Mobilizing Private Sector Investment into GMS Infrastructure

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I. Why Involve the Private Sector?
Infrastructure needs for GMS are significant, but private sector participation compared to public funding still lags neighboring countries and ODA headroom is increasingly constrained.

**Infrastructure Investment Needs, 2020+**

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment Need (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAREC</td>
<td>115.3</td>
</tr>
<tr>
<td>GMS</td>
<td>79.7</td>
</tr>
<tr>
<td>SASEC</td>
<td>51.0</td>
</tr>
<tr>
<td>Pacific</td>
<td>4.0</td>
</tr>
</tbody>
</table>

% of Infrastructure Funded by Private Sources

- India: 13.3%
- Philippines: 30.1%
- Indonesia: 3.2%
- GMS: 3.6%

CAREC = Central Asia Regional Economic Corridor; GMS = Greater Mekong Subregion; SASEC = South Asia Subregional Economic Cooperation

Source: Meeting Asia’s Infrastructure Needs, Asian Development Bank

Source: ADB analysis, Philippines National Economic Development Agency, India 12th Five Year Plan
What is a Public–Private Partnership (PPP)?

A PPP is a relationship between a public sector entity and private sector entity that leverages the strengths of both parties by appropriately allocating risk between the two for an extended period.

**Service Contract**
- Maintenance of assets
- Risk profile: private sector receives fee for services
- Duration: 1 – 5 years approx.

**Management Contract**
- Facility / operations management
- Risk profile: Private sector receives fee based on performance; private sector may have limited capital investment
- Duration: 5 – 15 years approx.

**Lease Contract**
- Private sector fully responsible for providing services and operational improvements
- Risk profile: Flexible; possible to give revenue risk to private sector
- Duration: 10 – 30 years approx.

**Concession Contract**
- Investment into new / existing infrastructure and full operation by private sector
- Risk profile: Flexible, but likely with technical, financial, operational risks to private sector
- Duration: 15 – 50 years approx.
Key Components and Parties

1. PPP is not privatization – **public sector is in control** and should set the agenda from the start.

2. By giving the government the role of grantor of the concession rather than operator of the asset, **private sector innovation and efficiency can be tapped**, resulting in a project that creates value for money for the government.

3. A bankable deal can bring in private sector debt and equity financing, **allowing government to allocate budgetary resources to other development priorities**.

4. Make **efficient use of MDB support**, for example using MDB loan as VGF or government payment guarantee.

5. Government, as owner of the project, can **ensure effective operations by setting performance targets**, penalty regime in event these are not met, and framework for monitoring.
**Why Implement PPP?**

*Private sector participation can bring operational effectiveness to infrastructure projects while reducing government financial obligations*

<table>
<thead>
<tr>
<th>Attract investment</th>
<th>Operational efficiency</th>
<th>On time, on budget delivery</th>
</tr>
</thead>
</table>
| • Government budgets can only meet a fraction of infrastructure needs  
• PPPs can be used to deliver additional infrastructure without calling on government budgets | • PPP offer opportunities to bring private sector innovation and efficiency, driving greater value for money than traditional procurement | ![Average % cost overrun for public infrastructure projects](chart)  
Average % cost overrun for public infrastructure projects  
- PPP sample: 1%  
- Non-PPP sample: 15%  

| ![Average PPP projects delivered on or ahead of schedule](chart)  
Average PPP projects delivered on or ahead of schedule  
- PPP sample: 3%  
- Non-PPP sample: ~24%  

*Private sector* capital and know-how can support the successful *delivery of infrastructure projects*  

*Source: Infrastructure Partnerships Australia*
### Construction Delivery vs. Life Cycle Performance

**PPPs focus project criteria, design, evaluation and contracting on lifecycle performance of the service being sought**

<table>
<thead>
<tr>
<th>Traditional Public Procurement</th>
<th>Criteria</th>
<th>PPP Tendering</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction</strong></td>
<td>Delivery Period</td>
<td>Lifecycle of Project</td>
</tr>
<tr>
<td></td>
<td>Basis of Financial Evaluation</td>
<td>Service optimizing bid parameter</td>
</tr>
<tr>
<td></td>
<td>Technical Qualifications of Bidders</td>
<td>Experience in designing, financing, constructing, and operating similar projects</td>
</tr>
<tr>
<td></td>
<td>Technical Evaluation of Proposals</td>
<td>Delivery of efficient, reliable and cost-effective services by date-certain, and consistent performance monthly over life of contract as specified</td>
</tr>
<tr>
<td></td>
<td>Financial Qualifications of Bidders</td>
<td>Ability to fund the equity portion of investment in project; proven ability to raise debt from lenders</td>
</tr>
<tr>
<td></td>
<td>Incentives</td>
<td>Complete construction and start ops as soon as possible; profit earned from operations</td>
</tr>
<tr>
<td>Experience in constructing projects of same type</td>
<td><strong>Construction cost</strong></td>
<td><strong>Experience in designing, financing, constructing, and operating similar projects</strong></td>
</tr>
<tr>
<td>Compliance with specifications, milestone schedule, and capacity/initial ops of plant; approach to construction and construction management</td>
<td><strong>Working capital capacity during construction, bonding capacity</strong></td>
<td><strong>Ability to fund the equity portion of investment in project; proven ability to raise debt from lenders</strong></td>
</tr>
<tr>
<td>Seek means to maximize revenue from construction contract; seek change orders, extensions</td>
<td></td>
<td><strong>Complete construction and start ops as soon as possible; profit earned from operations</strong></td>
</tr>
</tbody>
</table>
II. How to Attract Investors
Creating a Stable Environment for PPPs

