Policy Dialogue on PPP Infrastructure Development in South Asia

22-23 Sept, 2015 in Kathmandu

SRI LANKA EXPERIENCE WITH PPP PROJECTS
THE NATIONAL PPP (POLICY)

- provides a consistent framework that enables public and private sectors to work together to improve public service delivery through private sector provision of public infrastructure and related services.

- Infrastructure projects which are not identified to be financed under the Consolidated Fund are identified to be financed /developed by private investors. Projects financed by private sector will be considered on a Build own and operate, Build own and transfer, build own operate and transfer basis as appropriate.
THE OBJECTIVES OF THE NATIONAL PPP POLICY FRAMEWORK

- encourage private sector investment in public infrastructure and related services
- where value for money for government can be clearly demonstrated;
- encourage innovation in the provision of infrastructure and related service delivery;
- ensure transfer of knowledge and technological capabilities
- ensure allocation of risk of financial, construction, operating and maintenance and
- ensure rigorous governance over the selection of projects for PPPs and the
- competition for and awarding of contracts;
- provide a framework and streamlined procedures for applying PPPs across the country and
- clearly articulate accountability for outcomes.
KEY PRINCIPLES IN THE APPLICATION OF PPPS

- Value for money
- Public Interest
- Risk Allocation
- Output Oriented
- Transparency
- Accountability
- Engaging the market
KEY PRINCIPLES IN THE APPLICATION OF PPPS

CONTD..

- **Value for money** is paramount and achieving the best value for money outcome should be the key consideration at all stages of a project.

- Value for money is a combination of the service outcome to be delivered by the private sector, together with the degree of risk transfer and financial implications for government. Quantitative factors are tested by comparing the outputs and costs of PPP proposals against a neutral benchmark.

- **Price of the goods and services is not the sole determinant** in assessing value for money.

- Comparative analysis of the relevant financial and non-financial cost and benefits of alternative solutions throughout the process determine the Value for money assessment. **Factors to consider in determining Value for money;**
  - Fitness for purpose
  - Potential suppliers experience and performance history
  - Flexibility including innovation and adaptability over the life cycle of the procurement
  - Environmental sustainability (energy efficiency and environmental impact)
  - Whole of life cost
KEY PRINCIPLES IN THE APPLICATION OF PPPS

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- Consideration of **Public Interest** requires:
- Ensuring that procuring the project as a PPP is not contrary to the public interest; and protect the public interest in all PPP projects.
- Ensuring that the procurement process is structured to ensure that the *project continues to be in the public interest*.

- **Risk Allocation**
- The principle governing risk transfer is one of optimal risk allocation. *Risk will be allocated to whoever is best able to manage it, taking into account public interest considerations.*
Output Oriented
Projects should focus on the specification of what services are to be delivered rather than how they should be delivered in order to maximize the opportunity for innovation. Performance measures should be established to ensure that the required services are delivered in accordance with the output specification.

Transparency
The use of PPPs should not diminish the availability of information on the use of government resources to Parliaments, taxpayers and other stakeholders. The need to disclosure of the processes and outcomes is emphasized.

Accountability
Agencies cannot transfer this accountability to the private sector.

Engaging the Market
Bids will be invited only when it is clear that there is scope for a private proponent to deliver value for money better than public sector does.
Under the BOI “Bureau of Infrastructure Investment” (BII) will function as promoting, facilitating and coordinating agency for servicing the line agencies under the supervision of Ministry of Finance.

The final authority for selection and approval is with relevant line Ministry and the Cabinet of Ministers.

**Preliminary Screening:**

Priority projects identified by the line ministries should submit financial and technical viability reports prepared jointly by the Board of Investment (BOI) and the line ministry to the Ministry of Finance. Once the clearance from the Ministry of Finance is obtained, the line ministry should present a Cabinet memorandum to Cabinet of Ministers for approval.

All matters pertaining to BOO,BOT projects should be screened by **CANC assisted by a Project Committee**. The approving authority of these projects is the Cabinet of ministers.
THE PPP PROCESS

**Phase: 1: PPP Identification**
- Strategic Planning
- Project Feasibility
- PPP Suitability Testing
- Internal Clearance

**Phase: 2: Full feasibility study, PPP Preparation and clearance**

**Phase: 3: PPP Procurement**
- Expression of Interest (EOI)
- Request for Proposals (RFP)
- Concession Agreement (final approval & award)
- Award

**Phase: 4: Contract Management and Monitoring**
THE CHARACTERISTICS OF PPP PROJECTS

- The Private sector is responsible for carrying out or operating the project.
- During the operational life of the project the public sector role is to monitor the performance of the private partner and enforce the terms of the contract.
- The private sector costs may be recovered in whole or in part from charges related to the use of the service.
- Public sector payments are based on performance standards set out in the contract.
- Private sector often contributes to the majority of the projects capital costs.
- The output of the PPP is infrastructure services.
- Government role has changed from service delivery to service management.
FOR A SUCCESSFUL PPP PROJECT

- The public sector environment is suited to support PPPs
- Project is suitable to being carried out as a PPP
- Potential barriers to successful project implementation have been identified and can be overcome
- The project must be commercially viable for the private sector and offer value for money (VFM) for the public sector.
ROLE OF THE GOVERNMENT AND PARTNERS IN PPP PROJECTS

