

**UNECE**  
**Team of Specialists**  
**for PPPs**

# PPP Contract Models and Enabling Environment

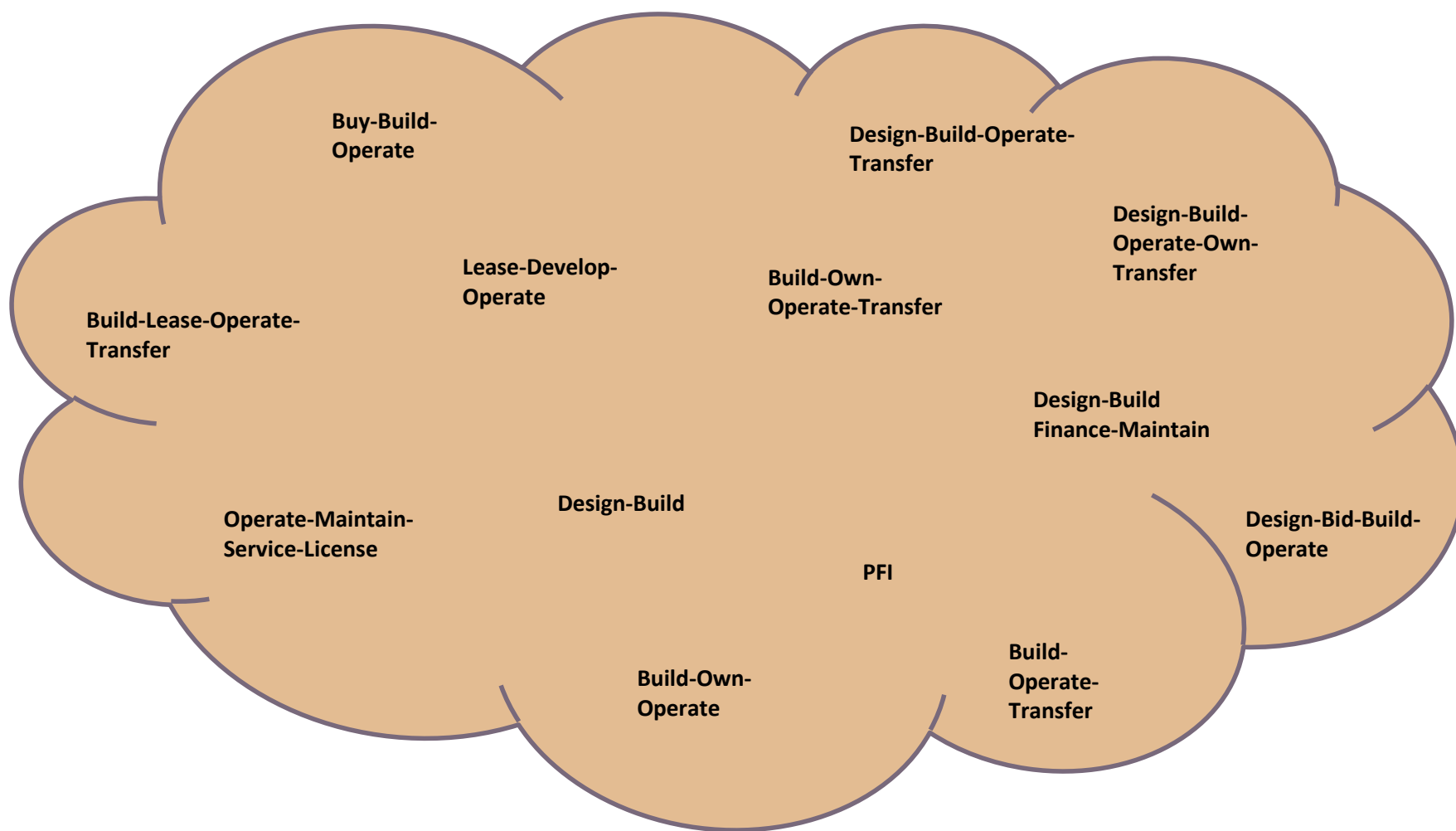
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# The Cloud of PPP Terminology

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# PPP Contract Models

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- End-user fees, e.g., toll roads, metered water and power
- Government payments, e.g., availability payments, water and power purchase agreements
- Government non-financial contributions
- Hybrid combinations of two or all of the above

# Prioritizing and Balancing Objectives

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- Some objectives may be competing or mutually-exclusive.
  
- For example, a government may wish to:
  - Provide drinking water from the tap at the lowest possible cost to consumers
  - Extend water availability to remote areas which currently lack service where the required investment may increase the cost to some or all consumers
  
- For this reason, PPP objectives should be carefully assessed, prioritized, and balanced.

# Project Objectives and PPP Contract Model

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- Government Objectives:
- Provide a new road from point a to point b
  - Relieve congestion
  - Improve commuter access and reduce travel time
  - Avoid government investment

Solution: ➤ PPP Toll Road

# Project Objectives and PPP Contract Model

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- Government Objectives:
- Provide a new road from point a to point b
  - Relieve congestion
  - Improve commuter access and reduce travel time
  - Avoid politically unpopular user fees
- Solution:
- PFI-type, availability-based payments

# Consider the Project's Business Case

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- The “ideal” contract model for each particular project, needs to be evaluated in the context of the project-specific business case:
  - Is the project technically feasible?
  - Is there private sector interest and capacity?
  - Is the project economically viable?
- This analysis may lead to reconsideration of the contract model.

# Toll Road Example 1

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- The Government seeks to procure design, finance, construction, operation, and maintenance of a PPP toll road.
- This is the Government's first attempt at a PPP toll road, and it appears unlikely that private investment can be obtained for a contract term of greater than 20 years.
- The estimated volume of traffic is 10,000 vehicles a day.
- Based upon this volume, attempting to recoup the cost of the project over a 20-year period, would result in unaffordably high tolls.
- The solution: a hybrid contract, based on a combination of user fees and government payments.



## Toll Road Example 2

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- The Government seeks to procure design, finance, construction, operation, and maintenance of a PPP toll road.
- This is the Government's first attempt at a PPP toll road.
- The projected volume of traffic would provide an adequate revenue stream for the project, however, the accuracy of the projection is uncertain, which impacts the project's ability to attract private capital.
- The solution: incorporating a volume guarantee which limits the private party's demand risk.

# Mandaluyong Market Case Study

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# Mandaluyong Market, Philippines

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The popular public market located in the heart of Mandaluyong City, was originally situated on a 7,500 square meters area along a main transit route and was destroyed by a major fire in 1991.



# Mandaluyong Market, Philippines

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- The City wished to rebuild the market, but sought to avoid using public funds.
- The City invited private firms to rebuild the market through a PPP, however, the private sector responded that this was not viable.
- The City asked the private sector to come up with innovative approaches to make this feasible.

# Mandaluyong Market, Philippines

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- The private sector suggested a more robust concept, that would meet the City's objectives, but generate sufficient revenue to pay back the private sector for its investment.
- Today, on the same public land, is the seven-story "Marketplace", which contains a public market, four stories of retail and entertainment space, and a public parking lot.

# Mandaluyong Market, Philippines



Source: <http://www.mandaluyong.gov.ph>



Source: <http://dti.gov.ph>

# Mandaluyong Market, Philippines



# Mandaluyong Market, Philippines

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- This project has created 600 new jobs
- City tax revenue has increased by 10 -20 Philippine pesos per year
- City (and surrounding private) land values have increased



# The PPP Enabling Environment

