
Capacity Building Workshop for Ministry of Electricity Private Sector Participation



USAID | Iraq Economic Governance II Project

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What is PSP?



The private sector is often viewed with suspicion when it comes to “strategic” services like electricity:

“You are selling the family silver/crown jewels for a knock down price”

“They only want to buy this company so they can close it down and sell the assets”

“We don’t need foreign investors, just more training”

“You are selling the people something they already own”



What is PSP?



**But there are few examples of efficient public sector provision...
and many examples of inefficient provision, due to:**

- Political interference
- Use as a social policy instrument (inflation, jobs)
- Financial constraints on investment
- Inflexible and inefficient
- Lack of customer focus

PSP can be structured to address all of these

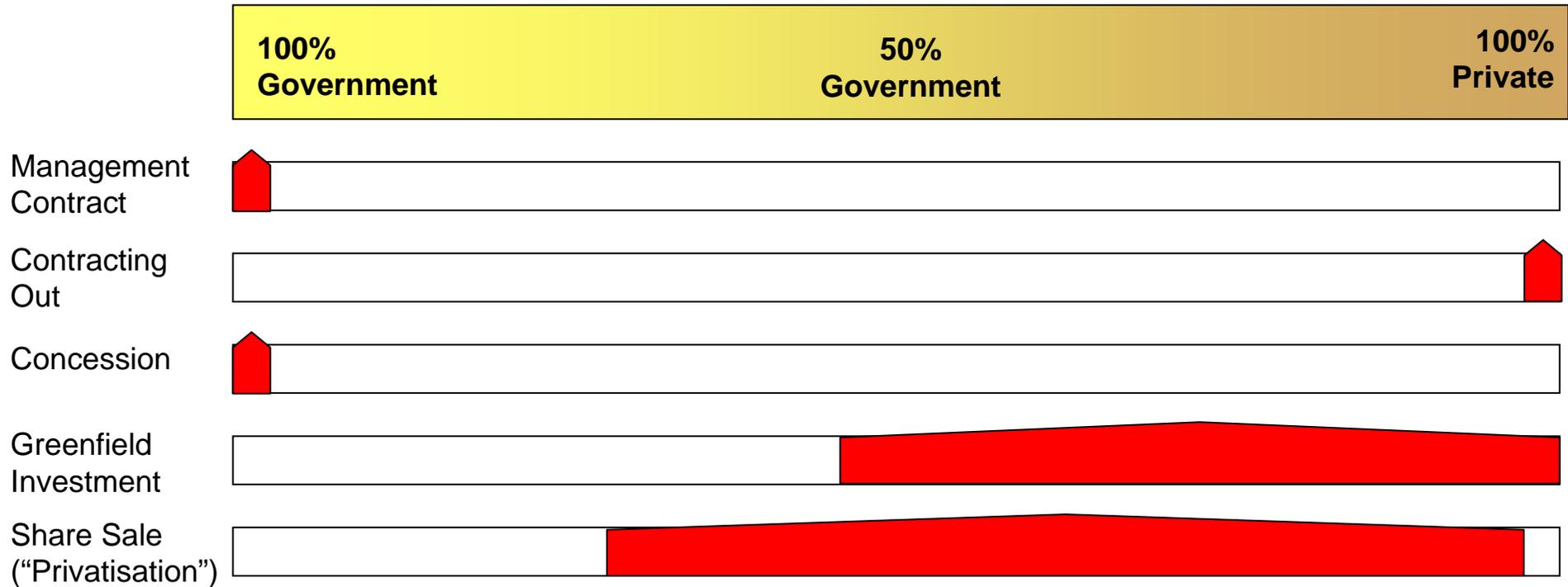
There are services that may best be provided by the public sector – economic and social development, security, international relations – PSP allows Government to focus on what it does best



What is PSP?



