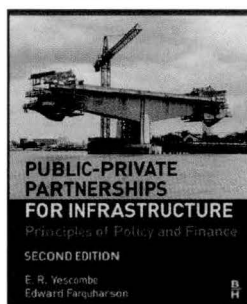


# **PUBLIC-PRIVATE PARTNERSHIPS FOR INFRASTRUCTURE**



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This book reviews the general policy issues that arise for the public sector in considering whether to adopt the PPP procurement route, and the specific application of this policy approach in PPP contracts. This book also offers a systematic and integrated approach to financing PPPs within this public-policy framework. Policy and finance are inextricably entangled in PPPs, so the public sector must develop PPP policies taking account of financing constraints, and be careful to avoid entering into PPP arrangements whose financial implications are misunderstood, or not understood at all, thus undermining the benefit of the PPP. Similarly, the policy background and drivers for public-sector decisions are also often quite unclear to private-sector investors and lenders.

Structuring PPPs is complex because of the need to reconcile the aims of the large number of parties involved - on the private-sector side, there are investors, lenders and companies providing construction and operational services; on the public-sector side, there are public-sector entities creating, implementing and overseeing PPP policies as well as those actually procuring and managing the PPP contract, not forgetting the general public who use the facilities that a PPP provides. Most of these parties need to have a basic understanding of policy and finance issues, and how their part of the project is linked to, and affected by, such issues.

Reflecting the authors' own practical experience while sitting on the public-and-private-sector sides of the table, this book is intended to provide a guide to both

the general policy principles and the related financing issues that can cause the most difficulty in PPP negotiations and in the long-term management of PPP contracts. It serves both as an introduction for those who are new to the subject, whether in the academic, public sector, investment and finance or contracting fields, and as an aide-mémoire for those developing PPP policies and negotiating and managing PPPs. No prior knowledge of PPPs or financing is assumed or required. The views expressed by the authors are their own and do not reflect those of any institution for whom they work.

This book is divided into six parts; Part 1: Introduction, Part 2: The Public-Sector Perspective, Part 3: Risk Analysis and Allocation, Part 4: The PPP Contract, Part 5: The Private-Sector Perspective and Part 6: Alternative Models-Summing Up. Part one consists of two chapters (*Chapters 1 & 2*) which incorporates overall background of the book; part two consists of seven chapters (*Chapters 4, 5, 6, 7, 8, 9 & 10*) which covers the process of selecting, appraising and procuring PPP projects from the public-sector point of view; part three consists of four chapters (*Chapters 11, 12, 13 & 14*) which explains the risk allocation between the public and private sectors lies at the heart of the PPP process; part four consists of five chapters (*Chapters 15, 16, 17, 18 & 19*) which covers the main elements of a PPP contract, the support that the public sector may provide for such contracts and public-sector management of a PPP contract; part five consists of seven chapters (*Chapters 20, 21, 22, 23, 24, 25 & 26*) which moves to the other side of the table and covers PPPs from the private-sector point of view and part six consists of two chapters (*Chapters 26 & 28*) which incorporates the alternative models and conclusions of the book.

*Chapter 1* covers the overview of the book with detail chaptalisation plan. *Chapter 2* defines PPPs and reviews their place in the provision of public

infrastructure as a whole. *Chapter 3* provides a basic introduction to cash-flow and investment analysis, which are at the heart of understanding the financial benefits, costs and structuring of PPPs for both the public and private-sector parties. *Chapter 4* sets out the policy, legal and institutional frameworks behind a PPP programme. *Chapter 5* provides an initial summary of the PPP project cycle. *Chapter 6* discusses public-sector project management up to the end of the procurement process. *Chapter 7* deals with the initial needs assessment, project definition and selection; logically, these processes come before the decision to procure a particular project as a PPP, the processes for which are set out in the following chapters. *Chapter 8* explains the issues that arise when considering whether a PPP project provides value for money. *Chapter 9* looks at the further key issues of a PPP project's affordability, budgeting for PPPs and financial/statistical reporting requirements. *Chapter 10* describes the procurement process for a PPP. *Chapter 11* summarises the theory behind risk allocation in PPPs, and the main risk categories. *Chapter 12* covers risk allocation during the construction phase, and *Chapter 13* during the operation phase of a PPP project. *Chapter 14* explains how insurance is used to mitigate risks in both the construction and the operation phases. *Chapter 15* describes the payment mechanisms and performance incentives usually found in a PPP contract. *Chapter 16* explains how changes in the original assumptions behind the PPP can be accommodated. *Chapter 17* covers termination of a PPP contract, either during or at the end of its term, and the hand-back of the asset to the public sector. *Chapter 18* describes the different forms of public-sector support for PPP contracts. *Chapter 19* sets out good practice for public-sector contract management during the life of a PPP. *Chapter 20* sets out the different

categories of equity investors (i.e. shareholders) in PPP projects, how they organise them-selves to bid for, develop and manage such projects. *Chapter 21* describes project-financing techniques, and why these are used to raise debt for PPPs. *Chapter 22* looks at the sources of, and procedures for, raising project finance. *Chapter 23* explains how the different elements of the financial jigsaw are fitted together to create a financing plan. *Chapter 24* deals with the important topic of financial hedging, and the effect of interest-rate movements, inflation and changes in currency exchange rates on a PPP project and its financing. *Chapter 25* describes how lenders control and take security over a PPP project. *Chapter 26* considers ways of sharing the benefits of financial 'windfalls', derived from debt refinancing or sale of the equity investment, between the public and private sectors. *Chapter 27* reviews various alternative models for public-sector Infrastructure procurement, compared to the 'standard' PPP models considered elsewhere in this book. Finally, *Chapter 28* reviews the complex arguments for and against using PPPs as one method of delivering public infrastructure investment.

#### About the Authors:

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