

**Regional Workshop on Public-Private
Partnership in Transport**

**International Experience with
Transport PPP Projects**

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Presentation Outline

- **What is PPP? Why PPP?**
- **Financial close of PPPs**
- **Regional distribution of PPPs**
- **Main global concessionaires**
- **Lessons learned**
- **Optimism bias in highway PPPs**
- **Alternative PPP approaches**
- **Some policy implications**

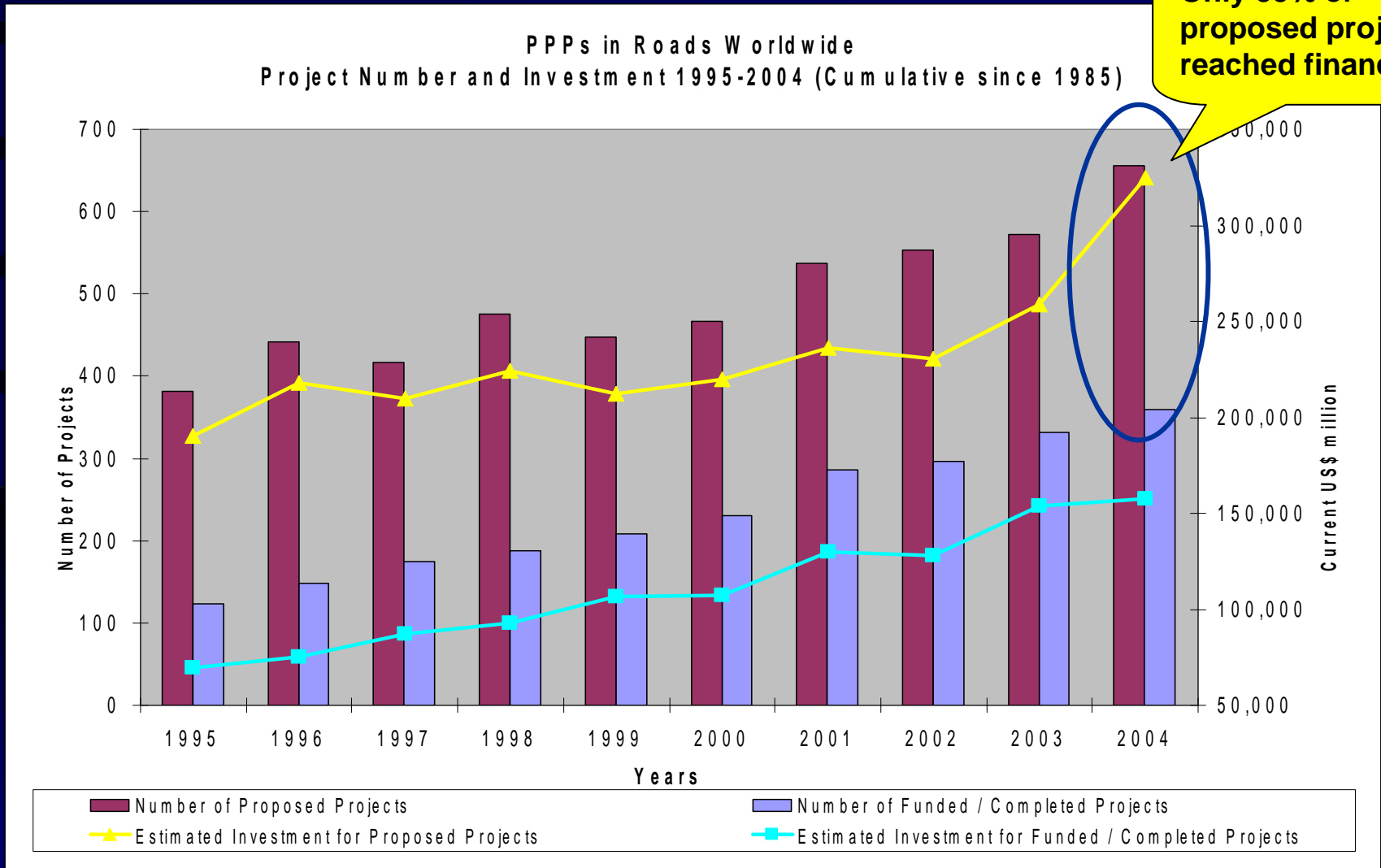
What is PPP?

- **A partnership between the public sector and the private sector to deliver a project or a service traditionally provided by the public sector**
- **It allows each sector to do what it does best**
- **Risks are borne by those best able to manage them**

Why PPP?

