Applied Workshop on Preparing Infrastructure Projects

21\textsuperscript{th} - 25\textsuperscript{th} March
Bangkok

March 2016
Welcome and Opening Remarks
Workshop Objectives

• **Define** PPPs and key PPP concepts

• **Apply** key concepts to project cases

• **Discuss** real experience with guest speakers and colleagues

• **Reflect** on lessons learnt with PPPs in practice

• **Case based & Applied !!!**
Concept of the applied workshop

• Work on the real steps of preparing and structuring a PPP project

• From the perspective of a public agency or advisor working on a PPP project

• Mainly focused on transport infrastructure ... but applicable to other sectors
Introductions

• Mathieu Verougstraete
• Rolf Dauskardt
• Patrick Rosales

• Name
• Organisation, position, kind of work
• Interest / involvement with PPPs
• Expectations
• Financial Economic specialists founded by PPP pioneers

• From champions of PPP in Europe to global transaction advisor for Public & Private clients

• 120+ people – Netherlands, Belgium, USA, South Africa, Philippines, Indonesia

• 140+ transactions and financings

• Advise ! – Implement ! – Invest !
# Overview of the Workshop Week

<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intro.</td>
<td>Project Charac. / Financing</td>
<td>MRTA Field Visit</td>
<td>PPP Contract</td>
<td>Tender Design</td>
</tr>
<tr>
<td>Manila Water Case</td>
<td>Guest: SEPO</td>
<td>Guest: AC Infra</td>
<td>Risk Alloc</td>
<td>Guest: Comm Bank</td>
</tr>
<tr>
<td>Intro to Cases</td>
<td>Intro to Cases</td>
<td>Output Spec</td>
<td>Proj Struc</td>
<td>Guest: Comm Bank</td>
</tr>
<tr>
<td>Project Screening</td>
<td>Project Screening</td>
<td>Output Spec</td>
<td>Risk Alloc</td>
<td>Risk Alloc</td>
</tr>
<tr>
<td>Project Screening</td>
<td>Output Spec</td>
<td>Risk Alloc</td>
<td>Proj Struc</td>
<td>Proj Struc</td>
</tr>
<tr>
<td>• Guest: SEPO</td>
<td>• Guest: AC Infra</td>
<td>Indian Highway Case</td>
<td>• Indian Highway Case</td>
<td>Bidders Conference (Panel)</td>
</tr>
<tr>
<td>• Intro to Cases</td>
<td>• Output Spec</td>
<td>• Contract Management</td>
<td>• Contract Management</td>
<td>• Lessons learnt</td>
</tr>
<tr>
<td>• Project Screening</td>
<td>• Proj Struc</td>
<td>• Procurement</td>
<td>• Procurement</td>
<td>• Lessons learnt</td>
</tr>
</tbody>
</table>
Record your Lessons Learnt!

• Keep a running list of issues, observations, challenges, questions, opportunities...
  – PPP concepts?
  – Applying PPP in practice?
  – New insights?
  – Challenges?
  – Etc.

• We will review these at the end of the workshop
Basics of PPPs
Why Bring in a Private Partner?

- PPPs let each partner focus on doing what it does best

- Private
  - Overall innovation, technology
  - Entrepreneurship and asset exploitation
  - Professional management
  - Design, Construct, Project Management
  - Operational efficiency
  - Maintenance and lifecycle optimization
  - Financing

- Public
  - Securing the public interest
  - Policy & planning
  - Market management
  - Competitive procurement
  - Compliance management & regulation

Private performance that is driven by profit / risk purpose…

... can create public value and benefits …

... but only when the public manages the process effectively
Typical PPP Special Purpose Company (SPC)

PPP Private Partners Organized Through an SPC:
- Developer
- Operator
- Contractor
- Suppliers
- Banks
- Investors
- Insurers

Concession / Real Rights + Financial & Material Contributions

DBFMO agreement

Users

SPC

Construction company

Maintenance provider

Operator(s)

Banks

Investors

Loans

Debt service

Concern guarantees (recourse)

