PPP Frameworks

Municipal PPP Academy
September 2019
Big projects
Program of projects
Financing
Implementation
Selection
Preparation funding
Legal/regulatory/guidelines
Institutions/ people
Visible
Under water
Building a Context for PPP

• Clarity/transparency/certainty
  – Demonstrating Government commitment
  – Setting the rules of the game
  – Empowering the players/ ensuring those rules are enforced
  – Setting the processes and procedures

• Coordination
  – Consistency and efficiency - bringing different public constituencies together
  – Matching Public and Private contexts

• Funding/resources
  – Ensuring access to funding of public entities (e.g. project prep)
  – Ensuring access to financing (equity and debt) of private investors
PPP Investment Climate Paradigm

Commercial Context

Conducive Climate

(Political Will, Legal, Regulation)

Legislature
Regulators
Government
Unions and other stakeholders

Ministries
Utilities
SOEs
PPP Unit
Investors
Lenders
IFIs
Donors

PPP Investment Climate Paradigm

(Well selected and prepared)

Successful PPP

Laws
Regulations
Accountancy standards

Experience with PPP
Enforcement procedures
Incentives to use PPP

Land acquisition
Quality of information
Project selection

Resources

Good advisers

Contracts

Incentives on parties

Tariffs
Subsidies

Offtake purchase

Forecasts
Guarantees
Insurance

Private

Hedging

Consumers
Utilities
SOEs
Government
IFIs
Donors

Financial Context

Viable Revenue Stream
(Of the right amount and certainty to achieve value for money)

Private Finance
(At the right price and availability to achieve value for money)
Government Inputs

**Legal / Institutional Framework**
- Policy objectives, Govt buy-in
- Clear allocation of tasks/mandate
- Coordination
- Procedures/decision criteria, Management of fiscal risk,
- Program oversight

**Project Selection**
- Choosing only most viable projects
- Choosing where to allocate public funds
- Coordination
- Ensuring PPP decision is maintained

**Project Implementation**
- Central resources and know-how
- Funding for good advisers
- Pre-feasibility
- Feasibility
- Transaction Implementation

**Gatekeeper**
- Fiscal risk management
- Rationing of Government support
- Ensure VfM
- Gather lessons learned – standard forms etc.
Impact of Legal Traditions

Common Law countries

- Tend to rely on policy documents and administrative guidance materials
- Longer history of government-pays PPPs than civil law countries
- User-pays PPPs are a more recent development

Civil Law countries

- More likely to enact the framework in statute law and use detailed rules and regulations with legal force
- Long history of user-pays PPPs (often termed “Concessions”)
- Government-pays PPPs are a more recent adaption from common law countries
Saint Petersburg, Russia
- Federal law cumbersome, used Municipal law to create a conducive legal framework
- Federal financial support available, but inflexible. Helped City to adjust its project financial dynamic to fit with Federal requirements, while using Municipal finance to provide flexibility, e.g. toll road sections
- Saint Petersburg Oblast big enough to merit its own PPP Unit and Government support mechanism
• Indonesia
  – Decentralization moves responsibility to local government while skills and most funding remains in central government.
  – Capacity in Central Government
    • PPP Unit, risk management unit with ability to provide government support.
    • But focused on Central government projects. Dynamic changing
    • government support available for local government projects difficult to allocate
  – Reforming internal transfer system to encourage infrastructure investment and use of most efficient mechanisms, e.g. PPP
Interfaces matter within public sector and between public and private sector

- **Leadership** of initiative – high level with calling powers;
- **Contracting authorities/Line Ministries**: prioritize within sector, develop pipeline aligning public and private investment program, design and implement projects;
- **Treasury/Finance**: assesses fiscal impact/manages contingent liabilities; approves/modifies terms;
- **Inter-Ministerial Council**: approves policies (risk allocation) and prioritizes projects;
- **PPP unit**: monitors PPP program; designs procedures (preparation, procurement, quality), designs contracts, advises/sometimes executes transactions;
- **Oversight body**: oversees compliance w/ concession contract, laws & regulations, approves adjustments;
- Dispute resolution framework (arbitration)
Flight to Quality

1. Government
   - Project Development Fund
   - Budgetary mechanism
   - Viability Gap Fund, Guarantee Fund, etc.
   - Private Investor/Lenders
   - Intermediary Facility
   - Capital market and regulatory reform

