

PUBLIC PRIVATE PARTNERSHIP POLICY STATEMENT

**Ministry of Economic Development, Financial Services and Corporate Affairs
May, 2003**

1.0 INTRODUCTION

1.1 In the 2002/2003 budget, it was announced that Public Private Partnership (PPP) would be used as a new form of procuring and financing infrastructure projects and services in the public sector. This Policy Statement sets out the framework for using PPP in Mauritius.

2.0 THE WIDER POLICY CONTEXT FOR PPP

2.1 Mauritius has embarked on an Economic Agenda for the New Millenium, which spells out Government's strategy and policy orientations for five years, until 2005/06. The objective set out in the Agenda is to enhance the employment-generation potential of the economy and to raise the quality of life of all sections of the population. To attain this objective, Government will invest massively in education, training and information technology, as well as in infrastructure and the environment, to transform Mauritius into a diversified, hi-tech, high income services and knowledge economy fully integrated in the new global economic environment.

2.2 In order to ensure that the investment is sustainable, Government will need to restore soundness in public finances and bring down the budget deficit to a sustainable level. This will be achieved through a variety of efforts. A major programme to improve the quality and effectiveness of public expenditure and to enhance the buoyancy and efficiency of the tax system is already under way, and Government will shortly embark on the phased introduction of its Medium Term Expenditure Framework (MTEF). The public sector will be encouraged to enter into strategic alliances to enhance technology know-how and improve marketing and management competence. Government is also in the process of creating the appropriate policy, institutional and legal framework for encouraging the private sector to play a larger role in procuring and financing infrastructure projects and services in the public sector through well-designed PPP.

3.0 THE PPP CONCEPT

3.1 A PPP is a contractual agreement between a public entity and a private entity, whereby the private entity performs part of a government organisation's service delivery functions, and assumes the associated risks for a significant period of time. In return, the private entity receives a benefit/financial remuneration according to predefined performance criteria, which may be derived:

- entirely from service tariffs or user charges
- entirely from Government budgets
- a combination of the above.

3.2 The public sector retains a significant role in the partnership project, either as the main purchaser of the services provided or as the main enabler of the project. It purchases services and specifies the service outputs/outcomes required as well as the performance criteria for payments. The private party commonly provides the design, construction, operation and possibly financing for the partnership project, and is paid according to performance. Risks are identified and placed with the party best able to bear and manage them at lowest cost.

3.3 A wide spectrum of PPP arrangements exists, differing in purpose, service scope, legal structure and risk sharing. One end of the spectrum would be an outsourcing of some routine operation, while the other could involve the private sector conceiving, designing, building, operating, maintaining and financing a project, thereby taking a considerable proportion of risk. The choice of the PPP arrangement for a particular project will depend on Government's policy in the related sector and on potential value for money to be generated under such an arrangement.

4.0 REASONS FOR USING PPP

4.1 PPP offers both strategic and operational choices to Government. Strategically, the use of PPP fosters economic growth by developing new commercial opportunities and increasing competition in the provision of public services, thus encouraging crowding-in of private and/or foreign investment. At the same time, it allows Government to set

policy and strategy, and where appropriate, to regulate economic activities, while leaving service delivery to the private sector. Operationally, PPP provides opportunities for efficiency gains (better quality and more cost-effective delivery of services), better asset utilisation, clearer customer focus (since payments are typically linked to performance rather than service inputs), and accelerated delivery of projects.

4.2 In order to support the objectives of the Economic Agenda and to enhance the opportunities for realising both strategic and operational benefits, Government has decided to root PPP in its broader public expenditure reform programme, and to integrate it with the processes embedded in the Medium-Term Expenditure Framework (MTEF). The MTEF seeks to strengthen macroeconomic stability, allocate scarce resources in line with priorities and improve the effectiveness and efficiency of public sector expenditures by linking them to strategic objectives. Well-structured PPP projects integrate recurrent and capital budgets and provide meaningful benchmarks for measuring performance, thus making PPP an important tool for better management of public expenditure. In addition, PPP is an instrument which Government can use to reform and re-structure certain strategic sectors of the economy to bring in competition, which will increase investment and efficiency, reduce prices and expand the range of services available.

5.0 SCOPE OF PPP

5.1 It is Government's intention to encourage innovation in as many areas as possible. Traditionally, PPP has been applied to the infrastructure sector - in particular in the electricity, telecoms, water, transport and solid waste sectors, - and increasingly in the social (health and education) and IT sectors.

5.2 In the early stages of PPP, Government will focus on the following key areas of development:

- transport
- public utilities (energy and water)
- solid and liquid waste management
- health
- education and vocational training
- ICT

6.0 KEY CONSIDERATIONS OF PPP POLICY

6.1 While the benefits and advantages of PPP can be significant, they are not automatic. Rather, the positive outcomes have to be earned through well-designed projects, thorough due diligence and competitive and transparent procurement. There are thus certain key pre-conditions which need to be present in the policy framework for PPP, as they are critical in delivering successful outcomes. These have been identified as affordability, the legislative environment, institutional arrangements and capacity building.

