



# OPTIONS FOR SUPPORTING SMALL-SCALE PPPs

NCP Research Paper

## Abstract

Small-scale PPPs (SSPPPs) can have significant impacts on their users, since they are often focused on specific locations. However, the cost of PPP procurement and the limited resources of the regional and municipal procuring authorities (PAs) make it difficult to justify using PPP for smaller projects that might otherwise be attractive. Recognizing this, some countries and institutions have adopted/proposed various measures to support SSPPPs. This Research Paper reviews the literature and, based on an analysis of the key constraints facing SSPPPs, proposes a package of initiatives (“SSPPP Toolkit”) that might be adopted to enhance the viability of smaller PPP projects. This Paper forms part of a wider research initiative on small-scale PPPs. Its findings were originally published as part of the NCP Research Paper entitled “Improving Value for Money in Small-Scale PPPs”.

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# NCP Research Paper

## Options for Supporting Small-Scale PPPs

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## List of Acronyms

AUD	Australian dollars
BTL	Build-Transfer-Lease
capex	Capital expenditure
CMU	Contract Management Unit
Eoi	Expression of Interest
EUR, €	Euros
forex	Foreign exchange
GBP, £	British pounds
HM Treasury	Her Majesty's Treasury
IRR	Internal Rate of Return
KPI	Key Performance Indicators
KRW	Korean won
m	million
n.d.	No date
opex	Operating expenditure
PA	Procuring Authority
PFI	UK Private Finance Initiative
PPP	Public-Private Partnership
RFP	Request for Proposals
RFQ	Request for Qualification
SME	Small & Medium Enterprises
SSPPP	Small-scale PPP
SPV	Special Purpose Vehicle
UK	United Kingdom
USD, \$	United states dollars
VFM	Value for Money

## 1. Introduction

This Paper forms part of a wider research initiative on small-scale PPPs. Its findings were originally published as part of a NCP Research Paper (Kupisz R. , 2019)).

### 1.1 Purpose of the Paper

As a method of procurement, Public-Private Partnerships (PPPs) can be significantly more complex than traditional methods used by the public sector. PPPs require the private partner (Contractor) to take on more of the project's risk and they, and their lenders, need to understand those risks as much as possible. This requires significant work in preparing and analyzing proposed PPP projects and in completing the tender process to appoint the Contractor. Furthermore, since PPP projects extend beyond the completion of construction to include the provision of services by the Contractor, there is a need for the government party to put in place contract monitoring and management systems. These additional costs are considered to be largely independent of the size of the project.

The decision on whether to select PPP procurement for a particular project is determined by whether the project generates greater Value for Money (VFM) as a PPP than traditional procurement methods. In essence, this means that the additional costs of using the PPP approach must be outweighed by the additional benefits that PPP brings, which arise from efficiency gains and other factors. For large infrastructure projects, these additional PPP-related costs amount to a very small share of the total project value (investment plus operations). However, for smaller projects these additional costs are more difficult to justify, since the PPP-specific benefits would have to be a much higher relative to total project value to outweigh the PPP-specific costs.

As a result, some countries (including Singapore, Australia and the UK) consider smaller projects to be unsuitable for PPP procurement. In these countries, only projects (or bundles of projects) that are above a certain size can be included in their PPP programs. This may represent a lost opportunity. There are numerous examples around the world of smaller PPP projects that have significant impacts on the lives of their users, yet when resources are limited, "traditional" public procurement may not be an option. This is particularly the case for projects focused on specific regions or groups, such as municipalities, small "off-grid" power projects or rural water supplies. Excluding smaller projects from a PPP program purely on the basis of size therefore risks missing out on these potential benefits. This Research Paper develops a SSPPP "toolkit", a holistic package of measures addressing the range of constraints that tend to reduce VFM in SSPPPs.

### 1.2 Methodology

The approach adopted for this research involves several different strands, as follows:

- Examination of the benefits, costs and risks associated with SSPPPs, since any support package must address them if it is to be successful;
- Review of the literature on SSPPPs to identify different policies and support options used or proposed by governments and international institutions;
- Building on this analysis, develop a range of support measures that can be combined into a toolkit for supporting SSPPPs.

### 1.3 Structure of the Paper

The remainder of this Paper is structured as follows:

- Section 2 highlights some of the key benefits of SSPPPs, and the constraints and risks that sponsors of SSPPPs may face;
- Section 3 reviews the PSPPP support policies adopted by other countries;
- Section 4 identifies options for addressing the constraints and risks to improve the viability of SSPPPs;
- Section 5 compiles the analysis of the previous Sections to present key findings and conclusions and sets out a possible road map for implementing a SSPPP support package.

