

Public Private Partnership (PPP) - A worldwide valuable instrument for public authorities

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Content



- Facts on Urban Development
- From Urban Development to Infrastructure
- Public-Private Partnerships – What is all about
- Involved parties and different perspectives on PPP
- Different possibilities to structure a PPP
- The private contribution to sustainable development
- The situation in Poland
- General success factors of PPP

- **Facts on Urban Development**
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Why should we be concerned about Urban Development?

- Dramatic change within short time and half of the world's population is concerned
- Cities are the primary motor of growth
- Growing competition between cities
- High threat of resources and environmental degradation
- Decentralization: new tasks and new responsibilities, new skills needed
- In cities global and local processes come together

This has also effects on the infrastructure:

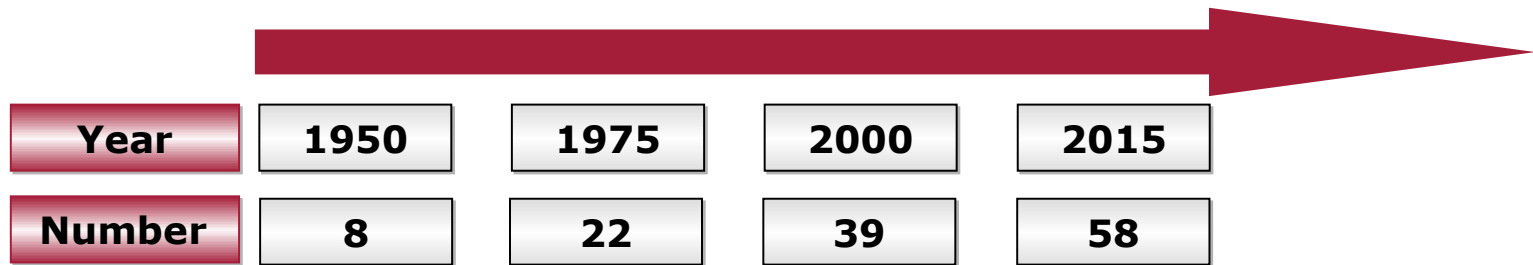
- ⇒ A major point of concern is the growing arising waste (industrial and disposal)
- ⇒ The infrastructure (roads, rails, telecommunication, waste management, etc.) have to be ready and prepared for Urban growth

Speed and interdependency of different fields in Urban Development are growing!

