

CAREC Public Private Partnership

AWARENESS WORKSHOP

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Prof. Ole Steen Olsen



INTRODUCTION TO PUBLIC – PRIVATE PARTNERSHIP

APPLICATION OF PUBLIC- PRIVATE PARTNERSHIP WORLD WIDE.

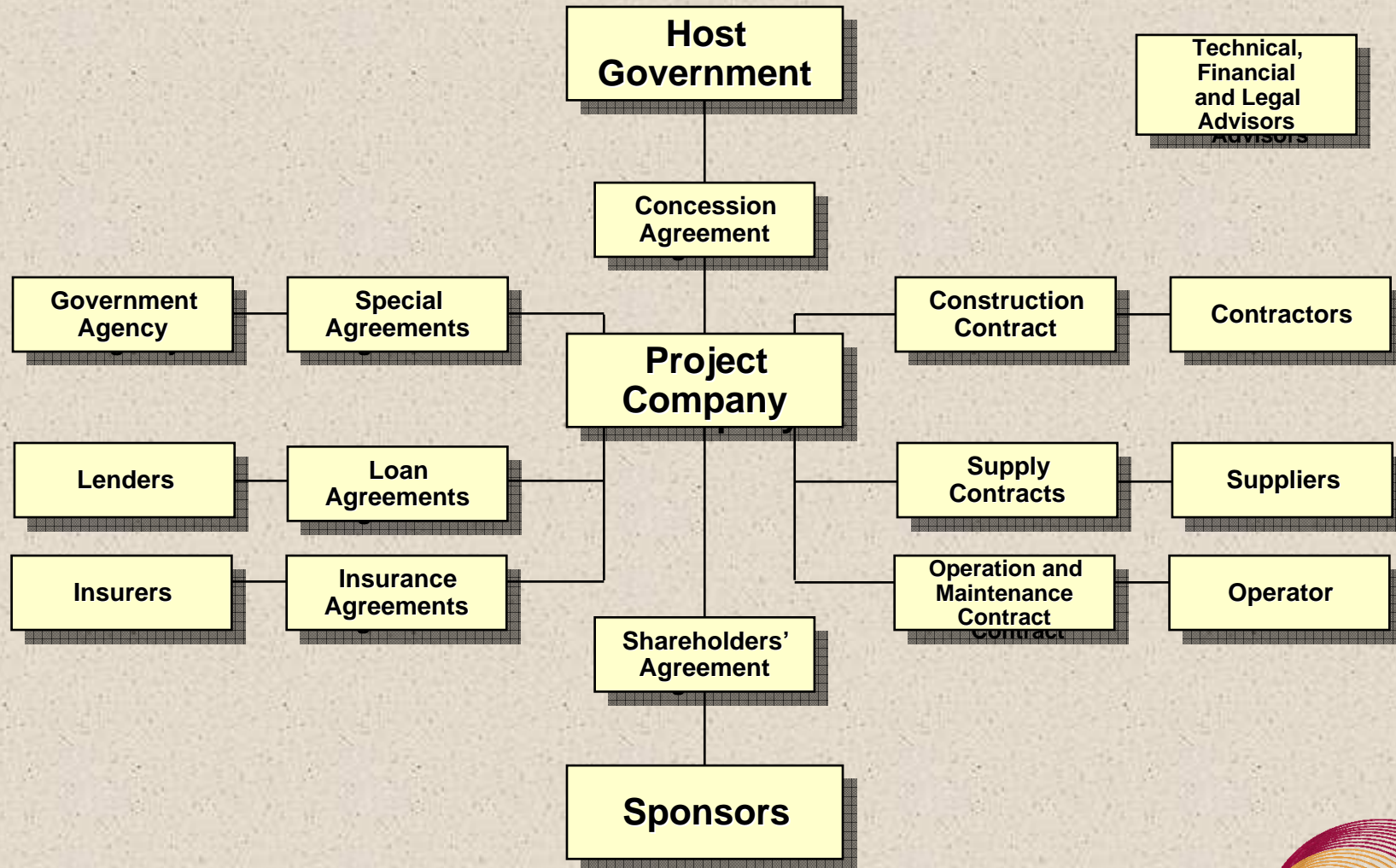
Public – private partnership ("PPP") infrastructure arrangements are growing in use and acceptance world wide as an alternative and efficient method to mobilize additional financial resources and efficiency benefits from private sector.

PPP has also reached most developing countries, in particular within infrastructure sectors such as electricity generation, telecommunication, transportation (roads, bridges, airports , railways and ports), water and sanitation, oil and gas industry and tourism.