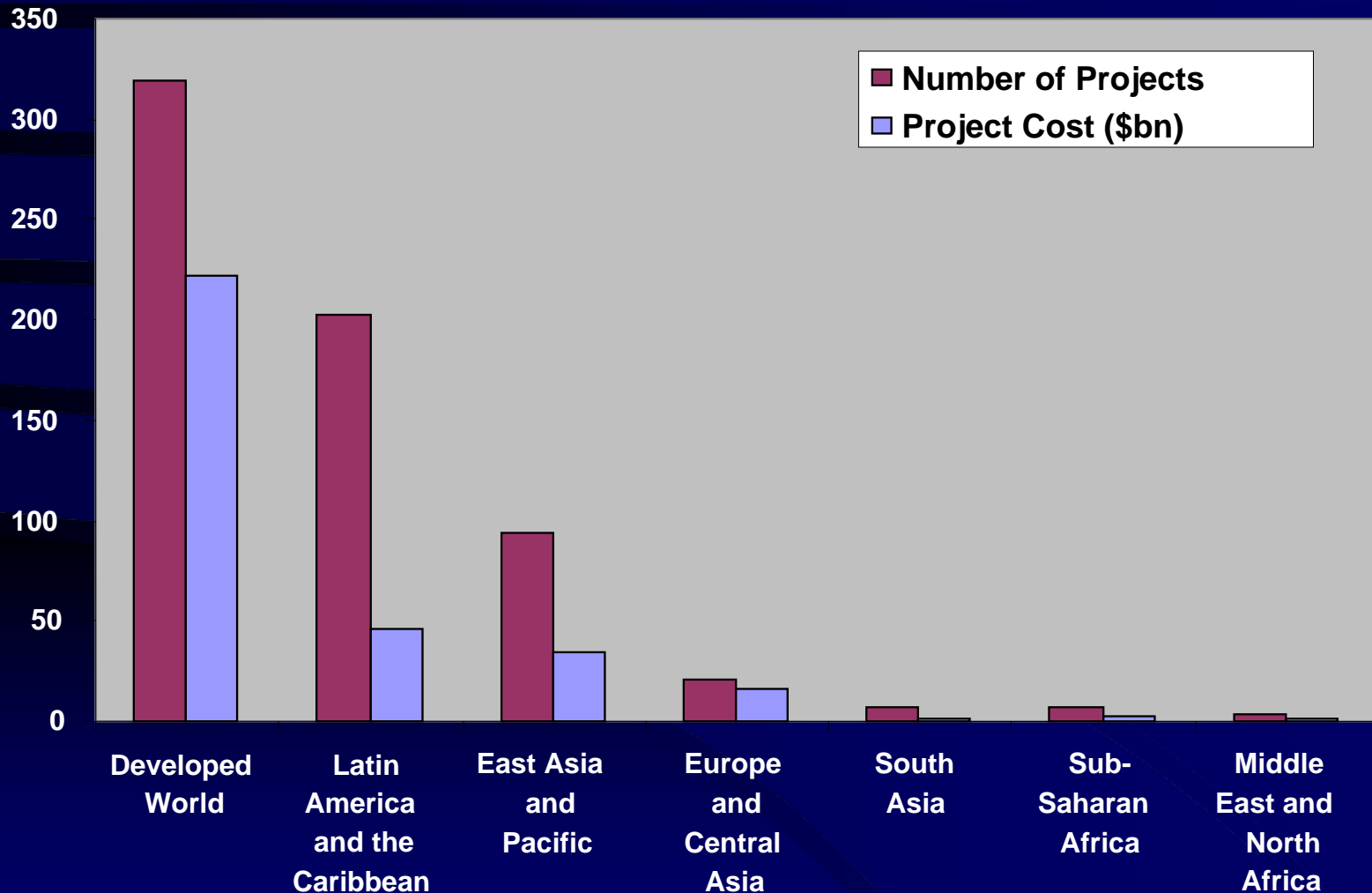
- **Financial shortages in the public sector**
- **Operating efficiencies inherent to the private sector**
- **Reduced whole life costs through better risk allocation and incentives to perform**
- **Improved quality of service**
- **Generation of additional revenues**
- **Enhanced public management**

PPPs are becoming a global business - however reaching financial close remains a challenge



Source: Public Works Financing-Major Project Survey 1995-2004

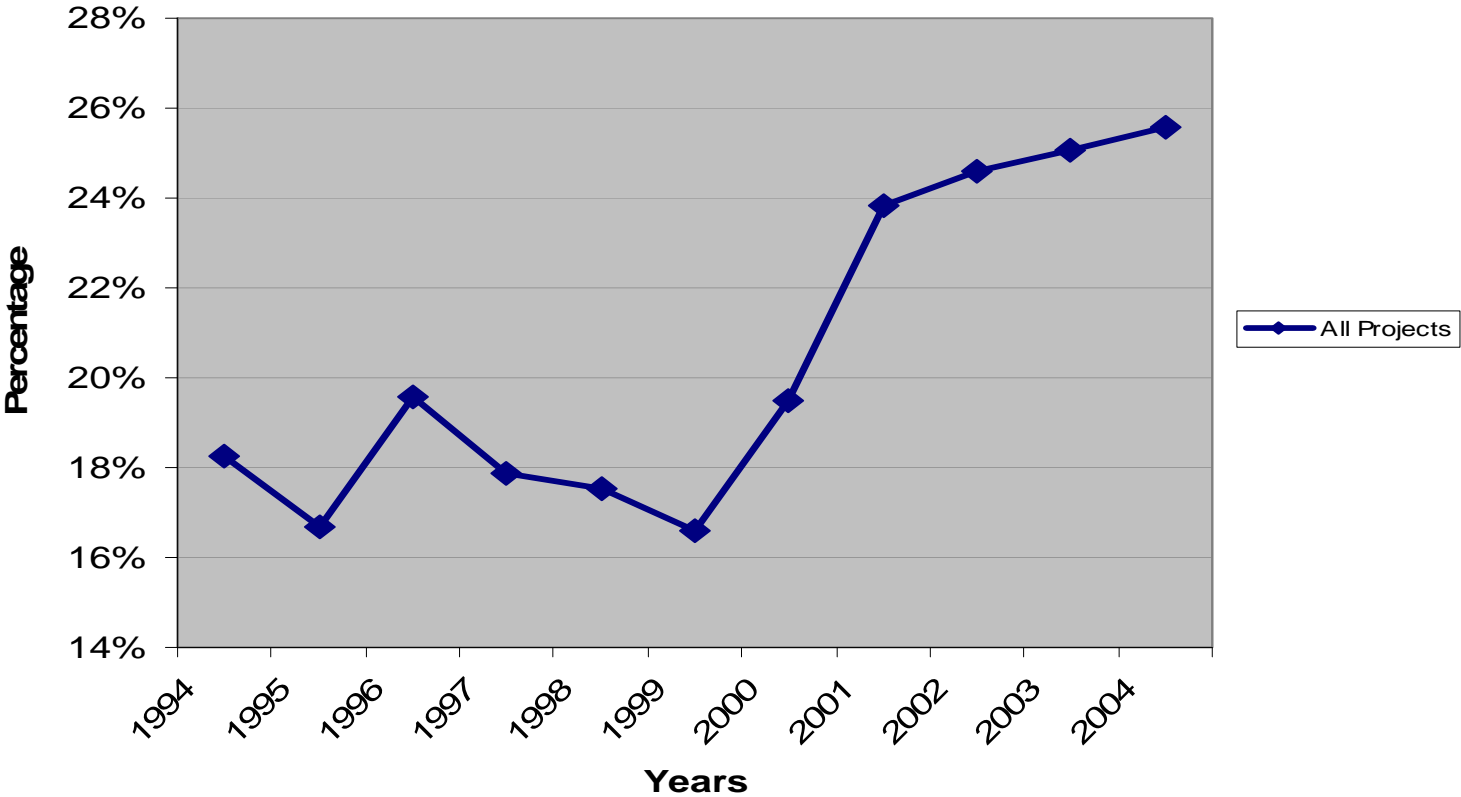
PPPs remain concentrated in a select group of countries



