

The role and the essence of Concession Projects

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Concession Agreement: Definitions

- ▶ **Legally:** A concession agreement is a grant of rights, land or property by a government, local authority, corporation, individual or other legal entity.
- ▶ **Financially:** A negotiated contract between a company and a government that gives the company the right to operate a specific business within the government's jurisdiction, subject to certain conditions. The concessionaire is responsible for the financing, design, construction, operation and maintenance of certain asset (usually civil works).

Practically in motorways:

**A concession project is not only “road asset management”.
We finance, operate, manage, provide services and offer
high levels of quality.**

Concession Agreement: Definitions

What a Concession Project IS:

- ▶ Better strategic planning
- ▶ Quality infrastructure
- ▶ Better services
- ▶ Sharing of risks
- ▶ Public and private sector working together

What a Concession Project IS NOT:

- ▶ Free infrastructure
- ▶ Just about finance
- ▶ Just building Infrastructure
- ▶ Just about involving the private sector

Why is a Concession Project a good option?

- ▶ Remedy financial shortages in the public sector
- ▶ Speed up the economic and social growth
- ▶ Improve the performance of public facilities
- ▶ Transfer commercial risk to the private sector

**It is no longer a question of 'if' ,
but rather of 'when and how'**

- ▶ Acceleration of infrastructure provision
- ▶ Reduced whole life costs
- ▶ Better incentives for private sector to perform
- ▶ Improved quality of service
- ▶ Generation of additional revenues
- ▶ Enhanced public management
- ▶ Better risk allocation
- ▶ Faster implementation

- ▶ Excellent road safety records
- ▶ Incidents management plan and response
- ▶ Active traffic management
- ▶ Customer service policy and “customer” treatment of users

Concession projects developed in the last 25 years

	TOTAL CONCESSION PROJECTS		ROADS	
	Num. of Projects	Investment (B USD)	Num. of Projects	Investment (B USD)
USA & CANADA	682	280	148	120
CENTRE AND SOUTH AMERICA	521	184	252	105
EUROPE	1.048	635	350	337
AFRICA & MIDDLE EAST	147	71	24	14
ASIA & AUSTRALIA	634	276	313	105
WORLDWDE	3.032	1.446	1.087	681

Source: Public Works Financing "International Major Projects"

- ▶ Over the past two decades more than **1.000 Road Concession Projects** have been implemented Worldwide, and **1.500 B USD** have been invested.
- ▶ In Europe, **350 Road Concession Projects** have been developed with a total investment about **270 B €**.
- ▶ More than **60 countries** have specific PPP public organizations handling Concessions Projects.

- ▶ Remove the responsibility of funding from government's balance sheet (investment and maintenance)
- ▶ Bring in new sources of financing for funding public infrastructure (private companies and banking sector)
- ▶ Bring in new investors and introducing competition
- ▶ Alleviate capacity's constraints and bottlenecks in the economy through higher productivity of labor and capital resources, in the delivery of projects
- ▶ Cost effective delivery of projects
- ▶ Get greater construction capacity (including the participation of overseas firms)
- ▶ Efficiencies from integrating design and construction of public infrastructure with financing, operation and maintenance/upgrading

- ▶ Imposing budgetary certainty by setting present and the future costs of infrastructure projects over time
- ▶ Sector modernization focusing on the role of the State (Increase labor productivity, improvement of service efficiency)
- ▶ Facilitate the trade-off between investment and operational cost
- ▶ Facilitate recovery of infrastructure with natural disasters
- ▶ Share risks and revenues: Extracting long term value-for-money through appropriate risk transfer to the private sector over the life of the project from design/ construction to operations/ maintenance. Thus, value for money for the citizen

Innovation & Technology development

- ▶ Allows technology modernization by using innovative and cutting edge technology solutions
- ▶ Introducing private sector technology and innovation in providing better public services through improved operational efficiency
- ▶ Sharing worldwide leaders' knowledge, expertise and experience
- ▶ Developing local private sector capabilities through joint ownership with large international firms, as well as sub-contracting opportunities for local firms in several areas

- ▶ Establishing specific level of service standards that can be easily monitored
- ▶ Provide quality in all services offered to the user
- ▶ Offer innovative services
- ▶ Provide Incentives for Better Asset Management and On-Time and On-Budget Delivery. Thus speedy, efficient and cost effective management
- ▶ Best practices in management and transfer of experience from the private sector to the public sector

Concession Projects are a very important tool for creating value and sustainable growth.

- ▶ The challenges refer mainly in:
 - Financing and
 - Traffic Risk Management
- ▶ **BUT** when the “tool” is used appropriately it provides multiple social & economic benefits.