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Cities



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SAMPLE PROJECT  
CONCEPT NOTE

# Municipal Public-Private Partnership Framework

# 03

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# 1.0

## Purpose of this Module

This module serves as an accompanying document to the Municipal PPP Framework Guidance Note as well as Module 2: Project Concept Assessment Tool ('PCAT'). It provides a template form, as well as a completed example of the Project Concept Note, which should be completed before assessing the project's potential for delivery as a PPP. It is not expected that detailed information on all the topics covered by the Project Concept Note will be available at the time it is completed.

Rather, this document is intended to help practitioners think strategically about what is and needs to be known about a project to evaluate its potential as a PPP and whether there is a reasonable basis for undertaking a more comprehensive feasibility study. Each section of the Concept Note template includes cross-references to relevant questions in the PCAT, which may be instructive for completing the Concept Note.

# 2.0

## Project Concept Note Template

### 1. PROJECT SUMMARY

**Project Name:**

**Project Description:**

*Briefly describe the public infrastructure and/or service to be delivered by the project, the intended location, scope and structure of the project, key stakeholders, and so on.*

**Project Rationale:**

*Describe the purpose and necessity of the project, that is, why the project should be delivered, including which development plan the project originated from and the expected social, economic, and/or environmental benefits of the project. Indicate if any studies have been done that relate to the project and, if so, describe the study/ies undertaken (for example, what was the scope of the study, how long ago was it done, what were the key findings).*

*See PCAT Questions: 1.1-1.3*

**Project Outputs:**

*Identify the quantifiable outputs of the project, in terms of facilities built, services provided, and so on. (for example, size of facility constructed, number of people or households served, amount of clean water or electrical power supplied, and kilometres of road built). As applicable, describe any performance parameters that need to be followed by the PSP during operation (for example, 24/7 availability of water supply for all households within a defined jurisdiction, public accessibility of facilities [bus terminals, parking areas]).*

*See PCAT Questions: 3.1-3.4*

**Project Cost Estimate:**

*Try to estimate the project's whole-life costs, for example, cost of design, construction, operation and maintenance, and service delivery, as applicable, over the entire duration of the project.*

*See PCAT Questions: 2.3, 2.4 and 5.2*

**Indicative Contract Period:**

*See PCAT Questions: 1.4 and 3.1*

**Source(s) of Revenue/Funding:**

*Indicate how the project cost is expected to be paid for/recovered (for example, payments or subsidies from the government [national, state/provincial, municipal], fees paid by end users, payments from an offtaker, additional revenue sources such as sale of advertising space, commercial leases, and land value capture<sup>1</sup>). Do not include financing options here.*

*See PCAT Questions: 2.1, 2.2, and 1.5*

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<sup>1</sup> For more information on additional sources of revenue, see Module 16: Harnessing Land Value Capture and Module 17: Capturing Commercial Value.

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## 2. INSTITUTIONAL READINESS

### 2.1. Legal and Institutional Framework

Briefly describe the legal and institutional framework that governs delivery of the project.

This should include identification of:

- The municipality's legal mandate to deliver this type of public infrastructure and/or service, including whether this responsibility is exclusive or shared;
- The legal basis for delivering the project as a PPP, including reference to any laws or regulations that provide for, govern, or restrict private participation/PPPs in the sector (for example, national or local PPP law, applicable procurement rules, or sector-specific laws on private involvement);
- The officials that can ultimately sign the PPP agreement on behalf of the public partner (municipality, subdivision, locally owned corporation, and so on) and the legal basis to do so, as well as any prerequisites that must be met to create a legally binding contract (for example, legislative approval);
- Laws and regulations concerning the organization and administration of the sector, that is, rules on the setting of operation or service delivery standards, licensing and permitting, and tariffs;
- Key institutions and their respective roles; and
- If relevant, potential limits on the municipality's ability to enter into a direct agreement with the lender that includes rights of substitution, step-in rights, or other applicable remedies.

