CROWN AGENTS
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

Financial Management of Development Projects

15 May 2019

PUBLIC-PRIVATE PARTNERSHIPS

Session Introduction

Session Aim

•Provide an overview of public private partnerships

Session Learning Objectives – by the end of this course, you will be able to:

- Understand the rationale and nature of PPP
- Differentiate between the various potential PPP arrangements
- Appreciate the reasons behind the growth of PPP

Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Public-private partnership arrangements
2. Rationale for PPP
3. Benefits of PPP
4. Reasons for growth of PPP
5. Key success factors
6. Session close

Relevance of PPP

‘……a genie has been released from its bottle; the

realisation that economic choices must be made based on
risk-adjusted whole life costs and benefits
will alter the nature of international
economic competitiveness.

In a sense, this
is as fundamental as the discovery of gravity.

When nations spend half their GDP on public services it was only
a matter of time before the penny dropped…’

‘PPP In-Depth’ - City and Financial – January 2006

Your thoughts and experience of PPP

Group Discussion:

- What do you understand by PPP ?
- What experience do you have of PPP?

What is PPP?

There is no single, internationally accepted definition of PPP but there is a high degree of consensus on the key characteristics of PPP…………

The *World Bank Reference Guide to PPP* defines it as:

“A long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility”

- **Long-term** = duration is related to the economic life of the underlying asset
- **Significant risk** = the private party takes on the risks it is best able to manage
- **Management responsibility** = the private party is held accountable for delivery
- **Public asset or service** = PPP is not only infrastructure but also related services

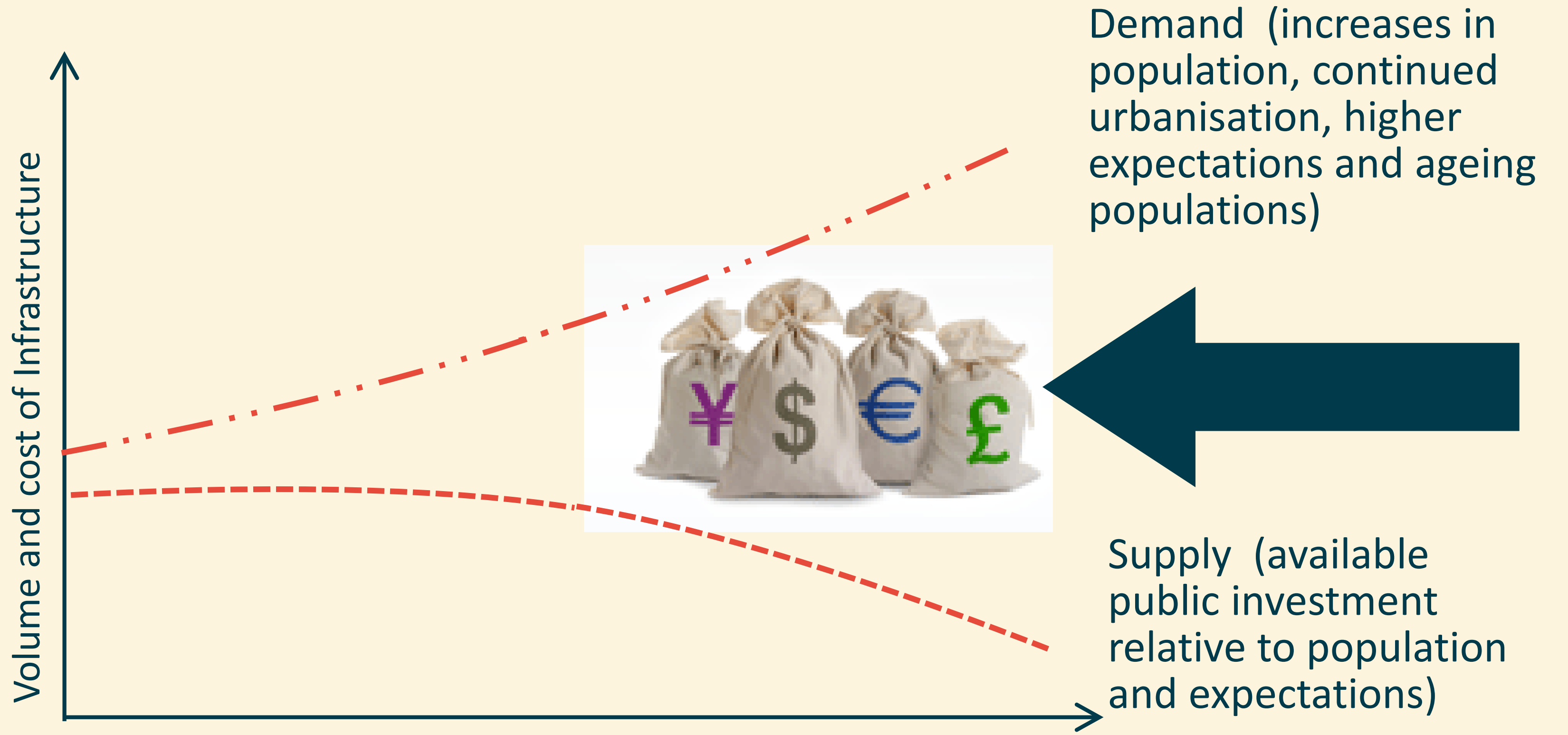
PPP is often defined in local legislation

PPP – what does this mean in practice?

