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## **Public-private partnerships (PPPs): Proposed updates to the UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects (revised chapter VII)**

**Note by the Secretariat**

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## VII. Other relevant areas of law

### A. General remarks

1. The stage of development of the relevant laws of the host country, the stability of its legal system and the adequacy of remedies available to private parties are essential elements of the overall legal framework for PPPs. By reviewing and, as appropriate, improving its laws in those areas of immediate relevance for PPPs, the host country will make an important contribution to securing a hospitable climate for private sector investment in public infrastructure and services. Greater legal certainty and a favourable legal framework will translate into a better assessment of country risks by lenders and investors. This will have a positive influence on the cost of mobilizing private capital and reduce the need for governmental support or guarantees (see chap. II, “Project planning and preparation”, paras. ...).

2. Section B points out a few selected aspects of the laws of the host country that, without necessarily dealing directly with PPPs, may have an impact on their implementation (see paras. 3–52). Section C indicates the possible relevance of a few major international agreements for the implementation of PPPs in the host country (see paras. 53–57).

### B. Other relevant areas of law

3. In addition to issues pertaining to legislation directed specifically towards PPPs, a favourable legal framework also requires supportive provisions in other areas of legislation. Private investment in infrastructure and services will be encouraged by the existence of legislation that promotes and protects private investment in economic activities. The following paragraphs pinpoint only a few selected aspects of other fields of law that may have an impact on the implementation of infrastructure projects. The existence of adequate legal provisions in those other fields may facilitate a number of transactions necessary to carry out infrastructure projects and help to reduce the perceived legal risk of investment in the host country.

#### 1. Promotion and protection of investment

4. One matter of particular concern for the project promoters and lenders is the degree of protection afforded to investment in the host country. Foreign investors in the host country will require assurances that they will be protected from nationalization or dispossession without judicial review and appropriate compensation in accordance with the rules in force in the host country and with international law standards. Project promoters will also be concerned about their ability, inter alia, to bring to the country without unreasonable restriction the qualified personnel required to work with the project, to import needed goods and equipment, to gain access to foreign exchange as needed and to transfer abroad or repatriate their profits or sums needed to repay loans that the company has entered into for the purpose of the PPP project. In addition to specific guarantees that may be provided by the Government (see chap. II, “Project planning and preparation”, paras. ...), legislation on promotion and protection of investment may play an important role in connection with PPPs. For countries that already have adequate investment protection legislation, it may be useful to consider expressly extending the protection provided in such legislation to PPP projects. Countries wishing to develop a consistent and efficient policy aiming at promoting and protecting investments can find useful inspiration in the core principles for investment policymaking contained in the Investment Policy Framework adopted by the United Nations Conference on Trade and Development (UNCTAD).<sup>1</sup>

<sup>1</sup> The UNCTAD Investment Policy Framework for sustainable development (UNCTAD/WEB/DIAE/PCB/2015/3) and its “Principles for investment policy making” are available on the following address: <http://investmentpolicyhub.unctad.org/ipfsd>.

5. An increasing number of countries have entered into bilateral investment agreements that aim at facilitating and protecting the flow of investment between the contracting parties. Investment protection agreements usually contain provisions concerning the admission and treatment of foreign investment; transfer of capital between the contracting parties (payment of dividends abroad or repatriation of investment, for example); availability of foreign exchange for transfer or repatriation of proceeds of investment; protection from expropriation and nationalization; and settlement of investment disputes outside of the host country (see Chapter VI, “Settlement of disputes” paras. ...). The existence of such an agreement between the host country and the originating country or countries of the project sponsors may play an important role in their decision to invest in the host country. In addition, depending on its terms, such an agreement may reduce the need for assurances or guarantees by the Government geared to individual infrastructure projects. The guide of UNCTAD on Investment Policy Framework (see para. 4) is also consistent with such an approach: it contains recommendations on how to define and implement a strategy in the highly complex and fragmented web of treaties at the multilateral level.

6. Moreover, in a number of countries rules aimed at facilitating and protecting the flow of investment (which also include areas such as immigration legislation, import control and foreign exchange rules) are contained in legislation that might not necessarily be based on a bilateral or multilateral treaty.

## **2. Property law**

7. It is desirable for the property laws of the host country to reflect acceptable international standards, contain adequate provisions on the ownership and use of land and buildings, as well as movable and intangible property, and ensure the private partner’s ability to purchase, sell, transfer and license the use of property, as appropriate. Constitutional provisions upholding property rights have been found to be important factors in attracting and fostering private investment in many countries.

8. Where the private partner owns the land on which the facility is built, it is important that the ownership or the right of use of the land can be clearly and unequivocally established through adequate registration and publicity procedures. The private partner and lenders will need clear proof that ownership or usage rights of the land will not be subject to dispute. They will therefore be reluctant to commit funds to the project if the laws of the host country do not provide adequate means for ascertaining ownership or long-time usage of the land.

9. It is also necessary to provide effective mechanisms for the enforcement of the property and possessory rights granted to the private partner against violation by third parties. Enforcement should also extend to easements and rights of way that may be needed by the private partner for providing and maintaining the relevant service (such as placing of poles and cables on private property to ensure the distribution of electricity) (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...).

## **3. Security interests**

10. As indicated earlier (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...), security arrangements in PPP projects may be complex and consist of a variety of forms of security, including fixed security over physical assets of the private partner (for example, mortgages or charges), pledges of shares of the private partner and assignment of intangible assets (receivables) of the project. While the loan agreements are usually subject to the governing law chosen by the parties, the laws of the host country will in most cases determine the type of security that can be enforced against assets located in the host country and the remedies available.

