



Project Development under Public Private Partnership (PPP)



Outline

- Understanding PPPs- what they are; key structures; perspectives
- Forms of partnerships: the PPP spectrum
- How to decide the options?
- International Experience
- Key Challenges

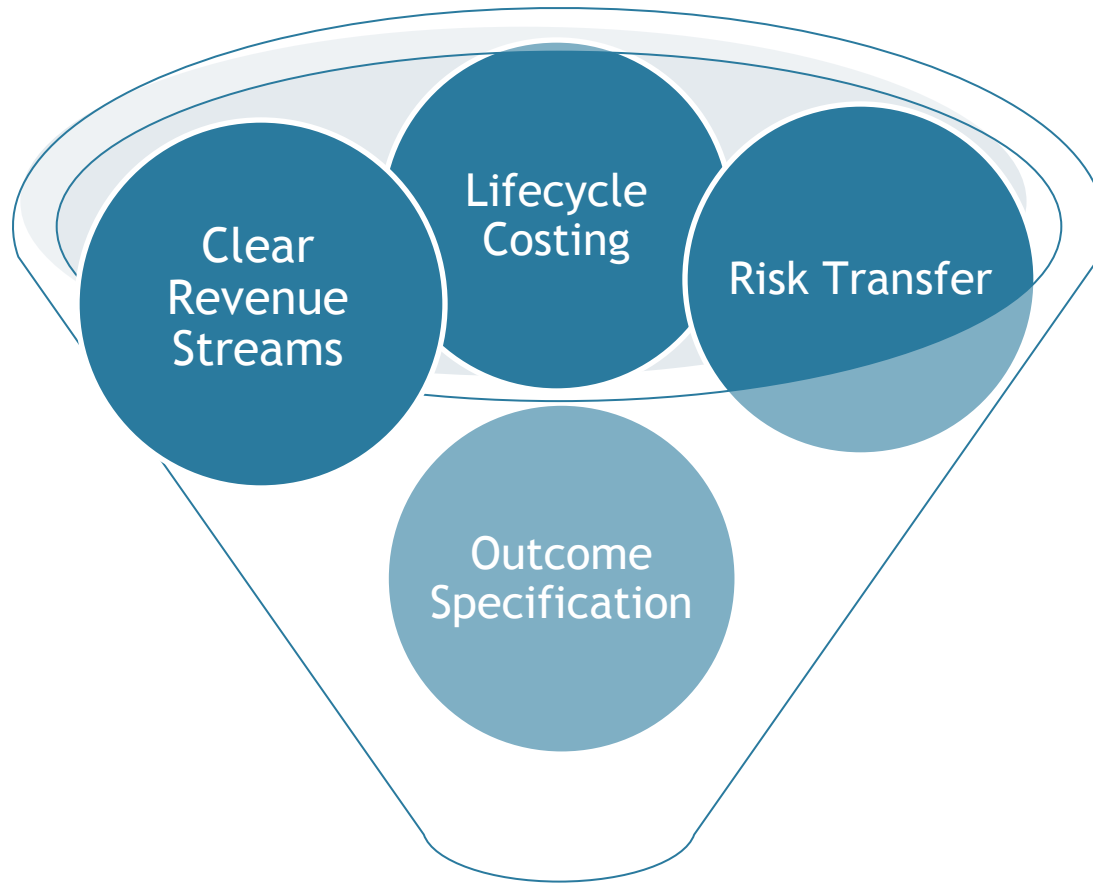
PPP: What is it?

- Medium to long term relationship between the public sector and the partners
(including voluntary organisations)
- Involves sharing and transferring of risks and rewards between public sector and the partners
- Attempts to utilise multi-sectoral and multi-disciplinary expertise to structure, finance and deliver desired policy outcomes that are in public interest
- Clear governance structures established to manage the partnerships

PPP: What is it?