PSP is more than just “privatisation”. The benefits of private sector management and capital can be delivered in a variety of packages with different ownership structures



Objectives for PSP



The Government's objectives must be clear before structuring PSP

- Generate proceeds
- Increase connections/access
- Improve efficiency/cut costs
- Improve profitability/reduce subsidy
- Access investment capital
- Access new technology/systems
- Improve collections
- Maintain employment
- Reduce inflation
- Improve customer service
- Modern management & systems
- Wider share ownership

Potential conflicts...

Improve efficiency
VS
Maintain employment

Reduce inflation (tariffs)
VS
Increase connections

Generate proceeds
VS
Increase investment



They must also be prioritised to avoid conflicts

Current MoE Initiatives

The Ministry has already taken the first steps towards PSP



BOO Tender

- 2 x 400 MW generators
- Heavy fuel oil
- 100% private owned



Billing & Collections Contract

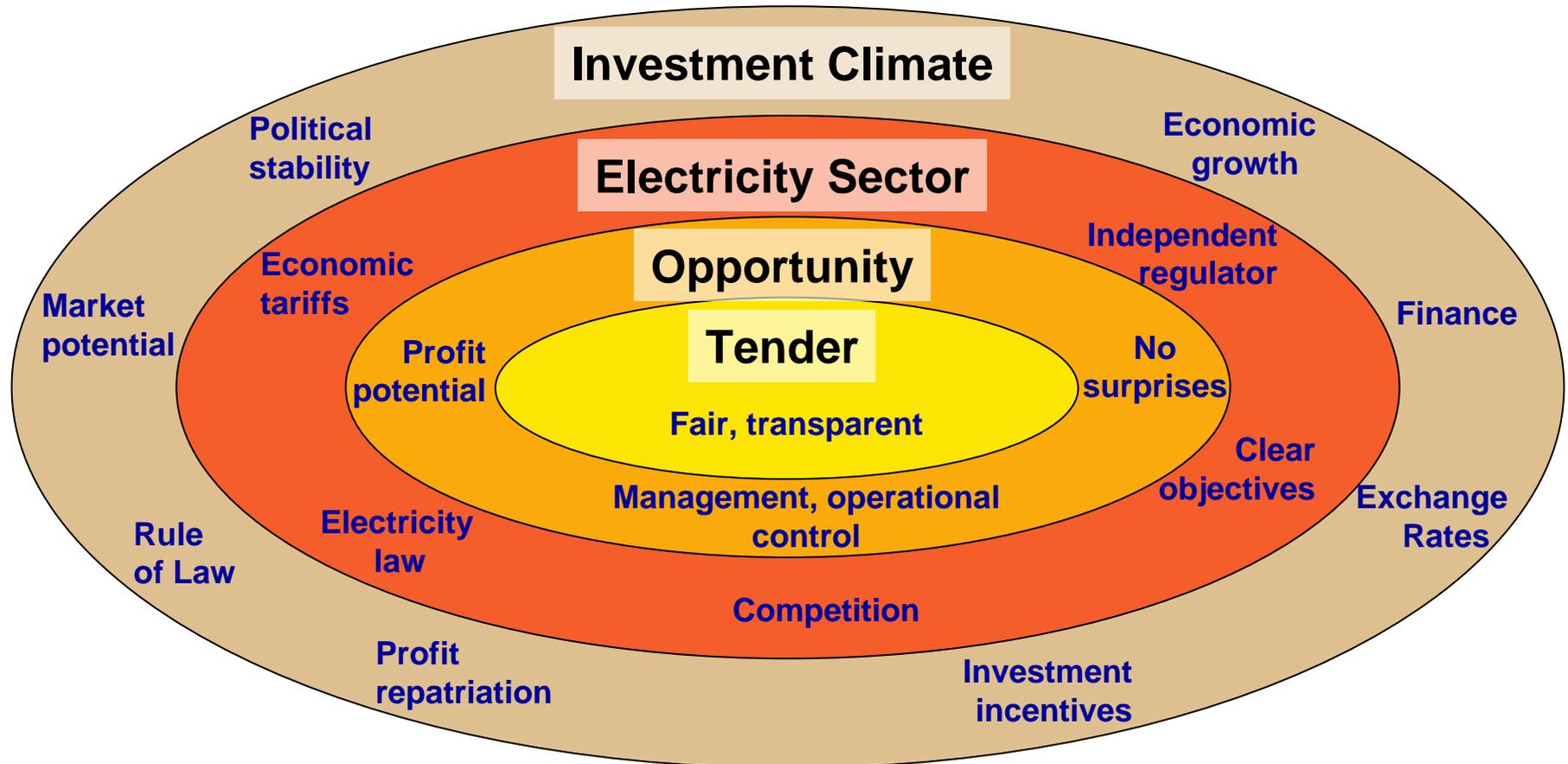
- 2 x pilot areas
- Management contract



What is the current status?

Preconditions for Success

Investors look at many factors – here are the most important



Investors hate uncertainty – clarity and stability are often more important than favourable terms and conditions



Options for PSP



New Assets

- Greenfield investment/Joint Venture
- Build-Own-Operate (BOO)
- Build-Own-Operate-Transfer (BOOT)
- Build-Operate-Transfer (BOT)

Existing Assets

- Asset sale
- Strategic Share Sale
- Initial Public Offer (IPO)
- Concession
- Management Contract
- Rehabilitate-Operate-Transfer (ROT)
- Contract Out/Spin Off



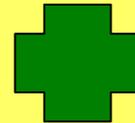
Options for PSP

New Assets – Greenfield Investment/Joint Venture

- ❖ New build investment
- ❖ 100% investor or JV
- ❖ Often used for manufacturing plant
- ❖ Often initiated by investor



- ↓ No proceeds for Govt
- ↓ Tax holidays often granted



- ✓ Job creation
- ✓ New investment
- ✓ No legacy issues
