Workshop on Implementing PPP projects in Sierra Leone

Timothy J. Murphy
David Livingston

Freetown, July 9-12, 2013

Who We Are

- David Livingston
  - PPP Advisor, Ryerson University
  - Chief of Staff to Premier
  - CEO of Infrastructure Ontario
  - Executive Vice-President, TD Bank
  - 30 years of banking experience

Who We Are

- Tim Murphy
  - Co-Chair, PPP and Project Finance Group
  - Adjunct Professor, Faculty of Law
  - Chief of Staff to Prime Minister
  - Chief of Staff to Finance Minister
  - Former Member of the Legislature
  - 24 years of legal experience

Legal & Institutional Structures for PPPs in Africa

SESSION 1

Introduction: Session 1

- Why PPPs and definitions
- PPP contract types
  - Management contracts
  - Concessions
- How PPP can help, benefits and limitations
- Review of PPP legislation in selected countries in Africa and the PPP bill of Government of Sierra Leone
- Why legal and institutional framework is important
- Examples and cases
- Q&A

What are P3s?

Four key attributes:

1. A public good or service delivered in partnership with the private sector
2. Risk allocation consistent with party best able to manage it
3. Whole of lifecycle costing (design and maintenance obligations are bound together)
4. Private finance

Why Private Finance?

- Enforcing contractual compliance
- Innovation
- Efficiency
- Matching incentives to outcomes
- Value for money

Public-Private Partnerships: The Misconceptions

1. PPPs = Privatization
2. PPPs increase private sector profits
3. PPPs are long and complicated
4. PPPs are expensive because there is private financing
5. PPPs make projects affordable because they will be financed by the private sector
6. PPPs are unpopular

History of PPP in Canada

- First introduced in Canada in mid to late 90s, however, really
  - gained momentum in 2004/2005
  - Currently we are seeing 10-15 deals procured each year
  - Entities actively procuring PPP solutions include:
    - British Columbia
    - Alberta
    - Manitoba
    - Ontario
    - Québec
    - New Brunswick
    - Federal
    - Various municipalities
- Broad cross-country support

Dedicated Canadian PPP Agencies	
Alberta	Alberta Infrastructure and Transportation
INFRASTRUCTURE ONTARIO	Infrastructure Ontario
Québec	Infrastructure Québec
partnerships British Columbia	Partnerships British Columbia
New Nouveau Brunswick	Partnerships New Brunswick
Infrastructure Canada	PPP Canada Inc.

Politics of Canadian PPP

- Although nomenclature varies there is broad cross-Canada support with a significant history of closed transactions and few failed deals or post-closing defaults.

- Support for the PPP model has been institutionalized at both the federal and provincial levels with the creation of specialized agencies with procurement and negotiation responsibilities.

Politics of Canadian PPP

- Various provinces have instituted legislation requiring an evaluation for all major capital expenditures to undergo screening for suitability for procurement as a PPP.

- PPP is seen as a core financing option in government's toolbox and while there remain dissenters, they are rarely politically controversial.

Politics of Canadian PPP

- Recent creation of a federal Canadian PPP agency has opened up opportunities for smaller players such as municipalities to carry out PPPs (Abbotsford vs. St. John).

- Government ownership often retained and employees jobs guaranteed

- Value for money reporting and AG review

Notable Recent Canadian Transactions

A total of ~ $50bn Canadian PPP Projects have been awarded to 2012

Ontario (~$23bn)

- Air Rail Spur Link
- Billy Bishop TCA Tunnel
- Highway 407 East - Phase 2
- Ottawa LRT
- Pan-Am Games Projects
- Humber River Regional Hospital
- Halton Healthcare Services
- Windsor Essex Parkway
- St. Joseph's Healthcare Hamilton
- Centre for Addiction and Mental Health (CAMH)
- Toronto South Detention Centre
- Bridgepoint Hospital
- Niagara Health System
- North Bay Health Centre
- Durham Courthouse
- New Data Centre