Equity

Shareholder ‘contract’

Debt contract

Dividends

User fees

Services

Provision of services and assets

Government
## PPP Concept & Definition

<table>
<thead>
<tr>
<th>IMF: PPPs, Government Guarantees and Fiscal Risks</th>
<th>PPPs broadly refer to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector. Asian Development Bank, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>A ‘partnership’ style approach to the provision of infrastructure as opposed to an arm’s length ‘supplier’ relationship. PPP involves a sharing of risk, responsibility and reward, and is undertaken in those circumstances when there is value for money benefit to the taxpayers. The World Bank, 2003</td>
<td>A partnership is an arrangement between two or more parties who have agreed to work cooperatively toward shared and/or compatible objectives and in which there is shared authority and responsibility; joint investment of resources; shared liability or risk-taking; and ideally, mutual benefits. European Commission, 2003</td>
</tr>
</tbody>
</table>
PPP Concept & Definition

The partners in a PPP, usually through a legally binding contract or some other mechanism, agree to share responsibilities related to implementation and/or operation and management of an infrastructure project.

United Nations Economic and Social Commission for Asia and the Pacific, 2011
In detail a PPP is...

- A contractual arrangement between a Project Executing Agency and a Project Entity
- Concerning the delivery of a public service and infrastructure for which the Project Executing Agency remains accountable
- Where the required service and infrastructure is specified as an output
- Where significant risks, meaning at least construction risk in combination with demand risk and/or availability risk, are transferred to the Project Entity, making its private investment and financial returns linked to its performance
- Procured through an international competitive tendering process or competitive conditions
- Often wholly or partly financed by the private sector
- Possibly involving Government Support and Official Development Assistance
End point we are aiming for...

- A good partner with a well structured contract delivering public services to citizens with better value over the long term than can be achieved by government alone...

- Project preparation and procurement leads to award of a good long term partner...
Basic types of PPP

Extent of private investment

- Large (most of the infrastructure and equipment)
  - DBFM(O)
  - BOT / BTO

- Limited (at most equipment)
  - Management contract
  - Operating concession

Who pays?

- Contracting authority
  - Private users

- Private users
  - BOT concession
Basic types of PPP

The Phu My III Power Project
Vietnam

- Operator finances, constructs and operates a 700 megawatt gas-fired combined-cycle power plant
- Electricity of Vietnam (EVN) purchases the electricity under a 20-year power purchase agreement (PPA) on a take-or-pay basis

Toll road
Independent power producer

BOT
concession
Basic types of PPP

Tanger Med Transhipment Hub
Morocco

- Government of Morocco built the breakwater, access channel, basin dredging, quay-walls and land access to the site
- Operators invested in terminal surface, gantry cranes and yard machinery, building and superstructures and IT systems

Port terminal concession in landlord ports

Operating concession
Basic types of PPP

- Operators renovates existing treatment plant, design and build new treatment plant, and operates the plants for 30 years
- Delfland Water Board (contracting authority) pays availability payment to operator
Basic types of PPP

Dockland's Light Railway franchise
London

- The operator is responsible for all train and passenger services across the network, including the maintenance of over 34km of infrastructure, 38 stations, as well as rolling stock.

- Transport for London (contracting authority) pays a contractually agreed service fee to the operator if strict reliability and passenger satisfaction targets are satisfied.
(Optimal Balance Depends on Market and Public Conditions)

Value-for-Money

Bankability
(Market and Bank/Equity Requirements)

Affordability
(Users Affordability and Public Budget Capacity)
Challenges

- PPPs are ‘new’ concept
- Often not well understood by public or private
- Not clear who is responsible
- No specific procedures
- Limited experience
- Higher risk perceptions
- Un-transparent procurement
- Barriers to entry
- ...