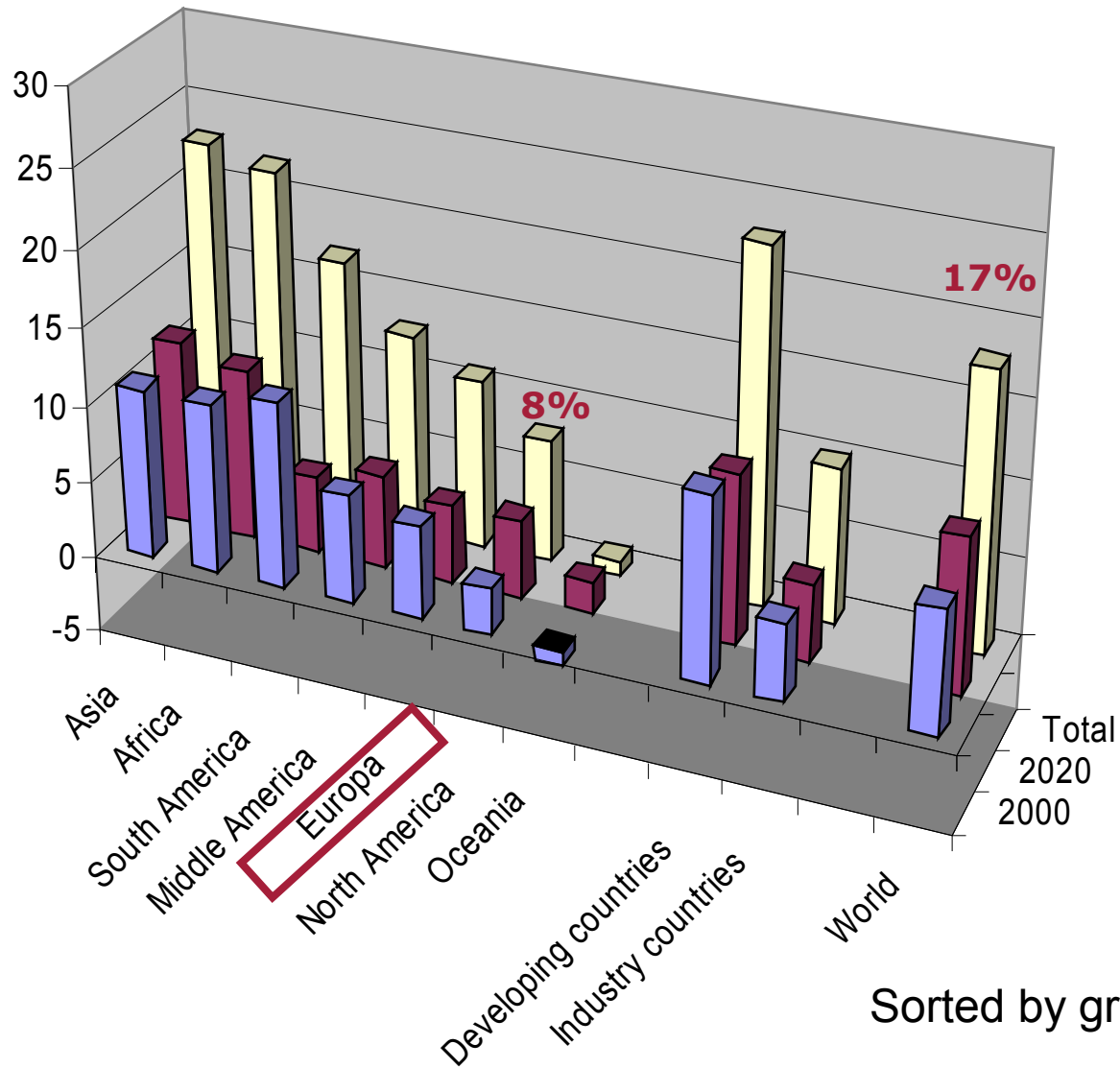


Urbanization & Cities - Facts & Figures

- More than half of the world's population will be living in urban areas by 2008
 - By 2030, it is expected that 60% of the world population will live in urban areas
 - By 2030, it is expected that 85% of the world's population will be in developing countries
 - Cities are growing very fast- over 90% of population growth in developing countries is in cities
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- Development of the urban agglomerations with over 5 Million inhabitants:



Urban growth rate is highest in developing countries

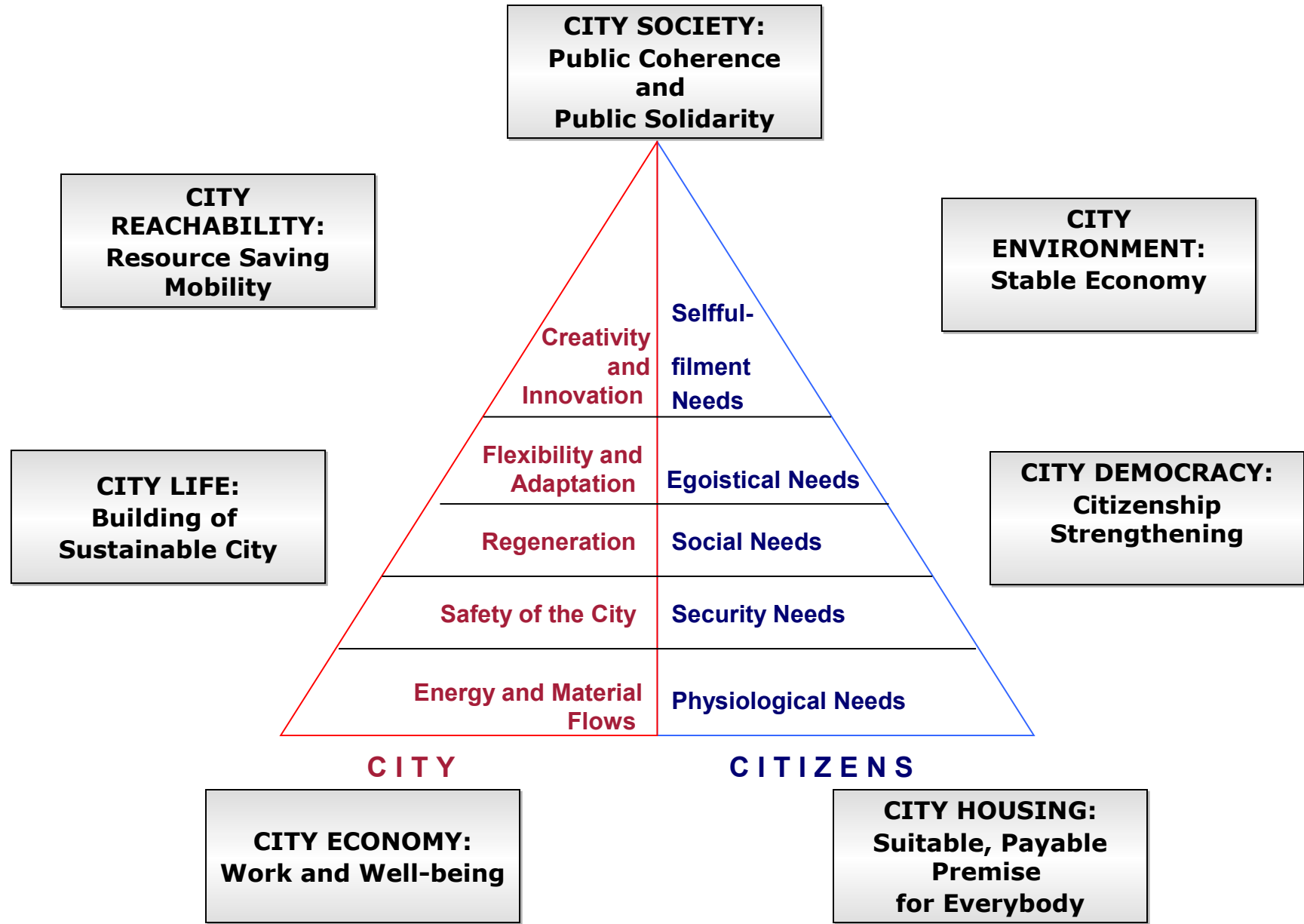




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Needs and areas of Urban Development



Enlarged role of the regional and local Government

- Setting up local and regional frameworks based on national and international law
- Steering of processes, not necessarily operate and maintain
- Definition of and cooperation with politics
- Involving other players and stakeholders
- Decision on what can be done by other players, what should be done by the state or city
- Doing what nobody wants to do
- Planning budgets for the different fields of activities
- Infrastructure (including waste management) was, and mostly still is provided by public monopolies
- Mostly *reaction* instead of strategic *action*
- Infrastructure plays a key role for the overall economic performance and development

**In addition to that:
In the last 10 years national governments of 63 developing countries have shifted relevant administrative power to lower levels of government (cities and municipalities)**

Urban solid Waste Management is part of the infrastructure issues in Urban Development



Urban Solid Waste Management

Overall Goal
 Collection, treatment and disposal of solid wastes generated by all urban population groups in an environmentally and socially satisfactory manner

- Key obstacles**
- In developing countries, municipalities spend 20-50 percent of their available recurrent budget on solid waste management
 - 30-60 percent of all the urban solid waste in developing countries is uncollected
 - Less than 50 percent of the population is served
 - In some cases, as much as 80 percent of the collection and transport equipment is out of service, in need of repair or maintenance

- PPP**
- Obtaining efficiency gains
 - Key success factors of competition, transparency and accountability
 - Improving efficiency and lowering costs by introducing commercial principles
 - Mobilizing needed investment funds, providing new ideas, technologies and skills



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Reasons for increase of worldwide importance of PPP



- Decreasing governmental budgets
- Postponed projects
- Increasing complexity of tasks
- Globalization process
- Increasing expectations of citizens
- Decentralization
- Different levels of interests on local, regional and national levels

Public-Private Partnerships – First ideas

The PPP is a form of collaboration between a public and a private partner

- for a well-defined period of time and
- related to one of more specific phases of a planned project.

The responsibilities of both the private and public partners are explicitly defined in the

Partnership Agreement.

But there is a huge difference between “PPP for Development” and “PPP for Return on Investment”

Most relevant is to form a “www”: win-win-win (Private – Public – Client) with some gain and pain on all sides

Public-Private Partnerships - Definitions

Standard definition

PPP covers the institutionalized approach of co-operations between protagonists of different social systems to solve complex local, regional and national regional problems.

Wide range of definitions

- ⇒ Every co-operation between public and private protagonists **to meet a public good.**
- ⇒ Executions of large projects with public and private partners to meet a public good.