11. Differences in the type of security or limitations in the remedies available under the laws of the host country may be a cause of concern to potential lenders. It is therefore important to ensure that domestic laws provide adequate legal protection to secured creditors and do not hinder the ability of the parties to establish appropriate

security arrangements. Because of the significant differences between legal systems regarding the law of security interests, the *Guide* does not discuss in detail the technicalities of the requisite legislation and the following paragraphs provide only a general outline of the main elements of a modern regime for secured transactions.

12. In some legal systems, security interests can be created in virtually all kinds of assets, including intellectual property, whereas in other systems security interests can only be created in a limited category of assets, such as land and buildings. In some countries, security interests can be created over assets that do not yet exist (future assets) and security may be taken over all of a company's assets, while allowing the company to continue to deal with those assets in the ordinary course of business. Some legal systems provide for a non-possessory security interest, so that security can be taken over assets without taking actual possession of the assets; in other systems, as regards those assets which are not subject to a title registration system, security may only be taken by physical possession or constructive possession. Under some systems, enforcement of the security interest can be undertaken without court involvement, whereas in other systems it may only be enforced through court procedures. Some countries provide enforcement remedies that not only include sale of the asset, but also enable the secured lender to operate the asset either by taking possession or appointing a receiver; in other countries, judicial sale may be the primary enforcement mechanism. Under some systems, certain types of security will rank ahead of preferential creditors, whereas in others the preferential creditors rank ahead of all types of security. In some countries, creation of a security interest is cost-efficient, with minimal fees and duties payable, whereas in other countries it can be costly. In some countries, the value of the amount of security taken may be unlimited, while in others the value of security cannot be excessive in comparison with the debt owed. Some legal systems impose obligations on the secured lender on enforcement of the security, such as the obligation to take steps ensuring that assets will be sold at fair market value.

13. Basic legal protection may include provisions ensuring that fixed security (such as a mortgage) is a registrable interest and that, once such security is registered in the register of title or other public register, any purchaser of the property to which the security attaches should take the property subject to such security. This may be difficult, since in many countries no specialized registers of title exist. Furthermore, security should be enforceable against third parties, which may require that they have the nature of a property right and not a mere obligation, and should entitle the person receiving security to a sale, in enforcement proceedings, of the assets taken as security.

14. Another important aspect concerns the flexibility given to the parties to define the assets that are given as security. In some legal systems, broad freedom is given to the parties in the definition of assets that may be given as security. In some legal systems, it is possible to create security that covers all the assets of an enterprise, making it possible to sell the enterprise as a going concern, which may enable an enterprise in financial difficulties to be rescued while increasing the recovery of the secured creditor. Other legal systems, however, allow only the creation of security that attaches to specific assets and do not recognize security covering the entirety of the debtor's assets. There may also be limitations on the debtor's ability to trade in goods given as security. The existence of limitations and restrictions of this type makes it difficult or even impossible for the debtor to create security over generically described assets or over assets traded in the ordinary course of its business.

15. Given the long-term nature of PPPs, the parties may wish to be able to define the assets that are given as security specifically or generally. They may also wish such security to cover present or future assets and assets that might change during the life of the security. It may be desirable to review existing provisions on security interests with a view to including provisions enabling the parties to agree on suitable security arrangements.

16. Various international intergovernmental bodies, including UNCITRAL, have elaborated instruments that can be used as models for the development or modernization of legislation on security interests. Notably, the UNCITRAL Model Law on Secured Transactions<sup>2</sup> provides a transparent, comprehensive and modern legislative framework of secured financing that can meet the needs of the operators active in PPPs, as described above (see paras. 10–15). The United Nations Convention on the Assignment of Receivables in International Trade<sup>3</sup> is also a useful tool to remove obstacles to cross-border transactions that are fundamental for the financing of PPP projects. Another set of international instruments relevant for international security interests is the Cape Town Convention on International Interests in Mobile Equipment<sup>4</sup> and the subsequent Protocols related to Aircraft,<sup>5</sup> Rail,<sup>6</sup> and Space,<sup>7</sup> elaborated under the aegis of the International Institute for the Unification of Private Law (Unidroit), which provides for secure and readily enforceable rights, notably an electronic international register, over moveable assets that could be included into PPPs transaction.

#### 4. Intellectual property law

17. PPPs frequently involve the use of new or advanced technologies protected under patents or similar intellectual property rights. They may also involve the formulation and submission of original or innovative solutions, which may constitute the proponent's proprietary information under copyright protection. Therefore, private investors, national and foreign, bringing new or advanced technology into the host country or developing original solutions will need to be assured that their intellectual property rights will be protected and that they will be able to enforce those rights against infringements, which may require the enactment of criminal law provisions designed to combat infringements of intellectual property rights.

18. A legal framework for the protection of intellectual property may be provided by adherence to international agreements regarding the protection and registration of intellectual property rights. It would be desirable to strengthen the protection of intellectual property rights in line with such instruments as the Paris Convention for the Protection of Industrial Property of 1883.<sup>8</sup> The Convention applies to industrial property in the widest sense, including inventions, marks, industrial designs, utility models, trade names, geographical indications and the repression of unfair competition. The Convention provides that, as regards the protection of industrial property, each contracting State must grant national treatment. It also provides for the right of priority in the case of patents, marks and industrial designs and establishes a few common rules that all the contracting States must follow in relation to patents, marks, industrial designs, trade names, indications of source, unfair competition and national administrations. A framework for further international patent protection is provided under the Patent Cooperation Treaty of 1970, which makes it possible to seek patent protection for an invention simultaneously in each of a large number of countries by filing an international patent application. In some countries, international standards are supplemented by legislation aimed at affording legal protection to new

<sup>2</sup> UNCITRAL Model Law on Secured Transactions (2016), available at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/security/2016Model\\_secured.html](http://www.uncitral.org/uncitral/en/uncitral_texts/security/2016Model_secured.html).