British Columbia (~$10bn)

- Interior Health and Surgical Centre Project
- KGH Clinical Support Building
- Evergreen Line
- Singe Room Occupancy Renewal Initiative
- South Fraser Perimeter Road
- Golden Ears Bridge
- Kelowna Vernon Hospital
- Sea to Sky Highway
- Royal Jubilee Hospital
- Fort St. John Hospital
- Surrey Memorial Hospital

Manitoba (~$0.3bn)

- Disraeli Bridge
- Chief Peguis Trail

Quebec (~$7bn)

- CHU Ste-Justine
- Lachine Rail Maintenance Facility
- Centre Hospitalier de l'Universite de Montreal (CHUM)
- McGill University Health Centre (MUHC)
- CHUM Research Centre
- Autoroute 30
- Montreal Concert Hall

Atlantic Canada (~$2.1bn)

- NB Route 1 Gateway
- NB Trans-Canada Highway
- FM Highway
- Highway 104
- Confederation Bridge

Alberta (~$5bn)

- Alberta Schools I
- Alberta Schools II
- Alberta Schools III
- SE Stoney Trail
- NE Stoney Trail
- NW Anthony Henday Drive
- SE Anthony Henday Drive
- NE Anthony Henday Drive
- Evan-Thomas Water Treatment and Wastewater Treatment Facility

Canada (Federal $1.1bn)

- CSEC – LTAP (DND)
- RCMP Headquarters (Surrey)

Current Canadian PPP Pipeline

Ontario

- East Rail Maintenance Facility
- McMaster Children's Health Centre
- Providence Care Hospital
- Public Health Laboratory at MaRS Centre
- Sheppard East Maintenance and Storage Facility
- Peel Memorial Centre for Integrated Health and Wellness
- The Region of Waterloo's Rapid Transit System
- ErinoakKids Centre
- Highway 407 East - Phase 2
- Joseph Brant Hospital
- Sheridan College
- St. Michael's Hospital
- Eglinton Crosstown LRT and Scarborough LRT Lines

British Columbia

- BC Children's and BC Women's Redevelopment Project
- McLoughlin Wastewater Treatment Plant Project
- Emily Carr University Project
- John Hart Generating Station
- Kitsilano Secondary School
- North Island Hospitals Project
- Oak Bay High School Replacement Project
- Okanagan Correctional Centre
- Queen Charlotte/ Haida Gwaii Hospital Replacement Project
- Vernon Jubilee Hospital

Other

- Iqualuit Airport

Quebec

- Aerotrain
- Hotel Dieu Hospital
- CHU Ste-Justine
- Quebec Detention Centres
- Turcot Interchange

Saskatchewan

- Snow Storage and Decontamination Facility
- Regina Stadium
- Saskatchewan Data Centre
- Regina Water Treatment

Alberta

- Edmonton LRT
- Lac La Biche Water and Wastewater Treatment

Municipalities

- Barrie Transit Project
- Calgary Recreation Centres
- Sudbury Waste Management
- Calgary Waste to Energy
- St. John Water

Canada (Federal)

- Pont Champlain
- Ottawa Heating & Cooling
- La Mason de Radio Canada Development Project
- Detroit River International Crossing
- Energy Services Acquisition Program

Process Integrity in Canada

- Published project schedule
- Market consultation
- Clear RFQ and RFP process
- Project Agreement commentary
- Design and Specifications commentary
- Publicly available materials

Assessing P3s as a Procurement Method

- Nature of the asset or service
- Expertise
- Value for money
- Risk identification and assessment

When does a P3 make sense?

- Nature of the Asset / Service
  - Availability or usage risk models
  - Competitive market
  - Large enough to warrant extra costs
  - Clearly defined scope with measurable outcomes
  - Synergy between design and operation

When does a P3 make sense?

