

Volume-I of the Final Report covers the potential project structuring options for development of dry ports under PPP mode in Asia-Pacific region.

The report was made under a United Nations Development Account project entitled “Building capacity and facilitating private sector involvement for infrastructure development for less developed countries in the Asia-Pacific region”, which focuses on four selected countries and is implemented by the Transport Division, ESCAP.

Final Report

Potential project structuring options for development of dry ports under PPP mode in Asia-Pacific region



Glossary

BAL	- Bolloré Africa Logistics
CFS	- Container Freight Station
COD	- Commercial Operation Date
CTD	- Combined Transport Document
CY	- Container Yard
EPEC	- European PPP Expertise Centre
ESCAP	- The United Nations Economic and Social Commission for Asia and the Pacific
GDP	- Gross Domestic Product
GoN	- Government of Niger
IMEX	- Import Export
IWT	- Inland Water Transport
JNPT	- Jawaharlal Nehru Port Trust
MIC	- Moorebank Intermodal Company
NPV	- Net Present Value
NSICT	- Nhava Sheva International Container Terminal
PPP	- Public Private Partnership
PPT	- Paradip Port Trust
SEZ	- Special Economic Zone
SIMTA	- Sydney Intermodal Terminal Alliance
SSFL	- Southern Sydney Freight Line
Sq.M.	- Square Meter
TP	- Termination Provision
UNDA	- United Nations Development Account

The report has been prepared with the support of a consultant and the opinions, figures and estimates set forth in this paper are his sole responsibility, and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations.

This publication has been issued without formal editing.

Contents

Glossary	1
List of Tables	3
List of Figures	3
1 Introduction	4
1.1 Setting the context	4
1.2 Scope of the Study	5
1.3 Our Approach and Methodology	6
1.4 Structure of the Final Report.....	6
2 Dry Ports: Issues and PPP Structuring Alternatives.....	7
2.1 Land Ownership	8
2.2 Capital Investment.....	11
2.3 Demand Risk, Tariff Determination, and Revenue Rights	15
2.3.1 Demand Risk	15
2.3.2 Tariff Determination	17
2.3.3 Revenue Sharing.....	17
2.4 Number of Operators.....	20
2.5 Customs Clearance Responsibility.....	22
2.6 Fiscal Incentives	23
2.7 Termination Provisions	24
2.8 Hand-back Provisions	32
3 Summary	34

List of Tables

Table 1: Assessment of Land Ownership Options.....	9
Table 2: Dry Port Facilities and Services	11
Table 3: Dry Port Utilities and Infrastructure	12
Table 4: Assessment of Capital Investment Options	14
Table 5: Assessment of Demand Risk Allocation Options.....	16
Table 6: Assessment of Tariff Determination Options	17
Table 7: Assessment of Revenue Sharing Options	18
Table 8: Assessment of Single or Multiple Operator Options	20
Table 9: Termination Compensation Approaches for Public Sector's Default and Voluntary Termination	25
Table 10: Public Sector's Default and Voluntary Termination – Compensation for Equity Investors ...	26
Table 11: Public Sector's Default and Voluntary Termination – Proposed Compensation	27
Table 12: Private Sector Partner's Default – Compensation Approaches	28
Table 13: Private Sector Partner's Default – Proposed Compensation.....	29
Table 14: Assessment of Hand-back Options.....	32
Table 15: Summary of Key Issues and Recommended Alternative	34

List of Figures

Figure 1: Approach and Methodology	6
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1 Introduction

1.1 Setting the context

ESCAP Transport Division is mandated to implement a UNDA project on “building capacity and facilitating private sector involvement for infrastructure development for less developed countries in the Asia-Pacific region. As a part of the UNDA project, the ESCAP secretariat aims at enhancing the capacity of government officials to identify, develop and manage PPP infrastructure projects. To do so, it has been decided to support the development of model contract provisions for dry port of international importance.

A key challenge in Public Private Partnership (PPP) projects is to ensure that contracts between partners cover all the issues likely to arise during project life-cycle, which typically extends beyond 10 years. Both the variety of the risks to be allocated among the different parties and the uncertainties inherent to a long-term horizon make the task of drafting a comprehensive agreement particularly complex.

Standardizing documents and processes is the most common solution to ease the task and has been recognized in a number of countries as one of the key factors behind the success of projects conducted under PPP modalities.

While model contracts have been developed in various infrastructure sectors, such contracts do not seem to exist in relation to the development of dry ports. Yet, dry ports lend themselves well to private sector involvement and there appears to be a wide spread acceptance that these facilities could benefit from private sector participation, at least in their management and operation.

The ESCAP-brokered Intergovernmental Agreement on Dry Ports has given new prominence to the benefits of dry ports and brought renewed momentum to their establishment in many countries of the Asia-Pacific region.

Given the above context, ESCAP appointed a consultant to identify key issues that need to be addressed to structure dry port PPP projects, suggest different solutions for the identified issues and prepare draft heads of agreement for development of dry port on PPP mode.

The outcome of the study will enhance the capacity of government officials in developing dry ports by creating model contract provisions for this type of facilities.

1.2 Scope of the Study

In order to meet the above mentioned objectives, entire study has been covered into three broad tasks, namely:

- ▶ Task 1: Identification of key issues
- ▶ Task 2: Recommending PPP structuring alternative
- ▶ Task 3: Preparation of draft heads of agreement

Task 1: Identification of key issues

For a PPP project to run smoothly during its concession period, it is extremely advisable to identify every possible issue that may arise during the life-cycle of the project and address such issues upfront. Hence, the first and foremost task of the consultant is to identify a list of issues that may arise during life-cycle of a dry port PPP project.