Public Sector Need + Private Expertise & Finance + Risk Sharing + Performance Based Payment

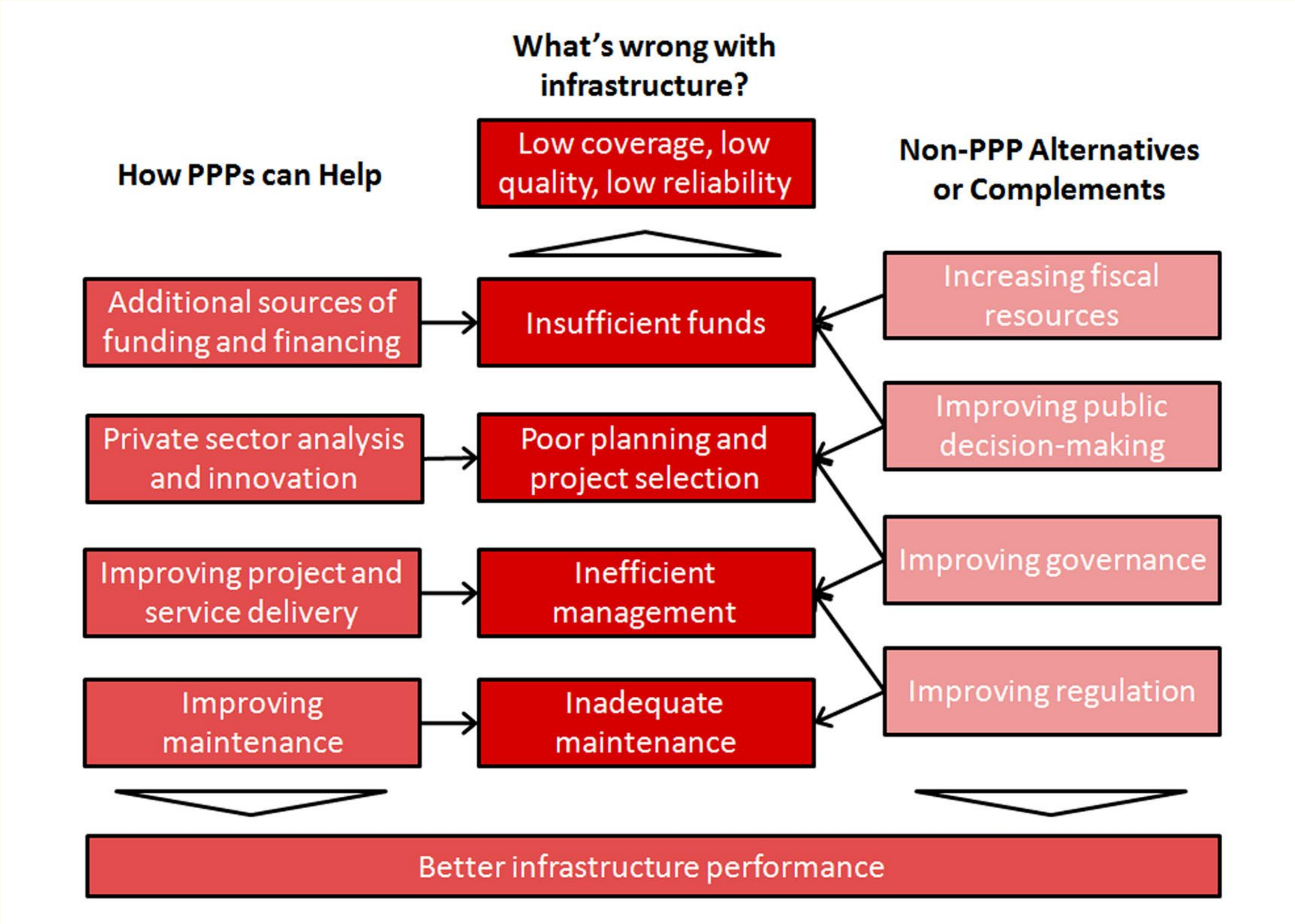
= PPP

Why the current focus on PPP?