- ✓ Additional capacity
- ✓ Private O&M



- ✗ May compete with existing assets
- ✗ No improvement of existing assets
- ✗ Uncompetitive may not be best deal
- ✗ Lack of transparency



Permanent



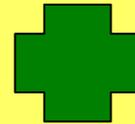
Options for PSP

New Assets – Build-Own-Operate (BOO)

- ❖ New build investment
- ❖ Usually 100% investor
- ❖ Typical for electricity generation
- ❖ Initiated by Government



- ↓ No proceeds for Govt
- ↓ Tax holidays may be required



- ✓ Job creation
- ✓ New investment
- ✓ No legacy issues
- ✓ Additional capacity
- ✓ Private O&M
- ✓ Competitive tender → better deal



- ✗ May compete with existing assets
- ✗ No improvement of existing assets



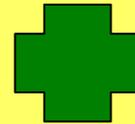
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Options for PSP

New Assets – Build-Own-Operate-Transfer (BOOT)

- ❖ New build investment
- ❖ Usually 100% investor initially
- ❖ Ownership transferred to Govt after a period with investor
- ❖ Initiated by Government
- ❖ Construction funded by operating profit

- 
- ↑ Capex funded by investor
 - ↑ Assets transferred to Govt
 - ↓ No cash proceeds
 - ↓ Tax holidays may be required
 - ↓ Capex cost after transfer



- ✓ Job creation
- ✓ New investment
- ✓ No legacy issues
- ✓ Additional capacity
- ✓ Private O&M
- ✓ Competitive tender → better deal



- × Private O&M temporary
- × Investor incentive to cut corners
- × No improvement to existing assets



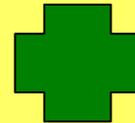
Fixed period,
ownership reverts to Govt

Options for PSP

New Assets – Build-Operate-Transfer (BOT)

- ❖ New build investment
- ❖ 100% Government owned
- ❖ Operation by investor until capex funded
- ❖ Initiated by Government

- 
- ↑ Capex funded by investor
 - ↑ Assets transferred to Govt
 - ↓ No cash proceeds
 - ↓ Tax holidays may be required
 - ↓ Capex cost after transfer



- ✓ Job creation
- ✓ New investment
- ✓ No legacy issues
- ✓ Additional capacity
- ✓ Private O&M
- ✓ Competitive tender → better deal