<sup>3</sup> The United Nations Convention on the Assignment of Receivables in International Trade (New York, 2001), available at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/security/2001Convention\\_receivables.html](http://www.uncitral.org/uncitral/en/uncitral_texts/security/2001Convention_receivables.html).

<sup>4</sup> Convention on International Interests in Mobile Equipment (The Cape Town Convention on International Interests in Mobile Equipment) (Cape Town, 2001).

<sup>5</sup> Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment (Cape Town, 2001).

<sup>6</sup> Luxembourg Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Railway Rolling Stock (Luxembourg, 2007).

<sup>7</sup> Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Space Assets (Berlin, 2012).

<sup>8</sup> As revised in Brussels on 14 December 1900, in Washington, D.C., on 2 June 1911, in The Hague on 6 November 1925, at London on 2 June 1934, in Lisbon on 31 October 1958 and in Stockholm on 14 July 1967 and as amended on 2 October 1979.

technological developments, such as legislation that protects intellectual property rights in computer software and computer hardware design. Furthermore, the Patent Law Treaty<sup>9</sup> aims at the harmonization of formal procedures in respect of national and regional patent applications and patents.

19. Other important instruments providing international protection of industrial property rights are the Madrid Agreement Concerning the International Registration of Marks of 1891,<sup>10</sup> the Protocol Relating to the Madrid Agreement of 1989 and the Common Regulations under the Madrid Agreement and the Protocol Relating thereto of 1998. The Madrid Agreement provides for the international registration of marks (both trademarks and service marks) at the International Bureau of the World Intellectual Property Organization (WIPO). International registration of marks under the Madrid Agreement has effect in several countries, potentially in all the contracting States (except the country of origin). Furthermore, the Trademark Law Treaty of 1994 simplifies and harmonizes procedures for the application for registration of trademarks, changes after registration and renewal.

20. In the area of industrial designs, the Hague Agreement Concerning the International Deposit of Industrial Designs of 1925<sup>11</sup> provides for the international deposit of industrial designs at the International Bureau of WIPO. The international deposit has, in each of the contracting States designated by the applicant, the same effect as if all the formalities required by the domestic law for the grant of protection had been complied with by the applicant and as if all administrative acts required to that end had been accomplished by the office of that country.

21. The most comprehensive multilateral agreement on intellectual property to date is the Agreement on Trade Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") which was negotiated under the auspices of the World Trade Organization (WTO) and came into effect on 1 January 1995. The areas of intellectual property that it covers are copyright and related rights (that is, the rights of performers, producers of sound recordings and broadcasting organizations); trademarks, including service marks; geographical indications, including appellations of origin; industrial designs; patents, including the protection of new varieties of plants; the layout designs of integrated circuits; and undisclosed information, including trade secrets and test data. In respect of each of the main areas of intellectual property covered by it, the TRIPS Agreement sets out the minimum standards of protection to be provided by each contracting party by requiring, first, compliance with the substantive obligations, inter alia, of the Paris Convention in its most recent version. The main substantive provisions of the Paris Convention are incorporated by reference and thus become obligations under the TRIPS Agreement. The TRIPS Agreement also adds a substantial number of additional obligations on matters where the pre-existing conventions on intellectual property are silent or were seen as being inadequate. In addition, the Agreement lays down certain general principles applicable to all procedures for the enforcement of intellectual property rights. Furthermore, the TRIPS Agreement contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that intellectual property rights can effectively be enforced by their holders.

## **5. Rules and procedures on compulsory acquisition of private property**

22. Where the Government assumes responsibility for providing the land required for the implementation of the project, that land may be either purchased from its

<sup>9</sup> Patent Law Treaty (PLT) (Geneva, 1 June 2000).

<sup>10</sup> As revised in Brussels on 14 December 1900, in Washington, D.C., on 2 June 1911, in The Hague on 6 November 1925, in London on 2 June 1934, in Nice on 15 June 1957 and in Stockholm on 14 July 1967.

<sup>11</sup> With the Additional Act of Monaco of 1961, the Complementary Act of Stockholm of 1967 as amended on 28 September 1979 and the Regulations Under the Hague Agreement Concerning the International Deposit of Industrial Designs of 1998.

owners or, if necessary, compulsorily acquired against the payment of adequate compensation by procedures sometimes referred to as “compulsory acquisition” or “expropriation” (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...). Many countries have legislation governing compulsory acquisition of private property and that legislation would probably apply to the compulsory acquisition of property required for PPP projects.

23. Compulsory acquisition may be carried out in judicial or administrative proceedings or may be effected by an ad hoc legislative act. In most cases, the proceedings involve both administrative and judicial phases, which may be lengthy and complex. The Government may thus wish to review existing provisions on compulsory acquisition for reasons of public interest with a view to assessing their adequacy to the needs of large infrastructure projects and to determining whether such provisions allow quick and cost-effective procedures, while affording adequate protection to the rights of the owners. To the extent permitted by law and in the frame of the social and environmental impact study which would have been conducted at the project inception phase (see chap. II, “Project planning and preparation”, paras. ...), it is important to enable the Government to take possession of the property without unnecessary delay, so as to avoid increased project costs.

## **6. Rules on government contracts and administrative law**

24. In many legal systems belonging to or influenced by the tradition of civil law, the provision of public services may be governed by a body of law known as “administrative law”, which regulates a wide range of governmental functions. Such systems operate under the principle that the Government can exercise its powers and functions either by means of an administrative act or an administrative contract. It is also generally understood that, alternatively, the Government may enter into a private contract, subject to the law governing private commercial contracts. The differences between the two types of contract may be significant.

