Understanding PPPs and its Application to an FCT Area Council

Engr. Chidi Izuwah
Acting DG/CEO
ICRC

God Bless Abaji

Outline

- Abaji at a Glance – Setting the Scene
- PPP Introductory Video
- PPPs Key Principles and Imperatives
- Why PPPs
- Types & Features of PPPs
- PPP Transaction Steps
- Nigerian PPP Framework
- Sub National PPP Case Studies

Abaji at a Glance

- Hectares of uncultivated arable land
- Commercial potential for cassava, yams, sugar, cashew, oil palm and fruits industrial cultivation and processing
- Quarries and potential reserves of solid and fuel minerals
- Water resources
- Solar power generation potential
- Central location linking Southern & Northern Nigerian States

WHAT ARE PPPs? – WBI Video

Keywords and Sentences from Video

- Traditional public procurement cannot meet all needs
- PPP offers a way out
- Share financing, design and operations with the private sector via PPP
- PPP is not privatization, Government leads on a PPP
- Competitive Tender
- Costs recovered by fees paid by government or users
- Lifecycle planning, Risk Sharing and Allocation
- Complex legal and financial arrangements
- Good governance principles
- Economically warranted, All Stakeholders
- Environmental protection and transparent procurement
- Football Game !!!!

PPPs in Public Procurement – Key Principles and Imperatives?

Asset Procurement Options

PPP represents a balance between state ownership and privatisation as indicated below:

Conventional procurement | Public Private Partnership | Full privatisation

- The procurement of assets by the public sector using conventional funding
- Design, build, finance and transfer (DBFT)
- Build, operate and transfer (BOT)
- Build, operate and own (BOO)
- Design, build, finance and operate (DBFO)
- Publicly regulated but privately owned in perpetuity

Source: KPMG, KLegal

Public Sector ⟷ **Private Sector**

Risk Spectrum

Traditional Procurement

- **The public and private sectors have always worked together…**
  - Companies have paid taxes
  - Companies have supplied governments with goods
  - Companies have constructed projects for the government

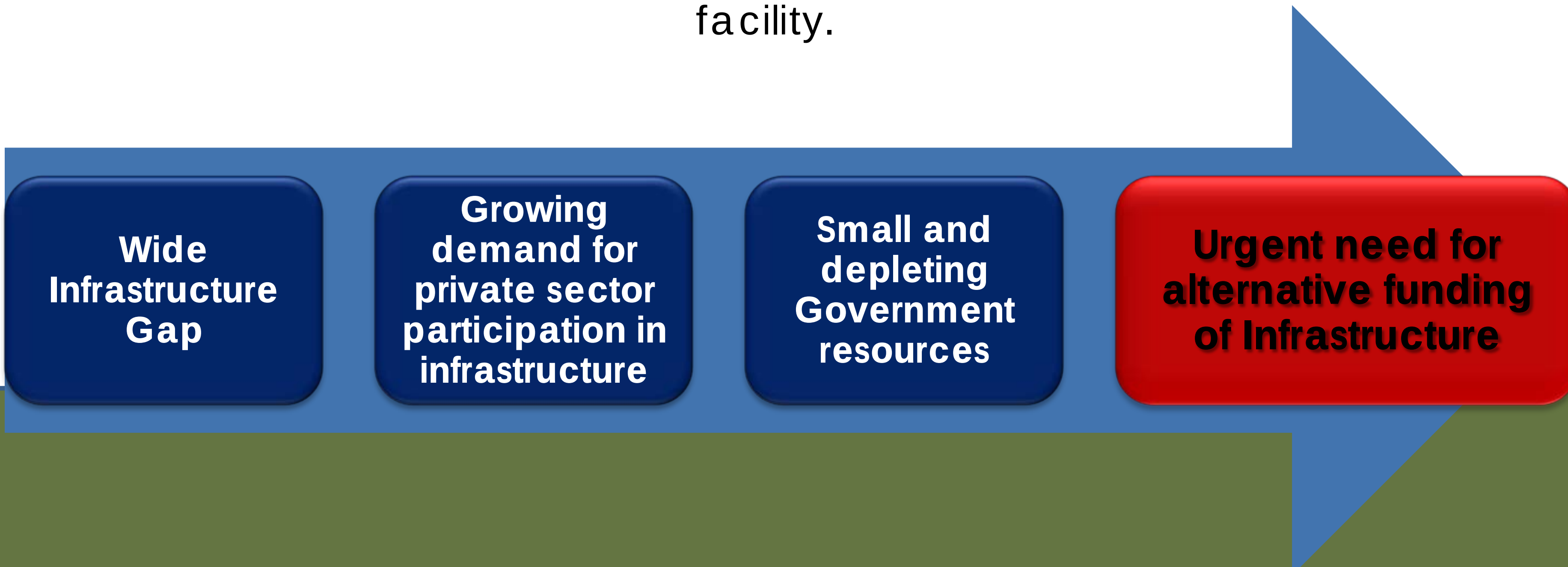
- **Traditional infrastructure procurement**
  - Gov designs / finances
  - Private company constructs
  - Government owns / operates / maintains

Example

- **Government designs a bridge joining 2 islands**
- **Runs tender and gets cheapest construction company to build it**
- **Government pays for the construction from the budget**
- **When built the government operates and maintains the bridge**
- **If anything goes wrong the government pays**

PPPs Definition and Introduction

A Public-Private Partnership is a **contractual agreement** between a **public agency** (federal, state or local) and a **private sector entity**. Through this agreement, the **skills and assets** of each sector (public and private) **are shared** in delivering a service or facility for the use of the general public. In addition to the sharing of resources, **each party shares in the risks and rewards** potential in the delivery of the service and/or facility.



