

Sustainable Water Integrated Management (SWIM) Regional Training Event

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**TRAINING ON EVALUATING AND STRUCTURING PPPs
IN THE WATER SECTOR**

Day 2

**Public-Private Interaction, Pre-tendering, Tendering, Award,
Negotiations, Construction and Performance Monitoring**

Examples of Troubled PPPs

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Examples of Failed PPP Projects and Transactions

Hungary Motorway Project:

- Construction of motorway in Hungary was finished on schedule and within budget.
- Traffic volumes were 40% lower than anticipated, despite the forecasts being prepared by independent experts.
- High toll rate did not cover for low volume. Instead, it led to a court case by dissatisfied road users.
- As a result, the concessionaire was unable to service its debt and ultimately the government had to take over the concession at a high cost

***Reason for Failure : Poor or wrong forecasted revenues and costs.
Overestimation of revenues can bankrupt the concession***

Examples of Failed PPP Projects and Transactions

Bolivian Water Concession

- The Bolivian government granted a 40-year water system concession to an international (1999)
- Rate structures were immediately modified, which resulted in increases of up to \$20 in water bills for local families, many of whom often earn as little as \$100/month. *The World Bank recommends that water and wastewater bills should not exceed 3% of the income for an average household .*
- Before the effective date, groups of people protested against the deal, which led to an outbreak of violence.
- As a result, the consortium withdrew from the project

Reason for failure: Lack of transparency and public opposition to a PPP project.

Examples of Failed PPP Projects and Transactions

Thailand Toll way:

- A 25-year concession was signed between Don Muang Toll way company and the Department of Highways of Thailand to build a \$407 million segment of an elevated highway.
- The government didn't fulfill its obligation to remove a local road competing with the project.
- As a result, traffic volumes and revenues were less than forecast, and the company could no longer service its debt.
- The government had no option but to authorize a substantial toll increase and take over some of the company's existing loans

Reason for failure: Financial profitability and sustainability is heavily dependent on Government's respect of contractual agreements

Examples of Failed PPP Projects and Transactions

Gdansk-Torun High Way- Poland - Troubled

- In 1997, Gdansk Transport Company obtained the concession to finance, build and operate a section of the highway from Gdansk to Torun.
- However, the Concession Agreement could not be signed because key piece of PPP legislation was missing.
- Multiple rounds of renegotiations and frequent adjustments to legislation took place in the following years.
- The Concession Agreement was signed in August 2004, 7 years after the beginning of negotiations.
- The specifications of the project were significantly changed and the construction was divided into two projects, instead of the original plan of one project

Reason for failure: Absence of solid legal PPP frame work and long negotiation period forced Government to pay “shadow tool”

Examples of Failed PPP Projects and Transactions

A1 Motor Way – Bulgaria

- In 2004 the Bulgarian Government awarded a concession without competitive bidding to finance, rehabilitate, construct, and operate a section of the A1 motorway
- Opposition parties attacked the project on the basis of a lack of transparency, and high government contribution and construction price
- The concessionaire asked to increase construction costs due to legal obstacles causing substantial delays and did not want to assume the risk of lower-than-expected traffic
- As a result, the talks with the concessionaire collapsed in November 2006 and the financial closure never achieved

Reason for failure: Uncompetitive procurement can lead to long delays and excessive cost to the government

Examples of Failed PPP Projects and Transactions

Water Concession - Argentina

- Buenos Aires water services concession was signed in 1993 with a consortium called Aguas Argentinas
- After the 2001 economic crisis, the local currency was depreciated substantially which reduced the real value of tariffs. Subsequently, collected revenues made it difficult for the consortium to achieve the original targets
- When the government rescinded the concession in March 2006, it argued that Aguas Argentinas did not comply with obligations on expansion and quality.

Reason for failure: Financial crises and improper solutions to currency risk

Examples of Failed PPP Projects and Transactions

London Underground: Reason for failure: Lack of follow up, weak management and financial issues

Transport for London (TfL), has agreed to buy PPP company Tube Lines from its owners.

- Consortiums poor internal management, the management changed frequently and found it difficult to manage the work of its shareholders.
- The poor quality of information available to management,
- Transport for London and London Underground did not have enough information about project performance to provide oversight and control over the PPP consortiums activities.
- The PPP projects had high debt to equity ratios, with approximately 88.3% debt to 11.7% equity

Examples of Failed PPP Projects and Transactions

- The small amount of equity risk provided less of an incentive for the PPPs to perform. In addition, the government guaranteed 95% of the private debt in the case of bankruptcy by the PPPs
- Large number of Consortia members (5)- The loss was not a huge write-off for large corporations. Furthermore, these firms were major suppliers to the project.
- High interest rates: the consortiums accepted from the financiers (20%) indicate the risk and uncertainty surrounding the PPP.
- The guarantee of the private debt by the Department of Transport tended to significantly reduce the consortiums financing risk.
- The contract was structured in such a way that the Department of Transport had little authority to intervene in the PPP activities

Examples of Failed PPP Projects and Transactions

Light Rail BOT Project-Jordan

- In 2007 Ministry of Transportation launched BOT Project to construct light rail between Amman and Zarqa Cities.
- 11 Consortia were qualified, two submitted bids.
- Preferred bidder couldn't secure finance and project was terminated

Hazardous Solid Waste Incineration- Jordan

- In 2008 GOJ launched a BOT project for hazardous solid waste incineration
- More than 11 consortia were qualified but only one submitted proposal
- Contract never signed because of irresponsiveness

Examples of Failed PPP Projects and Transactions

Reasons for Failure:

- Large number of qualified bidders
- Poor documentation
- Unclear risk allocation and sharing
- Poor management and weak advisors

Risks and Claims - real case from Disi BOT Project

1. Time related cost –delays caused by force majeure event
2. Increased cost of commodities
3. Other items

Amicable settlement is failing - !!

BOT contractor earns more money when electricity tariff is increased- Part of risk? Temporary gain? Or ?

*Wishing you Success in your upcoming PPPs
Good Luck*