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EIC White Book on BOT/PPP

THE EIC WHITE BOOK

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INTRODUCTION

1.1 BACKGROUND

Governments and public authorities have in recent years increasingly tried to attract the private sector to the development, planning, financing, construction and operation of infrastructure projects in the transport (roads, railways, ports, airports), energy (power plants, transmission lines, etc.), sanitation (water supply, wastewater treatment, waste disposal) and public building sectors (schools, hospitals, military buildings, etc.). For this purpose numerous project models have been created and implemented (PFI, DBFO, BOT, BOOT, etc.) – referred to as "BOT / PPP" in this White Book – which aim at private sector participation in the project. Substantial investment demands, scarcity of public resources and, above all, the evidence of the benefits of infrastructure developments in the global economy are the reasons which have led to a very high visibility and growing importance of this new market world-wide. This document does not, however, intend to deal with pure privatisation.

Most infrastructure projects have a substantial construction component. Consequently, the construction industry was among the first industries to be involved – as investors and concessionaires – in this new market, and is now among the first industries with a broad knowledge of the legal and financing prerequisites, the administrative and regulatory needs and the required risk control and mitigation measures to make such projects successful on a long-term basis.

The bidding exercise and the development and implementation of privately financed infrastructure projects consume substantial time as well as human and financial resources from the investor. The social and public interest add a considerable regulatory component to many projects, often demanding substantial predetermined investment by the sponsor and at the same time limiting his free determination of tariffs or prices. Moreover, the business of concessions, sometimes lasting for 30 years and longer, is highly influenced by such factors as inflation and interest rates, fiscal taxes, GNP development, evolution of the regional purchasing power, exchange rates, etc.

In consequence, bidders and investors are faced with complex legal and regulatory project structures and often bear heavy political, financial and commercial risks. If these risks are not properly mitigated or balanced against guarantees and benefits, the project will prove not bankable and thus not viable. Experiences of this nature have led to a decrease of private investment in infrastructure projects in various regions of the world in recent years – in spite of an enormous demand for the services in question.