

# Public-Private Partnership in Transportation system

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## What are Private-Public Partnerships

There is no certain definition about PPP as the term cover hundreds of different types of long term contracts with a wide range of risk allocation, funding agreements, and transparency requirements.

***“But we can summarize it into”***

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## Different definitions of PPP



Public-private partnerships involve collaboration between a government agency and a private-sector company to provide public projects such as provision of infrastructure like public transportation networks, parks and convention centers and schools and hospitals with a long term nature.



By improving an already existing project throughout its quality of service by allowing a greater involvement of a private sector institution.



A PPP is a risk sharing relationship between the public and private sectors based upon a shared aspiration to bring about a desired public policy outcome.

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## Private finance initiative

- It's a specific method for financing these projects as a private firm will finance, manage, and complete the project.
- The private company provides the initial funding, removing the immediate burden from the government and taxpayers.
- Instead the firm receives repayments with interest from the government.
- A PFI is specially useful when the government doesn't have enough funding available for a public project.
- PFIs were firstly introduced as a way to encourage more PPPs, and are commonly used in the united kingdom and Australia.

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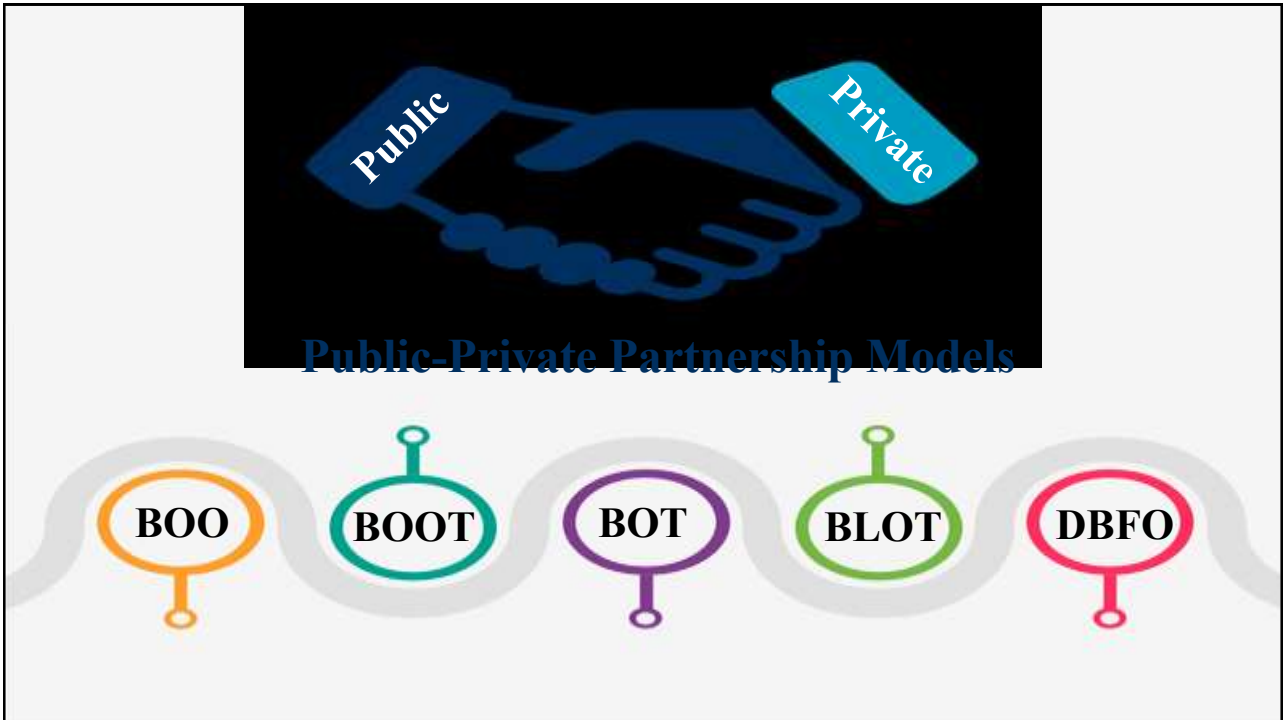
## How Public-Private Partnerships Work

A city government ,might be heavily indebted and unable to undertake a capital-intensive building project.