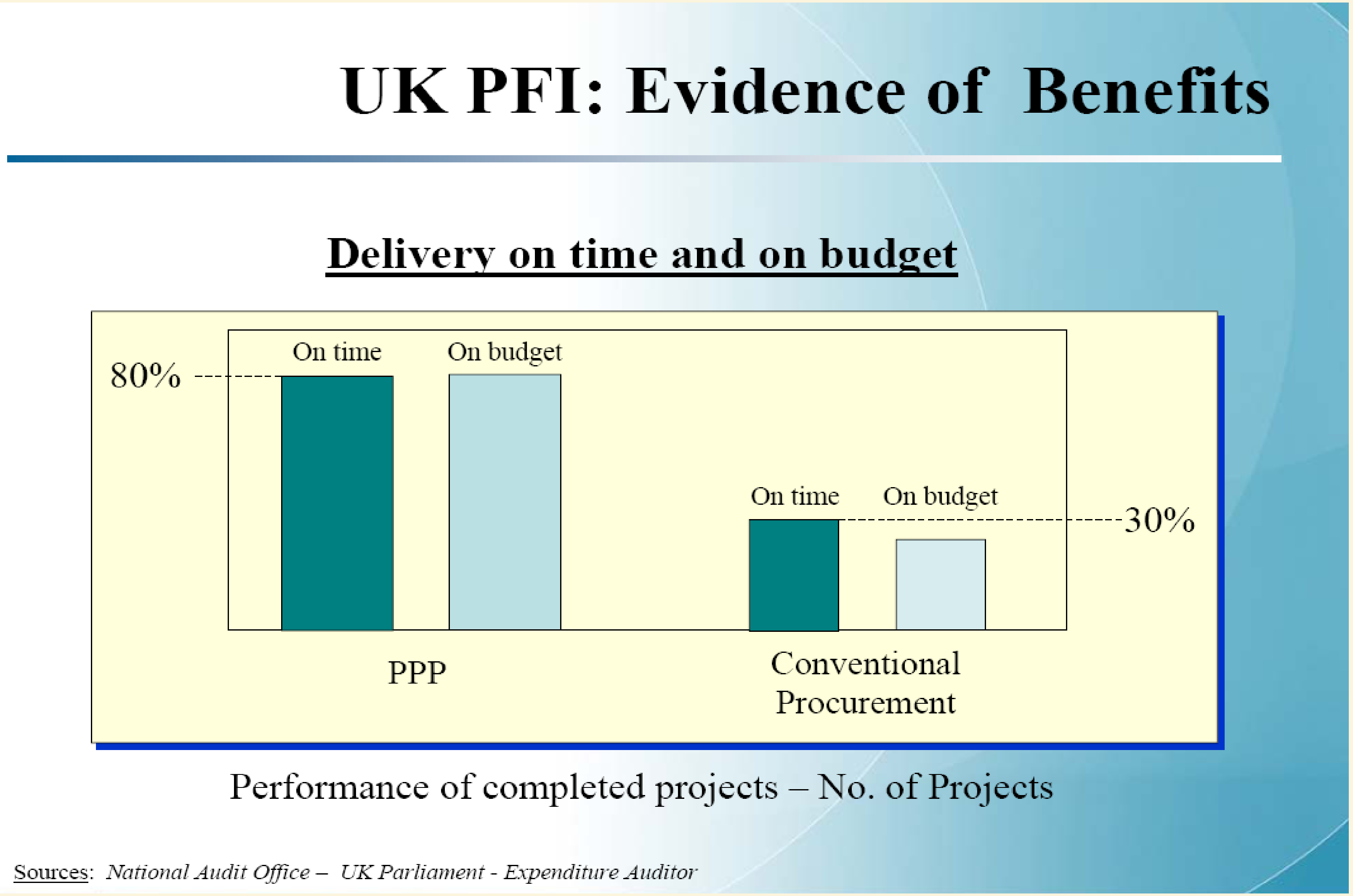


- Forecasts show a significant increase in infrastructure demand putting additional stress on existing infrastructure
- Lack of infrastructure is hampering potential economic growth

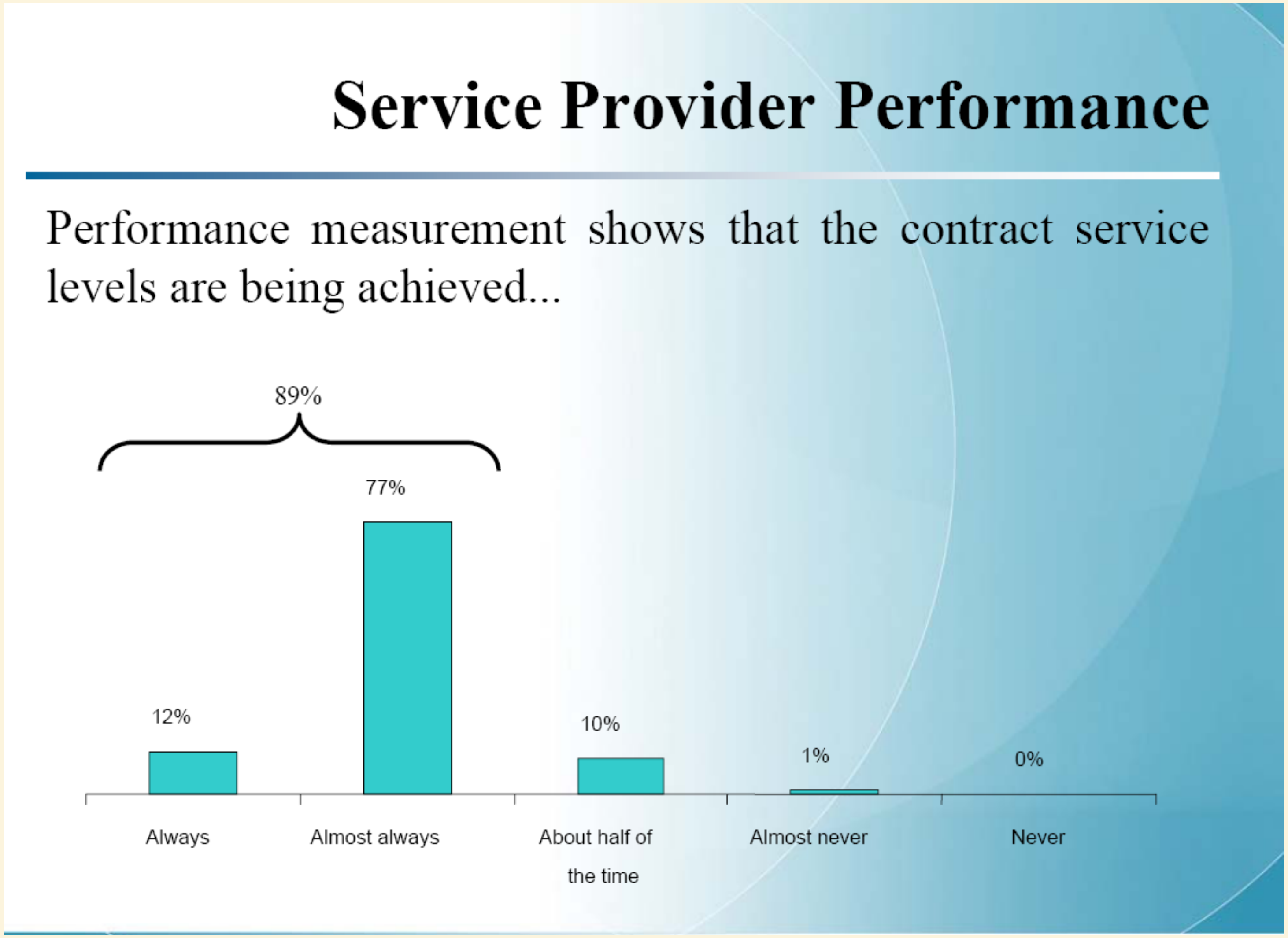
Why is PPP a potential solution?



Is it working?