A sustainable PPP program is built around strong political leadership and policy underpinnings, and driven by government’s commitment to delivering on its pipeline of projects.

### Access to Finance
- Balanced risk allocation
  - Early and active market engagement
  - Deep capital markets (project bonds, equity, etc.)
  - Active institutional investor base
  - Long-term local currency financing
  - Ability to leverage ODA to attract commercial finance

### Institutional Frameworks
- Senior level champion / leader for PPPs
  - Coordinating institution, e.g. PPP Center
  - Methodology for project selection and prioritization
  - Project preparation / development facility
  - Short, objective procurement process
  - Government support mechanisms, e.g. VGF

### Awareness, Capacity, and Macroeconomic Stability
- Appreciation of need for risk allocation
- Coordination between central ministries and regional governments
- Adhering local practices to international best practices
- Robust legal framework and dispute resolution system
- Strong, predictable political leadership
- Track record of government acting commercially
Focus on Risk Allocation

Risk allocation is driven by several characteristics of the country, sector, and project:

- Greenfield vs. brownfield nature of the project
- Sector, e.g. rail, port, airport, etc.
- Robustness of legal / policy framework, including respect for contracts and ability to enforce in local courts
- Macroeconomic factors, e.g. stability of local currency exchange rate, etc.
- Depth of commercial project finance market for that country
- Member country’s experience with PPP; track record of project delivery
- Value for money to government

Missteps we often see in emerging PPP markets ...

- Over-transfer of risks to private sector
- Projects tendered without adequate market consultation
- Failure to standardize approach to risk allocation in line with established precedents
- Underestimation of land acquisition and resettlement needs

... which if left unchecked, can lead to:

- Higher project costs
- Delays in reaching financial close
- Claims, disputes, and defaults
- Higher incidents of renegotiation by private party
- Failed bids
## Risk Allocation – Examples

<table>
<thead>
<tr>
<th>Risk Item</th>
<th>Brownfield Port Project</th>
<th>Greenfield Rail Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic</td>
<td>Shared through negotiation</td>
<td>Shared through negotiation</td>
</tr>
<tr>
<td>Force Majeure</td>
<td>Shared through negotiation</td>
<td>Shared through negotiation</td>
</tr>
<tr>
<td>Appropriation</td>
<td>n/a</td>
<td>Government</td>
</tr>
<tr>
<td>Design and Technology</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>ROW, Resettlement</td>
<td>Government</td>
<td>Government</td>
</tr>
<tr>
<td>Intra-consortium counterparty</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Shared through negotiation</td>
<td>Shared through negotiation</td>
</tr>
<tr>
<td>Cost overrun</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>Market / volume</td>
<td>Concessionaire</td>
<td>Government</td>
</tr>
<tr>
<td>Tariff adjustment</td>
<td>Concessionaire (regulated)</td>
<td>Government</td>
</tr>
<tr>
<td>System performance</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>O&amp;M cost overruns</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Concessionaire</td>
<td>Concessionaire</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>Concessionaire</td>
<td>Shared</td>
</tr>
<tr>
<td>Utilities, fuel cost</td>
<td>Concessionaire</td>
<td>Shared</td>
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**Use of ODA to Support PPP**

Some GMS countries are facing limits on ODA usage. While PPPs may still require some government support, a smaller amount of well placed ODA can crowd in private sector finance to deliver the same project with lower burden to the government.

**Pure ODA / Full govt. finance**
- Traditional procurement
- Government finances project cost possibly with support from development partners

**Hybrid PPP / Govt.**

**Pure PPP / No govt. finance**
- No govt. support; fully private sector financed
- Requires project to be bankable by itself (often not the case)

**ODA as VGF**
- Use ODA as viability gap funding (VGF); pay down enough of the capex to make the project bankable for private sector

**Hybrid ODA-PPP**
- Use ODA to finance one segment of the road and PPP to finance an adjacent segment
- Allow private sector to operate and collect tolls from both segments

**Availability Payments**
- Use ODA to provide guarantee on availability payments by the government
- Or, support availability payments directly
III. ADB Approach to PPP
### ADB’s Approach to PPP

**ADB’s PPP strategy is based on a 4-pillar approach that is tailored to the needs and development stage of each member country.**

