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Regulatory Frameworks for PPPs – Comments to Powerpoint Presentation

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SOME COMMENTS TO POWERPOINT PRESENTATION

Regulatory frameworks for PPPs

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COMMENTS TO PICTURE 2 CHARACTERISTICS

This classification describes some of the many variants of PPP schemes.

Schemes	Modalities
Build-own-operate (BOO) Build-develop-operate (BDO) Design-construct-manage-finance (DCMF)	The private sector designs, builds, owns, develops, operates and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.
Buy-build-operate (BBO) Lease-develop-operate (LDO) Wrap-around addition (WAA)	The private sector buys or leases an existing asset from the government, renovates, modernizes, and/or expands it, and then operates the asset, again with no obligation to transfer ownership back to the government.
Build-operate-transfer (BOT) Build-own-operate-transfer (BOOT) Build-rent-own-transfer (BROT) Build-lease-operate-transfer (BLOT) Build-transfer-operate (BTO)	The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other prespecified time. The private partner may subsequently rent or lease the asset from the government.

Source: IMF (2004).

COMMENTS TO PICTURE 5 DATA

Absence of agreed definitions also means we lack common ground as to what constitutes a PPP-project. Therefore it is extremely difficult to provide exact numbers. Once one begins to penetrate empirical sources one discovers that facts on similar projects provided by different

sources do not match. Data used in my presentation are my own conclusions which are based mainly on the following sources:

H M Treasury (UK)
National Audit Office (UK)
OECD
EU
IMF: **Public-Private partnerships,** paper by Teresa Ter-Minassian, March 12 2004.

Arthur Andersen & LSE: **Value for Money Drivers in the Private Finance Initiative,** 17 January 2000.

PriceWaterhouseCoopers: **Delivering the PPP promise,** November 2005.

COMMENTS TO PICTURE 9 SHARING OF RISK

The objective is to achieve a coherent risk transfer package. In essence, the value for money of a project is improved each time a risk is transferred to the private sector that it will manage better than the public sector. Each risk that is transferred which the private sector either is unable to manage or is no better able to manage than the public sector will tend to reduce the value for money of the project. Here is an extended example of picture 9.

	Risk transferred to public sector	Risk transferred to private sector
POLITICAL RISK		
Land or building permits not delivered on agreed time	X	
Change of project-related policies	X	
Change of policy in general		X
CONSTRUCTION RISK		
Design problems		X
Building cost overruns		X
Late delivery		X
Non-respect of specified standards		X
Technical deficiency		X
PERFORMANCE RISK		
Lack of continuity and quality of service provision		X
DEMAND RISK		
Market induced fluctuations in demand		X
FINANCIAL RISK		
Change of exchange rate regime		X OR CAN BE SHARED
Variability in interest rates		X
OTHERS		
Force majeur	Shared	Shared
Archeological discoveries/unforeseen ground conditions	Shared	Shared
Mis-specification of output by procuring authority	X	

COMMENTS TO PICTURE 11 BEST PRACTICE

Road M4 Finland

1995 the Finnish government decided to extend a motorway between Järvenpää, north of the capital Helsinki, and the city of Lahti. The Finnish Road Enterprise had calculated that the total project cost would have been 1,4 billion Finnish Marks if the state would have handled the project.

5 bidders competed for the PPP- project and the contract was awarded to the bidder - a Swedish-Finnish Consortia - with the lowest bid, 1,2 billion Finnish Marks. The contract period was 15 years. The procurer assumes risks regarding changes of policies, changes in environmental legislation and reduction in accessibility, should the reduction occur due to government policies.

The provider assumes risks for financing, construction, and project operation. The provider is paid in the form of road tolls. Payment is increased when more cars use the motorway with an upper limit. The procurer does not guarantee any minimum payment.

Thanks to a transparent procurement process and competitive bidding it is estimated that this motorway could be built 5 year earlier than otherwise.

Road M6 Hungary

The Euro 455 million project relates to a 22-year Design-Build-Finance-Operate concession for the M6 motorway between Erd and Dunabjvaros in Hungary, The procurement timetable

of less than eleven months (between tender launch and financial close) shows that the procurement process need not be long and drawn out.

The tender process was launched by the Ministry of Economy and Transport on the 31 st January 2004 and four consortia submitted expressions of interest by the 4th May 2004. On the 17th June 2004 the three short listed consortia were requested to submit a detailed offer by the 19th July 2004. The preferred bidder was chosen on the 9th August 2004, with whom the concession agreement was signed on 2nd October 2004. Financial close was reached on the 20th December 2004. Construction of the 59 km motorway began 2004 and commissioning of the road is scheduled for May 2006. The PPP structure is based on an availability payment mechanism. 10% of the project is financed from equity and the bank financing includes a Euro 411 million term loan, a Euro 22.3 million equity bridge loan, a Euro 20,7 million VAT facility and a Euro l million working capital. Financing is provided by the Hungarian Foreign Trade Bank and international private banks.

A number of factors helped achieve this ambitious timetable:

- A clear commitment from the Hungarian Government to conclude the transaction before the end of 2004;
- The experience of the government representatives gained through the restructuring of a previous concession the year before;
- The use of professional advisors;
- Appetite of the private sector for PPP projects in Central and Eastern Europe.

High Speed Rail Link, Belgium-Netherlands

The project is the final phase of a major Paris-Cologne-Brussels-Amsterdam-London high speed rail network. The €4.5 billion project (based on 2004 prices) involves the construction

of a 100km high speed rail line connecting Amsterdam and Rotterdam with the Belgium / Netherlands border. The new high-speed rail lines are for passenger rail transport only and are designed for speeds of up to 300km/h.

The project comprises four sets of contracts, two of which are PPPs. The project consists of separate components for the civil substructure, the rail systems infrastructure, train operations, station areas and in addition the Belgian section of the line.

The Dutch Government wanted to limit the complexity of the sub projects by grouping similar types of risks and thus retained the related interface risks between the various contractual arrangements as it was best able to manage them, functioning as the central counterpart.

The winning infrastructure consortium - infraspeed BV - is responsible for the €1.32 billion project to design, build, finance and maintain the railway track and associated systems until 2030. The payment mechanism is based on availability payments with deductions for non-availability, unsatisfactory asset condition and possession. Isolating the infrastructure consortium from traffic risk resulted in an efficient tender procedure and competitive financing conditions.

The availability-based performance regime passes the construction, risk to the consortium, i.e. the party best able to manage that particular risk, and incentivises them to achieve high availability. The PPP-solution is expected to achieve a 5% cost reduction compared with traditional procurement.

Sources for these examples: Various national data and PriceWaterhouseCoopers (2005).