- Determine which project can be taken up through PPP. Are they bankable?
- Facilitation at design stage and project preparation
- Facilitation at the pre-construction stage
- Quick and effective dispute resolution mechanism
- Ensuring transparency and fair play through adequate regulations
- Build effective and sustainable partnership
**Type of Risks Involved in PPP**

- Financial Risk
- Construction risk
- Operating Risk
- Technology and Design Risk
- Market Risk
- Foreign Exchange Risk
- Political Risk
- Macroeconomic Risk
- Environment Risk
- Force Majeure Risk
TERMS OF REFERENCE OF THE PROJECT COMMITTEE

- Steering and preparation of EOI and RFP documents
- Prepare criteria of Assessment of Technical and Financial Viability of the project
- Schedule bids and evaluation system
- Monitor the progress during project development phase and report to the CANC Periodically
- Coordinate all activities such as scheduling meetings, correspondence etc..
- Legal obligations on the Government should be decided with the Attorney General’s department.
SRI LANKA EXPERIENCE WITH PPP PROJECTS

- Government of Sri Lanka has implemented a few projects successfully under the PPP method. They are:
  - Power Plant at Embilipitiya (100MW)-US $59mn
  - Power Plant at Horana(20MW)-US$14mn
  - Power Plant at Matara(20MW)-US$15mn
  - Power Plant at Kelanitissa(163MW)-US$105mn
  - Asia Power -Power Plant(51MW)-US 31mn
  - Colombo Power Plant (60MW) US-50mn
  - Heladhanavi Puttalam(100MW)-US60mn
  - Small Hydro Power Plant(95MW)-US82MN
  - Colombo Port South Breakwater
  - **Colombo South Container Terminal Development**
SRI LANKA EXPERIENCE WITH PPP PROJECTS

Colombo South Container Terminal Development

- Government of Sri Lanka (GOSL) has launched the Colombo Port Expansion Project (CPEP)” to expansion of Port of Colombo to cater the increasing demand of services in the international shipping industry. After comprehensive studies the proposed development in South of Colombo Port was identified as essential for economic development.
- The proposed Colombo South Harbour is situated west to the existing port of Colombo comprising an area of approximately 600 hectares. The proposed harbor has 3 terminals each having 1,200m length and facilities to accommodate 3 berths alongside.

- There are two phases of the project:
  - **Harbor Infrastructure works** - Construction of Breakwaters, dredging for new harbor basin and navigation channel and rerouting of crude oil pipe line. This phase has been completed through open competitive bidding process.
  - **Construction of Terminals** and other related services. This Phase has completed through PPP method.
Project Details:-

- **Client**: Sri Lanka Ports Authority
- **Engineer**: Scott Wilson Ltd - UK
- **Contractor**: Hyundai Engineering & Construction Co, Korea
- **Funded by**: Asian Development Bank (ADB) - US$ 300 Mn
- **Sri Lanka Ports Authority (SLPA)** - US$ 75.1 Mn
- **Date of Commencement**: 11th April 2008
- **Construction Period**: 48 months
COLOMBO SOUTH CONTAINER TERMINAL

- After evaluation of the Request for Proposals (RFP), being the first terminal of the Colombo South Harbor, namely South Container Terminal has been assigned to M/s. Colombo International Container Terminals Limited under BOT basis.
- Developer: Colombo International Container Terminals Limited (CICT)
- Colombo International Container Terminals Ltd., (CICT) is a joint venture Company between China Merchants Holdings (International) Co., Ltd. (CMHI), a listed blue chip Company in the Hong Kong stock exchange, and the Sri Lanka Ports Authority (SLPA). It is developing the 2.4 million twenty foot equal units (TEUs) capacity for Colombo South Container Terminal in the Port of Colombo, under a 35 year build, operate, and transfer (BOT) agreement with the SLPA.
- The largest shareholder of this company is CMHI with 85% ownership and the balance 15% being held by SLPA.
- CICT commenced construction works of the terminal in December 2011. With an envisaged investment of US$ 500 million, including the installation of the latest state of the art terminal equipment, it is so far the single largest foreign direct investment in Sri Lanka by a private entity.
- The Port of Colombo with a current capacity of over 4.5 million TEUs has embarked on a large infrastructure development programme to increase the total capacity of the Port of Colombo by another 7.2 million TEUs in three separate phases.
COLOMBO SOUTH CONTAINER TERMINAL

Effective Date : 1st December 2011
Term of BOT Agreement : 35 Years

Project Features:-
Quay Length : 1,200 m
No. of Berths : 3 - 4 berths
Capacity : 2.5 M TEU
Depth : 18m

Terminal Equipment for each terminal - 12 Nos. Super Post-Panamax quayside cranes
40 Nos. RTGs.

Construction Details:-
- Date of Commencement : 16th December 2011
- Project Completion : Phase I (600m Quay Length) - December 2013
- Phase II (Entire Terminal) : April 2014
- Estimated Cost : US$ 500 million
- Consultant : AECOM of Hong Kong
- Civil Contractor : China Harbour Engineering Company Ltd.
COLOMBO SOUTH CONTAINER TERMINAL
COLOMBO SOUTH CONTAINER TERMINAL
Thank you