

# Developing a PPP market: Getting the fundamentals right

Essentials for private sector  
participation

17 March 2016

# Why does private sector care about PPP projects?

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- ▶ PPP projects offers stable cash flows and returns
  - ▶ These are important to pension fund investors, seeking to match income with their pension fund liabilities and providing for retirement for growing numbers of baby boomers.
- ▶ PPP projects offers varying risk profiles
  - ▶ PPP investments offer opportunities all along the risk spectrum, from greenfield projects in developing nations to mature operating assets in developed countries.
- ▶ Investors are competing for new opportunities
  - ▶ Availability of capital has increased competition for traditional assets such as investment, real estate, forcing up prices and squeezing yields.
- ▶ There are untapped opportunities
  - ▶ Emerging markets such as South Asia, South East Asia, China Brazil and India have exploding infrastructure needs.
  - ▶ In mature markets, new sectors are opening to significant private investment.

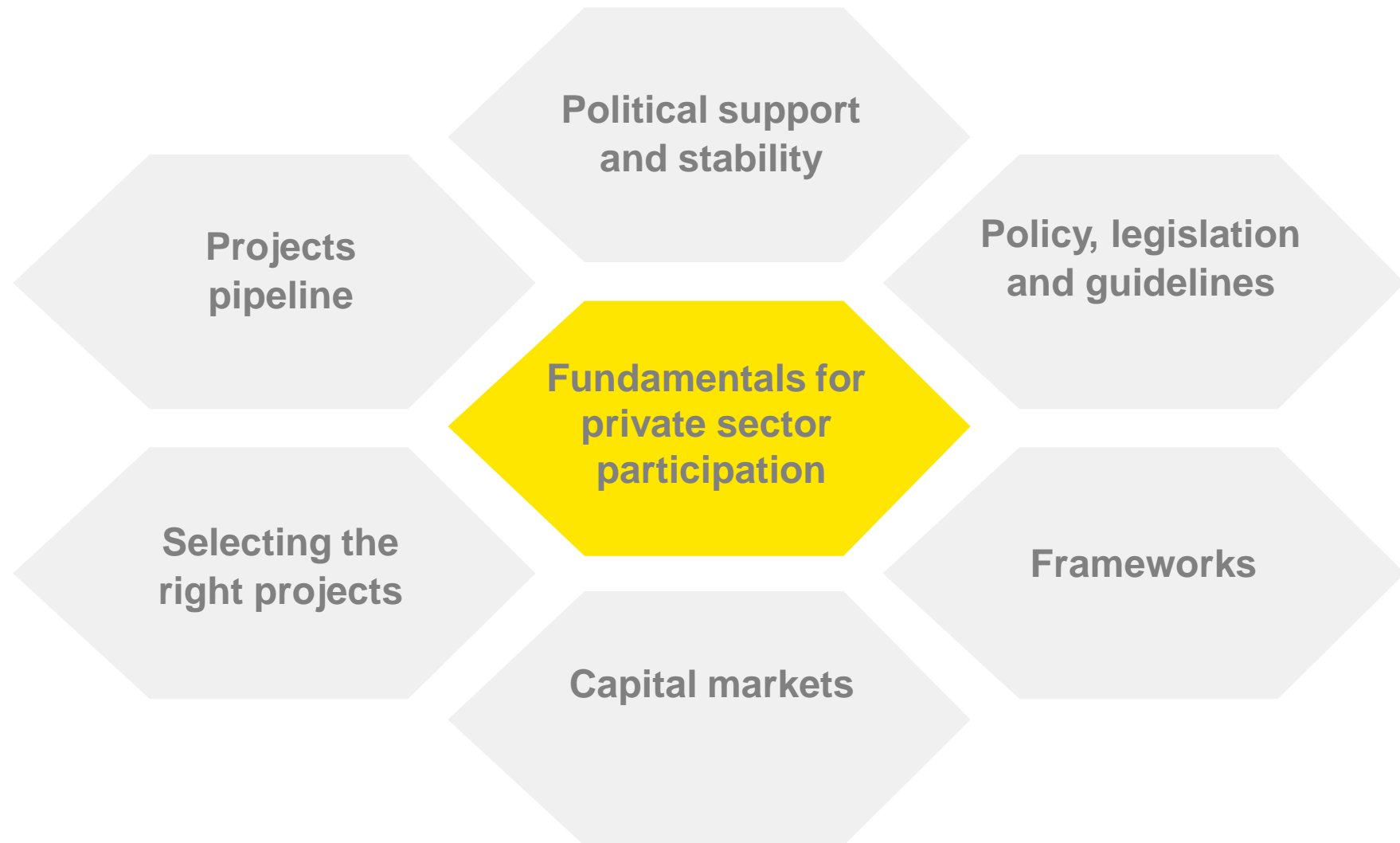
# Why should Myanmar Government care about private sector?

