

CIFAL Płock

Public-Private Partnership in Investments in Central  
and Eastern Europe

How to develop a Successful PPP project

12 April 2010



## Public private partnership – main features

- Collaboration between public and private partners in order to carry out **public assignments**
- Public sector purchases **services not assets**
- Private partner is usually responsible for a design, construction, maintenance and financing
- Public sector specifies **key performance indicators** of the services purchased
- Optimal **sharing of risks** between public and private sector leading to better risk management
- **Payment mechanism** reflects the risk allocation, while payments may come from the public budget or from end users
- Payments for the private partner are based on **performance evaluation**
- Proven **value for money**

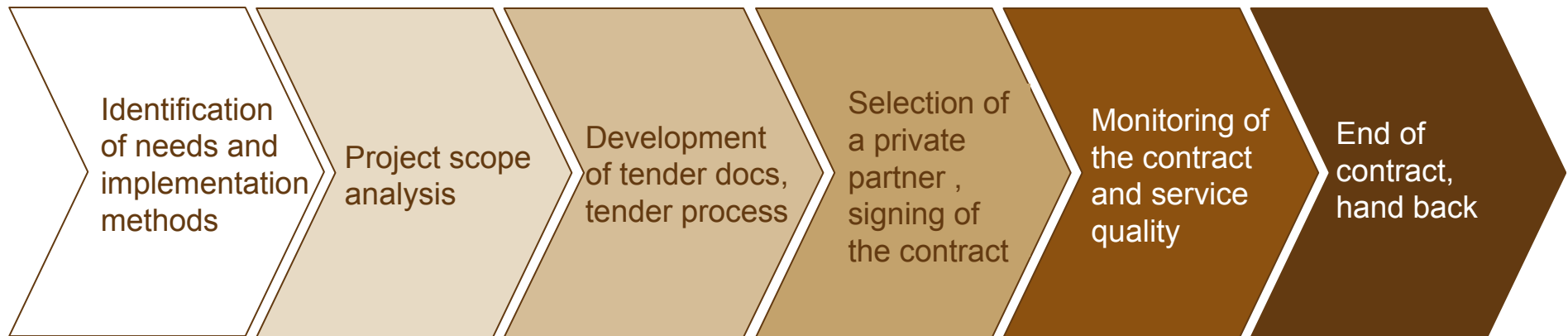
## When to select a PPP option

- Not for all public investment projects (in most mature economies maximum 10 – 15%)
- When financial, technical and legal analyses will prove that benefit to the public sector is greater than in case of a traditional method
  - life cycle financial gains
  - financial effects of the risks allocated to a private partner
  - social and economic gains from more efficient services
- When there is a shortage of public funds and analyses prove that both options are comparable

