

# PPP Decision Making – Approaches and Tools

29th November, 2017  
Asia PPP Network Meeting  
Seoul



# Presentation Outline

- Maximizing Finance for Development
- Benchmarking of PPP approaches
- Tools to improve decision-making around infrastructure and PPPs:
  - PPP Frameworks
  - Prioritization of projects
  - Screening for PPP suitability
  - Assessing fiscal risks and affordability

# Resource constraints and increased demands require a paradigm shift

MFD expands on the MDB commitment and Hamburg principles

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- Development finance resources are contracting at a time when aspirations are rising.
- To address this gap, MDBs have committed to collectively increase private financing mobilized by **25-35% over the next three years up to 2020.**
- The 'Hamburg Principles' reaffirm the commitment of G20 member countries and MDBs to foster effective approaches to mobilization of private sector resources.
- MFD promotes a holistic approach to assessing development challenges, and draws on the expertise, products, and services of IDA/IBRD, IFC and MIGA.

MDBs are guided by the Principles for Crowding-in Private Sector Finance articulated in Hamburg

- Recognize country ownership
- Investment-friendly environment
- Prioritize commercial finance
- Expand and standardize credit enhancement
- Blend concessional resource with private capital
- Review incentives and report

# What is Maximizing Finance for Development?

“Pursuing **private sector solutions** where they can help achieve **development goals**, and **reserving scarce public finance** for where it is most needed.” – *Development Committee Paper, 2017*

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## Maximizing Finance for Development:

MFD requires identifying the right investments, taking the financial risk to initiate them, and implementing them effectively and efficiently.

## By leveraging the private sector..

Creates imperative to leverage the private sector for economically beneficial, sustainable investments that contribute to development goals

## ... and optimizing the use of scarce public resources.

Public sector faces limitations in meeting this need, including in fiscal space, capacity, and governance

# The Maximizing Finance for Development (Cascade) Algorithm

When a project is presented, ask: Is there a sustainable private sector solution that limits public debt and contingent liabilities?

- If the answer is “Yes” – promote such private solutions.
- If the answer is “No” – ask whether it is because of:
  - Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
  - Risks? If so, assess the risks and see whether WBG instruments can address them.
- If you conclude that the project requires public funding, pursue that option.

# Implementing the algorithm

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Is there a *private sector solution*...

...that is sustainable

...and that limits *public debt & contingent liabilities*?

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## Description

- A **private sector solution** to a development challenge is one that leverages the financial or technical capacity of the private sector to result in more or better investment, by aligning profit incentives with development objectives
- Could involve private sector finance and/or delivery, under different legal, regulatory, institutional arrangements

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Characteristics of a **sustainable** private sector solution:

- Economically efficient
- Commercially viable
- Fiscally sustainable
- Transparent in the allocation of risks
- Provide value for money and
- Ensure environmental and social sustainability

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- A private sector solution ought to be assessed for affordability – i.e. its impact on the public budget ceiling and whether this ceiling can accommodate the expenditure for the project over time.
  - It assesses whether the government afford both the direct and contingent obligations arising from this private sector solution

# Benchmarking Public-Private Partnerships Procurement

# 2017

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Benchmarking PPP Procurement:  
Assessing Government Capability to  
Prepare, Procure and Manage PPPs

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**WORLD BANK GROUP**



**PPIAF**  
Enabling Infrastructure Investment

*October 19th, 2016*

# Thematic coverage



**Regulatory Framework  
and Institutional  
Arrangements for PPPs**



**Preparation**



**Procurement**



**Unsolicited  
Proposals**



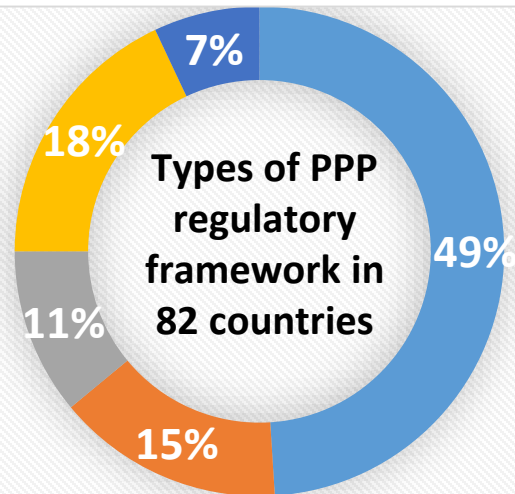
**Contract  
Management**

# Global Perspective:

PPP regulatory framework goes hand-in-hand with institutional arrangements to ensure successful PPPs- however there is no one size fits all!

All 82 economies adopted specific frameworks for regulating PPPs with different arrangement to fit their markets

All 82 economies adopted specific institutional arrangement but in itself is not a guarantee of successful PPPs



- Specific law or act regulating PPPs
- Concession and PPP law
- PPP guidelines or similar instruments
- General procurement law for PPPs
- Concession or act exclusively

