




Private Public Partnerships Some implications for GCC countries

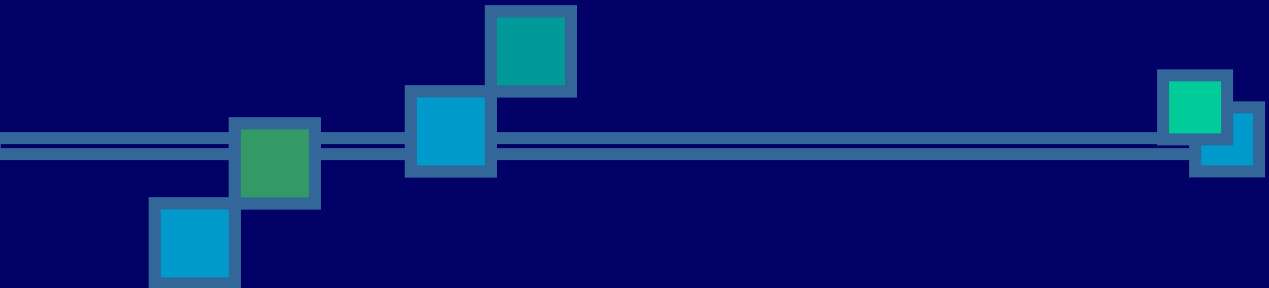
Doha Conference
April 11-13, 2006

Magdi R. Iskander




What are PPP's

- In PPPs, the private sector provides a public service, or contributes to an economic activity, on behalf of and under the control of the public authority.
 - Usually for a fixed period of time.
- 



PPPs are different from public procurement

- **Output based**: compensation based on availability and quality of service. Paid by public sector and/or end users.
 - **Private sector assumes substantial financial, technical and operational risks.**
- 




Broad applications



Initially

- Infrastructure services
- Municipal services

Increasingly


- Health and education
 - Many others (e.g. prisons)
- 



What is driving this trend?




From the *demand side*:

- Consumers are dissatisfied with availability, quality and price of services.
 - Countries are losing competitiveness and are falling behind in the global market place.
 - Governments face budget constraints and are unable to finance increasing investments needs.
- 



What is driving this trend?

From the *supply side*:

- Technological change has significantly reduced the natural monopoly elements in many infrastructure industries. Competition is now possible in many segments of these industries.
 - Our ability to regulate has improved considerably.
 - Availability of private developers.
 - Availability of long-term private capital.
- 

