PUBLIC PRIVATE PARTNERSHIPS

ENABLING ENVIRONMENT
A Regional Perspective

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Strengthening Private Sector Participation for Infrastructure in the Pacific Region

ASIAN DEVELOPMENT BANK INSTITUTE
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Agenda

- Infrastructure Development – Asia Pacific Perspective
- Infrastructure Development –Privatisation vs PPP examples
- The Pacific PPP Experience - An Overview
- Why are PPPs Popular -Understanding Origin & Benefits
- Why do PPP Programs fail to deliver –Is PPP Policy Enough?
- The Key PPP Issue - How to gain traction and enable PPPs
- A Solution - Introducing The PPP Pentagram™
- The PPP Pentagram™ - Indonesian, Indian, PNG Scenario
- The PPP Pentagram™ – South East Queensland Case Study
- Results & Key Learnings
- Conclusion




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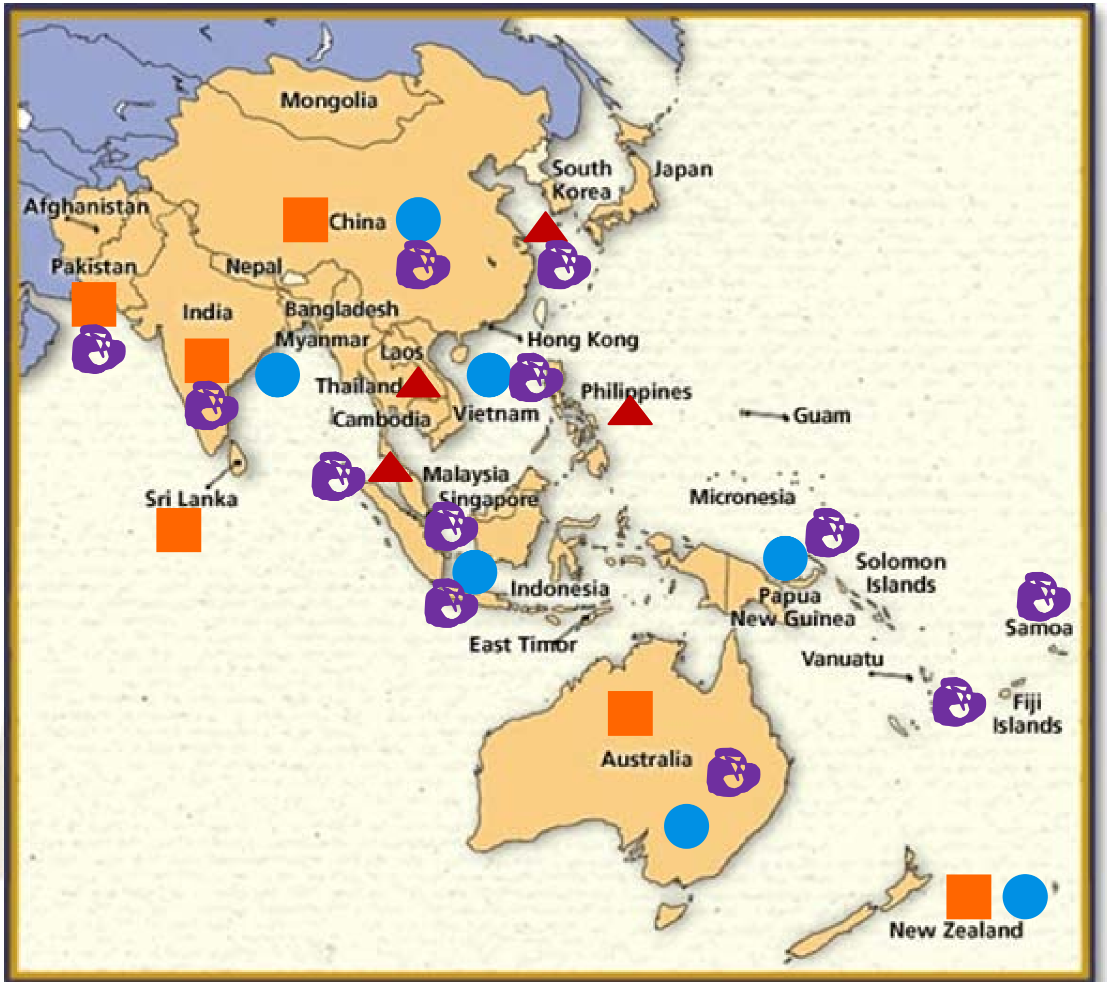
Infrastructure Development – Asia Pacific

Development with Private Sector Capital (Privatisation)

- Early '90s
- Mid/late '90s



Public Private Partnerships

Early 2000s

Recent (<5)

Infrastructure PPP – The Catalyst

National Highways Development Plan

INDIA

Empowered NHAI – National Highways Authority of India

14000 km of highways planned (2%) – Private sector was sceptical

- Introduced 1 rupees cess on petrol/diesel – now 2 Rps
- Encouraged International contractors with local partners
- PPP terms very market friendly – eg 40% GOI equity
- Annuity Schemes for non tollable corridors – very relevant to The Pacific

NHDP HIGHLY SUCCESSFUL

- Over 5000 km completed, over 6000 under construction
- Cess revenue gone from US$ 700 million to US$ 3 billion
- Multilateral Agencies' loans for NHDP have increased
- Economic Growth along the corridor impressive
- Local Indian contractors now World class and highly successful

