



## CASE STUDY 04

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# Public Private Partnership: BOT Projects in Hong Kong, China

## Introduction

A decade ago, Infrastructure sector in China attracted attention of the government due to its sluggish growth. Hence, in common view, private sector participation was a welcome step.

Hong Kong had been following pragmatic and systemised approach towards encouraging private sector participation and the importance had long been understood and eventually practices established. But, it was only where really needed, otherwise, China's government set up functioned and still does, quite efficiently.

In China, sectors are very carefully divided between private and government bodies. For instance, railways are within the ambit of government corporations which raise private funding. Other sectors such as telecom, ports, etc. have been overtaken by the private sector long back, when in other countries, these sectors were struggling in government captivity.

BOT (Build-Operate-Transfer) projects have also developed over time and improved significantly since the first, which opened as long back as in 1972. However, it has suffered regular bureaucratic hiccups. Hong Kong has also engaged with the private sector for building government tunnels and further in maintenance contracts, apart from the regular projects of road tolls.

While bidding, investors have to pay attention to the Critical Success Factors of BOT projects, while identifying and analysing the bid.

## Framework

The practice that has been followed in the Chinese BOT projects is briefly outlined as follows:

1. Evaluation of Qualifications
2. Awarding of Tenders
3. Awarding of Concessions
4. Construction
5. Operation
6. Transfer

In the 1980s, for BOT contracts, there were two councils, namely the Legislative Council, who are responsible for project implementation and the Executive Council and civil servants, for project implementation.

The Government did not have a tariff policy. However, after the Western Harbour Tunnel negotiations, a new framework of tariff policies emerged, where tariff policies were in line with sustaining the interests of private players. The new set of policies envisaged definite tolls and also indicated the year tariffs will increase. It also indicated the percentage of tariff increase. The projected rates of return were also mentioned along with revenue projections.

## Bidding Procedure

Bids were usually advertised and a systematic bidding took place with a detail report explanatory of the project design. The government laid down the requisites as follows:

- a. Costs and time plan for the probable investors.

- b. Revenue expected from shareholders in the first 5 years.
- c. Liabilities of the investors and funding of equity.

Thereafter the bidding process started, without any short listing procedure for tenderers. Typically four months were given to the bidders to submit their bids with the project plan and design. Three committees along with an anti-corruption member evaluated the bid in a span of four weeks. The bid was finally negotiated with the final bidders to reach the conclusion. Lowest tariff was also a major factor for evaluation of the prospective bids. BOT projects in China are often successfully implemented with many international experts, aiding to the process.

### **Success Stories:**

The project concessionaires in Hong Kong have mostly been small, making it different from other countries. However, through a system of effective bid pricing, very strong concessionaires and contractors have been attracted. The Eastern Harbour Tunnel, Tate's Cairn Tunnel, Western Harbour crossing and Country Park (Route 3) project concessionaires are testimony to this fact. The projects have been tremendously supported by providing good road connectivity by the government, totally government funded.

### **Projects Implemented**

- (1) The Cross Harbour tunnel has been highly profitable.
- (2) Eastern Harbour tunnel has also progressed well, though the traffic is lower than estimated.
- (3) Tate's Cairn Tunnel and the WHC are performing lesser than expected with low revenues. Tate Cairn has suffered due to competition from the government tolled Lion Rock Tunnel. Therefore, even after efforts of reducing tolls, revenue took a back seat.

(4) In Route 3 project, the traffic was seen much lesser as compared to the tunnel capacity of 135,000 pvd. This was caused due to the longer routes, which kept the motorists away from it.

The other factors which have contributed to the success of BOT projects in Hong Kong are of competitive bidding. Moreover, there was a provision for vehicles with tags having an easy pass through the tolls and to add to the convenience, there was a dual system of electronic and manual tags. This was to control the traffic flow and allow lanes to merge, where the tags provided a way of 'jumping the queue' for the vehicles with tags.

### **Key Notes**

Hong Kong has been able to balance the interests of its stakeholders. User interests have been regarded by way of low tariffs. Concessionaire's interests lay in financial returns and the government's interest have been looked after by not giving guarantee or investment. The Cross harbour tunnel has thus, been the most successful by far, with other projects not so viable. In that project the key factor was that government undertook no guarantees and were transferred to the concessionaires.

Above all, the success of BOT projects has been a result of keen planning, implementation and operation of projects and through this the projects have promoted innovation, competition and public policy.

There are many more road programs which have commenced off late in the last decade and there is a bright future for corridor management by the private sector, as per what can be foreseen at this point in time.

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