

# Project Development Under PPPs

**Presented by:**

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# Outline

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- Understanding PPPs- what they are; key structures; perspectives
- Forms of partnerships: the PPP spectrum
- How to decide the options?
- Key Challenges
- Project Development Process as per IPDF Guidelines
- Projects

# PPP: What is it?

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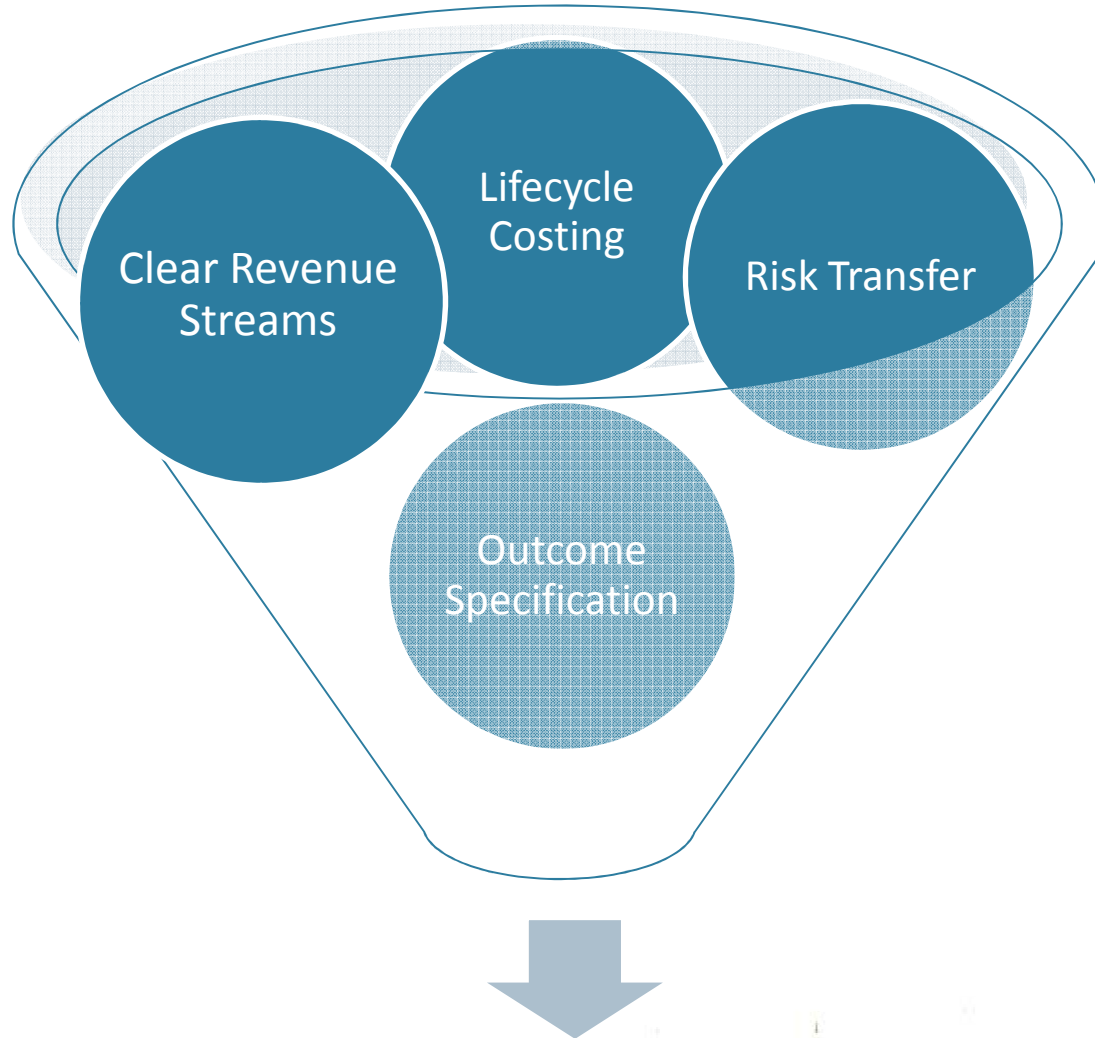
- Medium to long term relationship between the public sector and the partners  
(including voluntary organisations)
- Involves sharing and transferring of risks and rewards between public sector and the partners
- Attempts to utilise multi-sectoral and multi-disciplinary expertise to structure, finance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

