

Public-Private Partnerships

Some lessons from Portuguese experience

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PPPs in Portugal

Experience demonstrated PPP effectiveness for:

- rapid development of infrastructure
- improvement of service to end-users

PPPs are also providing interesting results in the public sector, acting as a driver for change.

PPPs in Portugal

But we face also:

- significant budgetary impact
- PPP schemes that created conditions for delays and cost overruns, mainly due to environmental licensing constraints
- in general, suboptimal risk sharing
- need to increase tender competition
- need to improve management of contracts

Initial PPP experience

- Transport
 - Highways
 - Real toll concessions
(Brisa, Lusoponte, AENOR, AE Atlântico, Litoral Centro)
 - Shadow toll concessions
(seven concessionaires)
 - Railways
 - Suburban rail transport service (Fertagus)
 - Tram systems (Metro Sul do Tejo)

Major recent PPP projects (million euros)

	project phase	initial investment	cost to public sector
Vasco da Gama bridge (Lusoponte)	completed	1 027	503
real toll highways, AENOR	under construction	846	372
real toll highways, AEA	completed	1 554	86
shadow toll programme (7 concess.)	construction (2 completed)	3 428	7 616
real toll highways, Litoral Centro	under construction	156	-45
real toll highways, Grande Lisboa	tender phase, bids presented	...	...
real toll highways, Douro Litoral	tender phase, bids presented	...	...
Fertagus suburban rail service	completed, renegotiation	39	...
Metro Sul do Tejo tram system	under construction	269	269
Metro Ligeiro do Mondego	tender being prepared	...	...
high speed railways	preliminary studies	...	...
hospital programme (10 hospitals)	two in tender phase	...	...

Major new projects

- Health:
 - 10 hospitals, including clinical services
 - Call centre, clinics, etc.
- Transport:
 - Highways
 - Railways
(suburban/regional, tram, high-speed railways)

Trends

- Emphasys on the provision of service to end-users and on service quality
- Concern with affordability
- Concern with financial costs
- New contractual design:
 - Terms
 - Splitting
 - Risk sharing

Recent institutional changes

New appraisal procedures for PPP projects:

- justification of the PPP
- optimisation of PPP model
- design of adequate PPP tender procedures
- adequate long-term budgetary appropriation
- construction of a public sector comparator
- intervention of the Finance Ministry

Recent institutional changes

Creation of a Finance Ministry PPP Unit:

- collection, analysis, and diffusion of information
- provision of expertise to sectoral ministries
- evaluation and appraisal of PPP projects and tender documentation
- evaluation of bids in public tenders
- negotiations with private partners

Creation of other PPP units (Parcerias Saúde)

Recent institutional changes

Consolidation of prior rules for the creation of long-term budgetary appropriations for PPPs:

- Appropriations required prior to launching
- Public sector comparator required
- Concerns:
 - Affordability
 - Intergenerational equity

Distribution of risks between partners

- projects clearly defined in term of outcomes
- environmental licensing
- technical and commercial flexibility
- contractual splitting
 - different terms
 - different incentive mechanisms
(traffic payments versus availability payments)

Public sector comparator

- better definition of end results and goals
- improved financial modelling
- consistency with global government policy
- discussion of project in a more initial phase

Competition in procurement

- international public tender
- clear presentation of the selection rules
- two-phase tender:
 - bidders present their proposals
 - proposals are subject to evaluation by committee
 - the best two are selected to negotiation phase
 - they present their best-and-final-offers (BAFO)
 - committee makes final selection

Competition in procurement

- procedures are required to satisfy the principles of transparency, equality of treatment and competition
- bidders are given extended information at all phases and have the right to challenge the outcome in court, in each of the tender phases

Competition in procurement

Additional measures to foster competition:

- licensing (from government, environmental authorities, local authorities) prior to tender
- clear definition of required quality
- flexible requirements to allow for innovation
- selection criteria both objective and able to evaluate innovative proposals

Competition in procurement

A challenge to public authorities: PPPs are more efficient and tenders more competitive if:

- input and process requirements are reduced
- intended outcomes are more precisely stated
- selection criteria are defined according to those same intended outcomes, refraining from using the criteria that are usual in traditional procurement

PPPs and public sector reform

PPPs are helping to change public sector in favour of citizens and end-users of public services:

- PPPs focus on performance
- PPPs force government departments to focus on performance
- PPPs favour departments oriented to the satisfaction of public services end-users

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