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**T H E M E : _____
INFRASTRUCTURE
DEVELOPMENT
IN AFRICA**

Presentation:

**Understanding the Use of Public Private
Partnerships (PPPs) for Infrastructure Projects in
Africa**

- Eng. Ian Massey

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UNDERSTANDING THE USE OF PUBLIC PRIVATE PARTNERSHIPS (PPP's) FOR INFRASTRUCTURE PROJECTS IN AFRICA

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THE HISTORICAL CONTEXT OF PPP CONTRACTS

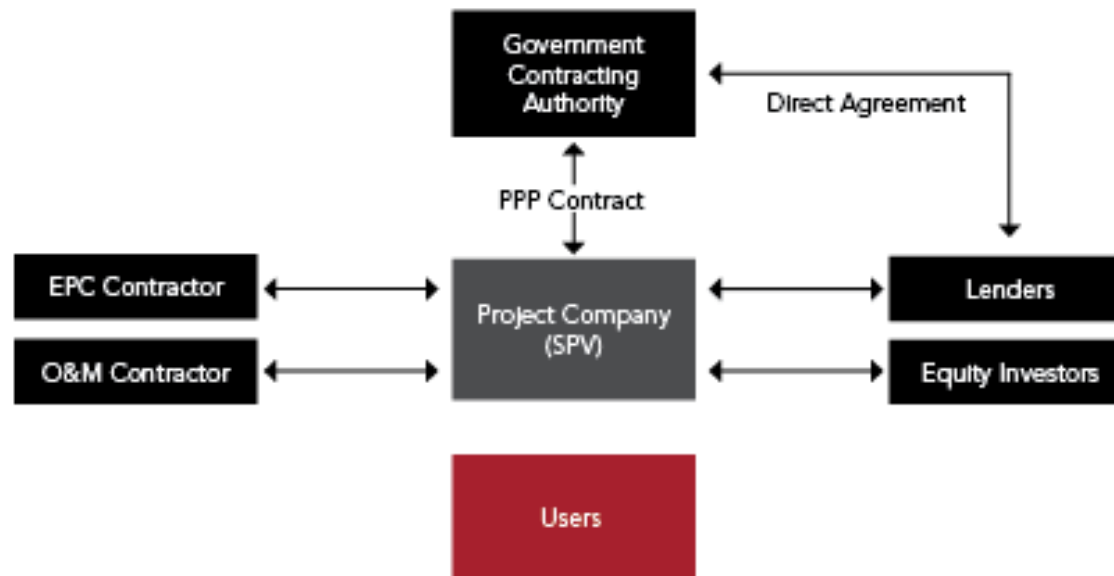
- Partnerships between the public and private sector have been used for a very long time. (e.g. Roman postal service.)
- The 19th Century was the golden age of concessions in Europe.
- 99 year concession, to construct and operate the Benguela Railway line granted to Sir Robert Williams on 28 November 1902

THE HISTORICAL CONTEXT OF PPP CONTRACTS

- Although this implementation model has a long history, the acronym PPP only gained currency during the 1970's.
- Public Private Partnerships have been widely adopted as a project implementation strategy throughout Africa and enabling legislation and standard documentation is available in 50 countries in Africa (out of a total of 54)

DESCRIBING PPP'S

The following figure is a typical PPP Contract Structure





DESCRIBING PPP'S

The actual contracting strategy may include:

- Rehabilitate Operate-Transfer (ROT)
- Transfer-Operate Transfer (TOT)
- Lease-Upgrade Operate-Transfer (LUOT)
- Lease-Build Operate (LBO)
- Build Transfer (BT)
- Build-Operate Transfer (BOT)
- Build-Own Operate-Transfer (BOOT)
- Design-Build Finance-Operate (DBFO)
- Build-Own Operate (BOO)
- Rehabilitate Operate-Manage (ROM)
- Rehabilitate Operate Leaseback (ROL)
- Build Transfer Operate (BTO)



DESCRIBING PPP'S

In South Africa the implementation models have been:

- Design Finance Build Operate Transfer - (DFBOT)
- Design Finance and Operate (DFO)
- Design Build Operate and Transfer (DBOT)
- Equity partner projects and
- Facility management projects

COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

- Traditional public procurement, of infrastructure is financed, generally speaking using taxpayers' money.
- The objective of any public procurement project is to achieve Value for Money.
- Therefore, any project, whether PPP or traditionally procured, should be undertaken only if it creates Value for Money.

COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

How do we define Value for Money?

- Good value for money consists of three constituent components:
 - Efficiency
 - Effectiveness, and
 - Economy

COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

- There is a fourth E, “equity”, is often added in making the viability assessment of a PPP, which is the extent to which services are available to and reach all people that they are intended to be reached.
- This consideration has particular relevance in the African environment.



COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP'S

A PPP may, conceivably, provide Value for Money compared to traditional procurement models if the advantages of risk transfer combined with private sector incentives, experience, and innovation – in improved service delivery or efficiencies over the project life-time – and this could outweigh the increased costs of contracting and financing.



COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

Such an analysis, from anecdotal evidence, demonstrates that PPPs are superior to traditional public procurement. Accordingly, PPP procurement is often favoured over traditional public procurement models.

COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

The reasons for adopting a PPP implementation strategy may be summarised as follows:

- Borrowing and budgetary constraints means this is the only implementation strategy available- probably the most common reason that PPP 's are used in sub-Saharan Africa



COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

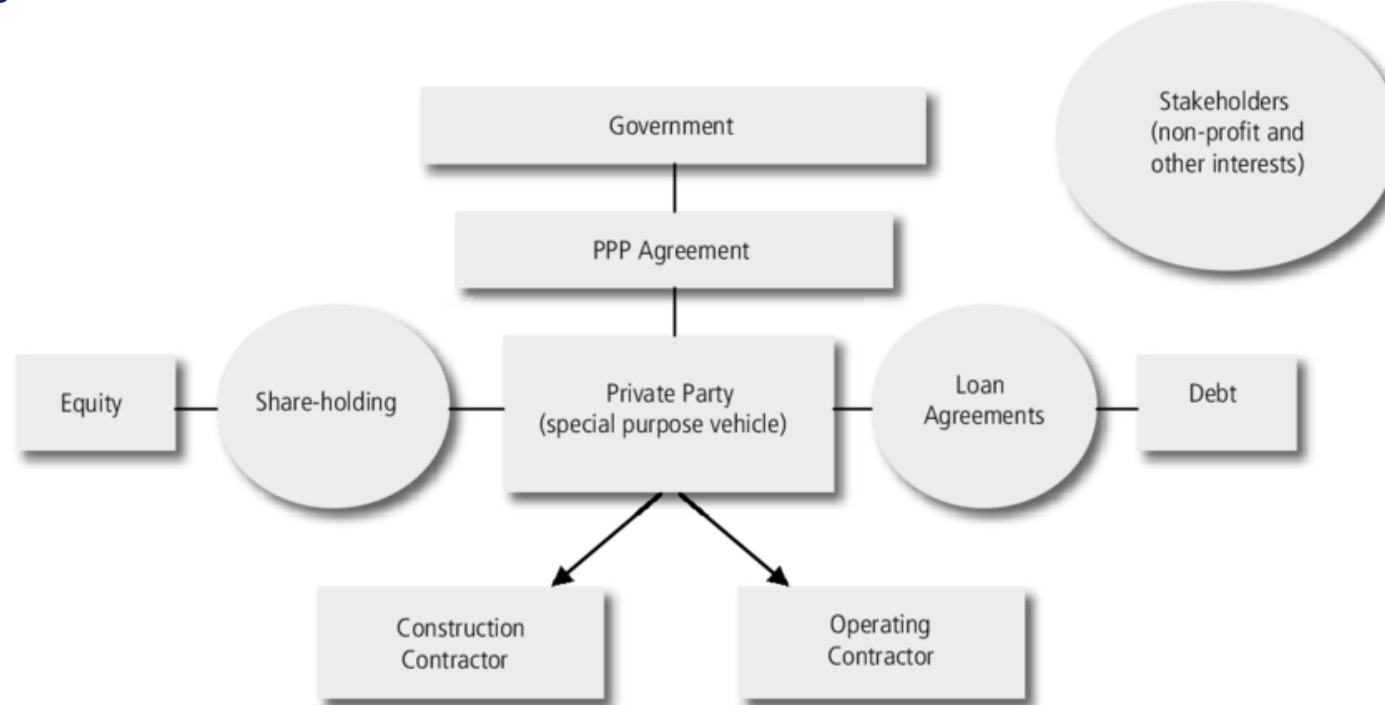
- Developing the project sooner rather than waiting for when budget is available.
- PPP's used for infra structure projects frees up government resources for use on other projects.
- Private sector efficiency and innovation may produce a better result.

