Public Private Partnerships in Vietnam

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PPP models from around the World

William Dachs
World Bank
Introduction

Private Participation in Infrastructure, 1990-2006 (US$ million) is increasing...

Source: PPI database (World Bank)
Investment in US$ million in year of commitment for low and middle income countries
Introduction

...and all regions are benefiting

Source: PPI database (World Bank)
Investment in US$ million in year of commitment for low and middle income countries
What Makes a PPP Program Successful?

- More than 50 countries have started PPP programs
- Not all are successful in terms of investments made and outcomes
- A PPIAF study on PPP Units concluded that PPP units tend to struggle when
  - Senior politicians do not support the PPP program
  - Procurement of infrastructure and capital works is not transparent or competitive
  - Coordination within Government in weak
- Countries with strong public sector institutions have typically performed best
- Examples we have considered are the United Kingdom, South Africa, Australia, South Korea, India and the Philippines
Common elements: Institutional Support

- All have formal institutions supporting the government in oversight or specialist assistance to line ministries
  - UK: Partnerships UK
  - South Africa: PPP Unit
  - Australia: Partnerships Victoria (at State Level)
  - South Korea: Public and Private Infrastructure Investment Management Centre (PIMAC)
  - India: PPP Cell in MOF plus state PPP Units
  - Philippines: BOT Centre
Common elements: Fiscal Support

- All except the Philippines have explicit links between the PPP programme and government fiscal support (budget or contingent support)
- All provide explicit financial support to PPPs in the form of either capital grants or budgeted payments for services provided or both
- In the UK projects deemed to demonstrate “value for money” receive explicit commitments of funding known as PFI credits
- India uses the concept of a Viability Gap Fund where eligible projects can receive capital grants of up to 20% with an equal amount given by the state authority. Also has infrastructure fund (IIPDF) to support the private financing
- In South Korea, Australia and South Africa the government can provide capital grants or service payments to approved projects
Common elements: Project Preparation and Approval

- All the PPP programs have formal requirements for feasibility studies and bidding procedures.
- In the UK, South Africa, South Korea and Australia these processes must be followed to be eligible for government support.
- All have formal approvals by the MoF for very large or complex projects.
- All require competitive bidding.
- Unsolicited bids are allowed in South Korea and India but must include competitive bidding.
- In the Philippines the effectiveness of the BOT Centre is undermined by lack of formal powers and inability to provide budget support.
Common elements: Fiscal Risk Management

- All the PPP programs have formal requirements for approval of contingent liabilities
- The UK and Australia have very strong processes for approving, managing and reporting contingent liabilities
- South Africa has commenced with a FRM programme that is part of Asset and Liability management and is based on MoF approvals
- South Korea has a the Korea Infrastructure Credit Guarantee Fund to provide credit guarantees to PPP projects

Several lessons can be learned from the programs and some brief case studies
Lesson 1: Planning is essential to prevent failures

Most PPP failures can be attributed to inadequate or non-existent feasibility studies, including unrealistic traffic forecasts and undefined public contribution of funds.

Common reasons for failure:
- Poor legal framework and enforcement
- Weak institutional capacity and PPP strategy
- Unrealistic revenue and cost estimations
- Lack of thorough financial and economic analysis
- Inappropriate sharing of risks
- Lack of competitive procurement
- Public resistance (willingness to pay not assessed)
Lesson 2: Solid Revenue and Cost Estimations as part of a feasibility study

The absence of a solid feasibility study is likely to reduce the benefits of PPP and diminish project attractiveness to private investors. Strong emphasis should be put on forecasting revenues and costs as part of the feasibility study

CASE: Hungary M1/M15 Toll Motorway Project

• Hungary M1/M15 was the first toll motorway tendered and implemented in Central and Eastern Europe.

• Construction of motorway was finished in 1995 on schedule and within budget.

• Traffic volumes were about 40% lower than anticipated, despite the forecasts being prepared by independent experts.

• High toll rate did not cover for low volume. Instead, it led to a court case by dissatisfied road users.

• As a result, the concessionaire was unable to service its debt and ultimately the government had to take over the concession at a high cost.
Lesson 3: Comply with contractual agreement

Financial profitability and sustainability is heavily dependent on Government’s respect of contractual agreements

CASE: Thailand Don Muang Tollway

• In 1989, the Don Muang Tollway (DMT) company received a 25-year concession from the Department of Highways of Thailand to build a $407 million segment of an elevated highway.

• The DMT faced several problems due to non-fulfillment of pre-construction obligations by the government, which failed to remove a local road competing with toll revenues.

• As a result, traffic volumes and revenues were less than forecast, and by October 1996 the tollway company could no longer service its debt.

• The government had no option but to authorize a substantial toll increase and take over some of the DMT’s existing loans
A solid legal framework for PPP is needed to specify the “rules of the game” for the private sector and reduce the project risk, thus improving the success rate of PPP projects.

CASE: Poland A1 Toll Motorway Project

- In August 1997, Gdansk Transport Company obtained the concession to finance, build and operate a section of the Autostrada A1 from Gdansk to Torun.

- However, the Concession Agreement could not be signed because key piece of PPP legislation was missing.

- Multiple rounds of renegotiation and frequent adjustments to legislation took place in the following years.

- The Concession Agreement was signed in August 2004, 7 years after the beginning of negotiations.

- The specifications of the project were significantly changed and the construction was divided into two projects, instead of the original plan of one project.
Lesson 5: Strong Institutional Arrangements

Institutional Arrangement should ensure coordination, technical support and that checks and balances are appropriately applied.

• Portugal pursued its first PPPs in the mid-1990s to more efficiently build new infrastructure.

• The government PPP unit suffered from lack of experience with PPP projects and inexperienced staff.

• As a result, Portugal’s early PPPs were subject to constant delays and cost overruns—by 2003, the country’s PPP-related liabilities amounted to 10% of GDP.

• Weak public sector capacity was evident in insufficient risk transfer to the private sector and delays in giving government approvals on essential land and environmental aspects.

CASE: Portugal weak management of its PPP program.
Lesson 6: Value of Competitive Procurement

Uncompetitive procurement gives a strong position to the negotiating private party and can lead to long delays and excessive cost to the government.

CASE: Bulgaria Trakia Motorway Project

• The Bulgarian Government awarded a concession without competitive bidding for financing, rehabilitating, constructing, tolling and operating the a section of the A1 motorway in 2004.

• Opposition parties attacked the project on the basis of a lack of transparency, and high government contribution and construction price.

• The concessionaire asked to increase construction costs due to legal obstacles causing substantial delays and did not want to assume the risk of lower-than-expected traffic.

• As a result, the talks with the concessionaire collapsed in November 2006 and the financial closure is yet to be achieved.
Key Lessons from International Experience

• Comprehensive planning,
• Good project preparation,
• Strong institutional support
• Clear rules of government fiscal support and oversight,
• Competitive bidding with multiple bidders and
• Credible contract enforcement
Thank You!

William Dachs
World Bank
email: wdachs@worldbank.org