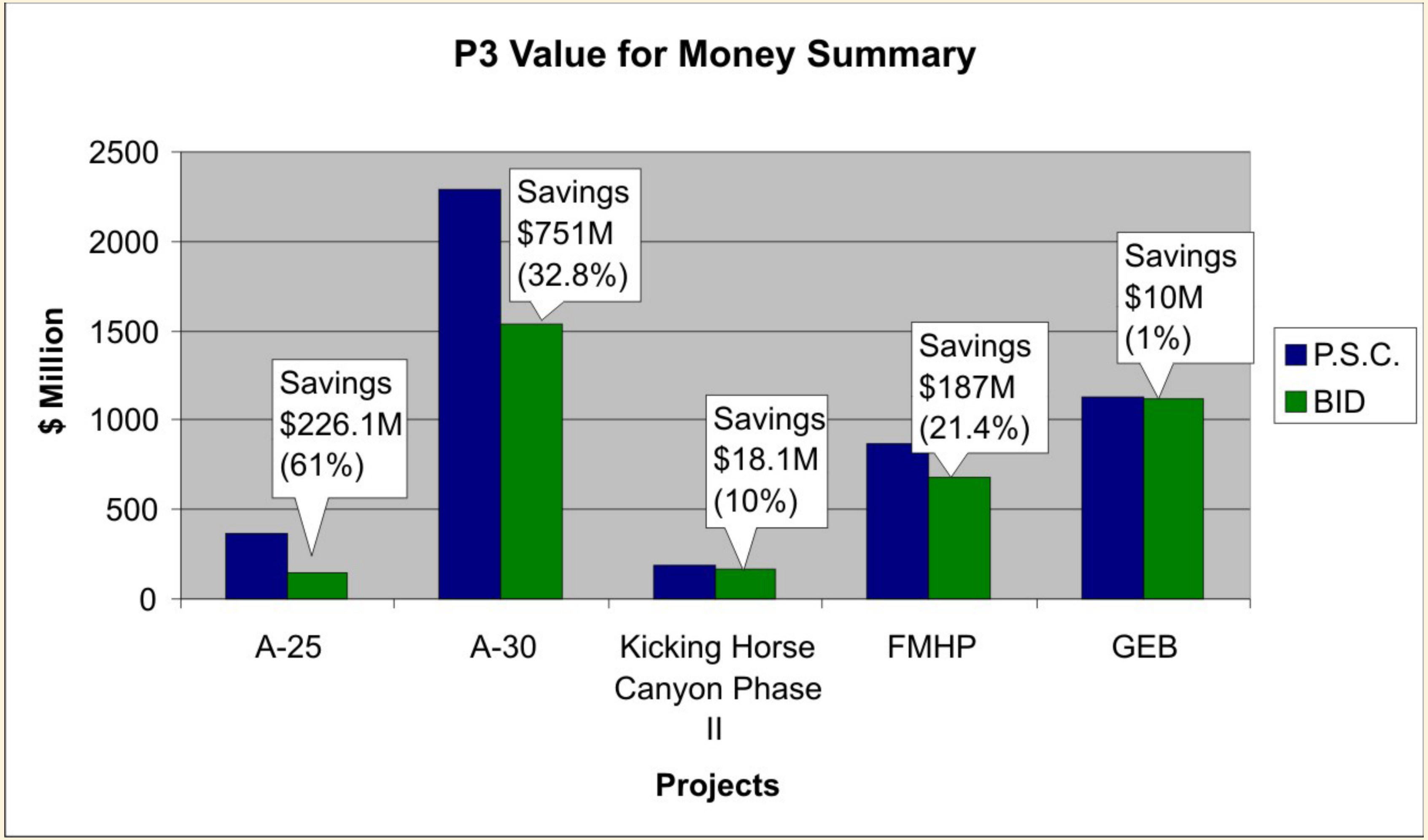
Is it working?



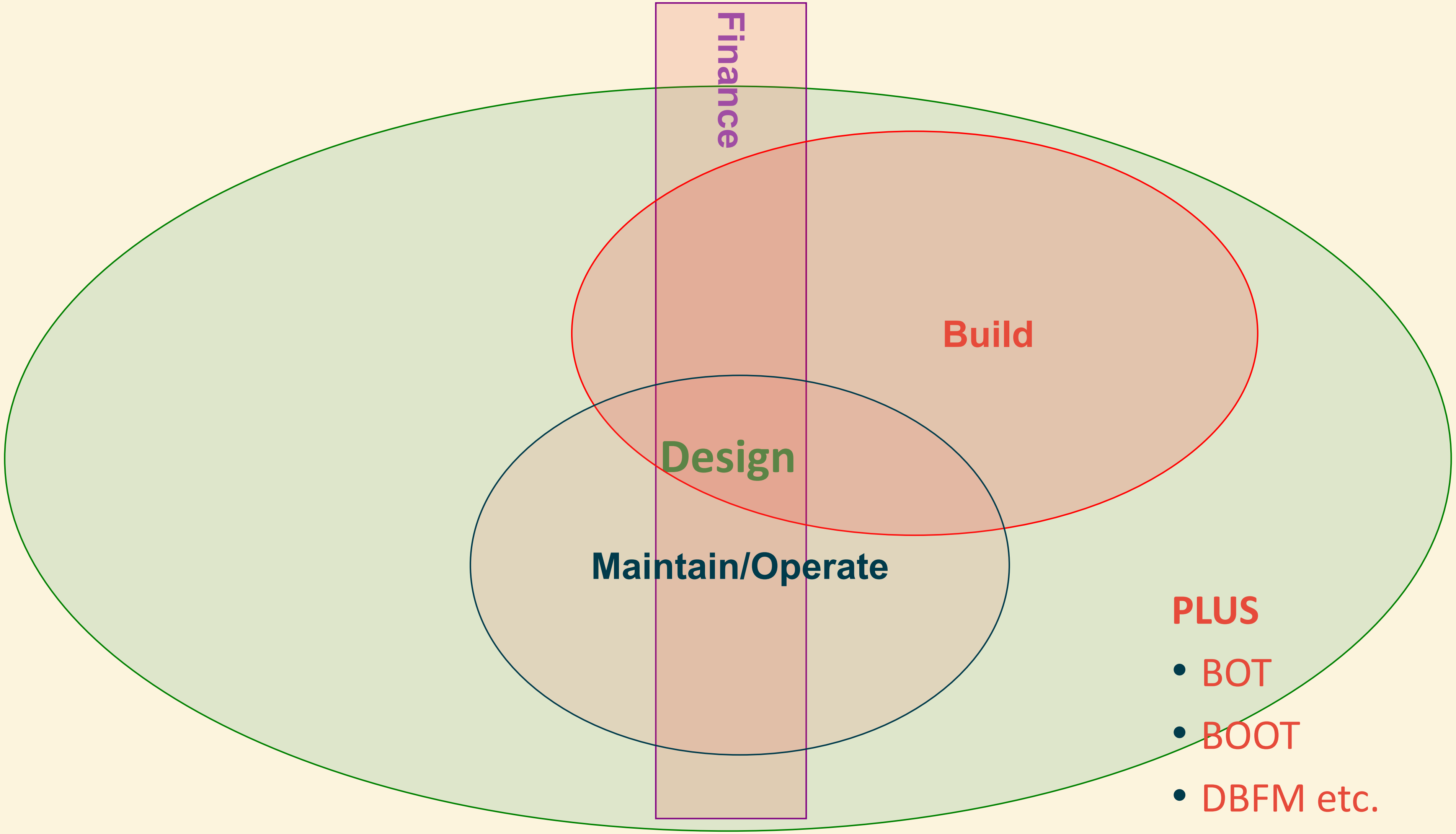
What drives value for money in PPP?