- It is about creating, nurturing and sustaining an effective relationship between the Government and the private sector
- Achieving improved value for money by utilising the innovative capabilities and skills to deliver performance improvements and efficiency savings.
- It aims to leverage private sector expertise and capital to obtain efficiency gains in service delivery and asset creation
- **The key contrast between PPPs and traditional procurement is that with PPPs the private sector returns are linked to service outcomes and performance of the asset over the contract life.**

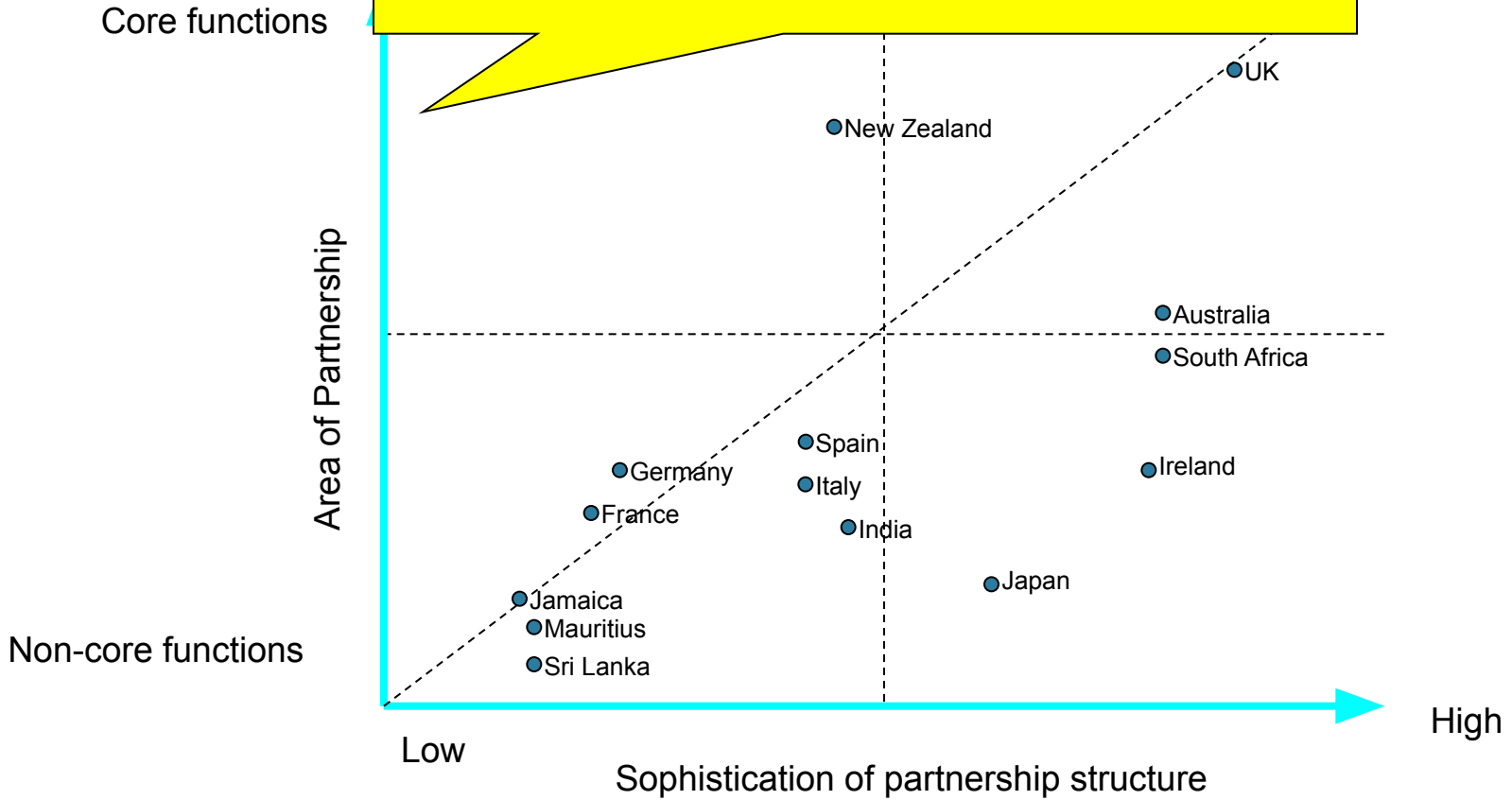
PPP Fundamentals



**Public Private
Partnership**

Development of PPPs

Almost 90 countries around the world are working on at some form and some stage of PPP-with varying degrees of success



Key structures

- Designed to maximize the use of Private Sector Skills
- Risk placed where it can be managed best
- Activities performed by those most capable
- Public and Private Sector each retain their own identity
- They collaborate on the basis of a clear division of tasks and risks
- PPP offers to the Public Sector greater Value for Money:
 - PPP transaction facilitates technology transfer
 - Private Sector shares its experience with Public Sector
- PPP delivers high quality infrastructure in the shortest possible time

Differential procurement process

Traditional Government procurement

Payment profile can be depicted as follows:



PPP procurement

Payment profile for the public sector



Capital and operating costs are paid for by the public sector, who take the risk of cost overruns and late delivery..