... and highly influenced by a few global concessionaires or sponsors

Top 10 Transportation Developers 2004		PPP Projects under contract	Awarded
ACS Dragados		45	18
MIG / Macquarie Bank		23	4
Laing / Equion		21	1
Ferrovial / Cintra		20	14
Sacyr Vallehermoso		19	13
Albertis / La Caixa		19	2
FCC		17	8
OHL		17	1
Cheung Kong Infrastructure		16	22
Vinci / Cofiroute		15	19

Concentration of Projects in Top 10 Transport Sponsors



What Have We Learned?

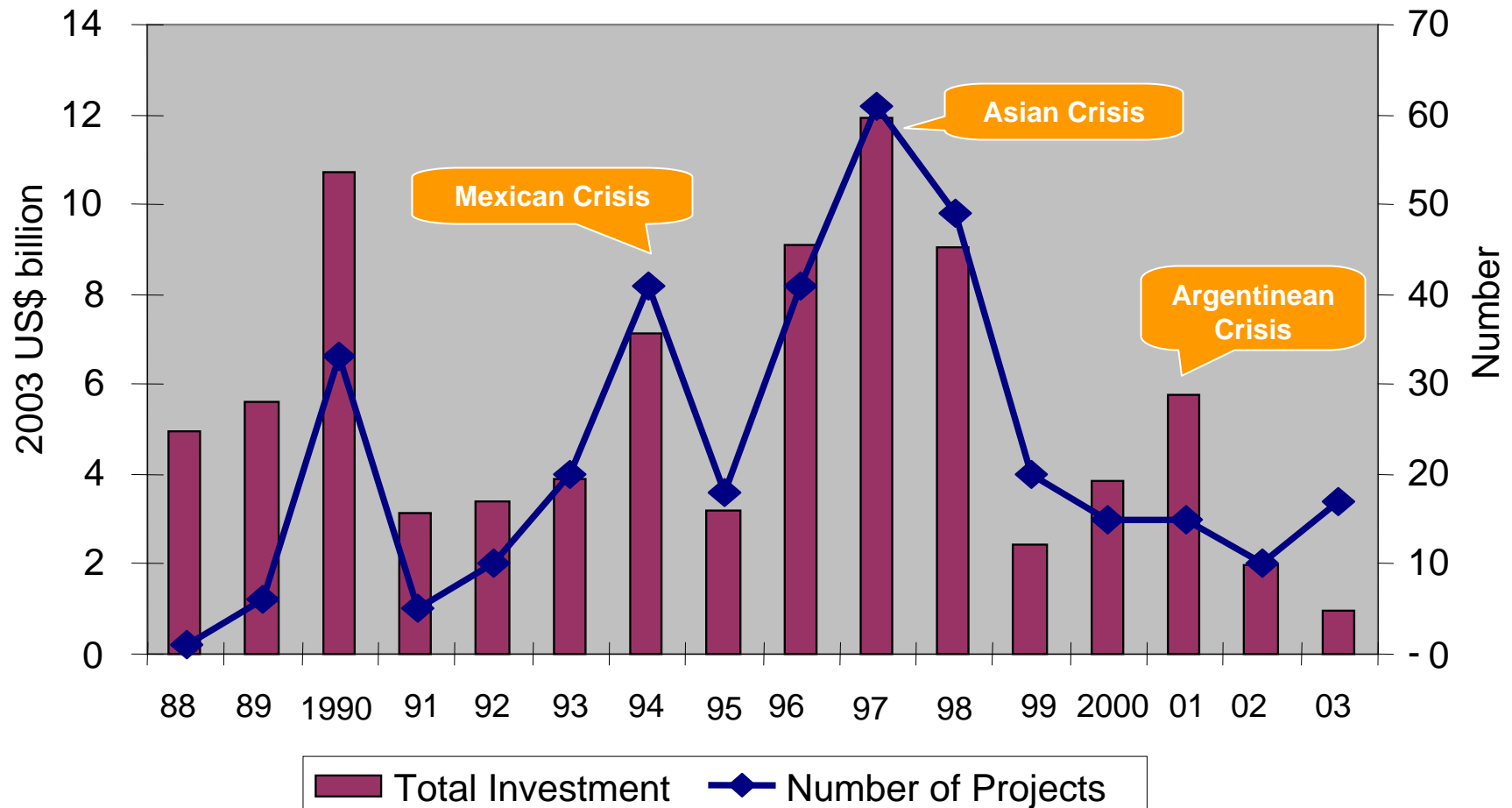
- Successfully concluding a transport PPP is a challenge:
 - As a result of unrealistic and aggressive bids, a large number of projects face re-negotiation
 - Government commitment can disappear in periods of financial stress
- Historically only 55% of proposed projects have reached financing