■ PPP is not:

- ⇒ A simple dialogue
- ⇒ Full scale privatization
- ⇒ A remedy for everything
- ⇒ A free lunch
- ⇒ Easy to achieve

To serve customers + to serve the public = to serve the human nature



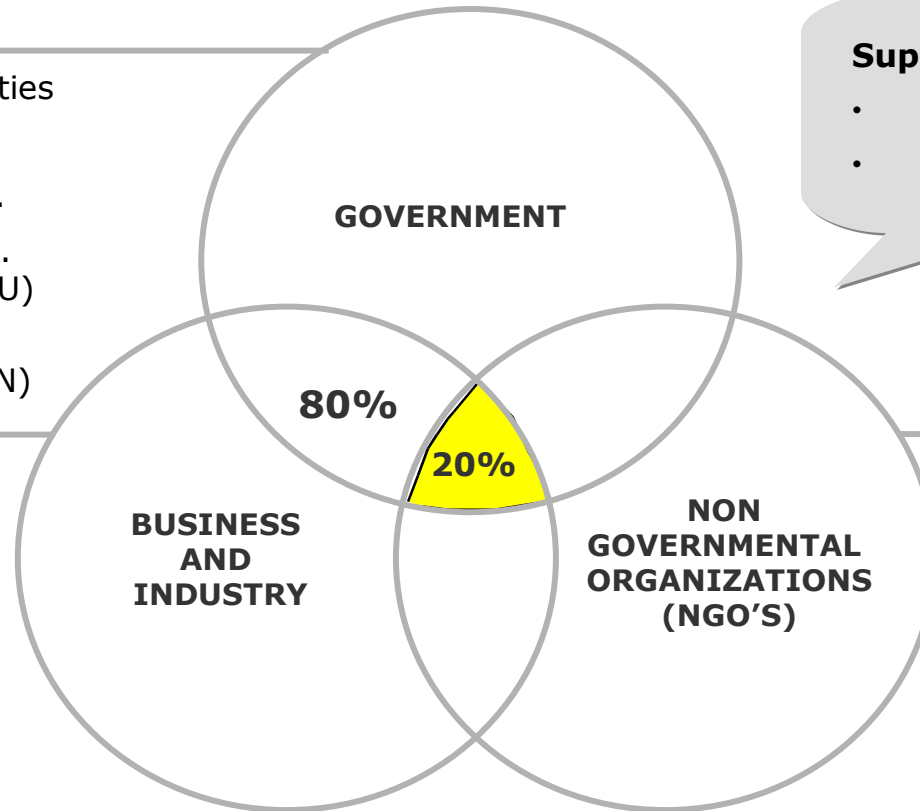
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PPP - Parties involved

- Local Authorities
- State Gov.
- National Gov.
- Regional Gov. Groupings (EU)
- International Gov. Org. (UN)

- Local business
- National b.
- Transnational b.
- Chambers of Commerce



Supporters:

- International donors
- Lender organizations

- Churches
- Trade Unions
- Women Groups
- Youth Organizations
- Activist Groups

At least one player from public and private side is needed to form a PPP



Different perspectives of involved stakeholders/ shareholders

<p style="text-align: center;">Countries</p> <ul style="list-style-type: none"> ➤ Supplied capital and reduced fiscal burden to government ➤ Assists with technology selection/ development ➤ Reduced corruption ➤ Cost and risk sharing 	<p style="text-align: center;">Private Sector</p> <ul style="list-style-type: none"> ➤ Commercial Interest & Growth ➤ Clear assessment of risks ➤ Brand / Prestige, image ➤ Growth ➤ Diversification
<p style="text-align: center;">Public Sector</p> <ul style="list-style-type: none"> ➤ Access to corporate funding ➤ Utilization of private expertise ➤ Ability to concentrate on core competencies ➤ Cover the needs of clients ➤ Speed ➤ Dwindling budgets and at the same time growing expectations 	<p style="text-align: center;">Lenders</p> <ul style="list-style-type: none"> ➤ Commercial Interest ➤ acceptable return on investment ➤ Large Scale and Long Term Investments ➤ Clear assessment of risks <ul style="list-style-type: none"> ⇒ conditions based on this evaluation ⇒ increase long term revenues
<p style="text-align: right;">Client</p> <ul style="list-style-type: none"> ➤ Growing expectations ➤ Involve them 	<ul style="list-style-type: none"> ➤ Why pay for public services? ➤ Clear responsibilities

