Public-Private Partnerships

By Juan Miranda, Director General, CWRD
Manila, Philippines
March 2007

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Outline

- What is a PPP?
- Why think PPP?
- PPP Options
  - Service Contracts
  - Management Contracts
  - Leases
  - Concessions and BOTs
  - Divestiture and BOOs
- Preconditions / Preparation
- PPP Procurement
- Challenges
- Experience in Asia

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What is PPP?

- Collaboration between the public & private
  - Not the same as privatization!
- Relationship defined by a contract
- Structured to best assign roles
  - Responsibilities (service delivery, regulation, etc.)
  - Risks (tariffs, costs, technical, etc.)
  - Investment /ownership of asset

Why PPP?

- Reduction of outlays for Government
- Access to expertise and technology
- Efficiency under profit goal
- Catalyst for broader sector reform
- Access to more profitable markets

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PPP Options

A broad range of options with increasing private sector content

Service contracts → Mgmt. contracts → Leases → Concession BOT → BOO Divestiture

Increasing private sector risk, responsibility, and financing

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Service Contracts

- Goal = reduce cost through competition
  - Services / activities bid out to contractors
- Short in duration (typically < 3 yrs)
- For specific tasks – often non-core activities
  - Installing or reading meters
  - Security
  - Janitorial services
  - Collecting accounts
- Require careful monitoring and management

Service contracts

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Management Contracts

- Goal = Improve overall management
- Responsibilities:
  - Government: asset ownership and all capital investment
  - Private Operator: day-to-day management, preventive maintenance , assistance with long range planning
- Institutional change:
  - Does not require change to overall institutional structure
  - PO staff are typically given line management responsibilities
- Typically three to five years in duration
- Compensation:
  - Fixed fee, and/or
  - Performance-based

Service contracts → Mgmt contracts

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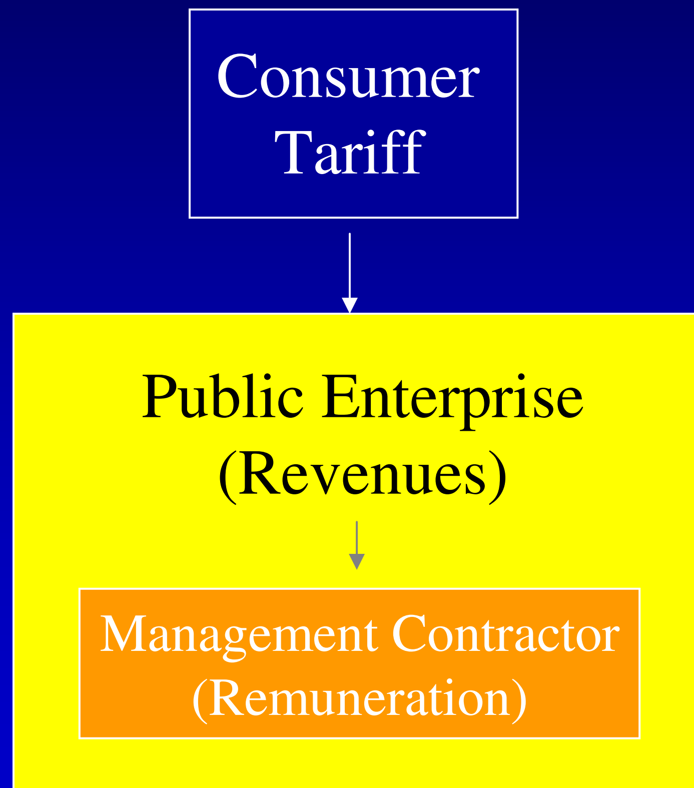
Tariffs and Remuneration: Management Contract

- Management contract:
  - Some combination of:
    - Fixed fee
    - Incentive compensation
    - Profit sharing
  - Private partner's remuneration not directly linked with the level of tariff



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Leases

- Goal = Improve performance and supplement government funds with limited private investment
- Responsibilities:
  - Private operator (“lessee”): Operation and maintenance, including collection of tariffs
  - Government (“lessor”): Capital investment
- Institutional change:
  - Government transforms state-owned enterprise into asset holding company (“AHC”)
  - Private operator creates new special purpose company (“SPC”)
- Typically 8 to 15 years long
- Compensation: Tariff revenues split between lessee (the “lessee fee” or “operator’s tariff”) and Government (“lease fee”)