- A Proper Regulatory Framework
  - Public Support
    - Unions, public, sectoral, private sector
  - Depoliticized Procurement Process
    - Accountability, transparency, certainty
  - Government Side Expertise
    - Legal, financial, technical, project management
    - Centralized agency
    - Standardized process

When does a P3 make sense?

- A Clear Business Plan
  - A reliable <u>needs</u> assessment
    - Understanding the long-term commitment
  - Detailed output specifications
    - Focus on the ends, not the means
    - Clear KPI’s
  - Detailed value for money assessment

When P3s do not work

- One-off P3s can be risky for the public sector
  - Insufficient experience on both sides to transfer risk or price it properly
  - Higher transaction costs
  - Insufficient public sector expertise
  - Insufficient focus on output specifications
  - Experienced P3 markets will deal better with P3s than markets that do fewer P3s
- Insufficient long term capital
- Counterparty risk
- Inefficient and lengthy process

Enabling Legislation

- Criteria:
  - Market credibility
  - Clear lines of authority
  - Transparent decision-making
  - Adequate investment in institutions
  - Clear planning direction
  - Controls on spending authorizations
  - Procurement process rules
  - Clear regulatory powers

The Key to PPPs: Value for Money

- Equation differs between an availability model and a full concession model
- Conducted at 2 points:
  - Before selecting the model and after bids received
- Public Sector Comparator vs. Adjusted Shadow Bid or actual bids

Value for Money

- Retained Risks:
  - No value for money unless risks are transferred
  - Risk modeling:
    - Risk identification
    - Allocation (retained, transferred, shared)
    - Probability of Occurrence
    - Cost of occurrence
    - Assessment

PPP Lessons Learned

1. There must be consistent oversight throughout the entirety of the project to ensure compliance and avoid the undermining of the original roles and functions of the parties. This oversight should be thoughtfully planned and implemented by all parties with considerations to the resources and tools available to the contracting parties.

PPP Lessons Learned

2. Create flexible options for renegotiation and other challenges in a cost-effective way. Many states have experienced difficulty in dealing with challenges that arise throughout the project because of inadequate provisions in the agreement.

PPP Lessons Learned

3. Be transparent in procurement processes whenever possible to gain public trust, and to reassure investors of fair process. Ideally, specific conditions for transparency and non-discrimination should be outlined in the legislation to encourage compliance.

PPP Lessons Learned

4. Projects should be tailored to the individual communities in which they will be implemented to meet the specific needs and challenges of that region. Experts, including local specialists, should be consulted early and often to accurately predict costs to ensure the long-term financial viability of projects. This utilization of business experience will help private investors accurately consider their qualifications for the project.

PPP Lessons Learned

5. Governments must have strong policies in place to ensure fair process is followed. This can be achieved through the promotion of transparency and will assist with gaining investor confidence.

6. Feasibility studies should be thorough, including analyses on needs, affordability, value for money, appropriate risk allocation between public and private parties, and consideration of all stakeholders. A thorough feasibility study at the early stage that includes an appropriate safety margin will help avoid parties avoid complicated and costly renegotiation in the later stages of a project.

Building Blocks for Effective Partnerships

- Assess needs, ascertain mandate, manage expectations
- Create structure to enable participation and impart ownership
- Build capacity
- Ensure sustainability

The Role Of Stakeholders In The PPP Process

SESSION 2

Introduction – Session 2

- Building a credible PPP program
- Identification of stakeholders in public and private sectors
- How to deal with stakeholders during the PPP process
- Examples and cases
- Q&A

Building a Credible PPP Program

- Overall program requirements
  - Legislative framework
  - Central agency leadership
    - Finance / Treasury / PM / Pres.
  - Single procurement agency
    - Clear powers
    - Political independence
    - Expertise in decision making
    - Low turnover
  - Access to external expertise
    - Technical / legal / financial

Building a Credible PPP Program

- Transparent and credible process
  - More bidders, better prices
- Planning requirements
  - Early engagement
  - Ruthless focus on outcomes not mechanisms
- Stakeholder engagement

