



US Treasury
Office of Technical Assistance

Public Private Partnerships (PPP) Project Readiness

Case of Peru

Jeanine Corvetto
Infrastructure Advisor

December 2016

Symptoms of Problems in Project Readiness

Contract Modifications Post Procurement

Lack of project readiness resulted in many contract modifications.

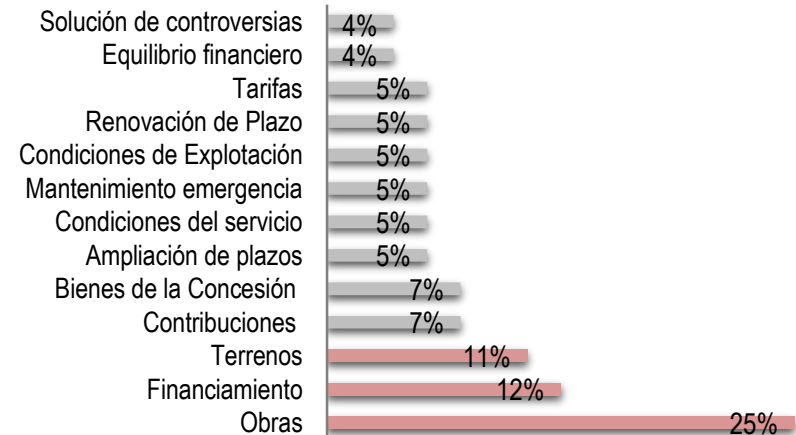
In the majority of the cases, the PPP contract did not have the provisions necessary for project execution.

According to the Nation Auditor of the 39 modifications **48% were related to construction, land and financing issues**³

In Perú 62% of PPP contratos have been renegotiated

% Renegotiated Contracts		
Sector	LA ¹	Perú ²
Electricity	41%	27%
Transportation	78%	81%
Water/Wastewater	92%	83%
Total	68%	62%

Principal reasons for contract modifications



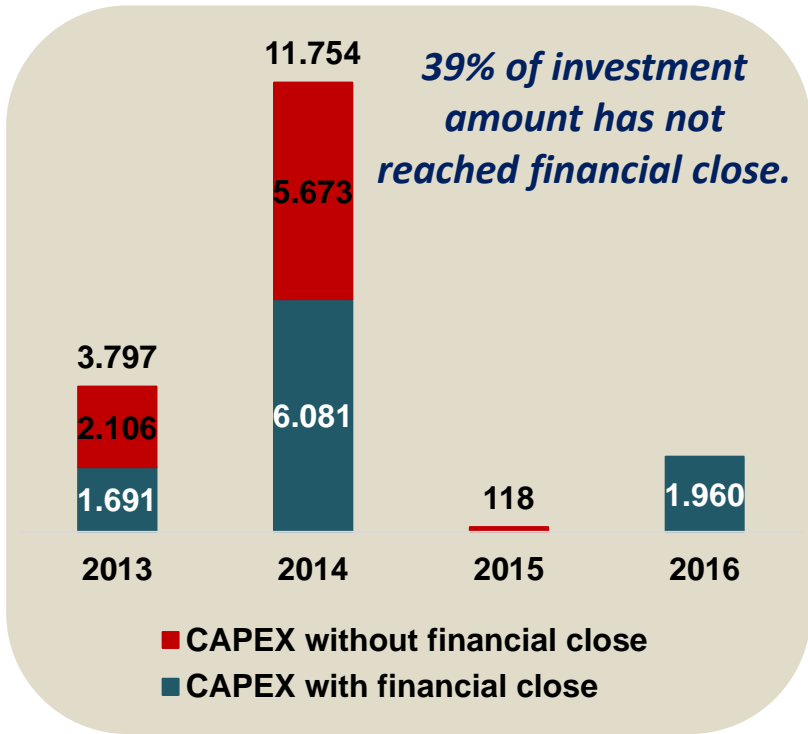
1/ The Renegotiation of PPP Contracts, José Luis Guasch.

