

**Private Sector Participation and Investment in Physical Infrastructure  
for CAREC, 5-7 March 2008, Tokyo**

## **Managing the PPP Process and Institutional Arrangements**

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*Quality In Everything We Do*

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# Prerequisites of a Successful PPP Process



- Political commitment
- Enabling legislation
- Expertise (financial, technical, legal)
- Deal flow and best practice standardisation (reduces procurement costs)
- Developing a centre of excellence

# Benefits of Centre of Excellence



- Knowledge base
- Development of guidance material
- Greater scope for standardisation
- Development of in-house expertise (financial, technical, legal)
- Fastrack approvals process

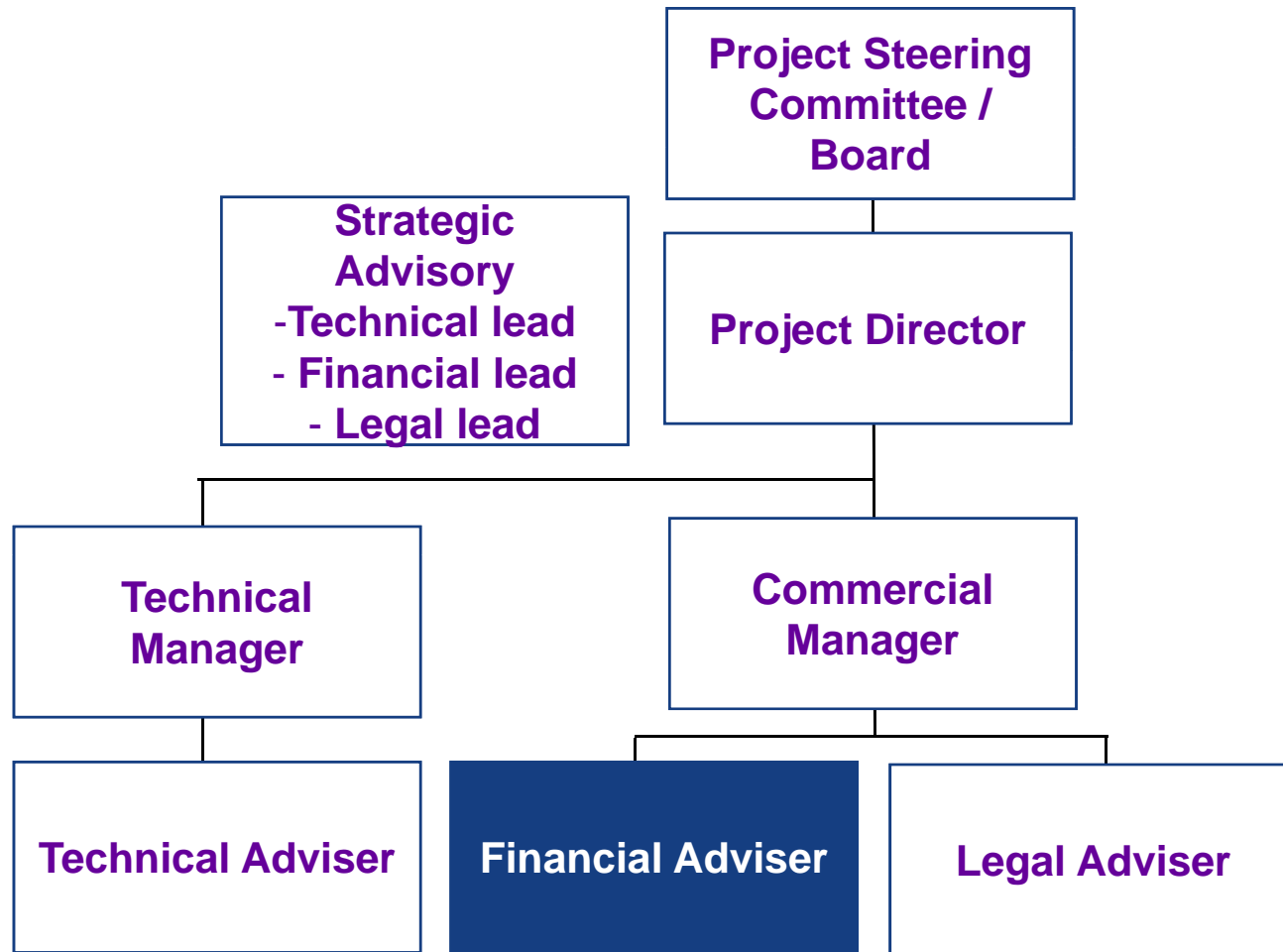
# PPPs: New Approach to Infrastructure Delivery

