



Facilitating Industrial Growth in Pakistan

The Role of Public Private Partnerships

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26 April 2007

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Introduction

- The role of infrastructure in driving economic growth
- The role of Public Private Partnerships (PPP)
- Key success factors
- Case Study – Specialized Economic Zones

Creating the right environment for growth

- Massive infrastructure investment
- Accelerated pace of privatisation in basic industries
- Enforced reforms in public service provision
 - Decentralisation/devolution to sub sovereign entities
 - Competition = private sector involvement
 - Diminution of public subsidies; i.e. full cost recovery utilities tariffs
- Accelerated development of internal credit markets and increasing demand for international finance
 - Supply factors
 - Demand factors : private pensions

Private sector finance of infrastructure

.....an idea whose time has come...

- Immense requirement for new and renovated social infrastructure
- Taxpayers less tolerant of heavy taxes
- Higher taxpayer expectations of service delivery
- Value for Money
 - Risk sharing
 - Private sector efficiencies and innovation
- Competition
- Increased transparency

Range of PPP options

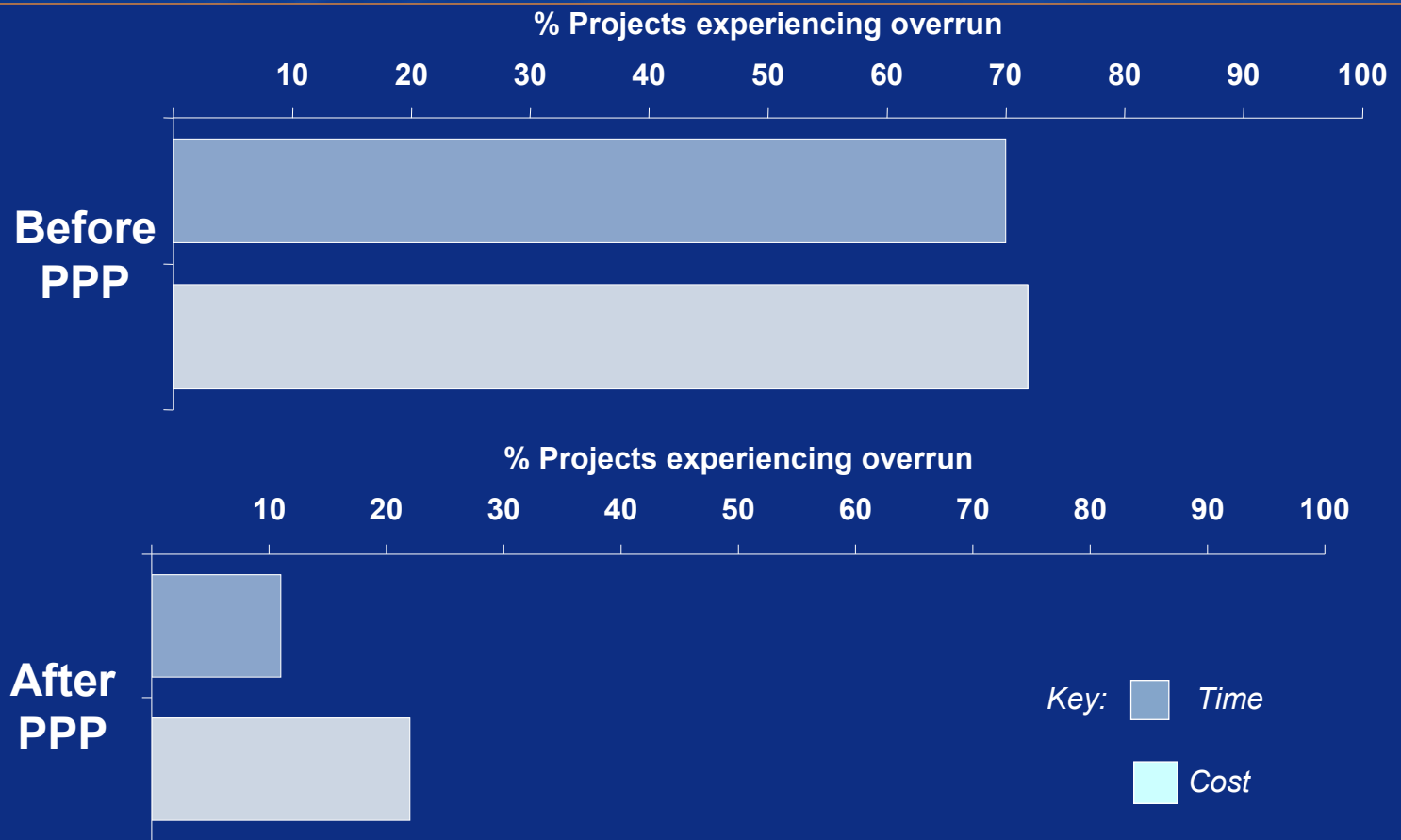
The PPP Spectrum

Typical Characteristics of PPP Options (contract length is indicative)



Note: Different countries use different terminology to refer to essentially similar arrangements.

