

ADB Support for PPPs in Developing Member Countries

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OUTLINE

- **What drives success of PPPs?**
- **How does ADB support PPPs?**

Drivers of Success in PPP Program

Sound Project Preparation

Strong Institutional Framework & Capacity

Balanced Risk Allocation

Early and Active Market Engagement

Robust Project Pipeline

Predictable and Fair Procurement Process

Macroeconomic, Legal & Political Stability



PPP projects screened/prepared are:

- Manageable
- Aligned with sector masterplan
- Compliant with applicable law
- Of substantial value
- Affordable for govt and/or users
- Marketable
- Economically and commercially viable
- Implementable

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- Commitment to PPP modality and the particular project at political and bureaucratic levels
- Procuring agency's ability to pay
- Track record and reputation of procuring agency
- Capability of procuring agency

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PPP contract should optimize risk allocation

- Identify all key project risks
 - Allocate certain risks to private sector
 - Likelihood of occurrence of which private sector can estimate and control because of its superior knowledge of risk
 - Financial consequences of which private sector can estimate and control (e.g., by passing to third parties who will bear the risk at a lower premium)
 - Premium for which private sector can estimate
- Remainder of risks will be either assumed by public sector or jointly borne by public and private sector

Cautionary Note:

- Over transfer of risks to private sector in emerging PPP markets
- Failure to standardize approach to risk allocation in line with established precedents
- Public sector unintentionally “taking back risks” through its actions

Key Risk Allocation Issues

Key Site Risks

Land Acquisition:

Which party bears cost and responsibility of acquiring land?

Ground Condition:

Which party bears the risk that geology of the site is not what was expected?

Permits:

Which party bears that required planning and construction permits are not in place when required?

Access:

Which party will be responsible for providing access to the site?

Environmental and Social:

Who bears risk of damage caused by existing latent environmental conditions?

Key Design and Construction Risks

Design:

Who bears the risk of design failing to meet performance criteria, timely design approvals and design?

Construction:

Who bears the risk of events during construction which prevent the facility being delivered on time and on cost?

Commissioning:

Who bears the risk that physical or operational commissioning tests which are required to be completed for the provision of services to commence cannot be successfully completed?

Key Operating Risks

Performance:

Who bears the risk that asset is able to achieve key performance indicators?

Changes in performance criteria:

Who bears the risk of public sector changing key performance indicators after commissioning?

Inputs:

Who bears the risk of availability or cost of key inputs?

Network/Interface:

Who bears the risk that network(s) needed for the private party to deliver the contracted services will be removed, not adequately maintained or otherwise changed?

Key Market Risks

Demand/Usage:

Who bears the risk that demand is less than expected due to say deteriorating macroeconomic situation, competition etc?

Revenue Payment:

Who bears the risk that payments will be made when due?

Inflation:

Who bears the risk that value of payments received is eroded due to inflation?

Key Force Majeure, Early Termination and Political Risks

Natural Force Majeure Events:

Who bears the risk that unexpected events occur that are beyond the control of either party and delay or prohibit performance?

Early Termination and Compensation:

Who bears the risk of contract being terminated prior to its expiration and the monetary consequences of such termination?

Political:

Who bears risks related to seizure or expropriation of project, change in law, contractual breach by public party, change to or cancellation of consents etc.?

Key Sponsor and Financial Risks

Interest/Exchange Rate:

Who bears the risk of fluctuations in rates?

Unavailability of Financing:

Who bears the risk that when debt and/or equity is required by the private party for the project it is not available then and in the amounts and on the conditions anticipated (e.g. due to failure to provide appropriate collateral or step in rights for lenders)?

Change in ownership:

Who bears the risk that change in ownership of private party weakens its support to project?

Refinancing:

Who benefits from refinancing gains?