- Co-ordinate infrastructure planning and provision
- Create an appropriate regulatory regime to send the desired investment signals
- Maximise the value of private sector delivery
- Develop market capacity
- Educate the community
- Shifting mindsets

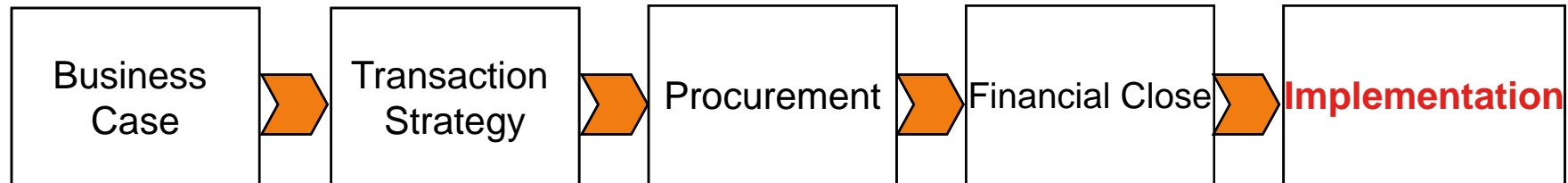
# Critical Success Factors for PPP

- Properly resourced and committed Government Team
- Effective procurement process
- Effective management and allocation of risk
- Clear specification of outputs
- Project affordability – no free goods!
- Understanding that private sector needs to make an appropriate level of return!
- Contract structure and payment mechanisms

# Typical Project Team



# Role of Project Team



- Economic appraisal
- Project costing
- Risk assessment
- Delivery options
- Market sounding
- Preliminary Public Sector Comparator

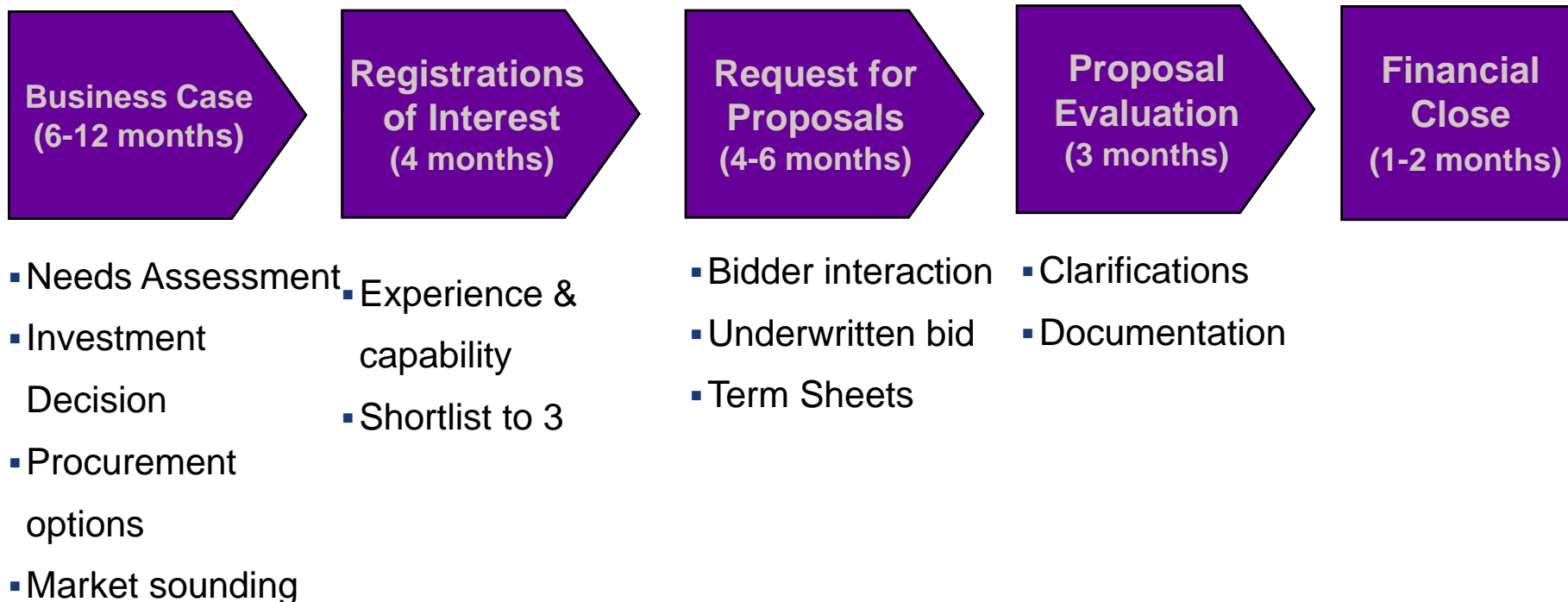
- Develop commercial principles
- Finalise Public Sector Comparator
- Transaction strategy
- Payment/monitoring mechanisms
- Scenario Testing
- Project marketing