A private enterprise might be interested in funding its construction in exchange for receiving the operating profits once the project is complete.

- Public-private partnerships typically have contract periods of 25 to 30 years or longer. Financing comes partly from the private sector but requires payments from the public sector and/or users over the project's lifetime. The private partner participates in designing, completing, implementing, and funding the project, while the public partner focuses on defining and monitoring compliance with the objectives. Risks are distributed between the public and private partners according to the ability of each to assess, control, and cope with them.

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- **Build-Own-Operate-Transfer**

The private sector builds and **owns** the facility for the duration of the contract, with the primary goal of recouping construction costs (and more) during the operational phase. At the end of the contract the facility is handed back to the government.



- **Build-Own-Operate**

The private sector have the right to own, operate and finance the project. The public sector doesn't provide direct funding in this model, it may offer other financial incentives such as tax-exempt status.

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- **Build-Lease-Operate-Transfer**

A private organization designs, finances and builds a facility on leased public land. The private organization operates the facility for the duration of the lease and then transfers ownership to the public organization.



- **Build-Operate-Transfer**

Commonly used to finance the large projects ( Highways, roads). Role of the private sector partner is to bring the finance for the project and take the responsibility to construct and maintain it. In return, The public sector will allow it to collect revenue.

**Note: Public sector is the owner during the concession period.**

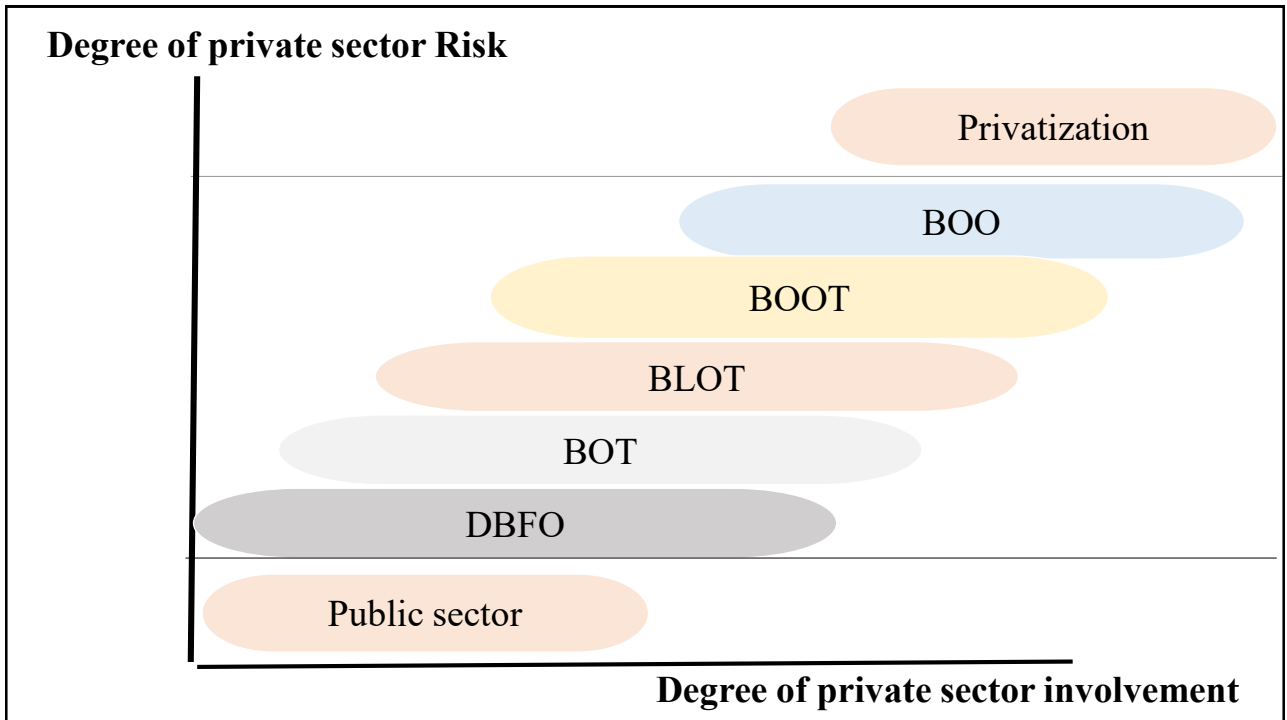
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**Design – Build – Finance - Operate**

- The private agency undertakes the responsibility of **Designing**, constructing and financing the project.  
The ownership : Public sector.