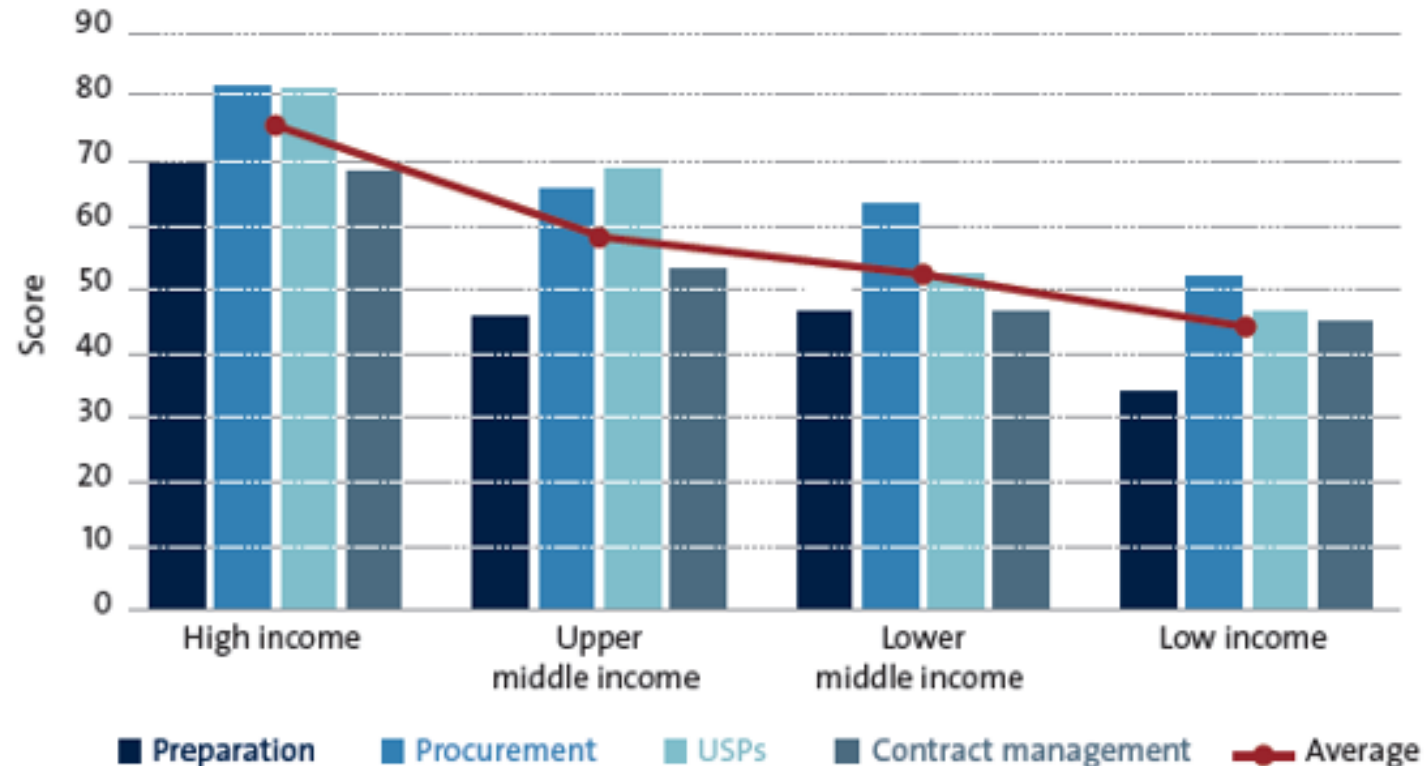
## Role of PPP Unit in Procurement

16% lead or formally co-lead procurement of PPP

69% play active clearance or advisory role

15% do not play a role

# While scores decline with income group, in general most improvement needed in preparation and contract management



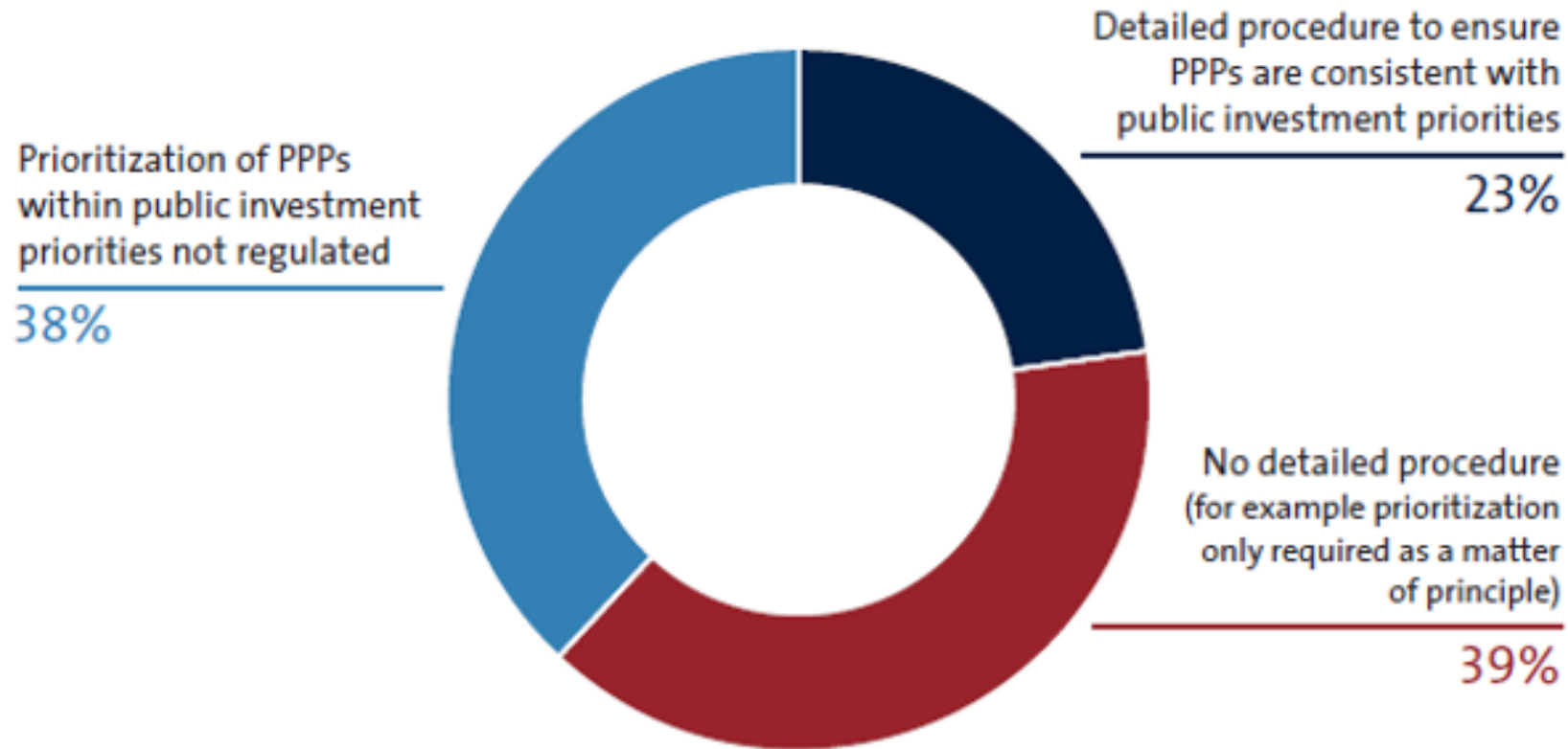
Source: *Benchmarking PPP Procurement 2017*.  
Note: PPP = public-private partnership; USP = unsolicited proposal.

