Qualitative Value-For-Money Guidance & Toolkit for Assessing PPP Projects in Developing Countries in Asia and the Pacific

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Abbreviations

Capex	Capital Expenditures
Opex	Operating Expenditures
PPP	Public-Private Partnership
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VFM	Value-for-Money

Table of Contents

1 Introduction to the Guidance & Toolkit

1.1 Background

Across emerging markets, much needed economic growth is hampered by a shortage of roads, mass rapid transit systems, telecommunications, power plants, sanitation, medical facilities and other basic infrastructure, all of which are much needed to achieve sustainable development.

Facing budgetary constraints, many developing countries consider Public-Private Partnerships (PPPs) as a way to mobilize private sector resources, bridge their infrastructure gaps and improve services delivery.

PPPs are, however, not suitable for all types of projects. Government officials have to take into account different factors when determining whether PPP is the best procurement route for delivering public services.

The toolkit presented in this document highlights a set of criteria that government officials need to consider when assessing whether a project is likely to achieve "Value-for-Money or VfM" if delivered as a PPP.

1.2 Value-for-Money

Government contracting agencies will achieve VfM through PPPs if the latter compares favourably to traditional public sector provisions in terms of quality of service and related costs over the lifetime of an infrastructure asset. In other words, this means that an infrastructure project is likely to bring more value if implemented as a PPP rather than through the traditional procurement process.[1]

VfM can be realized in a PPP project only under certain conditions, including (but not limited to) when:

- The private sector is given space to innovate and incentivize to improve service delivery;
- The risks are properly allocated between the public and private partners;

[1] For an explanation of the main differences between PPP and traditional procurement, the reader can refer to the ESCAP E-learning series (http://www.unescap.org/our-work/transport/financing-and-private-sector-participation/public-private-partnership-course/module-1)

- The private partner is selected through market competition; and
- The performance of the private partner is carefully monitored and penalty clauses for non-delivery of services are enforced;

1.3 Financial Considerations

Proper project identification is particularly important as PPP projects have significant financial implications. Indeed, using a PPP structure does not mean that public infrastructure services will be provided "for free". To be developed as a PPP, a project must have a commercially-viable business case for the private partner. This means that users and/or tax payers have typically to pay for the project to be delivered profitably by a private company.

PPP contracts can also entail long-term budgetary commitments and contingent fiscal liabilities such as those related to public guarantees. Therefore, care is needed to ensure that PPP contracts are affordable to the government over their entire period and that they do not threaten fiscal stability in the long run.

Private financing is also more expensive than public financing so the project delivered as a PPP needs to create sufficient additional value to offset the higher financing and transaction costs.

1.4 Project Identification

By identifying at the early stage projects suitable to be delivered on a PPP basis, governments can make better use of available resources and increase successful project delivery.

This is precisely the objective of this project appraisal toolkit, which is designed to support developing countries in improving early stage identification and selection of projects that are suited to further development as PPPs.

There have been mixed experiences with project identification in various countries. Common difficulties encountered include:

- Identifying large numbers of "priority" projects with limited implementation follow through;
- Selecting dream projects ("flagships") which are so large, complex and ambitious that they have no hope of being delivered by PPP or otherwise;
- Delivering the "good projects" via the traditional approach, and leaving the more difficult and less viable projects for PPP delivery;

- Choosing projects for PPP delivery that are not feasible or viable.

The consequence of flawed project identification is that the available and usually limited PPP development resources in a country are wasted on attempts to deliver projects that have limited or no potential to ever be delivered through the PPP mechanism.

By improving their project selection process, government agencies can avoid wasting time on projects that are clearly not fit for PPP implementation, hence, time and human resources of the government agencies will be better utilized. Likewise, this toolkit can help government officials to prioritize projects to focus on those with the highest potential (i.e. those projects that are most PPP-ready and the most likely to be successfully bid-out).

1.5 Using the toolkit – appraising individual and multiple projects

The guidelines and toolkit presented are intended to provide support in selecting PPP projects and a rational way of assessing and analyzing projects at an early stage. Both the guidelines and toolkit are based on established international best practice, thereby providing a strong basis/platform from which to work. However, they are generic in their nature, meaning that they do not take into account any country-specific requirements regarding project selection. When using the toolkit in a particular country it will therefore be important to take into consideration any specific requirements that may exist.