What Have We Learned?

- Cost recovery is a major challenge:
 - Full cost recovery is only achievable in some transport sub-sectors
 - Revenue projections often suffer from a bias towards optimism
- Access to local currency funding is a critical success factor for infrastructure projects with local currency revenues
- The vulnerability of PPP projects to changing political, financial and economic circumstances is often underestimated

Rise & fall in developing countries shows vulnerability in era of financial shocks

Total Investment in Road Projects with Private Sector Participation 1988-2003



PPP projects in highways have suffered from optimism bias

- Forecasting errors from poor data or incorrect assumptions in models

 - price elasticity of traffic to tolls

 - substitute services/intensified competition

- Political commitment at too early a stage

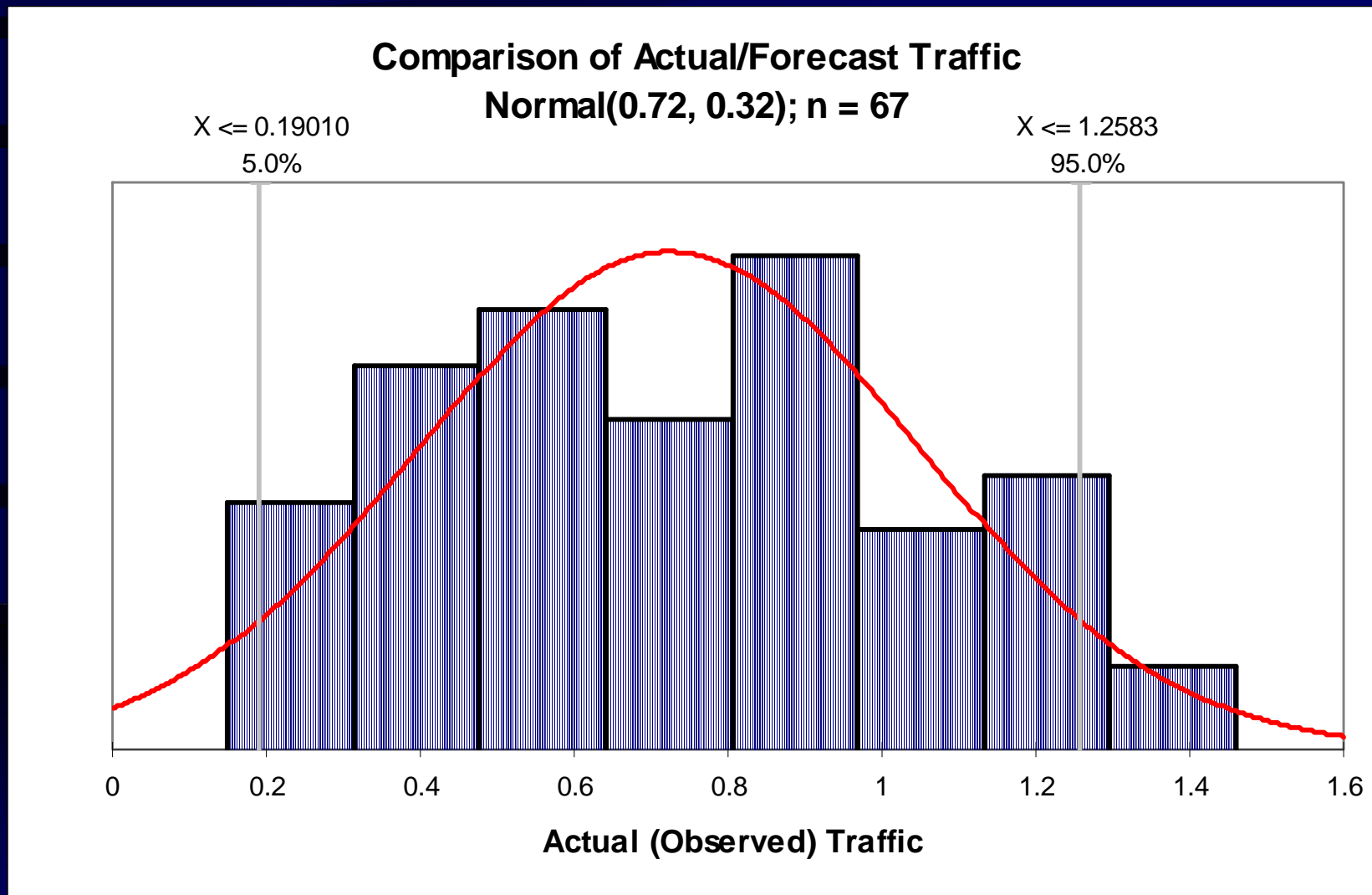
 - before appraisal at sufficient depth to allow graceful exit