2/ MEF

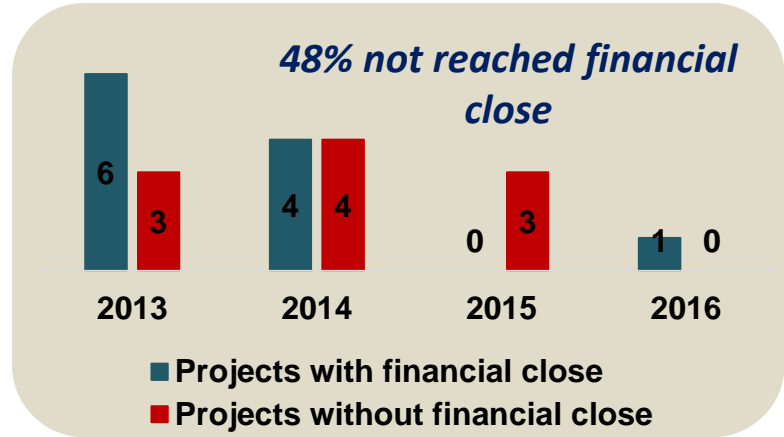
3/ Causes and effects of renegotiating PPPs- Contraloría – Sample of 14 Proyectos

Financial Close (2013-2016)^{2/}

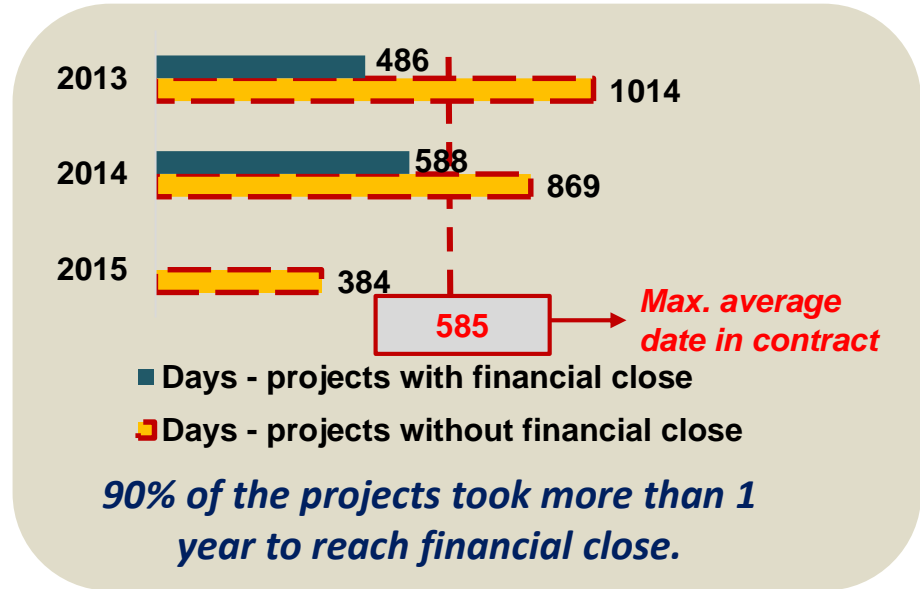
**2013-2016
PPP Projects Reaching Financial Close
(CAPEX in USD (000s))**



**2013-2016
Number of PPP Projects Reaching Financial Close
(USD (000s))**



Average days from Commercial Close to Financial Close⁽¹⁾

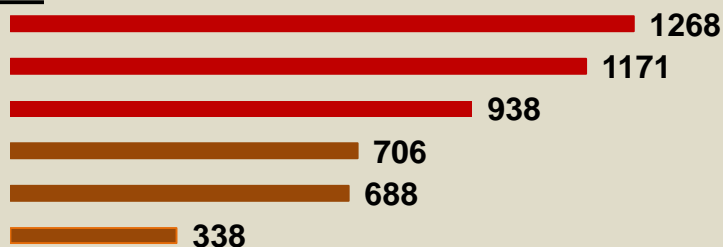


Source: OSITRAN, OSINERGMIN, MTC, SEDAPAL.
 1/ Data from 16 PPP projects using weighted average CAPEX.
 2/ Data from 21 PPP projects.

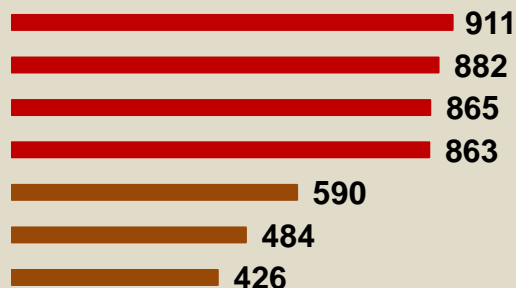
Financial Close (2013-2016)

16 PPP Projects Days From Commercial Close to Financial Close

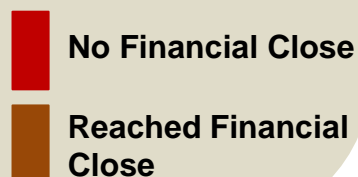
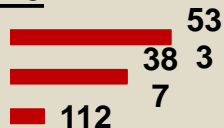
2013



2014



2015



Causes for Delay in Financial Close:

- Delay by Authority to deliver right of way, property.
- Design change.
- Discrepancies between contract clauses and lender requirements.
- Negotiations with lenders.
- Government would not change the risk assignment and commercial terms of the contract

*For projects not reaching financial close the days were counted from commercial close until dec. 1, 2016.