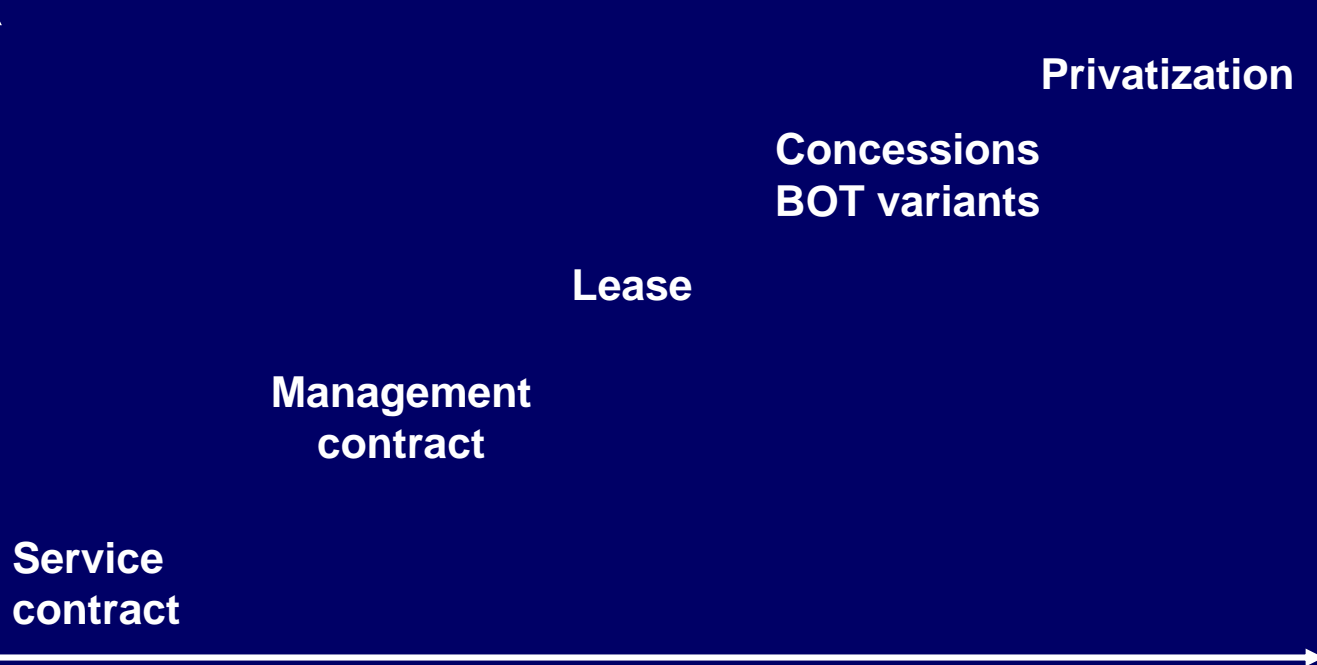


Main Benefits

- 
- Accelerate supply of services
 - Higher quality service, often at lower cost
 - Enhance accountability in service delivery – anchored in contract
 - Refocus role of State: From operator to policy maker and regulator
 - Shift public sector management from budget expenditure to whole life cycle cost management
 - Develop private sector
 - Develop local financial markets
- 

Many types of PPP Contracts

Risk and control
assumed by Private sector



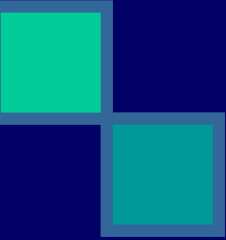

Length of Commitment

Types of PPP Contracts

	Asset Ownership	O&M	Capital investment	Commercial risk	Duration
Service Contract	Public	Public & Private	Public	Public	1-3 years
Management Contract	Public	Private	Public	Public	3-5 years
Lease	Public	Private	Public	Shared	5-10 years
Concession	Public	Private	Private	Private	15-30 years
BOT Variants	Private	Private	Private	Private	15-30 years



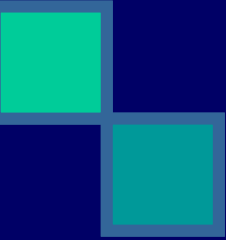

Determinants of Contract Type

- 
- Readiness of Sector/Nature of Service
 - Creditworthiness of contracting authority
 - Affordability
 - Country risk and track record
 - Value for money
 - Maturity of markets
- 



Critical Steps in Awarding Contracts

Contract design to specify:


- 
- **What is to be awarded**
 - **Performance obligations and rights of contractor must be clear and comprehensive to minimize risk of re-negotiations after contract award, yet contract must be flexible enough to allow efficient and innovative solutions**
 - **Incentives and risks including pricing arrangements**
- 

Method of award:

- **Competitive bidding (the norm) among pre-qualified bidders or negotiations (in exceptional circumstances)**
- **Bonding arrangements**



Analysis and management of risk are critical for successful PPP Contract

- Clear identification and quantification of project and non-project risks
 - Allocate risk to the party best able to manage, control and mitigate it
 - Never allocate risk to party unable to bear its consequences
- 

Risk Classification

Project related risks

- Completion risk (eng., const. cost and time control)
- Operational risk
- Market risk (volume and tariff, non-payment by users)
- Environmental risk (past and future liabilities, project delays, cost overrun)

Non- project related


- Force majeure
- Political risk (expropriation, currency convertibility & transfer)
- Contractual and regulatory risks
- Macroeconomic risks
- Institutional and legal risks
- Social acceptability of PPP principle



Why are these steps critical ?



