

**Strengthening Private Sector
Participation for Physical
Infrastructure in the Pacific Region
Case Study: PPPs in the Road Sector
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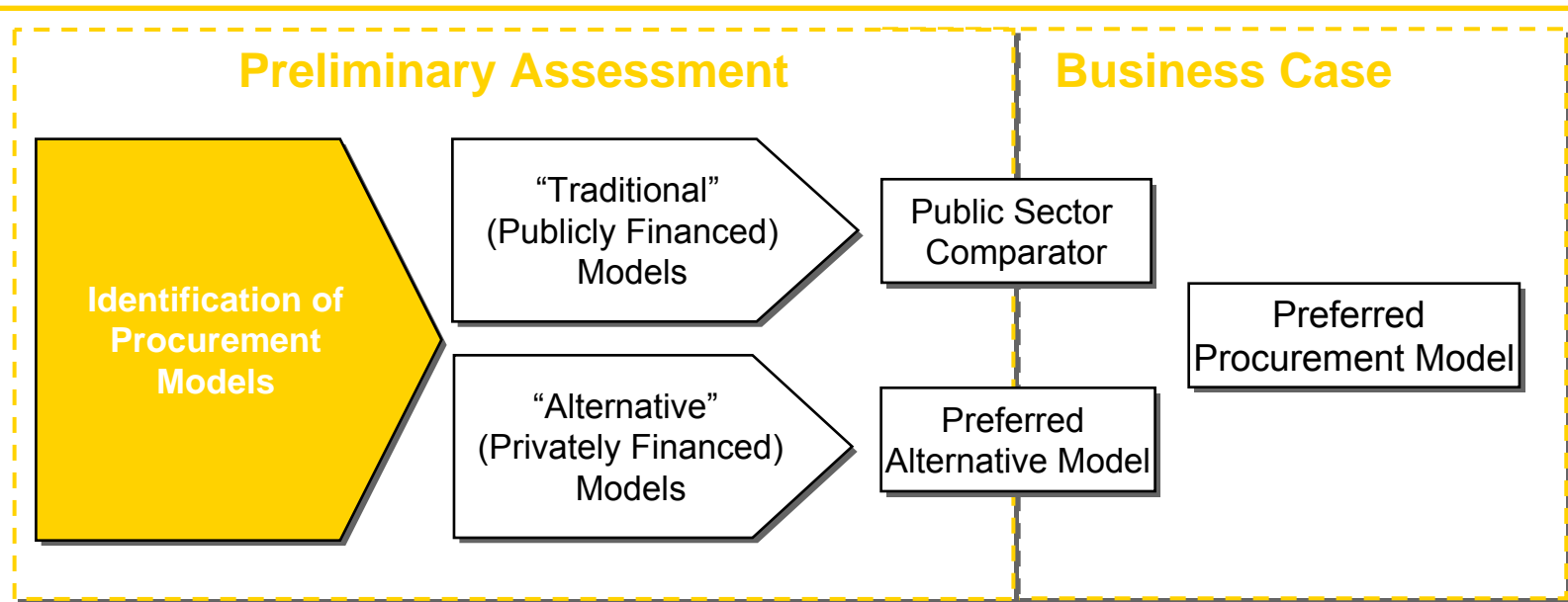
Procurement Strategy

- ▶ Project certainty
 - ▶ Bankable contract
 - ▶ Transparent affordability limit
 - ▶ Political commitment
- ▶ Truly integrated project team
- ▶ One-on-one structured interaction with bidders
- ▶ Minimise bid costs (precedent & contribution to costs)
- ▶ Benefit sharing proposals (focused on Airport Link)
- ▶ Committed bids – including proposals requiring EIS amendments

Procurement Process – Key Success Factors

- ▶ Appropriate level of interaction with industry
- ▶ Output based specification
- ▶ Innovative commercial proposals encouraged
- ▶ Minimise tender costs by drawing on precedent (toll road PPP's in Victoria, NSW)
- ▶ Optimal risk allocation (bidders generally comfortable with Australian precedent)