Perverse Impact of Full Government Guarantees

Full Government Guarantees for PPP projects



Caused perverse affect of reducing capital markets due diligence.



Project readiness was inadequate and resulted in more contingent liabilities and other costs for the government and the private sector.

Diagnosis of Underlying Problems

Problems Identified in Peru's PPP Process

- Different interpretations
- High level of discretion
- Legal voids/outdated laws
- Issues with legal security

**Fragmented
Legal Framework**

- No infrastructure planning, politically driven
- Projects not aligned with strategic vision of sector
- Duplicity of projects
- Lack of synergies between projects

Limited Planning

- Government full guarantees reduce due diligence
- **Government delay risk:** Permits, right of way and land not available after procurement
- Low level of design (< 30%) result in large contingencies too risky for private sector

**Risk allocation not in line
with best practices**

- No gateways or standard measures to ensure quality and project readiness
- Payment mechanism not defined
- Lack of standardization of contracts provisions
- No policy on risk allocation and government guarantees

**PPP
Processes and Practices
Not standardized**

Problems Identified in Peru's PPP Process (cont.)

- Institutional limits on ability to evaluate projects
- Private sector frustrated with lack of response
- Projects not in line with strategic objectives
- Distract ministries from strategic planning

**Unmanagable Number
Private Initiatives
(Unsolicited Proposals)**

- Political objectives override decisions on project readiness
- Proinversion processes not in line with best practice
- Government sponsor with weak capacities

**Weak Institutional
Capacity**

- Projects offered to market without clear business model
- Non transparent practices in hiring **advisors**
- Aggressive and opportunistic bidding is allowed
- Bidders not required to bring financial commitments to bidding process

**Risky procurement
processes**

- "Renegotiation risk" cannot be managed by international players
- Lenders not involved in contract design
- Modifications to contracts reduced government's value for money

