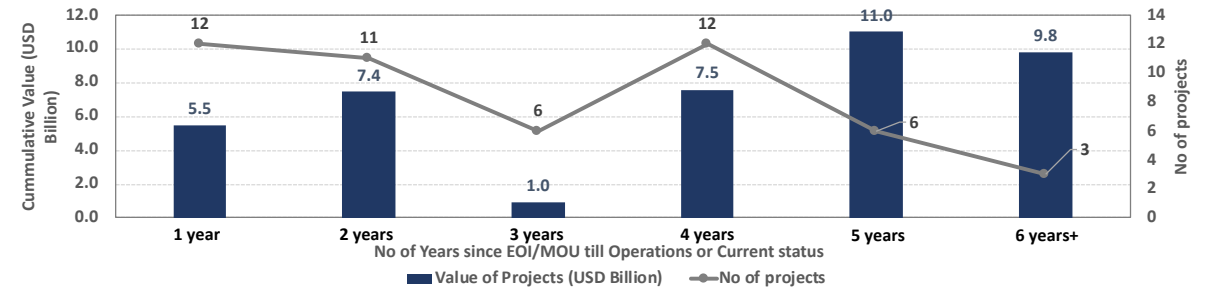
Distribution based on number of projects



Distribution based on value of projects



Elapsed Time



International Influences: CMEC

Other Recent MOUs signed during Chinese President's visit to Myanmar in 2020

Fourteen MOUs in infra. sector

Projects where MOUs have been signed & feasibility development ongoing

Mandalay-Tigyaing-Muse expressway project

Kyaukphyu -Naypyidaw highway project

Muse-Mandalay Railway (Estimated value: US\$ 9 bn)

Phase 1 of New Yangon City Development (Estimated cost: US\$ 1.68 bn)

Projects agreed for implementation

SEZ Kyaukphyu Project (US\$7.5 bn project; US\$1.3 bn scaled down implementation)

MOUs to promote regional corporations between Yunnan Province in China and Yangon & Mandalay Regions

China's BRI: China Myanmar Economic Corridor (CMEC) current coverage

- ❑ The BRI CMEC is a “game changer” in Myanmar, owing to its scale, breadth and demands from GoM.
- ❑ To date, project identification and prioritisation have not been transparent nor have they been subject to international standard review and appraisal processes, including safeguards and long-term sustainability .
- ❑ The scale and extent of the Peoples Republic of China's (PRC's) Belt & Road Initiative (BRI) projects raises fiscal risks if not channelled through formal and open procurement channels.
- ❑ It is understood that the main BRI projects will be subject to Project Bank scrutiny.
- ❑ The BRI influence over procurement is one that sees sole sourcing arrangements for project concept, project design, project financing and project construction and implementation contained within the one complete package.

International Influences: IFIs & Bilateral Development Organization

IFIs

- World Bank (US\$2.5bn)
- ADB (US\$2.7bn)

Bilateral Capital Funding

- JICA - US\$8.3bn
- EU - US\$1.13bn
- Thailand's NEDA - US\$164mn
- AFD - US\$39mn
- KfW DB - US\$95 mn
- South Korea's project specific investments#