Business Case Objectives

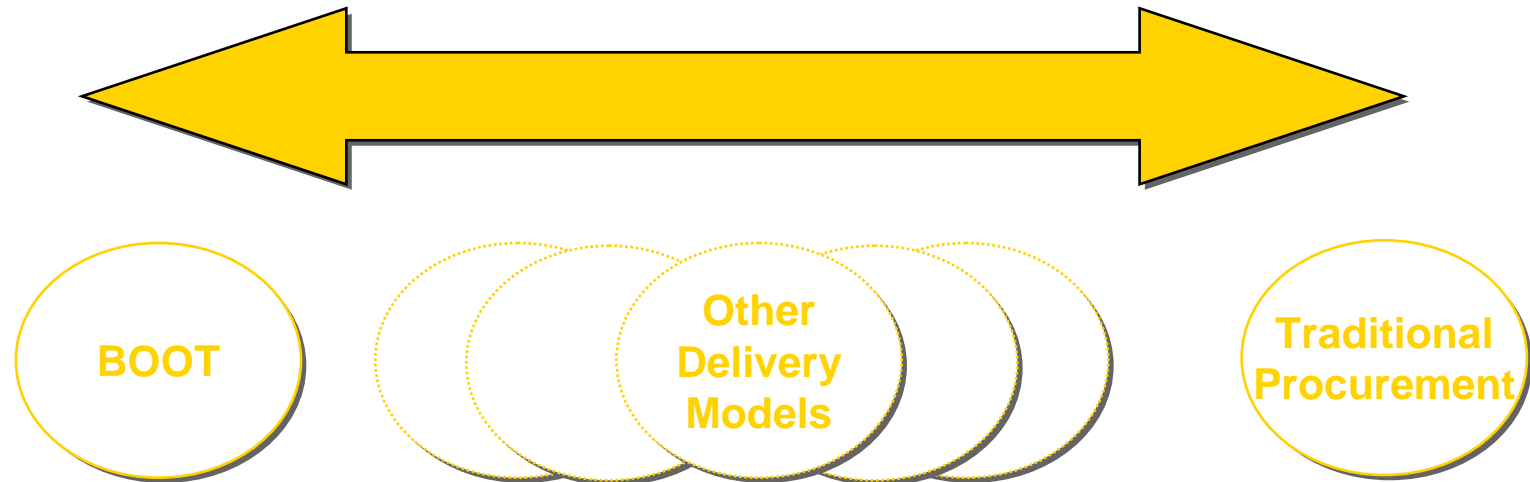


Key Objectives

- Identification of procurement option most likely to be Value for Money
- Identification and quantification of Risk and preferred Risk Allocation

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



Preferred Delivery Model to date – BOOT Model

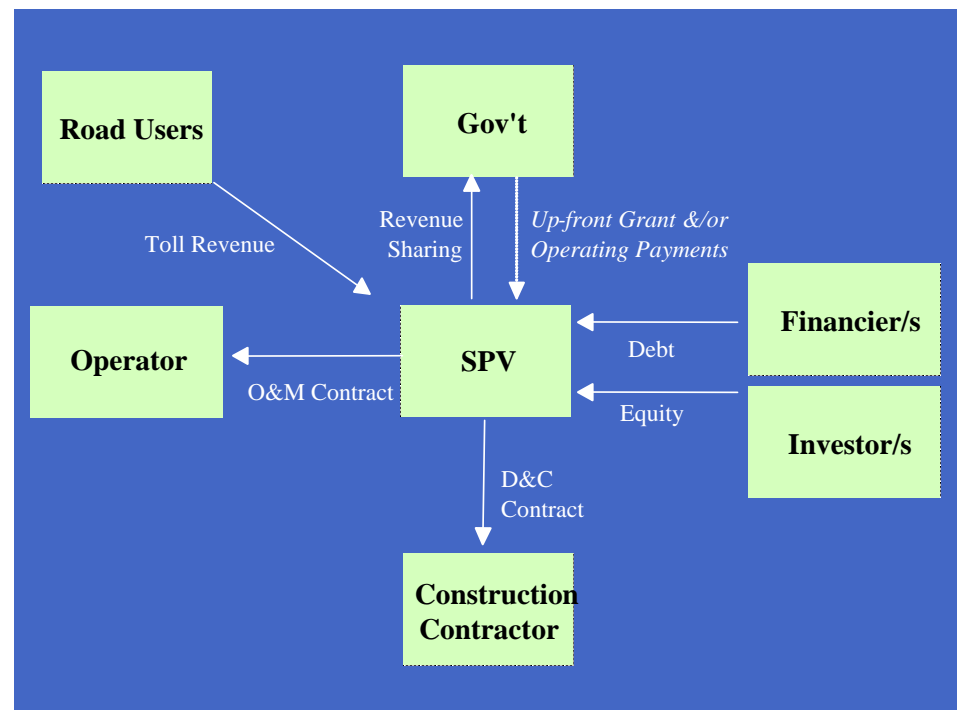
➤ Under BOOT Private sector responsible

for:

- Building, owning, operating
- Realising toll revenue (traffic risk)
- Financing

➤ Government will:

- Grant a long-term concession
- Retain the right to set tolls
- Share in up-side toll revenues
- Share refinancing benefits
- Provide an element of network protection



Why Change?

