

Build operate transfer procurement system construction essay



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Recently, more and more governments in the Southeast Asian countries have been started to allow private participation in some major public investments, particularly for infrastructure projects. A procurement system called build-operate-transfer (BOT) has been operated by the private sector in many large infrastructure projects such as highway, power plant, tunnel and so on. A Build-Operate-Transfer (BOT) project is started with a contractual agreement between a public agency (government) and a private sector entity. Through this agreement, the expertise and assets of private sector are used to produce service or facility for the use of the general public. Besides, the risks and rewards potential in the delivery of the service and/or facility will transfer to the private sector. The Build-Operate-Transfer (BOT) approach gives an opportunity to the private sector to design, finance, extend and build a new facility under a long-term concession contract, and operates the facility for a defined period of time. This method transfers the government's obligation in providing goods and services that are traditionally within government's domain to the private company. In the end of the concession contract, the private sector entity has to hand over the ownership of the facility to the public sector (government).

Management

There are several main parties involved in the BOT project. In general, the government (public sector) will grant a concession to a project company. The project company is responsible in searching the suitable developers, contractors, investors, operators, suppliers and lenders. Under this system, the concessionaire (project company) is responsible for financing, construction, and operating the facility. The project company gets their funds

from the lenders who normally provide the major amount of funds which needed in the project. Finally, the contractor starts constructing the facility which is managed by the operator afterwards. The various parties which involved in the project are clearly determined in the figure 1 below.

Figure 1: Parties involved in the BOT project

Contractual Relationship

Government

Government may prepare lists of infrastructure investments based on the economic and development plans of the country. To avoid and reduce huge borrowing which needed for the project and at the same time promoting foreign investments in the infrastructure project of the government, the government (public sector) may then request for proposals from the private companies to carry out these plans. The government may have a bidding process for the private companies which are interested to respond and finally come up with a scheme which they believe that the government will adopt.

Concessionaire (private company)

Once the private sector entity gets the approval of the government, it means that the concession is granted to them and that may last for ten to fifty years (or more) depending on the nature of the project. During the concession period, the concessionaire (private company) has a significant role in financing, constructing, maintaining and operating the facility and in return, the concessionaire has the right to generate revenue for a specified period of

time. After the concession period, the facility will be transferred at no cost to the public sector, who usually is the government.

Contractors

Usually for large-scale infrastructure project, merely involvement of the contractor is not sufficient. The contractor may need help from the sub-contractors, suppliers and consultants.

Investors (Shareholders and lenders)

Generally, shareholder provides a limited part of the financing for the BOT project whereas the lender constitutes the major amount of finance needed in BOT project. The presence of reliable and competent investors to provide funds needed form an integral part to implement the BOT project. In BOT system, lenders are normally referred to banks, insurance companies and so on.

Operators

The operator will operate and do maintenance job during the concession period. With the intimate knowledge of management that the operator possessed, the operator is required to manage and maintain the performance level of the facility to certain satisfaction level.

Figure 1. 2 below shows the contractual relationship in a BOT project.

Figure 1. 2 Contractual relationship in BOT project

Stages in BOT process

Generally, BOT project mostly will go through six different stages which include preliminary study of the project, selection of the suitable project company, project implementation, construction of the facility, operation of the facility and lastly transfer of ownership of the facility. It can then be subdivided into two parts which include pre-implementation of the project and the concession period of the project. In the first part, a feasibility study of the project is carried out and a reliable project company is selected. In the second process, the selected project company is awarded the concession to construct and manage the facility. In the end of the concession period, the concessionaire has to hand over the ownership of the facility back to the government. Figure 1. 3 below shows different stages that BOT project will go through.

Preliminary Study

The government determines project requirements by using information at his disposal. The government identifies the services needed in the project and listed down the facility needed to be built. Perhaps, the government may employ experts to help with the project definition and conduct a feasibility study to identify the practicability of the project.

Selection

There are two forms of proposal in BOT project which include the solicited and the unsolicited project proposals. The former generally refers to public tendering process which the government takes the initiative to request for submission of proposal for those who are interested in the infrastructure <https://assignbuster.com/build-operate-transfer-procurement-system-construction-essay/>

project. Whereas under the unsolicited mode, the private company take the first step to submit their project proposal. After the submission of proposals by the private companies, an evaluation process is done by the government to study and select the most suitable private company. Here, the project is granted to the selected private company (concessionaire).

Project Implementation

Once the project is granted to the concessionaire, the concessionaire will start to produce a detailed working program which involving the design work of the project. The concessionaire has to first obtain legal permit from the related institution to develop the project.

Construction

After the necessary legal proceeding, the contractor executes the construction in accordance with plans and specification. In the same time, the contractor will also hire a few numbers of subcontractors, consultants in order to deliver the project on time.

Operation

After completing the construction of the facility, the concessionaire will then secure an operator to operate and manage the facility. The operator is also responsible to the maintenance job of the facility.

Transfer

After completion of the concession period, the ownership of the facility is then transferred to the government at no cost. The government may operate the facility by itself or hire another operator.

Figure 1. 3 Stages in the BOT process