...
PPP practice

Political and policy framework
Legal and regulatory framework
Financial framework

Clear institutional arrangements
Proper procedures

Public and Private Sector Capacity and Experience

Establishing a PPP Framework
Current PPP Frameworks in Asian Countries

• Your country
  – Government intentions regarding PPPs?
  – PPP Policy?
  – Specific PPP Law?
  – Institutional Framework – e.g. PPP Unit, etc.?
  – PPP procedures?
  – Many PPP projects?
  – Active sectors?
Typical PPP Project Process

Line Ministry Responsibility

- Identification / Screening
- Feasibility / Structuring
- Procurement
- Management / Monitoring
- Amendment / Renewal

Selection Committee
Supervisory Committee
Typical PPP Process

1. Initial Project Proposal
2. Feasibility Study
3. Bid Documents
4. Tendering
5. Final Approvals
6. Implementation
- Initial identification of projects

- Might include a pre-feasibility study

- Initial approvals for further project development
• FS is basis for government’s **investment decision**, not just a bureaucratic requirement

• Also covers what gov financial support is required
• RfQ – Request for Qualification
• RfP / ITB – Request for Proposal / Instructions to Tenderers
• ToR – Project Terms of Reference
• PIM – Project Information Memorandum
• Data Room
• Draft PPP Contract

• Clear, transparent, fair
Initial Project Proposal → Feasibility Study → Bid Documents → Tendering → Final Approvals → Implementation

Issue of request for expression of interest

Expression of interest → Pre-qualification → Request for proposal

Proposals → Selection of BAFO bidders → Negotiation Request for BAFO

Best And Final Offer → Selection of preferred bidder → Final negotiations Contract/Financial close

Tendering

Final Approvals

ESCAP
• Final verification of the PPP Contract and award

• NO changes to contract or terms at this stage
• Unsolicited bids do not allow for competition

• Less transparent procedure

• Difficult for best Value for Money bid

• Government cannot compare the feasibility stages or the other phases of the process, makes the quality of the project questionable

• Often widespread allegation of public resource misallocation, corruption, fraud and poor quality of the infrastructure or services involved
PPP critical success factors

- A useful and feasible project...
- ...and a well-founded choice of the PPP model...
- ...implemented in a well-specified PPP contract...
- ...awarded in a competitive tender procedure...
- ...efficiently managed by contracting authority...
- ...supported by an adequate legal framework.

- All of this must lead to the fundamental enabling condition for PPP: TRUST

- Of the private partners in the competence and reliability of the contracting authority
- Of the public sector in the capacity to deliver of the private sector
Key Value Drivers for PPPs

1. Output Specification
2. Risk Allocation
3. Competitive procurement

• Central themes for the applied exercise
Pro-Poor Considerations of PPPs

• Improve service delivery overall (quality, coverage, access)

• Free up public (human) resources to focus on pro-poor interventions

• Potential to directly address poverty alleviation through PPP structuring and procurement
  – Involve small or informal players in overall system
  – Requirement for involving “the poor” in procurement
  – Small scale PPPs with small and micro businesses (e.g. public toilets in the market)
  – Require community programs
  – Coverage of rich and poor to allow internal cross-subsidization
Pro-Poor Cautions with PPPs

- PPP are market interventions by the state
  - Regulate natural monopolies
  - Create managed monopolies
  - Stimulate market competition
  - ...

- A well-intended PPP may have unintended consequences for the poor
  - Example of Egypt and the Zabaleen
Possible PPP Pro-poor Focus Area

- **Profitable Business**
- **Needs of Poor**
- **PPP**

Rich | Poor
• MANILA WATER CASE STUDY
Case Based Applied Exercise
Team to Prepare and Procure a PPP Project

- Investment Committee
  - PPP Unit
    - Transaction Manager
      - Transaction Advisor Team Leader
        - Financial
        - Legal
        - Technical
        - Env. / Social Safeguards
        - Procurement
        - Communication
      - Secretariat
      - Project Officers / Admin.
      - Departmental / Sectoral Staff
Applying central concepts to structuring PPP projects

- S1: Project screening
- S2: Defining project characteristics
- S3: Output specification
- S4: Risk allocation
- S5: Project structuring
- S6: PPP Contract
- S7: Contract Management Plan
- S8: Procurement Planning
Applied Case Studies Introduction