- ✗ Investor isn't owner – perverse incentives
- ✗ Private O&M temporary
- ✗ Investor incentive to cut corners
- ✗ No improvement to existing assets



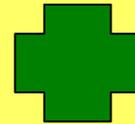
Government owns immediately, private O&M for fixed period

Options for PSP

Existing Assets – Asset Sale

- ❖ Sale of assets as a single block
- ❖ Can include employee contracts
- ❖ Investor acquires 100%
- ❖ Strategic investor most likely
- ❖ Initiated by Government

- 
- ↑ Sale proceeds
 - ↑ Future tax revenue
 - ↓ Cost of liabilities
 - ↓ Cost of redundancies



- ✓ Quick, straightforward process
- ✓ Potential for additional investment
- ✓ Easier to change corporate culture
- ✓ Additional capacity
- ✓ Private O&M
- ✓ Competitive tender → better deal



- ✗ Govt responsible for liabilities
- ✗ Legacy issues remain with Govt
- ✗ Job losses
- ✗ Negative publicity
- ✗ Difficult to value – risk of “fire sale”



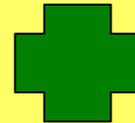
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Options for PSP

Existing Assets – Strategic Share Sale

- ❖ Sale of shares to strategic investor
- ❖ Going concern basis
- ❖ Majority or large minority sold
- ❖ Investor has management, operational, financial control
- ❖ Initiated by Government
- ❖ Fewer benefits if sold to financial investor

- 
- ↑ Sale proceeds
 - ↑ Future tax revenue
 - ↑ Dividends on remaining shares
 - ↑ Capital gain on remaining shares



- ✓ Efficiency improvements
- ✓ Additional investment likely
- ✓ Additional capacity
- ✓ Private O&M
- ✓ Competitive tender → better deal
- ✓ Proceeds



- ✗ Legacy issues remain with Govt
- ✗ Job losses
- ✗ Resistance from employees, public, politicians



Permanent

Options for PSP

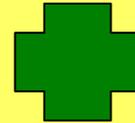
Existing Assets – Initial Public Offer (IPO)

- ❖ Shares sold on stock market
- ❖ Can include international tranches
- ❖ Often special offers to employees, individuals
- ❖ Can sell any amount
- ❖ Existing management remains



↑ Sale proceeds

↓ Cost of international flotation



- ✓ Encourages wider share ownership
- ✓ Price set by the market
- ✓ Market pressure on management to improve performance
- ✓ Less resistance from the public, management
- ✗ No strategic partner benefits
- ✗ Diverse ownership dilutes pressure on management to improve
- ✗ No new investment in the company
- ✗ Requires developed, liquid stock market



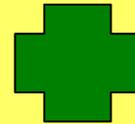
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Options for PSP

Existing Assets – Concession

- ❖ Sale of concession to strategic investor
- ❖ Investor has right to operate as if it were the owner
- ❖ Government retains ownership
- ❖ Investor responsible for capex
- ❖ Becoming more common for power assets, especially wires

 ↑ Sale proceeds
↑ Future tax revenue



- ✓ Efficiency improvements
- ✓ Additional investment likely
- ✓ Private O&M
- ✓ Competitive tender → better deal
- ✓ Proceeds
- ✓ Govt retains long term ownership
- ✓ Less public resistance



- ✗ Investment tails off towards end of concession period
- ✗ Job losses
- ✗ Other legacy issues



Fixed period (15 – 20 years)

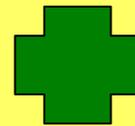
Options for PSP

Existing Assets – Management Contract

- ❖ Private operator takes over management & operations
- ❖ Can target part or all of the assets
- ❖ Government retains 100%
- ❖ Government responsible for capex
- ❖ Can be used to prepare for full privatisation



- ↑ Dividends
- ↑ Future tax revenue
- ↑ Capital gain on Govt shares
- ↓ Management fees
- ↓ Cost of capex



