

# Strategy #1: Partnering with the Private Sector through PPP

EY Infrastructure Advisory

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Building a better  
working world

# EY Infrastructure Advisory



# EY's Infrastructure Advisory and Project Finance Advisory Capabilities

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EY's Infrastructure Advisory Group is recognised as a global leader advising Governments in the infrastructure sector. Our ASEAN team is based in Singapore. Globally we number more than 1,000 people worldwide and have advised on nearly 800 transactions, with industry teams in key sectors eg

- Transport                                      Power & Utilities
- Health    Education
- Regeneration/Property      Water / Waste

Our range of services include:

- Value for Money Guidance
- Feasibility Study, Project Delivery Strategy and Business Case Development
- PPP Capacity Building
- Financing Options and Financial Management
- Economic Analysis & Financial Modelling
- Commercial and Financial Advisory
- Project Development and Tender Support – Development of Business Case to Project Tendering

Recent AsiaPac Projects: Malaysia – Singapore High Speed Rail PPP, Philippines (NAIA) Airport PPP, BRT Iskandar Malaysia, Sydney Metro PPP, HK West Kowloon Development PPP

# EY Vietnam

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- EY Vietnam (EYV) was the first international accounting, auditing and consulting firm to establish a legally recognised 100% foreign owned company in Vietnam with over 900 professionals across offices in Hanoi and Ho Chi Minh City.
- EYV has the experience and expertise to local and international client and has accompanied the Government of Vietnam since 2001 in the reform and transformation of the SOEs in Vietnam
- Additionally, EY is also advising the Ministry of Transport in developing the transport sector PPP framework for the country, which includes development of standard bidding documents and PPP manual.

# Partnering Private Sector through PPPs



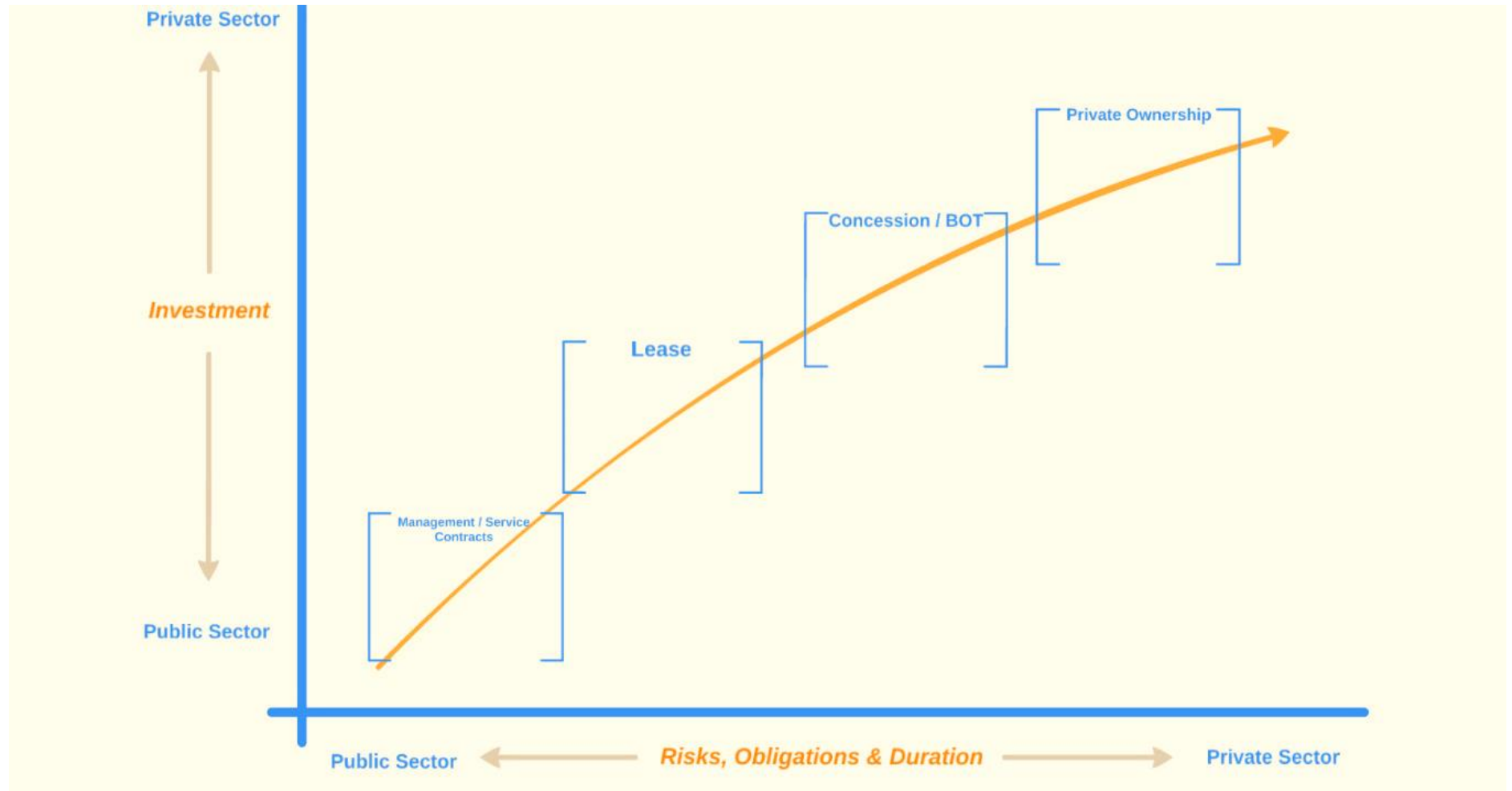
# Private Sector Participation brings...