- Groups – each works on a case study for Session 1 – 8

- Case Studies are:
  1. “On-Track” Light Rail Project
  2. “Fly High” Airport Project
  3. “Stay Afloat” Container Terminal Project
  4. “Through Flow” Intermodal Terminal Project
  5. “Superlane” Expressway Project
  6. “Slow Coach” Bus Rapid Transit (BRT) Project

- Each session involves:
  - Conceptual / theoretical introduction (plenary)
  - Group case work
  - Report back and discussion (plenary)

- PPP Project Structuring Handbook
Friday Afternoon !!!

Presentation of Projects to Bidders Conference
“Superlane” Expressway Project

- Renovate / upgrade road to a dual lane highway, provision for adding third lane in future
- Estimated USD 200 million of capital works
- Ministry of Transport is considering to procure a private partner to deliver the highway

Some Issues:
- Tolls insufficient to cover costs – additional funding?
- Future traffic demand uncertain
- Toll charge and frequency uncertainty.
- Additional land to be acquired to accommodate the dual lanes and a future third lane
- Pedestrian safety concerns
“On-Track” Light Rail Project

- MOT wants an elevated 20 km LRT with 5 stations
- Will the traffic volume be sufficient, and in relation to the tariffs set?
- $1.5 bil capex estimate is very large amount
- Could there be additional income sources
- Right of way for rail seems ok
- Land for the stations is unclear – when, who, how?
- Issues include:
  - Rails alone
  - Rails and stations
  - Rails, stations and train service
  - Several PPPs, or one large integrated PPP?
“Fly High” Airport

• ODA supporting rehabilitation of a regional airport.
• Now potential to upgrade and expand it to an international airport – new terminal, new runway, upgraded ATC, new freight and cargo handling center
• Estimated at $200 to $350 million, depending on whether existing terminal is included or not
• The ODA-funded rehab is not completed yet. How to deal with the interface now and in future?
“Stay Afloat” Container Terminal

• Gotham Port Authority approached by a private company (USP) to build a new international standard container terminal
• Capex estimated to be $200m
• GPA wants to run a competitive tender
  – GPA is considering whether it should add the operation of its own port into the project?
  – Gotham Chamber of Commerce suggests also a cruise terminal, estimated at additional $45m capex
  – Container traffic? (also related to economic growth)
  – Cruise traffic? (volume, spin off benefits for tourism)
“Through Flow” Terminal

• MOT wants new intermodal terminal in north of the city
• Integrate LRT (if built?), city busses, taxis, Airport Terminal Express bus
• Many parts: passenger terminal, arrival/departure bays, public info system, ticketing, baggae facilities, park-ride facility, etc.
• MOT considering to add old government building, but there are poor families living illegally there
• Complex project: integrated or in several pieces?
“Slow Coach” Bus Rapid Transit (BRT)

- BRT for large Gotham city to reduce traffic and congestion
- 15 bus stations, dedicated bus lanes, traffic control, ticketing, busses and bus service
- Estimated $300m for infrastructure and to buy buses
  - Bus fees?
  - Enforcement of the dedicated bus routes?
  - Additional revenue possibilities?
S1: Project Screening
What is PPP project selection / screening?

• Assessment of projects to assess:
  – Eligibility to be implemented by government (via PPP or not)
  – Suitability to be developed as a PPP

• Mainly conducted by government agencies involved in project planning, sectoral planning and/or PPPs

• Can be conducted to assess a single project
• Can be conducted to assess multiple projects leading to a ranking of suitability
Why is PPP project selection / screening important?

• Avoid bringing projects to the market which will never reach commercial / financial close
• Ensure that only projects with realistic potential to be structured, procured and implemented as a PPP are developed as such
• Reroute projects to other delivery routes where appropriate (not every project can be a PPP)
• Prioritize which projects to develop due to limited resources
  – Only invest in preparing project which are suitable / viable
• Reduce pipelines to realistic and suitable projects
  – Better credibility
  – Better resource use
  – More likely to succeed with implemented projects
When?

