SRI LANKA INSTITUTE OF DEVELOPMENT ADMINISTRATION
Public Finance for Middle-Level Managers

Session I

PUBLIC PRIVATE PARTNERSHIPS



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PUBLIC VS PRIVATE

- Government – A political system by which a country or community is administered and regulated
- Public – People in general or things that are done for the people by the state
- Private - Belonging to one particular person or group only, or not shared or available to other people
- Partnership – A relationship of two or more 'partners' carrying out a business with a view to making a profit

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PUBLIC VS PRIVATE

- Public Property Act (1992) - Government officials should ensure the use of public resources in a way that protects the public's interest (well being of the public).
- Premchandra v Jayawickreme [1994] - There is no absolute or unfettered authority in public law; discretion is granted to trusted public officials to be used for the public good, and the purpose of exercising that discretion is to be assessed in relation to the purposes for which they were so named.

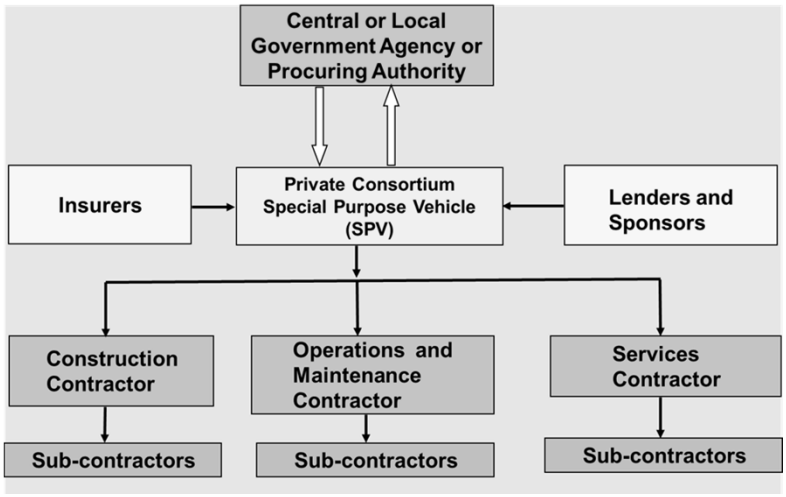
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PUBLIC PRIVATE PARTNERSHIP (PPP)

- A long-term contractual arrangement between public and private entities through which the skills, assets, and/or financial resources of each of the public and private sectors are allocated in a complementary manner—thereby sharing the risks and rewards, to seek to provide optimal service delivery and good value to citizens
- An innovative procurement style, where with the collaboration of public and private sector, a public service or facility to deliver users

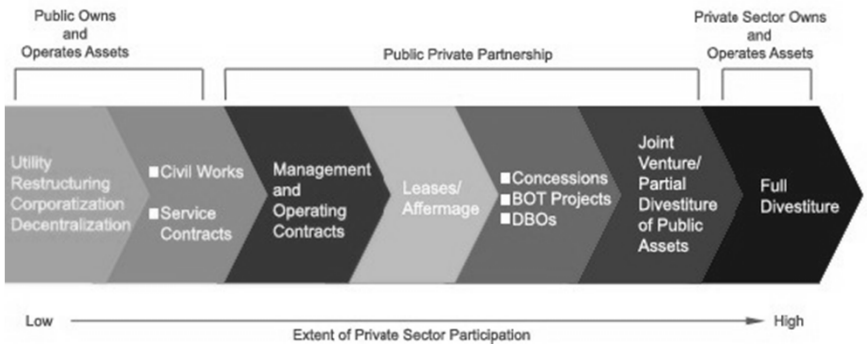
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PPP STRUCTURE



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PPP MODELS



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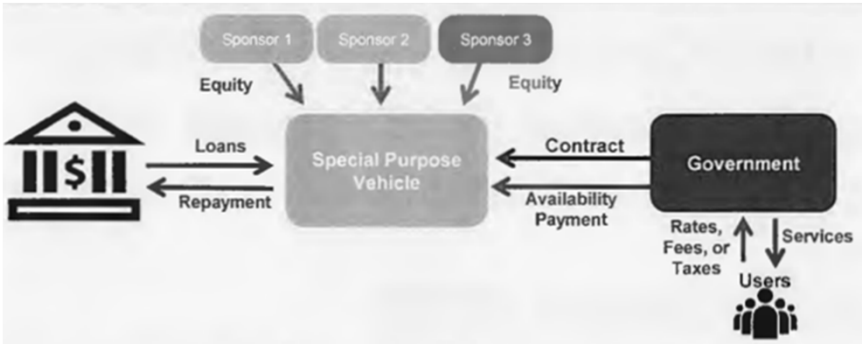
PPP MODELS