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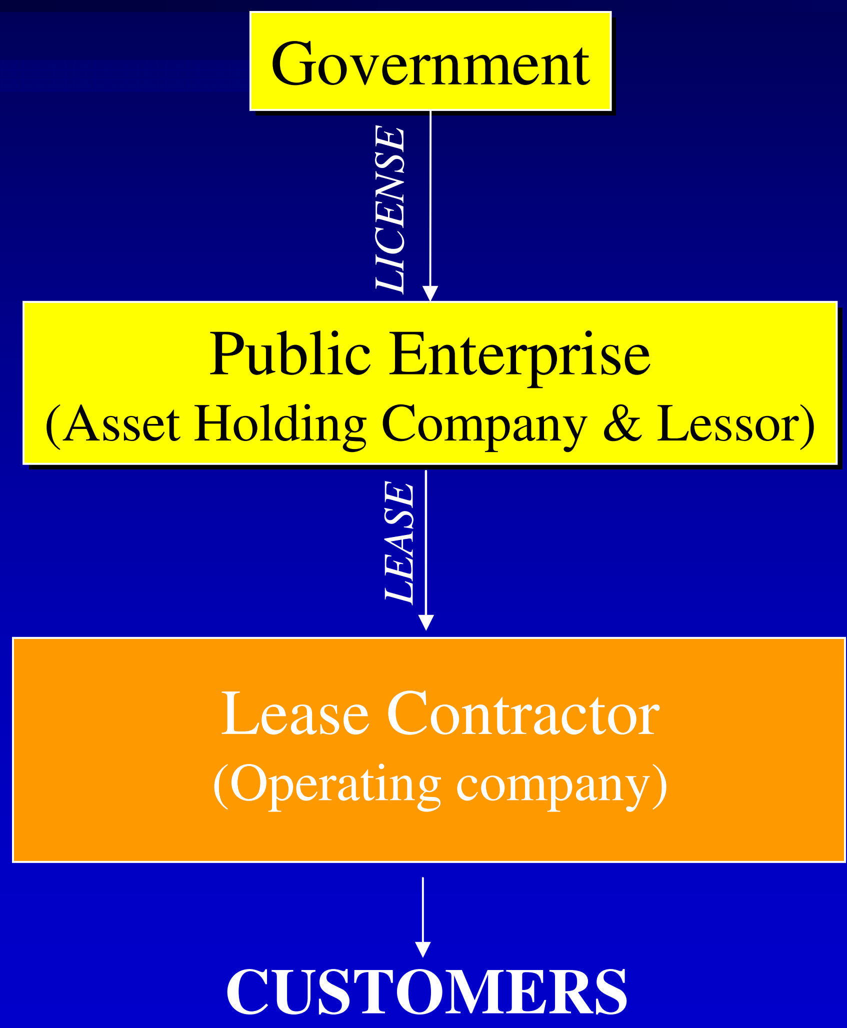
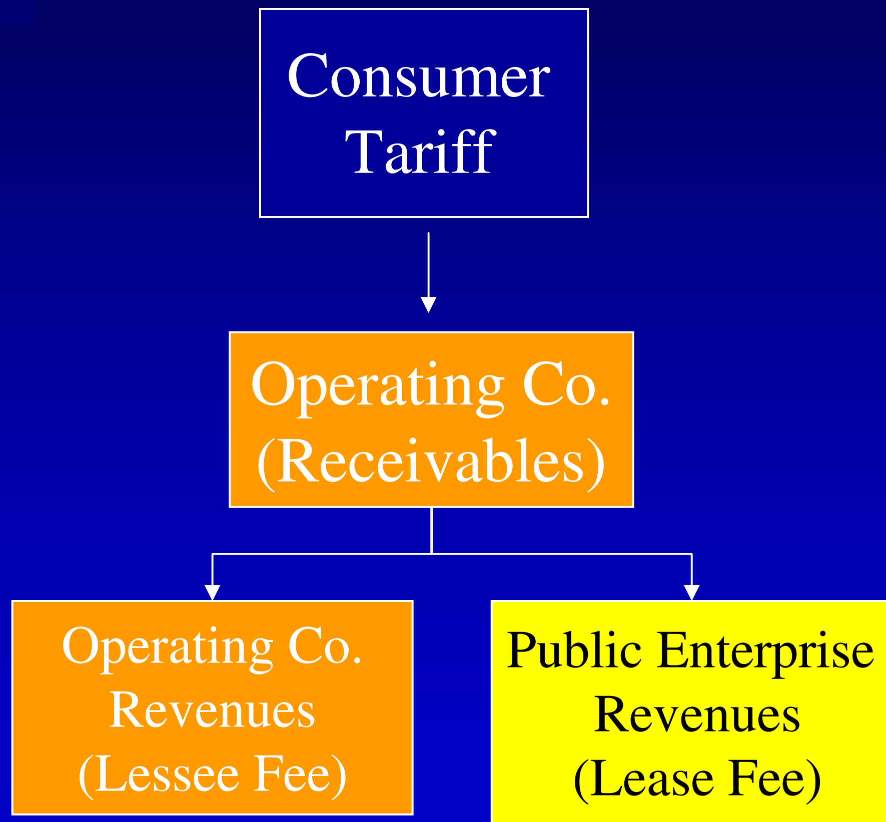
Organizational Structure: Lease