 - project timelines inconsistent with sound bidding practices

- Downplaying vulnerability of PPP projects to changing political, financial, economic context

 - failure to identify/value political and social costs (e.g., toll increases)

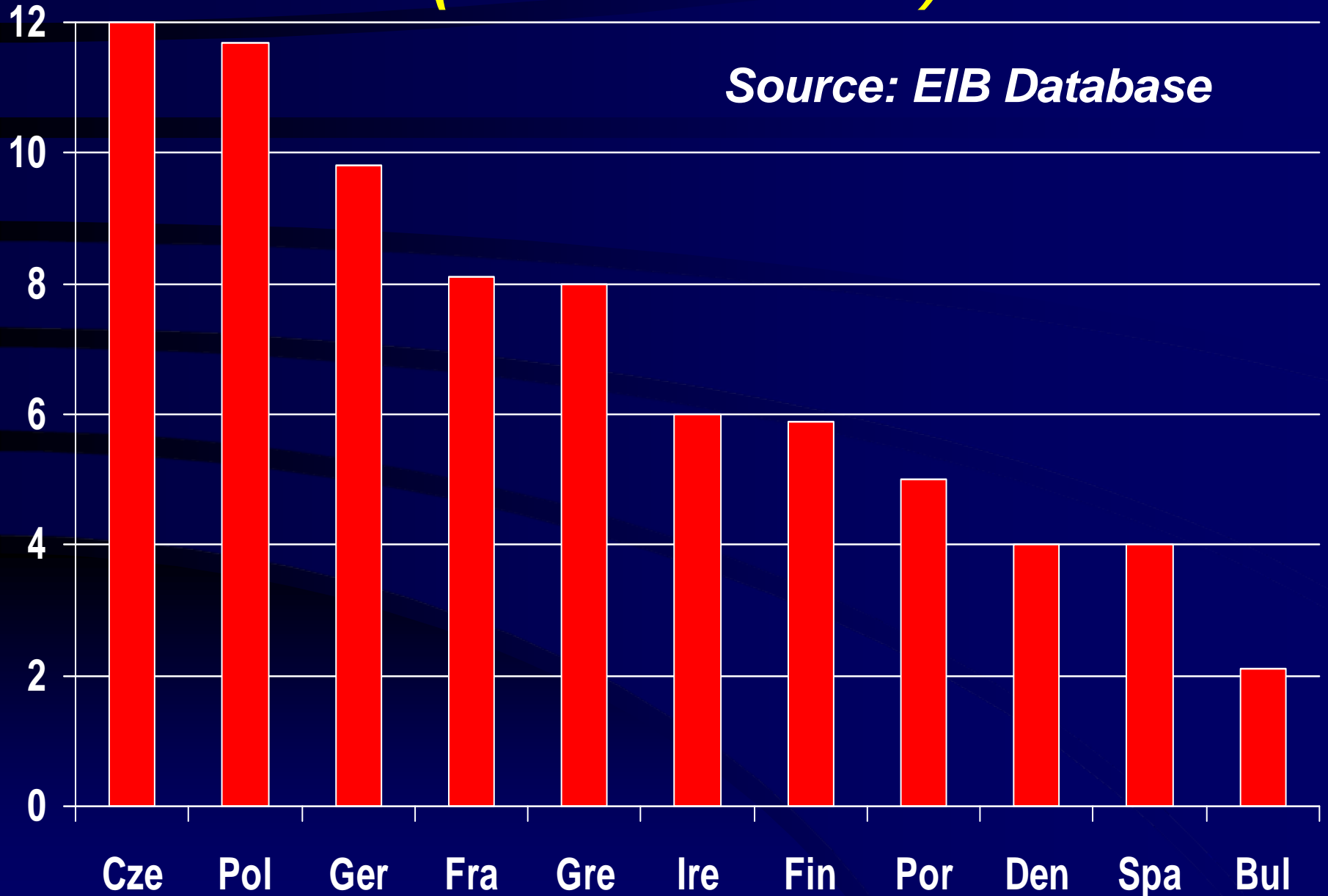
Standard & Poor's Research Results



Mean: 72%

Spread: 18% - 146% !

Construction Cost of Motorways (Euro million/km)