- **Risk** - risk retained by Government in owning and operating infrastructure carries substantial unvalued cost. Allocating some risk to private party, where it can better manage it, can reduce project's overall cost to government
- **Whole of life costing** - full integration under the responsibility of private party of up-front design and construction with-on going service delivery, operation, maintenance and refurbishment can reduce total project costs. Full integration incentivises the single party to complete each function (design, build, operate, maintain) in a way that minimizes total costs
- **Innovation** - specifying outputs in a contract, rather than inputs, provides wider opportunity for innovation. Competitive procurement incentivises bidders to develop innovative solutions for meeting these specifications
- **Asset utilisation** - private party motivated to use single facility to support multiple revenue streams, reducing the cost of any particular service from the facility
- **Focus on service delivery** - allows government to enter into a long-term contract for services to be delivered when and as required. Management in the PPP partner focused on service delivery

Canadian Road PPP PSC v Bid



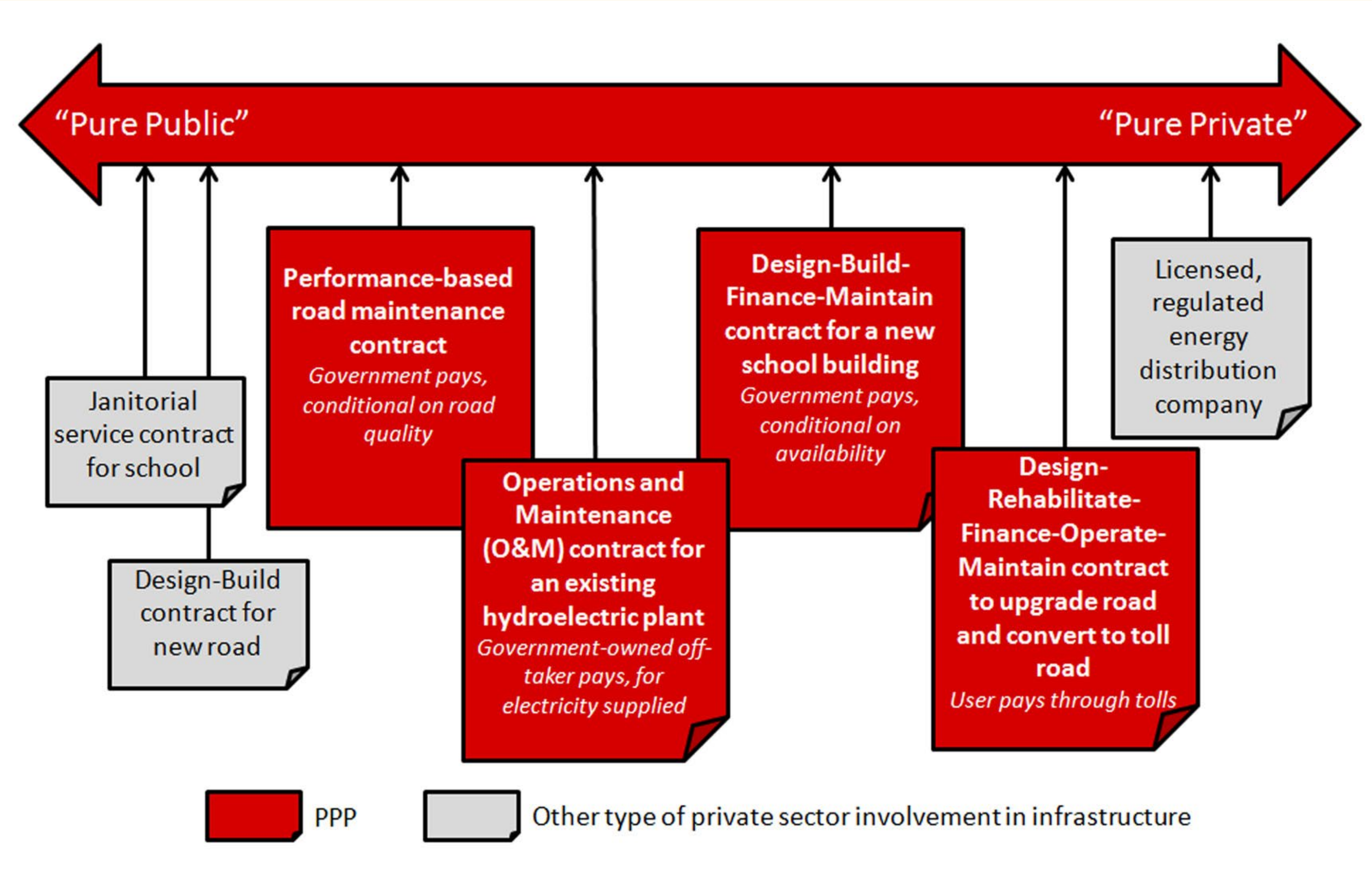
Nomenclature issues



PLUS

- BOT
- BOOT
- DBFM etc.

Range of PPP



“Pure Public”
“Pure Private”
Janitorial service contract for school
Design-Build contract for new road
Performance-based road maintenance contract
Government pays, conditional on road quality
Operations and Maintenance (O&M) contract for an existing hydroelectric plant
Government-owned off-taker pays, for electricity supplied
Design-Build-Finance-Maintain contract for a new school building
Government pays, conditional on availability
Design-Rehabilitate-Finance-Operate-Maintain contract to upgrade road and convert to toll road
User pays through tolls
Licensed, regulated energy distribution company
PPP
Other type of private sector involvement in infrastructure

Who pays for PPP?