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Governments are increasingly aware of the benefits which private sector can bring to assist to

- ▶ To facilitate immediate investments in infrastructure
- ▶ To improve the quality of services (key infrastructure for external trade).
- ▶ To ensure efficient, cost-based provision of critical infrastructure and related services, improved budget certainty
- ▶ To transfer commercial risks related to operation and investment, where appropriate


# Different Models for Private Sector Participation



# Typical Characteristics of a PPP Contract

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- ▶ Long term contract between public and private sector for private sector to deliver specified services, including infrastructure development and management
- ▶ Typically requires upfront capital investment by private sector
- ▶ Contractor plays an important role in the design, completion, operation and funding and take responsibility for assets performance
- ▶ Distribution of risks between the public and private sector.
- ▶ Payments are typically output based – for available service or infrastructure and can involve both user charges (demand risk) and government payments

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- ▶ **Public sector able to spread payments for large projects over useful life**
    - *improved budget certainty*
  - ▶ **Appropriate allocation of risk and responsibilities-**
    - *better service and cost outcomes*



# Attracting Private Investment



# A well structured project.....attracts investors and financiers

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- ▶ Factors that influence the financial viability of a Project
  - ▶ Risk Allocation
  - ▶ Access to Financing
- ▶ Key areas of focus for financiers and investors
  - ▶ Legal, regulatory frameworks
  - ▶ Viable Projects / Transaction Structure
  - ▶ Transparent Bidding, Evaluation and Decision Making
- ▶ Cost Allocation and Assessment
  - ▶ Value for Money and Optimism Bias - realistic assessment
  - ▶ Appropriate budget, contingency and risk plans
  - ▶ Capacity of Procuring Authorities



# Partnering with private sector through PPPs

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- ▶ Investment Laws to facilitate private sector investment
- ▶ PPP Enabling – Legal and Institutional Framework (Decree 15)
- ▶ Centralised PPP Unit to enable government support, decision and approval process - project level and ministry level - supporting different procuring agencies (ASAs)
- ▶ Capacity Building of government procurement teams (ASAs)
- ▶ Template “Model Contracts” to standardise risk allocation and contract terms - by “sector” and by “procurement modality”
- ▶ Establishment of a Project Development Fund