Phases of a PPP Project

- *Government identification of suitable PPP.*
- *Management of unsolicited PPP proposals.*
- *PPP project preparation. Government to take the lead.*
- *Testing of private sector interest in a PPP.*
- *Project information to potential private sector companies. Establishment of a PPP project data room.*
- *Competitive bidding as a key driver of private sector efficiency.*
- *Two –stage competitive bidding to overcome public lack of technical knowledge.*
- *PPP project implementation. Performance monitoring and reporting.*
- *Transfer of the project at the end of the term.*

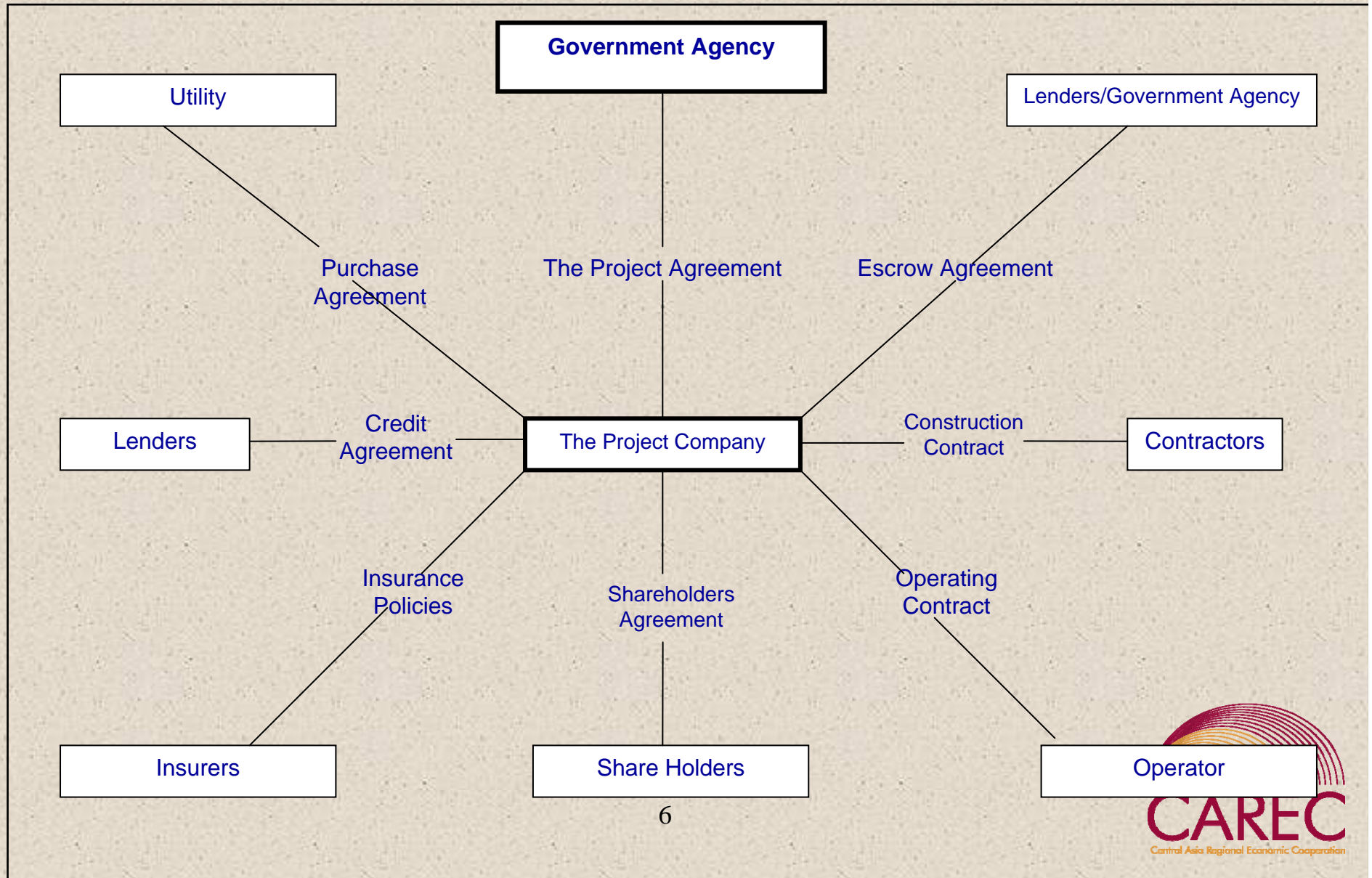
Structure of a PPP Project



Alternate PPP Structure

- *Service contracts*
- *Management contracts*
- *Lease contracts*
- *PPP/CONCESSION/DBFO and similar contracts*
- *involving private financing, construction, operating and maintenance of a project*
- *Joint ventures*
- *Hybrid arrangements*