- Develop bid strategy
- Develop Expression of Interest (EOI)
- Evaluate (EOI) Responses
- Develop Binding Bid documentation
- Bidder meetings
- Bidder clarifications

- Financial evaluation of Binding Bids
- Value for money analysis
- Financial/commercial negotiations with bidders
- Co-ordinate assessments with other advisers (Legal & technical)
- Financial close protocols and rate sets

- Assist in the management of change mechanisms
- Assist in application of the payment mechanisms
- Provide advice on application of refinancing arrangements

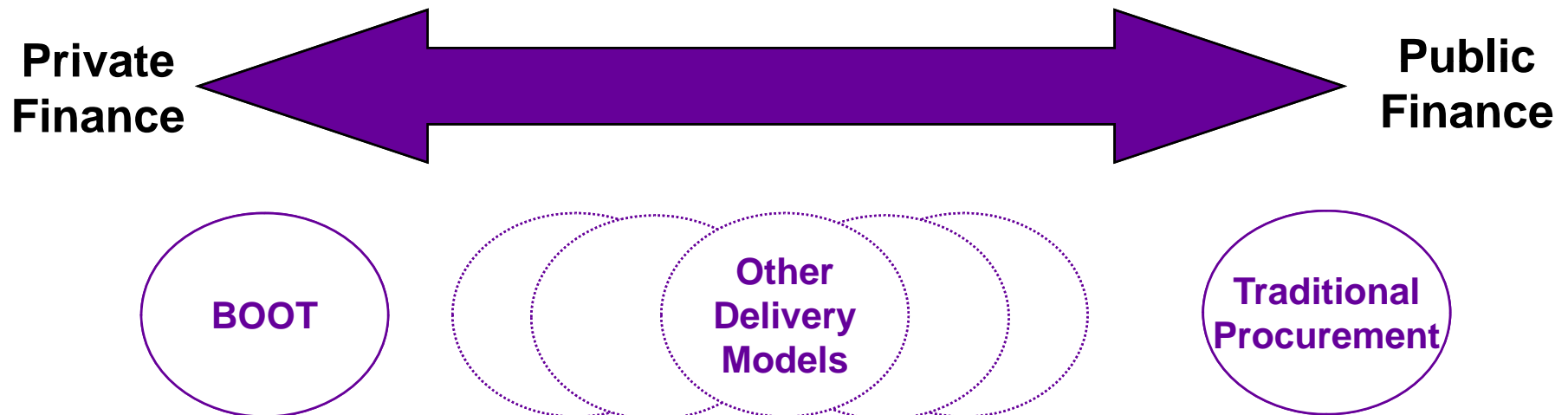
# PPP Procurement Process



# Identification of Procurement Models – Key Requirements



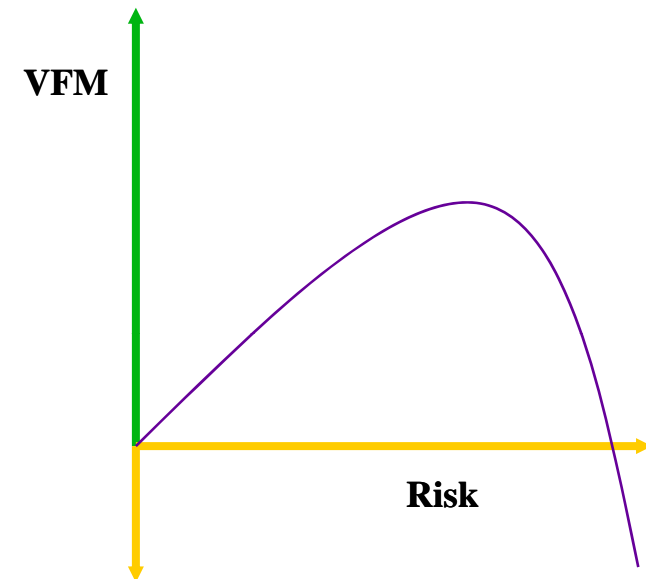
1. Model needs to support Government's key objectives
2. Must be deliverable – market appetite, precedent transactions
3. Must meet Government's preferred risk allocation