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## Risk Transfer and Private Sector Involvement in Public-Private Partnerships

- If the private sector is only given the task of designing and Operating an infrastructure, then there is little risk involved to private sector. ( DBFO model )
- Inversely, in an entirely private context the private sectors assumes all the risks and the revenues. When large and complex infrastructure projects are involved, the private sector is reluctant to assume all the risks. ( BOO , BOOT and BOT )

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## Why should government go for the private sector ?



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### Fill in the infrastructure gap “ Efficiency gain”

Infrastructure gap is the difference between required infrastructure and existing infrastructure, this gap will have negative effects such as

- Increasing supply costs for businesses
- Increasing prices that affects people income
- Reducing geographical mobility of labor that cause higher structural unemployment.
- affecting International trade & also damaging their export competitiveness.

so PPPs help in gaining efficiency through improved project delivery, operation, management & access to technology as the main goal is to improve quality of public services delivery by taking the advantage of private sector efficiency and expertise.

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## Risk Sharing

PPPs enables the public sector to transfer risks to private sector (Operation & Construction risks)

The public sector provides the private investor with all the information needed about the project and shifts some risks to the private sector.

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## Creation of Long-term solutions for provision of public services

PPPs can create Long-term solutions through addressing issues; such as: Poor construction quality & inadequate maintenance.

For example: if you're responsible for operating an asset for 20 years you'll make sure that this asset well-built.

- It guarantees a Long-term & stable partnership and this also guarantee making revenues over the service lifetime.

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## Efficiency achieved through the use of private sector money

### Efficiency achieved through the use of private sector money in financing, building & Operating public infrastructure

- In PPPs, private investors are financing the public infrastructure independently from the public budget constraints that may prevent some projects from implementation or deliver services with low quality.

- Private sector can generate additional revenues.

For example: An airport can be seen from a public perspective as a mean of providing transportation services to passengers and Airlines, from a private perspective it can develop other sources of revenues from shops, hotels and car parks, these revenues could fund infrastructure investment.

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## Disadvantages of PPP

PPPs not suitable for all types of projects

Inefficiency from Bidding process

Higher financing Costs

Disadvantages

Insufficient flexibility

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### PPPs aren't suitable for all types of projects

PPPs don't work well in sectors with rapid change; for example: IT sectors  
as most of the contracts are long-term contracts while any sector related to IT & Technology changes rapidly.

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### Higher financing costs

The borrowing costs of a private sector will always be higher than the borrowing costs of government, because lenders assume more risk when lending to the private sector than to government.

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## 3

## Inefficiency resulting from the bidding process

### Stages of PPPs contracts :

- 1- Identifying the project & the services providers.
- 2- Request for proposal
- 3- Evaluation of received proposal ( On the basis of company's requirements)
- 4- Interactions with bidders to know how they'll execute the project.
- 5- Finalize the PPP contract with the preferred bidder.

There will be a possibility that the public sector may choose the wrong bidder (The government might get attracted to the bidder who'll execute the project with the least costs which may result in a low-quality project) .