# PPP: What is it?

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- 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.**

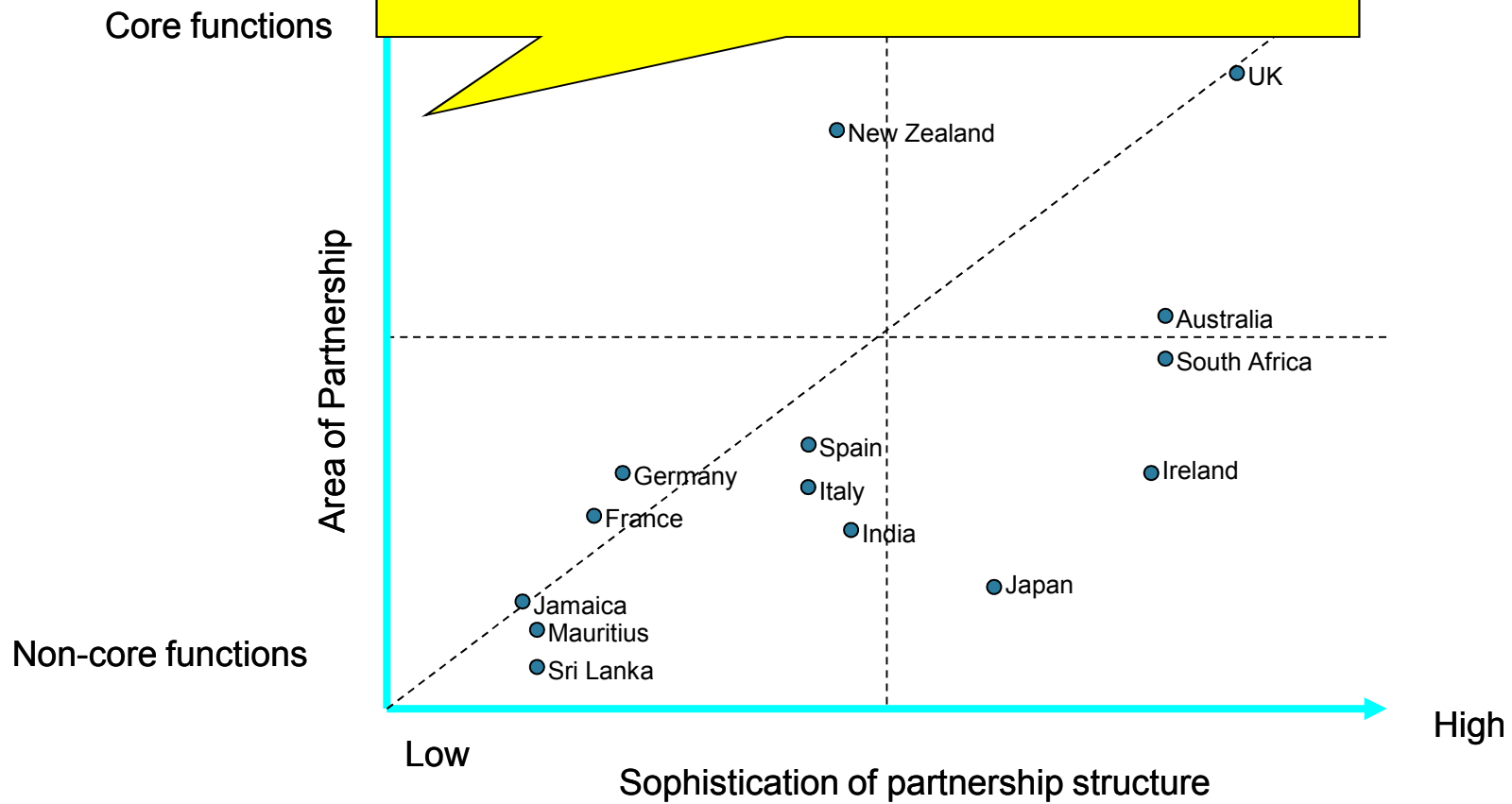
# PPP Fundamentals



**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



# Mapping the global trend in PPPs

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- Opportunities lie in markets that have a pipeline of viable investments and a degree of “PPP readiness” broadly defined by:
  - Extent of Government commitment to PPPs (clarity of vision, project pipeline’s robustness & transparency, & stakeholder perceptions)
  - Effectiveness of their governance (legal & institutional frameworks, clear parameters for choosing projects, & effective and capable Government institutions)
  - Track record in execution (business plan that identify and allocate main risks, strong bidding processes, & regularly used feedback mechanisms).
- Bulk of the opportunities still lie in Greenfield projects

# Sectors for PPP schemes

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- 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



# PPP: Advantages & Disadvantages

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## 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