Vietnam has made substantial progress to facilitate PPP investments

# Partnering with private sector through PPPs

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- ▶ *Realistic Project Selection and Pipeline and risk allocation - sufficient time and resources for project preparation*
- ▶ *Transparent bidding, evaluation process and selection criteria / process*
- ▶ *Appropriate transaction structures*
- ▶ *Development of long term financial markets / long term financing mechanisms*
- ▶ *Capacity Building of ASA to procure and manage PPP Contracts*
- ▶ *Political Will / Support (eg Streamlined Decision Making / Appropriate Contingent / Budget Management and Support / VGF Management)*

Continued development is required to enable long term Private Sector Investment

# Appropriate Project Selection and Contract Structure to achieve the objectives

## Availability / Service Payment Contracts

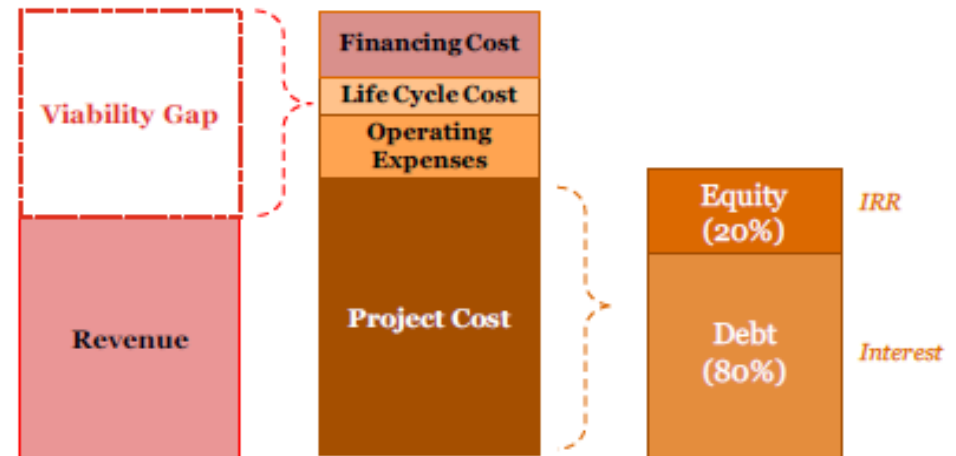
- Projects are developed based on specified output and service levels and private sector is paid an agreed fixed payment / tariff.
- Government bears demand risk and reward.

## Concessions

- Private sector receives the concession to develop and operates the project.
- Bears market (demand) risk and revenues are typically derived directly from the users of the infrastructure rather than government.

## Viability Gap Funding (Concession)

- The difference between the forecast revenues and the whole of life expenses including debt and equity costs
- Can be stated in the RFP as a bid parameter
- How best to apply



# Appropriate Project Selection and Contract Structure to achieve the objectives

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## **Build Then Tender (Finance) / Sell**

- The project is built by the procuring agency under a conventional design and construct project then financed once the construction phase (risks) is complete and an operational track record established

## **Separating the Project Components**

- Projects are split into their constituent elements and separately funded
- When consider: Large and complex projects
- Integration and other risks remain and to date has been used for projects where such risks are known

# Attracting Private Sector Investment.....

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- ▶ Realistic Project Pipeline and Selection
- ▶ Formation of Core and Stakeholder (inter-ministry) Project Team (plus external advisors)
- ▶ Assess technical and financial feasibility of the Project to be developed as a PPP, including PSC, key pricing / return indicators
- ▶ Determine an appropriate contract arrangements eg BOT, BT, BTO and risk allocation and financing options including proposed payment mechanism
- ▶ Transparent evaluation criteria, streamlined decision making and timing of project tender
- ▶ Internal Stakeholder Support – Political Will and Stability, Government Support
- ▶ Early engagement with industry (foreign and local investors / firms / lenders)

There is significant private sector liquidity and interest to invest and manage infrastructure services.

Successful long term partnerships require a sustainable investment environment and equitable allocation of risk and reward

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# Thank You

Lynn Tho  
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## About EY

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