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## 4

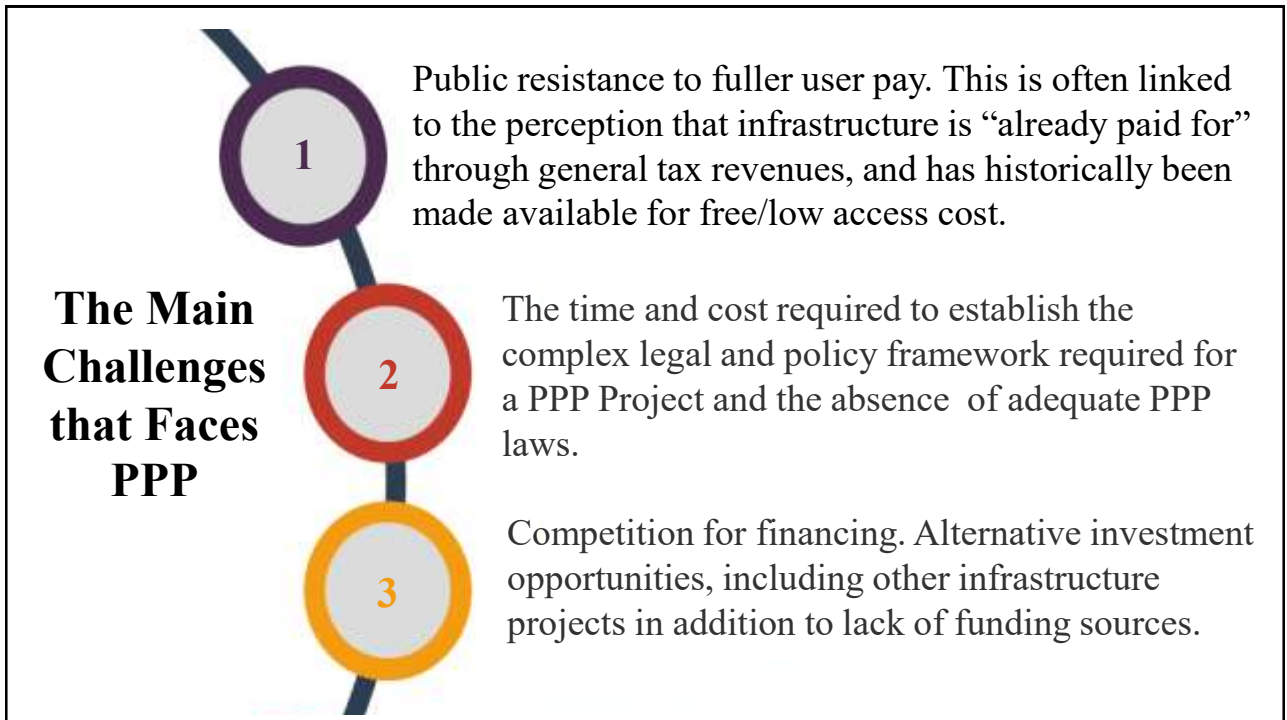
## Insufficient flexibility

-PPP's can be inflexible when it comes to making changes to a project. Any change to a PPP project that affects the rights or obligations of the private investor will not only require the agreement of the contractors to whom those rights or obligations have been passed through, but also the private investor's debt financiers and equity investors. Negotiating a deal that enables the private investor to obtain the agreement of all of these parties is a major challenge for any government that wishes to make a significant change to an asset which is the subject of a PPP contract.

**-The long-term nature of PPP contracts is another cause of inflexibility.**

Waiting for contracts that constrain government's ability to make changes to expire is not an attractive option if those contracts still have many years, or decades, to run.

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## »» What are some of the transport policy considerations regarding PPP ?

### 1 Policy Formulation:

- ❖ Define long-term vision and strategy for PPP project either through policy document or PPP law.
- ❖ PPP policy can help to secure political and public support for PPP projects in addition to that support from senior politicians is important to build consensus internally..
- ❖ Indicator for the long-term commitment of the government.

### 2 Financial Support:

- ❖ Project development facilities are required.
- ❖ Various means of collecting funds should be looked at ( taxes incentives, tolling, road funds, Capital grants)

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## 3

**Legal and Regulatory Framework:**

- ❖ Clear Legal Basis:
  - Who are the Competent authorities?
  - Private Participation (Sector eligibility)
  - Are there any limitations for foreign investors?
- ❖ Procurement rules:
  - Fair, transparent and competitive process.
- ❖ Dispute-resolution mechanism:
  - Should be placed to deal with the differences which will inevitably arise between the public and private partners during the life of contract.
- ❖ Tariff settings:
  - There should be clear methodologies for tariff setting.