25. Under the concept of the administrative contract, the freedom and autonomy enjoyed by the parties to a private contract are subordinate to the public interest. In some legal systems, the Government has the right to modify the scope and terms of administrative contracts or even terminate them for reasons of public interest, usually subject to compensation for loss sustained by the private contracting party (see chap. V, “Duration, extension and termination of the PPP contract”, paras. ...). Additional rights might include extensive monitoring and inspection rights, as well as the right to impose sanctions on the private operator for failure to perform. This is often balanced by the requirement that other changes may be made to the contract as may be necessary to restore the original financial equilibrium between the parties and to preserve the contract’s general value for the private contracting party (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...). In some legal systems, disputes arising out of government contracts are subject to the exclusive jurisdiction of special tribunals dealing solely with administrative matters, which in some countries are separate from the judicial system or form a distinct judicial system (see chap. VI, “Settlement of disputes”, paras. ...).

26. The existence of a special legal regime applicable to infrastructure operators and public service providers is not limited to the legal systems referred to above. Although in legal systems influenced by the tradition of common law no such categorical distinction is made between administrative contracts and private contracts, similar consequences may be achieved by different means. While under such systems of law it is frequently held that the rule of law is best maintained by subjecting the Government to ordinary private law, it is generally recognized that the administration cannot by contract fetter the exercise of its sovereign functions. It cannot hamper its future executive authority in the performance of those governmental functions which affect the public interest. Under the doctrine of sovereign acts, which is upheld in some common law jurisdictions, the Government as contractor is excused from the performance of its contracts if the Government as sovereign enacts laws, regulations or orders in the public interest that prevent that performance. Thus, the law may

permit a public authority to interfere with vested contractual rights. Usually such action is limited so that the changes cannot be of such magnitude that the other party could not fairly adapt to them. In those circumstances, the private party is ordinarily entitled to some sort of compensation or equitable adjustment. In anticipation of such possibilities, in some countries a standard “changes” clause is included in a governmental contract that enables the Government to alter the terms on a unilateral basis or that provides for changes as a result of an intervening sovereign act.

27. Special prerogatives for governmental agencies are justified in those legal systems by reasons of public interest. It is however recognized that special governmental prerogatives, in particular the power to alter the terms of contracts unilaterally, may, if improperly used, adversely affect the vested rights of government contractors. For this reason, countries with a well established tradition of private participation in infrastructure projects have developed a series of control mechanisms and remedies to protect government contractors against arbitrary or improper acts by public authorities, such as access to impartial dispute settlement bodies and full compensation schemes for governmental wrongdoing. Where protection of this nature is not afforded, rules of law providing public authorities with special prerogatives may be regarded by potential investors as an imponderable risk, which may discourage them from investing in particular jurisdictions. For this reason, some countries have reviewed their legislation on government contracts so as to provide the degree of protection needed to foster private investment and remove those provisions which gave rise to concern about the long-term contractual stability required for infrastructure projects.

## **7. Private contract law**

28. The laws governing private contracts play an important role in connection with contracts entered into by the private partner with subcontractors, suppliers and other private parties. The domestic law on private contracts should provide adequate solutions to the needs of the contracting parties, including flexibility in devising the contracts needed for the construction and operation of the infrastructure facility. Apart from some essential elements of adequate contract law, such as general recognition of party autonomy, judicial enforceability of contract obligations and adequate remedies for breach of contract, the laws of the host country may create a favourable environment for PPPs by facilitating contractual arrangements likely to be used in those projects. An adequate set of rules of private international law is also important, given the likelihood that contracts entered into by the private partner will include some international elements.

29. Where new infrastructure is to be built, the private partner may need to import large quantities of supplies and equipment. Greater legal certainty for such transactions will be ensured if the laws of the host country contain provisions specially adapted to international sales contracts. A particularly suitable legal framework may be provided by adherence to the United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980)<sup>12</sup> or other international instruments dealing with specific contracts, such as the Unidroit Convention on International Financial Leasing (Ottawa, 1988),<sup>13</sup> drawn up by Unidroit.

## **8. Company law**

30. In most projects involving the development of a new PPP project, the project promoters will establish the project company as a separate legal entity in the host country (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...). It is recognized that the project company may take various forms in

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<sup>12</sup> *Official Records of the United Nations Conference on Contracts for the International Sale of Goods, Vienna, 10 March–11 April 1980* (United Nations publication, Sales No. E.82.V.5), part I.

<sup>13</sup> *Acts and Proceedings of the Diplomatic Conference for the adoption of the draft Unidroit Conventions on International Factoring and International Financial Leasing, Ottawa, 9–28 May 1988*, vol. I.

different countries, which may not necessarily entail a corporation. As in most cases it is a corporate form that is selected, it is particularly important for the host country to have adequate company laws with modern provisions on essential matters such as establishment procedures, corporate governance, issuance of shares and their sale or transfer, accounting and financial statements and protection of minority shareholders. Furthermore, the recognition of the investors' ability to establish separate entities to serve as special-purpose vehicles for raising financing and disbursing funds may facilitate the closing of project finance transactions (see chap. IV, "PPP implementation: legal framework and PPP contract", para. ...).

31. Although various corporate forms may be used, a common characteristic is that the private partner entity's owners (or shareholders) will require that their liability be limited to the value of their shares in the company's capital. If it is intended that the project company will offer shares to the public, limited liability will be necessary, as the prospective investors will usually only purchase those shares for their investment value and will not be closely involved in the operation of the project company. It is therefore important that the laws of the host country provide adequately for the limitation of liability of shareholders. Furthermore, adequate provisions governing the issuance of bonds, debentures or other securities by commercial companies will enable the private partner to obtain funds from investors on the security market, thus facilitating the financing of certain projects.