They are essential to:

- Achieve high performance by concessionaire
 - Reduce regulatory risk and hence cost
 - Increase competition for the concession
 - Facilitate financing
 - Minimize chance of renegotiations after contract award
 - Maintain political support
- 



Two basic approaches for PPPs in network infrastructure

- MODEL I : Multiple and discrete transactions, for new capacity, but without changing existing market structure (e.g. vertically integrated state monopoly) or incentive system
- MODEL II : Private sector invests in both new and existing capacity as part of a comprehensive sector reform that stresses competition, under a clear and predictable legal and regulatory system that balances the interest of consumers and producers



Lessons of experience

- Incidence of contract renegotiation after award in Latin America (1100 projects)

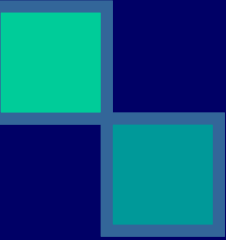



Average	29%
Water	75%
Transport	55%
Energy	5%
Telecommunications	1%

- Average time to renegotiate after contact award: 2 years for water, 3 years for transport
- 




Main reasons for re-negotiating contracts

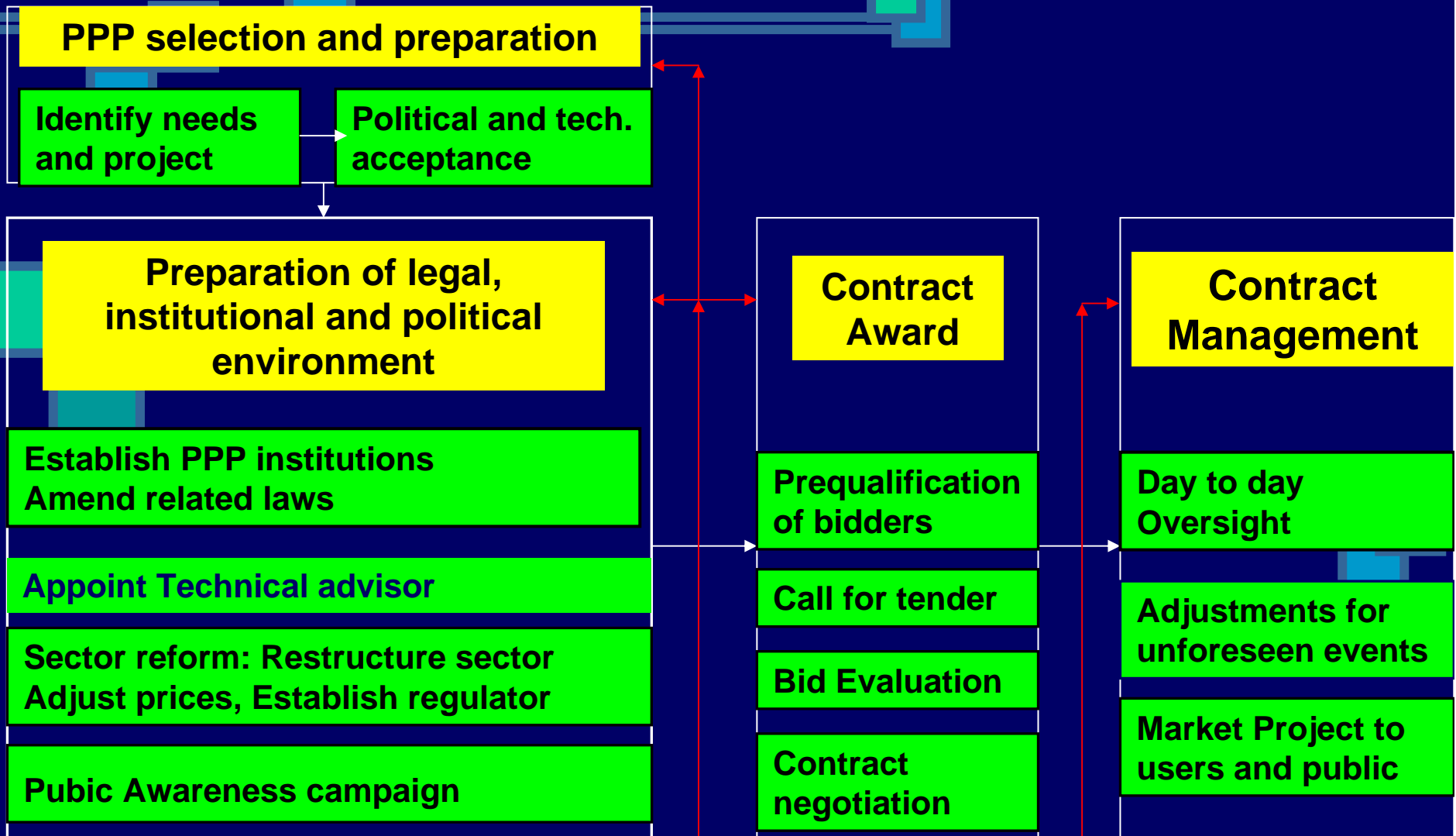
- 
- Sector not ready, poor project preparation
 - No independent regulatory body
 - Inadequate contract structure and risk allocation
 - Service not affordable
 - Bidding process not competitive
 - Poor bidding documents
 - Large investment required
 - Lack of performance bonds
- 