- Early stage project identification – sectoral planning, capital investment planning
- Project identification prior to pre-feasibility
- Selection of procurement route during/after pre-feasibility
- During project pipeline development
  - Selecting which projects to add to pipeline
  - Prioritizing / ranking projects on a pipeline
  - Removing projects from a pipeline
- Exact place depends on specific local project planning and/or PPP process
- Ideally screening is always conducted before substantial spending is done of PFS/FS and Business Case development
Overview of the Screening Tool

- **Manual** – explanation of the methodology, criteria and scoring; guidance on what to do with the results of the screening

- **Excel Model** – filled in for either an individual project, or for multiple projects; provides assessment results for projects:
  - Individually (how does a project score on criteria)
  - Comparatively (how does each project score in comparison to other projects, which supports ranking)
Screening Methodology

• Two stage assessment of a project

Stage 1: Elimination / Eligibility
  – Assess whether the project is eligible or should be eliminated as a PPP
  – Done first and if project eliminated then no further assessment conducted

Stage 2: Selection
  – Conducted only for eligible projects that passed Stage 1
  – Detailed assessment of the project according to a range of categories and criteria
Stage 1: Elimination / Eligibility

• Eligible public infrastructure within mandate of government
  – Pass = proceed
  – Fail = do not proceed with project via PPP or public route

• Eligible within PPP policy/law/framework (if present)
  – Pass = proceed
  – Fail = develop further as public project

• Being identified via relevant procedures (if present) [USP]
  – Pass = proceed
  – Fail = reroute via relevant procedures

• Complies / consistent with relevant planning or development objectives
  – Pass = proceed
  – Fail = do not proceed with project via PPP or public route
Stage 2: Selection

• 5 Categories with multiple criteria
• Scoring 1 (low) to 4 (high) on each criteria
• Guidance on how to score each specific criteria, for example:
  – 1 = “there is no interest”
  – 2 = “there is low interest”
  – 3 = “there is modest interest”
  – 4 = “there is high interest”
  – and so on for each criteria

• Possibility to weight each criteria to increase or reduce their importance in the scoring
Stage 2: Selection Categories

1. Sector readiness
   - How ready for PPP project implementation is the sector in which the project falls
   - A project will be easier in a sector where PPP is already well-established

2. Private sector readiness and interest
   - How prepared / experienced is the private sector for the project
   - Is or will the private sector be interested

3. Government agency readiness and local support
   - A weak agency can limit a good project, a strong agency can champion projects
   - Is the local support or opposition

4. Project feasibility and readiness
   - Is the project itself feasible and ready

5. PPP specific criteria
   - Criteria which are important for structuring viable PPP projects
Dealing with the Results – Individual Project

- Only Stage 1 eligible projects are being assessed
- A project with a high total score (scores high on all criteria)
  - Has high potential as a PPP
  - A good project to move to PFS/FS study stage
- A project with a good score, but low scores on some criteria
  - The project has potential as a PPP but attention is needed to specific issues
  - Consider if the low scoring criteria mean the project should not proceed, or if attention is needed to those issues before deciding if the project proceeds to PFS/FS
  - During PFS/FS attention is needed to the local scoring issues
- A project has a low score overall and on most/all criteria
  - Project has low potential as a PPP
  - Project could be discontinued or rerouted to public delivery
Dealing with the Results – Multiple Projects

- Only Stage 1 eligible projects are being assessed
- Total score of each projects suggests their ranking / prioritization
- Projects with higher scores have more potential than those with lower scores
- Variance of scores should be considered
  - Projects may have the same overall score but different scoring (e.g. one project scores 3 on all criteria, another project scores 1 on some criteria and 4 on others)
- Patterns across all project scores
  - If all projects score low on a particular criteria, it indicates that this is an issues that needs attention to facilitate all PPP projects
• Exercise: Plenary demonstration of use of Project Screening Tool