# Good practices in project preparation assessed

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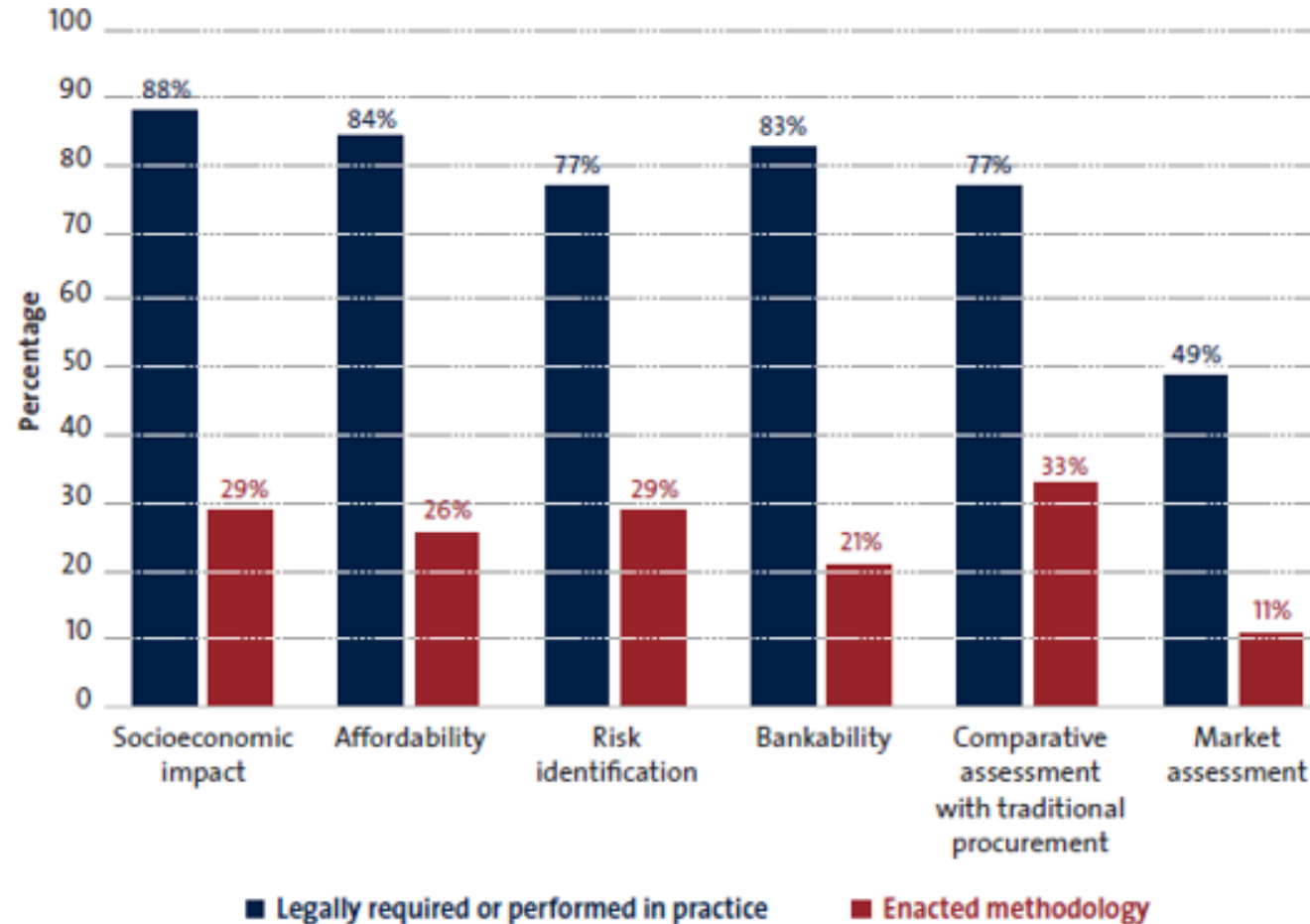
- The Ministry of Finance or central budget authority approves the long term financial implications of the project.
- The project is assessed and prioritized along with all other public investments projects in the context of the national public investment plans.
- The project is adequately justified, on the basis of:
  - socioeconomic analysis;
  - fiscal affordability assessment;
  - financial viability;
  - Risk assessment;
  - PPP vs. Public procurement comparative assessment;
  - Market assessment;
- The procuring authority prepare a draft PPP contract and include it in the request for proposals.
- The procuring authority has standardized PPP model contracts and/or transaction documents to expedite and guarantee consistency.