Key lessons

- **Develop legal and institutional framework to manage PPP process**
 - **Communicate with stakeholders**
 - **Sector reform a must for sustainability**
 - **Build regulatory capacity early**
 - **Select appropriate PPP structure in ready sectors**
 - **Careful project preparation but flexible contract design**
 - **Match incentive and risk sharing to suit project characteristics**
 - **Competitive bidding among pre-qualified bidders**
 - **Insist on performance bonds**
 - **Follow PPP projects carefully and adjust when necessary**
- 

PPP project cycle: key lessons



GCC Record: Mixed

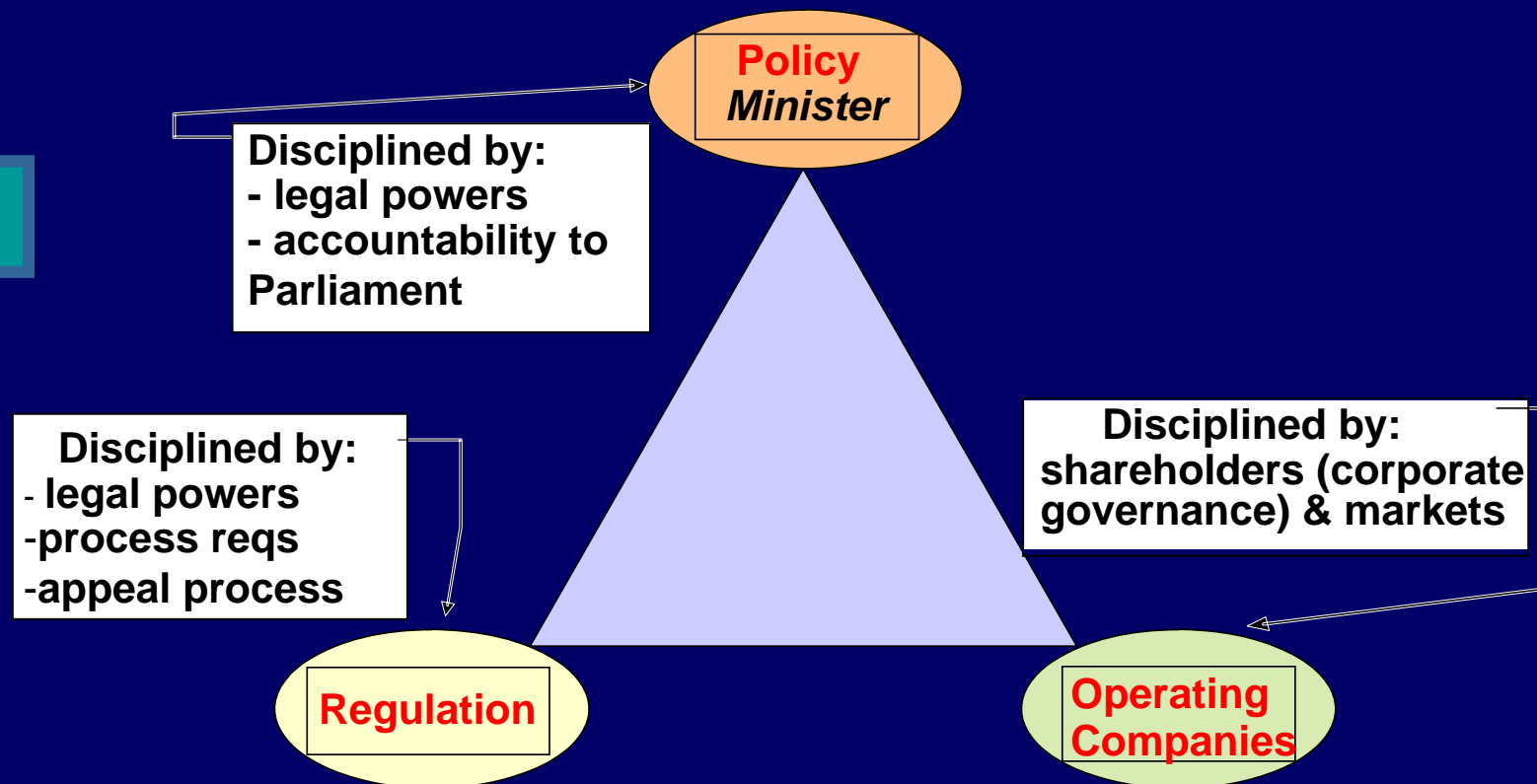
Superb Performance by Abu Dhabi in the Power and Water Sectors (Model II)