Tariffs and Remuneration: Lease

- Lessee (private):
  - Lessee fee (also called "operator's tariff"): A pre-defined (volumetric) fee collected via the tariff
- Lessor (public):
  - Lease fee: Tariff minus lessee fee
- Key question is how the commercial risk will be allocated



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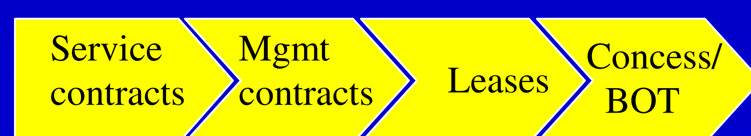
Concessions and BOTs

- Goal = Improve performance and attract private finance
- Responsibilities:
  - Private operator assumes all responsibility for operation, maintenance, and capital investment
  - Government retains asset ownership and is regulator
- Institutional change:
  - Concession (complex license contract) transfers rights and responsibilities to private operator's SPC
  - Under BOT – investment is green-field and asset ownership is with private operator until end of concession (when it shifts to government)
- Typically 20 to 30 years in duration
- Compensation: Tariff is collected and kept by private operator



Organizational Structure: Concessions and BOTs

Government

LICENSE
CONCESSION
CONTRACT

↓

Private Operator
(Concessionaire)

↓

CUSTOMERS

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Divestiture and BOOs

- Goal = Transfer Government responsibility for service provision and investment to private sector through sale of assets/shares to private owners or granting of development rights and license to private operator
- Government's role is as regulator – rather than a "partner" in the business
- BOO = greenfield, divestiture = sale of existing asset
- Duration: Permanent
- Compensation: New private owners remunerated entirely through tariff revenues