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Suboptimal risk allocation has negative consequences:

- Higher project costs:
 - If private party is unable to control or price risk that it is required to bear, then contingencies will be built into bid prices
- Delays in reaching financial close:
 - Lenders are unwilling to finance transactions where private party is expected to assume risks that the private party cannot control or pass on to third party (e.g., subcontractor, insurer) that can bear the risk at lower cost
- Claims, Disputes and Defaults:
 - One sided contract increases the likelihood of private party triggering claims, disputes and defaults
- Higher incidence of renegotiation requests by private party:
 - Renegotiations typically diminish Value for Money for the public sector
- Failed Bids

Drivers of Success in PPP Program

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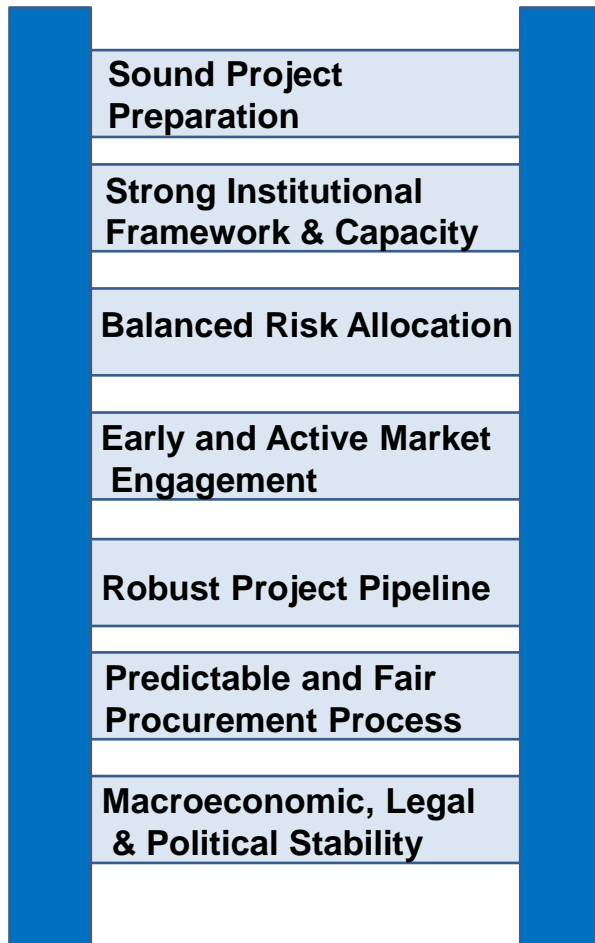
Macroeconomic, Legal & Political Stability



- Ability to inspire market confidence by showing deals that reach financial close
- Early deals should focus on structures familiar to the market
- Willingness to engage early with the market
- Willingness to proactively and competently address concerns raised during market sounding and pre-bid meetings
- Sensitivity to bid preparation costs, which are function of:
 - Project complexity
 - Level of design/technical details requested
 - Standardization of procurement documentation
 - Time required to reach financial close
 - Prevailing costs in a particular jurisdiction

(Note: For projects exceeding \$1Bn, bid preparation costs can equal 1%, out of which perhaps two-thirds will be related to design and technical due diligence. For smaller projects, bid costs could be 2% of project costs)

Drivers of Success in PPP Program



- Expensive to enter new market so future pipeline is important
- Pipeline of multiple projects over next few years with certain minimum size
- One-off opportunities considered in unique circumstances (e.g., very large project size, proximity to home market)