A large economy BUT capacity for "user pay" is very low, like The Pacific

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Infrastructure Privatisation – The Catalyst

The North South Expressway

Malaysia

BOT - to PLUS BERHAD (Public Listed in KLSE)

Terms extremely generous to attract private sector

- ❑6% increment every year (never been implemented)
- ❑Traffic Rev Guarantee (never been called)
- ❑Government Soft Loan (repaid fast)
- ❑Very successful BUT over geared by greedy Parent Company
- ❑Post '97 needed government bailout –Failure NOT an Option for Infrastructure

BAILOUT

- ❑Khazanah National (SWF) took PLUS private, recapitalised and refloated
- ❑PLUS currently 5th Largest toll road company in the world by market cap
- ❑Current revenue exceed RM 1 billion a year – Government capital repaid
- ❑Economic Growth along the 900km corridor unprecedented

ALL subsequent BOTs less onerous to the public purse – Private Sector innovated

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Pacific PPP Experience - An Overview

Limited Use but Likely to Grow

	PPP Policy	PPP Law	Service Contracts	BOT / Concessions
SAMOA			Road Maintenance	Waste Water
PNG	Awaiting Cabinet Approval	Will be Developed	✓	✓
SOLOMON Islands				
FIJI Islands (Future Uncertain)	✓	✓	✓	✓
TONGA				
Timor Leste	Being Prepared			Telecoms ✓
COOK Islands				✓
VANUATU		Submitted		✓

Pacific PPP Experience - Examples

PNG

- Power IPP (1)

Vanuatu

- Port concessions
- Urban power and water concessions

Fiji

- Power IPPs (4)

Timor Leste

- Telecoms BOT

WHY PPPs Popular - Understanding their Origin

The 3 waves of infrastructure development

1st — **100% Government Funded**

- **Risk solely on the Government - Not Affordable**

2nd — **100% Private Funded (privatisation)**

- **Risk solely on the private sector – Early successes but later led to Govt Bailouts**

3rd — **Mixed Funded (public private partnership)**

- **Risk SHARED by Government and the private sector**

MOST Developed and Developing Countries now in the 3rd Wave

WHY PPPs Popular - Understanding their Benefit

PPPs Solve Governments' Dilemma

Economic Growth Not at the Expense of the Poor

PPPs enable efficient use of scarce public funds

Projects Not Subject to Delivery Problems

PPPs fix Governments' lack of delivery capability

Avoids White Elephants

PPPs avoids project abandonment or shoddy services ➡ No Performance = No Payment

Why PPPs fail to deliver – Policy just a start

PPP Programs need COURAGE…lots of it

- **Most Countries face the same problem**

  PPPs seem attractive but where to start?

- **Politicians support policy, then nothing else**

  PPPs need more than policies and laws – lot more

- **Private Sector Participation**

  How to encourage without selling the "farm"

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Key PPP Problem - Gaining Traction

PPP Programs often never gets delivered

Lack of Political & Legislative Support

Governments must take the lead

Lack of Fiscal & Delivery Support

Often Treasuries are not interested & line agencies don't have a clue about private sector needs

Lack of Capacity to Manage Transactions

Projects need to be well prepared and managed

SO HOW TO GAIN TRACTION

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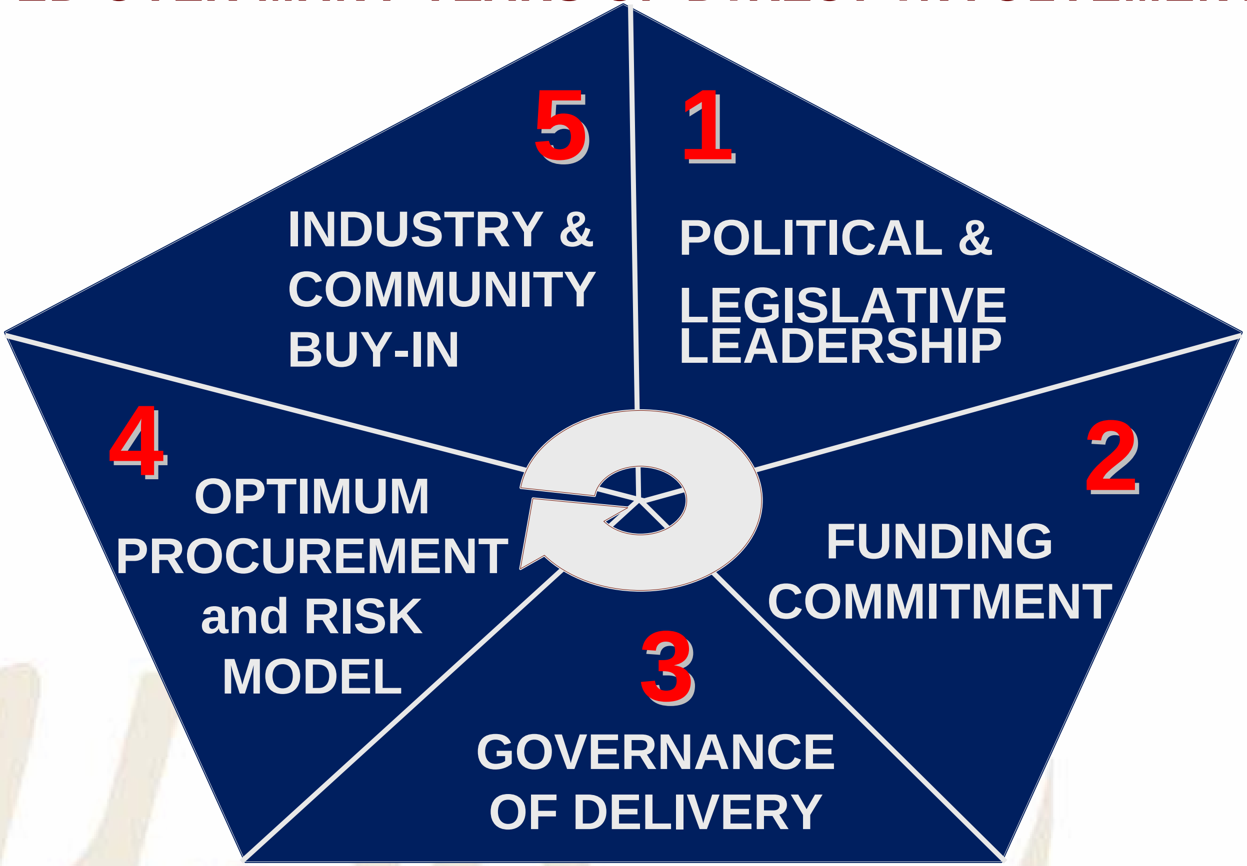
The PPP Pentagram™- A Solution