Incentive Schemes

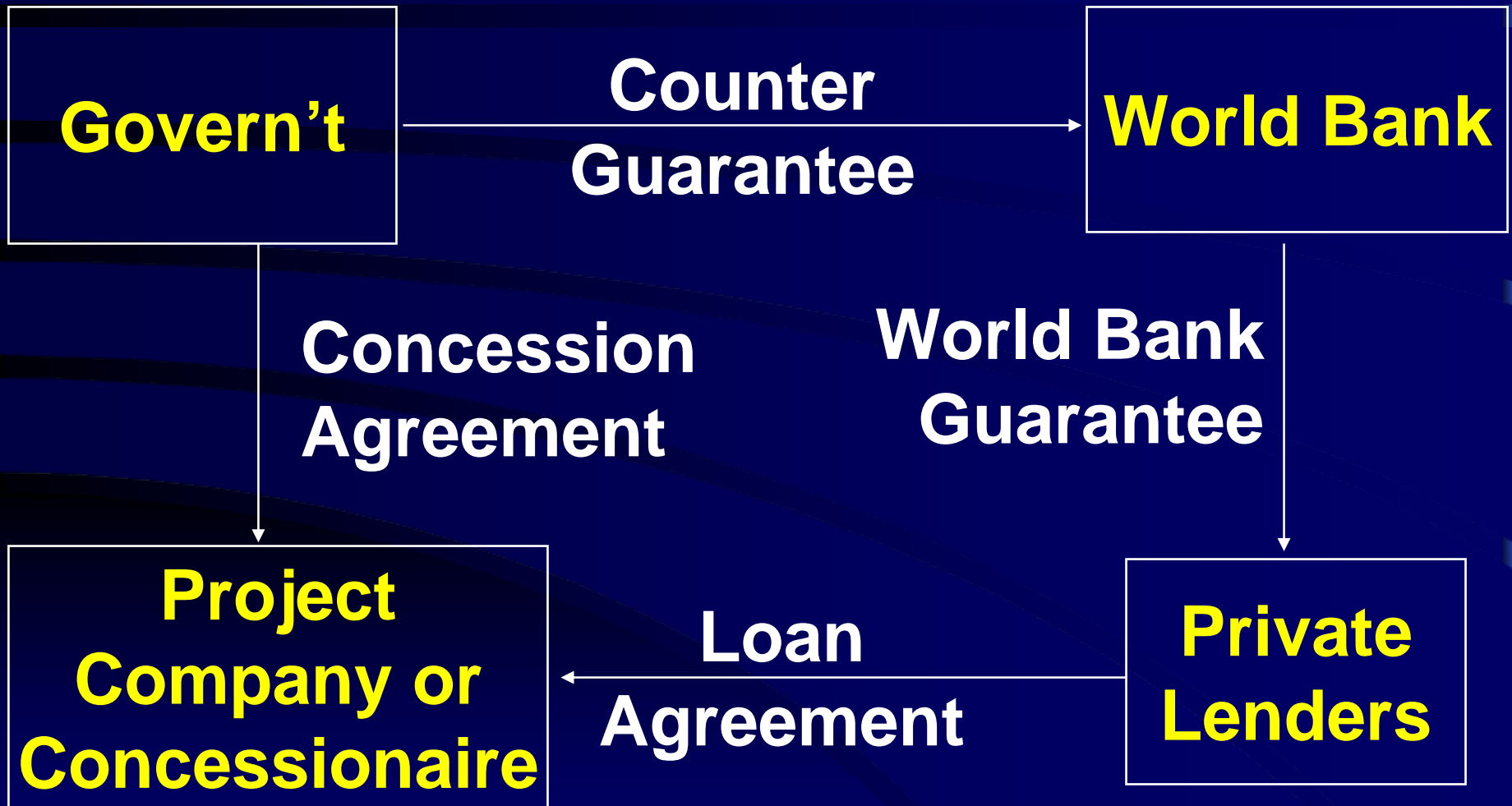
How can the government provide incentives for private sector firms to participate?

- Cost sharing and pricing arrangements
- Incentive payments (*or penalties*) linked to performance standards
- Support the provision of guarantees (e.g., World Bank Partial Risk Guarantee)

World Bank Group Instruments Available to Support PPPs

- The World Bank
 - Loans to governments
 - Partial credit and partial risk guarantees
 - Technical assistance
- International Finance Corporation - IFC
 - Loans to the private sector
 - Equity investment
 - Technical Assistance
- Multilateral Investment Guarantee Agency - MIGA
 - Political risk insurance

World Bank Partial Risk Guarantee Structure



PRG for a Sub-national Project



Coverage of World Bank PRGs

- Cover specific government obligations
- Guarantee payment against default on private debt due to non-performance of government contractual obligations
- Relevant when there is a high perceived risk of policy reversal
- Coverage examples:
 - political events, e.g., changes in law, expropriation, nationalization; contract frustration; obstruction in arbitration process
 - certain force majeure events
 - foreign exchange convertibility/transferability

Benefits of WB Partial Risk Guarantees for:

Public sector

- Catalyze private financing and facilitate PPP
- Reduce government risk exposure by shifting commercial risk to the private sector
- Encourage larger co-financing

Private sector

- Reduce risk of private transactions
- Mitigate risks difficult for the private sector to manage
- Open new markets
- Lower the cost of financing and extend maturities
- Improve project sustainability

Value Engineering

- A professionally applied, function oriented, creative and systematic team management approach, used to analyze and improve value in transportation projects
- Provides a balance of quality, performance and functionality in a project, minimizing life cycle costs of construction, operation and maintenance

Anti-Corruption and Road Concessions

- **Road concessions are susceptible to corrupt practices:**
 - **sole source selection of concessionaries (unsolicited proposals) or non-transparent competitive selection**
 - **renegotiations (sometimes tantamount to sole source)**
 - **land acquisition**
- **Public disclosure of concession agreements**

Benefits of Public Disclosure of Concession Agreements

- Further check on corruption, which in addition to its direct benefits can enhance the legitimacy of private sector involvement in often sensitive sectors
- Provision of consumers with a clearer sense of their rights and obligations, which can facilitate public monitoring of concessionaire performance