Drivers of Success in PPP Program

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Preparation**

**Strong Institutional
Framework & Capacity**

Balanced Risk Allocation

**Early and Active Market
Engagement**

Robust Project Pipeline

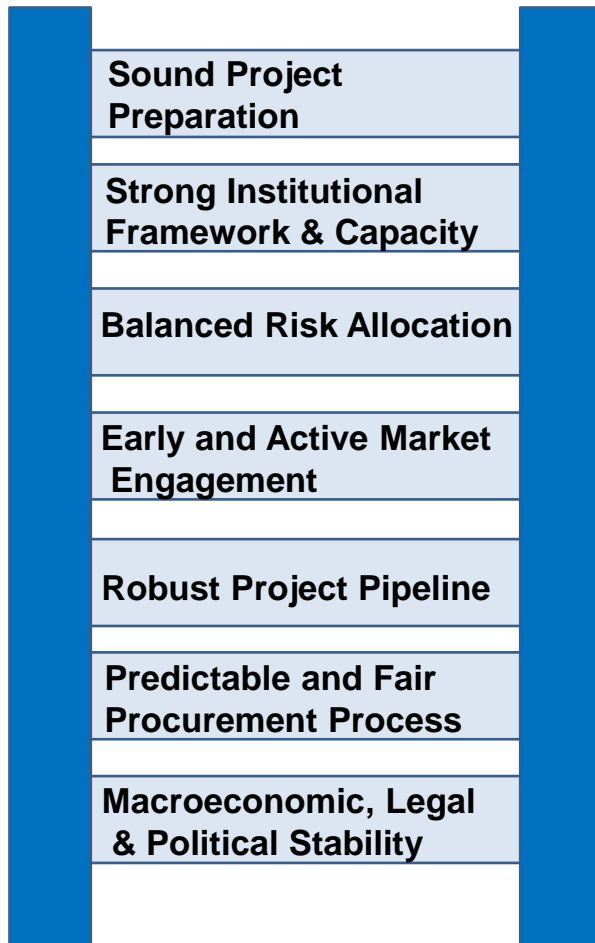
**Predictable and Fair
Procurement Process**

**Macroeconomic, Legal
& Political Stability**



- Evaluation criteria applied objectively, fairly and transparently
- Players participating in tenders (who bids, who wins, local vs foreign)
- Quality of debriefing to unsuccessful bidders
- Number and capability of shortlisted competitors

Drivers of Success in PPP Program



Legal

- Ability of parties to enforce performance in long-term contracts
- Transparency of judicial system
- Favorability of tax regime applicable to foreign investors
- Ownership restrictions applicable to foreign investors

Political

- Strength of key institutions
- Corruption
- Protectionism
- Bureaucratic efficiency

