



Public Private Partnerships

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Introduction

- Proposed Strategies
- Study Objective
- Drivers of PPPs
- Effective Use of PPPs
- Types and Features of PPP Models
- Risk Management of PPPs
- Protection of Public Sector Interest
- Conclusions

PROPOSED STRATEGIES

- Public Sector Oversight & Management
- Effective Use of PPP – fund procurement Measure
- Experience gained by considering:
 - failures
 - Best practice
 - Trends for the future



STUDY OBJECTIVE

- **Extract information from appropriate sources to satisfy strategies**

- **Information sources:**
 - Previous TC Report (C9)
 - Presentations and case studies
 - Case studies by TC1.2 members
 - Liaison with OECD / JTRC

DRIVERS & BENEFITS

▪ Fund Procurement

- Reasons for lack of Funding
 - ✓ Inequitable allocation or appropriation (Inst & Pol)
 - ✓ Inappropriate institutional arrangements (Inst)
 - ✓ Inability to spend optimally (efficiency)
 - ✓ Inability to raise or collect (affordability)
- Private sector innovation
- User pays principle
- Shadow toll / unitary payment



DRIVERS & BENEFITS

- **Institutional capacity**

- Increased output through PPP
- Downsize public sector
- Transfer of public function/risk to private party
- Extension of management & control

- **Private sector capacity**

- Imported where previously non existent
- Development & training

DRIVERS & BENEFITS

■ **Performance and efficiency**

- New dimension to innovative procurement
- Sustainable financing and service delivery
- Replace inefficient in house service delivery
- Strong driver for 5 out of 9 countries
- Whole-life costing: start to hand back
- Fit for purpose requirements

■ **Accelerated benefits**

- Early user benefits to stimulate the economy
- More tax based revenues for low volume roads



EFFECTIVE USE OF PPPs

- **Whole of system balance**
- **Equity**
- **Affordability and financial viability**
- **Performance and quality balance**
- **Basic requirements**
 - political will
 - Public acceptance
 - Balance and adequacy of resources

EFFECTIVE USE OF PPPs

- **Learn from international best practice**
 - Many failures despite history and precedence
 - Political, legal and socio economic differences
 - Analyse generic, country and project specific characteristics
 - Most common pre- requisites
 - Use experienced advisors – circumstances
 - Develop effective, practical and achievable contract requirements to suit circumstances
 - Sufficient time and funds for reliable studies
 - Use reliable optimisation methods to select best investment opportunities
 - Sufficient time and cost for complex procurement
 - Availability of required resources



TYPES AND FEATURES OF PPP MODELS

- **Determining criteria**
 - **Source of revenue**
 - **Source of finance**
 - **Function/type of service**
 - **Relationship between concessor, concessionaire and subcontractor**
 - **Regulatory environment**
 - **Risk sharing profile**
 - **Value for money / performance criteria**

TYPES & FEATURES OF PPP MODELS

| 100% Private | | | | 100% Government |
|--------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------|
| Project finance | Corporate finance | Private In-kind | Public In-Kind (land and existing Road) | Grant |
| Equity and bank loan UK M6 & Spain | Area highway network maintenance (Australia & UK) | Food labour and equipment for rural road maintenance Vietnam | Land for the Right of way Of shadow toll Portugal SCUD & Mexico PPP roads | Up front grants for the French A41 toll motorway |
| Equity and Bond – Australia Lane Cove, Chili Ruta 68 & UK A 419/417 DBFO | Motorway Operation Autostrada, Italy & Brisa, Portugal | | An existing Section of the then untolled motorway for M5 Hungary | Irish and Portuguese PPP roads |

TYPES & FEATURES OF PPP MODELS

| 100% user | | 100% Government | |
|--------------------------------------------------|--------------------------------------------------|--------------------------------|---------------------------------------|
| Direct user pays (tolls) | Direct tolling plus Government operation payment | Vignette (user) plus road fund | Shadow toll availability Payment, etc |
| (e.g. France, Spain, S Africa, Italy & Portugal) | (e.g. Ireland) | (e.g. Hungary) | (e.g. UK, Finland, Portugal, Norway) |



RISK MANAGEMENT OF PPPs

- **General philosophy**

- With the knowledge of each others interests role-players cannot maximise, but only optimise there interests
- Risk should be transferred to the party who is best able to manage that risk
- Any loss or gain as a result of wrong allocation will ultimately impact on both parties

RISK MANAGEMENT OF PPPs

- **Risk types:**

- Country Specific Risk (CR) – broad based legal and constitutional environment
- Pre-agreement Regulatory Risk (PARR) – regulatory environment for pre- agreement approvals
- Contract Specific Risk – project environment
- Where Settlement Risk (SR):
 - = CR + PARR + $\Sigma(\text{CSR} \times \text{mitigation})$

PROTECTION OF PUBLIC SECTOR INTEREST

- **Legislation, Regulation and policy**
- **Best practice**
- **PPP provisions/guidelines to**
 - guide public sector and private parties
 - unpack policy and provide procedural clarity
 - Set rigorous risk assessment standards for
 - ✓ affordable project choices
 - ✓ optimising private sector investment
 - ✓ Quality public services

CONCLUSIONS

- **Debate on definition of PPP is ongoing**
- **Best practice:**
 - Drivers of PPPs a function of country specific needs
 - Whole life costing – innovative performance criteria
 - Political will and public acceptance most important prerequisites
 - Developing countries can gain the most, but can often least afford PPP application
 - PPP Regulation and guidelines – transparency and public protection

CONCLUSIONS

▪ **Underlying causes of failure:**

- Lack of consistency in assessment of viability and affordability
- Incorrect allocation of risk
- Inadequate and unreliable investigations
- Inadequate regulation
- Long term economic sustainability considerations

▪ **Future Trends**

- From allocative budget driven procurement to investment driven procurement
- Road network management issues as a result of PPPs
- Long contract periods as a result of investment and whole of life cycle innovations



END

Thank you