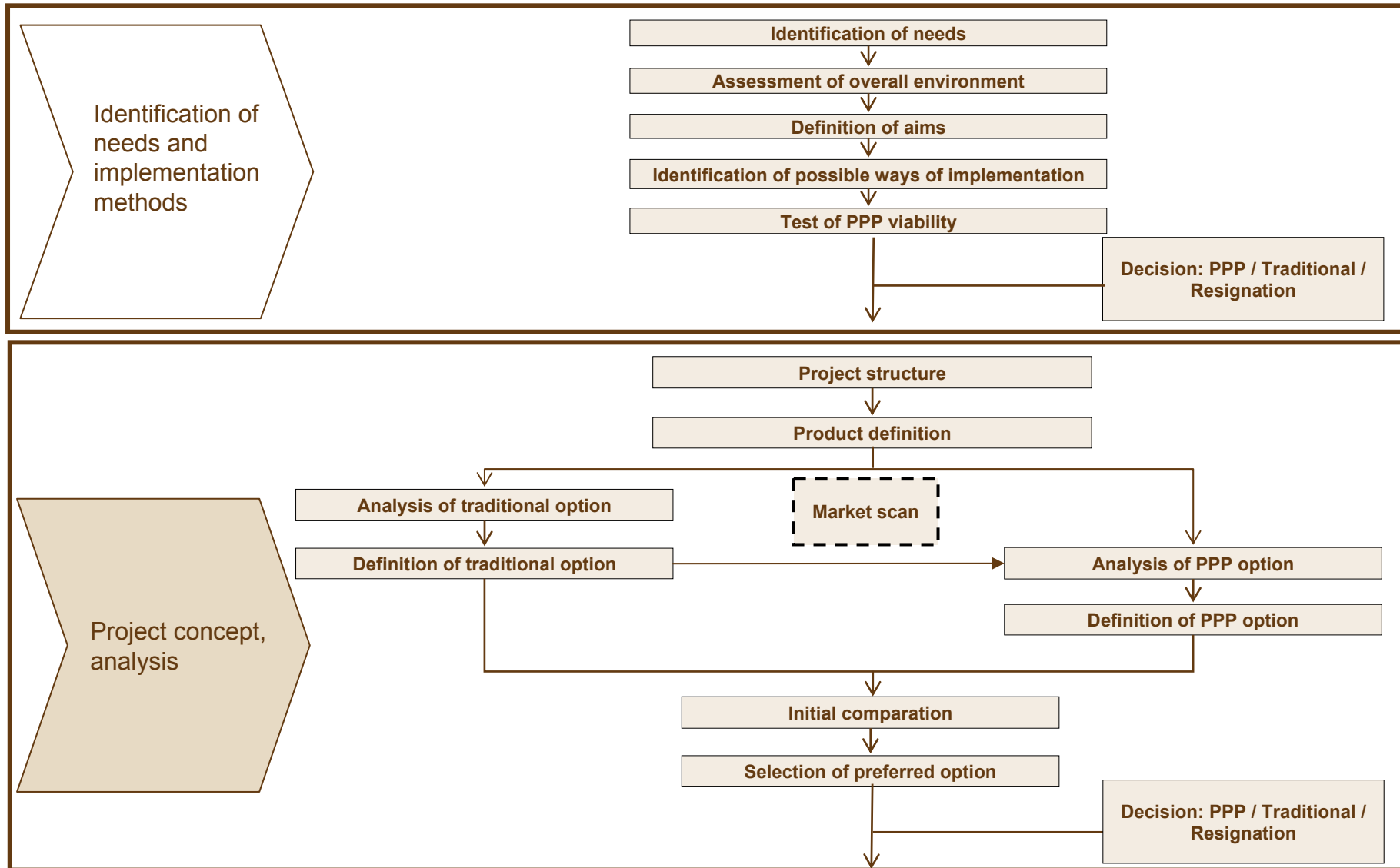
# Conditions necessary for a successful PPP

- Political will and understanding of the concept
- Adequate value of a project (> EUR 10 M)
- Market scan – taking into account realistic expectations of a private partner
- Social communication
- Conducting of analyses using proper tools
- Readiness to accept alternative solutions as a result of analyses
- Sufficient time for analyses, decisions, selection
- Optimum risk allocation
- Payment mechanism acceptable to both sides; adequate
- Transparency of the procurement process, well prepared tender documentation and solid selection criteria, contracts
- Bankability
- Proper monitoring