Service contracts → Mgmt contracts → Leases → Concess/ BOT → Divest/ BOO

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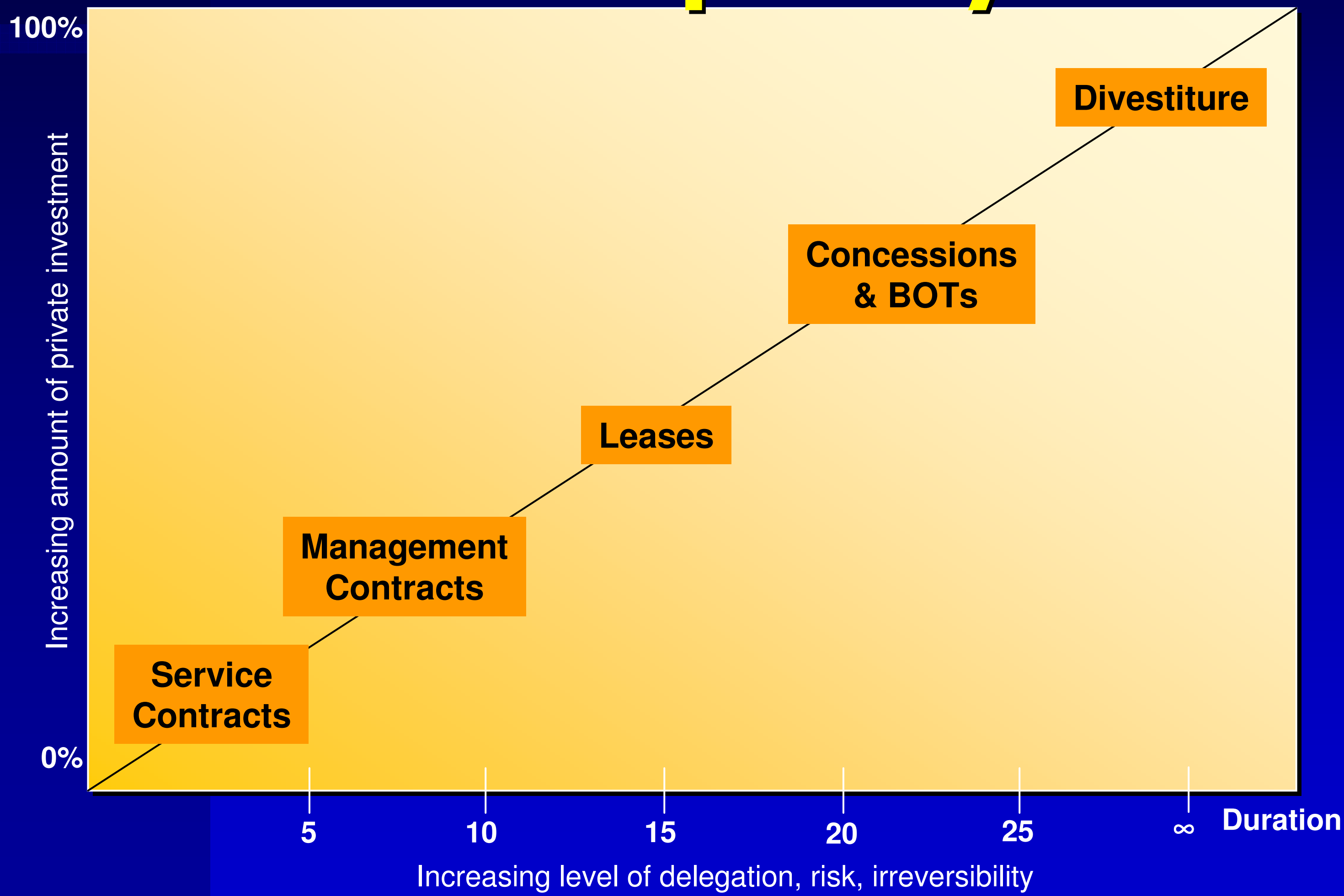
Comparison – Duration and Complexity



Preconditions / Preparation

- Regulatory regime
  - Sector regulation in place – or regulation by contract
- Enabling laws etc.
- Tariff and off-take agreements
- Institutional capacity at government
  - Design - Monitoring
  - Procurement - Enforcement
- Economically viable PPP proposals
  - Financial terms - Risk mitigation
- Interest from qualified private sector operators
- Political will – designated powerful "champion"

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Subsidies/Viability-Gap Financing

- To make PPP viable government may have to make financial contribution
  - Investment subsidy – part of initial capital outlay in cash or in-kind (assets)
  - Operating subsidy – ongoing payments (fixed or linked to output)
    - Can be tied to pro-poor service delivery (output based aid – OBA)
- Justified as long as total cost to government is lower than public sector option (without PPP)
  - Subsidy to attract bidders
  - Competitive bidding to minimize subsidy

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PPP Procurement Process

- Competitive bidding is standard
  - Get lowest cost / best package
  - Achieve transparency and accountability
- Direct negotiations / competitive negotiations only under special circumstances acceptable
- Auction process / rules can be tailored
  - Use professional advisors
  - Need in-depth professional preparation to avoid embarrassment from failed auction

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Challenges / Concerns

- Public / consumers (voters…)
  - Increased tariffs – reduced affordability
  - Loss of “national assets”
- Public sector (operating entities, administration)
  - Job security
  - Loss of power / fiefdoms
  - Work involved in PPP preparation and procurement
- Private operators (various risks to viability)
  - Tariffs / regulatory regime and off-take agreements
  - Large investments and long payback periods
  - Access to long-term debt funding (incl. FX risks)
  - Labor issues
  - General political / legal enforcement risk

- SOLUTIONS EXIST – but concerns need to be taken seriously and addressed upfront in a transparent manner!

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Experience in Asia

- Mostly BOTs:
  - Cheng Du (China), Nam Theun (Laos), Batangas and Quezon Power (Philippines), etc.
  - Often with take or pay arrangements
  - Regulation by contract did not necessitate regulatory framework reform
- Some concessions:
  - Jakarta, Manila, North Luzon
  - But several high profile failures
  - Requires more sophisticated regulatory framework
- Very few leases and management contracts

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Thank you