- **A PPP is privately financed** - the private party funds the investment in the assets required to implement the project. The private party seeks a **reasonable commercial return** on its investment and the risks it is exposed to through a revenue stream over the life of the contract
- In **"User pays" PPPs** the private party provides a service to users and generates revenue by charging users for that service
  - These fees can be supplemented by subsidies paid by government, which may be performance-based (for example, conditional on the availability of the service at a particular quality) or output-based (for example, payments per user)
- In **" Government pays" PPPs**, the government is the sole source of revenue for the private party. Government payments can depend on the asset or service being available at a contractually-defined quality ("availability" payments). They can also be output-based payments for services delivered to users—for example, a "shadow toll" road that is free for users but for which the government pays a fee per vehicle

Suitability for PPP

- Project scope can be well-defined
- History of cost overruns in similar projects
- Capital asset requirements can be defined in a performance or output specification
- Opportunity to integrate design, construction and maintenance or to introduce innovation to achieve quality, cost savings and/or time advantages
- Significant associated ongoing operation, maintenance and/or service requirements
- Long-term operational or service needs can be clearly defined in a performance or output specification and are capable of being costed out on a life-cycle basis

Suitability for PPP continued

- The asset has a reasonably long life and performance requirements will be relatively stable throughout the duration of the contract
- Payment can be linked to performance
- Risks can be clearly identified with opportunities to transfer appropriate risk to the private sector
- No legislative or other legal impediments to a PPP procurement and a fair, accountable and transparent selection process can be used
- Sufficient expertise and capacity in the private sector to conduct a competitive procurement
- It is demonstrable that the PPP process is likely to offer greater value for money to the taxpayer compared to traditional forms of procurement

PPP is likely to be unsuccessful where……….

- Private sector investment is not available or cannot be obtained at an acceptable cost
- The transaction costs of pursuing the PPP are disproportionate compared to the value of the investment
- The fast pace of technological change make it too difficult to establish long term requirements, such as some ICT requirements
- There are substantial regulatory or other legal restrictions on the provision of the service
- Lack of support within Ministries and the Treasury to champion and resource the PPP procurement
- Performance specifications are not adequately defined
- Insufficient time allocated to the procurement

Sector suitability for PPP

Group Discussion:

- In what sectors might PPP be most suitable?
- In which sectors might PPP be more difficult?

Kenya Fast Mover Pipeline PPP Projects

Project Title	Sector
Nyali Bridge, Mombasa	Transport/Roads
Nairobi- Thika Road (O&M)	Transport/Roads
Mombasa –Nairobi Road (400km)	Transport/Roads
Nairobi Commuter Rail	Transport/Rail
2nd Container Terminal Mombasa	Transport/Ports
Kisumu Sea Port	Transport/ Ports
Jomo Kenyatta Airport Expansion	Transport/ Airport
60 MW Wind Power in Ngong	Power
Kinangop Wind Power project	Power
560MW Geothermal IPPs, Olkeria	Power
400 Geothermal IPPs, Menengai	Power
Cancer/Diagonistic Centre	Health
ICT services at KNH	Health
Karen Medical Centre	Health
Shared Government Services	ICT
Kenyatta University - Hostels	Accommodation
Housing for Security Forces	Accommodation
Mombasa Conventional Centre	Tourism

(Examples from list)
For latest update see http://www.pppunit.go.ke/news/view/national-priority-list-of-ppp-projectsupdated

