Meeting of the Working Group on Infrastructure Finance in Iraq

29 April 2010

	Traditional procurement	PPPs	Concessions
General characteristics	. EPC (engineering, procurement, construction) contracts . Public ownership at delivery or commissionning . Management, operation, maintenance, can be outsourced through separate contracts or executed "in house"	. DBFO (design, build, operate and finance) contracts . The private partner is remunerated by the public partner according to his technical performance (availability, quality of service, etc…) independantly from any "commercial success"	. The private partner builds finances, operates, and is remunerated by the final user (ridership on highways, telephone's suscribers)
Risks transferred to the Private sector	. Execution risk according to the terms of each contract (cost overruns and delays are often sentitive matters) . Interface risk (between contracts) kept by the public partner	. Global construction risk (no payment before completion of the equipment) . Operation and maintenance risk (no transfer of commercial risk, except for marginal/additional benefits)	. Global construction risk . Operation and maintenance risk . Commercial risk (sometimes with mitigants)

	Traditional procurement	PPPs	Concessions
Financing Structures	. Can be paid cash (often with L/C's).) . Vendors' finance possible in some cases . export finance or commercial loans can also be used . multilateral/bilateral financing schemes also used (all schemes on a full recourse basis - on the public buyer)	. Basic rule is that the financing is provided by the private partner . Most frequent structures use the project finance format (project company, limited recourse, security package, etc…) . Public Sector (national or international) support schemes can facilitate the structuring	. Same rules apply as for PPPs with the complicating factor that financial partners (in equity and debt) have also to be confortable with the commercial risk
Prerequisites, Pros, and Cons.	. Often more robust but less optimal than other schemes at it does not mobilize the full potential of private sector players . Delays, cost overruns and interface problems can be very costly	. Gives the private sector a chance to optimize value for money across the whole life of the contract. . A significant transfer of risk to the private sector . Additional benefits possible . very sophisticated and demanding procurement technique . financings always more expensive and sometimes not bankable	. Same as for PPPs with the complicating factor of the commercial risk . Concession schemes apply only to a limited number of sector/cases (existence of final users, willingness and ability to pay, acceptability of the risk by the private sector financial partners)

A few comments and themes for discussion

- Most countries have had a long tradition of classical procurement before engaging into more sophisticated techniques (even though some countries have practised concessions years ago, e.g. France)

- Selecting the « right » format requires a detailed analysis (country, sector, project, etc..) from the public authorities

- In all cases the private sector players (corporates and financial institutions) will do a detailed risk analysis which will encompass :
  - Political risk (war, civil unrest, expropriation, change in Law, non payment by a public authority, governmental or administrative action or inaction adverse to the project, etc…)
  - Legal risk (existence and reliability of the Legal Framework, dispute and settlement mechanisms, fairness and enforceability of judgements, ability to negotiate balanced contracts, etc…)
  - Geological, environmental, climatic risks (and force majeure, etc…)
  - Technical risks (transportation, execution, robustness of technology, etc…)

- Starting from the three « pure » formats described (traditional procurement, PPP, concession) several hybrid schemes have been put in practice in several situations in order to try and extract the best of the 2 (or 3) worlds, notably by introducing guarantees on some quantitative or qualitative parts of risks.

- Whatever the scheme selected (but provided it is workable) success requires from both sides of the table of negociation : lack of prejudice, pragmatism, flexibility, a good negociation process to ensure competition, and good advise.