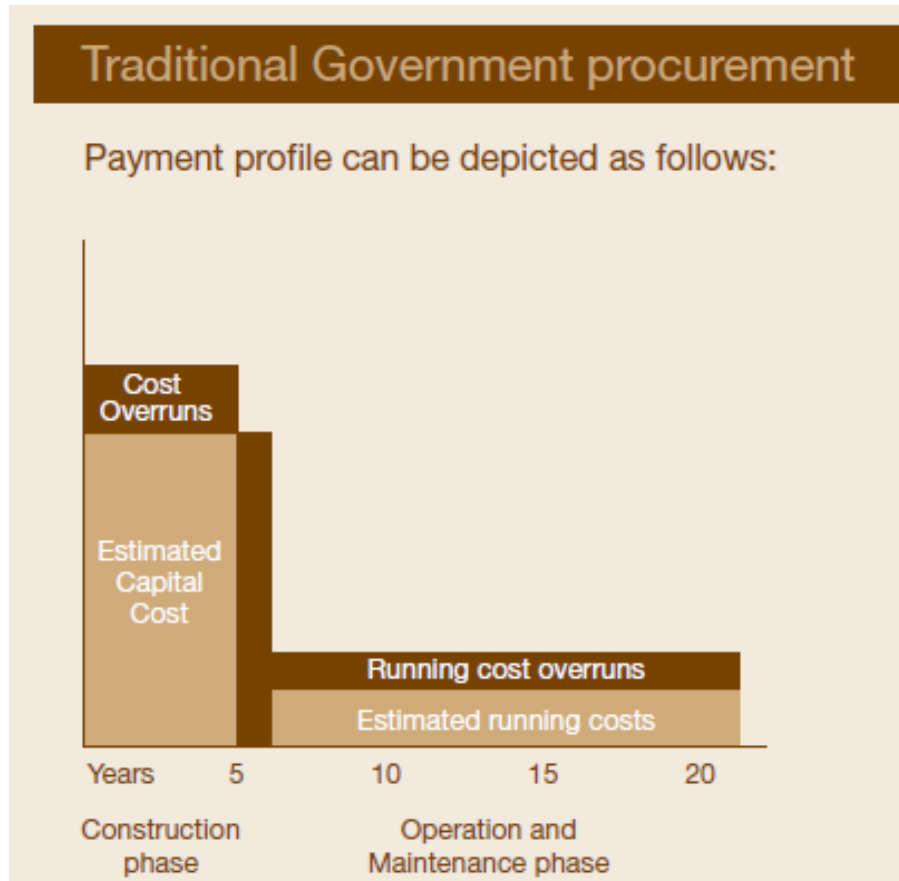
## Disadvantages

High cost

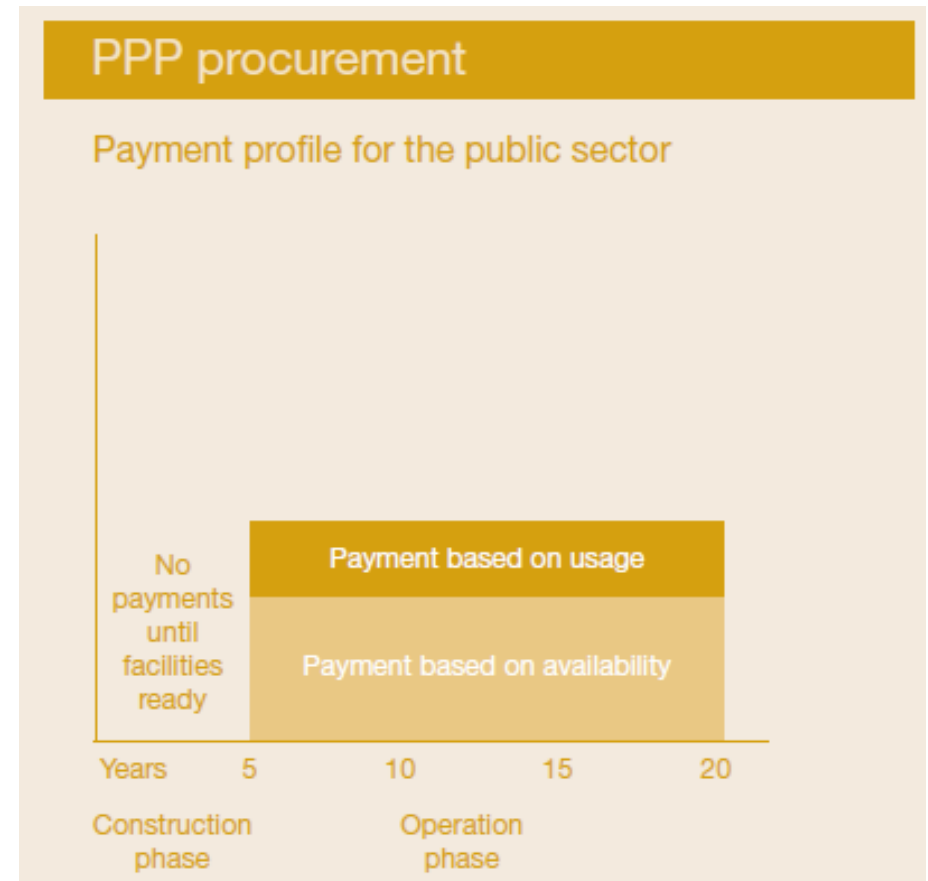
Length of procurement

Limited flexibility