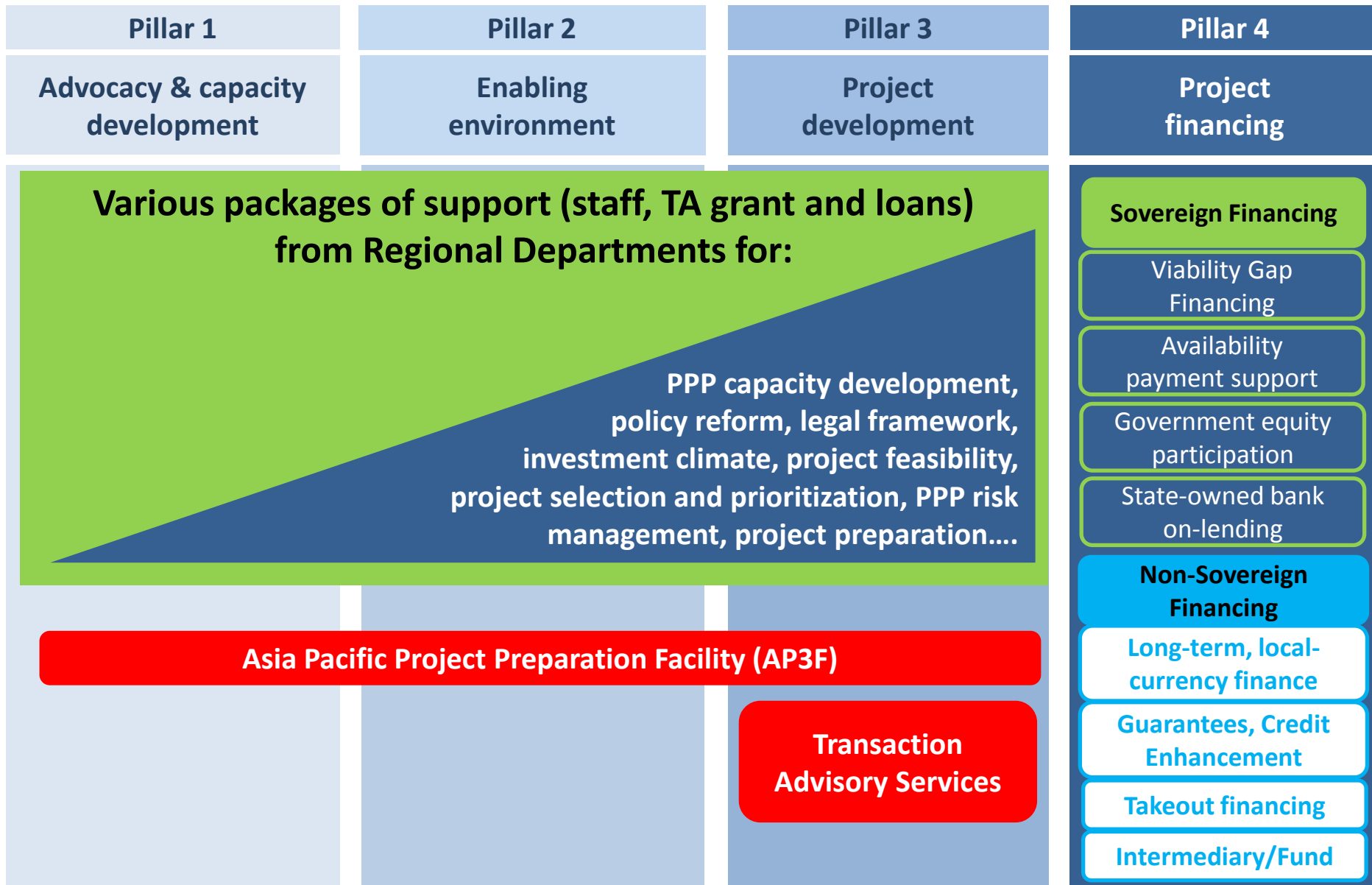
Macroeconomic

- Exchange rates and currency convertibility
- Growth rate
- Inflation

OUTLINE

- What drives success of PPPs?
- **How does ADB support PPPs?**

How does ADB Support PPPs?



Pillar 1: Advocacy Capacity Development

PPP Certification Program

Delivered by APMG International, the program launched in 2016 marks MDBs' efforts to share knowledge, establish standards, and enhance professionalism in the delivery of PPPs globally.

<https://ppp-certification.com/>

Source

Jointly supported by MDBs, Source is a web-based tool that governments can use to manage preparation activities for infrastructure projects including PPPs.

<https://www.sif-source.org/>

MDB online portal PPP Knowledge Lab

Joint collaboration among top multilateral development agencies for a comprehensive online resource for PPPs. *PPP Knowledge Lab* allows easy access to data, terms, and trends that guarantees up-to-date, relevant results on PPPs.

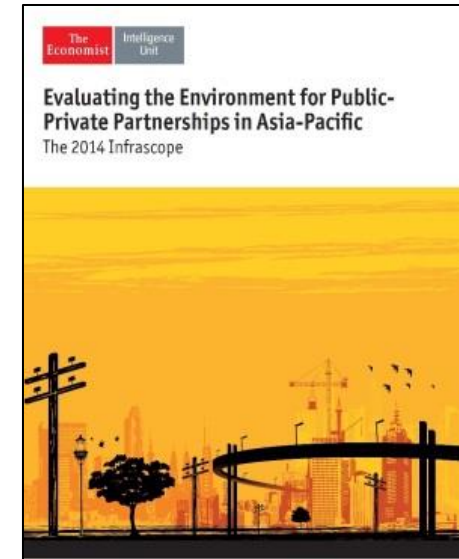
www.pppknowledgelab.org

Pillar 1: Advocacy Capacity Development

Infrascope

Funded by ADB RETA , the benchmarking index produced by EIU evaluates government capacity to implement sustainable and efficient PPPs in Asia and Pacific.