DEVELOPED OVER MANY YEARS OF DIRECT INVOLVEMENT IN PPPs



PPP Pentagram™

Governments NEED to Focus on ALL 5

The Indian Experience

PROJECTS PIPELINE WIDELY AVAILABLE

PROJECTS EXTREMELY WELL PREPARED

STRONG COMMUNITY SUPPORT AS MOST CORRIDORS NO TOLLS

STRONG PPP POLICY

NO PPP LAWS

ESTABLISHMENT OF FUEL CESS

STRONG POLITICAL SUPPORT

GoI “OFFER” IS BANKABLE

ANNUITY SCHEMES MAKE ECONOMIC SENSE

INTERNATIONAL REPUTATION FOR PROCUREMENT PROCESS

RISK SHARING OPTIMAL

FUEL CESS HIGHLY SUCCESSFUL

NHAI ABLE TO ISSUE BONDS AT AAA RATING

STRONG SUPPORT FROM MULTI LATERALS

LAND ACQUSITION WORLD’S BEST – PRE BID

PPP CENTRE UNDER MINISTRY OF FINANCE

PPP APPROVAL COMMITTEE VERY SMALL – 5 SECRETARIES

PANEL OF LOCAL & INTERNATIONAL TRANSACTION ADVISORS TO SUPPORT LINE MINISTRIES

The Indonesian Experience

2005 AT INFRA SUMMIT - INDUSTRY STRONG SUPPORT AND BUY-IN

NOW LOST CONFIDENCE AS PROJECTS ILL PREPARED

VACUUM IN “CERTAINTY OF INVESTMENT”

PPP POLICY APPROVED

NO PPP LAWS

STRONG RHETORIC BUT WEAK FOLLOW THRU’

No. OF PRESIDENTIAL DECREES BUT…

GoI “OFFER” IS NOT BANKABLE

RISK IS TOO ONEROUS ON THE PRIVATE SECTOR (MAGIC 18% IRR)

PROCUREMENT PROCESS HAPHAZARD

TREASURY NON COMMITTAL

NO CLEAR FINANCIAL SUPPORT

INFRA FUNDS EXPLORED BUT STILL UNRESOLVED

LAND ACQUISITION - ALMOST NIL

PPP CENTRE UNDER PLANNING (NON FISCAL) THUS TREASURY NOT BOTHERED

BIG NAMES IN APPROVAL COMMITTEE BUT WITHOUT TREASURY SUPPORT NOTHING HAS MOVED

PROJECT GOVERNANCE VERY POOR

The PPP Pentagram™ for PNG ?