# Differential procurement process



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



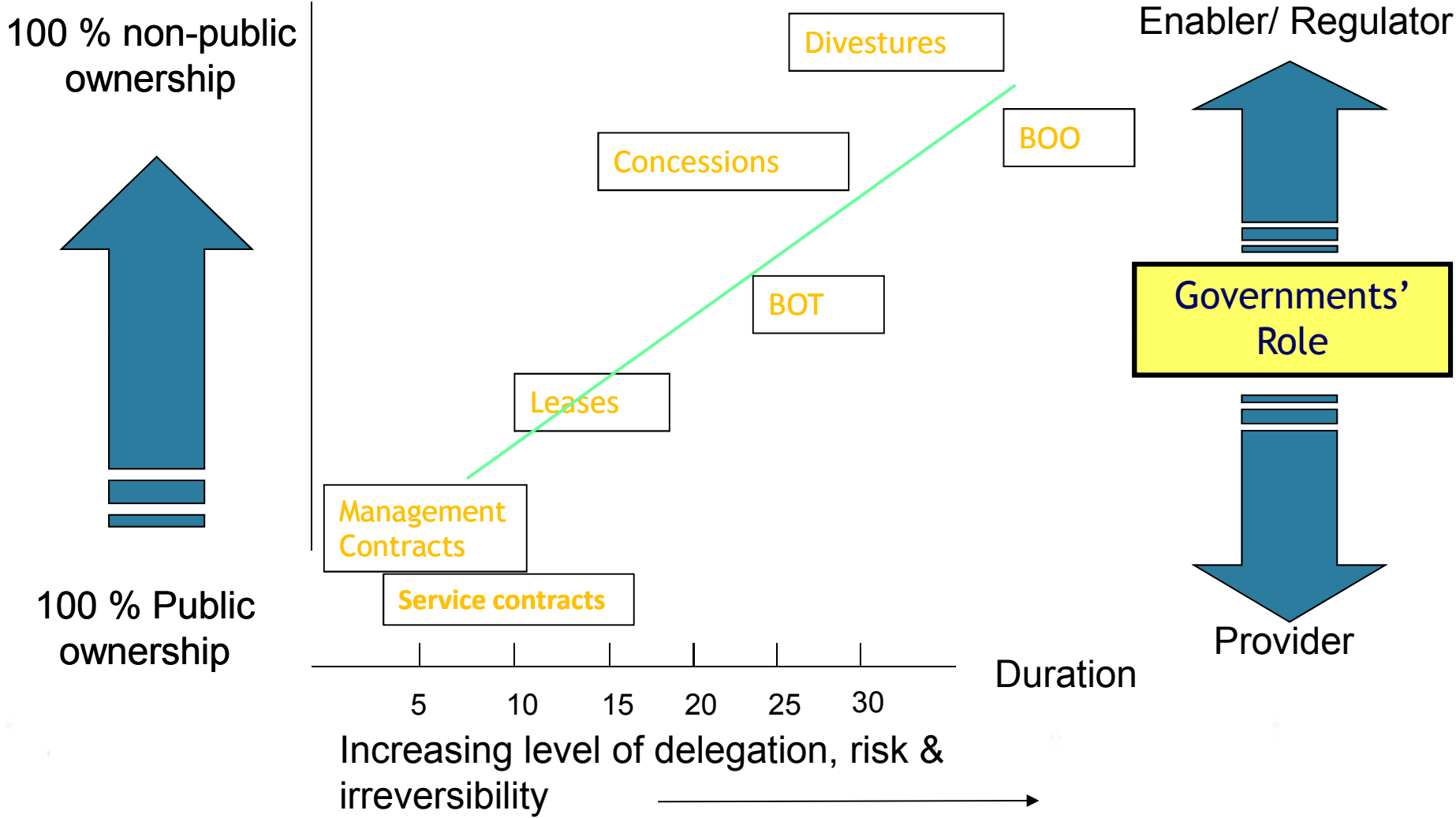
The public sector only pays over the long term as services are delivered. The private sector funds itself using a large portion of debt plus shareholder equity. The returns on their equity will depend on the quality of services.