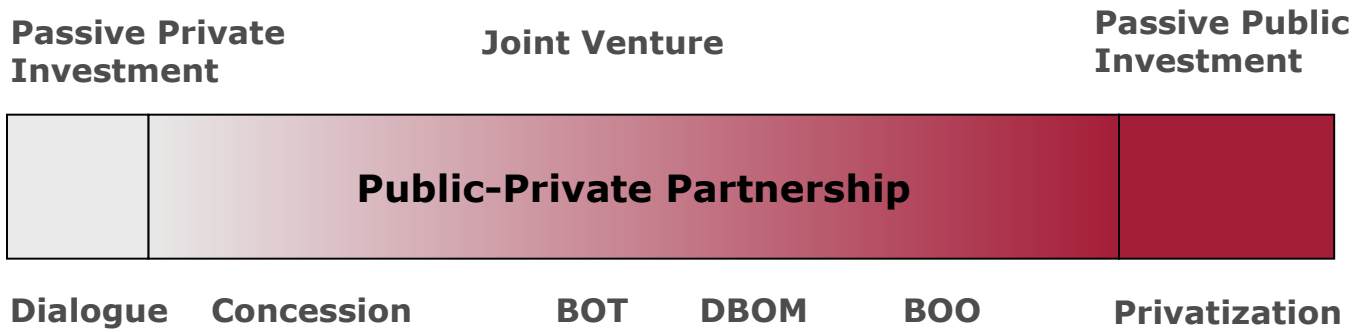


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There is a broad range of possibilities to structure a PPP

- Operations and management contracts
- Operations and management contracts with major capital expenditure on existing facilities
- Greenfield projects
- Divestitures
- Private contractor already included in the design of the project





Common types of projects in infrastructure

	Type of PPP	Description	Typical duration	Ownership	Risk
Existing/ new assets	Concession	Priv. company pays fee to operate public assets.	20 to 30 years	Public	Private
	Asset sales		perpetuity	Private	Private
	Concession contract		15 to 50 years	Private	Private
	Lease contract		7 to 15 years	Public	Public
New assets	BOT (Build-Operate-Transfer)	Priv. company develops, finances and operates facilities	15 to 30 years	Until transfer: Private After transfer: Public	Private
	DBOM (Design-Build-Operate-Maintain)	Priv. company designs, develops, finances and operates facilities	20 to 30 years	Private	Public
	BOO (Build-Operate-Own)	Priv. company develops, finances and operates facilities	Infinite	Private	Public

Different levels of public and private involvement

Public party driven

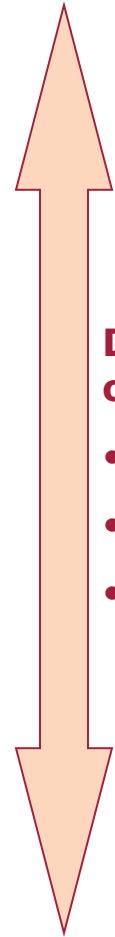
- initiated by the public administration
- more than 50 % shares
- „board of directors“/ decision making is highly depending on public partners
- > 50 % involvement in PPP

Equal partnerships

- clear shares with common voices (mostly 50%/ 50 % shares and decisions)

Private driven

- mainly initiated by the private side
- public side is more a monitoring and setting frameworks
- profit orientation is a major goal
- > 50 % involvement in a PPP



Different types of engagement

- **Basic**
- **Controlled**
- **Integrated**



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Example of Concession

Water and Sewerage Concession, Buenos Aires, Argentina



Objective:

To connect 100% of the population in the concession area to drinking water and 90% to sewerage.

Description:

A 30 year investment plan of US \$4 billion by Aguas Argentinas (AA) to connect 100% of the population to drinking water supply and 90% to sewerage. AA is a consortium led by the French company, Lyonnaise des Eaux.

Investment Size:

4 billion US\$

Result to Date	38% increase in water production
	30% of water connection and 20% in water sewerage connection
	3200 km of new water constructed + 1100 km of existing water network rehabilitated
	1500 km of new sewerage network constructed
	\$1,2 billion in new capital investment



Example of BOT

Construction and Operation of a New Drinking Water Plant, Izmir, Turkey

Objective:

Drinking water plant to serve 1.2 million residents of Izmir, a coastal town south South West of Istanbul.

Description:

Thames Water of Britain (RWE) is the lead investor in the project to build and operate the project, which is destined to revert to the state 15 years after operations begin. It was the largest privately financed water supply project in the world in 2000.

