

Sponsor Considerations Driving Decision to Bid on PPP Tenders in Emerging Markets

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Sponsors Interviewed

- Hochtief PPP Solutions
- Ellis Don
- Vinci Concessions
- Plenary Group
- John Laing
- Marubeni
- Itochu
- Samsung C&T
- SNC Lavalin
- Bouygues
- Acciona
- ACWA Power

Consideration #1: Certainty that government will go through with the procurement

- Commitment to PPP modality and the particular project at political and bureaucratic levels
- Level of readiness of procuring agency
- Procuring agency's ability to pay (credit rating)
- Track record and reputation of procuring agency
- Capability of procuring agency
- Presence of bid cost reimbursement for unsuccessful bidders and “termination fees” for government cancellation of tender process

Consideration #2: Project pipeline

- Expensive to enter new market so future pipeline is important
- Pipeline of multiple projects over next few years with certain minimum size
- One-off opportunities considered in unique circumstances (e.g., very large project size, proximity to home market)

Consideration #3: Assumed chances of success

- Number and capability of shortlisted competitors (ideally more than 1/3 chance of winning)
- Fit between company's strengths (e.g., technical experience and/or financial position) and requirements
- Positive prior experience working in country or with a particular procuring agency
- Experience and reputation of local partner
- Relationship of local partners with key subcontractors

Consideration #4: Risk Allocation/Bankability

- Risk allocation that is bankable
- Commonly accepted risk allocation regimes (caution against novice procuring agencies trying to over transfer risks)
- Preference for availability structures
- Benchmarking expected returns against 10%-12% returns achievable in mature PPP markets of Canada and Australia
- “Scoring models” exist in mature PPP markets that can help screen opportunities for management. Such pre-programmed models generally will not be used to screen opportunities in emerging markets.

Consideration #5: Legal, Political and Macroeconomic Framework

Legal

- Ability of parties to enforce performance in long-term contracts
- Transparency of judicial system
- Favorability of tax regime applicable to foreign investors
- Ownership restrictions applicable to foreign investors

Political

- Strength of key institutions
- Corruption
- Protectionism
- Bureaucratic efficiency

Macroeconomic

- Exchange rates and currency convertibility
- Growth rate
- Inflation

Consideration 6: Transparent Procurement Process

- Evaluation criteria applied objectively, fairly and transparently
- Players participating in tenders (who bids, who wins, local vs foreign)
- Quality of debriefing to unsuccessful bidders

Consideration #7: Ability/willingness to understand and accommodate private sector concerns

- Ability to inspire market confidence by showing deals that reach financial close
- Early deals should focus on structures familiar to the market
- Willingness to engage early with the market (se.g., sometimes on large projects, consortia are forming 2 years before issuance of RFQ)
- Willingness to proactively and competently address concerns raised during market sounding and pre-bid meetings

Consideration #8: Bid Preparation Costs

- Key bid cost drivers include:
 - Project complexity
 - Level of design/technical details requested
 - Standardization of procurement documentation
 - Time required to reach financial close
 - Prevailing costs in a particular jurisdiction
- For projects exceeding \$1Bn, bid preparation costs can equal 1%, out of which perhaps two-thirds will be related to design and technical due diligence. For smaller projects, bid costs could be 2% of project costs
- Bid preparation costs will be 50% to 70% external depending on whether sponsor is a construction company

Other Considerations

Consideration	Explanation
Fit with corporate strategy	Whether a particular emerging market is strategic priority for a sponsor
Activity level of peer companies in market	Tendency to “follow the herd”
Ease of staff relocation	Difficulty in relocating staff due to security, convenience issues

KEY INSIGHT: Sophisticated procuring agencies systematically address sponsor concerns to create and sustain competition