# Key structures

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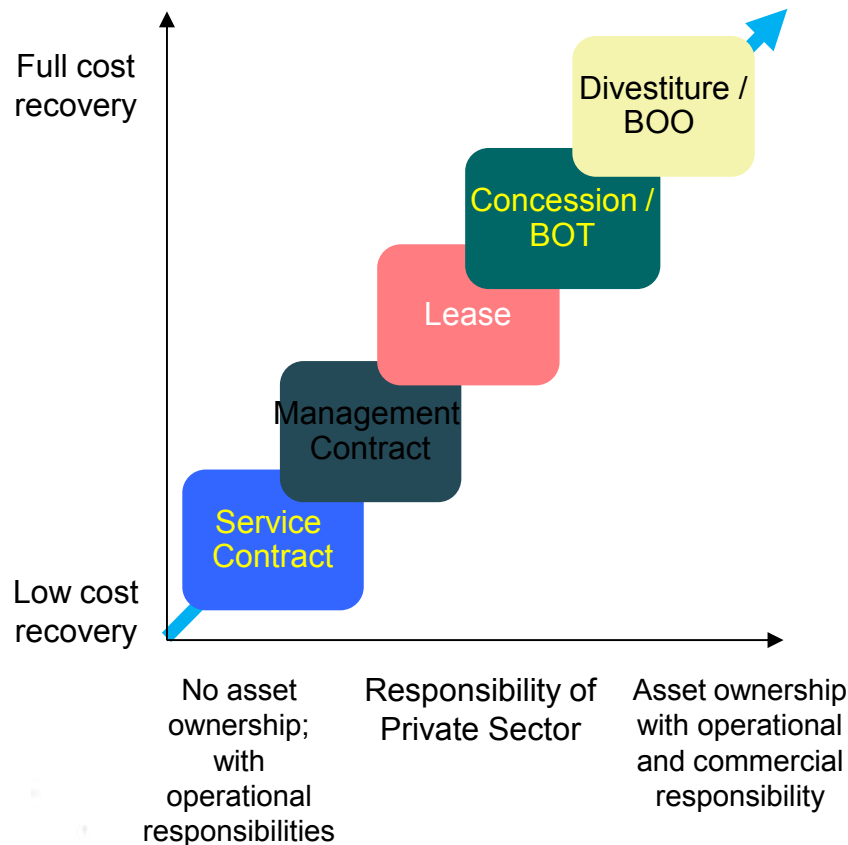
- Designed to maximize the use of Private Sector Skills
- Risk placed where it can be managed best
- Activities performed by those most capable
- Public and Private Sector each retain their own identity
- They collaborate on the basis of a clear division of tasks and risks
- PPP offers to the Public 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

# 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

# Concessions

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

## Forms of Concession-II

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



# How to decide on Options?

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- 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

# Perspectives

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- 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

# The key is...

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- 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?

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- 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

INFRASTRUCTURE PROJECT DEVELOPMENT FACILITY (IPDF) & PPP  
PROCESS (STANDARDIZED APPROACH TO PROJECT DEVELOPMENT)



# Project Life Cycle & Guidelines

## IPDF TECHNICAL ASSISTANCE

### Phase I

#### INCEPTION

- ▶ Decision to explore PPP option (I)
- ▶ Register PPP project with IPDF (IPDF/I)
- ▶ Assign Project Manager (IPDF/I)
- ▶ Draft terms of reference and Appoint Transaction Advisor (IPDF/I)
- ▶ Negotiate and finalize contract with Transaction Advisor (IPDF/I)

### 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 (IPDF/I)
- ▶ Estimate VGF or concessionary requirements (IPDF/I/TA)
- ▶ Market testing (IPDF/TA)
- ▶ Review market test results (IPDF/TA)
- ▶ Determine final PPP design parameters (IPDF/TA/I)
- ▶ Review by IPDF Project Feasibility Committee (IPDF/I/TA)
- ▶ Recommend to IPFF, for long-term fixed rate local currency financing to fill any market gaps (IPDF/TA)
- ▶ If required, project submitted to VGF Committee (IPDF/TA)