- ✓ Efficiency improvements
- ✓ Can target specific areas (collections)
- ✓ Private O&M
- ✓ Competitive tender → better deal
- ✓ Govt retains long term ownership
- ✓ Less public resistance
- ✗ Complex to negotiate & monitor
- ✗ Disputes common
- ✗ Cost of fees, capex
- ✗ Job losses & Other legacy issues
- ✗ Govt still responsible for liabilities



Fixed period (3 - 5 years)

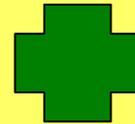
Options for PSP

Existing Assets – Rehabilitate-Operate-Transfer (ROT)

- ❖ BOT for existing assets
- ❖ Combines concession & management contract
- ❖ Government ultimately retains ownership
- ❖ Capex recovered from profits
- ❖ Focus on asset rehabilitation



- ↑ Capex funded by investor
- ↑ Improved profits (after Transfer)
- ↑ Tax revenue (after Transfer)
- ↑ Capital gain on Govt shares
- ↓ No cash proceeds



- ✓ Efficiency improvements
- ✓ Focus on rehabilitation
- ✓ Private O&M
- ✓ Competitive tender → better deal
- ✓ Govt retains long term ownership
- ✓ Less public resistance



- ✗ Complex to negotiate & monitor
- ✗ O&M benefits temporary
- ✗ No incentive to expand operations
- ✗ Job losses & Other legacy issues



Fixed period

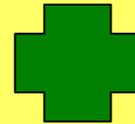
Options for PSP

Existing Assets – Contract Out/Spin Off

- ❖ Specific services put out to tender
- ❖ Non-core assets/activities sold
- ❖ Government retains core assets
- ❖ Contract out services: cleaning, security, construction, transport
- ❖ Spin off: construction, maintenance, “social” assets



- ↑ Capex funded by investor
- ↑ Improved profits
- ↑ Tax revenue
- ↑ Capital gain on Govt shares
- ↓ Fees paid to contractor
- ↓ Redundancy payments



- ✓ Targeted efficiency improvements
- ✓ Jobs transferred to private sector
- ✓ Private O&M
- ✓ Competitive tender → better deal
- ✓ Risk transferred to private sector
- ✓ Less public resistance



- × Only partial solution
- × Cost of contract supervision
- × May create private monopoly
- × Negative PR if spin off fails



Typically short term, renewable contracts

Options for PSP



How do they meet Government's objectives?

Option	Proceeds	Investment	Efficiency	O&M	Ownership	Term
<i>New Assets</i>						
Greenfield/JV	x	✓✓✓	✓✓✓	✓✓✓	Investor	Permanent
BOO	x	✓✓✓	✓✓✓	✓✓✓	Investor	Permanent
BOOT	✓	✓✓✓	✓✓✓	✓✓✓	Investor/Government	Long term
BOT	✓	✓✓✓	✓✓✓	✓✓✓	Government	Long term
<i>Existing Assets</i>						
Asset Sale	✓	✓✓	✓✓	✓✓✓	Investor	Permanent
Strategic Share Sale	✓✓✓	✓✓	✓✓✓	✓✓✓	Investor/Government	Permanent
IPO	✓✓	x	x	x	Shareholders	Permanent
Concession	✓✓	✓✓	✓✓✓	✓✓✓	Government	Long term
Management Contract	xxx	xxx	✓✓	✓✓✓	Government	Short term
ROT	x	✓✓✓	✓✓✓	✓✓✓	Government	Long term
Contract out/Spin off	xxx	x	✓	xx	Government	Long term



This demonstrates the importance of setting objectives up front



Breakout Session

Team Exercise – Complete this table



Business/Activity	Proposed form of PSP	Reasons
<ul style="list-style-type: none"> ➤ Generating plant ➤ Transmission ➤ Distribution ➤ Supply ➤ Regulation ➤ Construction ➤ Maintenance ➤ Meter testing ➤ Energy strategy ➤ Billing/collections ➤ Meter reading 		
<p>Other – at least 2</p> <ul style="list-style-type: none"> ➤ ➤ ➤ ➤ 		