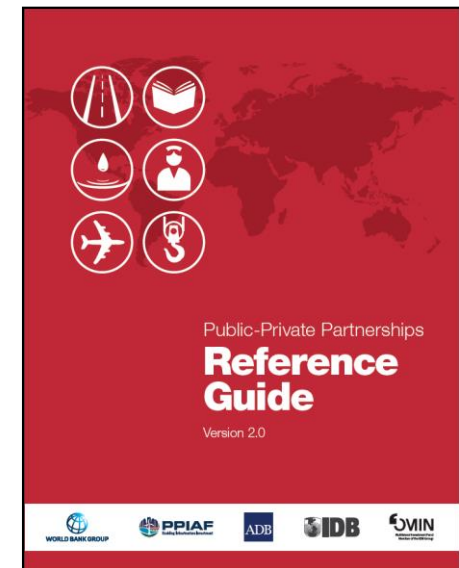
<https://www.adb.org/sites/default/files/publication/158409/2014-infrascope.pdf>



PPP Reference Guide

Jointly developed by MDBs, it is a practitioner's guide to when PPPs should be used, what kind of enabling policy, legal and institutional frameworks are needed to ensure success of PPPs and how to develop and implement PPP projects.

<https://pppknowledgelab.org/guide/sections/1-introduction>



Pillar 2: Enabling Environment

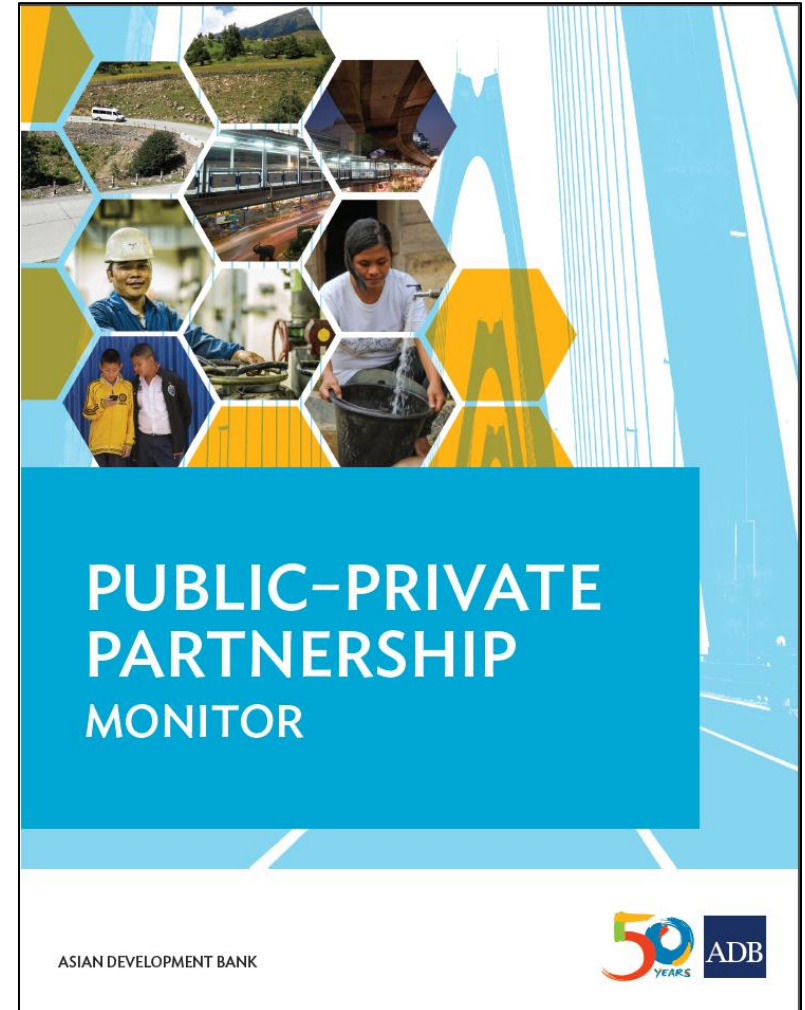
ADB helps its developing member countries strengthen the institutional and legal frameworks for PPPs through variety of modalities:

- Policy Based Loans (e.g., Stepping Up Investments for Growth Acceleration Program in Indonesia)
- Technical Assistance (e.g., Asia Pacific Project Preparation Facility)
- Knowledge products (e.g., PPP Monitor)

Pillar 2: Enabling Environment (PPP Monitor)

PPP Monitor* Objectives:

- Provide information on the PPP frameworks and markets in specific ADB developing member countries (DMCs)
 - Business intelligence for private sector
 - PPP enabling environment monitoring for public sector
- Map progression of PPP environment in DMCs over time through annual updates



* Downloadable at: <https://www.adb.org/sites/default/files/publication/381681/ppp-monitor.pdf>

Pillar 2: Enabling Environment (PPP Monitor)

Country Level Analysis

- Bangladesh
- India
- Indonesia
- Kazakhstan
- Philippines
- PNG
- PRC
- Thailand
- Viet Nam

Sector Level Analysis (for each country)

- **Energy**
 - Thermal generation
 - Renewable generation
- **Transport**
 - Roads
 - Railways
 - Ports
 - Airports
- **Information and Communication Technology (ICT)**
- **Water and Wastewater**
- **Municipal Solid Waste**
- **Social infrastructure (Healthcare and Education)**

Pillar 2: Enabling Environment (PPP Monitor)

Regulatory Framework	Institutional Capacity	PPP Market Maturity	Financial Facilities
PPP types & eligible sectors	Institutional set-up	PPP projects that reached financial close	Availability and terms of financial products:
Unsolicited bids	Project planning		Commercial bank project finance loans
Foreign investor participation restriction	Risk allocation		Multilateral Development Bank/Bi-lateral Agency loans and guarantees
Lender's security rights			Project bonds