The private sector perspective

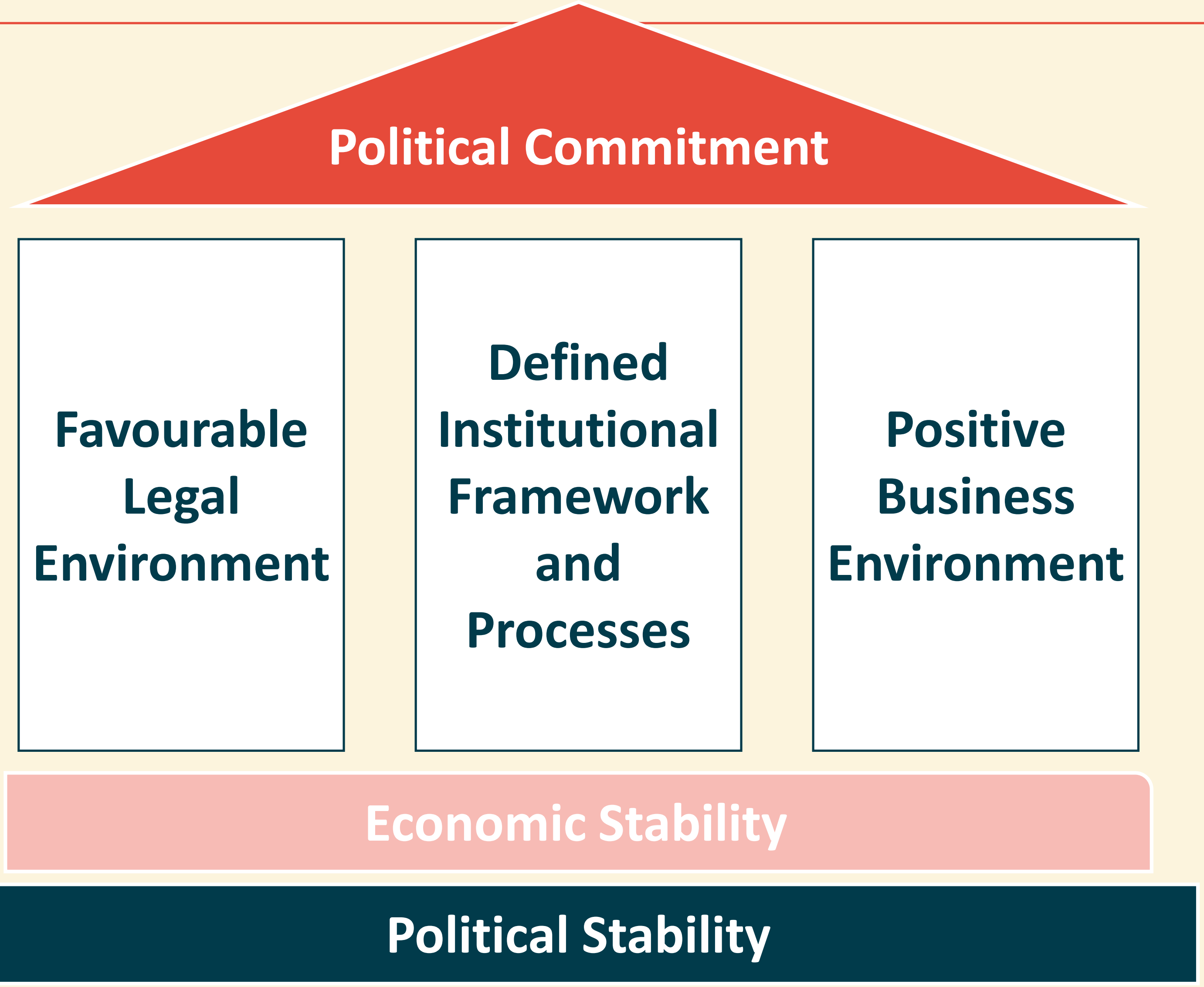
Commercial Decision

Is this a country that we are willing to invest in?

Can we make a reasonable return if we are the successful bidder?

What can government do to address these questions?

Creating an enabling environment



Ease of doing business

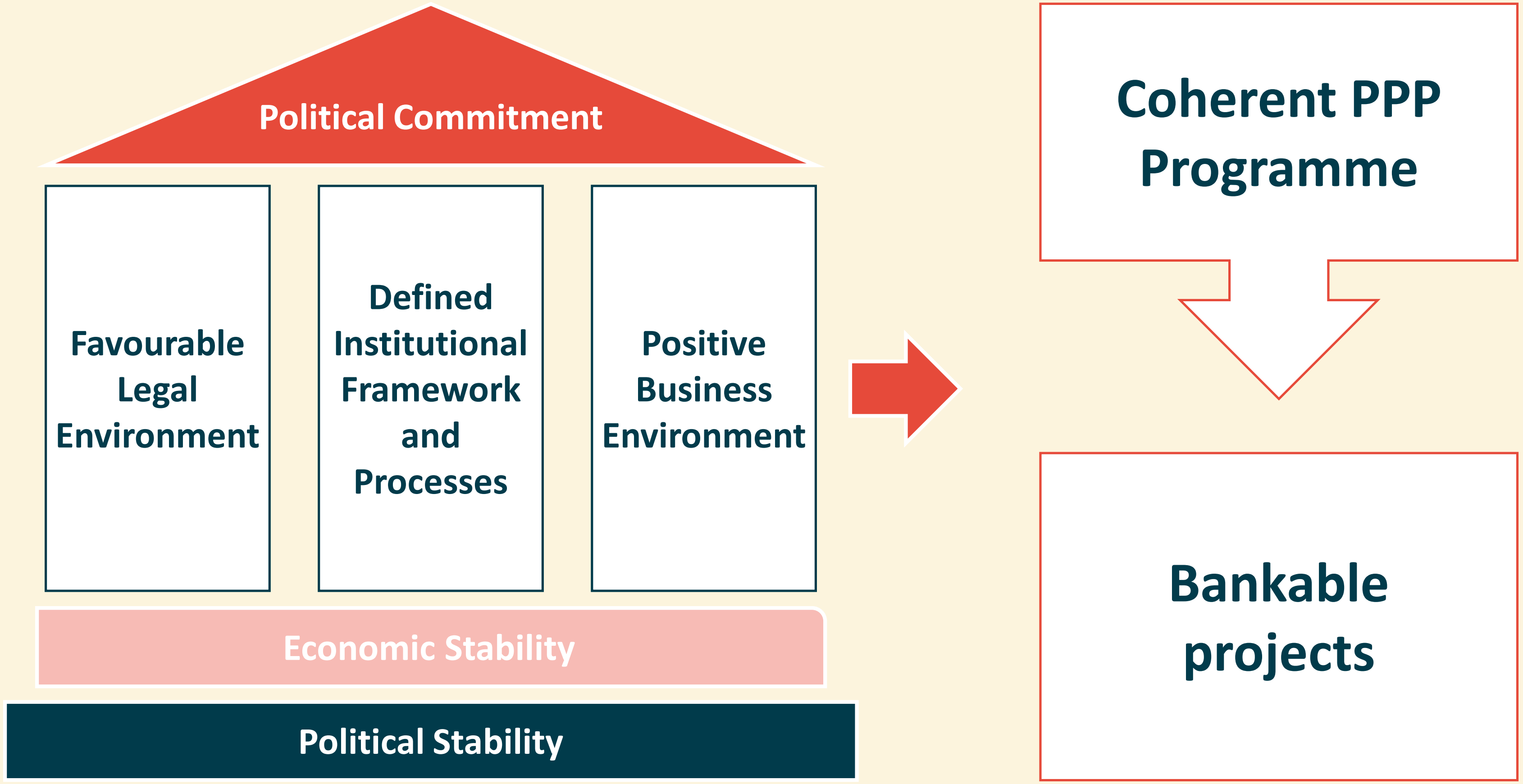
TABLE 1.2 The 10 economies improving the most across 3 or more areas measured by *Doing Business* in 2013/14

	Ease of doing business rank	Reforms making it easier to do business									
		Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Tajikistan	166	√	√			√		√			
Benin	151	√					√		√	√	
Togo	149	√			√		√	√			
Côte d'Ivoire	147	√			√	√	√		√		
Senegal	161	√	√		√	√	√	√			
Trinidad and Tobago	79	√				√					√
Congo, Dem. Rep.	184	√		√		√	√	√			
Azerbaijan	80	√			√			√			
Ireland	13				√	√				√	
United Arab Emirates	22				√	√	√				