Building a Credible PPP Program

- Project Issues
  - Competitive marketplace?
    - Is there technical ability in marketplace?
    - Are there local companies capable?
      - Consider BF training?
    - What is financial appetite locally?
    - Investor knowledge?
      - Market tour?
        - Israel example
      - Banks vs. bonds
      - Lifeco's
      - Pension funds of unions
      - Local content requirements

Building a Credible PPP Program

- Planning cycle and political stability
  - Bureaucratic leadership to point of market readiness?
  - Shorten the process
    - Increases interest
      - Less cost
      - Less uncertainty of closing
      - Reduces time for political backlash or new party
- Output specifications and public consultation
- Value for Money assessment
  - Legitimacy tool for value
  - Clear, transparent assessment; pre-decision to proceed with P3

Building a Credible PPP Program

- Project Management skills for government team
  - Coordinates government approach
  - Decision-making authority on like-to-have vs. must-have
  - Keeps process moving
  - Assesses market risk appetite (when is no bid a real risk?)
- RFQ Requirements and process
  - 3 bidders:
    - Ontario IT example

Building a Credible PPP Program

- Project Agreement
  - Value for money assessment on risk allocation
  - What risks remain with public sector and why
  - Early engagement of lender input; key arbiters of risk allocation

Building a Credible PPP Program

- Design and specification review process
- Financial commitment at bid submission
  - Proposal validity period
  - Reduce post bid changes
  - Fewer lender imposed changes and delays after bid
    - Lender commitment to close at bid

Stakeholder Engagement

<u>Government Stakeholders</u>

- President/Premier
- Finance/Central Agency
- Procurement Agency
- Line Ministries/Bureaucracy

<u>Political System</u>

- Elected Representatives
- Media
- Opinion Leaders
- Business Community

Stakeholder Engagement

Unions and Employees

- Public Sector employees/unions
- Affected employees
- Construction workers/unions
- Pension funds

Stakeholder Engagement

Civil Society Organizations

- Think Tanks
- CCPPP
- Lawyers

Private Sector

- Construction Sector
- Equity Investors
- Banks
- Bond Investors

International

- Development Banks
- Commentators/academics
- Business Press

A Special Class of Stakeholders

- Private Finance
  - “Outsourced” performance monitoring
  - Determining the limits of risk allocation
  - Bankability as a surrogate for what can work

Risk Allocation

- Specific Types of Risks in the Construction and Operation of Public Assets and Services
  - Technical risk
  - Construction risk
  - Operating risk
  - Revenue risk
  - Financial risk
  - *Force Majeure* risk
  - Regulatory/political risks
  - Environmental risks

How Lenders Look at Risk

- Why lenders matter

- How lenders consider risk:
  - What risks does Project Co. bear?
  - Which risks are not passed down to a third party?
  - Objective: identify which risks are borne only by Project Entity (if any) and which are borne/mitigated via third party support

- Actions: perform detailed analysis of:
  - Project Agreements & Related Contracts
  - Entity considerations
  - Tax considerations
  - Insurance considerations
  - Third Party support

Project Party Risk

- Equity Providers
  - How much are they contributing?
    - Actual $$
    - Debt to equity ratio
  - What financial resources are possessed and available?
  - How committed are they?

- Actions:
  - Review/analyze financial statements
  - Review / analyze ability to deal with reputational risk

Project Party Risk

- Construction Contractor
  - Technically capable of performing?
  - What financial resources are available? Parent Co. support?
  - How committed are they? Will they walk away?
  - Limitation of liability?
  - Third party support?
    - Bonding & subguard
    - Reserves
  - Bid price / contingencies

Project Party Risk

- Actions
  - Review/analyze financial statements
  - Analyze availability of construction performance support
  - Technical Advisor review
    - Contractor capabilities
    - Timeline
    - Construction price
    - Contingencies