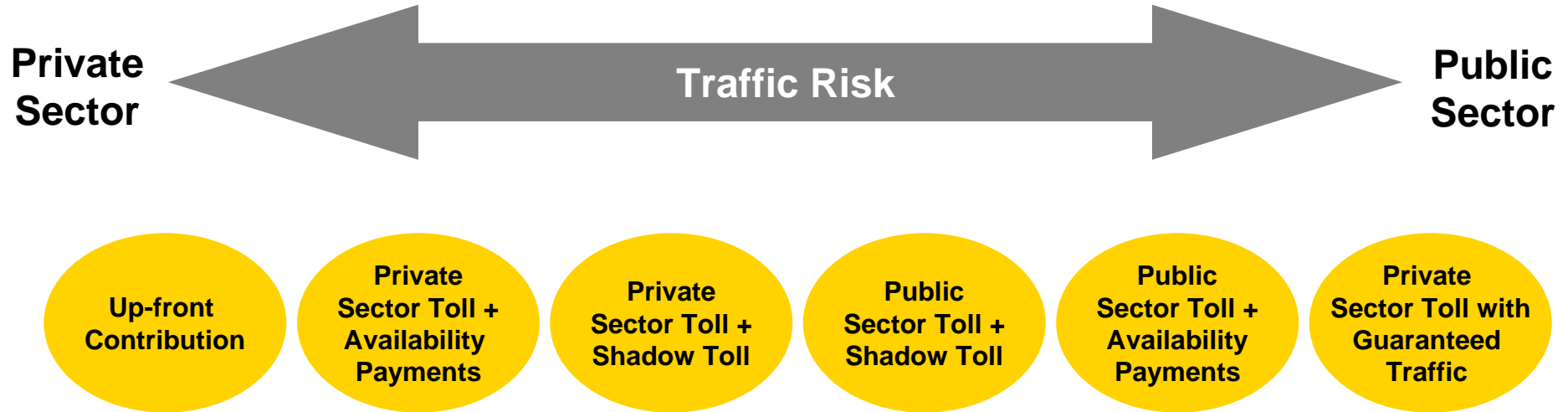
The Case For ...

- ▶ Traffic risk premium
- ▶ Size of contribution
- ▶ Cost/availability of funding
- ▶ Attraction to unlisted equity
- ▶ New players

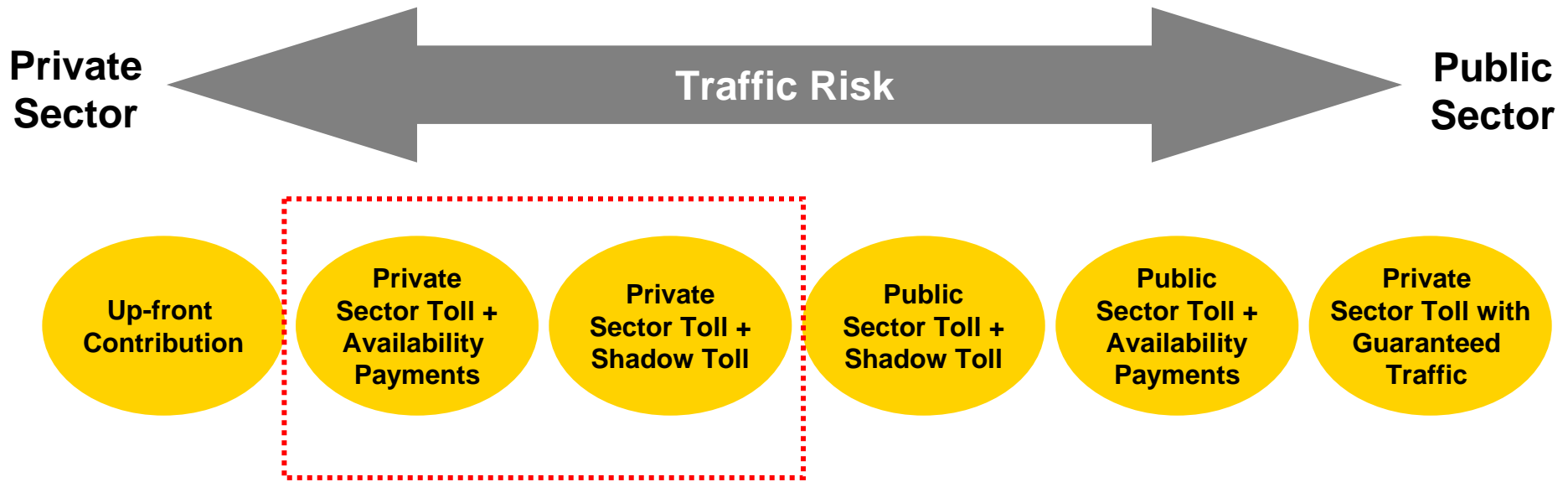
The Case Against ...