The Tender Process

Tender Options



A transparent, competitive tender is essential to get the best results

- Pressure from other bidders encourages competitive offers
- Government sets the rules of the game
- Strengthens Iraq's international reputation
- Less likely to be questioned later



...And to rebuild confidence in Iraq

Tender Options

Various approaches can be used

Public Auction ("open outcry")

- Best for simple transactions
- Focus on price
- Fully transparent
- Used in UK 3G telecom license tender

Public Sealed Bid

- Most common option for Governments
- Very flexible

Invited Sealed Bid

- When there are few potential investors
- Less competitive – risk of collusion, less pressure on bidders

"Beauty Parade"

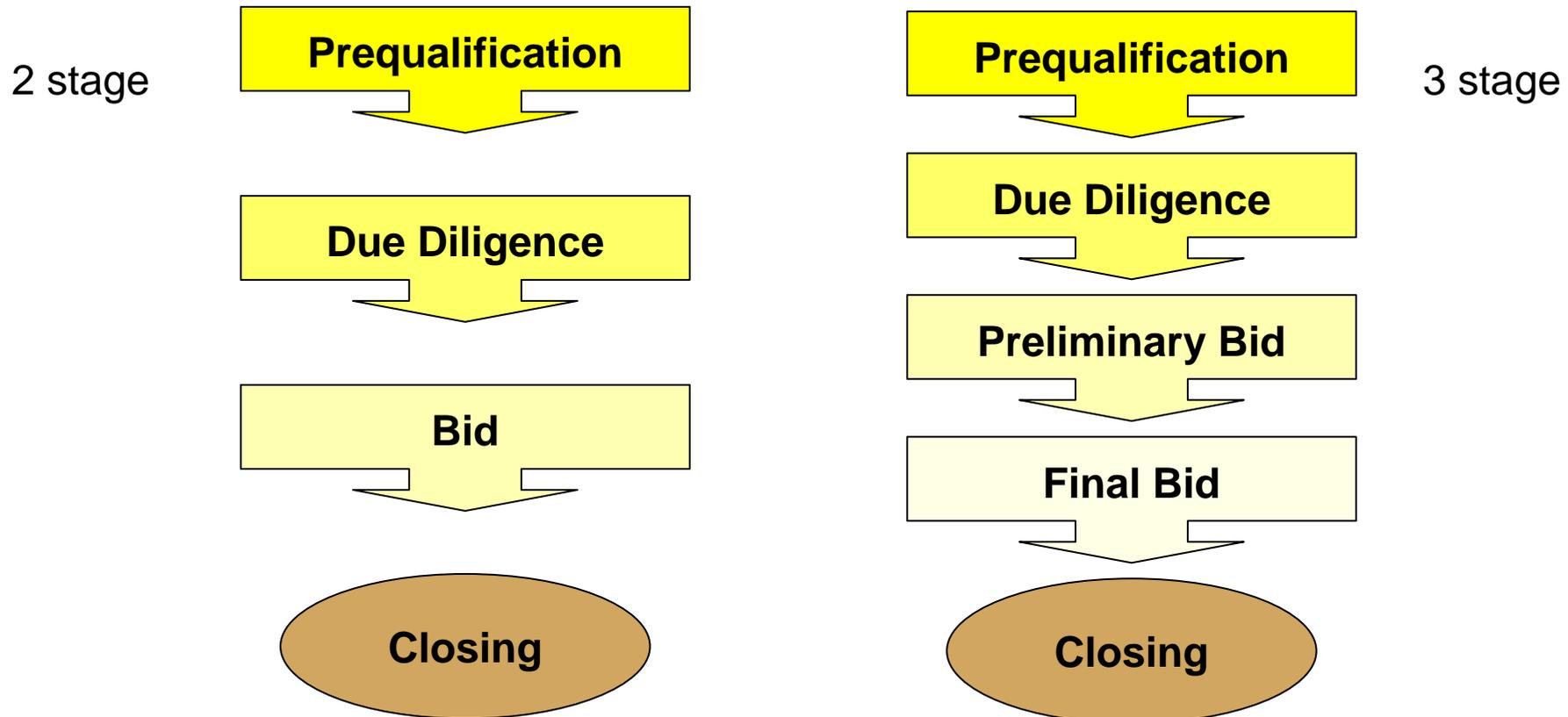
- Fixed price
- Winner selected on other criteria
- Less transparent outcome, more open to objections
- Used when the focus is on "quality"