Sectoral Information

Sector-specific regulations

Pipeline of Projects

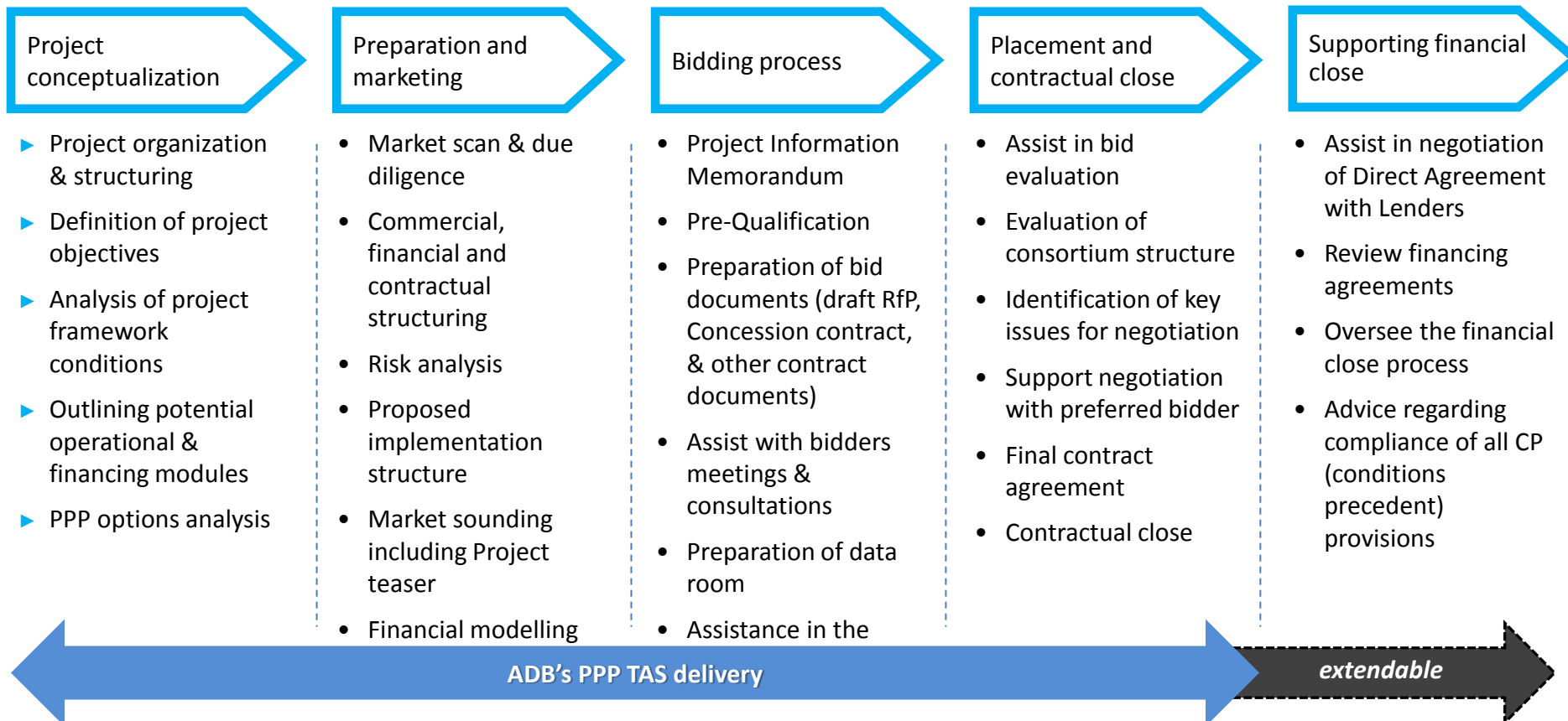
Features of Past PPP Projects

Local Capabilities

Challenges

Pillar 3: Project Development (Transaction Advisory Services)

ADB's transaction advisory team support clients during the comprehensive project life-cycle starting from concept creation to structuring bankable deals to tendering and achieving close.



Pillar 3: Project Development (Transaction Advisory Services)

ADB has 15 transaction advisory mandates under implementation.



Turkmenistan, Afghanistan, Pakistan, India

- “TAPI” gas pipeline project that spans 4 countries

Kazakhstan

- Karaganda University Hospital

Sri Lanka

- Colombo Port East Container Terminal

Bangladesh

- Rampura-Amulia-Demra Toll Road (Dhaka)
- Dhaka Bypass

Myanmar

- Strategic and Transaction Advisory on Transport PPPs
- Strategic and Transaction Advisory for Urban Infrastructure in Yangon Region

Mongolia

- CHP5 project

Viet Nam

- Ho Chi Minh City Ring Road 3
- Da Nang Solid Waste Management

Philippines

- PNR Commuter (South Line)
- New Clark City (formerly Clark Green City)

Papua New Guinea

- Jacksons International Airport (Port Moresby)

