



PRACTICAL DEVELOPMENT FOR CONCESSIONS AND PPP

MEETING ADB – CICA/EIC INTERNATIONAL CENTRE OF EXCELLENCE,
ABIDJAN 19TH-20TH OF NOVEMBER, 2015

COUNTRY DEVELOPMENT



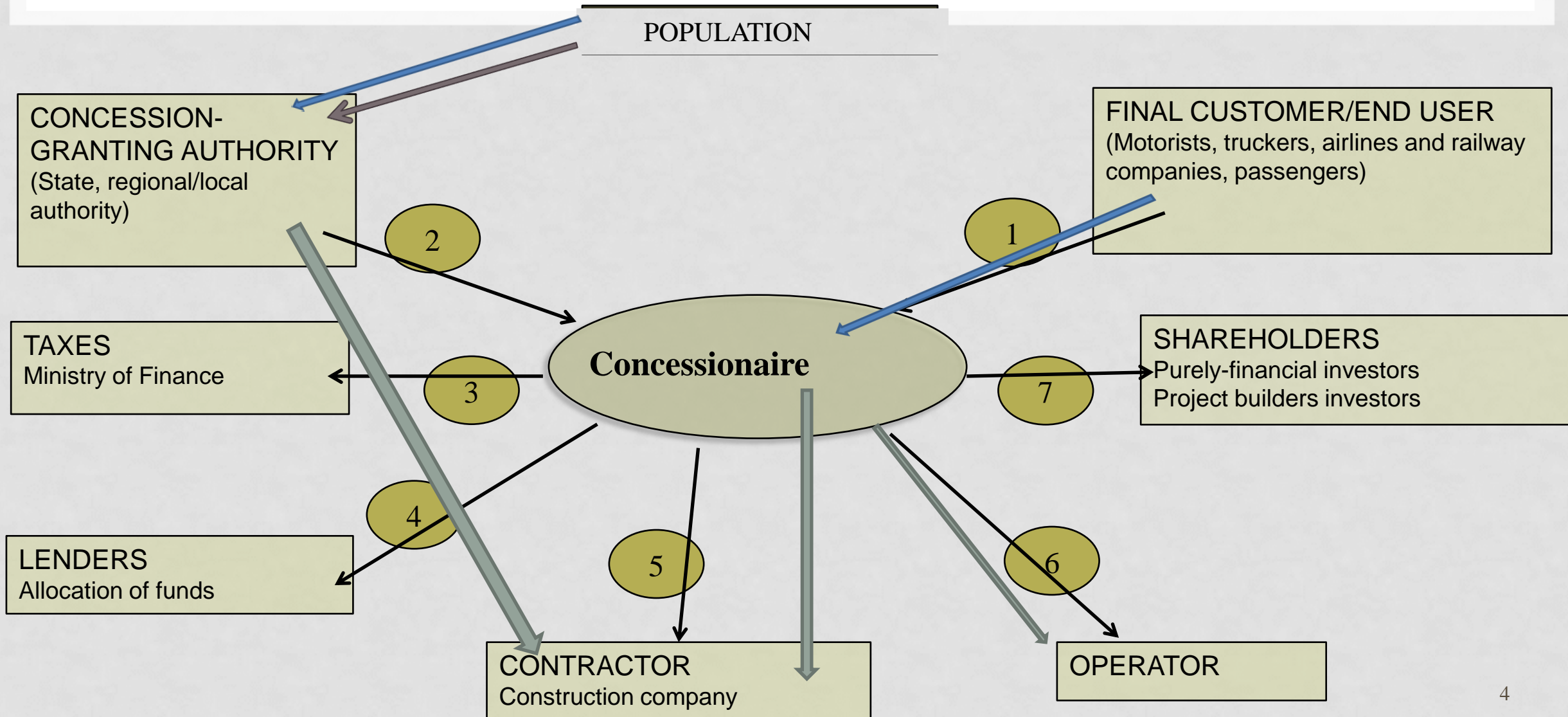
- UN Development goal post 2015: the amount to be invested is just enormous, several trillions \$ per year worldwide
- The States will not be able to provide enough financial support for this amount
- Thus it is necessary to call the private sector to participate
- The private sector can participate in many ways :
 - The companies for engineering and construction (optimisation of the costs)
 - The companies for operation and maintenance (optimisation of the efficiency of the project after its commissioning)
 - The lenders to support the CAPEX during the loan tenor
 - The clients, who are ready to pay for a service they will appreciate