Project Party Risk

- Service Provider
  - Technically capable of performing?
  - Financial resources available? Parent Co. support?
  - How committed are they?
  - Limitation of liability?
  - Third party support?
    - Bonding & subguard
    - Reserves
  - Lifecycle obligations

Counterparty Risk

- Crown or a Crown agency?
- If not, is there Crown funding or Crown financial support?
- World Bank, ADB, other support
- Guarantees

Issues in P3s

- Lender Security for Performance – the price
  - Higher costs due to lender-imposed requirements
  - Restrictions on public sector rights to variations
  - Bankability as a limit to risk transfer
  - Innovation vs. certainty

Issues in P3s

- Innovation vs. certainty
  - Equity sponsors and lenders will find that lenders' tendency towards project control and monitoring can be the source of conflict between them
  - While equity sponsors will favor risks that might lead to efficiencies down the road, lenders are more likely to favor pursuing paths with certain outcomes
  - Lenders receive a fixed rate of return on their investments, while equity sponsors stand to benefit financially from project improvements

Solution?

- Mandatory innovations
  - Specific innovations on which proponents are required to provide submissions
    - E.g. an alternative funding structure to include subordinated funding
  - May require submissions on alternative scenarios of risk allocation
    - E.g. (i) Project Co (ii) Authority (iii) shared
  - Authority retains discretion to accept/reject
  - Pre-submission review of innovations
    - Commercial in confidence enquiry

Issues in P3s: Usage Risk

- Building up to revenue projects?
- Ontario: early projects were build-finance: P3s with training wheels
- Then availability-based design build finance maintain (not operations)
- Then usage risk variations.

Issues in P3s: Usage Risk

- Bankability as a restriction on usage
- Separation of construction and operating risk

Factors in Funding Usage Risk Projects

- Predictability and reliability of revenue
  - Brownfield vs. Greenfield
  - Traffic risk assessment
- Project vs. balance sheet finance
  - Size of Project
- Government willingness to accommodate lenders
  - Minimum revenue guarantees
  - Minimum payouts on project default
- Market experience and competition

The PPP Cycle

SESSION 3

Introduction – Session 3

- Understanding the PPP cycle from project origination to contract management
- Challenges in each stage of the cycle
- Group discussion on the PPP cycle
- Examples and cases
- Q&A

Project Determination

- Government decision
- Project timing a joint decision with Procuring Authority
- Budget critical
  - Generally understated
  - Requires interaction with Procuring Authority
- Authority delegation

Project Due Diligence

- Validate budget
- Define Output Specifications
- Confirm market interest
- Confirm timing
- Develop relationship with project owner
- Procure Advisors
  - Project Authority (Architect/Engineer), Legal, Fairness, Maintenance
  - Process and Finance optional

Initiate Request for Qualifications

- Generally an open process
- Set evaluation criteria
- Standardized documents, but every project requires full response

RFEI or Market Soundings

- New asset classes or new models
- Sales vehicle for project
  - Consider the international market
- Two-way communication

RFQ Issuance & Evaluation

- Technical and Financial requirements
- Clarity on scoring
- Relatively quick
- Choose 3
- Potential for bidder debrief

Initiate Request for Proposals

- Only to RFQ winners
- Detailed documents
- Defined evaluation criteria
  - Price
  - Design
  - Technical
- Maximum standardization

Bid Phase

- Structured interaction
  - Commercially Confidential Meetings critical
- Technical and legal consultation process
- Formal scope amendments
- Formal document amendments
  - Ultimately bid to same document
- Highly governed by Fairness
- Goal is 3 good bids with no surprises or disqualifications
- Lender sign-off

RFP Evaluation

- Proposal Validity Period
- Elaborate process with teams on all components
  - No information sharing between teams
- Select Preferred Proponent

Commercial Close

- Only with Preferred Proponent
- Settle document
- Settle specifications
- Set stage for Financial Close as a subsequent step
- Time frame defined by bid

Financial Close

- Lock in financing
- Only after this stage can project begin
- Early Works a standard concept

Construction Period Oversight

- Largely self regulated by bidder
- Quick response to queries to avoid delay
- Manage requests for amendments diligently
- Who decides on changes?