# Only 23 % have detailed procedures to ensure PPPs are strategically prioritized



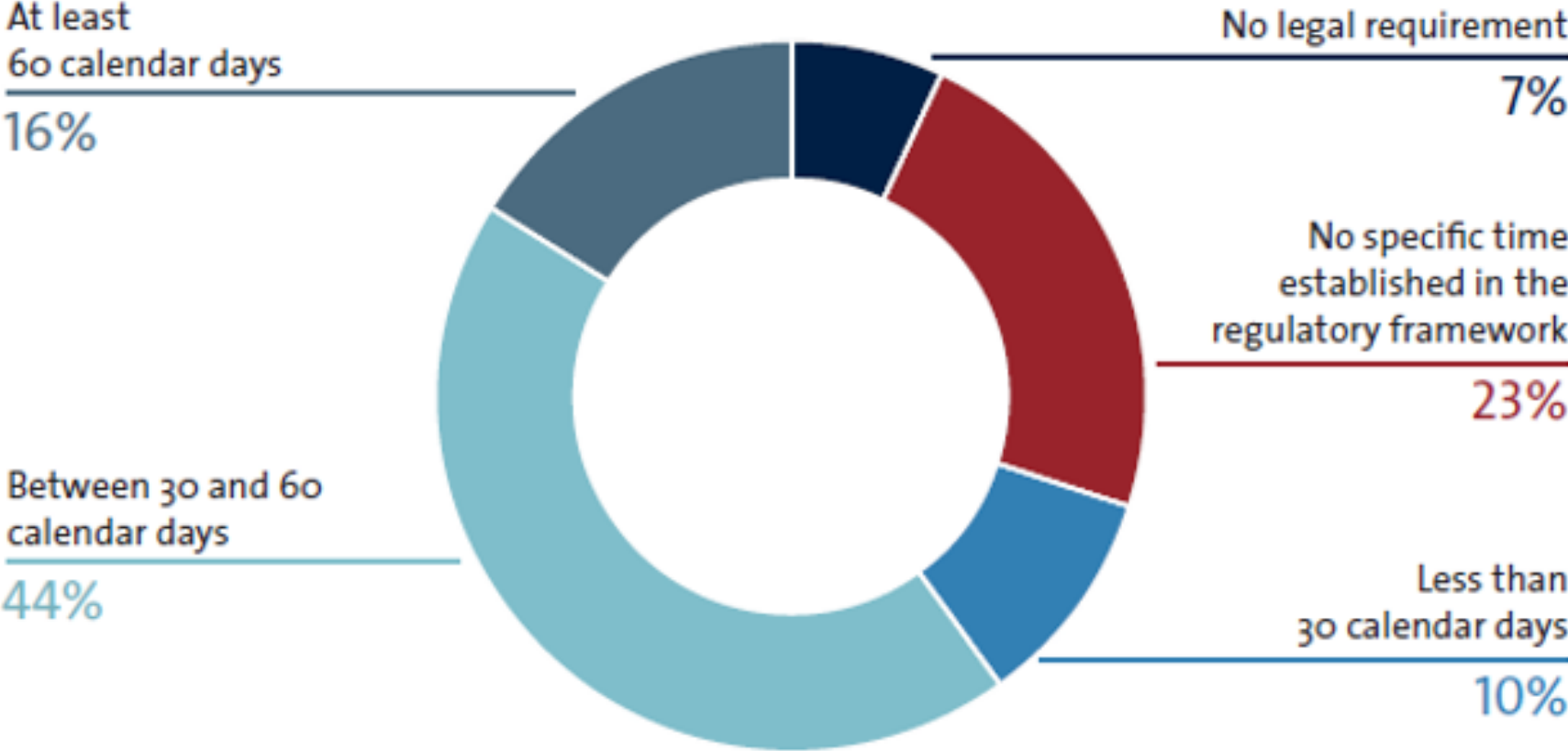
PPP = public-private partnership.  
Source: Benchmarking PPP Procurement 2017

# One-third have adopted specific methodologies for conducting assessments during preparation



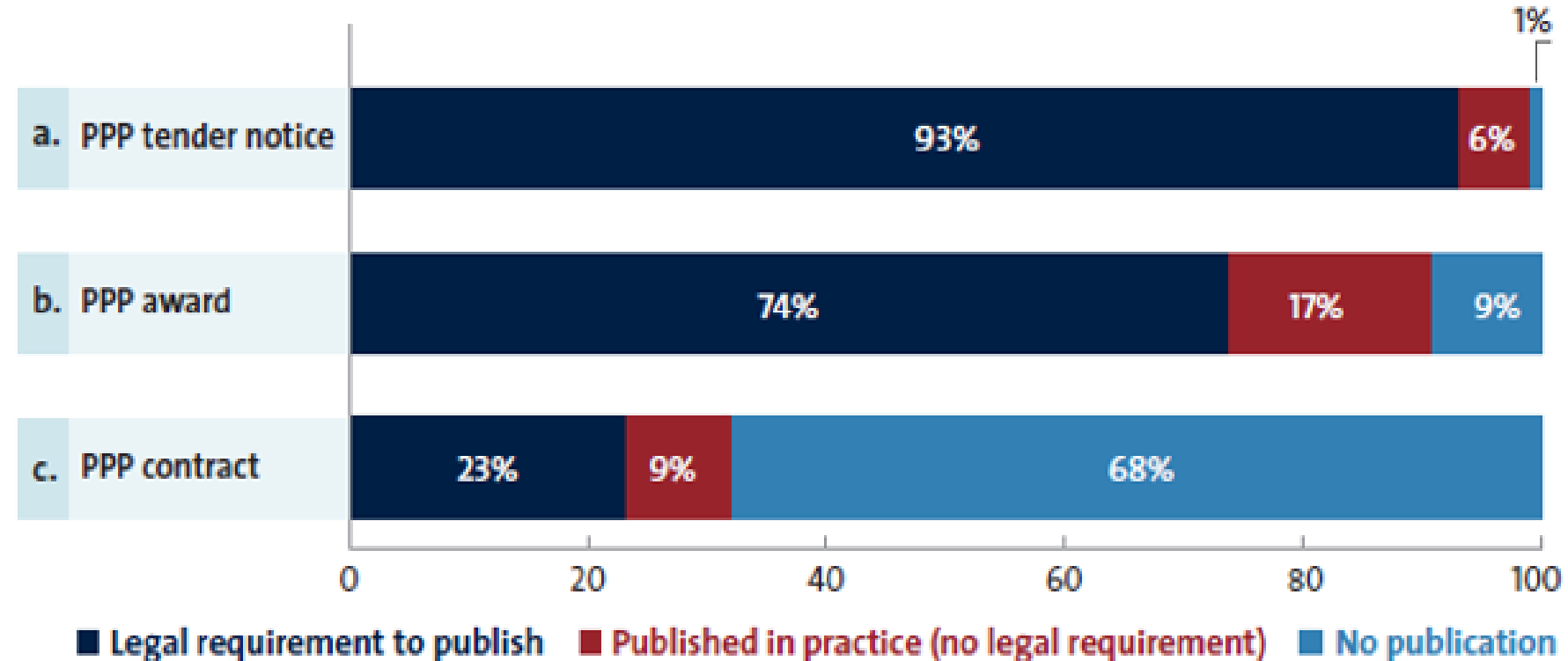
PPP = public-private partnership.  
Source: Benchmarking PPP Procurement 2017