- Clear vision and unwavering political support
- Comprehensive restructuring of sector to promote competition where possible, and regulate remaining monopolies (with incentives to induce performance)
- Independent regulatory authority; stable and transparent processes supported by credible appeal process
- Excellent bidding process and contracting
- Extensive consultation with stakeholders



Better service, lower cost and more private investments
Effective Governance more private will promote sector

Effective Governance: Distinct and separate functions





Features of less effective PPSs in GCC

- Partial sector reforms that stall (Model I)
- Poorly prepared projects
- Lengthy bidding process with many changes
- Unclear and lengthy decision making process

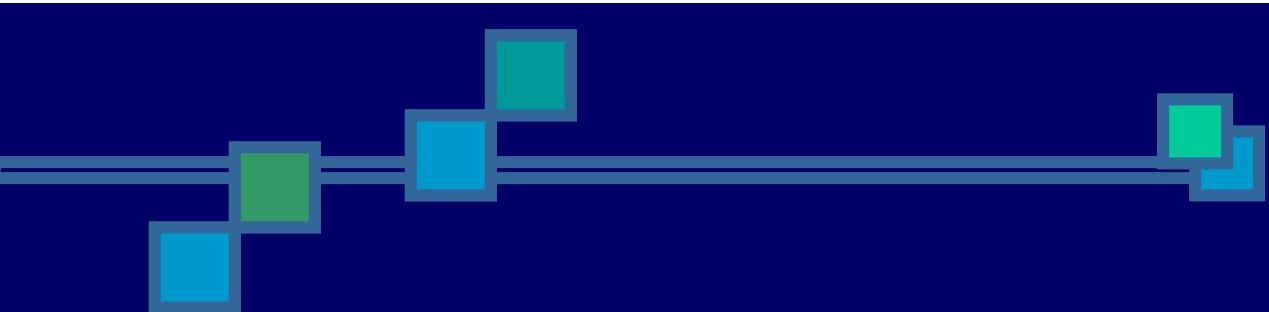


Projects with high risk and transaction costs
Few bidders and ineffective competition
High contract prices
Government assumes large contingent liabilities




Additional challenges facing GCC Countries

- 
- Develop a **competitive private sector** to provide employment opportunities
 - Develop human resources - particularly **knowledge workers**
 - Do it with **world class partners**
- 