FUNDING



- The question is : who shall pay and for which service?
- Today, many services are provided by the State (i.e. tax payers)
- But it is possible to check what kind of services could become commercial services, if the toll policy is properly defined
- The main aim for having commercial services is to avoid the opportunity costs of public funds, which increases by 30% the economic cost of the investment
- It is also necessary to take into consideration the externalities, i.e. the welfare for the households and the monetary revenues for the State budget, due to the large influence of the project

STAKEHOLDERS : PAYMENT BY TAXES PAYERS OR BY THE USERS



FINANCING



- Once the funding is decided, it is necessary to look for the financing of the project.
- State should properly consider the budgetary revenues coming from the output of the project to evaluate the global budgetary impact.
- Lenders are important, but the level of debt should be considered. To raise debt suppose that the debt will be reimbursed.
- If not, the State loses its independency.
- There are many long term investors ready to participate to projects, but they need strong legislative structures, strong institutions, and good project management within the government structures.

LEGAL CORPUS



- Around the world, there are many different legal corpus, out of which the Common law, the Civil law, and the Napoleonian Code are the most used.
- According to the experience of the Center of Excellence, the Napoleonian Code is the best adapted for the long term contracts, because some concepts encapsulated in it are very useful :
 - Equilibrium of contract;
 - Compensation for disruption;
 - Periodic adjustment of the contractual clauses between Grantor and Private Partner;
 - Dispute resolution.

VARIOUS STRUCTURE TO IMPLEMENT A CONTRACT

- Option no. 1: entirely from public funds, operated without charge, managed by a public entity.
- Option no. 2: entirely from private funds, operated by a private company which derives its remuneration from the tolls collected.
- Option no. 3: entirely from public funds, with toll charged to users. Toll revenue is paid into the general State budget.
- Option no. 4: a public company is set up with the power to borrow money, construct the infrastructure, operate it and collect the revenue.
- Option no. 5: a private company is set up for construction and operation, even if subsidy is needed if the toll revenue is not sufficient.
- Option no. 6: a private company is set up, which will be remunerated in accordance with the traffic crossing it as “shadow toll”
- Option no. 7 : by lack of public money, differ the investment by a few years (three years in our example)

VARIOUS IRR AND NPV ACCORDING TO THE SELECTED PROCESS

	Process	Economic IRR	Economic NPV
Option no. 6	Shadow toll or PPP	14.7%	769
Option no. 2	Private finance plus toll	13.7%	672
Option no. 5	Private finance with subsidy	13.4%	655
Option no. 4	Public funds (EPIC), toll	12.5%	609
Option no. 1	Public funds, use free of charge	11.2%	615
Option no. 7	Public funds, no charge, postponement	11.2%	516
Option no. 3	Public funds, toll	10.3%	502

NPV FOR BUDGETARY FUNDS



	Process	Economic IRR	Economic NPV	NPV public expenditure
Option no. 5	Private finance with toll & subsidy	13.4%	656	216
Option no. 4	Public funds (EPIC), toll	12.5%	609	201
Option no. 2	Private finance plus toll	13.7%	672	189
Option no. 3	Public funds, toll	10.3%	502	162
Option no. 6	Shadow toll or PPP	14.7%	769	-344
Option no. 7	Public funds, no charge, postponement	11.2%	516	-358
Option no. 1	Public funds, use free of charge	11.2%	615	-415

PLURALITY OF SOLUTIONS



- A fine-grained analysis of the overall context in economic, legal, budgetary, financial and other terms is compulsory before pronouncing on the optimum solution for the circumstances.
- Specifically, estimation of utility is a delicate task, since while utility can include factors that are easily measured like time savings, there are also others, relating to sociological considerations or human geography, that are less straightforward
- However there are no miraculous financial solutions that can make a construction economically viable if its socio-economic fundamentals are not right.