# 40 % either do not specify a minimum period for bid preparation or require fewer than 30 days



Source: Benchmarking PPP Procurement 2017

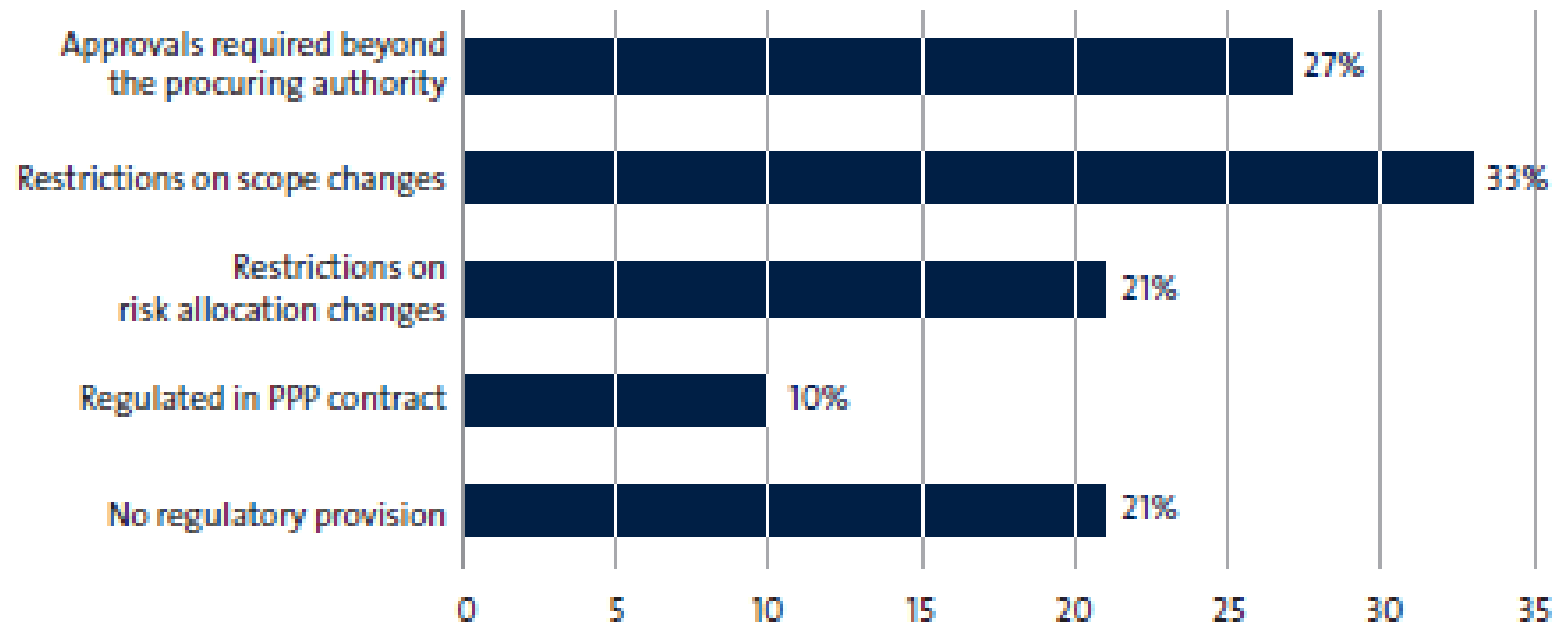
# 23 % of the countries publish the PPP contract, and very few publish it online



Note: PPP = public-private partnership.