**Long and Non
Transparent Contract
Renegotiations**

Reform Solutions

Reform Solution

New PPP law and regulations

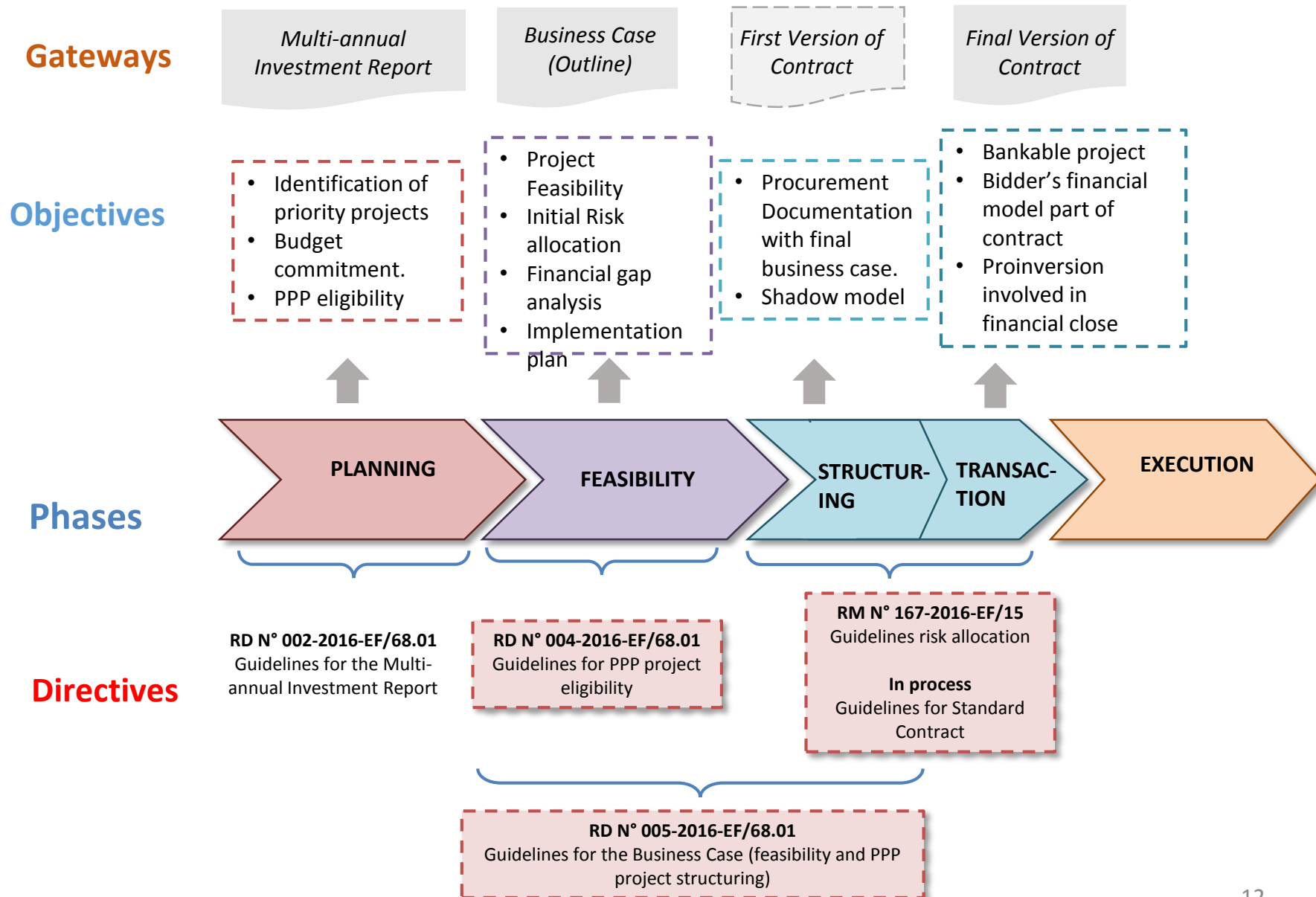


Reform of the PPP process with project readiness gateways and business case methodology.