32. Legislation should establish the responsibilities of directors and administrators of the project company, including the basis for criminal responsibility. It can also set out provisions for the protection of third parties affected by any breach of corporate responsibility. Modern company laws often contain specific provisions regulating the conduct of managers so as to prevent conflicts of interest. Provisions of this type require that managers act in good faith in the best interest of the company and do not use their position to foster their own or any other person's financial interests to the detriment of the company. Provisions intended to curb conflicts of interest in corporate management may be particularly relevant in connection with infrastructure projects, where the private partner may wish to engage its own shareholders, at some stage of the project, to perform work or provide services in connection with it (see chap. IV, "PPP implementation: legal framework and PPP contract", paras. ...).

33. It is important for the law to regulate adequately the decision-making process both for meetings of the shareholders and meetings of management organs of the company (the board of directors or supervisory board, for example). Protection of shareholders' rights and, in particular, protection for minority shareholders from abuse by controlling or majority shareholders are important elements of modern company laws. Mechanisms for the settlement of disputes among shareholders are also critical. It is useful to recognize the right of the shareholders to regulate a number of additional matters concerning the management of the private partner through agreements among themselves or through management contracts with the directors of the private partner.

## **9. Tax law and cross-borders tax issues**

34. In addition to possible tax incentives that may be generally available in the host country or that may be specially granted to PPPs in general or to listed projects (see chap. II, "Project planning and preparation", paras. ...), the general taxation regime of the host country plays a significant role in the investment decisions of private companies. Beyond an assessment of the impact of taxation in the project cost and the expected margin of profit, private investors consider questions such as the overall transparency of the domestic taxation system, the degree of discretion exercised by taxation authorities, the clarity of guidelines and instructions issued to taxpayers and the objectivity of criteria used to calculate tax liabilities. This may be a complex matter, in particular in those countries where the authority to establish or increase taxes or to enforce tax legislation has been decentralized.

35. PPP projects, which are typically financed through loans from commercial or international development banks or through sponsors equity finance, require a predictable cash flow. For that reason, it is crucial for all potential tax implications to be readily assessable throughout the life of the project. Unanticipated changes in the taxes that reduce that cash flow can have serious consequences for the project. In some countries, the Government is authorized to enter into agreements with the investors for the purpose of guaranteeing that the cash flow of the project will not be adversely affected by unexpected increases in taxation. Such arrangements are sometimes referred to as “tax stabilization agreements”. However, the Government may be restrained, by constitutional law or for political reasons, from providing this type of guarantee, in which case the parties may agree on compensation or contractual revision mechanisms for dealing with cost increases due to tax changes (see also chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...).

36. The international aspect of PPPs, where very often PPPs are concluded with foreign investors, also bears important consequences in terms of taxation, depending on the tax system in place in the host country and in the country of origin. Most national tax regimes fall into one of three general categories. One approach is worldwide taxation with credits, in which all income earned anywhere is taxed in the home country and double taxation is avoided through the use of a foreign tax credit system; home country taxes are reduced by the amount of foreign taxes already paid. If this approach is used by an investor’s home country, the investor’s tax liability can be no less than it would be at home. Under a different taxation approach, the foreign income that has already been subject to foreign tax is exempt from taxation by the home country of the investor. Under a territorial approach, foreign income is exempt from home country taxation altogether. Investors in home countries that use the latter two systems of taxation would benefit from tax holidays and lower tax rates in the host country, but such tax relief would offer no incentive to an investor located in a tax haven.

37. The parties involved in the project may have different concerns over potential tax liability. Investors are usually concerned about the taxation of profits earned in the host country, taxation on payments made to contractors, suppliers, investors and lenders, and tax treatment of any capital gains (or losses) when the private partner is wound up. Investors may find that payments used to reduce taxes under their home country regime (such as payments for interest on borrowed funds, investigation costs, bidding costs and foreign exchange losses) may not be available in the host country, or vice versa. Since foreign tax credits are only allowed for foreign income taxes, investors need to ensure that any income tax paid in the host country satisfies the definition of income tax of their own country’s taxing authority. Similarly, the project company in the host country may be treated for tax purposes as a different type of entity in the home country. In projects where the assets become public property, this may preclude deductions for depreciation under the laws of the home country.

38. One particular problem of PPP projects involving foreign investment is the possibility that foreign companies participating in a project consortium may be exposed to double taxation, that is, taxation of profits, royalties and interests in their own home countries as well as in the host country. The timing of tax payments and requirements to pay withholding taxes can also pose problems. A number of countries have entered into bilateral agreements often based on the OECD Model Tax Convention on Income and Capital<sup>14</sup> to eliminate or at least reduce the negative effects of double taxation and the existence of such agreements between the host country and the home countries of the project sponsors often plays a role in their tax considerations.

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<sup>14</sup> The reader is advised to consult the Model Tax Convention on Income and Capital prepared by Organisation for Economic Cooperation and Development (OECD) which is updated on a regular basis by the institution to take into account the new developments in tax law and in practice on double taxation issues (<http://www.oecd.org/tax/treaties/>).

39. Ultimately, it is the cumulative effect of all taxes combined that needs to be taken into consideration. For example, there may be taxes imposed by more than one level of taxing authority; in addition to taxation by the national Government, the private partner may also face municipal or provincial taxes. There may also be certain levies other than income taxes, which often are due and payable before the private partner has earned any revenues. These include sales taxes, sometimes referred to as “turnover taxes”, value-added taxes, property taxes, stamp duties and import duties. Sometimes special provisions can be made to offer partial or full relief from these payments as well, in the frame of investment incentive programs.