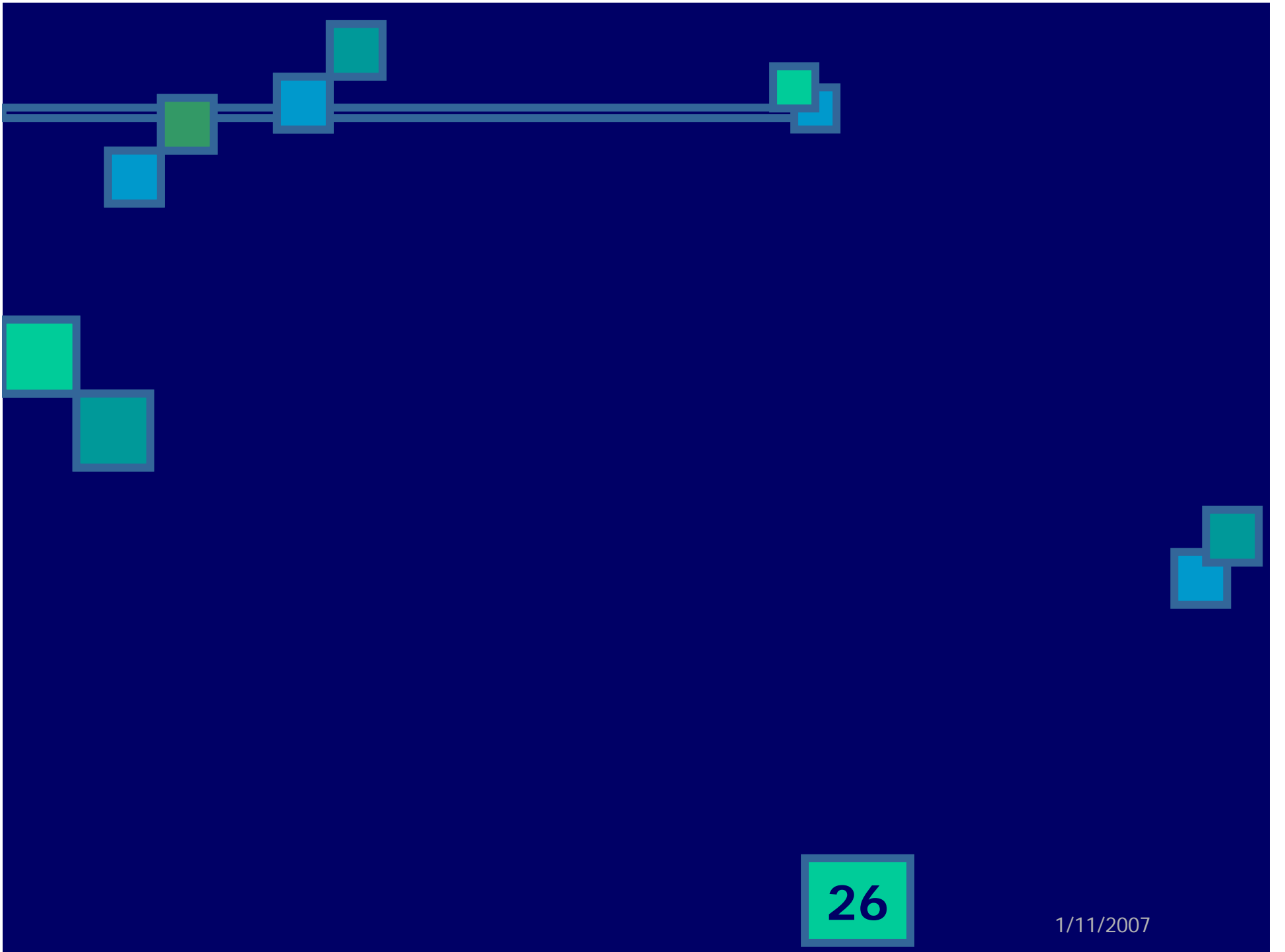
Role of PPPs in promoting the private sector: Supply side (examples)

- Upgrade legal and regulatory policies and systems if necessary (e.g. Abu Dhabi)
 - Use Offset programs creatively (e.g. Dolphin project)
 - SME: incubation centers (e.g. IMT, Mexico); technical assistance to be provided by competent private sector companies (e.g. India)
- 