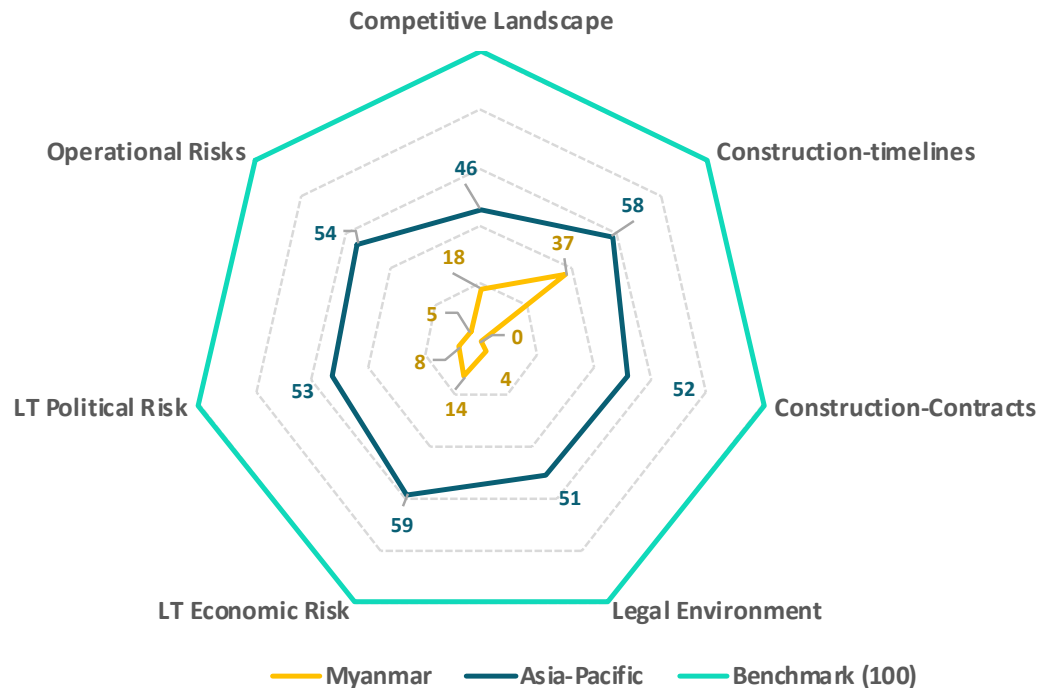
- ❑ IFIs (ADB and World Bank) play a crucial part in bridging Myanmar's infrastructure needs gap with their sovereign lending programmes. Perhaps more importantly than finance, the IFI 'Finance-plus' initiatives add further value to Myanmar's infrastructure sector
- ❑ IFIs and ODA partners have tended to promote greater competition, openness and rigour in the projects they are supporting with grants and loans.
- ❑ IFI procurement procedures are beneficial for transparency and to establish price competitive infrastructure, no matter what the source of funds. Some form of blended financing strategy is needed to offset loss of asset risk.

Changing Lanes

Signals for change

- ❑ For the power sector nearly USD18 billion is not under transparent/competitive procurement
- ❑ The total procurement pool is USD\$ 42 billion and 85% is delayed by more than 12 months.
- ❑ CEMEC Projects make up USD\$7.5 of the total known procurements with multiple projects in pipeline for which MOUs have been signed. These projects are not subject to transparent competitive/procurement.
- ❑ Good procurement practice attracts good quality funds with lower risk rates. Myanmar has not specifically targeted this proposition yet.
- ❑ Restrictive technical qualifications and stringent bid submission timelines adopted as part of procurement process restrict competition and often limit price, technical and service options available.
- ❑ Inclusiveness, safeguard impact assessments & management plans, and climate change aspects of projects need to be embedded in project design/procurement documents.

Benchmarking: Fitch's Risk-reward index comparative mapping



Myanmar continues to rank last out of 21 in [the Fitch Solutions] Asia Pacific Infrastructure Risk/Reward Index, despite the healthy pipeline.

- The burden of weak institutional and regulatory frameworks weighs heavily on the infrastructure sector, notwithstanding promising fundamentals (a growing economy with immense infrastructure requirements).

WEAKNESSES

- A well-defined strategy for infrastructure is still lacking; Excessive red tape remains a barrier for investors; and Underdeveloped financial and regulatory systems create problems for project financing and execution.