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- ▶ Incentivise whole-life approach
  - ▶ Private financing drives value and discipline
  - ▶ Real risk transfer
  - ▶ “Underwritten” long-term solution
  - ▶ Robust competition drives value
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- ▶ Private sector will bear the projects risks that are inefficient for the Government to assume
  - ▶ The effectiveness of Government’s procurement processes will be enhanced if private sector perspectives are properly factored in to process design decisions

# What will private sector look for?

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# 01 ▶ Political support

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## Why is Political Support required?

- ▶ Perceptions of the role of the PPP model in addressing the “infrastructure gap” can vary
  - ▶ Bidders will receive confusing messages regarding objectives and scope, and principles of the PPP program
- ▶ Gain clarity over the government funding sources (for Availability based projects)
- ▶ Avoid delays in land, environmental and inter-departmental clearances
- ▶ Private sector gets the confidence that government will be a reliable and proficient counterparty

## 02 Policy, legislation and guidelines

### Why policy, legislation and guidelines are required?

- ▶ Laws and regulations empower the government and private sector participants to enter into such long-term contracts.
  - ▶ Provide rules and limitations governing the circumstances in which PPPs must be considered for projects.
  - ▶ Principles and constraints underpinning the implementation and management of PPPs.
    - Reduce the risk of challenges, disputes, delays
    - Generate confidence from the international investor, funder and contractor PPP market.
    - Ensure proper performance of chosen PPP partners
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- ▶ Usually government has an inherent right to contract, but PPP-specific laws can be introduced
  - ▶ There are countries which have developed extensive guidelines but still do not have a PPP legislation!! – E.g. – Australia, UK, South Africa, Mexico, Saudi Arabia

## 03 Frameworks: Institutions and process

### Why an efficient framework is required?

Private sector confidence is enhanced by:

- ▶ Model Concession Agreements (MCAs) with robust risk allocation framework
- ▶ Clarity over Dispute resolution mechanism

Consistent positions lead to greater private sector engagement and supporting a stronger pipeline

Standardisation outcomes

Shorter procurement timeframes leading to lower bid costs for both the public and private sector partners

- ▶ Standard frameworks ensure – no more reinventing the wheel

# Beyond standardisation – private sector will need clarity on sector and project specific commercial and technical principles

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Roads	▶ Traffic volume, Tariffs/ User charges, Credit risk
Urban Transport	▶ Traffic volume, Paying capacity
Airports	▶ Traffic volume, Economic regulations, Non-tariff revenue
Power / Energy	▶ Tariffs / Charges, Regulations on distribution / transmission
Water Supply & Sanitation	▶ Paying capacity, Collection efficiency, Credit risk
Healthcare	▶ Pricing regulation, Linkage with govt.'s health insurance policy
Education	▶ Government financial support, Infrastructure & student support, Lack of standard metrics for performance review



## 03 Frameworks: Institutions and process

### Dedicated PPP unit

- There is no 'one size fits all' approach
- Separate authorities for policymaking, contracting/monitoring, and dispute resolution to prevent conflict of interests
- Most of them are established within a central government department (such as finance) or as executive agencies owned by a central department.