Financing: substantial local participation. Thames Water agreed to work with two local Turkish contractors (70%), municipality (15%), two Japanese firms (15%). Export credit agencies in Britain, France and Japan arrange financing by covering political and commercial risks and dividing the debt financing.

Investment Size:

933 million US\$



Example of DBOM

Copenhagen Ørestad Metro. Denmark

Objective:

To link a newly developed urban district to the existing city centre.

Description:

Completely publicly funded project, but a number of risks is transferred to the private sector by financial agreements. The DBOM concerns a period of 5 to 8 years.



Structure of the project	
Ownership of infrastructure	Public authority
Ownership of rolling stock	Private authority
Transport operation	
Who sets fares	Public authority
Who determines the schedule	Private operator, public authority sets minimum
Income for the operator	Fixed fee per kilometer





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Facts about Poland

- Over 38 million inhabitants
- 62% live in urban areas
- Over 12 million tons per year of domestic waste
- Over 120 million tons per year industrial waste
- Successful transition from command to market economy and from a single party rule to a pluralist democracy
- Liberated municipal waste market
- There is only one waste incineration plant (Warsaw)
- 95% of the domestic waste is deposited on 1.000 disposals, most of them do not meet the standards
- Required investments in the waste sector till 2010: 75-80 Million €/year
(over 1.100 sewage plants and about 36.000 km of sewage systems are to be built or modernized)
- Availability of EU financing for infrastructure investments
- World Bank Commitments 2005: 231 Million US\$
- Economic growth 2004: over 5 %



PPPP - First PPP law in the Central and Eastern European countries in Poland

Historical background

- The first examples for PPP in Poland occurred in 1992. A public company responsible for water supply and sewage disposal was privatised.
- By 1998, the modernization and operation of the lighting system for Krakow's roads was run by a private company.
- Between 1997 and 2000, two major motorway projects were carried out in Poland under the PPP scheme.

Key barriers

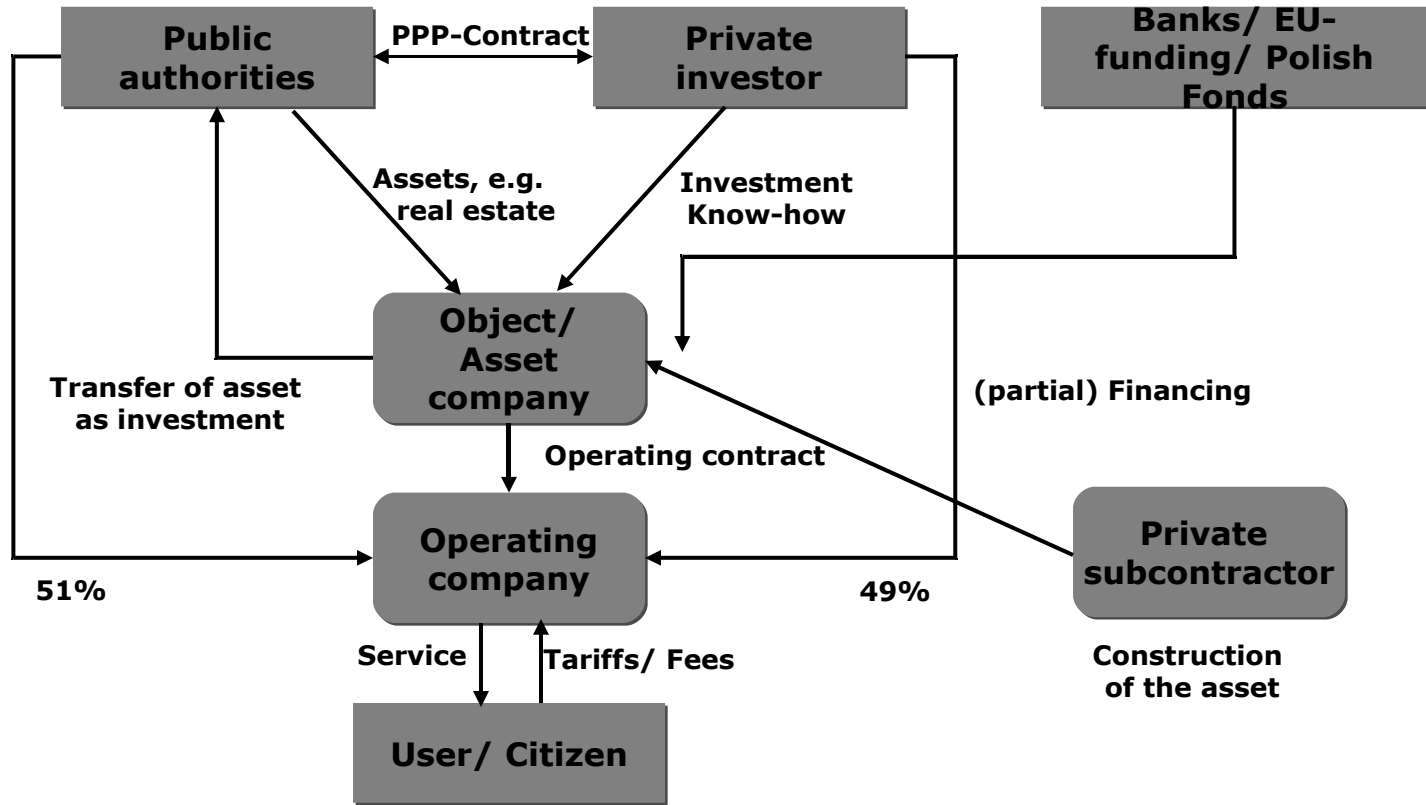
- Lack of public awareness
- Strong reluctance of private entrepreneurs to do business with the public sector