#### **10. Corporate accounting rules and practices**

40. The Guide discussed in Chapter II the budgetary options available to the public authorities to record the cost of government support given to PPPs (see Chapter II, “Project planning and preparation” para. 34). The assessment of the private partner financial situation is equally important in the context of PPPs. In several countries, companies are required by law to follow internationally acceptable standard accounting practices and retain the services of professional accountants or accounting auditors. Among the reasons for this is that the adoption of standard accounting practices is a measure taken to achieve uniformity in the valuation of businesses. In connection with the selection of the private partner, the use of standard accounting practices may also facilitate the task of evaluating the financial standing of bidders in order to determine whether they meet the pre-selection criteria required by the contracting authority (see chap. III, “Selection of the private partner” paras. ...). Standard accounting practices are also essential for carrying out audits of the profits of companies, which may be required for the application of tariff structures and the monitoring of the private partner’s performance by the regulatory body (see chap. IV, “PPP implementation: legal framework and PPP contract”, paras. ...).

41. Special accounting rules for infrastructure operators have also been introduced in some countries to take into account the particular revenue profile of infrastructure projects. Projects involving the construction of infrastructure facilities, in particular roads and other transportation facilities, are typically characterized by a relatively short investment period, with high financial cost and no revenue stream, followed by a longer period with increasing revenue and decreasing financial cost and, under normal circumstances, stable operating costs. Accordingly, if traditional accounting rules were applied, the particular financial structure of such projects would need to be recorded in the project company’s accounts as a period of continuous negative results followed by a long period of net profit. This would not only have negative consequences, for instance, for the project company’s credit rating during the construction phase, but might also result in a disproportionate tax debt during the operational phase of the project. In order to avoid such a distortion, some countries have adopted special accounting rules for companies undertaking infrastructure projects that take into account the fact that the financial results of PPP projects may only become positive on a medium-term basis. Those special rules typically authorize infrastructure developers to defer part of the financial cost accrued during the deficit phase to the subsequent financial years, in accordance with financial schedules provided in the project agreement. However, the special accounting rules are typically without prejudice to other regulations that may prohibit the distribution of dividends during financial years closed with negative results.

#### **11. Environmental protection and PPPs**

42. Environmental protection encompasses a wide variety of issues, ranging from handling of wastes and hazardous substances to relocation of persons displaced by large land-use projects. Public authorities are making increasing use of PPPs to develop the facilities that are needed to meet their environmental protection and sustainable development goals (such as water and waste treatment facilities and systems, or “clean” energy generators). This has to be balanced with the social and environmental concerns that those type of large-scale projects raise (see chap. II,

“Project planning and preparation” paras. 18). For years now, it is widely recognized that environmental protection is a critical prerequisite to sustainable development, as enshrined in the Sustainable Development Goals (see “Introduction and background information on PPPs”, para. ...). Environmental protection legislation is likely to have a direct impact on the implementation of infrastructure projects at various levels, and environmental matters are among the most frequent causes of disputes. Environmental protection laws may include various requirements, such as the consent by various environmental authorities, evidence of no outstanding environmental liability, assurances that environmental standards will be maintained, commitments to remedy environmental damage and notification requirements. These laws often require prior authorization for the exercise of a number of business activities, which may be particularly stringent for some types of infrastructure (for instance, waste water treatment, waste collection, power transmission, roads and railways).

43. It is therefore advisable to include in legislation measures that make obligations arising from environmental laws transparent. It is important to ensure the highest possible degree of clarity in provisions concerning the tests that may be applied by the environmental authorities, the documentary and other requirements to be met by the applicants, the conditions under which licences are to be issued and the circumstances that justify the denial or withdrawal of a licence. Particularly important are provisions that guarantee the applicant’s access to expeditious appeals procedures and judicial recourse, as appropriate. It may also be advisable to ascertain to the extent possible, prior to the final award of the contract, whether the conditions for obtaining the required environmental licences are met. In some countries, special public authorities or advocacy groups may have the right to institute legal proceedings to seek to prevent environmental damage, which may include the right to seek the withdrawal of a licence deemed to be inconsistent with applicable environmental standards. In some of those countries, it has been found useful to involve representatives of the public in the proceedings that lead to the issuance of environmental licences (see also chap. II, “Project planning and preparation” paras. 17–18). The legislation may also establish the range of penalties that may be imposed and specify the parties that may be held responsible for the damage.

44. Adhering to treaties relating to the protection of the environment may help to strengthen the international regime of environmental protection. A large number of international instruments have been developed in the past decades to establish common international standards. These include the following: Agenda 21<sup>15</sup> and the Rio Declaration on Environment and Development,<sup>16</sup> adopted by the United Nations Conference on Environment and Development in 1992; the World Charter for Nature (General Assembly resolution 37/7, annex); the Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and Their Disposal of 1989; the Convention on Environmental Impact Assessment in a Transboundary Context of 1991;<sup>17</sup> and the Convention on the Protection and Use of Transboundary Watercourses and International Lakes of 1992.<sup>18</sup> Likewise, the development of Climate Finance, in the wake of the entry into force of the Paris Agreement, in 2016,<sup>19</sup> is considered as a way to meet the goals set up by each country in terms of mitigating global warming.

<sup>15</sup> Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3–14 June 1992 (United Nations publication, Sales No. E.93.I.8 and corrigenda), vol. I: *Resolutions adopted by the Conference*, resolution 1, annex II.

<sup>16</sup> *Ibid.*, annex I.

<sup>17</sup> United Nations, *Treaty Series*, vol. 1989. No. I-34028.