Construction Completion

- Specified by contract
- Timeliness requirements
- Controlled by procuring authority
- Independent assessment
- Trigger for payments

Maintenance/Operations Phase

- Contract management is crucial
- Understanding the contract is difficult
- Continuity Issues
- Who decides on waivers, changes etc and has final financial approval?
- Handback and lifecycle requirements
- Lifecycle Capital Cost

Lessons Learned for Developing Countries

1) Conduct a thorough needs analysis of infrastructure and basic services and consider all the options to meet these needs.

Lessons Learned for Developing Countries

2) Carry out a thorough feasibility study that:
   1. Compares public sector provision with private sector provision and that takes into account affordability, value for money and risk transfer
   2. Considers the rate of return on equity acceptable to both parties
   3. Uses accurate information in its calculations and projections
   4. Avoids unnecessarily high design specifications
   5. Considers all the financing options before committing to one model
   6. Involves all the necessary stakeholders
   7. Identifies all the risks of a particular project, allocates them to particular parties and devises risk mitigation strategies
   8. Requires treasury approvals at key stages of the project preparation process

Lessons Learned for Developing Countries

3) Work out a multi-year budget framework to assess the affordability of projects for specific government institutions.

4) Address the issue of cost recovery and how infrastructure is to be financed.

Lessons Learned for Developing Countries

5) Encourage competition to drive innovation and bring down prices.
6) Build effective regulation by:
    1. Developing transparent, credible and effective regulatory agencies that are adapted to the specific needs of the country; and
    2. In the absence of effective regulatory agencies, creating a department within the relevant ministry which is relatively independent and has sufficient resources.

Lessons Learned for Developing Countries

7) Provide political guarantees to investors where appropriate.
8) Develop capacity at the national, provincial and municipal levels by:
    1. Sharing expertise and experiences with other governments and government departments;
    2. Creating a PPP Unit in the Ministry of Finance, other relevant ministry or National Treasury to plan, negotiate, implement and monitor PPPs;
    3. Establishing PPP Facilitation Units in national and regional development finance institutions (DFIs); and
    4. Developing good transaction skills (legal, financial, negotiation and industry specific skills) in the relevant government institutions.

Lessons Learned from Developing Countries

9) Ensure process integrity and legitimacy:
    1. Implementing mechanisms to guarantee transparency at all stages in the tendering process. These mechanisms must include setting procurement specifications, open public hearings for major government contracts, and the final selection of contractors; and
    2. Involving independent agencies such as Transparency International to oversee the bidding process and commit government institutions and private bidders to an integrity pact.

Lessons Learned from Developing Countries

10) Pre-empt public complaint and suspicion by:
    1. Preparing the group for private sector participation by making structural reforms and raising tariffs to approach cost recovery levels;
    2. Communicating decisions around privatization and PPPs to the public to build consensus and transparency;
    3. Providing policy clarity in the areas of free basic services in concession areas;
    4. Considering the extent to which a project or particular bidder will contribute to the local socio-economic environment; and
    5. Assessing the political commitment to a particular project from government institutions.

PPP Structuring

SESSION 4

Introduction – Session 4

- Institutional challenges in PPP structuring
- Fiscal risk management: fiscal commitments and contingent liabilities
- Examples and cases
- Q&A

Establish Procuring Authority

- Legislation
  - Create as Crown Corporation
- Budget allocation
- Project allocation
- Accountability document
- Standard corporate functions
- Goal is market credibility

PPP Models

- BF
- DBF
- DBFM
- DBFOM
- Open to interpretation but critical determinant is presence of Finance

Institutional Challenges

- Stakeholder reaction
  - Owners
  - Unions
- Architect and Engineer disintermediation
- Market capacity
- Financing capacity
  - Equity and debt