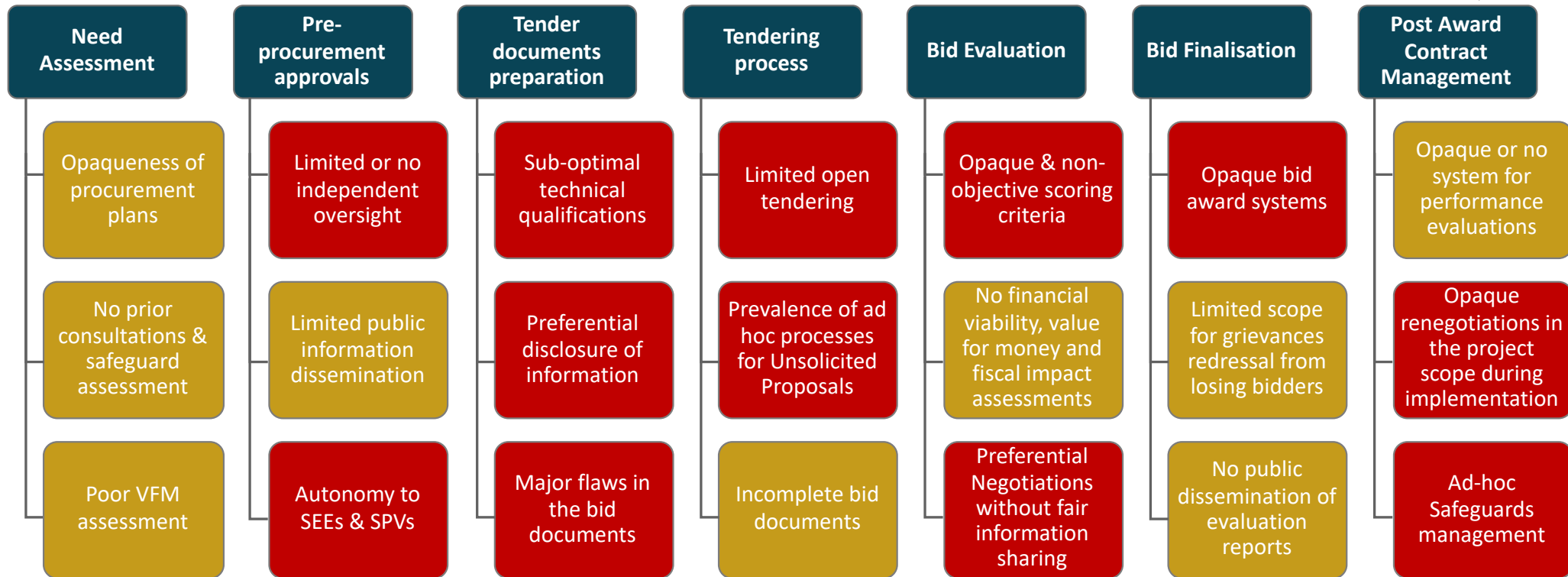
THREATS

- “Remains to be seen if politically sensitive issues such as delays to land and environmental clearances will be adequately addressed by the government.”

The consequences are serious for attracting private capital into the infrastructure sector.

Exposure to Influence and Mis-procurement Risks are High

Comparing Myanmar's Current Procurement Systems to Minimum Good Standards



Red – High Risk/ Amber – Medium Risk

“Risks are high due to key Institutional, regulatory and systemic constraints accounting for poor public procurement effectiveness”

Key Policy, regulatory and institutional bottlenecks/gaps need to be addressed for improving procurement standards and practices

Requirement on publishing procurement plans online

Regulatory coverage across PPP projects and USPs

Ministerial oversight & inter-IGA coordination during the procurement process

Strict integrity enforcement, transparency and oversight mechanism for bid evaluations

Regulations on key issues: terminations, dispute resolution, renegotiations etc.

Requirement of aligning large procurements with strategic plans

Policy clarity on land related procurements, use of Land Value Capture instruments

Regulatory requirement on involvement of civil societies during pre-bid meetings

Regulations & Institutional mechanism related to grievance redressal

Regulations on transparency required for safeguard impacts and management.

Authority-accountability alignment for procurement initiation approvals

Regulations related to use of Joint Ventures by IGAs

Regulatory oversight related to conflict of interests with potential bidders

Centralised public procurement effectiveness measurement.

Due transparent processes related to blacklisting of firms.

Building IGA Capacity: Embedded TA and 'learning by doing'

Project preparation & VFM assessments capacity across IGAs for procurement initiation

Tender preparation capacity at the Regional/state/city level

Capacity related to governance and monitoring mechanisms

Capacity related to preparation of multi-year investment plans

Fiscal and economic risks assessment capacity of PPPs

Capacity related to PPP project structuring and PPP models

Capacity related to integrating safeguard and climate change aspects into project design & procurement