WILL DEVELOP A PIPELINE OF PPP'able PROJECTS

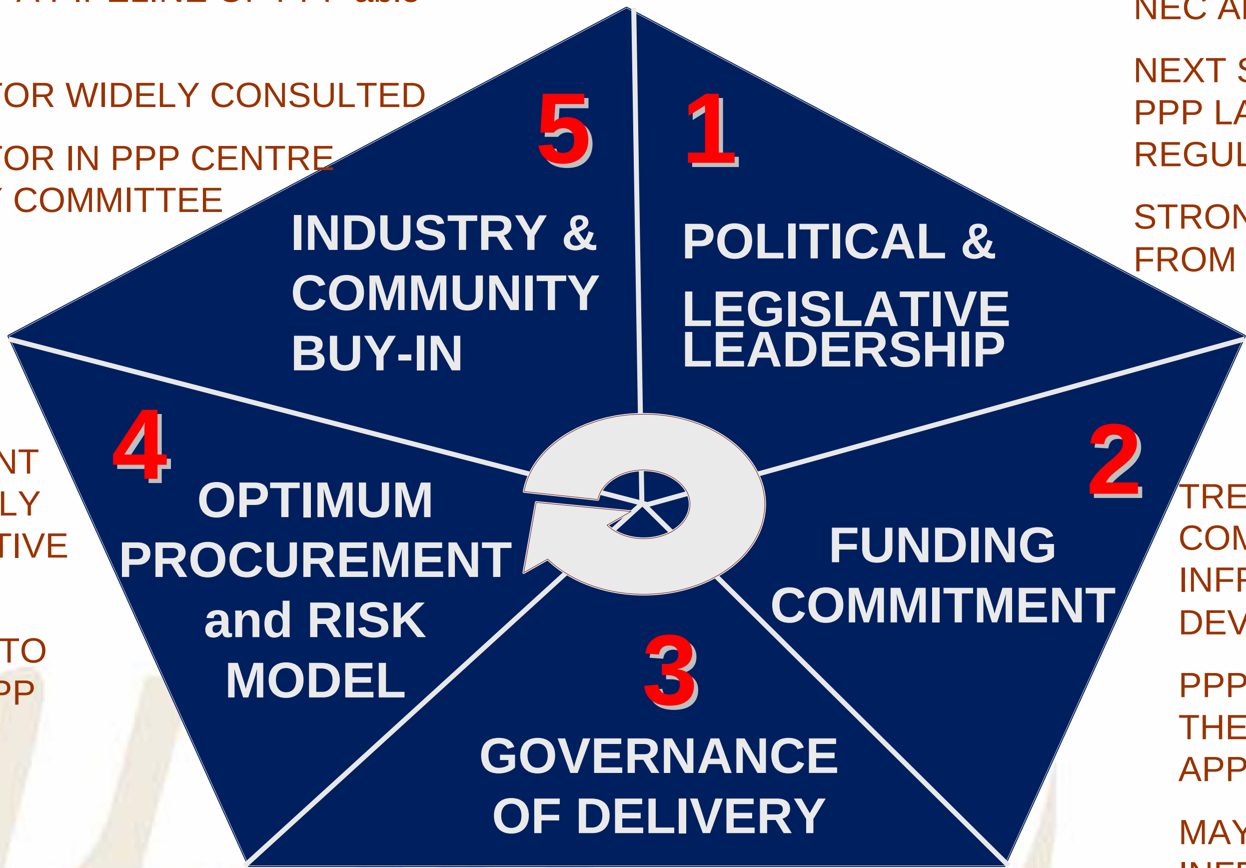
PRIVATE SECTOR WIDELY CONSULTED

PRIVATE SECTOR IN PPP CENTRE SUPERVISORY COMMITTEE

PPP POLICY AWAITS NEC APPROVAL

NEXT STAGE INCLUDES PPP LAWS AND REGULATONS

STRONG SUPPORT FROM GOVERNMENT



PROCUREMENT FOR PPPs ONLY VIA COMPETITIVE TENDERS

PPP CENTRE TO ADVISE ON PPP STRUCTURE

VALUE FOR MONEY

TREASURY COMMITTED TO INFRASTRUCTURE DEVELOPMENT

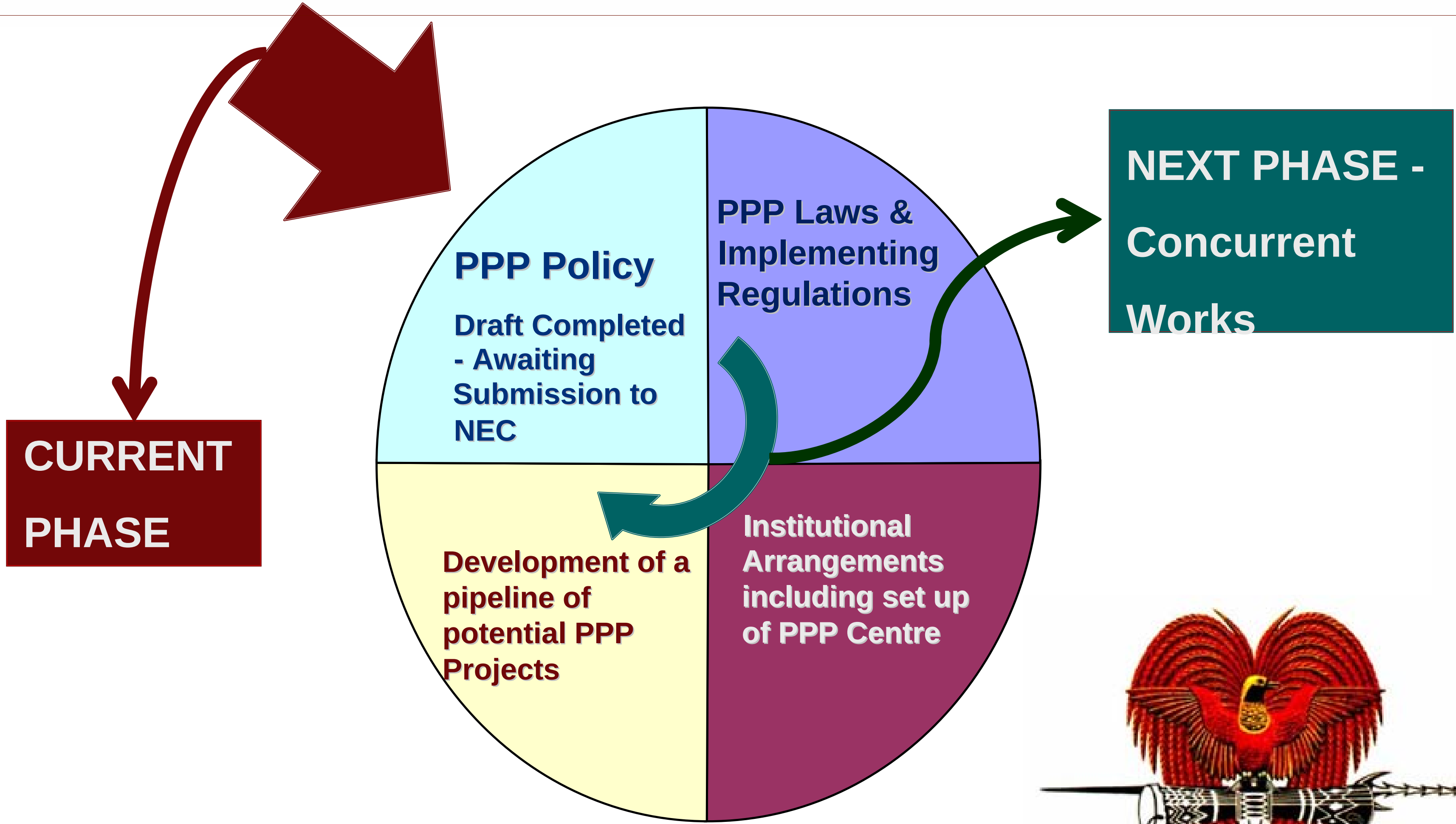
PPPs ARE SEEN AS THE RIGHT APPROACH

MAY CONSIDER INFRASTRUCTURE FUND OR PPP FUND

PPP CENTRE UNDER THE TREASURER'S PORTFOLIO

SUPERVISORY COMMITTEE THAT INCLUDES PRIVATE SECTOR

PNG Experience - PPP Policy Framework



PNG PPP Policy - The Scope

Draft under finalisation for imminent submission to the Cabinet

- ❑Applicable to public infrastructure and Government service provision that can benefit from private sector's financial, management and innovation capabilities
- ❑Will cover all three types of infrastructure - ie Economic, Social and Environmental Infrastructure
- ❑Private sector participation will be on the basis of shared risks and rewards
- ❑All PPP projects must be competitively and transparently bid
- ❑All PPP projects must demonstrate "Value for Money"
- ❑All PPP projects must conform to Government's fiscal and Debt
- ❑Management policies
- ❑PPP Procurement process expected only for infrastructure projects above PGK 50 million (subject to review)

PNG PPP Policy - The Key Principles

PPPs will be pursued based on the principles of:

Value for money

On a whole-of-life basis, partnerships must deliver the greatest net economic benefit to the Country – Risk to Government minimised

All PPP projects will be benchmarked against traditional procurement and other internationally accepted benchmarks

Competitive Tension

All PPP projects will be awarded based on competitive and open tender

Unsolicited bids will be accepted in order to encourage innovation from the private sector BUT all such bids will be market tested via tenders

Transparency

The PPP projects will be procured via a transparent process and procurement guidelines will be published and made available

All PPP projects procurement process will be managed and supervised by the PPP Centre and its Supervisory Committee

Strategic Issues - Payments

PPP Projects will be structured to safeguard public funds

All PPP Contracts are **Performance-Based Contracts**under which the Private Sector supplies public services over time and is paid for by the Public Sector, end user or a hybrid of both. Output is specified by Line Ministries while input is the responsibility of the private sector.