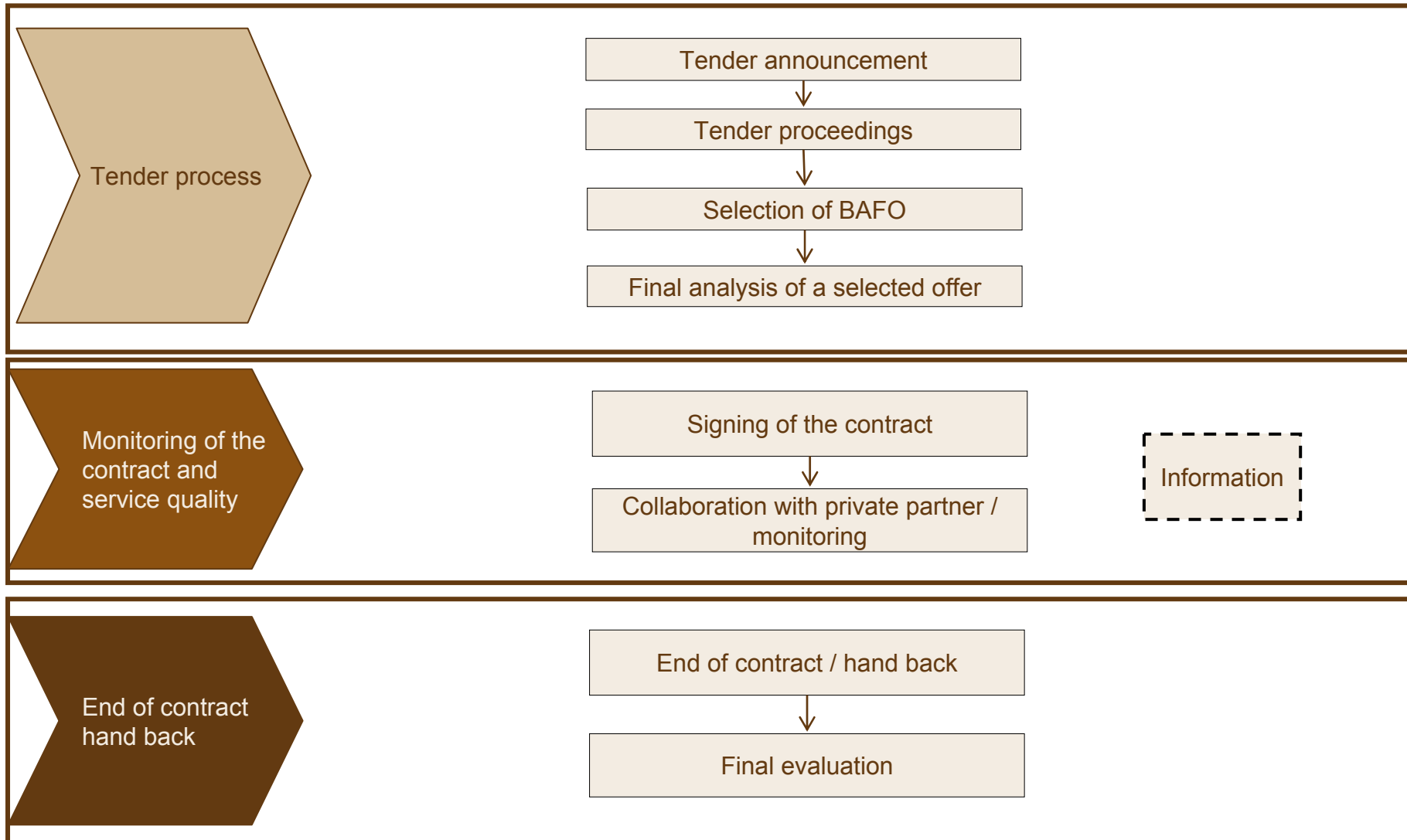
# PPP Transaction process(1/3)