See PCAT Questions: 1.2, 4.1-4.5

### 2.2. Internal Capacity to Deliver the Project

Describe the extent of the municipality's capacity (for example, experience and expertise) and resources (for example, manpower and funding) to implement the project<sup>2</sup>, including the existing institutional/organizational (for example, staffing) capacity of the municipality to implement a PPP, as well as access to resources and outside experts (for example, external PPP units, knowledge centers, transaction advisers/consultants). Indicate whether there is any funding available for developing the project (for example, completing a feasibility study, preparing tender documents, acquiring land), including from external sources such as development partners or a PDF. Identify any known challenges/weaknesses that may constrain the municipality in implementing the proposed PPP project.

See PCAT Questions: 5.1

## 3. INDICATIVE PROJECT FEASIBILITY AND READINESS

### 3.1. Project Site

Indicate whether a project site has already been identified. If so, describe the status of the project site, for example, whether it is known to be suitable for the intended use, whether the land is readily available, or if it will be possible to make preliminary arrangements for its acquisition—preparation of a land acquisition plan, arranging for right-of-way acquisition, and so on—without much issue or difficulty. Identify any difficulties foreseen in identifying, planning for, and acquiring a suitable project site.

See PCAT Questions: 1.5, 2.3, and 3.3

### 3.2. Technical and Operational Feasibility

Describe the major technical and operational characteristics of the project, including whether this type of project has been done before and whether it relies on available, proven, and tested technology, and so on. Identify any significant, potential risks related to the design, engineering, construction, and operation of the project.

See PCAT Questions: 3.1-3.4

### 3.3. Technical Desirability

Indicate if there are any alternative technical solutions to the problem addressed by this project and, if so, whether there has been or will be an assessment of the relative strengths and weaknesses of the available solutions, and the results of such assessment.

See PCAT Questions: 3.2 and 5.1

<sup>2</sup> For a more thorough assessment of internal capacity, refer to Module 1: Municipal Readiness.

### **3.4. Preliminary Environmental Risk Assessment**

*Identify any existing or foreseeable environmental issues, including whether the project presents a significant risk to any natural resources or protected lands, the project's operational contribution to greenhouse gas emissions, and resiliency to potential natural or human-induced hazards and the adverse impacts of climate change. Indicate whether any such issues are complex, likely to require costly solutions, and/or likely to result in uncertainties or delays that could impede the project.*

See PCAT Questions: 3.3

### **3.5. Preliminary Social Risk Assessment**

*Identify existing foreseeable concerns that may affect the project's social acceptability, including whether the project will entail any resettlement/displacement, organizational restructuring, or other risks to the health or quality of life of end users, workers, or the local population. Indicate whether there will be a formal plan for communicating with and involving affected communities, including whether such plans include a mechanism for involving poor communities near to or affected by the project, and/or a strategy for gender-inclusive design and implementation. Identify any known or likely opposition to the project and indicate whether any social risks are likely to require costly solutions and/or result in uncertainties or delays that could impede the project.*

See PCAT Questions: 3.4

### **3.6. Demand and Revenue Forecasts**

*Indicate whether the project has an identified user base that will likely use the service provided. Describe the anticipated demand for the project (for example, target population and offtaker) and the extent of information that is or is likely to be available regarding the sufficiency and predictability of this demand. Identify the basis for forecasting the revenue sources identified in the Project Summary section.*

See PCAT Questions: 2.1, 2.2

### **3.7. Affordability (End Users and Government) Assessment**

*If end users will pay for services, describe the basis for determining user fees that take into account ability and willingness to pay, including any studies or surveys that have been or will be conducted. If the project involves government payments or subsidies, indicate whether the indicative payor has the resources and planning/budgeting capacity to meet its payment obligations.*

See PCAT Questions: 2.2

### **3.8. Financing Assumptions**

*Identify the anticipated or desired sources of financing, if any, with as much specificity as possible (for example, private equity, commercial or concessional loans [indicate if non-recourse lending is available], or bond issuance). For each form of financing, indicate any assumptions that can be made, including with respect to loan tenor, cost of financing (for example, interest rate), ratio of different forms of financing if multiple sources are anticipated (for example, debt-to-equity ratio), and any issues that might increase the cost of, or limit access to, financing (for example, lack of domestic financiers and foreign exchange risk).*