- ▶ Changing successful model
- ▶ Lack of precedent
- ▶ Funding challenge
- ▶ Potential complexity
- ▶ Is the risk allocation right?

Options



Options



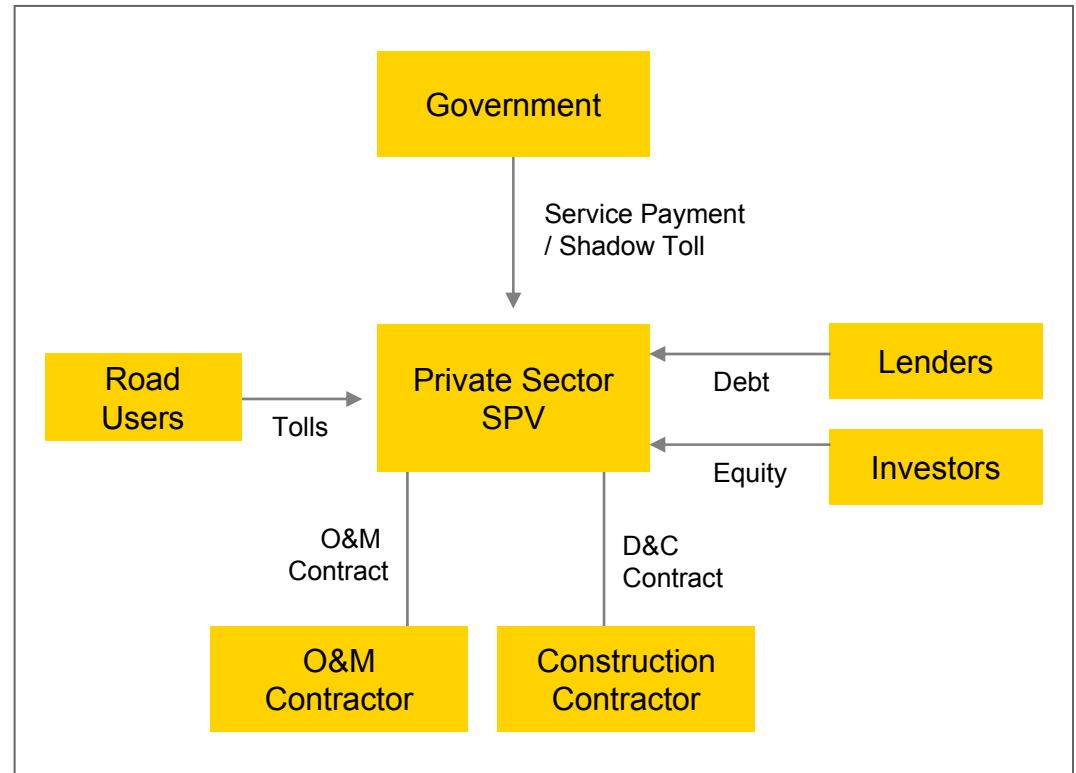
Example of Hybrid PPP Structure

Pros

- ▶ Lower WACC
- ▶ Deferred contribution
- ▶ Performance risk – payment mechanism
- ▶ May increase competition

Cons

- ▶ No Australian precedent
- ▶ 100% privately financed
- ▶ Higher nominal cost



Example of Alternative Road PPPs

Relevant Precedent

- ▶ Australian social infrastructure
- ▶ UK – DBFO roads, M25 – shadow tolls, congestion, availability
- ▶ Ireland – PPP toll roads with operating payments
- ▶ Spain and Portugal – shadow tolls
- ▶ Poland, Norway – availability with government retaining toll revenue

Payment Mechanism principles

- ▶ Usage risk
- ▶ Lane availability
- ▶ Route performance
- ▶ Condition criteria
- ▶ Safety performance

Projects are successful because where...

- ▶ Clear business case; Government committed
- ▶ Effective procurement process
- ▶ Clear specification of outputs
- ▶ Government team properly resourced internally and supplemented by expert advisers
- ▶ Private sector had the expertise to deliver
- ▶ Risk allocation is genuinely “to the party best able to manage or mitigate”
- ▶ Value sufficiently large to justify procurement costs
- ▶ Appropriate rate of return for the private sector