The Contractual Structure of a Typical PPP-project



WHY INTERNATIONAL PRIVATE COMPANIES PARTICIPATE IN PPP IN DEVELOPING COUNTRIES

- *Higher return on equity (maximising profits).*
- *Growth opportunities needed, inter alia, to preserve staffs and expertise.*
- *Limited risk exposure.*
- *How private companies realise value through PPP.*

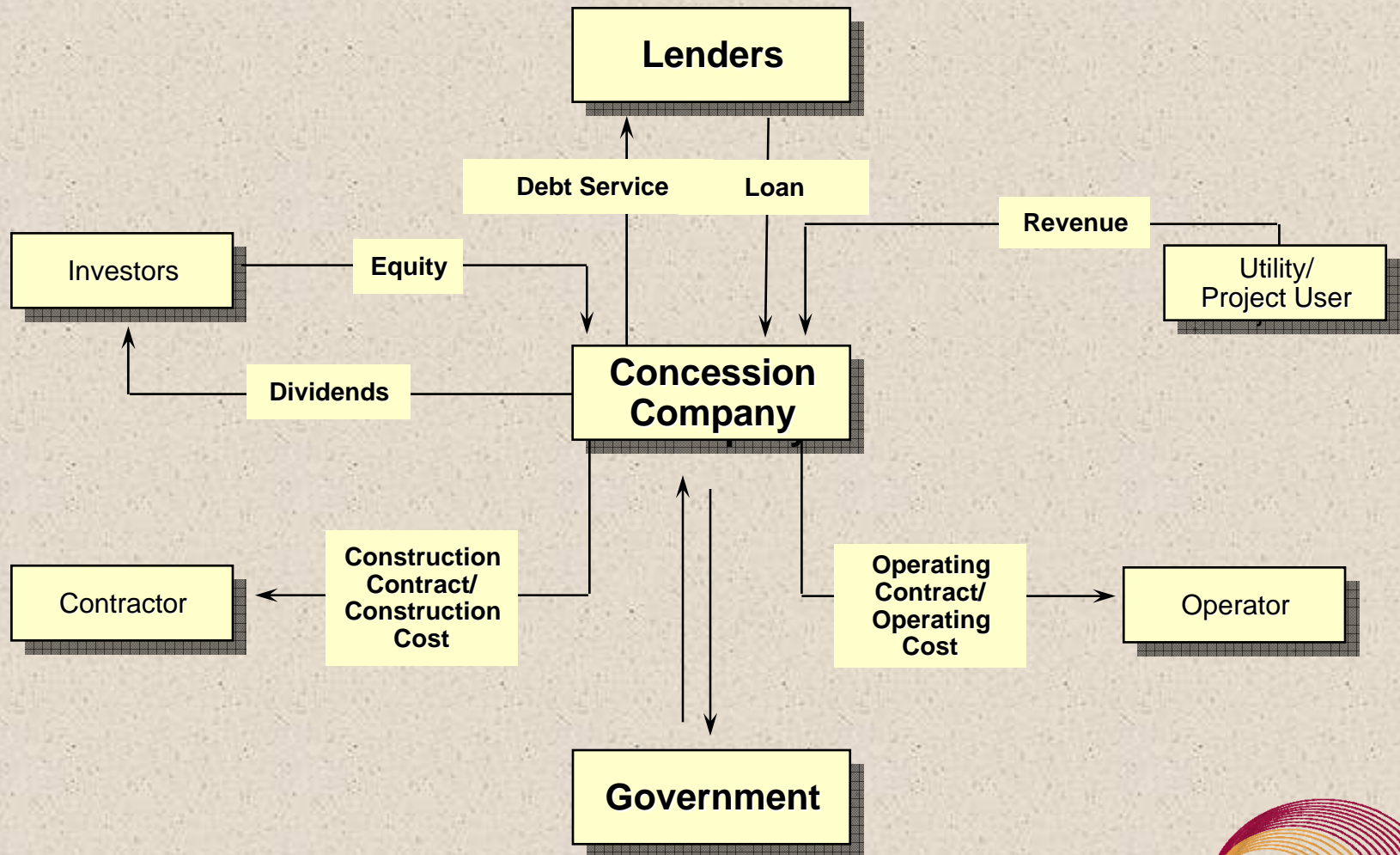
POTENTIAL ADVANTAGES OF PPP FROM THE PUBLIC PERSPECTIVE

- *Acceleration of infrastructure provision due to private investment when public capital may be constrained.*
- *Faster project implementation due to significant incentives provided for in PPP.*
- *Reduced construction cost.*
- *Reduced whole life costs for the project.*
- *Optimizing of risk allocation saving considerable costs.*
- *Improved quality of infrastructure services.*
- *Application of up-to-date technology, know-how and private sector innovation.*
- *Training of national personnel.*
- *Benchmarking national infrastructure administration and budgeting against competitive standards of private management.*
- *Possible industrial development through long-term cooperation with the PPP developer.*

POSSIBLE DISADVANTAGES OF PPP FROM THE PUBLIC PERSPECTIVE