<sup>18</sup> *Ibid.*, vol. 1936, No. I-33207.

<sup>19</sup> Paris Agreement, 12 December 2015 (No. 54113). The Paris Agreement was adopted at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris from 30 November to 13 December 2015. It is published on the website of the Treaty section of the United Nations [https://treaties.un.org/Pages/showDetails.aspx?objid=0800000280458f37&clang=\\_fr](https://treaties.un.org/Pages/showDetails.aspx?objid=0800000280458f37&clang=_fr).

## 12. Consumer protection laws

45. The growing focus on public interest witnessed in PPPs bears consequences on the importance of the assessment of the consumer protection laws in the host country (see Chap. I, “General legal and institutional framework” par. 6). A number of countries have special rules of law on consumer protection. Consumer protection laws vary greatly from country to country, both in the way they are organized and in their substance. Nevertheless, consumer protection laws often include provisions such as favourable time limits for asserting claims and enforcing contractual rights; special rules for the interpretation of contracts whose terms are not usually negotiated with the consumer (sometimes referred to as “adhesion contracts”); extended warranties in favour of consumers; special termination rights; access to simplified dispute settlement instances (see also chap. VI, “Settlement of disputes”, paras. ...); or other protective measures. The United Nations Guidelines for Consumer Protection (UNGCP)<sup>20</sup>, first adopted in 1985 under the aegis of the Economic and Social Council of the United Nations, and then revised through a consultation process driven by UNCTAD, can be a useful inspiration for countries looking for improving their legal framework on consumer protection. In particular, guideline 76 on Energy and guideline 77 on Public utilities, are relevant with PPPs projects development.

46. From the private partner’s perspective, it is important to consider whether the host country’s laws on consumer protection may limit or hinder its ability to enforce, for instance, its right to obtain payment for the services provided, to adjust prices or to discontinue services to customers who breach essential terms of their contracts or violate essential conditions for the provision of the services. This is particularly relevant in the context of “concession-PPP” where the private partner charges a fee to the end user in addition to the payment received from the public authority (see “Introduction and background information on PPPs”, para. 15).

## 13. Insolvency law

47. The insolvency of an infrastructure operator or public service provider raises a number of issues that have led some countries to establish special rules to deal with such situations, including rules that enable the contracting authority to take the measures required to ensure the continuity of the project (see chap. V, “Duration, extension and termination of the PPP contract”, paras. ...). The continuity in the provision of the service may be achieved by means of a legal framework that allows for the rescue of enterprises facing financial difficulties, such as reorganization and similar proceedings. In the event that bankruptcy proceedings become inevitable, the secured lenders will be specially concerned about provisions concerning secured claims, in particular as to whether secured creditors may foreclose on the security despite the opening of bankruptcy proceedings, whether secured creditors are given priority for payments made with the proceeds of the security and how claims of secured creditors are ranked. As noted earlier, a substantial portion of the private partner’s debt takes the form of “senior” loans, with the lenders requiring precedence of payment over payment of the subordinated debt of the private partner (see “Introduction and background information on PPPs”, para. ...). The extent to which the lenders will be able to enforce such subordination arrangements will depend on the rules and provisions of the laws of the country that govern the ranking of creditors in insolvency proceedings. The legal recognition of party autonomy on the establishment of contractual subordination of different classes of loans may facilitate the financing of infrastructure projects.

48. Among the issues that the legislation should address are the following: the question of the ranking of creditors; the relationship between the insolvency administrator and creditors; legal mechanisms for reorganization of the insolvent

<sup>20</sup> The Resolution is available on the following page: [http://unctad.org/meetings/en/SessionalDocuments/ares70d186\\_en.pdf](http://unctad.org/meetings/en/SessionalDocuments/ares70d186_en.pdf) and on the UNCTAD dedicated page <http://unctad.org/en/Pages/DITC/CompetitionLaw/UN-Guidelines-on-Consumer-Protection.aspx>.

debtor; special rules designed to ensure the continuity of the public service in case of insolvency of the private partner; and provisions on avoidance of transactions entered into by the debtor shortly before the opening of the insolvency proceedings. The UNCITRAL Legislative Guide on Insolvency<sup>21</sup> and its explanatory texts<sup>22</sup> are useful tools for the modernization of a country's insolvency regime.

49. In large infrastructure projects, the insolvency of the project company is likely to involve creditors from more than one country or affect assets located in more than one country. It may therefore be desirable for the host country to have provisions in place that facilitate judicial cooperation, court access for foreign insolvency administrators and recognition of foreign insolvency proceedings. A suitable model that may be used by countries wishing to adopt legislation for that purpose is provided in the UNCITRAL Model Law on Cross-Border Insolvency and its Guide to Enactment and Interpretation,<sup>23</sup> supplemented by the UNCITRAL Model Law on the Recognition and Enforcement of Insolvency-related Judgements and its guide to enactment.<sup>24</sup>

#### 14. Anti-corruption measures

50. The investment and business environment in the host country may also be enhanced by measures to fight corruption in the administration of government contracts. It is particularly important for the host country to take effective and concrete action to combat bribery and related illicit practices, in particular to pursue effective enforcement of existing laws prohibiting bribery.