Thank you

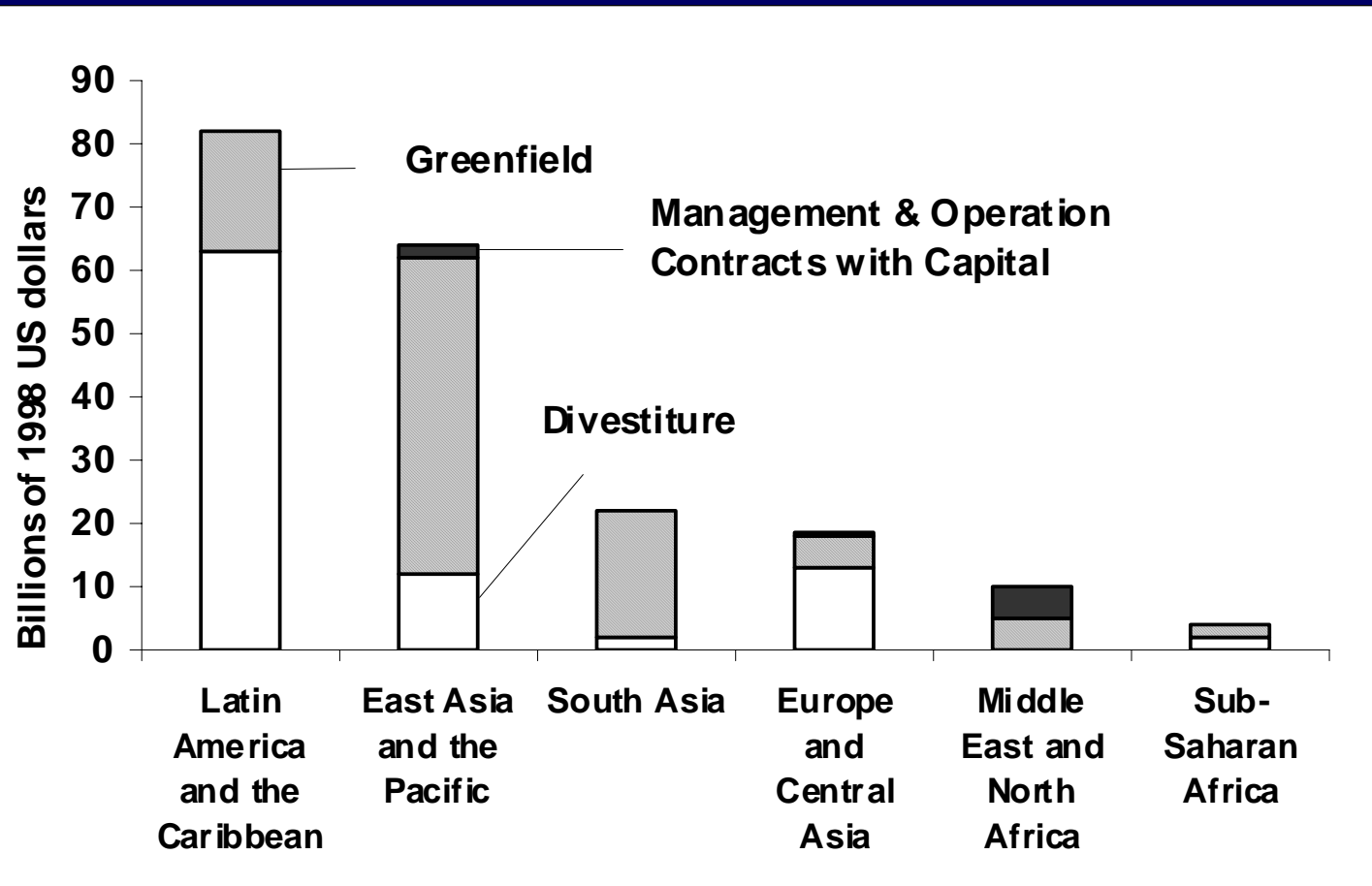




26

1/11/2007

Private investment in power 1990-9



Source: World Bank