Incidence of Renegotiations, Latin America, 1988-2004

<i>Concessions</i>	<i>Renegotiated, %</i>	<i>Average time to renegotiate, years</i>
All sectors	59	2.1
Electricity	21	2.3
Transport	67	3.1
Water	82	1.7

Source: Guasch 2004

Some Renegotiation Concerns

- It may eliminate the competitive effect of the bidding process and question credibility of the model
- Renegotiation takes place away from competitive pressures in a bilateral (government-operator) environment
- Winner may not be the most efficient operator but the one most skilled in renegotiations
- While some renegotiations are efficient, many are opportunistic and should be deterred

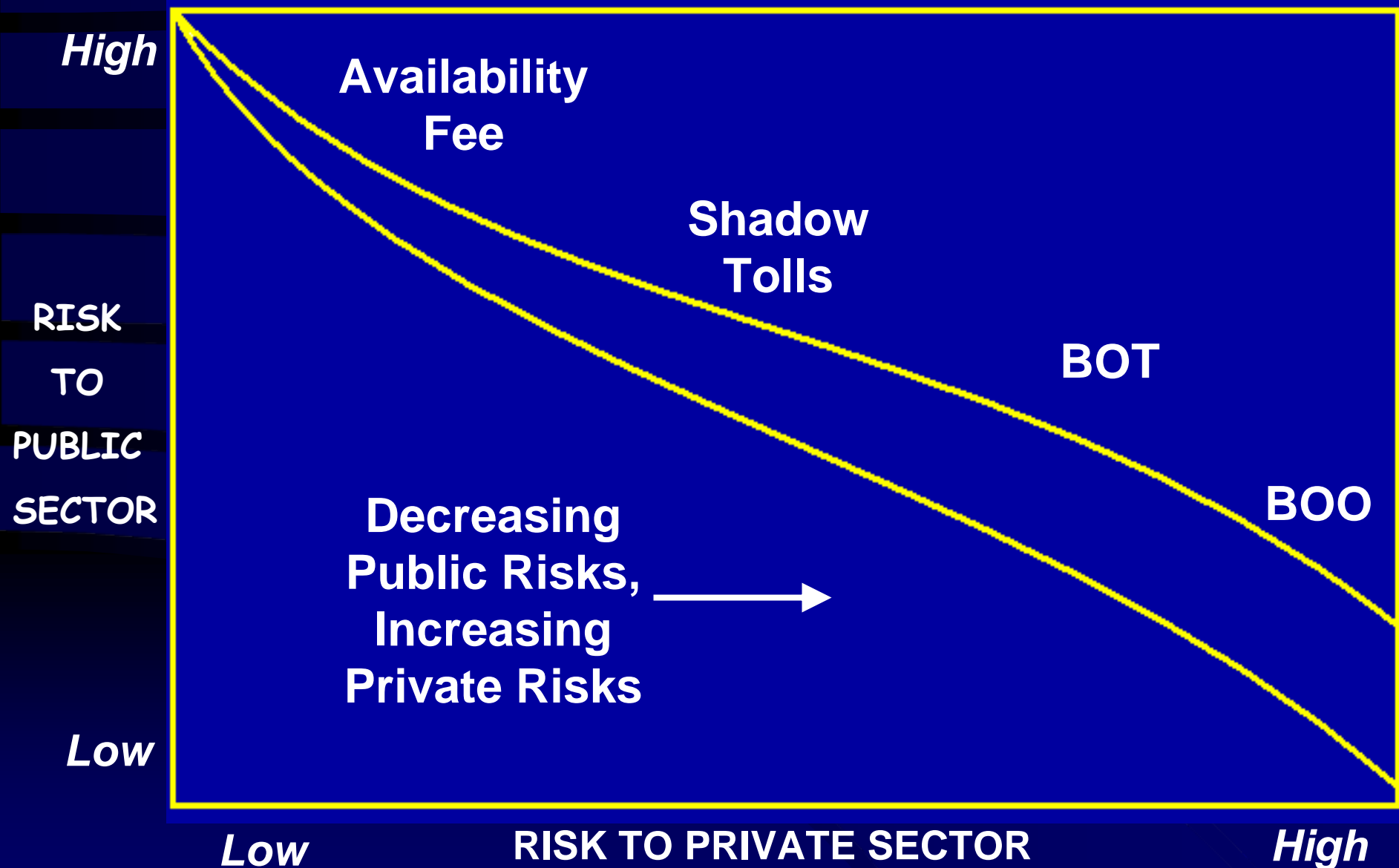
Payment Mechanisms for Road Concessions

- Availability Fee is paid to the concessionaire by the government based on the availability of required capacity (number of lanes in satisfactory condition)
- Shadow Toll is paid to the concessionaire by the government, not charged to motorists, on the basis of veh-km achieved (volume and composition of traffic)