Under the PPP contract:

- The Government retains total strategic control on the service
- The Government secures new infrastructure which becomes Government assets at the end of contract life
- Project and performance risks are allocated to the party best able to manage or mitigate such risks
- Payment to private sector triggered ONLY on successful completion of the project -

No Completion = No Payment

Maintenance fees paid only on performance as per contract -

No Performance = No Payment

Next Phase - PPP Law & Regulations

The PPP Laws will define and govern the partnerships

The **ADB** will provide technical assistance to the PPP Taskforce to develop the PPP regulatory framework including enacting PPP Laws and Regulations:

The PPP Laws are expected to:

- ❑increase private sector's comfort and confidence to enter into long
- ❑term contracts with the government
- ❑define governance frameworks for PPP contracts and concessions
- ❑to protect the public interest
- ❑define legal and commercial rights and obligations of the
- ❑government and the private sector
- ❑standardise commercial principles, concessions and PPP Contracts internationalise dispute resolutions Most developing and some developed countries now pass PPP Laws

Next Phase - PPP Centre

The PPP Centre will be the centre of excellence for PPPs

The **ADB** will provide technical assistance to the PPP Taskforce to develop the PPP institutional framework including establishing the PPP Centre:

The PPP Centre is expected to:

- be a separate entity under the portfolio of the Treasurer and manage the PPP Program
- be the public face and single point of contact for the private sector
- coordinate the development of business case for PPP projects
- assist line agencies to develop and transact PPP projects
- review and update procurement guidelines and standardise PPP transaction process
- present PPP projects for approval to MEC and Cabinet
- report to a supervisory committee that is expected to include private sector representatives

The PPP Pentagram™

South East Queensland

A Current Case Study

The PPP Pentagram™-A Case Study

South East Queensland Infrastructure Plan

Overview of Queensland:

- Third largest state in Australia – Population 4.1 million
- Economy relies heavily on resources
- Annual GDP growth 4.75% (Australia 2.2%)

Overview of South East Queensland (SEQ):

- Fastest growing urban region in Aust – 1200 people/week
- Consist of 18 local governments including Brisbane & GC
- Population to double by 2026
- Massive infrastructure and public services bottlenecks