The goal is to combine the best capabilities of the public and private sectors for mutual benefit

PPPs are Fundamentally Different

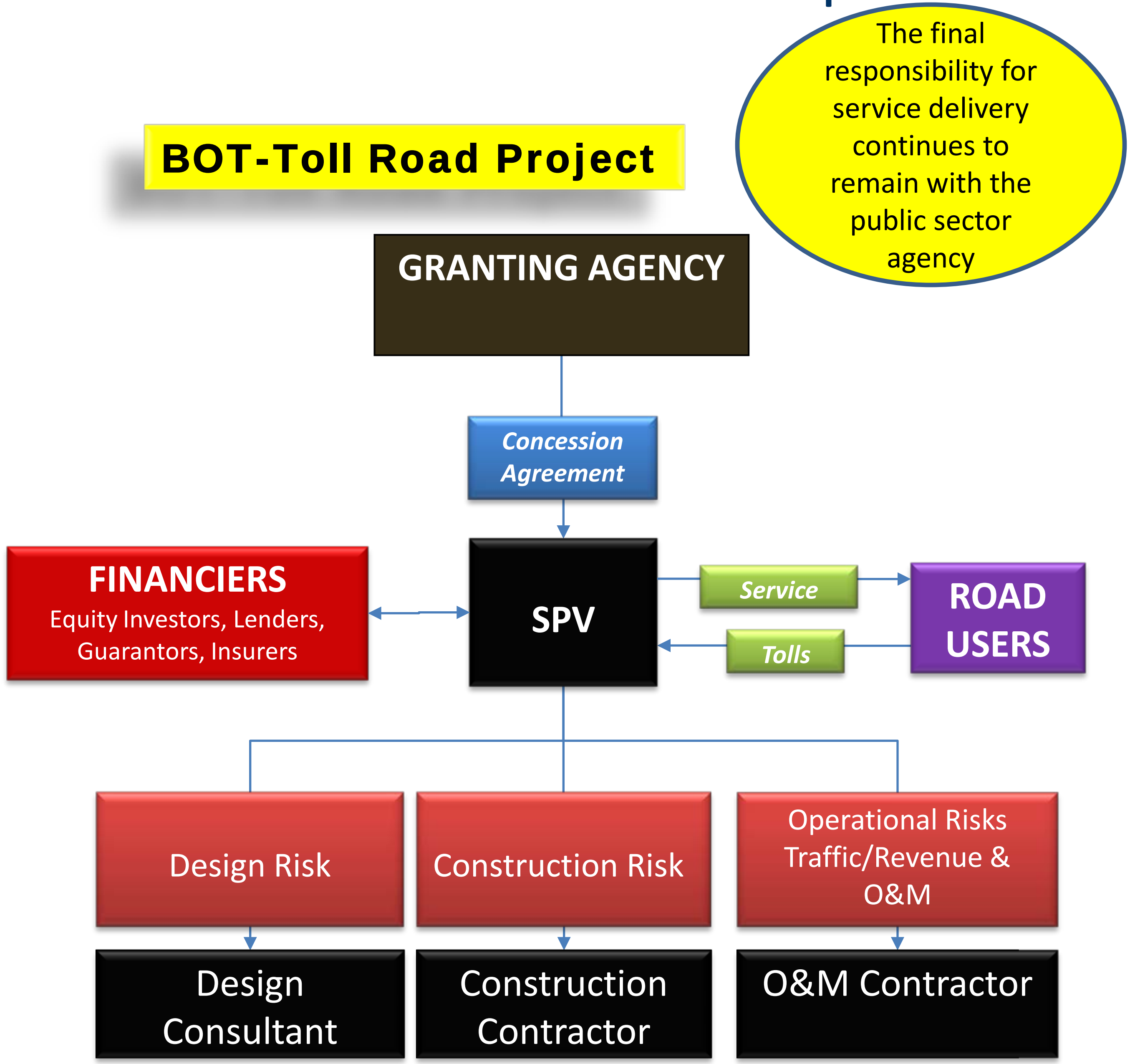
- **Formal contract** between public and private partner (over the years duration the service will be provided) – usually multiple years duration
- Entered through **competitive procurement**
- Using **output specification** – government specifies 'what', private sector can define 'how'
- With suitable **risk allocation** between parties
- Putting **private investment at risk**
- With **regulation or contract management of performance** of the private partner

Example

- **Government defines output = connection to let 1,000 vehicles p.d. travel between islands**
- **Government tenders for best solution over 30 years – e.g. ferry, tunnel, bridge??**
- **Government enters 30-year contract with private company**
- **Private company designs, builds, finances bridge, then operates and maintains it for 30-years**
- **Private company receives payment if the bridge works and is available for traffic**
- **Government checks on safety and availability**
- **If the bridge is closed, or unsafe, the private company looses money**

7 Essential Conditions That Define Public Private Partnerships

1. **Arrangement**
   Between public & private
2. **Provision**
   Of services for public benefit by private partner
3. **Investments**
   In and/or management of public assets by private partner
4. **Time Period**
   For a specified time
5. **Risk Sharing**
   Optimally between contracting parties
6. **Standards**
   Focus on quality of service / performance
7. **Payments**
   Linked to performance



Public procurement: Traditional v/s PPP

Characteristic	Public procurement	PPP
Focus	Procuring Assets	Procuring Services
Project management	Public sector is responsible for all project management roles	Private sector manages overall project - design, construction, operations and maintenance. Focus on project life cycle expected to bring efficiency.
Service Delivery	Public sector directly responsible for service delivery to users	Private sector directly responsible for service delivery to users
Financing	Public sector responsible for financing the project. Thus financing impacted by budgetary allocations and then actual disbursements	Private sector may contribute finance through debt and equity issuances
Risk Sharing	Public sector bears all project risks. Risk sharing limited to the extent of warranties.	Risks allocated to parties which can manage them most efficiently
Contractual Arrangement	Short term, generally segregated contracts for asset creation (BOQ based) and maintenance.	Long term contracts- Public sector/users pay for services linked to performance.