Primary roles	Policy direction	Quality control	Secondary roles
	Program and project delivery support	Promoting PPPs within government	
	Approvals	Engaging with market participants	

Trend towards a more sector-specialisation in a dedicated PPP-unit in line ministries and a more formal role in the procurement decision *but dedicated pipeline of projects essential*

## 04 ▶ Capital markets

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### Why access to Capital markets is important for Myanmar?

- ▶ Lack of dedicated financial institutions
- ▶ Limited involvement of insurance/ pension funds
- ▶ Lack or underdeveloped financial products such as long term loans

### How can the access to funding be improved?

- Institutional investors are attracted by instruments that match their risk appetite
  - Pension funds and insurers are returning to PPPs.
- Different forms of government intervention include:
  - subsidising the interest payments or providing credit enhancements for project bonds
  - project bundling
  - government guarantees.

## 05▶ Selecting the right projects/project structures

Type	Description	Sectors Examples
Revenue Based (Economic infrastructure)	▶ Project feasible from revenue from user charge only	<ul style="list-style-type: none"><li>▶ Roads / Highways</li><li>▶ Airport</li><li>▶ Power / Energy</li><li>▶ Tourism</li></ul>
Revenue + Govt. Support	▶ Project feasible with mix of revenue from user charges and Government support	<ul style="list-style-type: none"><li>▶ Roads / Highways</li><li>▶ Urban (water supply &amp; transport)</li><li>▶ Tourism</li></ul>
Only with Govt. Support (Social infrastructure)	▶ Project feasible with Government support (Revenue from user charge insignificant)	<ul style="list-style-type: none"><li>▶ Roads / Highways</li><li>▶ Urban (water supply &amp; transport)</li><li>▶ Healthcare</li><li>▶ Education</li></ul>

# Private sectors confidence will increase if initial projects are:

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- ▶ Strategic – the projects which meet a clear identified need and priority
- ▶ Simple – the initial projects should not be overly complex
- ▶ Scalable – while the first projects may be relatively simpler, they could sit within a longer-term program that includes more complex projects
- ▶ Affordable – public sector can allocate sufficient budget
- ▶ Bankable – private sector lenders should be willing to finance the project given adequate risk transfer scheme
- ▶ Leverage existing, successful structures – where possible the first projects should leverage existing, successful commercial and governance structures

The first PPP projects should have an important 'demonstration effect' on the market, showing that PPPs are feasible and successful, and increasing investor confidence for future PPP