Legal framework

- For many years, the legal regime for PPP agreements was based on the rules of concessions granted to private entities by the public sector without any particular regulation of the issue.
- In July 2005 the Polish parliament passed the PPP legislation, which came in force in October 2005.
- The main objectives are stimulation of investments, removal of the barriers, determination of the procedure and increasing of the ability to draw private capital and EU-funding

Binding framework for the co-operation with the public authorities



- PPP project is of public interest
- Publication of the implemented PPP projects and message to the ministry of economy
- The private partner might construct the object with other subcontractors
- Least cost procedure under fixed defined criterias and quality standards
- The private partner runs the asset for the agreed time (up to 30 years) and gets direct fees/ tariffs from the user (but: under controll & assigment of the polish public authorities)



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- **General success factors of PPP – What makes them work**

- PPP is worldwide one major instrument for regional development
- PPP is a more important phenomenon than expected
- Today's complex tasks cannot be fulfilled by one actor
- Private side is more than "getting profit"
- Shape of PPP differs from country to country

Recommendations to public side

- Proposing only serious projects with benefit for both sides
- Focus! PPPs should cover singular topics
- Accepting profit as must for the private sector
- Conservative planning involving knowledgeable consultants
- Provisions for risk sharing
- Start small and have willingness to co-operate
- Create your own business plan for attracting private partners
- Create win-win situations
- We-mentality & trust building
- Do the right things & do the things right
- Establish a dispute system
- Team building activities
- Right legal & political environment



Independent of the type and structure of the PPP, there is a set of general success factors

- Transparency
- Visibility
- Accountability
- External auditing
- Clear commitment from all partners
- Early stage involvement from all partners
- Act as partners (mutual confidence, recognition of rights)
- Clear structure and responsibility



Name	Dr. Heiko Frank
Position	Partner & Board Member
Qualification	Masters degree in Business & Administration, Ph.D. (Dr.rer.pol.)
Professional Experience	<p>Dr. Heiko Frank graduated and completed his Ph.D. in business administration at the University of Augsburg and concurrently founded Consultatio, his own consulting firm focusing on the development and implementation of marketing & sales strategies and organizational development.</p> <p>Early in his career he was responsible for leading regional and international projects of increasing scope and complexity. During the last 14 years he managed a significant number of different marketing, strategy and organizational development projects focusing mostly on the energy, telco, media and private equity industries.</p> <p>In 2001 he merged Consultatio into Venture Consulting and became a member of the international board. Dr. Frank is a member of several regional and international organizations including Past-President of the Junior Chamber International in Augsburg, Member of the Industry and Commercial Organization and Advisory Board Member of Flughafen Augsburg.</p>

About Venture Consulting Group



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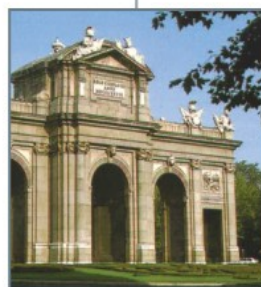
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