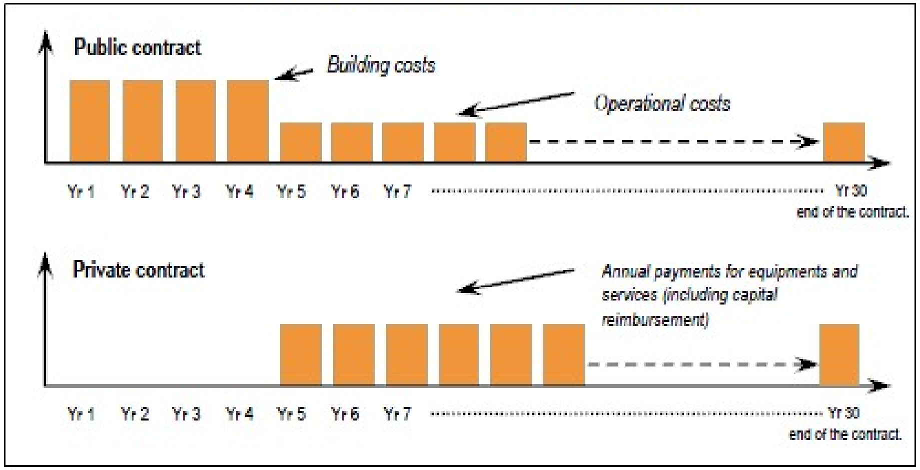
PPP: The public sector procures a service, not an asset, from the private sector.

Public versus PPP Procurement Costs &Phasing

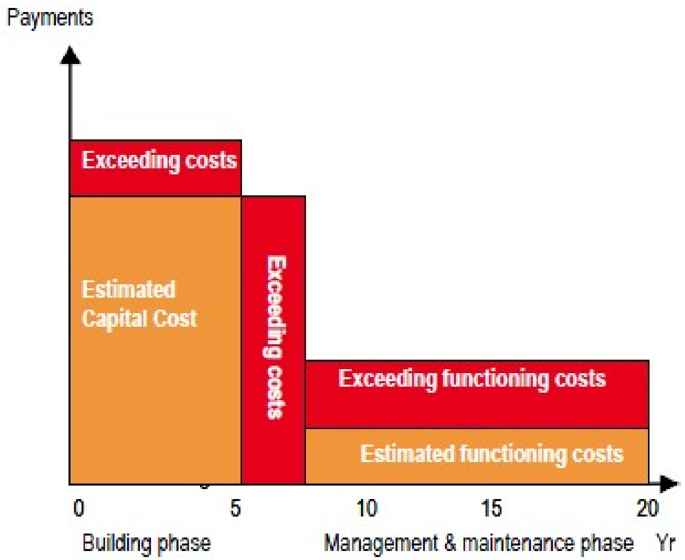
The need for:

- ✓ A comparative analysis between several financing options.
- ✓ A risk matrix as a management tool;
- ✓ A Test of the "value for money"
- ✓ Models and simulation of offers.

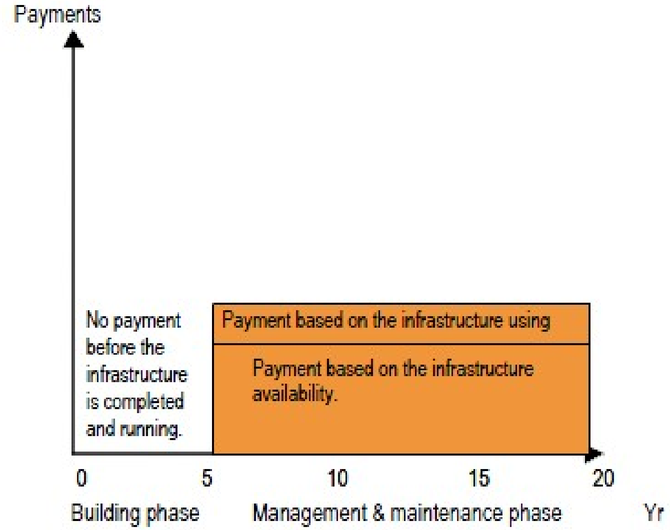
Public versus Private contracts.



Classical public contract – profil of payments:



PPP contract – profil of payments



Why PPPs?

Why Public Private Partnerships

- ***PPPs fill a critical resource and expertise gap in infrastructure procurement, delivery and operation***
- ***PPPs engender accelerated procurement of infrastructure and services***
- ***PPPs also promote faster implementation of projects, and reduced lifecycle costs due to private sector efficiencies***
- ***PPPs provide for better risk allocation between public and private sectors, thus offering a better and sustainable incentive to perform***
- ***PPPs engender accountability in resource utilization and also improve the overall quality of service***
- ***PPPs often lead to the generation of additional revenue and overall value for money for the entire economy***

Aims of PPPs

- **PPPs** aim to introduce Private Sector Resources and/or Expertise in order to help provide and deliver Public sector Assets and Services

- Thus the term **PPP** is used to describe a wide variety of working arrangements from loose, informal and strategic partnerships, to design, build, finance and operate (DBFO) type service contracts and formal joint venture companies

Key Parties in a PPP Procurement

- **Private Partner:** The private sector partner selected through a competitive procurement process to provide the contractual service to the Public Partner. The Private Partner might be known as Project Company, Consortium, Special Purpose Vehicle, Concessionaire or Contractor.
- **Public Partner**: The public sector entity which enters into the Project Contract. This may be a federal, state or local government, ministry, department or agency such as NDDC, or an end user such as a hospital or school board.