COMPARING TRADITIONAL PUBLIC PROCUREMENT AND PPP's

- The public sector is forced into long term planning and budgeting. This enhances the possibility of the project being successful.
- A PPP can avoid construction cost and time over-runs that can be a feature of public sector projects.
- A PPP ensures that long term maintenance is carried out.

STANDARD FORMS AVAILABLE

In any PPP arrangement there are obviously a number of Contractual relationships that must be catered for.





STANDARD FORMS AVAILABLE

The Special Purpose Vehicle (SPV) will obviously enter into a PPP with the Public entity which makes provision, for design, construction, financing, operation and maintenance of the facility or service.



STANDARD FORMS AVAILABLE

Some observers have commented that standard form contracts such as FIDIC or the NEC may not be appropriate for PPP's due to the fact that they are designed for conventional project delivery methods.



STANDARD FORMS AVAILABLE

It should however be noted that FIDIC are planning to release in 2024 a standard form contract for PPP Projects including a concession agreement and direct agreements that are currently not covered by the Silver Book.



STANDARD FORMS AVAILABLE

It is therefore apparent that if EPC contract services are required the FIDIC Silver Book could be used.



STANDARD FORMS AVAILABLE

Alternatively, if it is a design build operate (DBO) arrangement the FIDIC Gold Book would be ideally suited.



CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPPs

- Since the 1990's there has been widespread adoption of PPP's across Africa as a project implementation strategy as demonstrated by the number of countries (50 in all) where enabling legislation has been implemented.



CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPPs

To this extent therefore, Africa has a level of maturity in the PPP market. There have been some successes as well as failures.



Current recommendations for improving the environment for implementation include:

Changing legislation to make public engagement mandatory during the entire project life cycle.

Establish guidelines to encapsulate the scope, procedure to be followed and approach to public participation.

Encouraging more people to participate in the process by adopting diversified methods to garner public opinions, such as on line surveys,

public forums, face-to-face interviews, and

Paying attention to special groups



CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPPs

Key features for the successful implementation of PPP's, are the following :

- Political Support: It is essential that any PPP has strong political support as well as consensus from opposition parties.
- Political Interference: At the same time, government must resist the temptation to interfere with a PPP Project (for example limiting a toll concession's ability to adjust its tolls).

CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPPs

Key features for the successful implementation of PPP's, continued:

- **Sectoral Reform:** PPP's do not exist in isolation of the environment. Big differences between existing facilities and those provided by the PPP may prove problematic.
- **Affordability:** The price for the service is key and must be affordable for the end user.

CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPP's

Key features for the successful implementation of PPP's, continued:

- Risk Transfer: This is a key element of PPP's but it must be understood that all risks can never be completely transferred; and

CREATING A SYMPATHETIC ENVIRONMENT FOR THE ADOPTION OF PPPs

Key features for the successful implementation of PPP's, continued:

- Governance: Appropriate governance structures are required. These are typically on three levels, namely:
 - A project team
 - A project board
 - The project board reports to ministers



FUNDING OF PPP PROJECTS

The revenue derived from a PPP contract has to be calculated to cover:

- The design and development of the PPP
- The project operating and maintenance costs
- The investors required return on their investment

Payment to the PPP entity (the special purpose vehicle) is usually linked to progress of the development and the achievement of key performance indicators (KPI's).



FUNDING OF PPP PROJECTS

Project Financing relies primarily on cash flow rather than a corporate balance sheet of the value of the physical asset and is in two forms.



FUNDING OF PPP PROJECTS

- **Investments** made by the project sponsors (Investors) who develop the project (usually between 15% and 40% of the development cost).
- **Loans** received from lenders (debt) who receive a fixed rate of return. There is no up-side to their involvement, but they can lose their investment if the PPP goes badly. Lenders finance the balance of the project (not financed by the investors) of between 60% and 85% of the project cost.



CONCLUSION

The Covid-19 pandemic has had an adverse effect on economies around the world. This has resulted in a slowing down of economic activity in general and PPP projects in particular, some of which have been cancelled.



CONCLUSION

Those same economic strictures will result in public funds being limited and that will, it is suggested, be good for PPP adoption across Africa, if infra structural development is going to take place, which it must.



CONCLUSION

There is therefore no reason to expect that borrowing and budgetary constraints will not remain as the main reason for adopting PPP's and that this will be the implementation strategy of choice since this is the only implementation strategy available in sub-Saharan Africa

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