The PPP Pentagram™-A Case Study

What Created the bottleneck

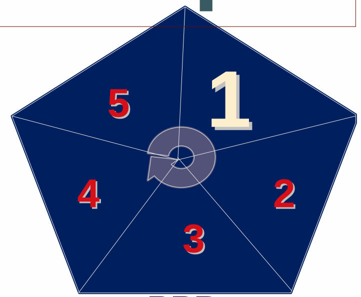
Absence of Fiscal power:

- ❑Queensland's PPP Policy launched in 2001
- ❑Initially under the Department of State Development
- ❑Not much progress

Surplus Budgets achieved by not spending

- ❑Overwhelming focus on surplus budgets by past governments led to no infrastructure investment
- ❑Problems compounded by massive economic growth
- ❑Problem was so severe solution had to be found rapidly

1 - Political & Legislative Leadership



PPP Pentagram™

Released SEQIP 2006 - 2026

- South East Queensland Infrastructure Plan and Program 2006 - 2026 (SEQIP)
- SEQIP - A twenty year plan starting with 440 projects including roads, busways, tunnels, hospitals, schools, recycled water treatments plants, prisons etc
  - SEQIP designed to be updated every year
    - A$ 55 billion in 2006,
    - A$ 66 billion in 2007 and
    - A$ 107 billion in 2008 (500 projects)

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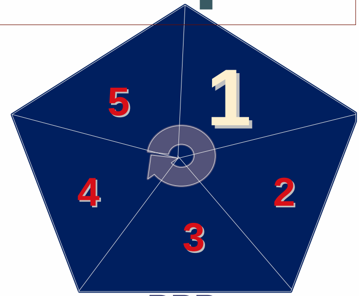
1 - Political & Legislative Leadership

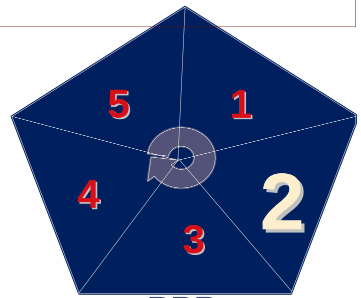
Passed New Laws & Decrees

- All projects listed in SEQIP came under the purview of the Co-Ordinator General
- 18 local governments told to set aside parochial issues
- Gave powers to Co-Ordinator General to take over delayed projects from Line Agencies
- Land Acquisition for SEQIP projects made simpler and faster



PPP Pentagram™

2 - Funding Commitment



PPP Pentagram™

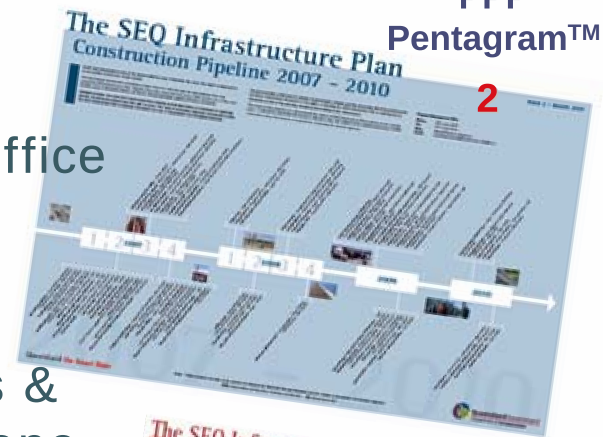
Approved 10 year budget

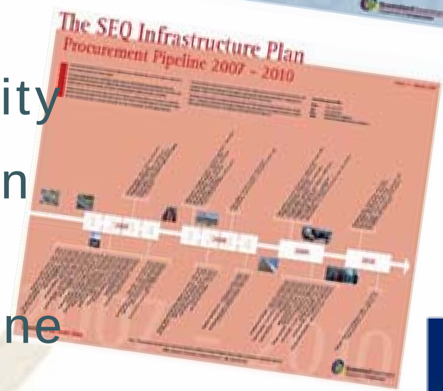
- ❑Historic move for a 4 year term government to bind future government to SEQIP
- ❑In 2006 committed A$ 37.4 billion for 10 years
- ❑Current SEQIP has 500 projects
  - ▪160 projects completed since 2006
  - ▪290 projects underway - already spent A$ 8.5 billion
  - ▪50 projects in preparation
  - ▪92 of the 500 over A$100 million
    - ▪11 of the 500 over A$ 1 billion

3 - Governance of Delivery

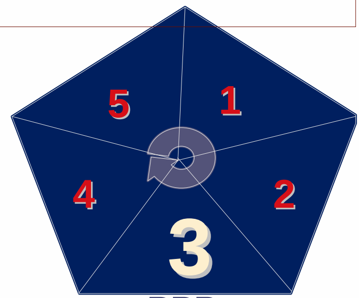
Delivery responsibility to Treasurer

- ❑Established a new Department of Infrastructure Delivery (DOID) under the Deputy Premier & Treasurer
  - ❑Established Program Management Office (PMO) under DOID
  - ❑PMO was unique for PPP delivery
    - ▪Staffed by government servants & private consultants all acting as one unit - 2 year mandate to build capacity
    - ▪All Line Agencies reported to PMO on project progress monthly
    - ▪PMO prepared 4 year Projects Pipeline