2. Project Development
3. Land Acquisition
4. Government support
5. Cost of financing
6. Project Financing
7. Refinancing

8. Preparation
9. Bidding
10. Construction
11. Operation

World Bank
PPP Institutions in Korea

Ministry of Planning and Budget

PIPC – Private Investment Project Committee (Chairman – Minister of planning and Budget)

Ministry of Commerce, Industry and Energy
Ministry of Maritime Affairs and Fisheries
Ministry of Construction and Transportation
Other line ministries
Local Governments

✓ Leading Government Ministry
✓ PPP Unit
✓ Risk Management Unit
✓ PPP Nodes
✓ PPP Board

PPP Act, PPP Decrees, Annual Plan, Guidelines - consistency and transparency but also agile policy change reflecting market condition
India: Creating an Enabling Environment

**Regulatory Framework**
- Establishing legitimacy of the projects/concept
- Predictability & equity of decision making
- Removing bottlenecks

- Regulatory Institutions
- PPP Cells
- Model bidding documents
- Model contractual documents
- Infrastructure Acts
- Quality check through PPPAC/PIB
- Shifting of utilities and Land acquisition responsibility of the Authority
- Ensuring competition & transparency in bid process
- Land acquisition
- Regulatory & Environmental clearances
- Mechanisms for speedy dispute resolution
- Audit & Right to Information
- Contingent liabilities framework

**Financing**
- Viability Gap Funding
- Annuity frameworks
- Comfort to lenders in Termination/FM clauses
- Long Tenor Loans through IIFCL
- Refinancing
- Innovation with newer structures (Hybrid models)
- Annuity Risk Fund
- Innovative mechanisms of Financing
- Credit Enhancement
- Infrastructure Debt Funds
## India: Creating an Enabling Environment (2)

### Project Pipeline:
- India Infrastructure Project Development Fund
- Panel of Transaction Advisers
- Pilot Projects Initiative
- Independent Engineer part of project design
- Exploring new sectors for private participation (Rural, Agri Storage, Social infra)
- Benchmarking performance
- Establishing output parameters and KPIs
- Handling climate change through project design

### Capacity Building
- Strengthening PPP Cells
- Training Programmes
- National PPP Programme
- Establishment of Centers of Excellence
- Toolkits & Templates
- Strengthening ATIs & CTIs
- Enhancing private sector capacities
- Ability to projects & structure projects
- Ability to manage contracts and monitor outputs and outcomes

### Advocacy
- Information
- Consultation
- Communication
- Political acceptability
- Stakeholder management
- Sustained Communication over project life cycle, especially relating to changes in project design
Structure of the RSA PPP Unit

- Cross-functional organizational structure
- Approximately 12 professional staff
- Each professional staff member gives hands-on PPP technical assistance to a sector-specific (e.g., health, tourism, IT, accommodation) portfolio of registered projects, and each also gives his/her specialist (e.g., financial, legal, BEE) advice on every regulated PPP project at various phases in the PPP project cycle.
- All PPP Unit staff are active in ongoing policy formulation and training.
South Africa’s PPP Manual & Project Cycle:
Decision-Making Flow Diagram

(Source: MIIU
www.miiu.org.za )
## Summary: PPP Units through the PPP Life Cycle

<table>
<thead>
<tr>
<th></th>
<th>Policy formulation and coordination</th>
<th>Quality control</th>
<th>Technical assistance</th>
<th>Promote/market PPPs</th>
<th>Standardization and dissemination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>✗</td>
<td>−</td>
<td>✓</td>
<td>✗</td>
<td>−</td>
</tr>
<tr>
<td>Jamaica</td>
<td>−</td>
<td>✗</td>
<td>−</td>
<td>✓</td>
<td>−</td>
</tr>
<tr>
<td>Portugal</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>South Africa</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>−</td>
<td>✓</td>
</tr>
<tr>
<td>South Korea</td>
<td>✓</td>
<td>O</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The Philippines</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
<td>O</td>
<td>✗</td>
</tr>
<tr>
<td>UK</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Victoria</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Key:** ✓ = intended function, ✗ = intended function, but ineffective, O = intended function, but effectiveness unclear, and − = not an intended function
Sample of PPP Units/ Agencies - Functions

