

# PPP opportunities in CAREC Transport Sector

8th Transport Sector Coordinating Committee Meeting

24-25 June 2009, Ulaanbataar, Mongolia

**Ulf Hindström**

Senior Banker

EBRD Astana Resident Office



# Contents

1. Key elements of Public Private Partnerships (PPPs)
2. Advantages and challenges of PPPs
3. Lessons learned
4. Financing and bankability
5. General requirements for PPPs
6. Kazakhstan's experience
7. Conclusions and contacts



# PPP Essentials

- A PPP is a long-term contract for the private sector to provide services to, for or on behalf of the government
- Payments for PPPs may be based on user charges, availability fees payable by the government or a mix.
- Risks are shared by the private sector and the government
- PPPs cover a spectrum of models, from management contracts through BOT, concessions, to joint ventures and partial privatisations.



# Why PPPs - Advantages

Governments normally seek one or several of the following benefits:

- Obtain private sector know-how and innovation
- Private sector financing (off balance sheet)
- Transfer project risks to the private sector
- Value for Money
- Private sector efficiency in implementation
- Creation of opportunities for the private sector
- Development of construction and service industry



## But there are challenges

### Public Private Partnerships:

- Are complex deals with high transaction costs
- Off balance sheet financing does not mean no public cost – careful about hidden fiscal liabilities
- Open and transparent tender required to ensure integrity of the concessions
- Politically motivated deals to be avoided – pay attention to economic fundamentals
- Not suitable for all projects



## Lessons learned – successful PPPs

- Hungary: M6 phase III, closed second half 2008 still pre-crisis. Availability fee based.
- Hungary: M5. After initial failure and restructuring, the motorway is not successful.
- Albania: Mother Teresa International Airport.
- Georgia: Tbilisi International Airport. DBFO
- Armenia: Zvartnots Airport.



**Number of successful PPPs in the region  
remains small**



## Lessons learned – failed PPPs

- Hungary: M1-M5 tolled. Low traffic volumes. Private equity lost. The concessionaire replaced with a state owned concession company. Lenders took a 10% cut.
- Czech Republic: D-47 road in the failed to reach financial close due to lack of competitive tender.
- Romania: Bucharest-Brasov motorway did not succeed in raising EBRD/EIB funding as did not involve the banks early stages.
- Serbia: Horgos – Pozega road failed to reach financial close due to defects in the structure.
- Russia: Western High Speed Diameter, St Petersburg, increased costs could not be privately financed due to crisis.
- Poland: Road A2 abandoned after 2 years due to cost overruns, land acquisition, low traffic volumes. Road A4 financing not secured. Road A1 stalled due to legal disagreements.



# Financing – who brings the cash?

Typically concessions are financed:

- *70 - 90 % by BANKS*
- *10 – 30 % by Sponsors*
- *(xx % Govt subsidies)*



**FOCUS ON BANKABILITY!**  
**No financing = No project**





# Credit crunch: Things have changed!!



- Much more difficult to raise funds, if at all possible
- Longer time to close
- Success is harder to predict
- Higher price
- Flight to quality
- Shorter maturities

**IFI Financing essential → Structure compliance with IFI rules**



# What do banks look for ?

- Country criteria
  - Political risk, country credit risk rating
  - Legal and regulatory framework
  - Institutional capacity
- Project specific criteria
  - Cash-flow
  - Concession contract, balance of risks, guarantees
  - Open and transparent procurement process
  - Quality of the sponsors



## Kazakhstan fares well on many country criteria ...

- Politically stable
- Investment grade credit rating BBB-
- Broad political commitment to PPPs
- Amended Concession Law is a major improvement
- Newly established PPP Unit

**Big interest in Kazakh PPPs**



## ... but challenges remain

- The PPP Unit is needs to build up its expertise
- Govt has weak institutional capacity to manage PPP projects
- The Concession Law and procedures are untested
- Unclear relation to other laws (e.g. Budget Code)
- State standards leave little scope for innovation
- State regulation of tariffs



# Kazakhstan: Mixed PPP Experience

- Aktau Airport: Awarded 2007. Construction completed. Operations just commenced, first years will be key challenge.
- Shar - Ust Kamonogorsk Railway. Award 2005. Construction completed. Bonds defaulted - bailed out through state intervention
- East-West Power Transmission Line. Award 2005. Construction completed. Operations commenced.
- Electrification of Makat – Kandyagash Railway. Awarded 2007. Poorly defined. Not reached financial close.
- Roads: Four concessions put on tender in December 2008. Awaiting bids. Big interest. Tender documents redrafted; time for bids extended. Steep learning curve.

**Signing is not the end but only the starting point of PPPs**



# Kazakh Road PPPs Unresolved Issues

- Challenge to raise USD 4 billion for four concessions
- Piecemeal approach to using external advisors
- Short initial submission dead-line of 3 months; extended
- Over-ambitious transfer of risks to private partner
- Ambiguities in the tender documentation
- Inadequate financial model
- Absence of pre-qualification
- Environmental and social analysis not compatible with IFI procedures



## Way forward

- Carefully design the PPP to what is appropriate for the project, for the markets and for the Govt
- Propose to the market an attractive package (concession scheme, risk sharing, tender process, security package...)
- Define a tender process allowing to adjust the project package to the market situation
- Test value for money continuously

**Use experienced transaction advisors !  
Listen to the markets !**



# What EBRD can bring to PPP preparation

1. Participation in Working Groups (generic advice)
2. Assistance with ToRs for feasibility studies and transaction advisors
3. Letter of support for EBRD participation for inclusion in tender docs (non-exclusive)
4. Provision of EBRD facilities for road shows
5. EBRD website advertising
6. Entering into dialogue with bidders who choose to approach Bank





## How to contact us ?

### EBRD in Astana

Ulf Hindström, Senior Banker

email: [HindstrU@ebrd.com](mailto:HindstrU@ebrd.com)

Tel: +7 7172 580 204

### EBRD Transport Team, Head Office, London

Sue Barrett, Director

email: [BarrettS@ebrd.com](mailto:BarrettS@ebrd.com)

Tel: +44 20 7338 6874