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## 4

**Institutional Arrangements:**

- ❖ Clear Allocation of responsibilities:
  - Who is approving what and when?
- ❖ Capacity available to undertake PPP projects:
  - Where is the expertise located in the government?
- Functions/units of PPP:**
  - Supervision:** include the screening/quality control of the project and the performance monitoring to check if the project is meeting its objectives.
  - Facilitation:** Technical and financial support for developing PPP projects.
  - Promotion:** Creating awareness campaigns about PPP project and managing public perception by providing information about the benefits of PPP.

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## The Main Differences between PPP and Traditional Procurement

**In a traditional procurement**, the competent authority selects a private firm to design and build a project. After financing the project, the government can either manage and operate a facility itself or select an operator to do this.

**In a PPP project**, the whole implementation process is granted to a single entity.

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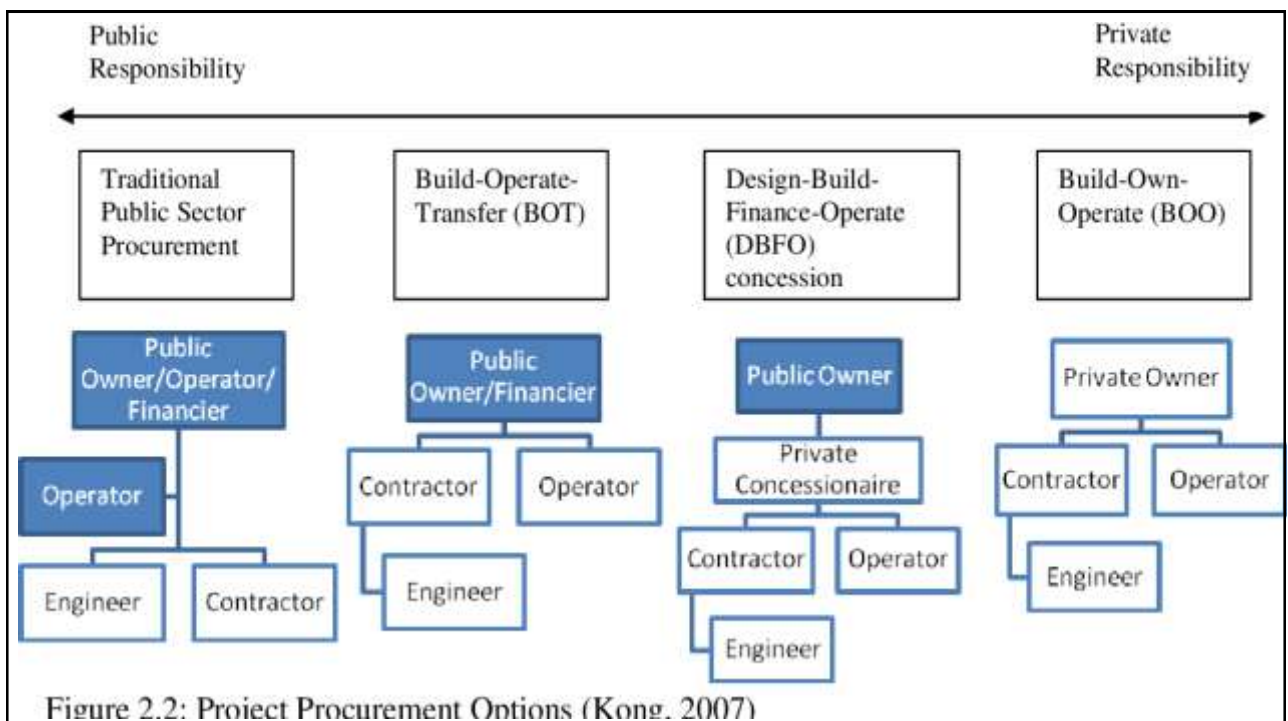


Figure 2.2: Project Procurement Options (Kong, 2007)

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	Public Private Partnership	Traditional Procurement
→ <b>Funding:</b>	Private investors , How? - User fees ( like collection tolls on highways for road projects) - Availability of payments ( The Government check against performance indicators and then decide to pay fees or not)	- National budget of the country ( most of the payments are made during construction phase) - Upfront Payments
→ <b>Duration:</b>	Public authority must monitor the performance of the private operator throughout the length of the contract.	The Relationship ends when the construction is over.