…role of the different parties

The underlying elements of public-private partnerships are as follows:

- The public sector contracts with the private sector to deliver services on its behalf
- A new special purpose vehicle/entity (SPV/E) is formed, and is financed and owned by the private sector
- The SPV/E develops, finances and completes the infrastructure necessary to deliver the service
- The SPV/E delivers the service and receives agreed-upon compensation
- Compensation can be in the form of tariffs paid by service users or directly by the government, or a combination
- Title to the asset remains with the public sector
- Full operational control is transferred to the public sector at the end of the agreed “concessionary” period

What characteristics have PPPs got?

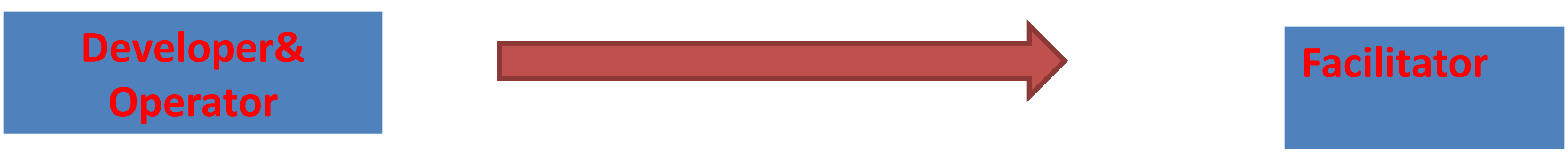
Characterised by the Public Sector:

- **Entering into contracts to acquire services, rather than procuring an asset**
- **Specifying the service requirement on the basis of outputs, not inputs**
- **Linking payments to the private sector to the level and quality services actually delivered**
- **Often requiring a 'whole life' approach to the design, building and operation of project assets**
- **Seeking optimal risk transfer to the private sector**
- **Requiring private partner to be responsible for raising some, or all, of investment finance required**
- **Utilising diverse payment mechanisms, such as market revenue, shadow tolls, capacity availability payments and so on**

PPPs are about !!!

1. **Mobilizing private sector's money, expertise and capacities for infrastructure development**
2. **Long- term relationship between government and private sector (usually>10years)**
3. **Sharing of Risks and Rewards** ***(no lop-sided agreements-privatizing the profits, nationalizing the loses)***
4. **Private sector performs to agreed KPIs**
5. **Life cycle focus (operations and maintenance)**

Government is moving from role of Developer & Operator to Facilitator



Advantages of PPPs

- Maximizes the use of each sector’s strength
- Reduces development risk
- Reduces public capital investment
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares/allocates risks
- Mutual rewards

PPPs: Common Myths/Concerns

Myth/Concern	Clarification
• Profit motive of private sector is incompatible with the service motive of public sector	**No.** The key is to harness private sector's profit motive, by incentivizing them to provide better quality service and earn ***reasonable return***.
• PPPs increase user tariffs	**Not Necessarily.** When appropriate safeguards like effective regulation and/or adequate competition are in place. However in sectors where existing tariffs are inadequate to cover costs of specified level of service tariffs may initially require some upward adjustment. Over time efficiency gains expected to rationalize tariffs.
• Money for PPPs comes from private sector "pockets"	**Initially, YES.** But private sector would make those investments provided they can recover those investments either from users or the government with reasonable return.
• Once a private sector partner is brought in, there is little or no role for the public sector	**No.** Public sector's role changes from direct involvement in construction and service provision, to ensuring that the PPP delivers value for money for the government and better services for users.

Types and features of PPPs

PPP Typology

FINANCIALLY FREE STANDING PROJECTS *Examples* -Toll Roads/ Bridges, Telecom services, Port projects	1. Role of public sector - planning, licensing & statutory approvals 2. No financial support/ payment is made by government 3. Revenues are through levy of user charges by the private sector
PROJECTS WHERE GOVERNMENT PAYS FOR SERVICES *Examples* - Roads - annuity/ shadow tolls, power - under PPAs. In UK - prisons, education, health services, defence related services	1. Private sector paid a fee (tipping fee), tariff (shadow toll) or periodical charge (annuity) by Government for providing services 2. The payment is made against performance 3. There may be demand risk transfer – either in part or whole
Note that: In both cases, the design, financing, construction and O&M risks are fully that of the private partner	
HYBRID STRUCTURES *Example – toll road project with either viability gap payment by government or annuity payment based road contract with tolling rights*	1. Combine the financially free standing nature – levy of a user charge – with payment by the public entity 2. Payment could be as a viability gap subsidy or an annuity payment

Forms of PPP

- **Service contracts:**
  - √ Private sector contracted for specific tasks
  - √ Capital investment and ownership of the asset is by the public sector
  - √ Public entity pays the private company for provision of services but retains the commercial risk
- **Management contracts:**
  - √ Private sector manages the utility but does not finance it
  - √ Capital investment and ownership are retained by the public
  - √ Public entity pays private manager a fixed management fee
  - √ Commercial risk is held by the public
- **Lease:**
  - √ Private sector manages the utility and finances the O&M
  - √ Capital investment and ownership are retained by the public
  - √ Private operator collects revenues and pays to the public entity a fixed fee
  - √ Commercial risk is shared
- **Concession:**
  - √ Private operator manages the utility and finances new investments as well as O&M
  - √ Capital investment is made by the private operator but ownership is retained by the public
  - √ Private operator collects revenues and may pay a concession fee to the public entity
  - √ Commercial risk is borne by the private operator
- **BOT (and other variations e.g. BOOT, BTO, DBOT, DFBOT, etc.)**
  - √ Private operator builds new infrastructure, operates it for fixed period and transfers it to public sector
  - √ Capital investment is made by the private operator, but ownership is by both at different points in time
  - √ Public utility pays private operator for services provided by the new asset
  - √ Commercial risk is usually private, but could also be shared