We would normally recommend a public sealed bid process

Tender Options

A standard competitive tender involves 2 phases:
prequalification & bid

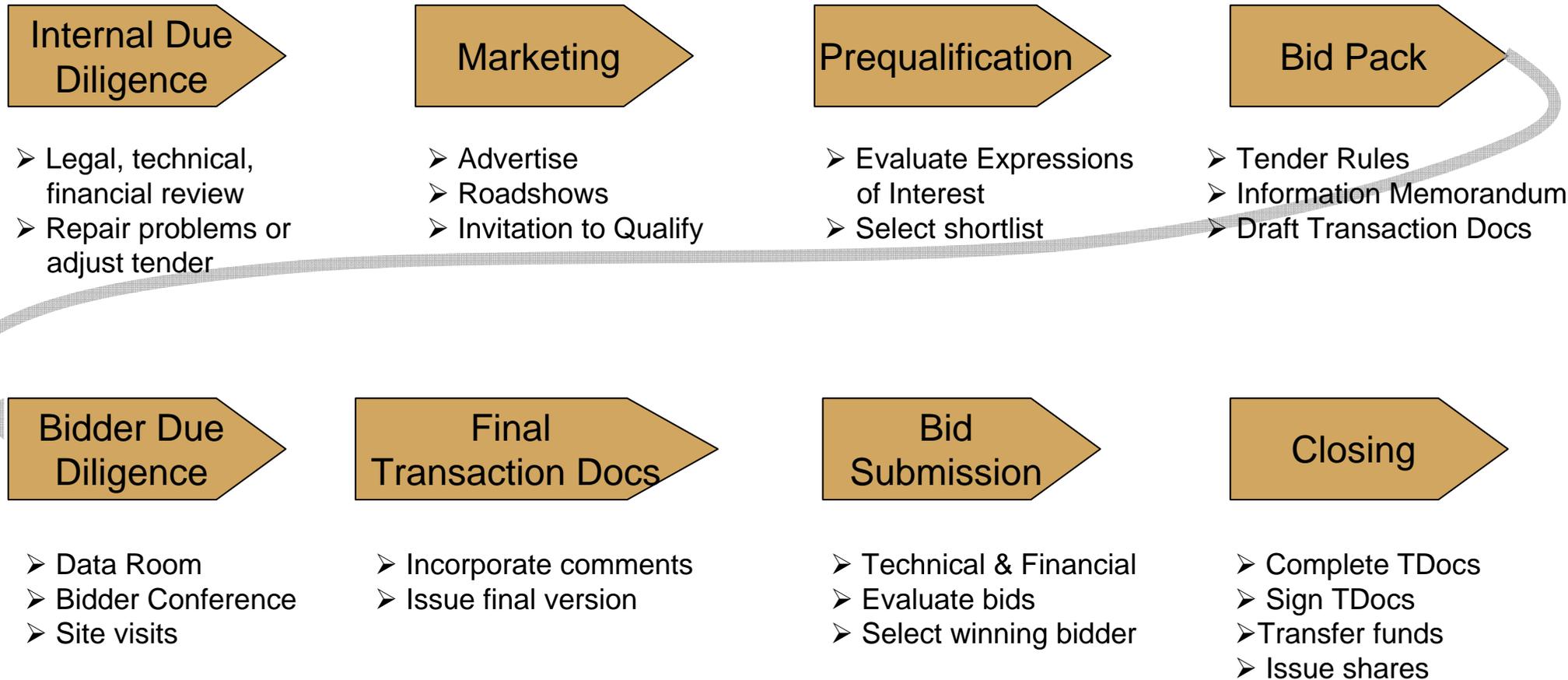


3 stage can be used to filter out bidders & improve the bids of others

Tender Options



The main stages of the tender



Tender Options



Two specific issues:

- Finalise TDocs before bid submission; sustains competitive pressure & gets the Government a better deal
- Evaluation Criteria must be objective & preferably quantitative. The most important (eg price) gets the highest weight



In practice each tender is unique & must be structured carefully

Key Documents



	Invitation To Qualify	Confidentiality Agreement	Information Memorandum	Tender Rules
Parties	Government	Government, all bidders	Government	Government, all bidders
Term	N/A	3 – 5 years after Closing	N/A	To Closing
Purpose	Marketing document to stimulate initial interest from Bidders	To maintain secrecy of commercially sensitive information	More detailed marketing document to summarise selling points & encourage bids	Sets the rules & procedures for the tender process
Contents	<ul style="list-style-type: none"> ➤ The opportunity ➤ Background (sector, economy, company) ➤ Qualification criteria ➤ Indicative timetable ➤ Submission requirements for Expressions of Interest 	<ul style="list-style-type: none"> ➤ Definition of Confidential Information ➤ Non-disclosure obligation ➤ Term of validity 	<ul style="list-style-type: none"> ➤ The sector ➤ The economy ➤ The opportunity ➤ Legal/technical/financial review ➤ Regulatory framework ➤ Updated indicative timetable ➤ Summary of TDocs 	<ul style="list-style-type: none"> ➤ Bid process ➤ Due diligence procedure ➤ Required bid contents and structure ➤ Prohibitions and permissions ➤ Bid evaluation criteria ➤ Government's rights



Key Documents



	Power Purchase Agreement	Share Purchase Agreement	Shareholders' Agreement	Concession
Parties	Investor, company, electricity purchaser	Government, investor, company	Government, Investor	Government, company, investor
Term	15 – 20 years	Permanent	Determined by Government's stake	15 – 25 years
Purpose	Provide long term certainty over availability and price of electricity	Govern sale and purchase of shares (or assets)	Govern ongoing relationship between Govt & investor	Rights/obligations of the company & investor in operating assets
Contents	<ul style="list-style-type: none"> ➤ Services to be supplied (power, capacity, ancillary services) ➤ Prices ➤ Fuel supply ➤ Metering ➤ Termination ➤ Dispute resolution ➤ Penalties 	<ul style="list-style-type: none"> ➤ Price ➤ Shares sold ➤ Guarantees, representations and warranties 	<ul style="list-style-type: none"> ➤ Obligations of the parties ➤ Corporate governance – Board membership, voting and veto rights ➤ Operation and management responsibility ➤ Dispute resolution 	<ul style="list-style-type: none"> ➤ Rights and obligations of the company ➤ Rights and obligations of the investor ➤ Rights and obligations of the Government



Other documents include guarantees, Bid and Performance Bonds, letters of comfort from financiers...

Public Relations



PR is important to a successful transaction – it must be targeted

Target	Public & Politicians	Potential Investors	Employees	General
Messages	<ul style="list-style-type: none"> ➤ Economic benefits ➤ Impact on quality of service 	<ul style="list-style-type: none"> ➤ Attractive investment climate ➤ Attractive deal ➤ Transparency, fairness, competitive ➤ Government priorities 	<ul style="list-style-type: none"> ➤ Need for efficiency improvements ➤ Reassurance on their future ➤ Transparent tender process ➤ Timetable 	<ul style="list-style-type: none"> ➤ Transparent tender ➤ Attractive investment climate
Importance	Medium - high	High	Medium	Low
Media used	Press releases TV/Radio/Newspapers Briefings to politicians Prepared Q&As	Specialist industry press Business press Government websites Personal contacts Iraqi Embassies	Company newsletters Presentations to employees	Mostly covered already in other PR Specific briefings to donors, embassies
When	After key milestones – EoIs, Shortlisting bidders, Closing	During marketing phase and bidder due diligence	Just before public announcements	Beginning of the process, during marketing phase, subsequently as necessary



Recap of Key Points and Decisions



Thank You

