

The Canadian PPP model and its applicability in Latin America

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The Canadian model in Public Private Partnerships (“PPP”) is considered one of the most successful in the world, jointly with the numerous PPP projects in other jurisdictions like UK or Australia. During the last decade there have been around 100 infrastructure projects procured as PPP representing billions of dollars in investment.

Is this a good model for a Latin American country to follow? How far is the Latin American infrastructure market with respect to the mature Canadian market?

There is no doubt that Canada is an example to follow. In the western hemisphere, Canadian PPP development is ahead from the one in the United States. It has contributed to consolidate an infrastructure market that includes constructors, operators, financiers, public authorities, which now are used to high-level standards to fulfill.

For Latin America, it is not just a matter of following a model. It is of trying to bring a market.

The infrastructure market will go where there are the minimal conditions regarding returns and risks. When the market arrives, there will be more interaction between local and regional players with worldwide players. The public authority will need to understand the technical concepts and regard them as a new alternative to be used, that has proven successful in other latitudes.

Value of a PPP structure

Often PPPs have been labeled as an alternative procurement method or a way for a government to fund infrastructure projects when government resources are simply not enough to meet the needs. Is this true, what is the true value that a PPP structure brings to the table according to the Canadian experience?

The adoption of a PPP is not a matter of the government having resources or not. The government could have the capital to finance entirely an infrastructure project, but a Value for Money analysis could indicate that the best procurement process is through a PPP. It is not exactly the same situation, but this could be compared with the decision of purchasing a house and choosing either paying 100% or getting a mortgage. If the rate of the mortgage is less than the opportunity cost of investing that money in an investment fund, a rational investor will get a mortgage. In a PPP a Value for Money analysis reflects the savings the government could get if transferring the risks of owning the infrastructure property to a private partner.

A PPP can be summarized as a payment from the public authority to the private sector for performance.

The effects a PPP market brings on the private sector are related to the long-term compromise a company or consortium must assume with respect to an infrastructure. An incentive is created to deliver the infrastructure project on time and on budget, and to comply with the required standards during all the lifecycle of the project.

What have been the lessons that Canada has gained over the past 20 years that can benefit others wanting to follow the same path?

The effects on the public sector are that it becomes disciplined, where the requirements of a project must be clearly identified and defined, in order to avoid poor initial assessments. In the news we have seen many examples of infrastructure projects than were announced with an X budget and finished with a 3X or 4X budget. That also brings a bad political reputation.

And yes, it is true that PPP procurement is a way of providing infrastructure without a public sector payment until the infrastructure is delivered according to the public sector's requirements. It is an alternative way to control a project: if it does not comply, no payment.

Lessons learned

What have been the lessons that Canada has gained over the past 20 years that can benefit others wanting to follow the same path?

As we wrote early, there is already a big bundle of examples of PPP success stories in Canada. One of the main lessons learned is compromise. If the government is not compromised with the project, if the objectives are not clear, there is a big possibility that the project will fail. The compromise shown by the public authority gives a good signal to the market. Bad signals from the government, inconsistencies, lack of coordination with stakeholders, will discourage investors who would prefer to go to more "predictable" markets.

Another lesson learned is that as more projects are procured under a PPP, a minimal set of standards is reinforced. Constructors, operators, financiers, will become used to a way of working. Therefore, for one of these participants to jump to new environments, will depend if there are certain compatibilities between the way they are use to work and what the new environment is offering.

A procurement process is long. Someone will be committed to spend time and resources if he/she finds that the new environment is somehow familiar. This is why logically the first investors are local or regional. But when we are dealing with large infrastructure projects, global players are always required. This is what Canada did to create and reinforce its infrastructure market, basically following the UK model and improving it, especially with the financial closing timing.

Communication from the government is very important, not only to stakeholders involved in an infrastructure project (like the owner of a property where a highway will pass through) but also inside the different government levels: ministries, regions, municipalities. Historically, the PPP promotion process has begun from a specialized Infrastructure or PPP agency. Public servants working in ministries or municipalities at first will not see any benefit from changing their way of working. But as they are exposed and trained in concepts like Value for Money, Public Sector Comparator, PPP screening, they will be eager not to prefer this methodology as a dogma (which is not), but to regard it as an available alternative tool for procuring infrastructure projects.

To attract investors to a PPP project it is required a good management of the procurement process, with a fair and transparent evaluation, where the objectives of the government are well defined, the technical requirements are well specified, and the contracts are financeable.

A success story

A good example of a success story in Canada is the Canada Line Project, named in 2010 as one of the 100 most innovative and socially significant infrastructure projects in the world by KPMG. PwC was the financial advisor.

The Canada Line was the first rail project realized as a PPP in North America that implied the connection of an airport with two cities (Vancouver and Richmond). It is composed of approximately 19 km. of a light train system, with 18 stations and a number of passengers of about 100,000 per day. It had an approximate cost of US\$2 billion.

One of the key elements of this project was the level of coordination between the involved authorities. This project implied the participation of 8 agencies or government institutions which contributed with its financing: the Government of Canada, the Provincial Government of British Columbia, Translink, the International Airport of Vancouver, the cities of Vancouver and Richmond, the Vancouver Port Authority, and the Regional District of Vancouver.

This coordination between so many government authorities, difficult but in the end successful sent a strong message to the market: the Canadian Government, at all its levels, is compromised with the success of a major infrastructure project.

With respect to the technical aspects, a key success factor was the transfer of geotechnical, excavation and demand risks. Normally in Canada there have been few examples of a full demand risk transfer. In the case of Canada Line, the level of demand risk transfer was low, as the concessionaire did not have control over the tariffs, and therefore over the volume of passengers. However, and here is where the innovation comes, the concessionaire was allowed to promote the "passenger experience" of using the Canada Line based on values like punctuality, neatness, order. So the concessionaire received an availability payment not only for fulfilling a schedule, but also for the number of passengers using the service.

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The recipe of success of PPP in Latin America

So, Latin America could reply this model, receive and embrace this market of global players?

First, it would work better in a country with investment grade. The Latin American rankings put in the first places countries like Chile, Mexico, Brazil. Also ultimately there is more activity in emerging economies like Peru or Colombia.

Second, and most important, there should be a commitment from the government with respect to developing its infrastructure market. A commitment that considers the ultimate available tools regarding project financing, that prepares all its government levels in the concept of a public-private partnerships, that has a legal framework that welcomes foreign investment, and that keeps an untouchable track record referred to the respect of contracts.

This last issue has been a burden in Latin America for many years. Private investment will not go and do a favour to anyone. It will go where there is an option of a profit with bearable risk. It will not go to a location where the common place is that after some years, the State declares “change of rules” and nationalizes or expropriates its assets.

This is why the procurement process phase is fundamental. The final content of the contract between the public and private sector should protect the Government, in the short, medium and long-term, during the construction, operation and maintenance phases of the project.

Latin America has a lot to learn about the Canadian PPP experience. At the beginning of the PPP development in Canada, 15 years ago, there were many voices against it, like unions, politicians, academics. But time showed that the PPP methodology was not a dogma, or an uncontestable solution. It was just an alternative.

According to a recent Canadian Council for PPP Poll, Canadian support for PPP is on the rise reaching 70% acceptance. The reason for this is that taxpayers can see infrastructure projects being built and delivered on time and on budget, that the levels of services are adequate, and that their standard of living rises accordingly.

Would we have these results some day in Latin America?

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