PPP's – Alphabet Soup

- **BOT** – Build Operate Transfer
- **BOO** – Build Own Operate
- **BOOT** – Build Own Operate Transfer
- **DBF** – Design Build Finance
- **DBFO** – Design Build Finance Operate
- **DBO** – Design Build Operate
- **BLT** – Build Lease Transfer
- **BTO** - Build Transfer Operate
- DBFOM – Design Build Finance Operate Manage
- **Leasing**
- **Operations or Management Contracts**
- **Cooperative Arrangements**
- **LROT** – Lease Renovate Operate Transfer
- **DCMF** – Design Construct Manage Finance
- **BOOR** - Build Own Operate Remove

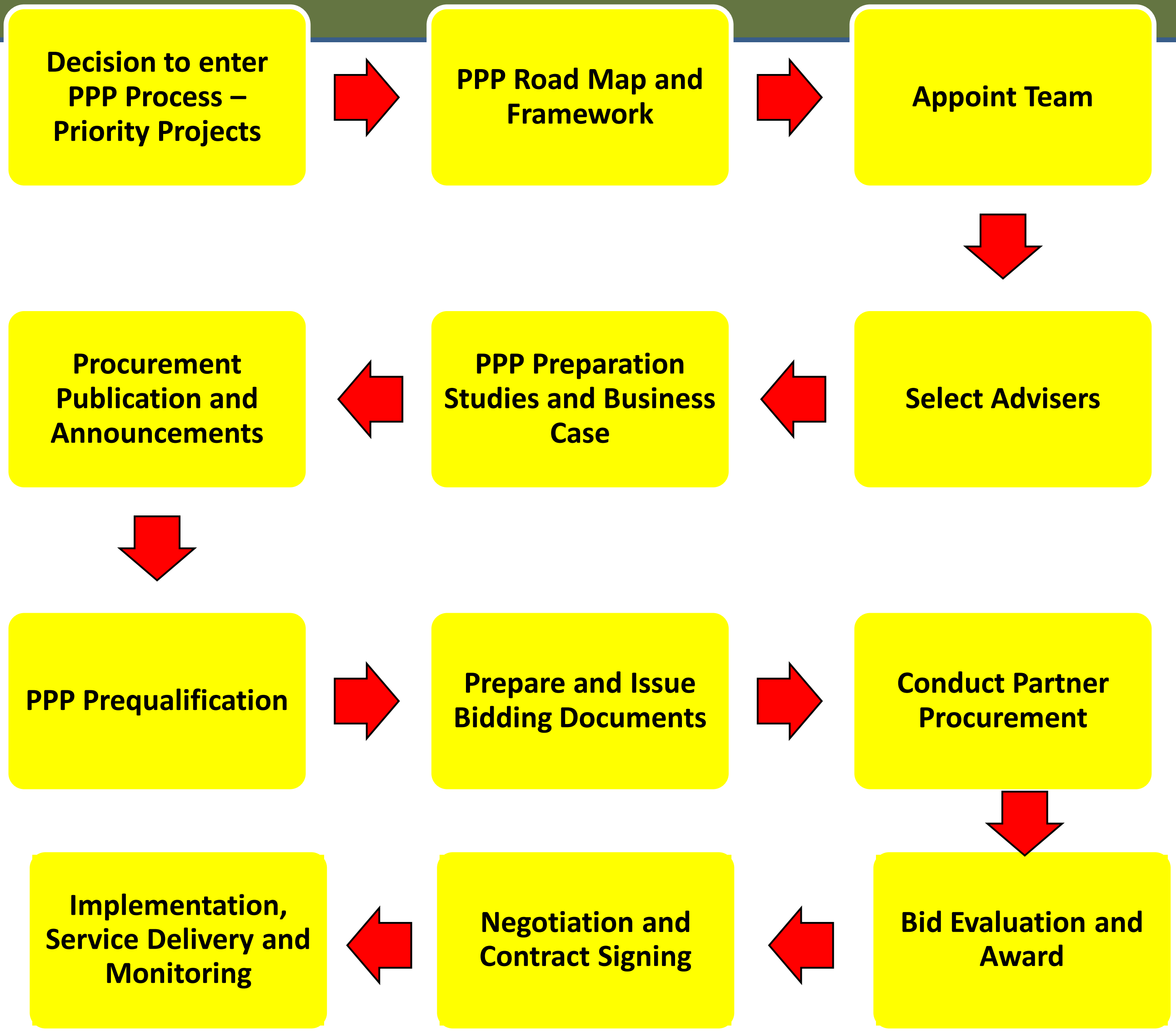
Suitable Candidates for PPP's

- **Transport (road, rail, ports, airports)**
- Fixed links (bridges, tunnels)
- **Water resources** (filtration plants, irrigation, sewage treatment, pipelines)
- **Tourism** (facility development)
- Health (hospitals and specialized health services)
- **Specialized accommodation** facilities (courts, police stations)
- **Educational facilities** (schools, museums, libraries)
- **Correctional services** (prisons, remand and detention centers)
- **Arts, sport and recreational facilities**
- **Convention centers**
- **Government office accommodation**
- **Social housing**
- **Minerals Exploration and Development**