UK PPP Project outcomes: delivery to time and cost

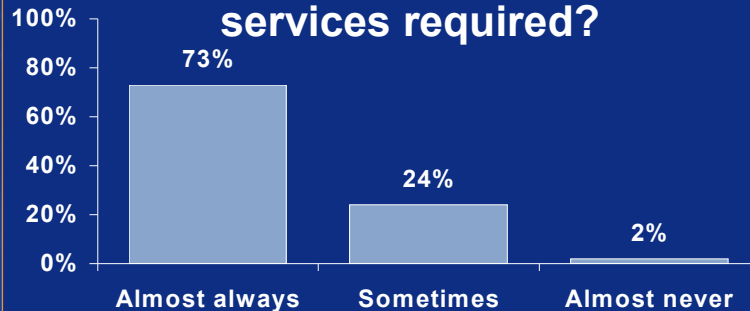


Source: HM Treasury; NAO: PFI construction Performance 2002, HC 371, Session February 2002-03; NAO: modernising construction, HC 87, Session 2000-01

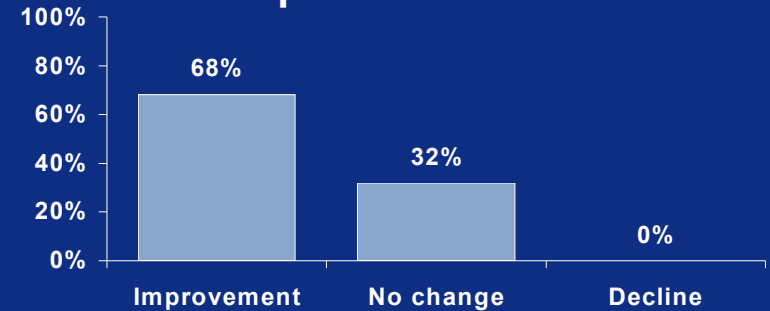
PPP is a proven mechanism of delivering to time and cost

UK PPP Project outcomes: quality

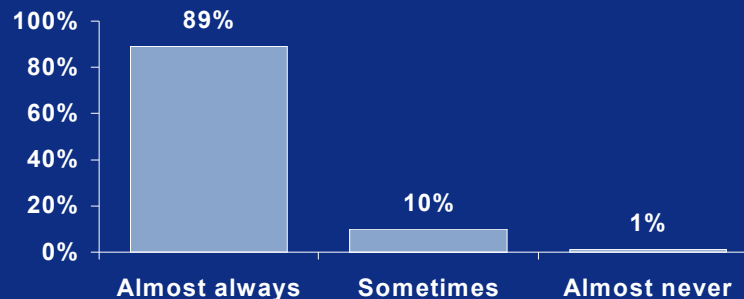
Did the PFI contract accurately specify the type and level of services required?



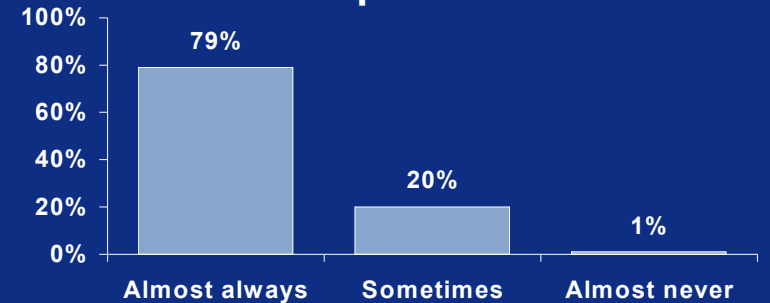
Did payment deductions improve performance?



Did the measured performance meet contractual requirements?



How often were services delivered to an acceptable standard?



Sources: *Effectiveness of operational contracts in PFI* by KPMG (2005); and *Report on operational PFI projects* by Partnerships UK (March 2006)

PPP can meet quality requirements and satisfy users

PPP as a tool for public sector reform

World Bank's FY03-05 Country Assistance Strategy for Pakistan:

- The main objective was to address poverty in:
 - Human development
 - Infrastructure
 - Governance
- If properly structured, PPPs can help deliver some of these objectives.

Critical Success Factors

- Project realism
- Project preparation
- Deep, liquid and flexible local capital markets
- Legal and regulatory environment
- Private sector capacity and experience

Key challenges to PPP implementation

- Ensuring that appropriate legislation is in place to facilitate PPP activity
- Overcoming distrust between private and public sectors – transparency is essential
- Ensuring that there is real competition in order to secure value for money
- Understanding risk transfer and the private sector profit
- Fostering the growth of new businesses to deliver services
- Developing PPP expertise in key areas such as financial, legal and facilities management sectors.
- Prioritizing projects and establishing pilots
- Ensuring consistency through standardised contracts

Case Study - Special Economic Zones (SEZ)

- An SEZ is a geographic area within the territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country.
- More flexible rules, such as permitting more liberal domestic sales
- Main focus - export-oriented manufacturing activities dominated by foreign invested firms
- Promotes economic openness and development in a step-by-step fashion

Advantages of SEZs

- Effective means of attracting foreign firms
- Improved capability of foreign exchange earnings to the host country
- Trade expansion
- Transfer of more advanced foreign technologies and resulting productivity gains.
- Export-led growth path for the economy of the host country, integrating into the world economy, with their comparative advantages
- Production carried out by foreign firms creates jobs for local workers

SEZs – Typical Features

- Liberalisation of policies
- Incentive package includes:
 - Duty-free status
 - Tax holidays
 - Exemption and reduction
 - Simplified administrative procedures
 - Improved infrastructure and facilities
 - Advantageous geographic location.
- Strong linkage between the SEZ and the Domestic Zone (DZ).
 - This enables various technologies from the SEZs to diffuse into the rest of the host economies.



Thank You

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