3 - Governance of Delivery

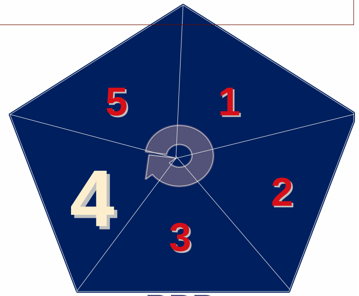


PPP Pentagram™

PMO Simplified project delivery governance

- ❑Project Steering Committee streamlined
- ❑Clarity on Project Owners vs Project Deliverers
- ❑Project Director (PD) -
  - ▪NOT always public servants - Best for Project basis
  - ▪PMO assisted in the selection of PDs
  - ▪PMO authorised to advise the CoG to "takeover" delivery of projects if progress by Line Agency is inadequate

4 - Optimal Procurement & Risk Model

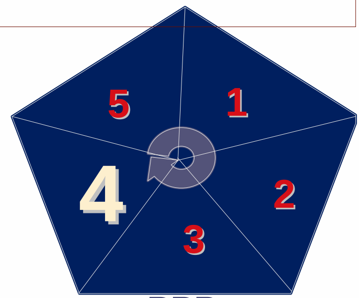


PPP Pentagram™

Value for Money

- Government's Value for Money (VfM) Framework was the overarching policy
  - All Line Agencies MUST demonstrate why a PPP'able project is not procured as PPPs before funding will be budgeted
  - Public Sector Comparator (PSC) used where appropriate
  - Government encouraged "hard dollar" bids rather than "soft dollar" bids
    - Hard Dollar - selection based on competitive pricing
    - Soft Dollar - Selection based on non-price criteria including previous track record

4 - Optimal Procurement & Risk Model

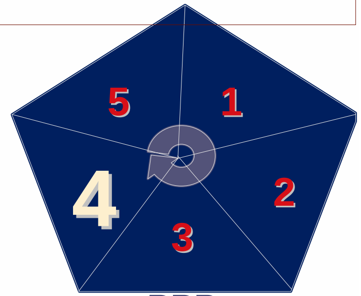


PPP Pentagram™

Right Procurement Model

- PPP Structure varied based on projects Core Service vs Non-Core service of Government
- NOT all projects were PPP'able
  - Used "fit for project" procurement method - eg Tunnels(PPP) vs By-pass (Alliance)
  - In some instances no bids at all
- Used mixture of traditional and PPP within the same sector to compare VfM - Eg Rail, Hospital
- Introduced PBAS - Hybrid PPPs

4 - Optimal Procurement & Risk Model



PPP Pentagram™

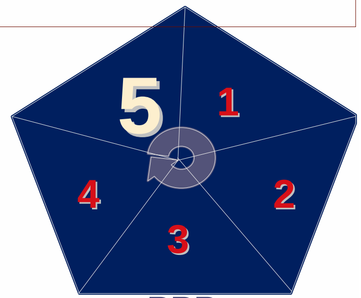
Optimal Risk Transfer

- ❑Government kept delivery of core services risks such as health care, nursing, wardens, teachers etc

- ❑Private Sector assumed project delivery and completion risks and took overs non-core services such as catering, cleaning, maintenance, collecting user fees etc

- ❑NOT all risks were transferable
  - ▪Some risks such as land acquisition risks kept by Government
    - ▪Some risks such as exchange rate risks were shared

5 - Industry & Community Buy-In



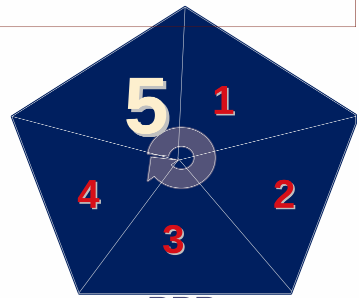
PPP Pentagram™

- ❑Government introduced 160 new skills development programs including compressing the time for trade qualification
- ❑Allocated A$ 1 billion for skills training programs

Increased Certainty of Investment

- ❑Published a quarterly 4-year pipeline of projects procurement and construction plan, thus
  - ▪Industry's investment to up-skill and up-resource could result in winning current or future bids
- ❑Projects were strategically sequenced to avoid crowding-out within one sector

5 - Industry & Community Buy-In



PPP Pentagram™

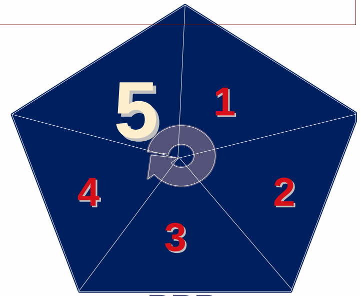
Consultation with Industry & Unions

- Government established South East Queensland Industry Taskforce to maintain constant dialog
- 6 Major Industry Orgs, 3 Unions and 3 key Line Agencies (including the CoG as the Chairman)

Funded International Recruitment Drive

- Government funded international recruitment drives to attract skilled workers to Queensland to join both public and private sector
- Encouraged and incentivised foreign professional services companies, such as engineering consultants and project managers to open Queensland offices

5 - Industry & Community Buy-In



PPP Pentagram™

- ❑Government initiatives to increase Community Buy-in
  - ▪Community consultation is a prerequisite of all major projects
    - ▪Released a community engagement index (Australia's first)
- ❑With so many projects running concurrently need to avoid community fatigue for consultation
- ❑The index specifies when particular community is going to be consulted on what project and which Government Agency (State & Local) – thus opportunity for other agencies to join the consultation process