## 06 ▶ A strong project pipeline provides private sector the confidence to invest in resources on a long-term basis

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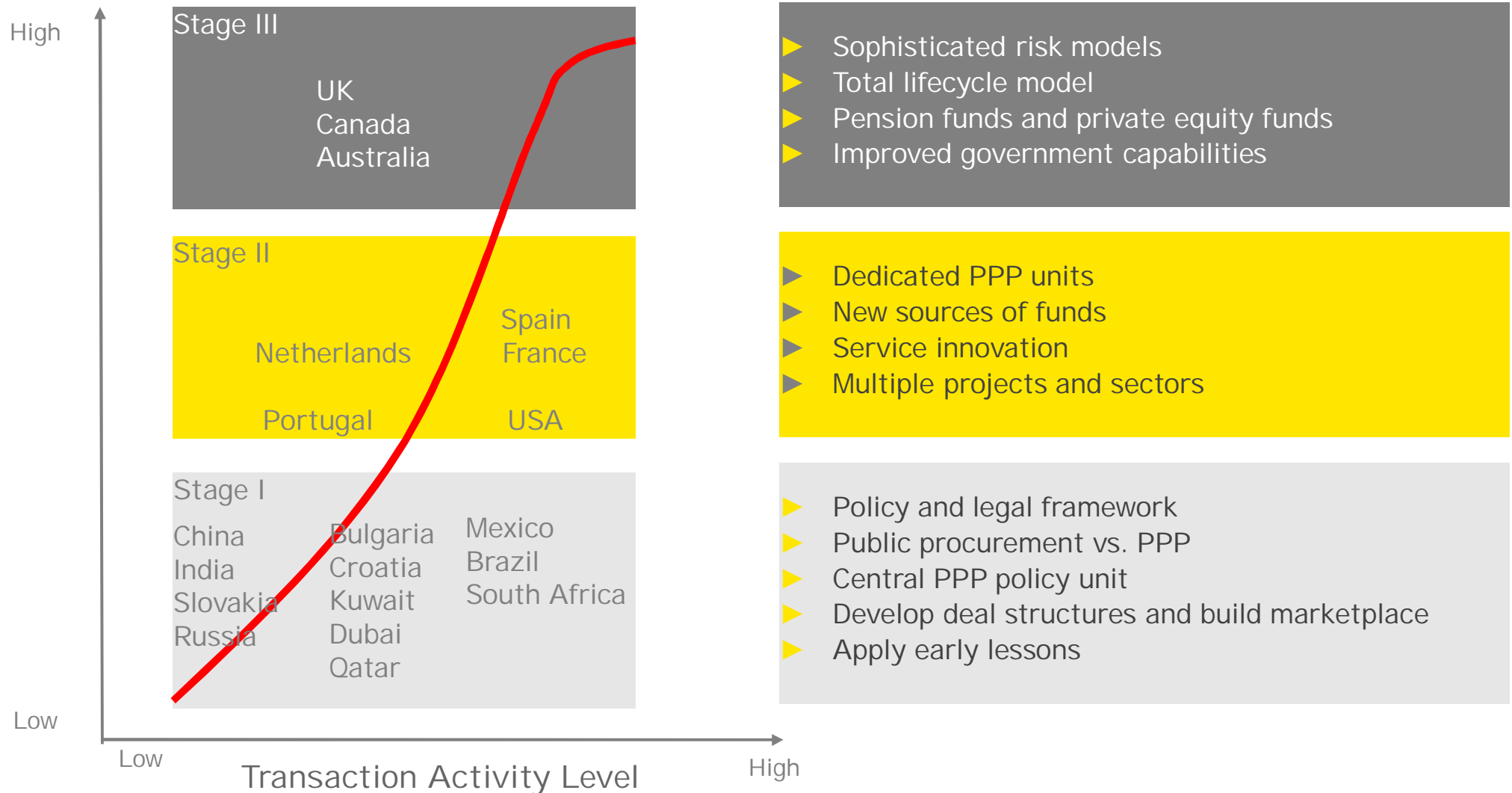
### A strong pipeline of projects:

- ▶ Signals that Government invests in and is committed to long-term planning of PPP projects
- ▶ Eliminates political risk
- ▶ Delivers certainty over government funding commitment

Establishing a strong pipeline is a virtuous circle, and requires:

- ▶ Clear definition of a project with defined output and performance measurement criteria
- ▶ Appropriate structuring projects on a case-by-case basis
- ▶ Maintaining consistency and certainty of government regulation
- ▶ Clarifying bid requirements in the tender package

# Every attribute cannot be achieved on Day 1 – Different countries are at different levels of PPP activity



# Thank You



Abhaya Agarwal  
Partner - Infrastructure and PPP  
Ernst & Young LLP  
3rd & 6th Floor, Worldmark-1  
IGI Airport, Hospitality District, Aerocity  
New Delhi 110037, India  
Phone: +91 11 4363 3000  
Email: [abhaya.agarwal@in.ey.com](mailto:abhaya.agarwal@in.ey.com)