- Private Financial Initiatives (PFI) - Privately financed contracts for public facilities and public works cover the same elements, yet in general, are paid by a public authority, not by private users

Eg: Under a PFI program, hospital schemes are constructed in selected capitals. They are designed, built, financed and operate (DBFO) by a private sector consortium, under a contract that typically lasts for 30 years. Under DBFO, a private sector partner takes on the provision and long-term operation of a facility in line with the given specification. The private consortium will be paid regularly from public money, based on its performance throughout the contract period. If the consortium misses performance targets, its payment will be reduced.

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PPP MODELS



Private Financial Initiatives

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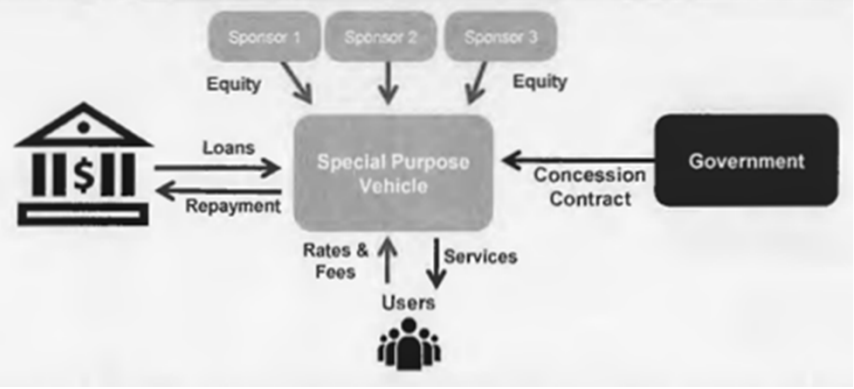
PPP MODELS

- Concession - A facility is provided by the private sector, which then operates the facility for a certain period by private sector upon a concession granted by the government
  - BOT - Build, Operate, Transfer
  - BOO -Build, Operate, Own
  - BOOT- Build, Operate, Own, Transfer

Eg: Government enters into a BOOT contract with private proponent to extended central expressway from Kurunagela to Dambulla as Build, Operate, Own, Transfer contract. Private party invests for expressway extension and build and operate for 10 years after construction to cover his investment and profit from tall fee.

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PPP MODELS



Concessionaries

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KEY PRINCIPLES

- There are three benchmarks for determining PPP viability
  - Affordability
  - Value for Money (VFM)
  - Risk Transfer

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KEY PRINCIPLES

- Affordability - Expenditure and other mode of delivery can be accommodated within the budget constraints of the public authority and it should also be assumed that such can be sustained in the future
- Value for Money - Best composition of life cycle cost and quality or fitness for purpose of the good or service to come across the user's necessity
- Risk Transfer - Optimize risk allocation by transferring the risks to the party who is able to succeed them

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OPPORTUNITIES

- Government identified that railway transportation is one of the best solution to reduce the traffic in Colombo region. However, it is required to lay additional railway tracks to achieve this requirement. But currently, financing for such major investment by government is not affordable. It is suggested to execute the proposed project through a PPP model.

Ability to harness additional financial resources

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OPPORTUNITIES

- Sri Lanka is one of the leading country in the world which provides high quality of Cinnamon. It is reveled that such quality can not be achieved in other countries since quality of Cinnamon directly affects the soil condition in the Sri Lanka. Since the absence of technology to extract Cinnamon bark oil in Sri Lanka, other countries that are not growing Cinnamon, get benefits by producing bark oil with imported raw material from Sri Lanka. Government suppose to enter into a PPP with foreign investor to construct a factory to produce bark oil in Sri Lanka.

Innovative technology

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OPPORTUNITIES

- Government of Kenya spent a considerable finance to solid waste management through local authorities. But solid waste management problem was not solved due to inherent public management issues. Therefore, Kenya decided to go for a PPP for solid waste management.