- *Higher cost of borrowing to PPP than to comparable sovereign financed projects (a theoretical issue for many developing countries).*
- *PPP arrangements may be too complex for the administration.*
- *High transaction cost and time.*
- *Creation of private infrastructure monopolies to be avoided.*
- *Public lack of experience in monitoring PPP performance.*
- *Public, national concern over (foreign) private sector participation in infrastructure.*
- *Labour concerns.*
- *PPP is not privatisation.*

PPP Financing Structure



GUIDELINES FOR PRELIMINARY , IN-HOUSE IDENTIFICATION OF PPP CANDIDATES.

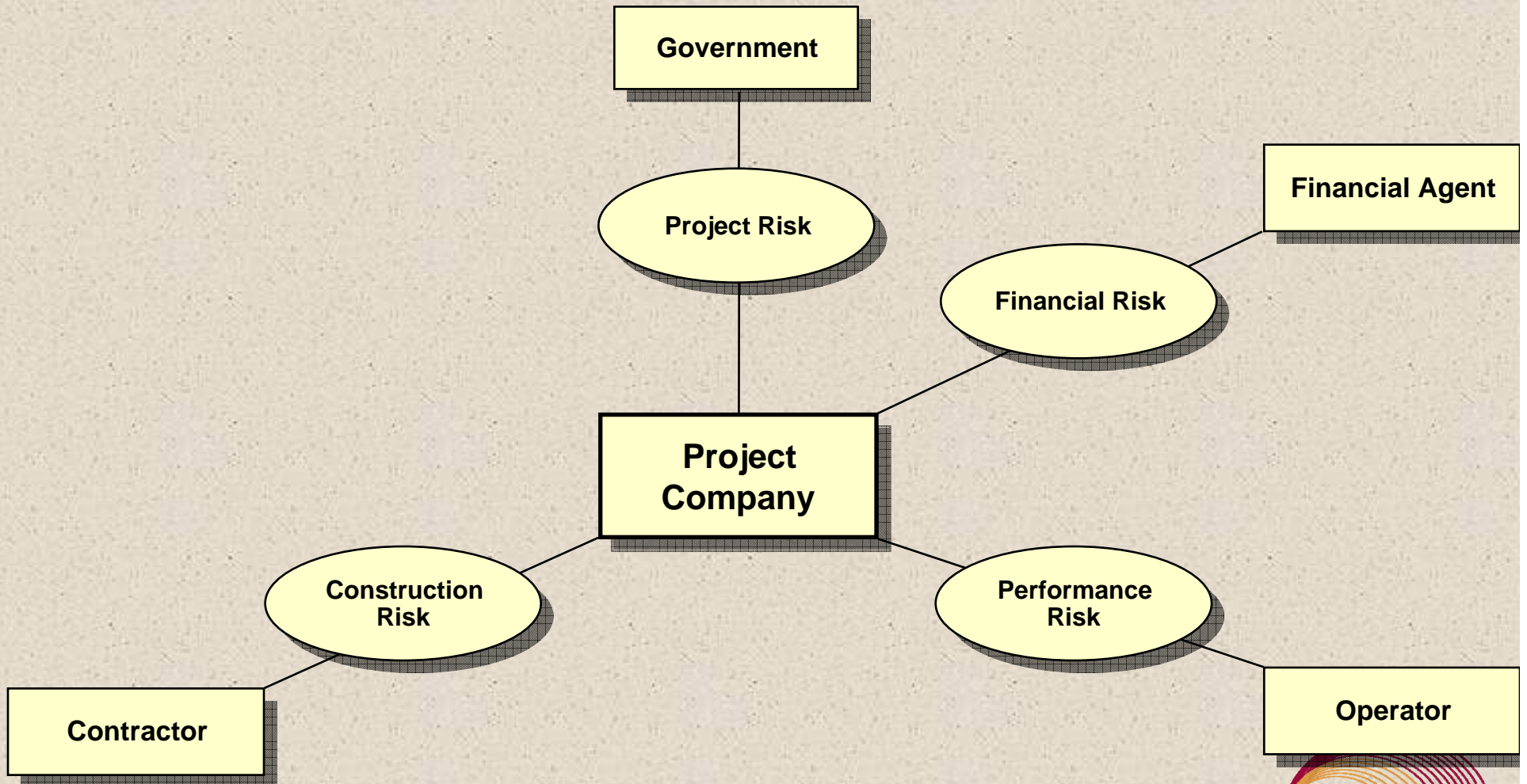
- *Selection of priority infrastructure projects for PPP.*
- *Can the Project be made financially viable ?*
- *Are the national customers able and willing to pay for the PPP infrastructure services ?*
- *May a PPP create monopoly or exclusivity for the private sector ?*
- *Preliminary technical assessment of a PPP project.*
- *Preliminary environmental assessment of a PPP project.*
- *Is needed fuel supply and logistics available and reliable for the operation of the PPP project ?*
- *Preliminary assessment of the economic viability of a PPP arrangement.*