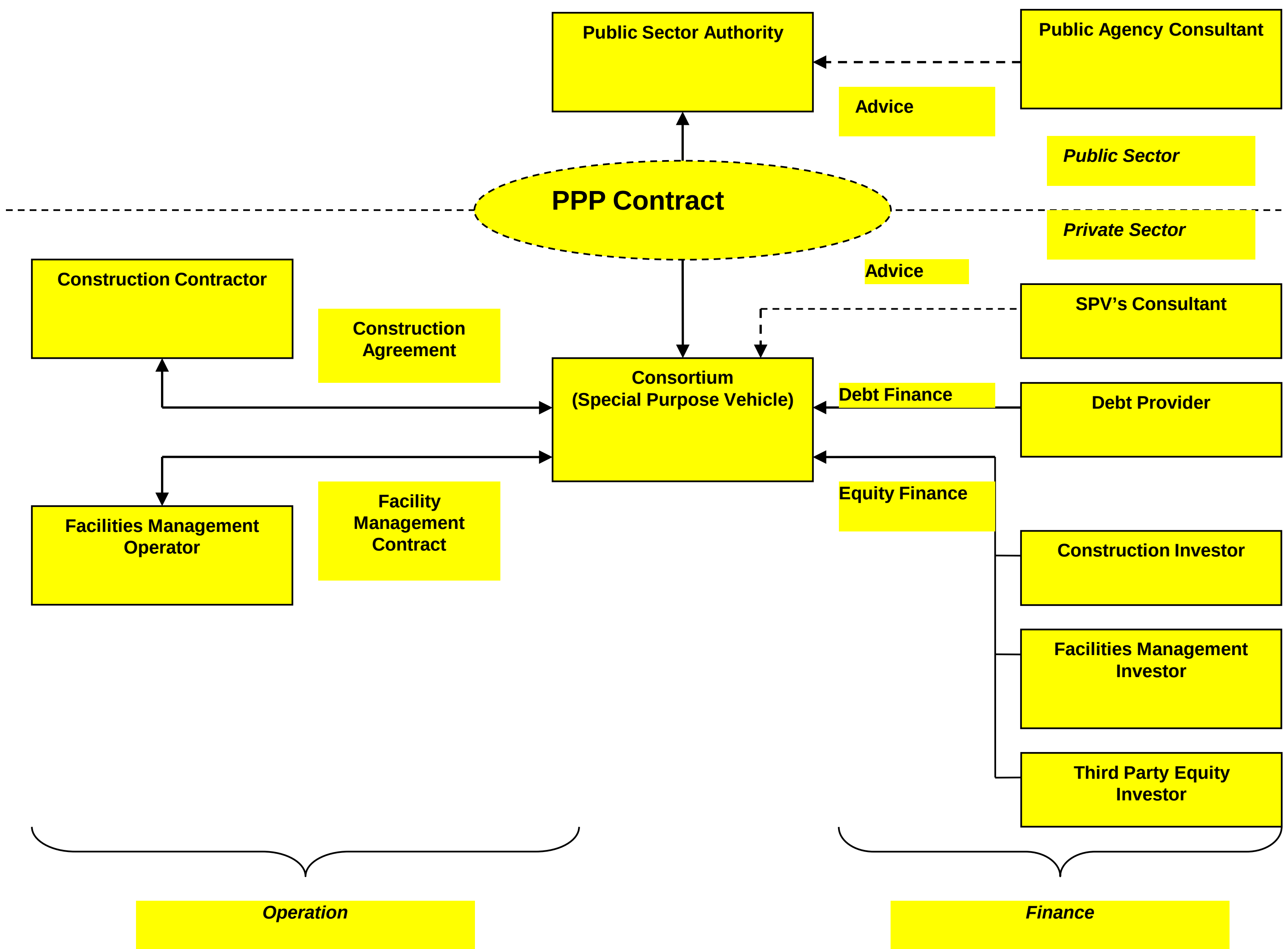
Experience is transferable - "Lessons learned from one . . ."

PPP Transaction Steps and Framework

Classical Major PPP Transaction Steps



…structure of a Typical Nigerian Large PPP project



PPP Procurement Routes

SOLICITED ROUTE

- **Well prepared bankable projects to Market**
- **Transparent and Competitive Bidding**
- **May Require Government Funding Support**
- **Timely Financial Closure Required**

UNSOLICITED ROUTE

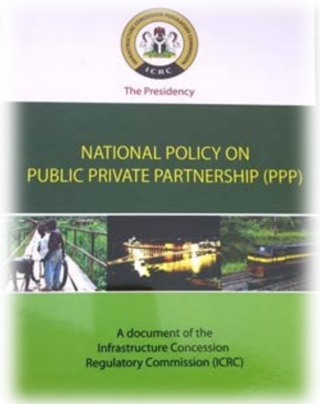
- **Bankable Business Case by Project Proponent**
- **Must be part of strategic plan of government**
- **Indicative Funding Available**
- **Negotiate or Subject to Competition via Swiss Challenge etc**
- **No Government Funding Support**

Nigeria’s Federal PPP Framework

The ICRC Act 2005

- Establishes the Infrastructure Concession Regulatory Commission (ICRC) Sec. 14.1
- MDAs may enter into a contract with or grant concession to any duly pre-qualified private sector proponent for the financing, construction, operation, and maintenance of any infrastructure that is financially viable or any development facility of the Federal Government. (Section 1.1).
- Empowers the ICRC to;
- Provide general policy guidelines, rules and regulations.
- Take custody of every concession agreement entered by the Federal Government
- Ensure efficient execution of any concession agreement or contract entered by the Federal Government.
- Section 11 (Arbitrary Variation etc) No agreement reached in respect of this Act shall be arbitrarily suspended, stopped, cancelled or changed except in accordance with the provisions of this Act.