The project appraisal can be used in at least two situations, namely:

- **Individual project appraisal** – appraising an individual project to decide whether or not to proceed and develop it as a PPP
- **Multiple project appraisal** – appraising many projects to rank them or select those with greatest potential to be implemented successfully as PPPs

The toolkit is built around a set of criteria which generally indicate whether a project has potential to provide VfM when delivered through the PPP mechanism. Projects which meet these criteria or rank higher on these criteria than others should have greater potential to result in a successful PPP project, delivering better VfM than the public alternative. The criteria are principally of a qualitative nature, taking into consideration the early stage of project identification and probably the lack of quantitative data on projects. In practice, for many projects some or most of the project information may well be missing, or of questionable reliability at this initial stage. The guidance and toolkit can still be useful for thinking logically through the various issues that will be required for the project to be a successful PPP.

Each project criteria is described briefly to assist the user in using the appraisal toolkit. The description includes why the criteria is important, how it can be used, and how it contributes to VfM.

The project screening process is divided into two stages:

- **Elimination Stage (Initial Screening)**
- **Selection Stage (Secondary Screening)**

The Elimination Stage includes PPP eligibility questions that can be easily answered and judge whether the project is eligible for development as a PPP or not. It is important to conduct this Elimination Stage first, as one can then immediately determine whether any further time should be spent on the project or not.

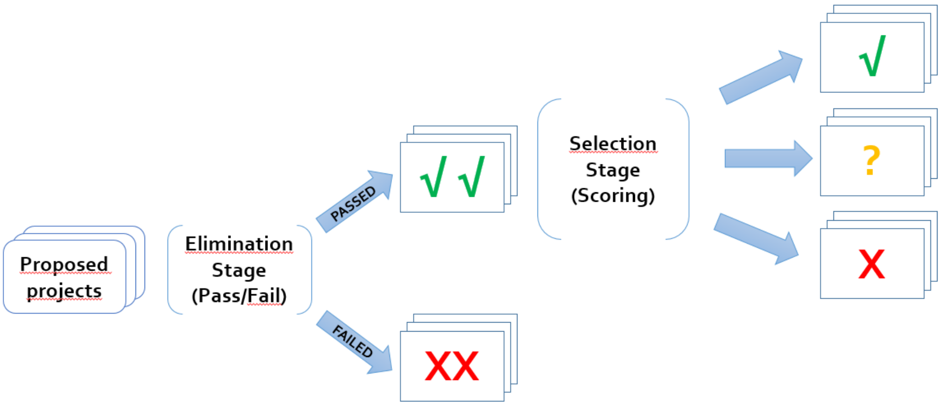
The Selection Stage concerns only projects that have passed the Elimination Stage. A more refined and detailed assessment is made with multiple criteria such as private sector interest, government readiness and project PPP suitability.

Projects that pass the Selection Stage may merit further development as PPPs. These projects will require a more detailed pre-feasibility study and/or feasibility study to be undertaken, leading to transaction structuring, preparation of bidding documents and procurement.[2]

The project appraisal toolkit does not replace the need for this further development work on the project, but it ensures that these investments are more likely to lead to successful PPP project delivery.

[2] For an explanation of the PPP Project Cycle, the reader can refer to the ESCAP E-learning series (http://www.unescap.org/our-work/transport/financing-and-private-sector-participation/public-private-partnership-course/module-5)

The project appraisal toolkit is shown graphically below:



XX = not viable as a PPP
√√ = potential PPP
X = to focus on weak points
? = for consideration
√ = to add to list of PPP projects

Projects which are not eligible can be relatively easily eliminated or rerouted during the first stage of the appraisal process. For eligible projects, the further appraisal not only suggests the general PPP potential of the project, but it also guides where further work may be required on the project (e.g. missing data and information) or where particular attention may be needed (e.g. particularly weak aspects of the project) if that project is developed further. As such the toolkit should not be used statically (a one-off project analysis), but rather as an active guide (used to guide further consideration of the project).