51. The enactment of laws that incorporate international agreements and standards on integrity in the conduct of public business may represent a significant step in that direction. In that respect, the only legally binding universal anti-corruption instrument is the United Nations Convention against Corruption<sup>25</sup> (see chap. I “General legal and institutional framework”, para. 4), which requires countries to establish criminal and other offences to cover a wide range of acts of corruption, notably bribery, if these are not already crimes under domestic law. Other important instruments include the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of 1997, which was negotiated under the auspices of the Organisation for Economic Cooperation and Development.<sup>26</sup>

52. Furthermore, it is important that the rules covering the functioning of contracting authorities and the monitoring of public contracts ensure the required degree of transparency and integrity, notably the publication of awarded contracts and of the performance evaluation reports. Where such rules do not exist, appropriate legislation and regulations should be developed and adopted. Simplicity and

<sup>21</sup> UNCITRAL Legislative Guide on Insolvency Law (2004), UNCITRAL Legislative Guide on Insolvency Law, Part Three: Treatment of enterprise groups in insolvency (2010) and UNCITRAL Legislative Guide on Insolvency Law, Part Four: Directors' obligations in the period approaching insolvency (2013) (all available at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/insolvency.html](http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency.html)).

<sup>22</sup> UNCITRAL Practice Guide on Cross-Border Insolvency Cooperation (2009) and UNCITRAL Model Law on Cross-Border Insolvency: The Judicial Perspective, UNCITRAL Model Law on Cross-Border Insolvency (1997) with Guide to Enactment and Interpretation (2013) (both available at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/insolvency.html](http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency.html)).

<sup>23</sup> The official text of the UNCITRAL Model Law on Cross-Border Insolvency is reproduced in *Official Records of the General Assembly, Fifty-second Session, Supplement No. 17 (A/52/17)*, Annex I (*Yearbook of the United Nations Commission on International Trade Law*, vol. XXVIII, 1997, part three, Annex I (United Nations publication, Sales No. E.96.V.6)). The UNCITRAL Model Law on Cross-Border Insolvency with Guide to Enactment and Interpretation have also been reproduced in booklet form (United Nations publication, Sales No. E.14.V.2). The use of the Model Law was recommended by the General Assembly in its resolution 52/158 of 15 December 1997.

<sup>24</sup> UNCITRAL Model Law on the Recognition and Enforcement of Insolvency-related Judgements and its guide to enactment (2018).

<sup>25</sup> United Nations Convention against Corruption, New York, 31 October 2003.

<sup>26</sup> <http://www.oecd.org/corruption/oecdantibriberyconvention.htm>.

consistency, coupled with the elimination of unnecessary procedures that prolong the administrative procedures or make them cumbersome, are additional elements to be taken into consideration in this context.

## **C. International agreements**

53. In addition to the internal legislation of the host country, PPPs may be affected by international agreements entered into by the host country. The implications of certain international agreements is discussed briefly below, in addition to other international agreements mentioned throughout the *Guide*.

### **1. Membership in international financial institutions**

54. Membership in multilateral financial institutions such as the World Bank, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the regional development banks is necessary to create a favourable climate for PPPs. Firstly, the host country's membership in those institutions is typically a requirement in order for projects in the host country to receive financing and guarantees provided by those institutions. Secondly, the rules on financing and guarantee instruments provided by those institutions typically contain a variety of terms and conditions of direct relevance for the terms of the project agreement and the loan agreements negotiated by the private partner (for example, a clause of negative pledge of public assets and provision of counter-guarantees in favour of the multilateral financial institution). Lastly, multilateral financial institutions usually follow a number of policy objectives whose implementation they seek to ensure in connection with projects supported by them (such as adherence to internationally acceptable environmental standards, long-term sustainability of the project beyond the initial concession period and transparency and integrity in the selection of the private partner and the disbursement of their loans).

### **2. General agreements on trade facilitation and promotion**

55. A number of multilateral agreements have been negotiated to promote free trade at the global level. The most notable of those agreements have been negotiated under the auspices of the General Agreement on Tariffs and Trade and later WTO. Those agreements may contain general provisions on trade promotion and facilitation of trade in goods (such as a most-favoured-nation clause or prohibition of the use of quantitative restrictions and other discriminatory trade barriers) and on the promotion of fair trade practices (such as prohibition of dumping and limitations on the use of subsidies). Some specific agreements are aimed at the removal of barriers for the provision of services by foreigners in the contracting States or promoting transparency and eliminating discrimination of suppliers in public procurement. Those agreements may be relevant for national legislation on PPPs that contemplates restrictions on the participation of foreign companies in infrastructure projects or establishes preferences for national entities or for the procurement of supplies on the local market.

### **3. International agreements on specific industries**

56. In the context of the negotiations on basic telecommunications concluded as part of the General Agreement on Trade in Services (GATS), a number of States members of WTO representing most of the world market for telecommunication services have made specific commitments to facilitate trade in telecommunication services. It should be noted that all WTO member States (even those which have not made specific telecommunication commitments) are bound by the general GATS rules on services, including specific requirements dealing with most-favoured-nation treatment, transparency, regulation, monopolies and business practices. The WTO telecommunication agreement adds sector- and country-specific commitments to the overall GATS agreement. Typical commitments cover the opening of various segments of the market, including voice telephony, data transmission and enhanced

services, to competition and foreign investment. Legislators of current or prospective WTO member States should thus ensure that the country's telecommunication laws are consistent with the GATS agreement and their specific telecommunication commitments.

57. Another important sector-specific agreement at the international level is the Energy Charter Treaty, concluded in Lisbon on 17 December 1994 and in force since 16 April 1998, which has been enacted to promote long-term cooperation in the energy field. The Treaty provides for various commercial measures, such as the development of open and competitive markets for energy materials and products and the facilitation of transit and access to and transfer of energy technology. Furthermore, the Treaty aims at avoiding market distortions and barriers to economic activity in the energy sector and promotes the opening of capital markets to encourage the flow of capital in order to finance trade in materials and products. The Treaty also contains regulations about investment promotion and protection: equitable conditions for investors, monetary transfers related to investments, compensation for losses due to war, civil disturbance or other similar events and compensation for expropriation.

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