# PPP Transaction process(2/3)

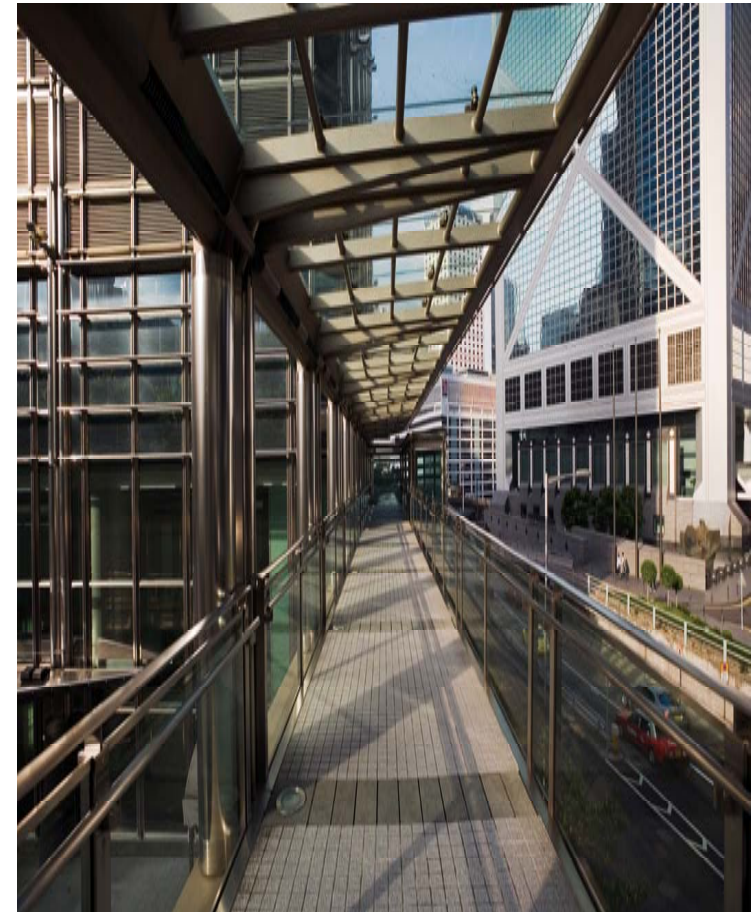


# PPP Transaction process(3/3)



## Essential PPP analysis performed by public sector

- Analysis of financing options
- Technical analysis
- Financial analysis
- Risk analysis
- Social and economical analysis
- Value for Money, Public Sector Comparator
- Potential investors market testing
- Analysis of legal and administrative constrains



## Why are analysis necessary?

- Analysis are key success factor in long term investments, no matter what is the method of investment execution (traditional, PPP, other)
- Before making decision on method of investment execution, scope of investment and financing methods, various scenarios shall be analysed
- In order to prepare precise material as a base for making the best decision on investment execution, legal, financial and technical analysis shall be performed

# What is important?

- Decision on financing instrument selection cannot be made ex ante, without performing various analysis
- Investment plans shall be individually serviced
- Alternative costs should be considered
  - spending limited own funds on financing projects should be avoided when other financing instruments may be applied



# Financial analysis

- Based on technical assumptions:
  - Capital expenditure
  - Operational expenditure
  - Demand for services (based on assumed prices, for example rent)
- Funding assumptions: sources, costs
- Financial forecasts: revenues, costs, cashflows, profits during the lifecycle of the project
- Tax analysis
- IRR, NPV
- Financial indicators:
  - Liquidity
  - Debt
  - Profitability

# Risk analysis

- Identification of types and categories of risk
- Probability of appearance of each type of risk
- Allocation of risk according to ability of their control
- Estimation of financial effects of risks after development of a financial model
- Optimum transfer of risk is such which will cause the least accumulated effects for either side
- Allocation of risk is a determinant whether PPP is treated and on- or off balance financing

Payment mechanism is a method of financial settlement with a public partner reflecting the risk allocation

- Availability payment → **demand risks on the public side**
- Shadow toll → **demand risks transferred in full or in part to a private partner (payment dependent on traffic intensity in road projects)**
- Payment from end users → **demand risk fully transferred to a private partner**
- **Key performance indicators are an important factor in payment mechanisms from the public sector**



Payments  
from the  
public  
sector

## The Public Sector Comparator (PSC)

The basic analysis determining whether a PPP is appropriate for a given project:

- Compares the traditional with a various options of a PPP
- Assesses financial output specifications (capex, opex, funding) of a PPP project for the whole life of project
- Takes into account economic and social issues
- Is risk adjusted
- Is expressed in net present value terms

## Value for Money (VfM)

- As a principle all PPP projects must generate Value for Money (VfM), due to the nature of public services
- VfM is a difference between price and a sum of benefits
- Positive VfM is generated when benefits have been maximised (not only financial but also quality, reliability, know-how, innovation)
- The principal method of determining VfM is an evaluation of the bidders proposal against a Public Sector Comparator (PSC)
- The PSC provides a risk-adjusted costing of the PPP scheme assuming that the public sector was providing the service and that the scheme was publicly financed

# Pros and cons for a PPP



## PROS

- More benefit to the public
- Limiting the public spending
- Easier budgeting process
- Limiting of risk of stopping or delaying of public projects due to shortage of public funds
- High quality of works and services
- Transfer of some risk to the public
- Possibility to use private fund for infrastructure development while maintaining control
- Possibility of renegotiations of the contract
- Postponing payments during the construction period

## CONS

- Higher cost of financing
- Long term commitment of the public sector
- Complicated implementation process
- Limited experience/good practices in the region

# Summary

- Not all public projects may be efficiently implemented in a PPP formula. The successful PPP project usually meets the following criteria:
  - Technological complexity, innovation (lack of experience of the public sector and lack of possibility of detailed description of the entry criteria)
  - Capital intensive (> EUR 10m)
  - Well analysed
  - Diligent selection process

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