<table>
<thead>
<tr>
<th></th>
<th>Review Bodies</th>
<th>Full Service Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MAPPP (France)</td>
<td>Partnerships South Australia</td>
</tr>
<tr>
<td><strong>Business Planning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess Project Feasibility</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Develop / Review Business Plans</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Approve PPP Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide Recommendations to Approval Bodies</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Assist in Finding a Project Advisor</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td><strong>Procurement Process</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop Standard Documents (RFP, Contracts, etc.)</td>
<td>I/O</td>
<td>I</td>
</tr>
<tr>
<td>Procurement Support</td>
<td>I/O</td>
<td>I</td>
</tr>
<tr>
<td>Bid Evaluation</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Contractual Support</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td><strong>Project Implementation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Management</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Support</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determine and Share Best Practices</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Public Relations</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Develop PPP Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of PPP Market (increasing # of bidders, etc.)</td>
<td>D</td>
<td>D</td>
</tr>
</tbody>
</table>

*Legend:
I: Indirect Oversight – review documents/decisions, but not involved in day-to-day work. D: Direct Involvement – involved in the day-to-day work alongside the advisor or service agency.*
# Emerging Market PPP Frameworks

## PPP Framework Elements

<table>
<thead>
<tr>
<th>PPP Framework Elements</th>
<th>Philippines</th>
<th>Malaysia</th>
<th>Chile</th>
<th>Mexico</th>
<th>Hungary</th>
<th>South Africa</th>
<th>India</th>
<th>Your Country?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP Policy Statement</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Multi-Sector PPP/Concession Law &amp; Regs.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Multi-Sector PPP Technical Unit</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Line Min./Sector PPP &quot;Nodes&quot;</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>PPP Project Dev. Facility (PDF)</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>PPP Procurement Regulations</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Unsolicited Proposal Procedures</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Published PPP Manuals/Guidelines</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Public Sector Credit Enhancements Allowed (VGF, Contingent Liabilities, etc.)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Public Sector Risk Management Framework: Unit &amp; Regulations</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Not Yet</td>
<td></td>
</tr>
<tr>
<td>Systematic PPP Training &amp; Capacity Building</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Not Yet</td>
<td></td>
</tr>
<tr>
<td>Infrastructure Regulatory Bodies &amp; PPP Contract Monitoring Units (CMUs)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>
## PPP Framework Survey Results
### AfDB (2009)

<table>
<thead>
<tr>
<th>Ghana</th>
<th>Kenya</th>
<th>Nigeria</th>
<th>South Africa</th>
<th>Togo</th>
<th>Uganda</th>
<th>Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Is there a multi-sector PPP policy, law or regulation?</strong></td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>IN PRG</td>
</tr>
<tr>
<td><strong>Is the policy/law/regulation effective?</strong></td>
<td>NO</td>
<td>N/A</td>
<td>NO</td>
<td>YES</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Are there specific guidelines/procedures/procurement rules for PPPs?</strong></td>
<td>YES</td>
<td>IN PRG</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td><strong>Is there a multi-sector PPP unit?</strong></td>
<td>NO</td>
<td>IN PRG</td>
<td>IN PRG</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td><strong>Are there PPP or PSP frameworks/guidelines specific to certain sectors?</strong></td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td><strong>Public sector capacity to evaluate (risk analysis) and support (finance/operations) PPP/PSP?</strong></td>
<td>MED</td>
<td>MED</td>
<td>MED</td>
<td>HIG</td>
<td>IN PRG</td>
<td>MED</td>
</tr>
<tr>
<td><strong>Domestic private sector capacity to support (finance/operations) PPP/PSP?</strong></td>
<td>MED</td>
<td>MED</td>
<td>HIG</td>
<td>HIG</td>
<td>MED</td>
<td>MED</td>
</tr>
<tr>
<td><strong>Total capital investment in transactions involving PSP 1997-2007 (US$ millions)(source: WB PPI database)</strong></td>
<td>710</td>
<td>2,959</td>
<td>14,091</td>
<td>8,497</td>
<td>595</td>
<td>937</td>
</tr>
</tbody>
</table>
### Examples of PPP PDFs:

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Country(s)</th>
<th>Capitalization</th>
<th>Year Estab.</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Municipal Infrastructure Investment Unit (MIIU) Project Development Facility</td>
<td>South Africa</td>
<td>$4.0 million</td>
<td>1998</td>
<td>Grant-fund</td>
</tr>
<tr>
<td>2</td>
<td>Philippines Local Government Unit (LGU) Infrastructure Development Fund</td>
<td>Philippines</td>
<td>$10.0 million</td>
<td>1998</td>
<td>Revolving Fund</td>
</tr>
<tr>
<td>3</td>
<td>NEPAD &amp; AfDB Infrastructure Project Preparation Fund (IPPF)</td>
<td>Africa</td>
<td>$10.0 million</td>
<td>2004</td>
<td>Grant-fund</td>
</tr>
<tr>
<td>4</td>
<td>Private Enterprise Partnerships for Southeastern Europe Infrastructure (&quot;PEPSEI&quot;)</td>
<td>Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania</td>
<td>$10.0 million</td>
<td>2006</td>
<td>Grant-fund</td>
</tr>
<tr>
<td>5</td>
<td>India Infrastructure Project Development Fund (IIPF)</td>
<td>India</td>
<td>$20.8 million</td>
<td>2007</td>
<td>Revolving Fund</td>
</tr>
</tbody>
</table>
PPP Frameworks

Municipal PPP Academy
September 2019
Steps towards Building successful PPPs

Lack of basic building blocks for implementation of PPPs leads to delays in decision making and implementation and possible break-down of deals.
The Context of a Conducive PPP Investment

Climate

Government policy
Legal
Regulatory

Viable PPP

Project selection, preparation and implementation

Access to financing (debt and equity)

Revenue stream
Credit enhancement

25
Recipe for success

Monitoring and implementation – partnership maintenance

Government buy-in, change in perspective capacity building

Clear PPP processes – legal, regulatory, institutional framework

Spend money and time on preparation – use top, experienced transaction advisers

Open, transparent competitive bidding – avoid distractions from direct negotiations and unsolicited bids

Select projects based on viability and value for money
Creating an enabling environment through sound PPP policy framework
Government support when justified, balancing bankability & fiscal exposure

- Projects socially/economically desirable but not financially viable
- Options aimed at increasing project’s IRR, reducing cost of capital or reducing uncertainty to close the gap between IRR and CoC

<table>
<thead>
<tr>
<th>Impact on project capacity to mobilize debt - bankability</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
</tr>
<tr>
<td>Low</td>
</tr>
</tbody>
</table>

- Debt Guarantee
- Forex Guarantee

- Grants – Viability Gap
- Concessional-Subordinated Debt
- Subsidies (social tariffs/shadow tolls)
- Minimum Revenue Guarantees

- Credit/project revenue enhancements
- Extension of Concession term
Coverage is key to social/political sustainability

Distributing benefits among different stakeholders can be a conflicting design issue.

**Government**
- Maximize fiscal revenue

**Investors**
- Maximize profit

**Labor force**
- Protect employment

**Consumers**
- Reduce tariffs to served households
- Expand coverage to unserved households
Opportunistic contract re-negotiations erodes credibility of PPPs

Frequent renegotiation has negative impact on sector performance, tariffs, investment levels and ability to regulate concessions efficiently

Incidence of Renegotiation of Infrastructure Concessions in Latin America 1988-2008

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Renegotiated Concession</th>
<th>Average Time to Renegotiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Sectors</td>
<td>61%</td>
<td>1.8 years</td>
</tr>
<tr>
<td>Electricity</td>
<td>25%</td>
<td>2.1 years</td>
</tr>
<tr>
<td>Transport</td>
<td>73%</td>
<td>2.9 years</td>
</tr>
<tr>
<td>Water</td>
<td>87%</td>
<td>1.3 years</td>
</tr>
</tbody>
</table>

Source: Guasch 2004, updated
Scaling up GoI PPP Program

- Model procurement guidelines
- Policy & Regulatory
- Viability Gap Funding
- Annuity
- Financing
- IIFCL- long tenor loans & Refinancing
- Project Dev Support
- IIPDF

Measures by Government of India
- Policy, Rules, guidelines formulation
- Advocacy & Communications
- Robust shelf of Projects
- Capacity Building
- Strengthens PPP Cells
- Online toolkits
- State initiatives &

Knowledge series- templates and resource material

National Capacity building programme

World Bank