

# **PPP: a Roadmap for Success**

**Masaru Honma**

**Director, Central Asia and Mongolia, EBRD**

**CAREC/BDF**

**Urumqi, PRC, 29-30 July 2010**



## Why a PPP?

1. A PPP is not a panacea
2. Setting clear objectives – why a PPP
3. Ensure that a PPP delivers best value for money
4. Ensure that a PPP is structured so that it is bankable
5. Ensure that the project is feasible – PPP or traditional
6. Ensure that you possess the best available expertise



# What does a concession grantor wish to achieve?

1. Minimum cost to government
2. Transfer of risk to private sector
3. Innovation and private sector efficiencies
4. Private sector financing
5. Engine for development



# Thorough planning

1. Assemble a properly qualified project team
2. Hire an Experienced External Advisor
3. Prepare a feasibility study to investigate the markets and make a cost-benefit analysis
4. Design the PPP structure to meet what the markets can best deliver



# What can an international consultant do?

1. Cost Benefit Analysis
2. Forecasting of traffic etc. on independent basis
3. Develop risk allocation between government and concessionaire with reference to international best practice
4. Develop objectively quantifiable and transparent tender process
5. Monitor compliance of concessionaire
6. Skills transfer



## Value for money

1. Establish a Public Sector Comparator: how much would it cost the public sector for the concession period?
2. Private Sector Bid: Net Present Value of costs
3. **Constant Reviews** – if a PPP is more costly, reconsider, redesign or drop it



# Ownership and control

1. Ownership of assets may remain with the government – only responsibility for operation and maintenance transferred to the private sector
2. Government retains control over the road, etc. through the concession agreement – avoid inspections and controls not covered by the concession agreement



# Types of risks

1. Design risks
2. Construction risks
3. Availability and performance risks
4. Maintenance risks / Life cycle risks
5. Regulation risk
6. Traffic / revenue risk
7. Residual value at hand-back

**Adequate risk allocation is key to value for money**



# Payment mechanism

1. Completion on time at agreed quality
2. Minimising disruption to services
3. Maximising road safety, etc.
4. Operation and maintenance

Design payment mechanism to incentivise private contractor to meet objectives



# Tender dossier

- Comprehensive tender dossier:
  - Invitation for tender
  - Project description (preliminary design parameters, alignment, etc.)
  - Fully developed performance standards and performance penalties regime
  - Incentive based payment mechanism
  - Draft concession contract with developed risk allocation
  - Technical information
- Clear output based objectives to encourage efficiency



# Tender procedure

- Good tender list of firms invited to bid - requires active marketing and assistance
- Open and Competitive developed to produce comparable bids
- Two stage tendering with pre-qualification
- Maintain competitive pressure through out the process until signing
- Realistic timing for preparation of bids and evaluation



# Evaluation criteria (examples)

- Formal legal
  - Duly incorporated, not bankruptcy, etc.
  - Acceptance of contract terms
- Financial
  - Financial terms offered (NPV of total availability fee)
  - Financial standing
  - Financial package (equity and loans)
  - Acceptance of risk allocation matrix



# Evaluation criteria (examples)

- Technical
  - Appropriate experience in design, construction and maintenance of motorways, etc.
  - Appropriate project organisation incl. staffing
  - Proven expertise in Road Concessions, etc.
  - Proposed time for completion
  - Feasibility and quality of construction and maintenance



# Financial package

- PPPs are typically financed 80 - 90 % by banks; 10 - 20 % concessionaires' equity
- Structure and terms of a PPP will directly reflect on financing terms; poorly structured PPPs unlikely to attract financing



## What EBRD can bring to PPPs

- Provide to the selected bidder/ consortium long-term debt financing or, in limited cases, equity or mezzanine (minority stake)
- Debt maturities can reach 25 years to reflect the long duration of a PPP
- EBRD can assist clients to gain access to a large number of international and domestic commercial banks and other IFIs



# EBRD portfolio in PPPs, municipal infrastructure projects

Project Name	PPP model	Country	Total project cost (€million)	EBRD finance (€million)	Year
MPF Facility	Service Contracts/ Concessions	Regional	N/A	300	1996
Budapest Waste Water	Concession	Hungary	76	23	1999
Maribor Waste Water Treatment Plant	BOT	Slovenia	47	14	2000
Zagreb Waste Water Treatment Plant	BOT	Croatia	303	42	2002
Brno Waste Water Treatment Plant Upgrading	Operating Contract	Czech Republic	83	28	2002
Tallinn Water	Concession	Estonia	173	55	2002
Apa Nova Water Treatment Plant	Concession	Romania	197	55	2002
St. Petersburg South-West Wastewater Treatment Plant	BOT	Russia	166	34	2002
AS Tallinna Vesi and Sofiyska Voda Acquisition	Acquisition	Regional	47	17	2003
Sofiyska Voda	Concession	Bulgaria	95	20.6	2004
Veolia Transport	Service Contracts	Regional	198	60	2005
Veolia Voda	Service Contracts	Regional	275	105	2007