<table>
<thead>
<tr>
<th>Macro / Policy Level</th>
<th>Micro / Project Level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar 1</strong></td>
<td><strong>Pillar 2</strong></td>
</tr>
<tr>
<td><strong>Advocacy and capacity development</strong></td>
<td><strong>Enabling environment</strong></td>
</tr>
<tr>
<td>• Create awareness</td>
<td>• Develop policy, legal, regulatory and institutional framework to facilitate, guide and manage the development of PPPs (country and sector specific)</td>
</tr>
<tr>
<td>• Invoke leadership</td>
<td>• Establish PPP Center for coordination</td>
</tr>
<tr>
<td>• Identify PPP potential in sector planning and the private sector development agenda</td>
<td>• Develop capacity of Government</td>
</tr>
<tr>
<td>• Enhance external knowledge management links</td>
<td>• Enhance external knowledge management links</td>
</tr>
<tr>
<td><strong>Knowledge dissemination, training</strong></td>
<td><strong>Technical assistance</strong></td>
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<td></td>
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<td></td>
<td><strong>Legal support</strong></td>
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AP3F’s primary objective is to assist client governments and their public sector agencies prepare and structure infrastructure projects with private sector participation (including public–private partnership (PPP) modalities) and bring them to the global market.

Financial Donors (total ~$73 million)

- US$40m
- C$20m (US$16m)
- A$10m (US$7m)
- US$10m

Support for Client Country Infrastructure Development

- Project Preparation and Structuring
  Prepare and structure infrastructure projects with private sector participation and bring them to the global market

- Capacity Development + Policy Reform
  Reform and improvement of policy, legislative, regulatory and institutional practices

- Project Monitoring and Restructuring
  Project monitoring and project restructuring
**Transaction Advisory Services**

**ADB can support government clients to prepare PPP projects and tender them to the market with the objective of reaching financial close**

**Project Preparation**
- Project organization & structuring
- Develop concept level feasibility assessment
- PPP options analysis
- Seek government financial support if required

**Marketing and Pre-Qualification**
- Prepare market and tender materials
- Soft market testing
- Pre-qualification process
- Assist with short list selection

**Bidding Process**
- Prepare bid documents (concession agreement, RFP, etc.)
- Manage tender process
- Assist with bid evaluation
- Shadow bid modeling

**Placement and contractual close**
- Identification of key issues for negotiation
- Negotiation with selected bidder
- Concession award and signing of concession agreement

**Supporting financial close**
- Review of model / financing plan
- Assist in negotiation of Direct Agreement with Banks
- Review finance agreements
- Advise the Govt regarding compliance of all CP (conditions precedent)
- Financial close

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**ADB’s PPP TAS delivery**

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**greater mekong subregion**

**Economic Corridors Forum**

**19 September 2017 • Hanoi, Viet Nam**

**50 years ADB**

**Deepening and Widening Benefits of the Economic Corridors through Intersectoral Synergies**
Combined Support for Project Development

As part of TAS, ADB also retains specialist advisors as required using technical assistance or AP3F

ADB will be responsible for delivering outputs to client

ADB will hire and manage consultants for entire project

Though there are consultants, ADB as advisor will be directly responsible to client for outputs

ADB as advisor is remunerated primarily through success fee from the winning bidder and also retainer or milestone payments from government

AP3F or technical assistance

Funding

Government Agency (client)

Consultants

Technical Consultant

Legal Consultant

Tax, Insurance, etc.

Others as needed ...

ADB (as advisor to government)
Examples of Recent PPP Intervention by ADB in GMS

**Myanmar**
- Improving Road Network Management and Safety (2015)
- Strategic Advisory for Developing Transport PPPs (2016)
- Restructuring of Existing PPP Concession Contracts (2017)
- Myingjan Natural Gas Power (2015)

**Lao PDR**
- Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth (2014)
- Second Strengthening Higher Education Project (2016)
- Governance and Capacity Development in Public Sector Management Program (2014)
- Vientiane Sustainable Urban Transport (2015)
- Nam Ngiep Hydropower Project (2016)

**Viet Nam**
- Improving Operational Performance of the Water Supply Sector (2013)
- Project Development Facility (2015)
- Power Sector Reform Program (2015)
- Ho Chi Minh Ring Road 3 Transaction Advisory (2016)
- Da Nang Solid Waste Treatment Transaction Advisory (2017)

**Thailand**
- Capacity Building to Develop Ports by PPP (2016)
- Northeastern Thailand Wind Power (2015)
- Chaiyaphum Wind Farm Co. Ltd. (2014)

**PRC (GMS regions)**
- Sanchuan Small Hydropower Development Project (2009)

**Cambodia**
- Capacity Development for Public-Private Partnerships (2014)
- Technical and Vocational Education & Training Sector Development Program (2014)
- Cambodia National Solar Park Program Transaction Advisory (2017)
- Sunseap Asset Co. Solar (2016)
Thank you!