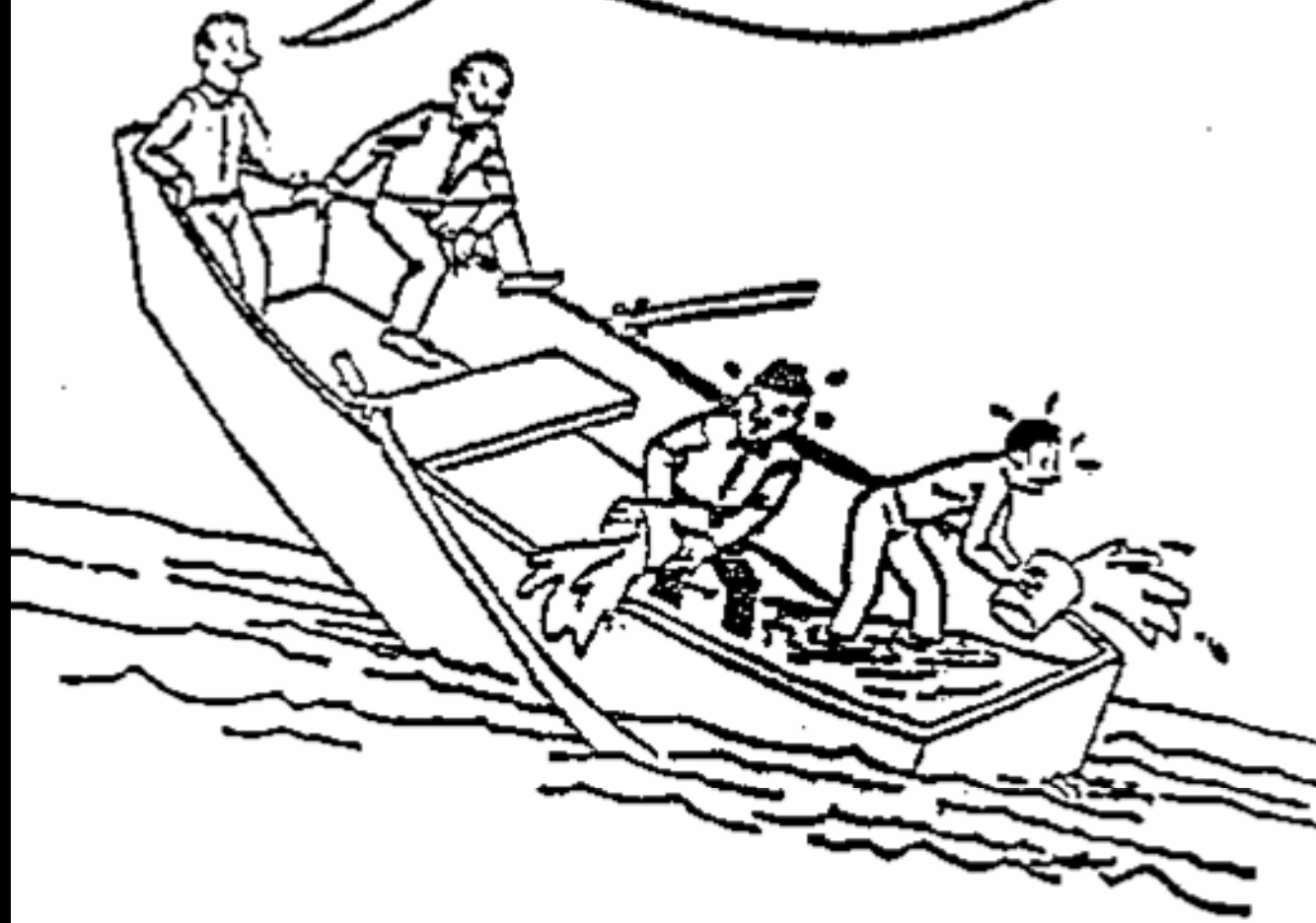
Payment Mechanisms

- BOT (*build-operate-transfer*) is a scheme where the government contributes land to the project and sometimes a financial support, while the concessionaire builds, maintains and operates the motorway and transfer the assets after the concession completion. The commercial risk rests with the concessionaire, who collects tolls
- BOO (*build-own-operate*) is a scheme where the concessionaire builds, maintains and operates the motorway. It does not involve the transfer of the assets to the government. The commercial risk rests with the concessionaire, who collects tolls

Allocation of Risks by Forms of Concession



*I'm sure glad the
hole isn't in our end...*



Thank you!

Some Basic References

World Bank (2001). "World Bank-Financed Procurement Manual [Draft]." Washington, D.C.
<http://siteresources.worldbank.org/PROCUREMENT/Resources/pm7-3-01.pdf>

Guasch, J. Luis (2004). *Granting and Renegotiating Infrastructure Concessions Doing It Right*. Washington, D.C.: World Bank.
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Queiroz, Cesar (2005). "Launching Public Private Partnerships for Highways in Transition Economies." Transport Paper TP-9. (September). Washington, D.C.: World Bank.

Kerf and et al. (1998). "Concessions for Infrastructure: A Guide to Their Design and Award." Technical Paper no. 389.

World Bank (1998). "Bidding for Private Concessions. The Use of World Bank Guarantees." RMC Discussion Paper Series, no 120. Washington, D.C.

WB PPP-related Sites

- **Toll Roads and Concessions**
http://www.worldbank.org/transport/roads/toll_rds.htm
- **Toolkit for PPP in Highways**
<http://rru.worldbank.org/Toolkits/PartnershipsHighways/>
- **Port Reform Toolkit**
<http://www.worldbank.org/html/fpd/transport/ports/toolkit.htm>
- **How to Hire Expert Advice on PPP**
http://rru.worldbank.org/Toolkits/Documents/Advisors/Full_Toolkit.pdf
- **Labor Issues in Infrastructure Reform**
www.ppiaf.org/Reports/LaborToolkit/toolkit.html

Some Key EC References

- **Guidelines for Successful Public Private Partnerships**
- **Resource Book on PPP Case Studies**

http://europa.eu.int/comm/regional_policy/sources/docgener/guides/ppppguide.htm

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