The public sector only pays over the long term as services are delivered. The private sector funds itself using a large portion of debt plus shareholder equity. The returns on their equity will depend on the quality of services.

Perspectives

- PPPs cannot be a solution for every challenge that public sector faces with regard to service delivery & infrastructure development
- Countries have kept some sectors out; while others have put a floor price
- PPPs play a small **but important role** in the overall objective of delivering modernised public services, and asset creation
- Even in a mature market for PPP like UK, it represents **10-15%** of total investment in public services

PPP: Advantages & Disadvantages

Advantages

Ability to spread cost over lifetime of asset

Greater predictability over cost and time

Focus on value for money over lifetime of asset

Strong performance incentives

Potential to be off-balance sheet

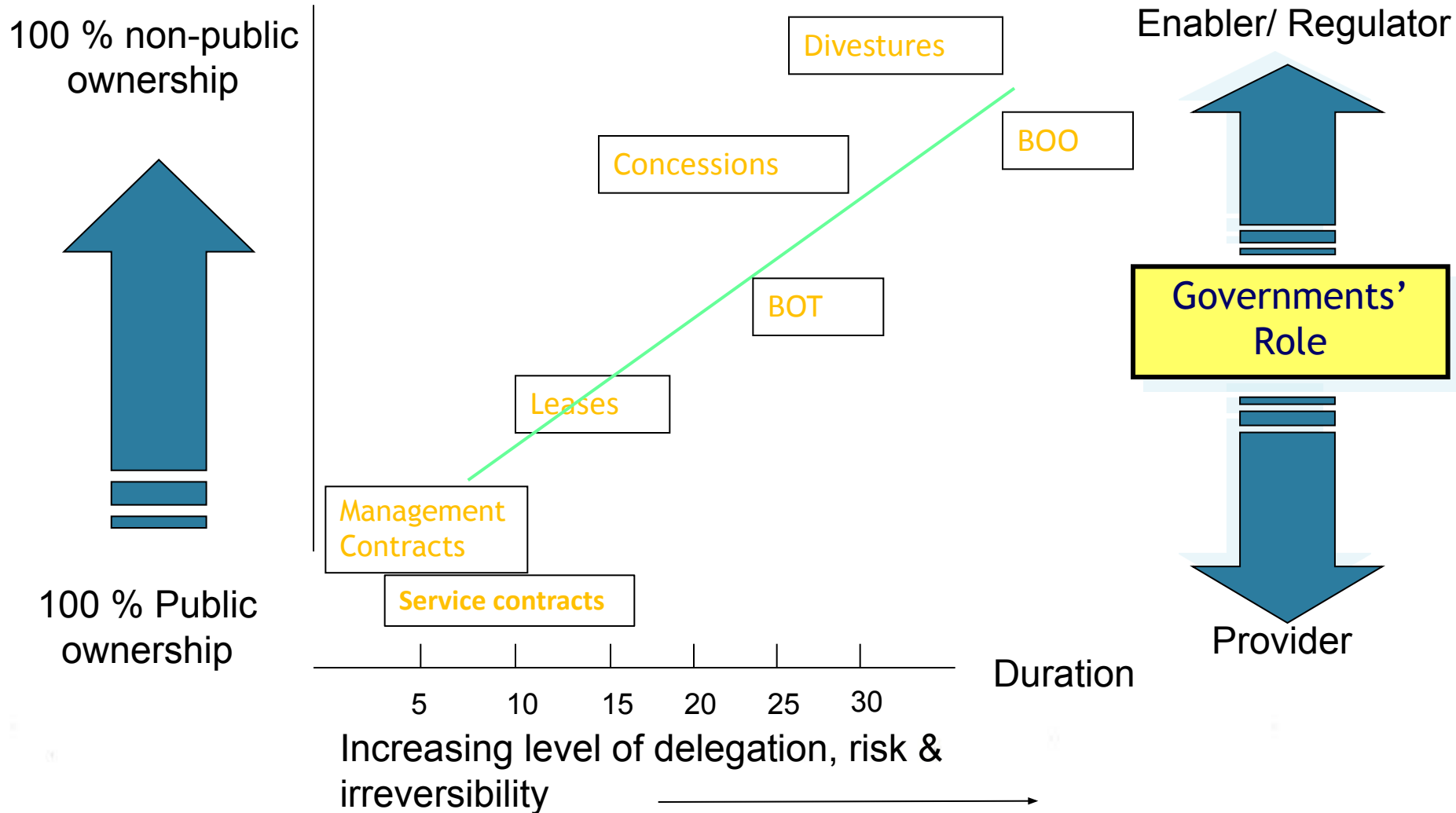
Disadvantages

High cost

Length of procurement

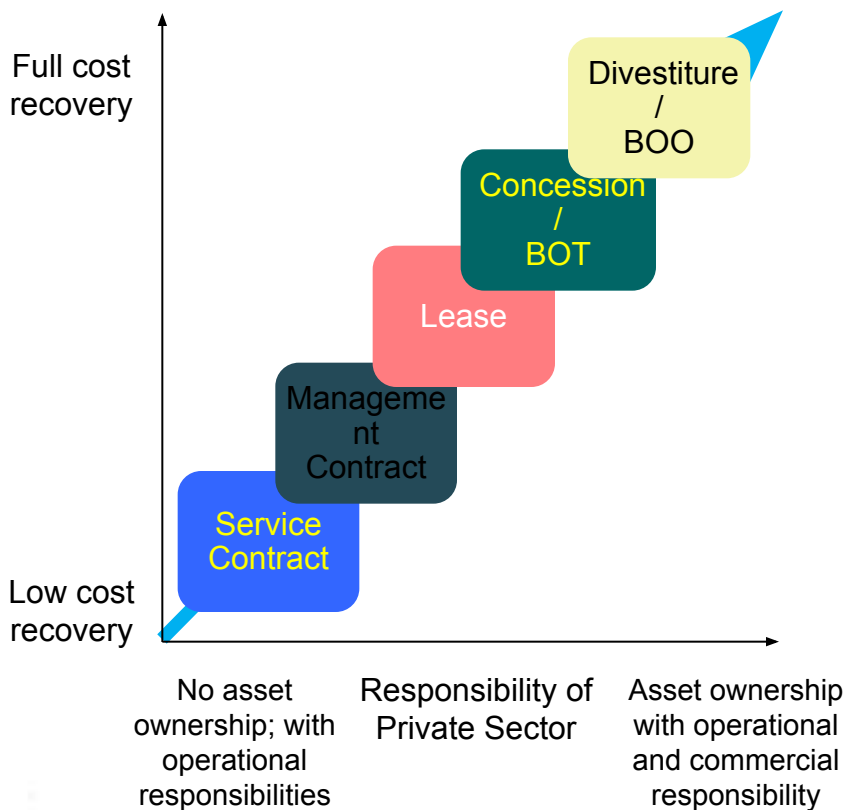
Limited flexibility

Forms of Partnerships



PPP: various options

PPP Participation vs. Sector Maturity



Key Considerations

- **Service contracts:** Cost-effective way to meet special technical needs, but benefits are limited
- **Management contracts:** useful for rapidly enhancing technical capacity, efficiency, and degree of private sector's involvement
- **Leases:** An efficient way to pass on commercial risk. Appropriate when large scope for operating efficiency and limited scope for new investments
- **Concessions:** Pass full responsibility for operations and investment to the private sector
- **Build-operate-transfer (BOT)** or variations resemble concessions but are normally used for greenfield projects, such as wastewater treatment plant

Service Agreement

- Public sector employ private sector to assist in running certain aspects of their utility
 - Activities which Govt may view not to have in-house
- Public agency retains overall responsibility for O&M of the system
- Public agency bears all commercial risk, finances, fixed assets & provides working capital
- Compensation to private sector on the basis of lump-sum, fixed fee, or cost plus, or on the basis of a physical parameter (number of bills sent out; road maintenance outsourcing-but not new construction or rehabilitation)

Management Contract

- Private sector takes over the O&M of a particular part of the system (in water supply, -treatment works). Operates it to meet agreed standards of performance and operational facility
- Public authority retains responsibility for the overall system, including expansion and major rehabilitation, but not for routine maintenance, which is closely connected to operational efficiency
- Payment to private company based on agreed upon rates for specified items/outputs/deliverables