Task 2: Recommending PPP structuring alternative

Every PPP project has a unique structure which depends on many factors including but not limited to capital requirement, service obligations, value-for-money (vfm), financial viability, market risks, pricing risks etc. For each issue, the consultant shall prepare an assessment report with pros and cons about available structuring alternatives in order to arrive at a suitable alternative for the issue.

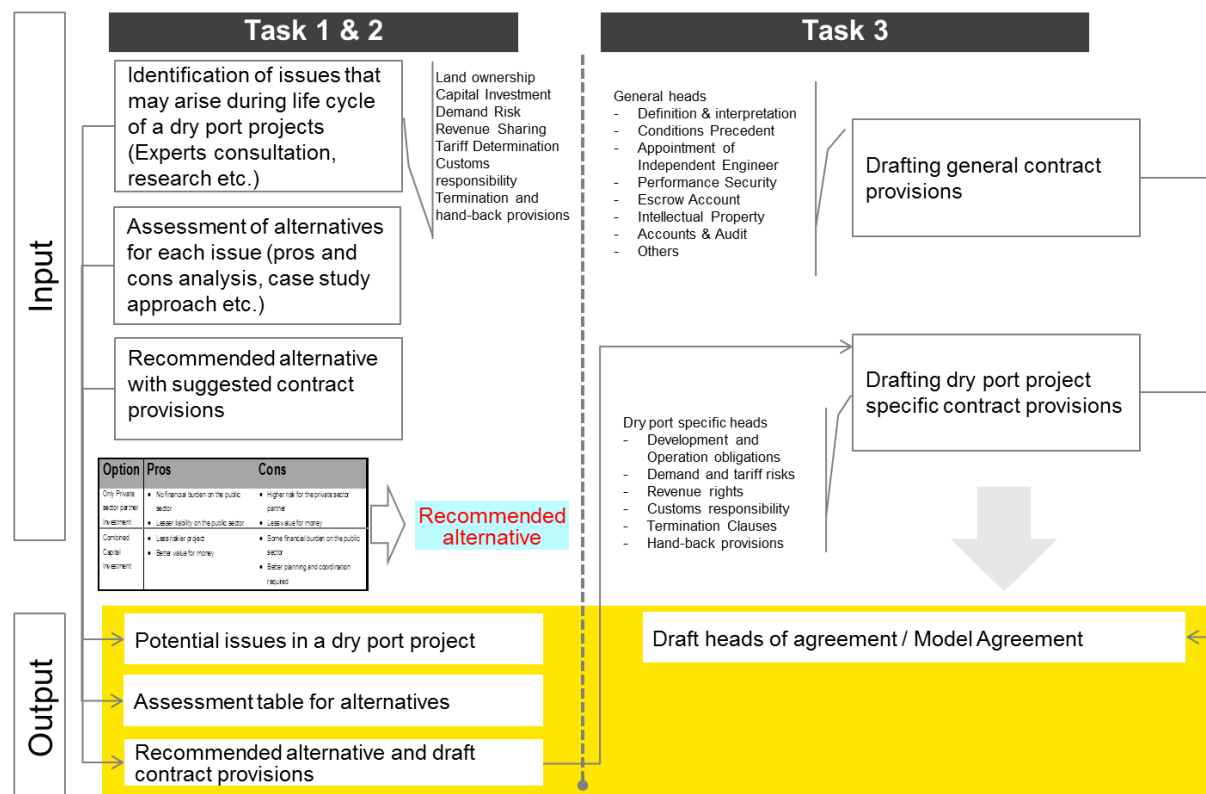
Task 3: Preparation of Draft heads of agreement / Model Agreement

Consultant shall prepare a draft heads of agreement for development of dry port on PPP mode considering recommended alternatives (draft provisions) for each issue identified earlier.

1.3 Our Approach and Methodology

The flowchart below provides a graphical representation of the detailed approach and methodology adopted in order to complete the tasks discussed in previous section.

Figure 1: Approach and Methodology



1.4 Structure of the Final Report

The final report is divided into two volumes as given below.

- ▶ Volume-I: Report on potential project structuring options
- ▶ Volume-II: Draft heads of agreement / Model Agreement

This report is Volume-I of the final report and is structure in following manner.

- ▶ Chapter 1: Introduction
- ▶ Chapter 2: Dry Ports: Issues and PPP Structuring Alternatives
- ▶ Chapter 3: Summary

2 Dry Ports: Issues and PPP Structuring Alternatives

Development of a dry port on PPP mode presents unique challenges to both the public sector and private sector partner. Huge investment requirement coupled with complex processes involved makes it a very risky business. Thus, a robust risk allocation framework becomes essential for successful operation of the dry port. Contract must be designed in such a way that it can handle any issue that may arise during the life cycle of the project. One of the most critical issues is the connectivity of the dry port with a sea port. Dry port will be useless if it not integrated with multi-modal transport system that saves cost and time in the overall movement of goods between origin and destination. It should be the responsibility of the public sector to provide such access by creating rail heads and road links. Hence, the contract must have provisions to allocate this responsibility to the public sector, which would be best able to manage the risk. Similarly, contract should have provisions for tackling other issues relevant to a dry port projects. An indicative list of such issues is given below:

- ▶ Land ownership
- ▶ Responsibility for creation of utilities and infrastructure including rail heads and internal/external rail links
- ▶ Demand risk
- ▶ Pricing mechanism and tariff determination
- ▶ Revenue sharing
- ▶ Number of operators
- ▶ Fiscal incentives
- ▶ Responsibility of Customs formalities
- ▶ Termination events and compensations
- ▶ Handover conditions

In subsequent sections, each issue has been discussed in detail, assessing pros and cons of various alternatives and recommending an alternative best suitable to address the underlying issue.

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