

Development of PPP Projects in Asia – A Walk Through

Sydney

14 December 2004

Key Features of PPP

- Change of relationship between the public and private sectors
- Public sector buys “services” not assets.
- Level of Service maintained throughout the project life
- Aligns the interests of the user, the service provider and the private financiers.
- Relationship based on partnership rather confrontation.

PPP Contractual Structure and Framework

Private sector responsible for:

Building, owning, operating
infrastructure

Lifecycle maintenance

Financing

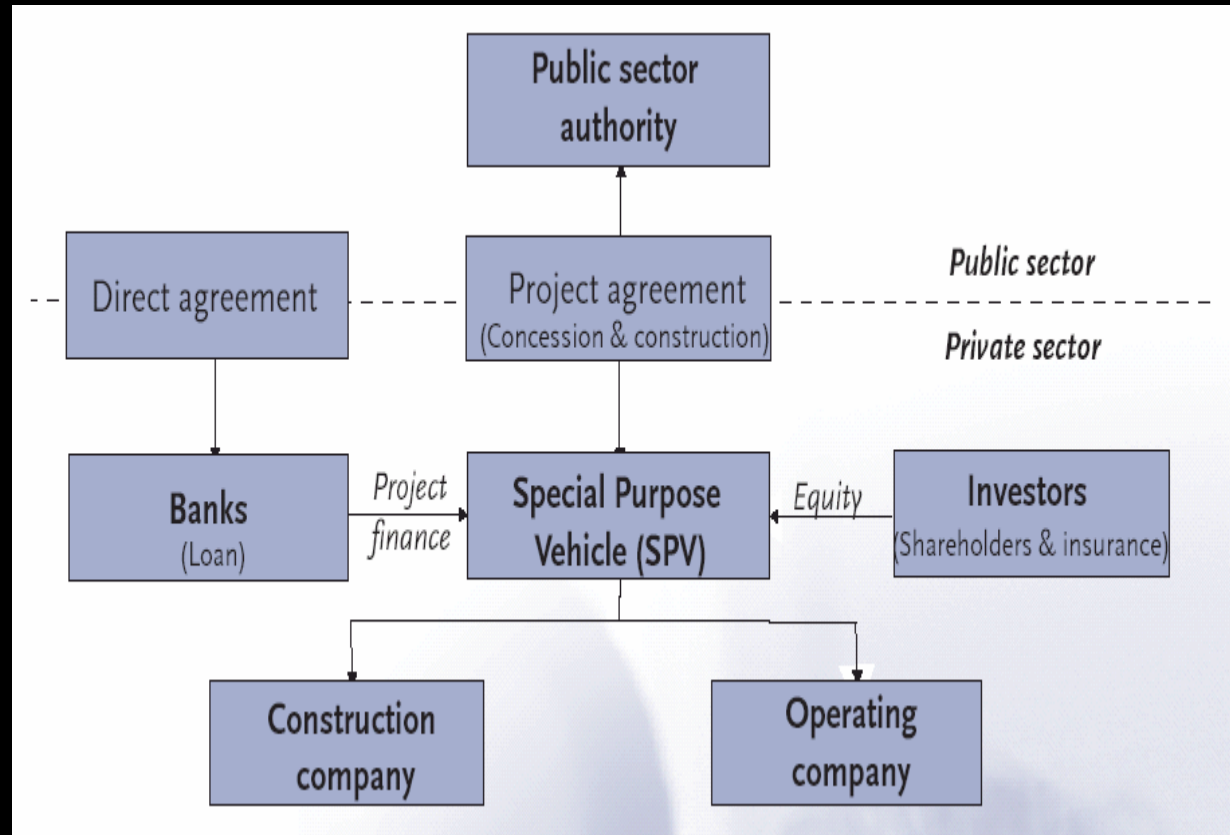
Meeting performance standards

Public Sector will:

Grant long-term concession for
service provision

Retain/share volume risk

Make ongoing payments against
KPI's



Benefits of PPP

- Value for money
- New facilities provided efficiently and effectively
- Innovation and spread of best practice
- 'Whole of life' approach