Institutional capacity to conduct VFM assessments as part of bid evaluation

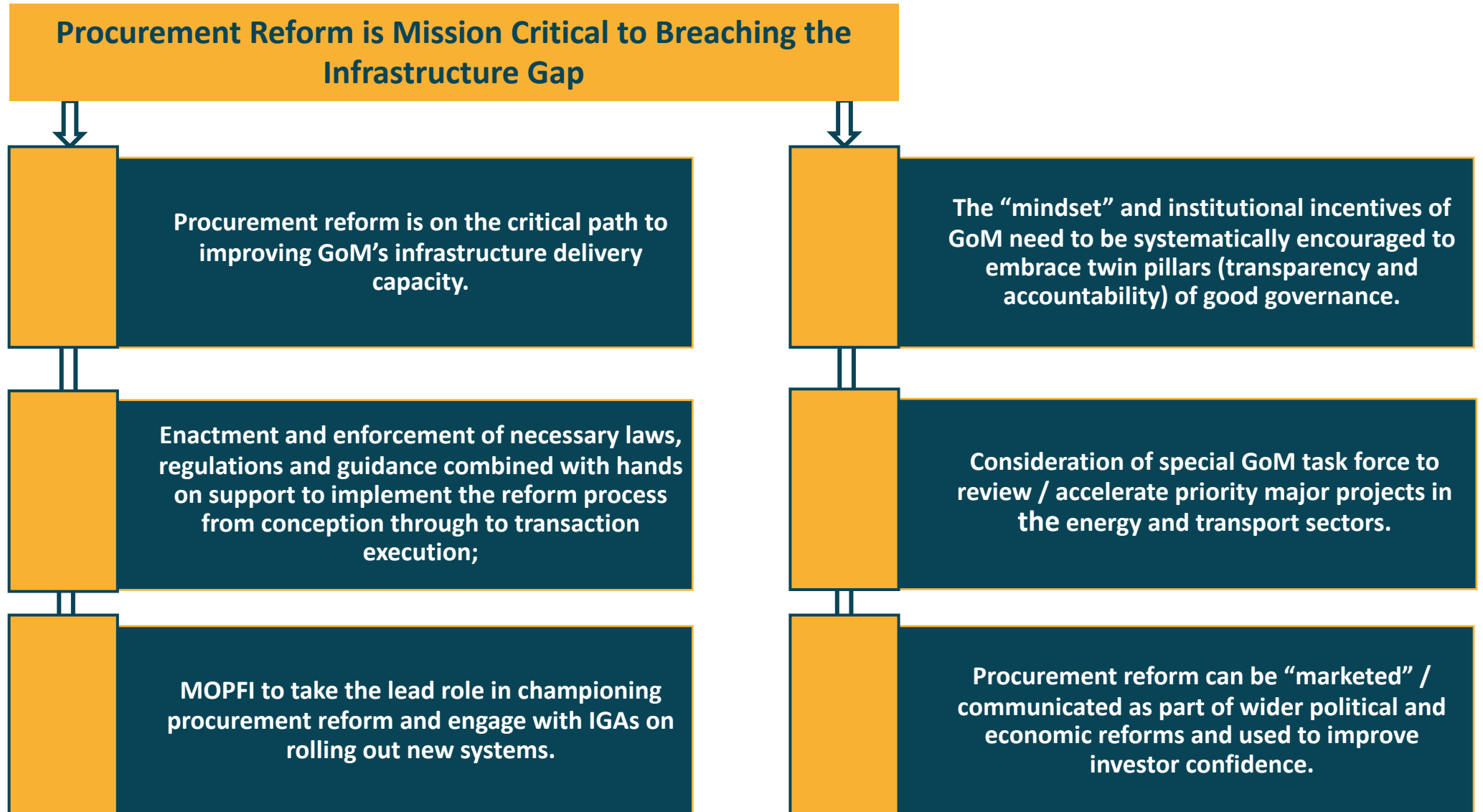
Standardized documents, SOPs, forms for tender process, concession agreements

Capacity related to usage of Joint Ventures by IGAs

Horizontal and vertical capacity scaling for adoption of policies, and regulations

Capacity related to setting KPIs for projects, adopting & reporting monitoring frameworks

Recommendations for GoM: what should we be doing?



CIGM Support / What more is needed?

CIGM focused on national level procurement capacity building

Project Bank focus:
Better Business Cases to
make procurement
easier to execute

Design Myanmar
specific concept
and
implementation
actions

Development
partners'
meeting

- ❑ *Selecting priority projects to be fast tracked with hands on support to demonstrate proof of concept of best / good practices within a non-IFI project environment.*

- ❑ *Aligns to addressing procurement constraints for accelerating investments under CIGM and acts as a COVID-19 fast stimulus to unblock investment;*
- ❑ *Anchored in the MoPFI: under the IIDM strategic initiative and coordinated with the PC work;*
- ❑ *Twin tracks – national framework and then work with 3 IGAs and perhaps YRG and MRG to bring this to State / Regional level and maybe SEE (MPA or Myanma Railways*

Discussion point – How to improve large infrastructure delivery in Myanmar?

- Transparency?
- Competition?
- International influence?
- Project's risk allocation?
- Revenue clarity and security?
- Bid conditions?
- Policy and Regulatory clarity?
- Environmental and social Safeguards?
- Grievances and dispute-resolution?
- Red tape in approval processes?
- Project Finance availability?
-

What are the perceived risks associated with large infrastructure procurement?

- What should GoM do?
- How can DFID/Hlan Chi play a role?
- How to leverage on BCCM partners?

How do the risks affect decision making?

How to mitigate and manage the risks?

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