Leases

- Does not cover funding of overall capital investment for rehabilitation & expansion, which would remain Government's responsibility
- Private sector builds a facility and operates it for a given period, during which the contractor would be responsible for any repairs, especially if these are due to faulty design, poor construction on part of the private sector
- Where private sector funds working capital requirements is also treated as a lease

Concessions

- The Concessionaire finances the investment costs
- Concessionaire gets revenue from users/customers on a pre-defined tariff formula to allow for agreed upon costs
- The Government may still provide a subsidy in kind or in cash
- Usually at the end of the contract, the asset or the system reverts to the Government from the concessionaire

Forms of Concession-I

Model	Description	Application
Build-Operate-Transfer (BOT)	<ul style="list-style-type: none"> ■ Private investors are provided with a concession to finance, build, operate and maintain a facility ■ during the concession period, the investor collects Tolls from the users as a return to their investments. ■ At the end of the concession period the facility is transferred back to public authority on a pre agreed condition 	Developing highway networks, power plants, utilities sectors, air port, port and bus terminals
Build-Own-Operate (BOO)	<ul style="list-style-type: none"> ■ Similar to a BOT model, without the transfer of ownership. Ownership is perpetual 	Telecommunication projects, waste water treatment plants, power plants
Build-Transfer-Operate (BTO)	<ul style="list-style-type: none"> ■ The private sector parties builds a facility and transfer it to a public authority, after construction 	In “controversial” or projects with high opposition to private sector participation

Forms of Concession-II

Model	Description	Application
Build-Operate- -Lease-Transfer (BOLT)	<ul style="list-style-type: none">■ Similar to a BOT project, except that the transfer is carried out over the years by lease agreements	Developing power plants, utilities sectors, port terminals
Lease-Develop-Operate (LDO)	<ul style="list-style-type: none">■ Public authority retains ownership of the facility under a lease agreement. The lessee finances development and oversees the operation	Airport facilities
Rehabilitate-Operate-Transfer (ROT)	<ul style="list-style-type: none">■ Private sector rehabilitates and operates a facility during the concession period, and transfers the asset/facility to the public authority at the end of the period	Retrofit sewage and water systems

Sectors for PPP schemes

- Transport
- Tourism
- Prisons
- Defence and Energy sectors
- Municipal Transport System
- Municipal Infrastructure such as:
 - Water
 - Solid waste management
 - Wastewater and Sewerage
 - Parking
- Health Care
- Education

How to decide on Options?

- Depends on:
 - Public policy considerations
 - Goals of the government
 - Expectations from the private sector in terms of targets, or service levels to be achieved
 - Condition & needs of the public sector agency
 - Political as well as institutional constraints

The key is...

- To spell out a clear partnership process, backed by a strong policy and enabling legislative framework
- Commitment to use PPPs as one of the vehicles for service delivery
- Develop a clear and transparent selection process
- Real commitment to deliver the project in public interest
- Remember that the third P is the key to any successful PPP

What are the key challenges?

- Internalising PPP process within the public sector
- Preparing the PPP environment
- Project identification & project development
- Preparing the Business Case
- Securing competitive bids, negotiation and award
- Supporting implementation and operations

Standardized Approach to Project Development

TECHNICAL ASSISTANCE

Phase I

INCEPTION

- Decision to explore PPP option
- Register PPP project with PPP Unit
- Assign Project Manager
- Draft terms of reference and Appoint Transaction Advisor
- Negotiate and finalize contract with Transaction Advisor

Phase II

FEASIBILITY STUDY

- Feasibility Study (TA)
 - Solution option analysis
 - Project due-diligence
 - Value Assessment
 - Financial Assessment
 - Economic Assessment
 - Procurement plan
- Evaluate recommendations of Transaction Advisor
- Estimate VGF or concessionary requirements
- Market testing
- Review market test results
- Determine final PPP design parameters
- Review by Project Feasibility Committee
- Recommend, for long-term fixed rate local currency financing to fill any market gaps
- If required, project submitted to VGF Committee

Standardized Approach to Project Development

TECHNICAL ASSISTANCE

Phase II

PROCUREMENT

- Draft tender documents (RFQ, RFP, draft contract)
- Pre-qualify parties
- Issue request for proposals with draft contract
- Receive bids
- Evaluate bids by comparing bids with feasibility study and each other
- Select preferred bidder and negotiate
- Financial Closure - Agreements finalized and signed
- Close-out report and case study

Phase IV

DEVELOPMENT

DELIVERY

EXIT



Thanks & Questions