Scope and Contract Issues

- Output specifications vs. design
- Scope creep
- Bid team structures and changes
- Authority over sub-trades
- Risk allocation
- Contract management

Fiscal Challenges

- Treat as debt
- Profile cash flows
- Accept contingent liabilities
- Interaction between capital commitment and operating commitment seldom well solved
- Value of revenue transfer

PPP Procurement

SESSION 5

Introduction – Session 5

- Procurement cycle
- Procurement strategies
- Pre-qualifying bidders
- Bid process
- Negotiation with bidders
- Basis for award
- Dealing with unsolicited bids
- Examples and cases
- Q&A

Trust Determinants - Government

- Stakeholder reaction
- On budget performance
- On time performance
- Interpretation of market
- Respect for “shareholder”

Trust Determinants – Market

- Managing key phases of cycle
  - Risk tolerance
  - Team flexibility
  - Evaluation objectivity at RFQ
  - Fair bid process that accommodates interaction
  - Evaluation objectivity at RFP
  - Flexibility on close

Enhancing Acceptance

- Understanding strategies
  - Output specifications clear and comprehensive
  - Model appropriate
  - Standardize documents
  - Role of price vs. design
    - NPV vs. nominal
  - Respect for timelines

Bankability

- Risk transfer key
- Availability vs. concession
- Flexibility around equity
  - Generally plentiful
- Availability of debt a greater concern

Step-in Rights

- Goal is not to interfere with market as first course of defense
  - Lenders step in first
- Watch for MAC’s
- Maintain control of service

Financial Modeling

- Parallel market to understand issues
  - But market responsibility
- Repayment of equity
- Bond vs. bank solutions
- Lifecycle capital responsibility
- Handover requirements

Unsolicited PPP Proposals

- A successful public tendering process creates market competition and enhances legitimacy and transparency.
- Unsolicited proposals based on privately defined output specifications not publicly agreed and mandated.
- Many countries do not have to processes in place to channel unsolicited proposals into the public competitive processes.
- Governments have less opportunity to clearly articulate the end goals of the project and less control over the bidding process.

Unsolicited PPP Proposals

Example:

The AGIL Longonot energy plant in Kenya will be completed in 2014 and resulted from an unsolicited PPP proposal. Unsolicited proposals are most successful when concerning technologies which are difficult to subject to competitive bidding. For example, under Philippines law, the only unsolicited proposals permitted are those concerning technology.

Challenges: Energy PPP projects

- Difficult to attract investors for rural areas due to the low purchasing capacity of the local population
- Poor infrastructure leads to higher upfront capital costs for private investors
- Many private investors are wary of these high-cost investments in countries with unstable economies and politics

Challenges: Energy PPP projects

Example:

The Grand Inga Dam is the world's largest hydropower scheme, located in the Democratic Republic of Congo. It would produce up to 39,000 MW of electricity. However, its US$50 billion price tag and the history of political corruption in the country has created a huge challenge in finding a consortium of investors and governments to participate.

Natural Resource PPP projects

- Volatility in the commodity market creates investor risk
- The history of excessive taxes and expropriation from governments is a concern of private investors
- High capital expenditure for a high risk business can create difficulty in attracting the right investor
- Poor infrastructure imposes high cost for accessing natural resource sites

Natural Resource PPP projects

Example:

Significant infrastructure spending is necessary in Kenya for the country to meet its PPP goals in natural resources. For example, to extract and transport oil in Kenya and Sudan, the expensive Lamu Corridor is being built. The oil pipeline is expected to cost $4 billion, while the entire Lamu Corridor project is expected to cost around $30 billion by its completion.