Enhanced public management

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OPPORTUNITIES

- Ability to harness additional financial resources
- Reduced whole life costs
- Better risk allocation
- Innovative technology
- Faster implementation
- Enhanced public management
- Functioning efficiencies inherent to the private sector
- Perceived as vehicles for maximising value for money

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CHALLENGES

- Social
  - PPP may lead to higher user charges
  - Lack of understanding of PPPs
  - Public opposition
  - Lack of flexibility
- Legal & Regulatory
  - Absence/ inadequate coverage of PPP legal regime
  - Weakness of PPP policy

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CHALLENGES

- Economical
  - Difficulties in obtaining long-term finance
  - Difficulties in seeking financial partners
  - Lack of public sector project
  - Expensive bidding process
- Technological
  - Lack of suitable skills and experience
  - Lengthy bidding and negotiation process
  - Absence of model concession agreements

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CHALLENGES

- Political
  - Lack of awareness/ poor understanding about PPPs by politicians/ decision makers
  - Lack of coordination between central and local governments

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EXERCISE NO. 01

- Develop strategies to mitigate identified challenges in PPP

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PPP LIFE CYCLE

Phase 01 **Project Identification**	Assessment of the need for the project, an analysis of different investment options and initial feasibility studies, and a PPP suitability appraisal
Phase 02 **Project Preparation**	Establish its project team and governance structures and project appraisal process that began in Phase 1 continues in more detail
Phase 03 **Project Procurement**	Select the most appropriate and competent private partner and enter into formal PPP contract
Phase 04 **Project Implementation**	Monitor and manage project delivery and service outputs and resolve disputes

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EVOLUTION OF LEGISLATION

Artical 43(I) of Constituion	•Asssigned by President, the subject of the "Government Financial Regulations, Interpretation and Amendments" to the Minister of Finance
Finacial Regulations	•Originally published in 1966 and revised in 1992 •Rules for procurement of works, goods and services in Chapter XIII of Financial Regulations •Does not deal with PPP procurement
Guidelines on Government Tender Procedure	•Published in 1996 as two parts in 1996 •Part I was revised in 1997 and Part II was revised in 1998
Government Procurement Guidelines for Goods and Works	•Part I was replaced by Government Procurement Gulines for Goods and Works and Part II remained as unchange
Public Finance Department Circular No. 444	•Procedure to entertain unsolicited PPP in urgent and exceptional circumstances •Assessment of unsolicited PPP by a Standing Cabinet Appointed Review Committee (SCARC)
Suppplimentt23	•Introduced *"Direct Negotiation"* method to entertain all unsolicited PPPs •Detailed the process prescribed in public Fiance Department Circular No. 444
Suppplimentt30	•Introduced *"Swiss Challenge"* procurement method to deal with unsolicited PPPs
Public Finance Circular No. 2/2019	•Renamed Part II Guidelines as Guidelines for private sector infrastructure projects on PPP basis
Ministry of Finance Circular No. PFD/PPP/Guidelines/2019	•Abolished "Swiss Chnallenge" method •Instructed to adopt the methodology recommended in Part II Guideline in 1998 again

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PPP PROCUREMENT

- PPP can be launch in two ways: Solicitation and Un-solicitation
- Solicitation – Where the government identifies a project and invites private investors to bid and develop the project
- Un-solicitation - When a private organization approaches a government agency with a proposal for infrastructure or service work without receiving an explicit demand or invitation from the government entity

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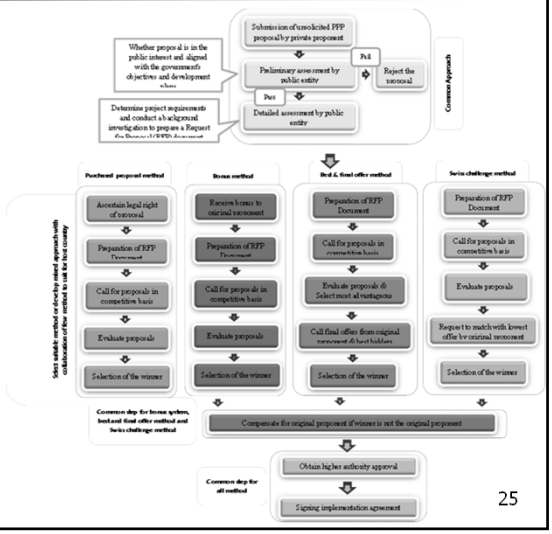
PPP PROCUREMENT

- Open competition
- Competitive negotiation
- Short listing
- Direct negotiation
- Unsolicited proposals

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USP PROCUREMENT

- Full competition
- Direct negotiation method
- Purchase proposal method
- Bonus method
- Swiss challenge method
- Best and final offer method



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THANK YOU....

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