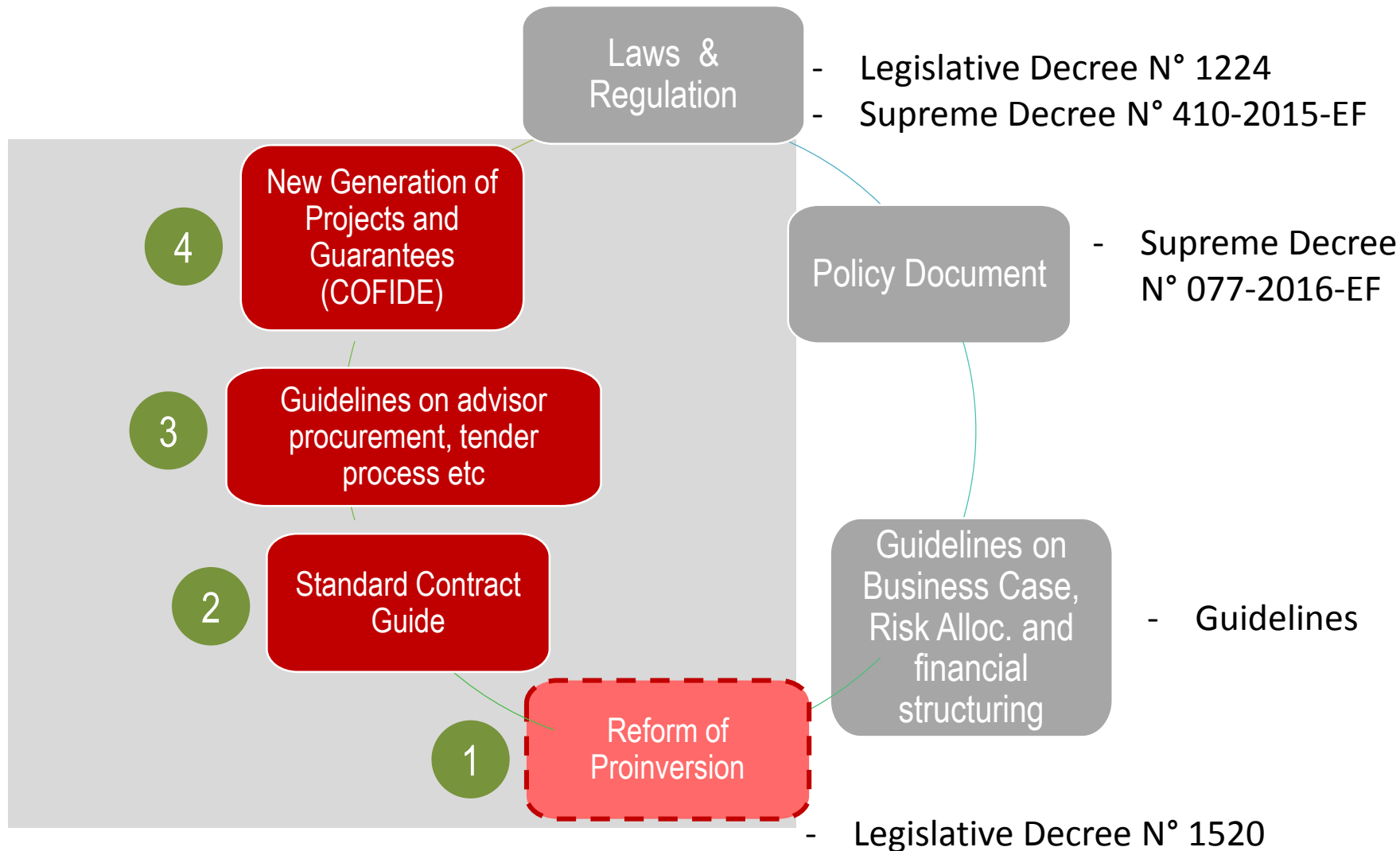


Move towards a project finance model by providing transparent and commercially appropriate government support

Gateways to Ensure Project Readiness



Additional Reforms and Measures



Annex Information

Guidelines for Feasibility and Structuring Phases

- ✓ PPP Guidelines for Line Ministries, Regional Governments, Local Governments, Proinversion
- ✓ MEF approvals to

A Feasibility Phase (Outline Business Case)

- Project viability
- Funding Gap Analysis
- Initial risk assignment
- Realistic timeline with milestones



Gateway 1: Proinversion Project Procurement Plan
Project meets criteria to be incorporated into Proinversion's Procurement Plan

B PPP Structuring and Procurement Phase

- Viable financial structure
- Definition of payment mechanism
- Risk assignment
- Contract
- Realistic timeline with milestones



Gateway 2: Procurement Process
Project meets criteria to open procurement process.

Gateway 3: Commercial Close

A Contents of Outline Business Case

Secciones	Puntos relevantes
1. Executive Summary	<ul style="list-style-type: none">• Summarize the key elements of the Business Case
2. Description and Project Feasibility	<ul style="list-style-type: none">• Describe the strategic alignment of the project with the different plans and policies of the public entity; outline the objectives and benefits of the project; describe the characteristics of the project; make a diagnosis about the current provision of infrastructure or public service.
3. Gap analysis	<ul style="list-style-type: none">• Provide preliminary project cash flow projections, funding gap of the project and the level of cofinancing, if necessary.
4. Budget capacity	<ul style="list-style-type: none">• Demonstrate that the public entity has the budgetary capacity to meet the project's commitments, expenses and any other financial obligations.

Contents of Outline Business Case (cont.)

Secciones	Puntos relevantes
5. Value for Money	<ul style="list-style-type: none"> Determine whether the PPP procurement mechanism meets the Eligibility Criteria.
6. Procurement Strategy and Timeline	<ul style="list-style-type: none"> Identify human and financial resources required for the structuring and transaction phases in order to identify possible resource constraints and / or constraints Public entities must determine the human resource required for the procurement phase, and budget that the authority needs to carry out the procurement process (not necessary if they entrust the process to PROINVERSIÓN); Provide a schedule and key documents to be developed in the structuring and transaction phases
7. Project Implementation Plan	<ul style="list-style-type: none"> Public entities should indicate the current status of the project (in terms of right of way, land acquisition, among others); As well as an implementation plan.

B PPP Structuring Phase

- ✓ Outline Business Case is further developed and reflected in a Contract, financial model and other documents.

Key Elements

- 1 Payment Mechanism Determined
- 2 Funding Gap Identified
- 3 Shadow Financial Model

✓ **Gateway Before Project Procurement**

- ✓ Ministry of Finance approval necessary before final bidding documents are made public
- ✓ Objective is to ensure project readiness before offered to public