PPP LIFECYCLE in line with National Policy



Preliminaries

- *Project Identification*
- *Project Prioritization*
- *Project Selection*

Development Phase → **Procurement Phase** → **Implementation Phase**

Development Phase

TRANSACTION ADVISER
NEEDS ANALYSIS
PPP OPTIONS APPRAISAL
VALUE FOR MONEY
AFFORDABILITY
SUSTAINABILITY
PRELIM RISK MATRIX
VIABILITY/BANKABILITY
VGF
OBC
OBC APPROVAL BY FEC

Procurement Phase

TRANSACTION ADVISER
EoI/RFQ Phase AND RFP BIDDING
BIDDERS CONFERENCE
BID EVALUATION
VALUE FOR MONEY TEST
PREFERRED BIDDER
FULL BUSINESS CASE BY FEC

Implementation Phase

INDEPENDENT ENGINEER
MONITOR DESIGN AND CONSTRUCTION
COMMISSIONING TEST
VERIFY OUTPUT REQUIREMENTS
CONTRACT MANAGEMENT

PREPARING AND IMPLEMENTING EFFICIENT AND EFFECTIVE PPP TRANSACTIONS

Sub National PPP (Local Govt.) Case Studies

Why Sub National PPPs are so exciting

- Local investors
  - Smaller scale
  - Less technology
- Local finance
  - Forex risk
- Dynamic and innovative
  - Fewer “typical” models
  - Commercially orientated/property
- Less political
  - National politics less present
  - Less pressure/weight/stress
  - Closer to needs

What do Sub National PPPs look like

- Examples from Philippines, India, Kenya and Lagos

- Types of projects likely to be of interest:
  - Street Lighting
  - Public market places
  - Bus and ferry terminals
  - Parking
  - Shopping malls
  - Hospitals, Health Centres, Mobile Clinics
  - Agro Processing and Farm Mechanization
  - Education Hostels and Facilities
  - Municipal Waste to Energy
  - Public Toilets and Faecal Sanitation

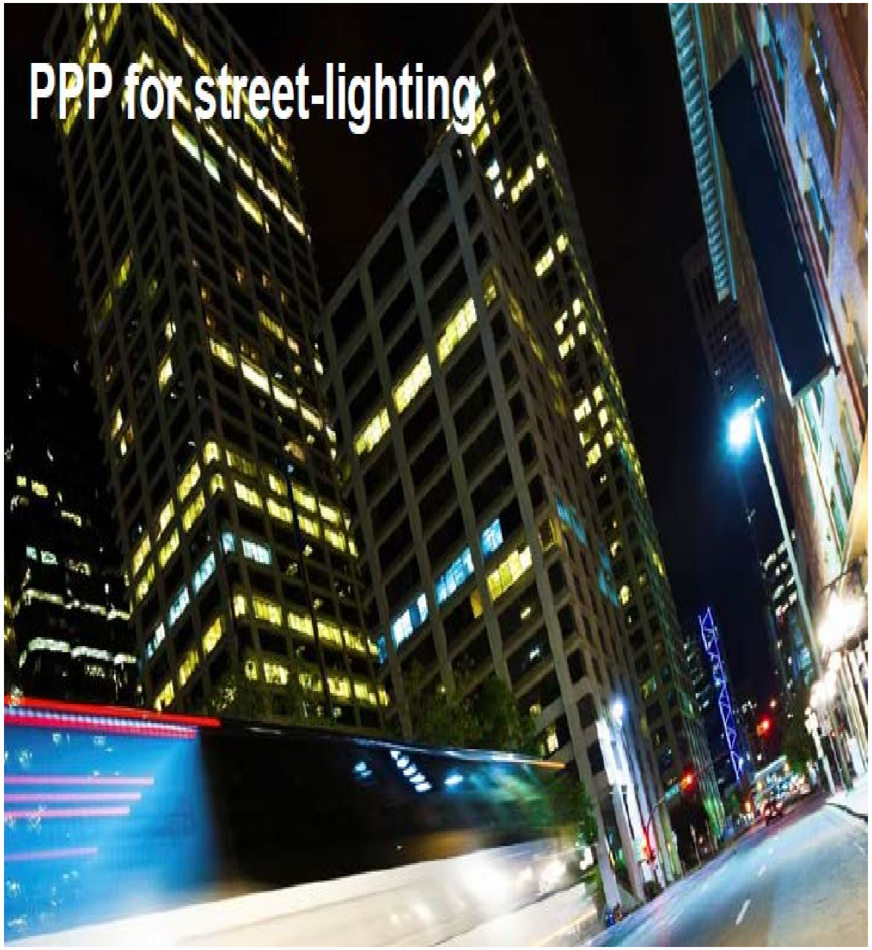
How to Pay for Sub National PPPs

- Two basic types:
  - **users fees**, paid by the consumers of the service (e.g. utility tariffs, toll road charges, commercial revenues, etc.)
    - *Services the private sector can deliver and make enough from fees and other commercial revenues, and/or*
  - **Government** pays on **delivery of services**, to a specified standard (eg payment from public utility or Government department);
    - *Where private can deliver services cheaper and/or better*

Bhubaneswar Street-lighting Project, India

- The municipal authority of Bhubaneswar, the capital of the Indian state of Odisha, knew it had a street lighting problem. Although the main roads were well-lit, smaller streets and residential areas were lit with dim, patchy lighting or none at all. The city's street lighting fell far below national standards, leading to constant complaints from the public. To make matters worse, owing to poor quality equipment, energy consumption for street lighting was extremely high, straining the city's finance
- Private party finances and installs luminaire retrofits, operate and maintain the city's street-lighting system by way of a remote control center for 10 years for 20,000 street lights. **Total cost $ 4.8 million**....private capital moblized.
- Concessionaire – Shah Investments
- Public authority sets standards and specifications, monitors and verifies performance
- Payments made by the Bhubaneswar Municipal Corporation based on the savings realized - 90% of energy savings realized plus an Operation and Maintenance fee for each light pole
- **Annual savings to government of $100,000** by way of decreased energy consumption, operation and maintenance costs and emissions savings