Refinancing Possibilities

Initial financing package should be designed with maximum flexibility to permit post-completion refinancing in order to lower cost and improve returns on an opportunistic basis upon:

- **Reduced project risk post-completion**
- **Development of domestic markets**
- **Improvements in international market conditions**
- **Improvements in host country credit risk**
- **Broadening emerging market interest**

PPP risk allocation



Security Issues

Government Support

Charge Over Physical Assets

Assignment of IPP Agreements

- PPA
- FSTA
- O&M

Assignment of Payments to IPP Companies

- Tariff (Availability & Energy)
- Insurances
- Contingent Support Payments (Sponsors/TKC/Operator/Designer)
- Reserve Accounts (Debt Service/Maintenance/Currency/Interest Rate)
- Standby Loan Facilities

LEGAL FRAMEWORK FOR PPP. CHANGES OF LAW.

- *Essential legal requirements for PPP.*
- *Providing PPP contracts with the status of national law. Example from Laos.*
- *Freezing the national law for PPP. Example from Pakistan.*
- *Specific legislation on PPP addressing the basic legal requirements of PPP. Example from Cambodia.*
- *Adjustment of existing legal system to PPP requirements. Examples from Europe and the US.*

Key elements of a successful PPP project in developing countries

1. *The project must be viable.*
2. *The project must be technically feasible.*
3. *The project must be bankable.*
4. *The country risks must be manageable if needed with host government support. Currency foreign exchange and inflation issues must be solved.*
5. *Adequate government support and assistance through all phases of the project. PPPs are no sleeping pillows for government authorities.*

Key elements of a successful PPP project in developing countries

6. *Balanced, professional project agreements, coordinating all operational interfaces. First drafts always to be made by the government authority.*
7. *Bankable EIA.*
8. *Competitive procurement procedure in order to realize the inherent advantages of PPPs.*
9. *Sponsors and their construction contractors must have sufficient experience and resources.*
10. *The project must provide for adequate financial return to the sponsor.*

Basic Project Risks

1. *Development*
2. *Construction and completion*
3. *Performance*
4. *Operation and maintenance*
5. *Revenue*
6. *Currency*
7. *Political*
8. *Environment*
9. *Credit*
10. *Legal*

Basic Requirements

1. *A sound legal framework for PPP*
2. *Competitive procurement*
3. *Final structure and financial reports requirements*
4. *Manage the complete contract package of PPP*

Conclusion

- While definite advantages of PPP from a public perspective do exist, and can be harnessed, PPP should not be regarded as a miracle cure nor a quick fix to development of infrastructure. Nor does PPP make bad projects to good ones. Nor does PPP provide a sleeping pillow to government officials regarding planning, implementation and monitoring of infrastructure projects.
- Provided an adequate regulatory and administrative framework for PPP and active government support during project phases, PPP, however, has proved to be an efficient tool for governments to accelerate infrastructure provision, to ensure "better value for money" and (in some PPP projects) to provide additional industrial and social development. As the Frankfurt conference on PPP (2006) summed up : PPP is a complex, but very healthy way of doing infrastructure projects.

Thank you for your attention