See PCAT Questions: 1.5, 2.2, and 2.4

## **4. PPP SUITABILITY**

### **4.1. Private Sector Appetite**

*Describe the basis for expecting that private investors will be interested in the project, including whether any similar PPP projects have reached financial close (locally, regionally, or national) and whether there has been any effort to engage with potential investors (for example, market consultations or soundings).*

See PCAT Questions: 5.1

#### **4.2. Public Partner Creditworthiness**

*Indicate whether the municipality or other public partner (for example, publicly owned utility or other offtaker) is creditworthy<sup>3</sup>. If not, identify any credit enhancements that may be available to compensate for poor creditworthiness (for example, insurance, guarantees, escrow arrangements).*

*See PCAT Questions: 5.1*

#### **4.3. Private Sector Innovation**

*Indicate whether the project design and structure offers the PSP opportunity to innovate with respect to improved designs, technology, materials, construction management, operational efficiency, and so on.*

*See PCAT Questions: 3.1-3.4*

#### **4.4. Project Risks and Contingent Liabilities**

*Provide a preliminary risk allocation table/matrix for the project and indicate how risks may be allocated between the municipality and the PSP. Identify contingent liabilities arising from the project and describe any internal units, processes, or procedures that exist to manage contingent liabilities.*

*See PCAT Questions: 5.2*

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<sup>3</sup> For more information on assessing creditworthiness, refer to Module 1: Municipal Readiness.

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# 3.0

## Sample Project Concept Note

### 1. PROJECT SUMMARY

**Project Name:**

Municipal Water Supply Project

**Project Description:**

The project seeks to engage a PSP to design, build, finance, operate, maintain, and transfer water supply and distribution infrastructure sufficient for an estimated total population of 200,000, in the municipality of X, with possible expansion of the scope. The project will include the construction of the following: water intake structure, water treatment facility, and pipeline network system.

**Project Rationale:**

To date, the populace to be served by the project remains unconnected to Level III (individual house connection) water supply systems and rely on drawing water from public wells (Level I), natural springs, private wells, and/or water vendors. In many of these sources, water is intermittently provided and is of doubtful quality; this contributes to incidence of water-related diseases. At the same time, total water demand in the area is expected to increase due to the growth of commercial and industrial enterprises (especially tourism) in the area. The project is part of the five-year development plan of the municipality and has been identified as a priority project. The economic and social benefits brought by the project are expected to be high, considering that majority of the identified villages only have access to Level I water systems.

A study was conducted three years ago but involved a slightly different scope (that is, supply covered different villages). The study indicated that (1) based on a hydrological study, the water resource is deemed to be sustainable; and (2) the project would be affordable, considering that villagers are currently paying a high fee for their daily supply of water.

**Project Outputs:**

The project aims to provide 24/7 piped water supply (Level III) to all households in the area. Based on population size and statistics on typical consumption habits, the amount of bulk water supply needed (litres per second) should be estimable. The water is expected to have been treated for human consumption, in accordance with water quality standards set by law.

**Project Cost Estimate:**

US\$85 million of capital cost. The operating cost for the project should amount to US\$8.5 million per year, including fixed and variable costs. Major maintenance costs in the amount of US\$ 1.2 million per year will be invested every seven years. Attached is a more detailed breakdown of project costs.

**Indicative Contract Period:**

15–20 years

**Source(s) of Revenue/Funding:**

Payment from offtakers. It is not certain if the municipality can provide subsidies if required.

## 2. INSTITUTIONAL READINESS

### 2.1. Legal and Institutional Framework

The national Water Code governs water abstraction, treatment, and distribution, including institutional roles, establishment of an entity tasked with regulating water tariffs and permitting, and setting performance standards for operators. The Water Code also provides that private participation is allowed in the development and operation of water supply and sanitation facilities at the municipal level.

In addition, the national PPP law provides for its application to municipal governments, thereby providing a basis for the latter to engage private concessionaires on a PPP basis. The municipal chief executive is authorized to sign the PPP agreement, but it is unclear whether approval needs to be obtained from the municipal council (that is, legislative body), either before or after signing. There is no express statutory basis for the municipality to execute a direct agreement with lenders but given general authority to contract and municipal ownership of the project, it is believed the municipality may enter such an agreement.

