Public-Private Partnerships Conference

*PPPs – The key to unlocking opportunities for the Belt and Road projects and experiences distilled from recent developments*

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1- Belt & Road overview
A multi-faceted economic project

Two Routes
- Silk Road Economic Belt
- Maritime Silk Road

Six Regions
- Asia Pacific
- Central Asia
- Western Asia and Middle East
- Eastern Europe
- Africa
- Latin America

Six Economic Corridors
- New Eurasian Land Bridge
- China-Central Asia-West Asia Corridor
- China-Mongolia-Russia Corridor
- Bangladesh-China-India-Myanmar Corridor
- China-Indochina Peninsular Corridor
- China-Pakistan Corridor

Source: PwC
China’s own journey in Belt & Road projects

- **2011**: China-Russia Crude Oil Pipeline started working
- **2013**: China-Myanmar Pipeline was put into effect
- **2015**: Office of the Leading Group for the BRI founded
- **2017**: Yamal LNG (liquefied natural gas) project started production
- **2017**: Sahival coal power station was officially put into operation
- **2017**: Gwadar free trade zone opened
- **2017**: Huadian-Teninskaya joint CHP plant project was completed
- **2018**: 1st B&R Forum for International Cooperation held

Source: PwC
Key achievements in 5 years

- **+115** participating countries
- *Est. US$5 trillion*+ accumulated trades with Belt & Road countries
- *Est. US$60 billion* China investment in Belt & Road countries
- Development of **+50** industrial parks
- Opportunities for *foreign companies* as well as *local investors*
- Some successful **PPP**s
- New opportunities for *Hong Kong*
2- How can PPPs unlock opportunities for the Belt & Road
Common Benefits of PPPs

- **Timely Delivery**
  - Private sector expertise at managing projects
  - Financial penalties for late opening
  - Common for construction of PPP projects to be completed on time
  - Private sector has ability to rapidly deliver a large number of sequential projects

- **Efficiency**
  - Frees up Government resources
  - Focuses all stakeholders’ attention on “value for money”
  - Private sector has experience in dealing with the asset to maximize its use and resultant revenue streams
  - Economies of scale in project management, design, construction, operation

- **Innovation**
  - Competitive tender process encourages innovative solutions
Common Benefits of PPPs (2)

- **Risk Allocation and Management**
  - Whole of life risks (construction, operations, performance etc) transferred to the private sector
  - Each party manages risks they are best able to handle
  - Results in the management of risk in a transparent manner
  - Experience shows that the private sector will accept greater risk transfer as the PPP market matures

- **Financial Discipline**
  - Imposing financial discipline to large capital expenditure programs

- **Performance**
  - Penalties for under-performance
  - Motivated by the same incentives as any business owner – Good service means good business
  - Private owner sees expenditure on asset as investment, public sector sees it as costs
Sample of a PPP contractual structure

- **SPONSORS**
- **LENDERS**
- **CLIENT(S)**
- **SUPPLIERS**
- **CONTRACTORS**
- **OPERATOR**
- **GRANTOR (GVT / PUBLIC SECTOR)**

Agreements:
- PPP Agreement
- O&M agreement
- Supply agreements
- Construction contracts
- Insurance contracts
- Subcontracting agreements

Roles:
- **SPONSORS**
- **LENDERS**
- **CLIENT(S)**
- **SUPPLIERS**
- **CONTRACTORS**
- **INSURERS**
- **OPERATOR**

- **SUBCONTRACTOR**
Different levels of private sector involvement

Source: World Bank
Risk / Financing allocation per type of PPP
When can PPPs be used in Belt & Road projects?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure or service required over <strong>long period of time</strong></td>
<td>Infrastructure or service likely to <strong>change constantly</strong></td>
</tr>
<tr>
<td><strong>Stable</strong> infrastructure or service needs, or high degree of <strong>predictability</strong> over the term</td>
<td><strong>Unstable, uncertain</strong> infrastructure or service needs</td>
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<tr>
<td><strong>Risks</strong> can be taken by <strong>private</strong> sector for adequate pricing structure</td>
<td><strong>Risks</strong> cannot be transferred to one private party at a price that makes financial sense, better managed <strong>collectively</strong></td>
</tr>
<tr>
<td><strong>Complex</strong> project that the private sector can manage with high degree of autonomy</td>
<td>High degree of <strong>control</strong> must remain with government</td>
</tr>
<tr>
<td><strong>Size</strong> justifies the high transaction costs</td>
<td><strong>Size inappropriate</strong> for complex and costly PPP arrangement or <strong>public interest</strong> justifying to remain with traditional procurement model</td>
</tr>
</tbody>
</table>
3- Examples of recent PPPs in Belt & Road and lessons
Some examples of recent BRI projects

- **Myanmar’s Kyauk Pyu Pipeline**
  - 22 mn tons of crude oil annually; 5% of China’s annual oil imports

- **China-Pakistan Economic Corridor**
  - Gwadar Port
    - 3,000 km-long corridor of roads and railways links China with Arabian Sea
  - Thar Coal Power Plant
    - To solve the problem of long term power shortage in Pakistan.

- **Asia Pacific Rail Links (partly suspended)**
  - Connect SEA countries with the southwest region of Yunnan through high-speed railways

- **Kenya Railways**
  - Links Kenya’s port city of Mombasa to landlocked neighbors via a network of high speed lines
Challenges for PPPs in Belt & Road projects

- Political instability and corruption
- Diversity of economic development stages
- Lack of track record and experience in PPPs of local governments and private sector in a large number of Belt & Road countries
- Large disparity in legal systems (common law / civil law) and in their maturity
- Low credit rating of a number of countries in Belt & Road
- Lack of project finance experience
Factors that will help promote successful PPPs in Belt & Road

- **Diversification of sources of funding**
- More projects open to **MNCs partnering with Chinese companies** in Belt & Road
  - Sharing of best practices and competitive advantages of each investor
  - Alignment of goals
  - Better management and return on investment
- **Indispensable multi-disciplinary legal risk management**
  - Legal DD
  - Transparent and fair bidding process
  - Adequate contractual arrangement
  - Strong dispute resolution mechanism
Rebecca Silli  
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Tiang & Partners

- Partner at Tiang & Partners in Hong Kong (in association with PwC Legal International Pte Ltd (a licensed Foreign Law Practice) in Singapore).

- **Over 20 years of experience in corporate/M&A and projects/infrastructure**, advising clients in Hong Kong, China and South East Asia (Indonesia, Vietnam, Myanmar, Cambodia, Thailand, etc).

- She started her career in France, advising MNCs on cross-border M&A transactions. She then spent 6 years in Beijing (2000-2006), before relocating permanently to Hong Kong in 2006, developing a regional practice across Asia.

- She advises sponsors and multilateral agencies on **infrastructure projects** in the water, waste, public transport, airport, power, hospitality and sport facilities sectors (notably in China, Hong Kong, Myanmar, India, Indonesia, other South East Asia countries).

- She also assists MNCs on the establishment of subsidiaries, joint-ventures (including large-scale industrial projects) and **cross-border M&A transactions** in the PRC, Hong Kong, and across South-East Asia.
Thanks!

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