Transport PPP projects

- Many transport projects, such as ports and toll roads, involve interaction with local communities. Public dissatisfaction with construction, labour opportunities from the project, fees for use of the service and disruption of their way of life can cause difficulties for PPP projects.
- Inherent exposure to the risk of market demand for the project upon completion creates uncertainty
- Concession periods following infrastructure completion often cause disputes between the public, the government and private investors

Transport PPP projects

Example:

The Lekki Toll Road Concession Project in Lagos will charge for use of the road for the next 30 years to help pay for its high construction cost. Locals have since complained of the tall fence around the highway, the placement of the road between communities that traditionally lived together, the high cost of use for local citizens, and the poorly constructed, overcrowded non-toll route. This dissatisfaction with the final product and the final cost may hinder the possibility of procuring future projects in the area.

Agriculture PPP projects

- Widespread mistrust between farmers and the public towards the private investors in the biotechnology industry, particularly private sector seed companies, is a major challenge to agriculture PPP projects

- Low productivity, poor farming infrastructure, high harvest losses and lack of market access make it difficult to attract private investors

Agriculture PPP projects

Example:

A study conducted with more than 80 agricultural stakeholders in Burkina Faso, Egypt, Kenya, Nigeria, South Africa, Tanzania and Uganda, published in the UK-based journal Agriculture and Food Security, showed that trust was perhaps the most important factor in the success or failure of agro-biotechnology public-private partnerships in Africa.

Highway Service Centres

Project

- Re-build Centres on major highways to provide gas, food and accommodation services to travellers
- Marketed as a DBFOM

Challenge

- Difficult to gauge revenue potential
- Sites were pre-determined and had issues
- Bidder interest started high and fell away

Highway Service Centres

Outcome

- Process extended with only 2 bidders
- Losing bidder threatened lawsuit
- Project closed successfully
- More risk shared than expected
- Majority of sites built and operating successfully
- Remaining sites source of ongoing dispute

Highway Service Centres

Lessons Learned

- Unknown revenue is deeply discounted by bidders
- As much as possible use greenfield vs brownfield sites
- Establish stronger dispute resolution mechanisms

Air Rail Link

Project

- Express rail link between suburban major airport and downtown major train station
- Initial tendering process stopped and resurrected as a DBFOM

Challenge

- Appetite for revenue risk changed significantly by the end of tender

Air Rail Link

Outcome

- Revenue risk retained by public
- Project broken into smaller DBF packages

Lessons Learned

- Speed to close is critical
- Have to sell bidders on revenue upside in pre-tender sounding

Niagara Hospital

Project

- Full service, acute care, regional hospital
- Tendered as a DBFM

Challenge

- Market crashed post commercial close and lenders fell away

Niagara Hospital

Outcome

- Project closed and price retained
- Financing restructured and Substantial Completion Payment concept introduced

Lessons Learned

- MACs are real
- Market will accept innovation in extreme circumstances

Highway 407

Project

- Initially a very long term DBFOM concession with massive win to bidders
- Subsequent phases tendered as DBFM with revenue risk/upside retained

Challenge

- Initial concessionaire a bidder and had contract to ensure linkage across phases

Highway 407

Outcome

- Project closed successfully
- Revenue retained as an asset that may be valued in future

Lessons Learned

- Market will tolerate a lot within a fair process
- Timing and certainty of revenue needs to be thought through

Gas Plants

Project

- DBFOM concessions for 20 years

Challenge

- Sites in many cases proved untenable
- Projects cancelled post contract execution

Gas Plants

Outcome

- Out of pocket costs paid
- New sites and contracts sole sourced but on same terms
- Extreme political fallout

Lessons Learned

- Public control over, and community engagement with, siting is critical

Nuclear Plant Expansion

Project

- Expansion of existing nuclear plant by 2 reactors (4 in place)
- Needed to keep national supplier honest
- Initiated as DBFOM with active interest

Challenge

- Bidders amended terms and transferred back risk
- Prices too high and tender terminated

Nuclear Plant Expansion

Outcome

- Project re-initiated with extensive market sounding
- Remains underway

Lessons Learned

- Projects can be too big for risk to be transferred