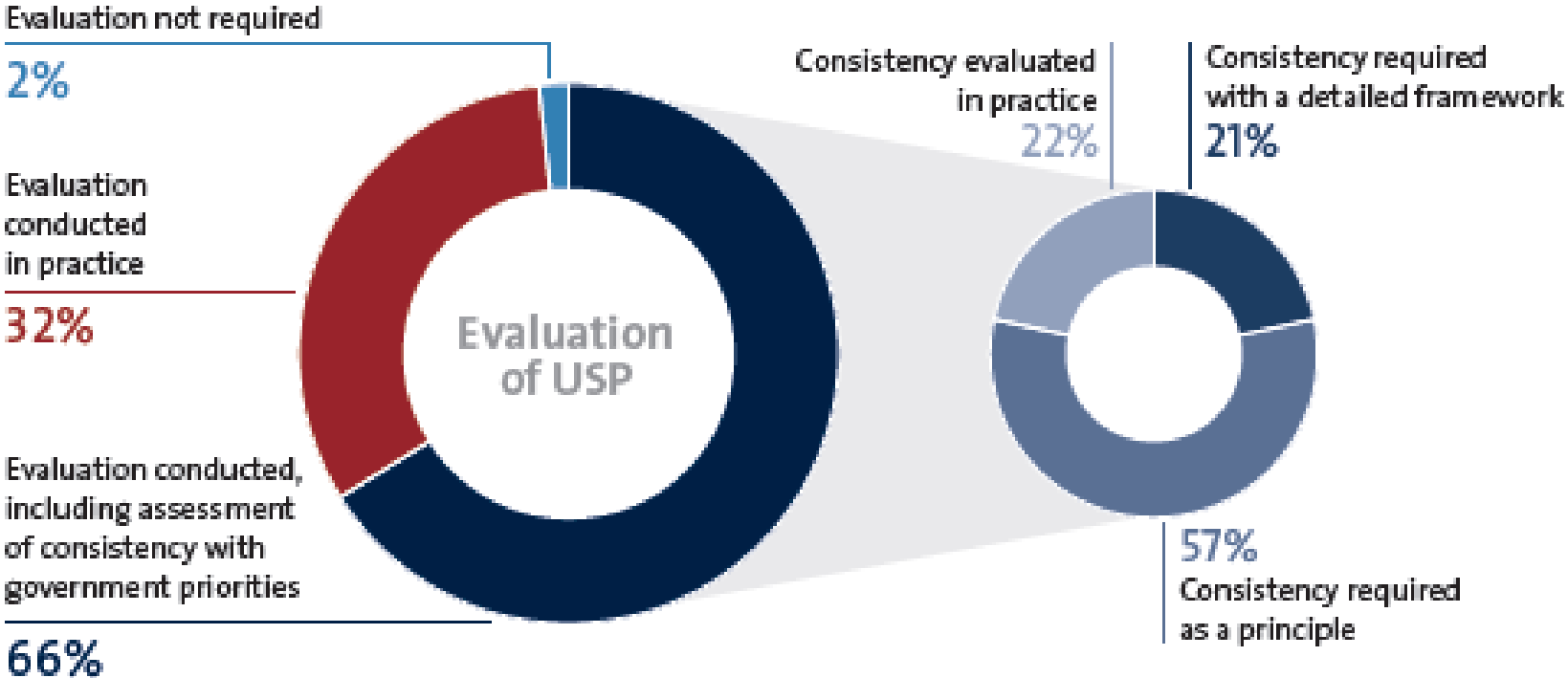
Source: Benchmarking PPP Procurement 2017

# Renegotiation is restricted: in 33 % for changes in scope; in 21 % for changes in risk allocation



Note: PPP = public-private partnership.  
Source: Benchmarking PPP Procurement 2017

# 68 % regulate USPs. Only 21% have detailed procedures to evaluate consistency of USPs



Note: USP = unsolicited proposal.  
Source: Benchmarking PPP Procurement 2017

# Country PPP Readiness Assessment Tool

## Objectives

- Assess institutional design and processes
- Safeguard public interest
- Increase transparency and accountability

## Output

- Facilitate structured PPP strategy discussions
- Guidance on creating enabling environment
- Sustain policy dialogue on governance reform

# Infrastructure Project Prioritization Tool

## Objectives

- Align project selection and strategic objectives
- Rationalize prioritization process
- Enhance transparency and accountability

## Output

- Objective comparison of proposed projects
- Better use of public funds
- Biggest bang for governments' buck

Screening Projects  
for Implementation as  
Public-Private Partnerships

# What the Tool does?

## Six key dimensions

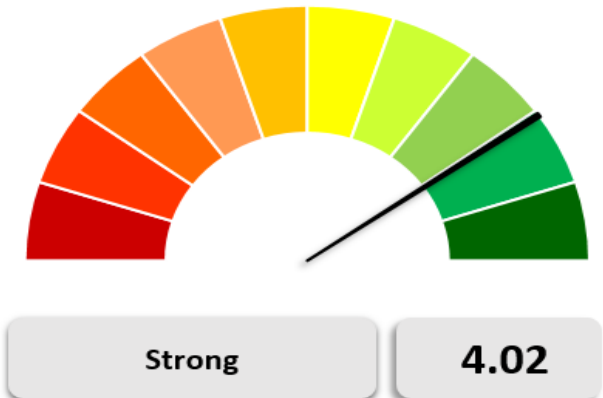
- Weighted aggregates of scores on six parameters:
  - Strategic Suitability
  - Preliminary Feasibility
  - Risk Assessment
  - PPP Suitability (VfM, Market Appetite)
  - Fiscal Affordability
  - Institutional Capability
- Sub-Parameters and Questions at second and third level
- Links Parameters with Quantitative Elements
- Variability of some Questions based on initial project data

## User friendly approach

- Easy data input screens
- Drop-down menus for qualitative questions
- Scores (between 0-5)
- Dashboard with key conclusions
- Detailed Output Sheet

## Decision-makers' tool

- Pre-requisites
- Potential Deal Breakers
- Areas of strength and weakness of the project and suggestions