# Project Life Cycle & Guidelines (contd.)

## IPDF TECHNICAL ASSISTANCE

Phase III

Phase IV

### PROCUREMENT

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

### DEVELOPMENT

### DELIVERY

### EXIT

# Procurement Process

## Process Flow of the Procurement Guidelines

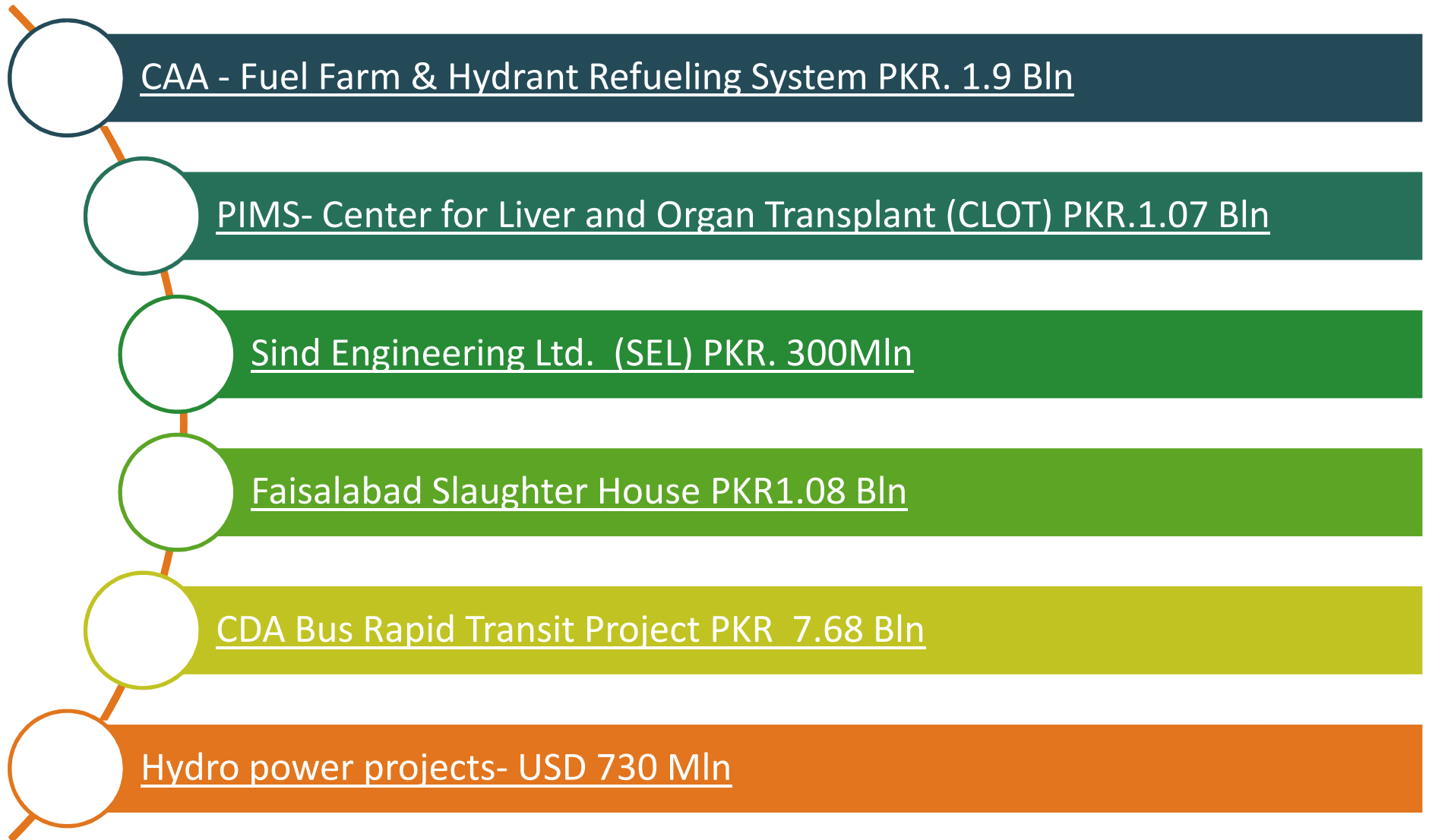




# IPDF - Projects

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- Railways Track Access Project PKR. 32 Bln
  - Karachi – Hyderabad M9 Motorway Project (NHA) PKR. 26.3 Bln
  - Lahore-Islamabad M2 Motorway Rehabilitation Project (NHA) PKR. 52.2 Bln
  - New Benazir Bhutto International Airport Road (NHA) PKR. 7.7 Bln
  - Habibabad Flyover (NHA) PKR. 849 Mln
  - Comsats Student Hostel Facility Construction PKR. 586 Mln
  - Heavy Industries Taxila (HIT) Prime Movers Manufacturing PKR 781 Mln

# IPDF - Projects





Thanks & Questions