Malaysia

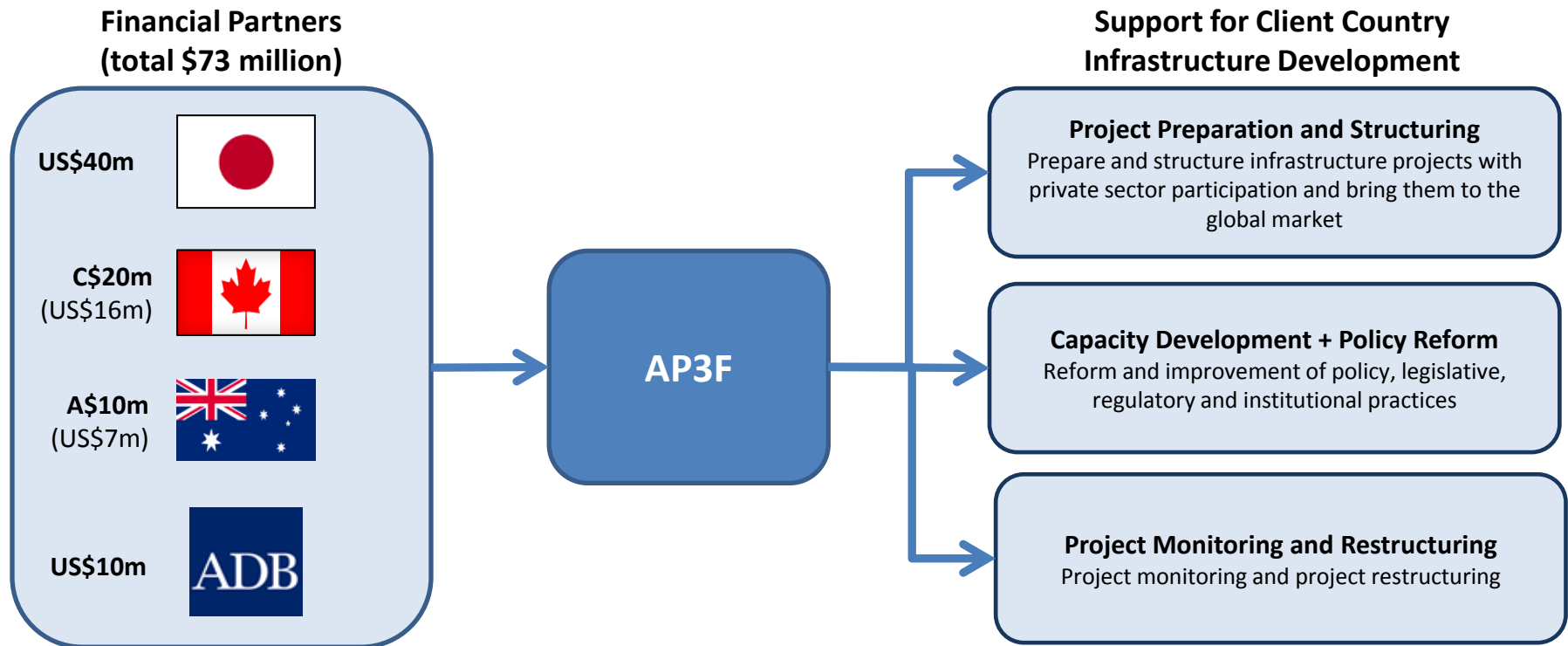
- Melaka Street Lighting Energy Efficiency

Cambodia

- National Solar Park Program

Pillar 3: Project Development (Asia Pacific Project Preparation Facility)

Asia Pacific Project Preparation Facility's (AP3F) objective is to assist Developing Member Country governments and their public sector agencies in preparing and structuring infrastructure projects with private sector participation



Pillar 3: Project Development (Asia Pacific Project Preparation Facility)

Since its launch, AP3F has been supporting 14 applications. Total amount of approvals is \$12.8 million, equivalent to 18% of the total fund commitment.

Georgia



- Capacity building for gas pricing policy and a gas storage facility

Kazakhstan



- Energy Efficiency for ESCO Modalities
- Project preparation for Shymkent and Saryagash Bypasses

Bangladesh



- Project preparation of Dhaka Bypass
- Capacity building for PPP Authority

Myanmar



- Project restructuring of 4 road BOT concessions

Thailand



- Capacity building for seaport PPP program

Timor-Leste



- Capacity support to the PPP and Loans Unit

Papua New Guinea



- Concession for the Port Moresby airport

Samoa



- Formulation of a power tariff
- Capacity building for the Ministry of Public Enterprises

Solomon Islands



- Creation of a PPP center

Philippines



- Prefeasibility for solid waste management in Cebu City

Indonesia



- Project preparation for the expansion of Hang Nadim Airport (Batam)