# Substance of the Tool: Sub-Parameters and Questions

Project Suitability	Preliminary Feasibility	Risk Assessment	PPP Suitability	Fiscal Affordability	Institutional Capability
<ul style="list-style-type: none"> <li>• Alignment with government priorities</li> <li>• Identification of service need</li> <li>• Assessment of delivery options</li> <li>• Scoping of project</li> </ul>	<ul style="list-style-type: none"> <li>• Technical</li> <li>• Environmental</li> <li>• Social</li> <li>• Economic</li> <li>• Financial</li> <li>• Legal</li> </ul>	<ul style="list-style-type: none"> <li>• Market/demand</li> <li>• Off-taker</li> <li>• Forex</li> <li>• Environmental and social</li> <li>• Risk of delay in land acquisition</li> <li>• Financing</li> <li>• Design and construction</li> <li>• Operation and maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• VfM</li> <li>• Market appetite</li> </ul>	<ul style="list-style-type: none"> <li>• Extent and nature of government fiscal support</li> <li>• Quantification of fiscal support</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional capacity</li> <li>• Preparedness of Contracting Authority</li> <li>• Project execution capability of contracting authority</li> </ul>

# Prerequisites and Deal Breakers

## Prerequisite

- 1 Is the project derived from a national plan or other medium to long term strategic document that establishes the development priorities at the highest levels of the government?
- 2 Is the project likely to be economically sound and have direct benefits that are significantly greater than the costs?
- 3 Do sector laws, regulations or policies allow private sector participation in the project?

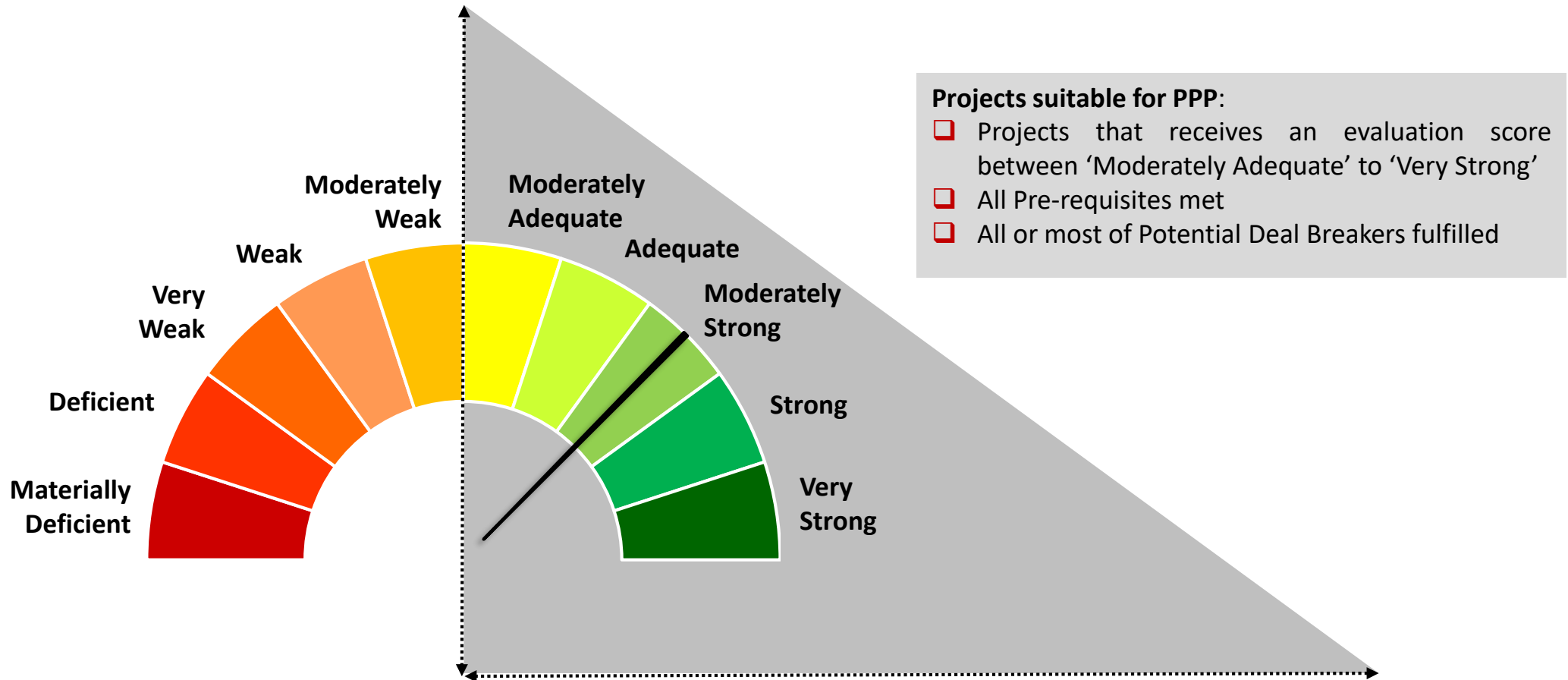
## Potential Deal Breaker

- 1 Is there a clear articulation and substantiation of the service deficiency?
- 2 Has there been an assessment of all possible technical solutions to address the identified need?
- 3 Are the technical cost estimates in line with required output specifications and based on established benchmarks?
- 4 Is the proposed site location adequately accessible and offers manageable challenges during construction?
- 5 The project will not have a negative impact on any natural resources or protected land.
- 6 The project is likely to be socially sustainable or have manageable social impacts?
- 7 Is there support for the project from affected communities and other key stakeholders?
- 8 Is the collective impact of fiscal commitments likely to be within acceptable levels and not have a significant adverse impact on government's future budgets or fiscal space?
- 9 Are the life cycle costs for major components of the project - reasonable and affordable?
- 10 Will the project have any significant adverse impact on health or quality of life of users, workers and local population.
- 11 Is there a plan to address the legal barriers through appropriate executive action or legislative reforms?
- 12 Are there financiers (nationally or regionally) who will be interested in the PPP?