Results of SEQIP Case Study

SEQIP Projects Under Construction

A$8 bil road projects

A$8 bil water projects

A$6 bil rail projects

SEQIP Projects Under EOI / RFP

A$7 bil in road / busway projects

A$7 bil in Hospital projects

A$1 bil in school projects

A$1 bil prison projects

SEQIP Projects Completed –160 @ A$ 3.3 bil

Key Learnings - PPP Pentagram^{TM}Works

Governments need to focus on all 5 facets simultaneously

- ❑Political leadership must manifest in PPP Laws and legislations
- ❑Program must be funded or explore alternatives -PPP Trust Fund, Infra Fund
- ❑PPP Centres must be under fiscal agency and empowered
- ❑Prepare PPP projects well - optimal risk reward sharing and not all needs to be PPP'able
- ❑Involve the Industry & Community from early stage

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Key Learnings - PPPs Need Support

Capacity constraints everywhere

- ❑Even in Queensland, the government needs external support to transact projects
- ❑PPPs are complicated deals thus seeking support is prudent

PMO Model Works

- ❑Partnership increases capacity to deliver
- ❑Currently PMO is solely public service

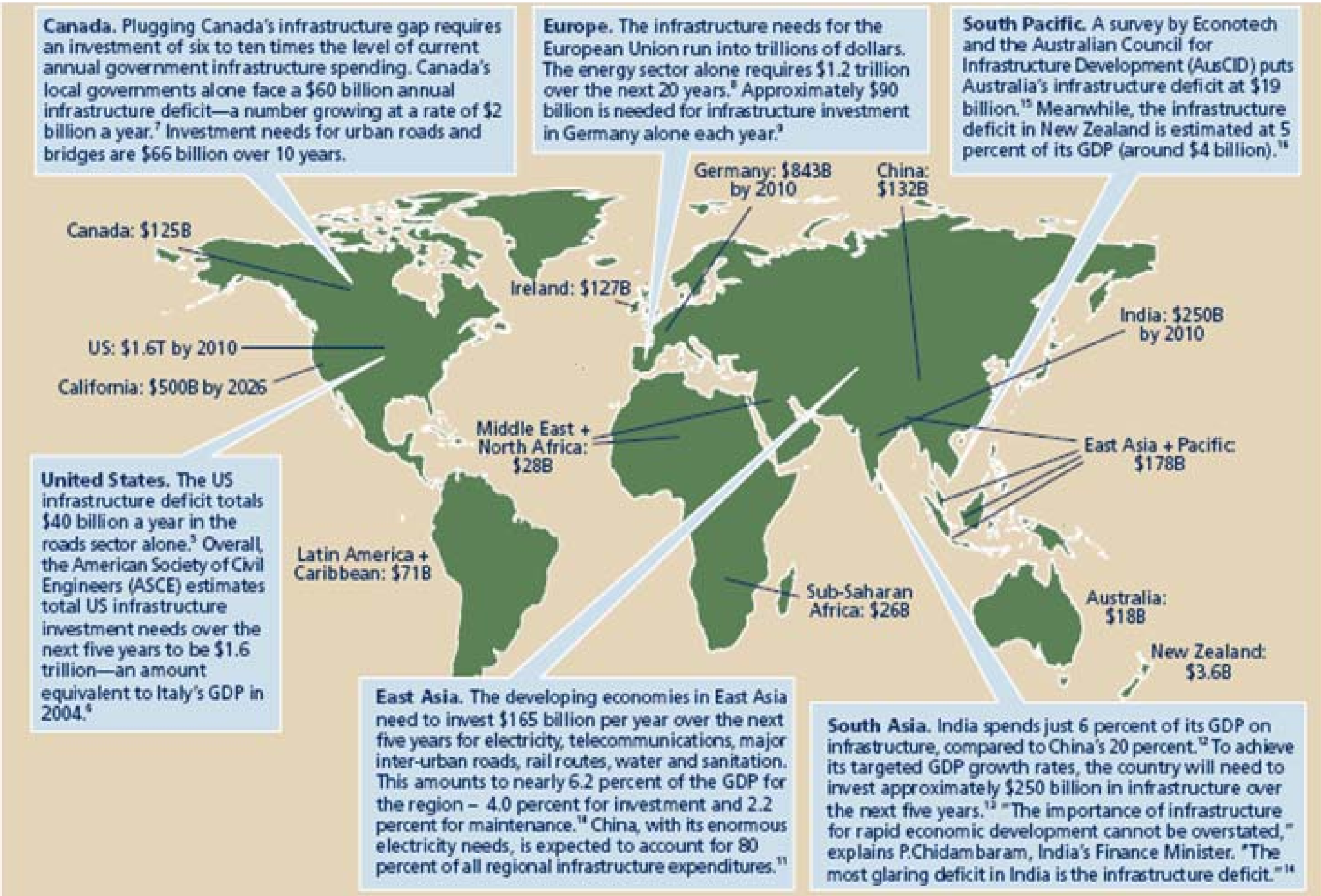
Industry will gear up if:

- ❑Government provides certainty
    - ❑Government creates and sticks to a projects pipeline

Conclusion - PPPs are here to stay

- Public Private Partnerships are a proven way to enable Governments to provide infrastructure and public services concurrently - with private sector finance, management and delivery capability
- PPPs are internationally accepted mode for infrastructure development in developing and developed economies
- Public perception of PPPs as privatisation must be managed
- PPP Laws will assist governance and increase private sector confidence and support
- Use international expertise in early years will help to transact pilot projects
- Well structured and bankable pilot projects are key to success

Global Infrastructure Needs -



Source: Deloitte Research

Thank You

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