6.2 Affordability – Affordability will need to be the cornerstone of all PPP projects. PPP options must be affordable both to Government and the public, given other priorities and commitments. The rationale for PPPs is improved management of scarce resources, better risk allocation and more efficient and cost-effective delivery of services. It will always need to be borne in mind, however, that while the private sector may be willing to finance and deliver infrastructure and services through PPP, only users or taxpayers can pay for them. Affordability thus acts as a real constraint, and public bodies will need to give serious consideration to the selection of potential PPP projects, ensuring always that their choices are in line with Government's policy priorities and objectives. PPP provides real and exciting prospects for new forms of procurement, financing and operation in ways that are likely to result in improved management of scarce resources. Government's PPP programme should not, however, be seen simply as an opportunity for public bodies to undertake projects that would ordinarily not get approval through normal budgetary approval processes.

6.3 The Legislative Environment - The country already has many of the ingredients required for a successful PPP programme; a stable government, a reliable and independent judiciary and well-performing public institutions. However, political and regulatory risks remain potential barriers to effective PPP implementation. With this in mind, new PPP legislation will be enacted to provide further and concrete evidence of Government's commitment to its PPP policy and to provide an opportunity to establish in law a set of general principles and rules for PPP procurement that all public bodies will

be expected to comply with, thereby ensuring some degree of consistency in approach across sectors.

6.4 Institutional arrangements – International experience suggests that identifying and establishing clear and unambiguous institutional functions in relation to PPP early on in the onset of a country's PPP programme can greatly assist in successful PPP implementation. At the same time, it is useful to have a degree of institutional flexibility in the early years of a country's PPP programme, to encourage experimentation and innovation, and importantly, to ensure that public bodies that have capacity are not delayed while institutional capacity elsewhere is being developed. While institutional roles and responsibilities may change over time as Government's experience with PPP grows, the following public institutions will play important roles in the programme:

- **Ministry of Economic Development, Financial Services and Corporate Affairs** (MEDFSCA) through its recently established **PPP Unit**, which will be the driver of PPP policy and responsible for its development and refinement over time. As the process develops and moves into the implementation stage, the PPP Unit will ensure effective stakeholder engagement, market interest and momentum of the process. The PPP Unit will also support ministries and other public bodies to ensure that their PPP projects are carefully appraised, scoped and planned prior to initiating a procurement process. Transaction advisers will be recruited as and when required to assist in this process. As Mauritius gains experience with PPP, the PPP Unit will also develop guidelines on best practices to assist sector Ministries in the roll-out of their PPP projects.
- **Contracting Ministries and other public bodies**, which will play a lead role in the identification, selection and monitoring of PPP projects in their sectors. Sectors with capacity will be encouraged to move forward with their projects, subject to them being affordable and generating value for money. Sectors with less capacity will benefit from the assistance of the PPP Unit and external transaction advisers.

- **Ministry of Finance**, which will play a key role in assessing the budgetary implications of PPP projects. The PPP Unit will work closely with the Ministry of Finance in the assessment of PPP project affordability, value-for-money, feasibility, and contingent liabilities associated with PPP projects.

6.5 Capacity Building – As PPP represents a substantially new paradigm for Government, capacity building will be necessary for all stakeholders in the PPP process. The general level of awareness and understanding of PPP will be improved among all stakeholders to facilitate sound policy development and constructive discussion and debate. There is need to ensure a sufficient level of resources to deliver good PPP projects. The success of the PPP programme will depend on the development and retention of appropriate skills and expertise within the public sector.

7.0 UNSOLICITED BIDS

7.1 The many negative experiences with unsolicited proposals for private infrastructure projects have lead some governments to see blanket refusals as the only way to safeguard against potential problems with corruption and lack of transparency. The risk of such an approach is that it fails to acknowledge that private companies are often well positioned to recognise potential demand for infrastructure. The difficulty always is in getting the balance right between encouraging such companies to submit project ideas without losing the transparency and efficiency gains of a well-conceived competitive tender process. This difficulty is exacerbated when government officials lack the capacity to evaluate unsolicited proposals objectively. With this in mind, it is Government's intention, in the early years of its PPP programme, to proceed cautiously, and to discourage unsolicited proposals. While all proposals will be treated on a case-by-case basis, consideration of unsolicited proposals will be the exception rather than the rule, and limited to projects that demonstrate genuine innovation and/or use of proprietary technology.

8.0 CONCLUSION

8.1 Government is committed to increasing private sector participation in infrastructure provision and public sector delivery, and to reducing its current budget deficit. But cost savings are not the only consideration and Government would also like to see improved service delivery from its PPP programme. The MEDFSCA is taking the lead in implementing this vision and strategy.

8.2 Over the next months, appropriate policy instruments and incentives associated with broader reform initiatives will be set in place to encourage sector Ministries to consider PPP for their capital projects. A new PPP Legislation is expected to be in place by mid-2003. Procurement practices for PPP will be streamlined in line with international best practices, while maintaining fairness and transparency in the award of PPP contracts. Sector studies will be carried out to review policy and strategy and to identify potential areas for private participation. Capacity building will continue to be strengthened and more targeted towards implementing Ministries.

Ministry of Economic Development, Financial Services and Corporate Affairs

5 May, 2003