# Overview of scoring

- **‘NO’ response to any of the Prerequisite conditions** in the Project Data Sheet will trigger a warning to the user to re-examine. The overall project score in the dashboard will stand reduced to zero, although specific parameter scores would be available to the user to assess the project's strengths and weaknesses in remaining areas. It is anticipated that this will help the user in anticipating issues and preparing a strategy or a path forward to resolving them.
- **Potential Deal Breakers Conditions** - Responding to these questions with a Negative response beyond a threshold (or tolerance percentage, for example 25%) will result in scores getting restricted to less than 2 or ‘Weak’ category for the entire project. The scores will get pro-rated down for correspondingly higher number of Potential Deal Breaker Conditions triggered.
- **Providing a ‘SKIP’ response** to several questions in a sub parameter will result in scores getting restricted for the sub parameter. For example, a maximum score of 2 for 60%-75% skipped responses; a maximum score of 1.5 for 75.1%-90% skipped responses; and a maximum score of 1 for 90.1%-100% skipped responses.

# Reading the Project Score



# What the Tool doesn't do?

**Not a substitute for a full feasibility analysis**

**Does not compute quantitative indicators**

**Does not verify the information provided by user**

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- Early stage screening with limited information
  - Favorable score to be followed up with detailed studies
  - Balance between reliance on score and qualitative highlights

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- Does not calculate or compute project indicators
  - Uses data from calculations, e.g. high level feasibility analyses

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- Soundness of analysis based on inputs
  - Accompanying documentation important

# Fiscal Risks and Public-Private Partnerships

PFRAM

- PPP Fiscal Risk Assessment Model: PFRAM

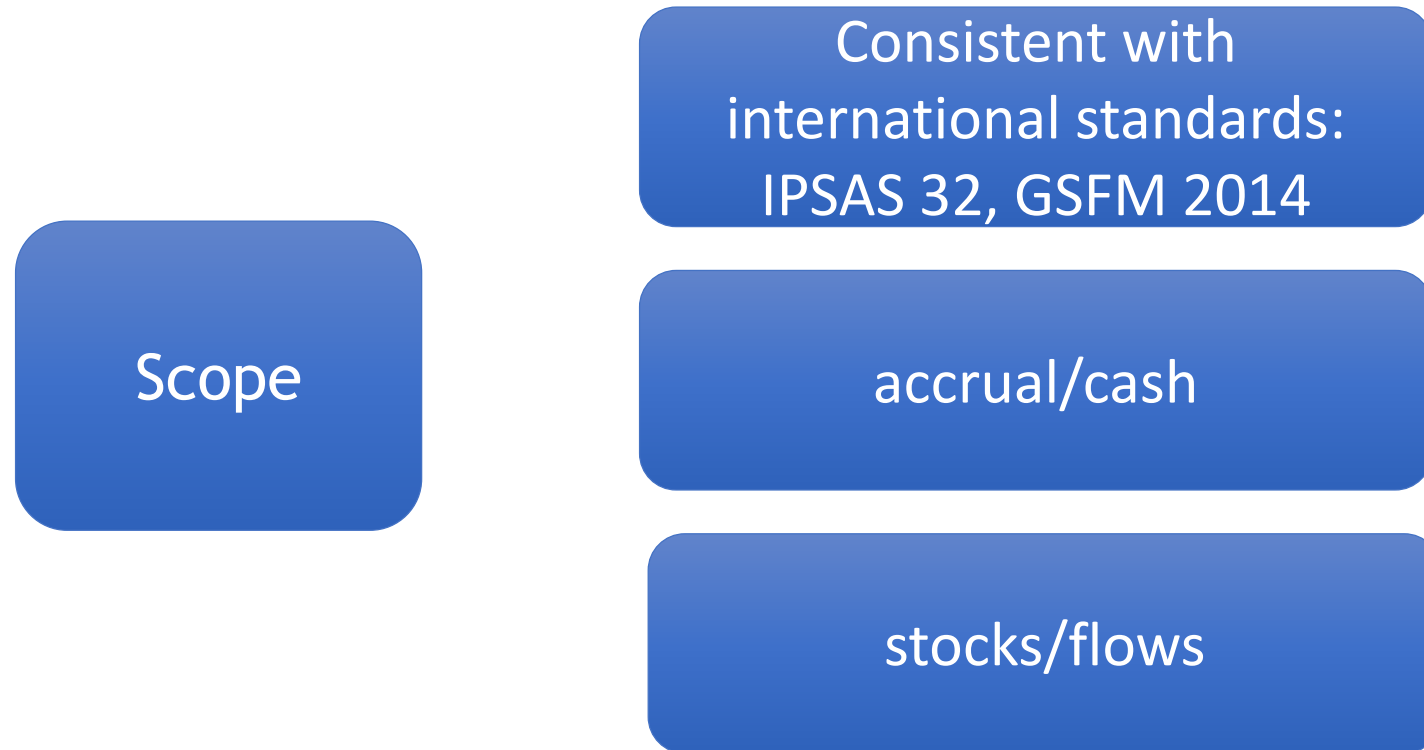
What is it?

Tool to assess potential fiscal cost of PPP

Framework to identify the main fiscal risks arising from a PPP contract

Provides a structured process for collecting project information

- PPP Fiscal Risk Assessment Model: PFRAM



- PPP Fiscal Risk Assessment Model: PFRAM  
**Outcomes**

**Private partner  
cash flow**

- Expected cash flow for the private partner
- Only to check

**Public financial  
statements**

- Government income statement, balance sheet & cash statement
- Cash and accrual

**Macroeconomic  
impact**

- Charts comparing fiscal situation with and without the project

**Fiscal risk matrix**

- Fiscal risk retained by the government
- Risk heat-map

**Sensitivity  
analysis**

- Nominal exchange rate (NER)
- Gross domestic product (GDP)