# Risk Management in PPP's – Best Practice



- Aim is to achieve Optimal Risk Transfer not Maximum Risk Transfer
- Optimal risk allocation seeks to minimise both project costs and the risks to the project by allocating risk to the party in the best position to control them in the most cost effective way. That party has:
  - the best ability to reduce the likelihood of the risk occurring
  - the best ability to control the consequences if it does arise



# Risk Management in PPP's – Best Practice



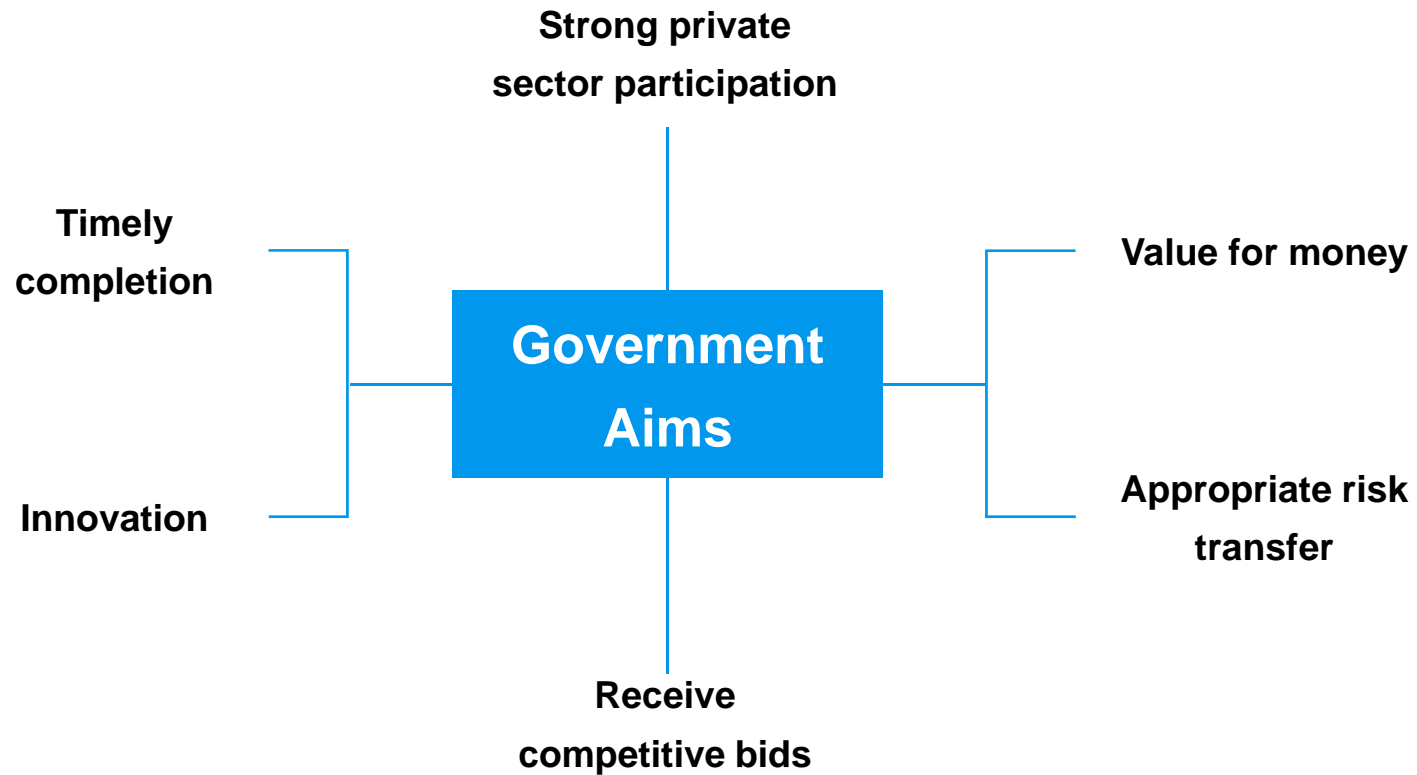
- Consider Relevant PPP Guidance Material (e.g. UK Treasury's Green Book)
  - Highlights typical risks/risk categories to be aware of
  - Provides a standard risk allocation matrix
- Consider risk allocation on precedent projects
  - Don't re-invent the wheel
  - Market will be comfortable with allocation on other projects, deviation from this without due cause will put off bidders adding cost to the project
- Avoid temptation to be too aggressive with risk transfer
  - Government is best placed to manage a number of risks
  - Some risks are best shared