Bhubaneswar Street-lighting Project, India



Street Lighting Video

Intercity Bus Terminal - Amritsar, India

- Demolishing the existing terminal building and complex and development of a modern state of the art Intercity Bus Terminal.
- Under operation by a private operator since 2005 after an initial construction period of 2 years with a concession period of 11 years and 5 months.
  - Project Development Fee and Monthly Lease Fee to Government.
- Revenue streams to Private Party
  - Collection of "adda fees" i.e. charges payable by buses for use of terminal facilities,
  - Revenue from commercial rentals from shops located within Terminal complex
  - Other sources of revenue - sale of advertising rights, parking fees.
- On average, 1,100 normal buses and 600 mini buses a day, about 80-100 buses are parked overnight.

Intercity Bus Terminal - Amritsar, India

Bus Terminals via PPP

- Jalandhar Bus Terminal

- Ludhiana Bus Terminal

AGRIC EQUIPMENT MODEL PPP GUJARAT INDIA – ESTABLISHMENT OF AGRICULTURAL TRACTOR AND IMPLEMENTS RESOURCE CENTRES

- Objective – Facilitate Farm Mechanization and Productivity
- Public Partner – Government of Gujarat India
- Private Partner – John Deere Tractors India/USA
- Role of Private Partner
  - Establish centres with 500 tractors and 13 different implements per centre.
  - Provide Trained Operators and Mechanics
  - Provide Extension Support Services
  - Train 1000 locals as tractor operators and 500 as mechanics.
- Role of Government
  - Provide land and revenue guarantees on minimum guarantees (Note if utilization exceeds minimum by agreed percentage excess revenue is 50/50 with government).
- Role of Farmers – Use tractors and pay only for operating and maintenance costs. Provide via cooperatives provide individuals to be trained as tractor operators and mechanics.

Mandaluyong (Philippines) Public Market

- *The previous Mandaluyong (Philippines) Public Market was totally razed by fire on **August** 25, 1990. The lot where the previous Public Market was established remained idle, while vendors and consumers complained about the inconvenience of going to street markets, congestion, waste and flooding problems.*
- *Public Market would cost Php 100 million, ie annual outlay of more than Php 10 million. The City Government ruled out huge loans.*
- *The developer will provide a public market at the ground floor under the control and supervision of the City Government. The City Government in turn leases the building except the Public Market to the developer.*
- *The project provides for a Public Market controlled and supervised by the City Government and **additional income of 20 Million (instead of debt service of 10 million/annum)***
- *Employment through new commercial district*
- *Traffic, flooding, pollution and garbage problems were solved.*
- *Public Market at the ground floor; Eateries, dry goods, gift shops; Two parking levels; Four Theaters; Fast foods, Billiard Halls, Bowling Center, Multipurpose Hall…….Replicated widely*

Mandaluyong (Philippines) Public Market

BOT Projects in Cagayan de Oro

- Carmen Market (West)
- Cogon Market (BusinessCenter)
- The Agora (East)
- City Slaughterhouse

PUBLIC-PRIVATE PARTNERSHIP:
The Cagayan de Oro Experience

RECENT AGORA REDEVELOPMENT

MEDICAL MOBILE UNITS (MMU)

Public Partner – Government of Bihar
Private Partner – Spake Systems (14 MMUs), Jaagran Solutions (12 MMUs), Jain Studio (12 MMUs)

Objective: To provide primary health facilities to people living in the remote areas of the State. Since there is acute shortage of manpower in government hospitals, the state decided to procure MMU through a PPP. A fixed budget is allocated to be paid to each MMU operator by the State. The MMUs provide the same facilities as a basic hospital. PPP Partners were selected by competitive bidding

Solar Powered Mobile Medical Unit

PPP for Truck Stop Facility

Currently trucks stop at will on the Federal Highways near cities, denying throughput of essential traffic – the economic arteries of the States and Nation; potential PPP project could develop income streams from service provision

Pro Poor PPP Procurement - Public Conveniences

Small Pro Poor PPP Procurement - Public Conveniences

Recommended Pathway for Institutionalizing a Sustainable PPP Regime in Abaji Area

1. Choose Carefully

- Decide which projects are to be PPP, and **stick with it**
- Decide based on value for money (cost-benefit/more for less)
- Don't compromise, make them compete – no side deals!
- Get buy-in from the highest levels and give clear orders

Actions:

- Establish team for PPP or nodal organization and funding for transaction preparations
- Approve the list of projects at highest level and publish it (make sure list is valid and feasible, do not oversell)

2. Invest in success

- Do not “try” PPP; do it
- Invest time and money in making PPP work
  - Project teams need the resources to do their jobs
  - Access to the best transaction advisers
  - Make sure projects are well prepared before submission
- Set performance indicators and milestones and monitor progress

Action:

- Create, staff and fund a PPP Nodal Team
- Report project assessments and pipeline periodically
- Linkages with PPP Facilitation Fund (Social Projects)

3. Keep it simple

- Keep it simple to use PPP and for investors to understand
  - Clear and complimentary ToRs for different institutions
  - Not too many institutions – coordination
  - Limited number of approvals/steps – map them out
- Transaction costs limited – time and money – standard forms
- PPP Law (Edo Infrastructure Development Board)

PPPs – Passion That Will Make A Difference in Infrastructure Delivery

THANK YOU