From "Doing Business 2015" – a World Bank publication

http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Chapters/DB15-Report-Overview.pdf

Building on the enabling environment



Attraction of PPP

Group Discussion:

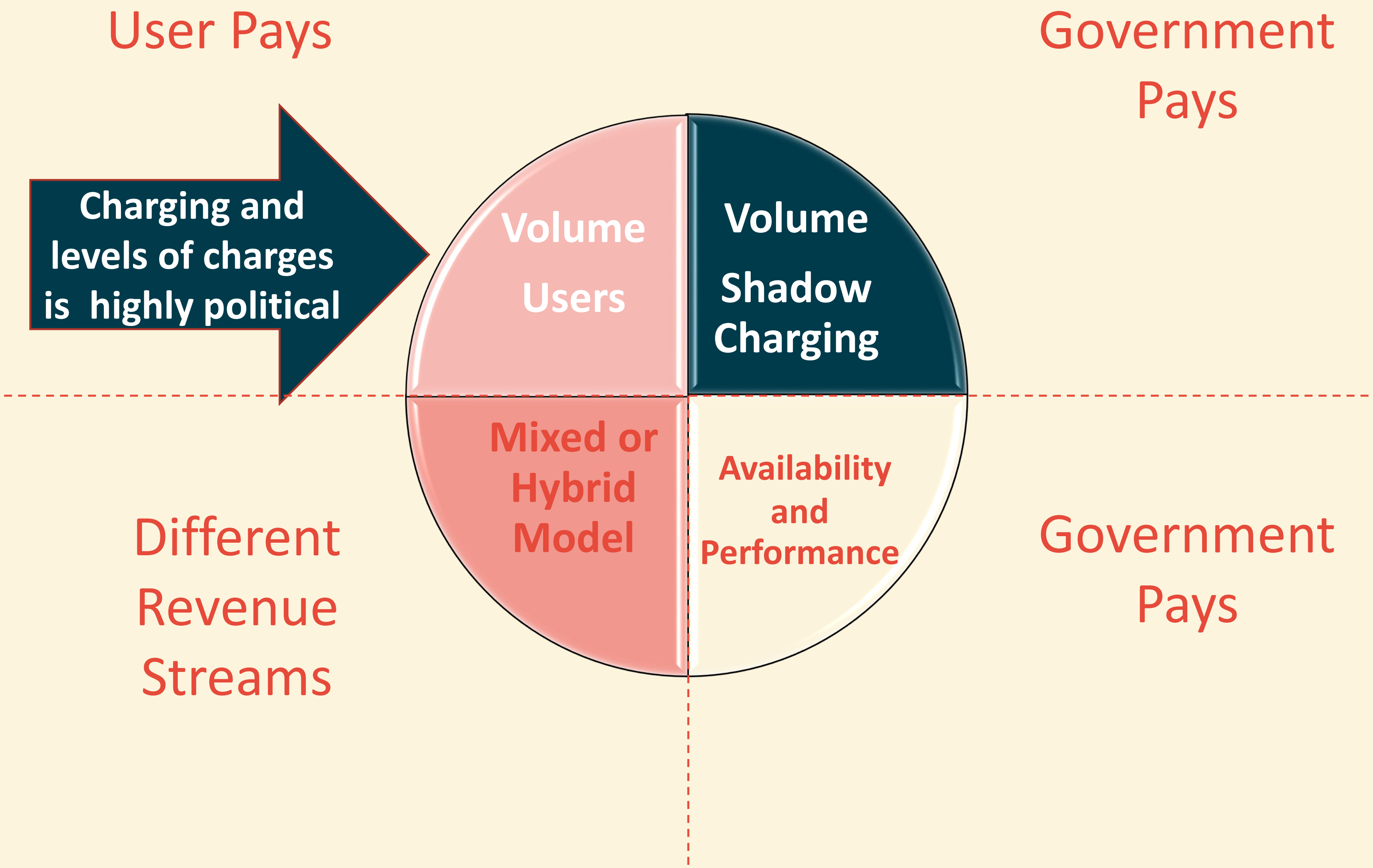
- Why is PPP attractive to Governments in developing countries?
- What is particularly attractive about PPP to your country?

Example: Why Kenya is keen on PPPs?

- There is increased demand for quality and affordable services from citizens - transport, water and sewerage, telecommunications, power, social services
- Reduce the funding gap for infrastructure estimated at USD 40 Billion over the next 8 years
- Provide a new source of investment capital for required infrastructure projects
- Reduce Government sovereign borrowings and associated risks
- Drive the creation of local long-term funding markets
- Utilize efficiencies of private sector in running public services
- Expand economy and stimulate job creation
- Increase quality of public services to the Kenyan citizen

As set out by Kenya's Ministry of Finance in 2012

PPP payment models



PPPs create fiscal commitments

- PPPs are long-term contracts which create (different types of) fiscal commitment for government – i.e. future payments that government will have to meet

Fiscal commitment:
Future payments that government will have to make in line with the PPP contract it enters

- The type of fiscal commitments and size of fiscal commitments depends on the nature of the actual PPP projects government is supporting
- An individual PPP project can include a variety of fiscal commitments – the potential for different types of payment due form government to the private sector over the life of the contract
- Fiscal commitments are set out in the PPP contract. They are the result of negotiation by government and the private party to reach a **commercially viable deal** that provides **VFM** and is **affordable** in delivering the **desired outputs.** Fiscal commitments in a PPP contract can be contingent on one or more risks

PPPs – reality and illusion

- PPPs can appeal to governments because they offer a new way of providing public services that is possibly more efficient than traditional public finance
- But they can also appeal to governments because they allow new investments to be undertaken without any immediate increase in reported government spending or debt
- This second motive for using PPPs rests largely on an **illusion**, because in the absence of efficiency gains **PPPs and publicly financed projects have a similar long-run effect on public finances**
    - In some PPPs, the government defers payment, but ultimately must still pay the full cost of the project
    - In others, it concedes the right to collect user fees, and thus loses revenue it would have collected if the project had been financed traditionally

Session close

Let’s wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What’s next?

THANK YOU /

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