# Private Sector has Role to play too

- Need to prove their understanding of risk allocation
- Need improve their understanding of the key drivers for government
- Understand the value of their own proposition to end users
- Need also to be
  - Consistent in messages to government
  - Remain supportive and be Patient!
  - Participate in the community debate around infrastructure procurement

# Successfully delivery PPPs

## What does a successful PPP look like?



# Key challenges facing PPP in Emerging Markets



- Develop PPP model through:
  - Creation and implementation of standard PPP framework
  - Development of standard processes and documentation
  - Development and retention of public sector expertise e.g. “Partnerships UK”
- Competitive pool of competent bidders, particularly in Facilities Management
- Access to project finance market at good rates
- Development of pipeline of transactions

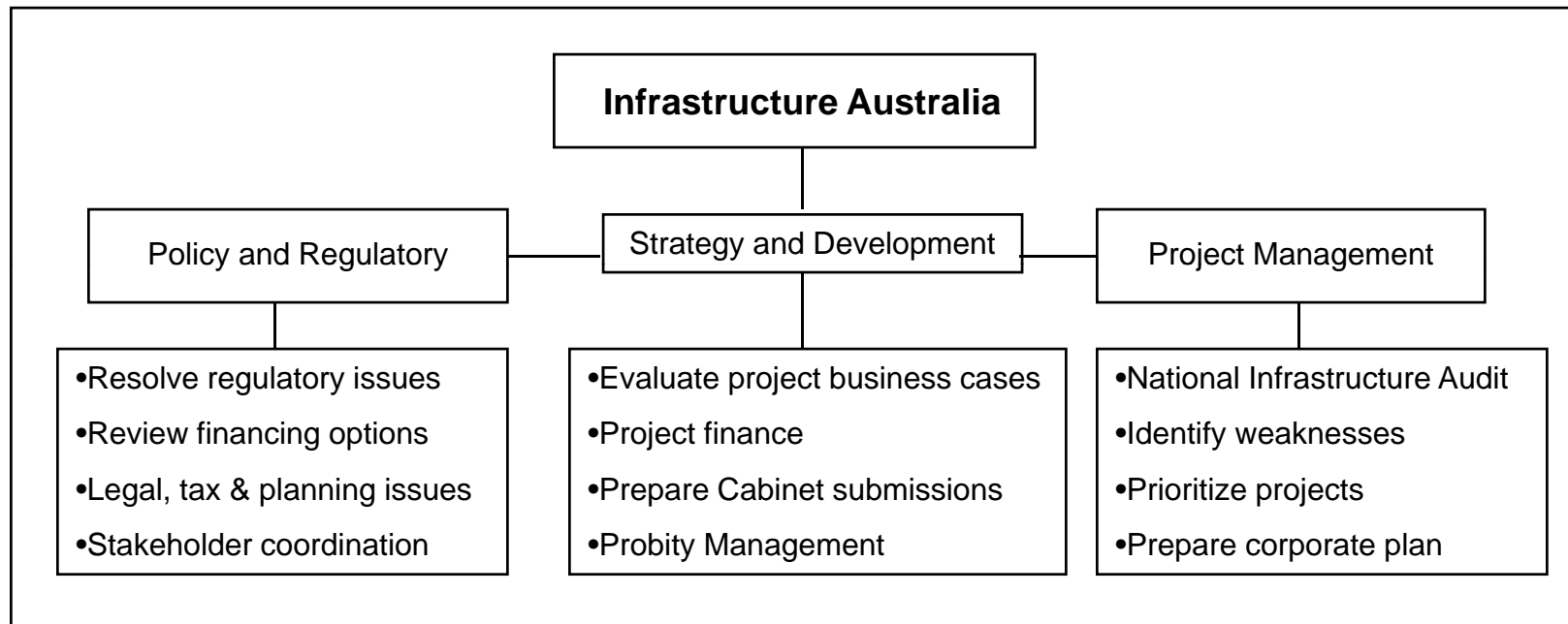
# Australian Experience - Then

- No national co-ordination
- Probity rules stifling free and open communication and thus eroding scope for innovation and value
- Major taxation issues prohibiting realisation of PPP benefits
- Regulatory reforms required to address inconsistent application of technical and economic regulation
- Tendering process needed to be streamlined and project documents standardised