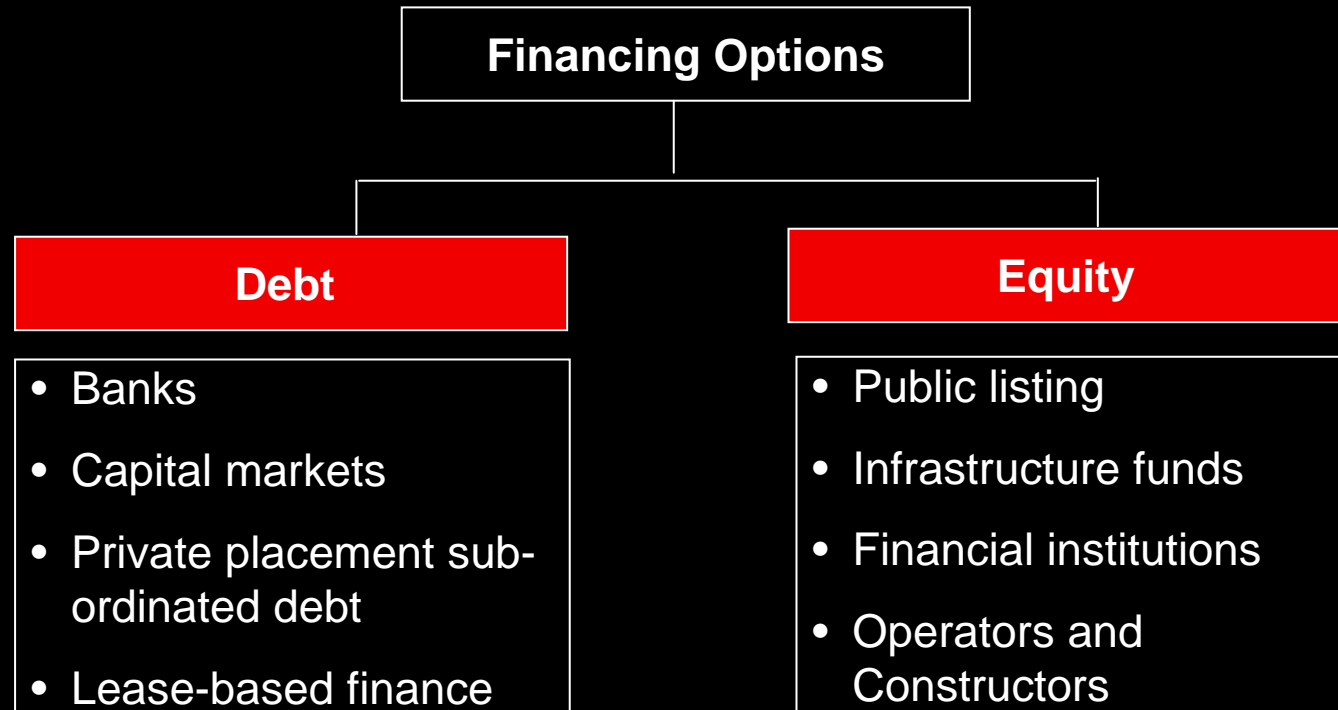
Creating Value for Money from PPPs

- Cost of capital premium will exist in private sector funding
- Value for Money is delivered when the reasons for premium are recognised:
 - Risk transfer
 - Innovation
 - Payment only on delivery of capability
 - Improve outcomes (quality of assets/service delivery)
 - Improved asset utilisation
 - Whole of life perspective on asset delivery
- Government needs to value their risks
 - Procurement performance of Government is well documented

Role of Private Financing in the Equation

- Due diligence associated with investment
- Incentive throughout the life of the project
- Enables payment on delivery, not otherwise achievable
- Assists in delivering VFM

Range of financing options



International financial markets sophisticated for infrastructure projects

PPP Activity in the Region

- South Korea – some toll road activity
- Hong Kong – West Kowloon Cultural District, potential for Health, Prisons and Water Treatment
- Singapore- recently released PPP Handbook, potential projects in Sports Hub, Health, Education and Water
- Malaysia – Watch this space?

West Kowloon Cultural District PPP

- Cost is estimated at S\$7 billion
- Ernst & Young is lead financial and commercial adviser to HK SAR
- Currently evaluating bid submissions
- Will assume responsibility for direct negotiations with private sector

Development of West Kowloon Cultural District, Hong Kong



The Project envisages

- performance venues, museums and some residential development in a cultural headland at the western end of the site;
- a multi-level complex of entertainment and retail facilities;
- a commercial gateway at Canton Road with high rise developments;
- extensive open space for public use comprising a podium park, landscaped terraces and a waterfront promenade;
- an automated people mover running from one end of the site to the other; and
- a spectacular canopy.

Key challenges facing PPP in Asia

- Develop PPP model through:
 - Creation and implementation of standard PPP framework
 - Development of standard processes and documentation
 - Development and retention of public sector expertise e.g. “Partnerships UK”
- Competitive pool of competent bidders, particularly in Facilities Management
- Access to project finance market at good rates
- Development of pipeline of transactions

Let's go!

- Precedents do exist
 - PPP won't overtake the world
- Public Sector has its core business
 - Private sector can play a support role
 - Private sector will support its involvement with investment
- Do not overcomplicate the equation
 - Capture value for money