# EBRD portfolio in PPPs, municipal infrastructure projects - continued

Project Name	PPP model	Country	Total project cost (€million)	EBRD finance (€million)	Year
Taganrog District Heating	Direct ownership	Russia	9	9	2007/2008
E-Energija	Service contracts / Concessions/Lease	Lithuania Latvia Ukraine	29	12.5	2007
Sofia Water PPP	Concession	Bulgaria	214	21	2008
Novogor Prikamiye	Long-term lease	Russia	170	21	2008
Russian Communal Systems	Service contracts /Long-term lease	Russia	43	43	2008
Rovodokanal	Service contracts /Long-term lease	Russia	58	42	2008
Aqualia	Concessions/ Service contracts	Regional	163	80	2009
Hebros Bus Urban Transport	Service contracts	Bulgaria	8	6	2009
Shymkent Vodokanal	Joint venture with local authorities	Kazakhstan	6	6	2009
Taganrog Teploenergo II	Direct ownership	Russia	9	9	2010



# EBRD portfolio in PPPs, transport projects

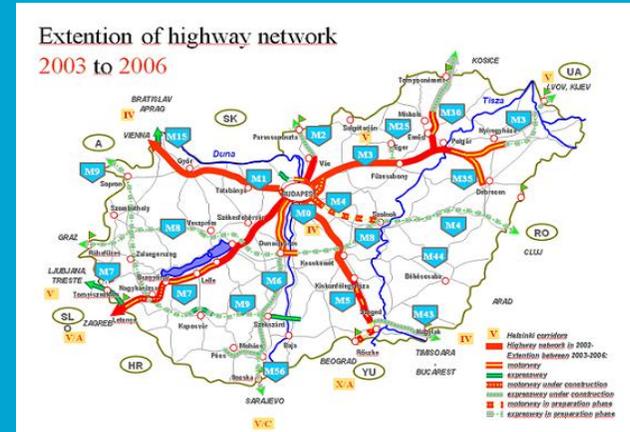
Operation Name	Sector	Country	Total Project Value (€mln)	EBRD Finance (€mln)	Signing Date
M1-M15 Motorway Project	Road	HUNGARY	235.9	67.8	23 Dec 93
M5 Concession Motorway B.O.T.	Road	HUNGARY	309.7	61.0	11 Dec 95
JSC Channel Energy Poti Port	Port	GEORGIA	24.4	8.1	19 Mar 02
Hungary M5 Refinancing	Road	HUNGARY	221.3	67.5	10 Mar 04
Tirana Airport Privatisation Project	Aviation	ALBANIA	78.3	31.6	23 Mar 05
Grandi Stazioni Ceska Republika	Rail	CZECH REPUBLIC	31.3	3.8	15 Dec 04
M5 Phase II	Road	HUNGARY	900.0	100.0	21 Sep 04
M6 Motorway	Road	HUNGARY	404.2	25.3	18 Jul 05
Armenia International Airport - Passenger Terminal	Aviation	ARMENIA	44.0	14.2	13 Jul 06
Tbilisi International Airport	Aviation	GEORGIA	82.7	18.0	17 May 06
M6 Motorway Refinancing	Road	HUNGARY	482.0	32.0	31 Mar 06
M6-M60 Motorway	Road	HUNGARY	966.2	75.0	30 May 08
R1 Motorway - Slovakia	Road	SLOVAK REPUBLIC	1,363.8	199.8	27 Aug 09



# EBRD PPP experience: case study 1

## Hungary: M6 Motorway

- First PPP tendered as an availability payments concession in the region
- The M6 Motorway received its final licence to operate at the end of 2006 and was successfully opened to traffic
- EBRD participated subsequently in the financing of M6-M60, a 30-year availability fee-based concession.



# EBRD PPP experience: case study 2

## Czech Republic: Grandi Stazioni

- Project involves rehabilitation and commercial exploitation of three Czech railway stations: in Prague, Marianske Lazne and Karlovy
- International public tender of 10+30-year concession with no public sector involvement
- EBRD's first equity investment in a transport PPP, provided in 2004. EBRD is a financial partner with a seat on the Supervisory board
- Long-term debt financed by commercial banks



# EBRD PPP experience: case study 3

## Armenia: Zvartnots International Airport

- EBRD provided financing in favour of the Armenian International Airports C.J.S.C (Aria), a concessionaire granted a 30-year concession by the Armenian government, to manage Zvartnots International Airport (ZIA)
- The operation enabled Aria to implement a modernisation programme at ZIA, including completion of a new passenger terminal construction and procurement of relevant airport equipment
- EBRD is now considering financing a new departures terminal alongside ADB and DEG



# EBRD PPP experience: case study 4

## Georgia: Tbilisi International Airport

- The first Build--Operate-Transfer project undertaken in Georgia
- Financing provided in parallel with IFC to TAV Georgia, a concessionaire responsible for the design, finance, construction and operation of the Tbilisi International Airport
- TAV was also responsible for the upgrading of the passenger terminal in Batumi
- Both terminals were constructed on time, according to the timelines set out in the Concession Agreement



# Common pitfalls

- **Poorly conceived concession design**
  - Insufficient technical designs, wrong cost estimates
  - Inadequate risk transfer mechanism
- **Inadequate tendering process**
  - Absence of competitive process
  - Unclear or flawed criteria
- **Optimism bias**
  - Over-estimation of traffic forecasts, etc.
- **Underdeveloped institutional capability**
  - Problems obtaining permits and change orders
  - Poor enforcement of concession contracts
- **Bureaucratic delays and over-regulation**



# CONCLUSION

1. Properly structured PPPs can deliver good value for money
2. International experience is still limited; there are both success and failure stories
3. PPPs are much more complex than traditional construction projects
4. PPPs do not suit all projects
5. Hire an experienced consultant