### 2.2. Internal Capacity to Deliver the Project

This will be the first time the municipality will undertake a PPP project; it may be surmised that it has limited capacity and understanding on how to package the project as a PPP as well as the process that the project will undergo to bring the project to tender. These challenges notwithstanding, the project enjoys support both from the head of the executive of the municipal government and key decision makers from the municipal council, and hence prospects for obtaining funding for the development of the project are positive.

## 3. INDICATIVE PROJECT FEASIBILITY AND READINESS

### 3.1. Project Site

The site where the project facilities will be built has already been identified, but its allocation for the project will require the approval of the village council where the site is located.

### 3.2. Technical and Operational Feasibility

The technology for the extraction of water from the source, its treatment, and distribution to various off-takers have been well documented, proven, and tested. No unusual technical issues have been identified at this point.

### 3.3. Technical Desirability

No alternative technical solutions are available to deliver clean, piped water to the villages. Currently deployed alternatives to piped water have been shown to be more expensive and less safe.

### 3.4. Preliminary Environmental Risk Assessment

No substantial environmental safeguard issues have yet been identified. Completion of an environmental impact assessment is required by law.

### 3.5. Preliminary Social Risk Assessment

There could be potential backlash from affected stakeholders, especially because the project may require the resettlement of some residents in the area. Close coordination with the village council of the affected village is crucial and a coordination strategy is being prepared.

### 3.6. Demand and Revenue Forecasts

Based on preliminary consultations, residents covered by the project will avail the piped water service. Using the number of households and demographic trends, residential demand can be forecasted with some reliability. Industrial demand is contingent on more uncertain development of commercial and industrial enterprises (especially related to tourism) in the area.

### 3.7. Affordability (End Users and Government) Assessment

Based on the earlier study (although caution must be taken due to the slight variance in scope), the project is affordable and will likely result in a water tariff that is lower compared to how much residents are paying for their current supply of water. It is still uncertain whether and to what extent the municipality can provide subsidies if needed.

### 3.8. Financing Assumptions

The PSP is expected to contribute equity and obtain financing at commercial rates for the project, with a debt-to-equity ratio of approximately 70:30. The domestic market for long-term, non-recourse financing is limited, but project revenues will be in domestic currency so access to international finance may be constrained by foreign exchange risk.

## 4. PPP SUITABILITY

### 4.1. Private Sector Appetite

There have been prior water PPPs implemented at the municipal level across various countries (documented in various literatures published by international development partners such as World Bank and the International Water Association), which is indicative that private investors are active in the sector.

### 4.2. Public Partner Creditworthiness

The municipality has no meaningful credit history and has not obtained a credit rating. If payments from the municipality are required by the project (for example, availability payments or subsidies), the municipality will seek a national government guarantee of its obligations.

### 4.3. Private Sector Innovation

The private partner will be responsible for designing the facilities to be constructed, within certain parameters and investment amounts, and so will have the opportunity to produce innovative or cost-saving designs. In addition, other cases involving private operators in water distribution have seen more efficient operation and management as compared to public water utilities

### 4.4. Project Risks and Contingent Liabilities

Type of Risk	Public	Private	Shared
Land acquisition	✓		
Design risk (for example, faulty design)		✓	
Construction risk (for example, construction delay, increase in cost)		✓	
Demand risk (for example, demand is less than anticipated)	✓		
Environmental and social risk (for example, environmental impact, resettlement, social unrest)			
Operation and management risk (for example, labor actions, performance risk, cost overruns, asset ownership risk)		✓	
Insurance risk (for example, availability and scope of insurance)		✓	
Political and regulatory risk (for example, discriminatory change in law, change in government)	✓		
Material adverse government action (for example, nationalizing projects assets, discriminatory change in law)			
Force majeure/natural disasters (for example, extreme weather, floods, and war)			✓

Risks and contingent liabilities identified thus far can be optimally allocated and/or managed.