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	Public Private Partnership	Traditional Procurement
→ <b>Project Specification</b>	What we want to achieve? - Output oriented approach that requires innovation and efficiency Ex: In a highway project, it will focus on the road surface quality. Ex: In air port project, the goal will be 10m passenger/year	How to achieve what we want? - Input oriented approach that focuses on the inputs used.  Ex: it will focus on the road surfacing materials.
→ <b>Risk Allocation:</b>	The Risk are shared between public and private sectors.	The Risks are borne by public sector.

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## Types of PPP's risk in transport

 **Market,  
Revenue  
risks**

 **Financial  
Risk**

 **Superior force  
Risks**

 **Design  
Risks**

 **Legal  
Risk**

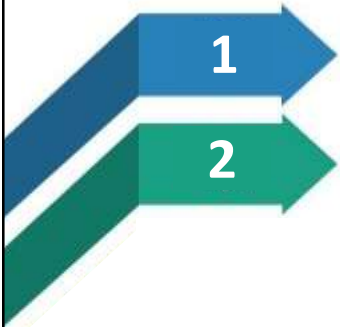
 **Operation Risk**

 **Political  
Risks**

 **Environmental  
risks**

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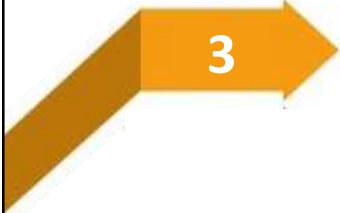
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**Market and Revenue risks:**  
Revenue risk is the uncertainty in relation to the revenue that a project would actually generate.

**2**

**Design Risks:**  
This risk relates to any defect in the design of the infrastructure of project. This type of risk in the project is very difficult to know that the damage to the infrastructure is due to the defect in the design parameters or the design itself.

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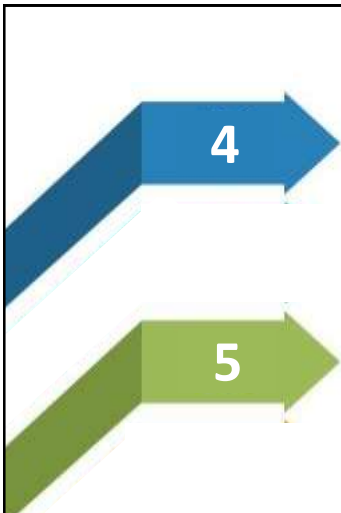


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**Political risk:**  
The project company and the lenders face the risk that the project may be negatively affected by acts of the Government such as:

- ❖ Changes in law
- ❖ Adverse government action
- ❖ Payment failure by government
- ❖ Increases in taxes
- ❖ Political changes (including changes in government)

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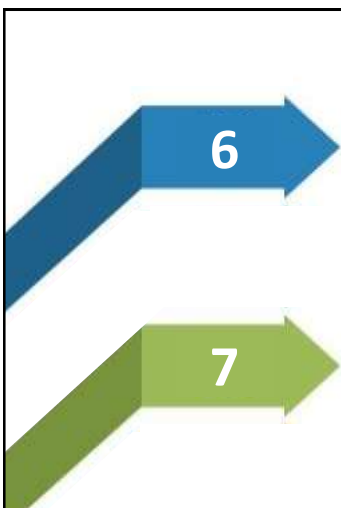
**Financial risk :**  
the risk that cash flows might be insufficient to cover debt service , Financing constraints, especially the lack of long-term debt capital, are a significant hindrance to road development

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**Legal Risks:**  
Some of the legal risks that a PPP project can face are related to:

- ❖ Title/lease of property
- ❖ Ownership of assets
- ❖ Corporate and security structure

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**Environmental Risks:**  
Transport projects attract strong opposition from community and environmental groups over issues of pollution, congestion.

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**Superior force Risks:**  
These risks are regarding the events that are outside the control of any partner and cannot be prevented. These risks generally arise due to causes external from the project.  
Such as:

- ❖ Natural force events as earthquakes
- ❖ Floods political force events as wars

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### Operation Risks:

Some of the risks that we may face in a PPP project apply also when we are providing operations

Performance risk:

The completed project cannot be effectively operated or maintained to produce the expected output or efficiency.

Operation cost overrun:

The operating costs exceed the original estimates

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