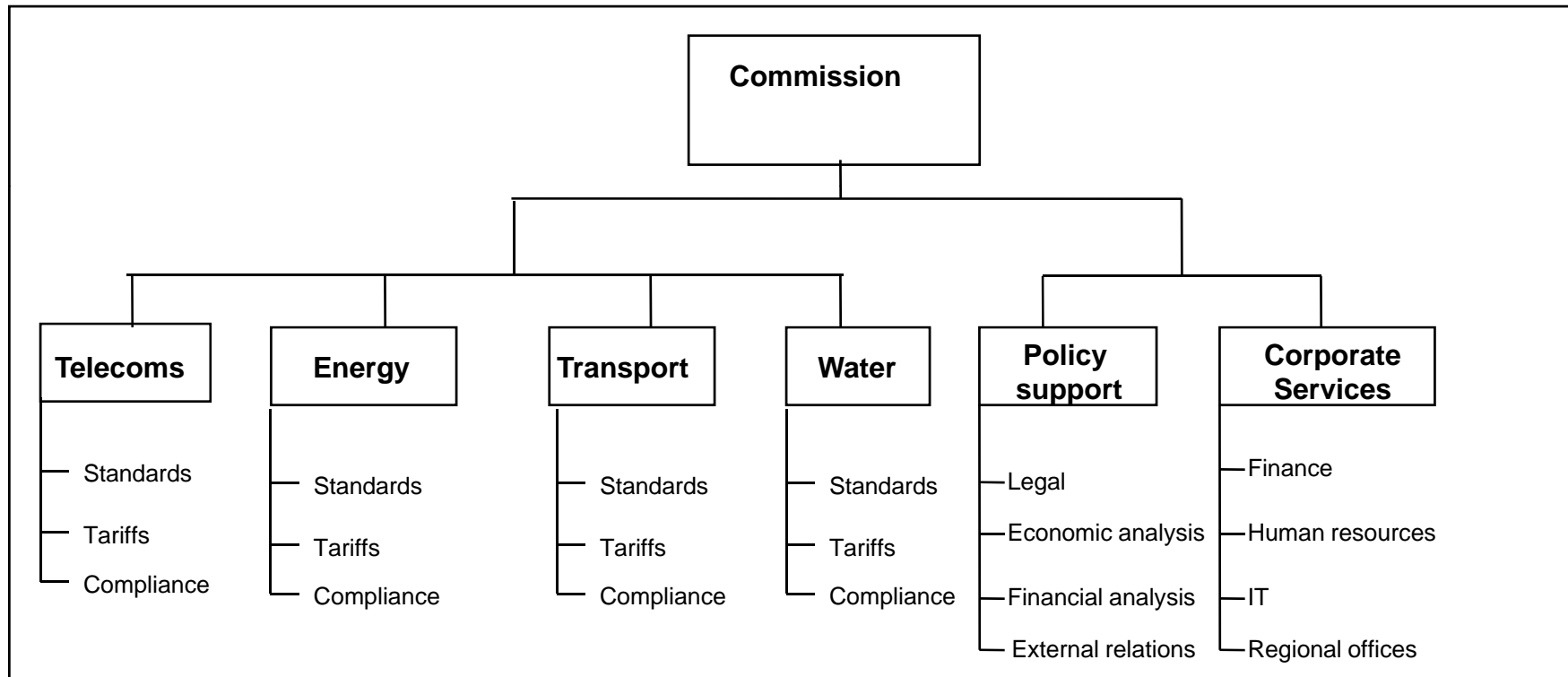
# Australian Experience – Now!

- Every State has its own PPP policy and framework
  - Element of standardisation has been introduced
- Every State has its own dedicated PPP team
- National Co-ordination for major projects
- Private sector has made suitable investment in necessary skills
- Strong pipeline of projects has attracted overseas payers and increased competition
- Efficiency arguments are being delivered
- PPPs are regarded as a successful delivery model

## Australia Now: Infrastructure Australia - Coordinating National and Municipal Programs Across Sectors



## Australia Now: Unified Regulatory Commission



# Conclusion

- Good precedents do exist – PPPs can be flexibly adapted and don't need to be reinvented
- Public Sector has its core business
  - Private sector can play a support role
  - Private sector will support its involvement with investment
- Government needs to be committed and have perspective
- Bidders need to be committed and selective
- A PPP program can and should be “Win-Win”



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