## 2. Benefits and Risks of Small-Scale PPPs

This Section examines the arguments for and against SSPPPs and sets out the specific potential benefits that SSPPPs may bring, and their associated constraints and risks. Some of these, particularly the economic and social benefits, are difficult to quantify. As a result, they may be omitted or under-counted in the VFM analysis, which could lead to potentially beneficial projects being rejected.

For ease of analysis, these benefits and constraints are categorized according to the party most likely to be affected: project beneficiaries, investors and the PA.

### 2.1 Why do it? Potential benefits of SSPPPs

*“Experience tells us that while large PPPs may be sometimes required, small PPPs can make a huge difference to people’s lives.” (Ahmad, 2016)*

*“The popularity of small-scale PPPs marks a paradox between literature and reality.” (Thierie, 2018)*

*“Projects in sectors like solid waste management, community/public toilets, water supply, energy-efficient street-lighting, primary health care, municipal parking, municipal parks and empty spaces, accommodation to students, and grain storage ..., if delivered well, can have a transformative effect on the lives of citizens.” (A Ahmad, 2014)*

As suggested by the quote from (Thierie, 2018) above, there is a common view in the PPP literature and among PPP practitioners that high preparation and transaction costs make it difficult to justify undertaking SSPPPs. At the same time, SSPPPs are being tendered successfully, especially by regional and municipal authorities.

#### 2.1.1 Potential Benefits to End-Users

The end-users of SSPPPs are more likely to be concentrated in small communities in urban or rural areas. This drives a number of potential benefits, as described below.

**Concentration/network effects:** while there may be fewer beneficiaries than for national projects, these beneficiaries are more likely to be located in a much smaller area (cities, towns or rural communities). As such, the impacts may be more concentrated within the beneficiary communities.

**Social benefits:** tight-knit communities that interact frequently may be more likely to experience social benefits (e.g., from improved urban transport, or rural electricity projects that provide better lighting). These tend to be more difficult to quantify than economic benefits.

**Better projects:** it has been argued (A Ahmad, 2014) that due to their localized nature, SSPPPs are closer to end-users and are therefore more likely to be designed to address their specific needs. In practice, however, this depends on how projects are identified and prepared – there is no guarantee that a municipal government will consult local residents or incorporate their views. It is also possible that SSPPPs are more vulnerable to corruption or political influence.

**Smaller scale, smaller user-charges:** a recent analysis of data on SSPPPs (Kupisz, 2019) found that the contract term for infrastructure SSPPPs may be similar to that of larger PPPs. This means that the smaller construction and mobilization costs can be spread over, say, 20-30 years. For user-pays PPPs, this reduces the amount to be recovered in each year, which should allow for lower user-charges.

### 2.1.2 Potential Benefits to Contractors & Lenders

Private Contractors, their suppliers and lenders may also benefit from SSPPPs.

**More attractive to local firms:** SSPPPs have smaller capex requirements and tend to be simpler and less likely to rely on new technology. This makes SSPPPs suitable for local firms, which may be smaller and less experienced in PPPs than large national and international players. Besides, the economics of smaller projects may be less attractive to international firms, reducing the potential competition to local Bidders.

**More attractive to SMEs:** for similar reasons, smaller projects will be more accessible to SMEs. In addition, since financing requirements are likely to be lower, borrowing will be less of a constraint for SMEs than it would be on larger projects.

**Potentially attractive to local banks:** smaller projects put less capital at risk, which may make them easier for local banks to finance on their own.

**Forex risk lower:** large PPP projects often include a significant hard currency component to pay for imported machinery, etc. As payments to the SPV are in local currency, this creates a forex risk. In the event of a currency depreciation, the Contractor will require more local currency to service its hard currency debt. SSPPPs generally have smaller hard currency requirements and are less exposed to exchange rate fluctuations or shortages of hard currency<sup>1</sup>.

### 2.1.3 Potential Benefits to the Public Sector

SSPPPs can generate specific benefits for the PA, especially municipalities or other sub-national entities.

**Cost of failure lower:** there is less at risk in terms of capital and reputation for small, localized projects. SSPPPs therefore provide an opportunity to gain practical experience in the complexities of PPP procurement in a lower cost, lower profile environment.

**Affordability:** individual SSPPPs are more affordable to the government, whether in terms of direct payments to the Contractor or guarantees. For government-pays projects, a longer contract term can be used to spread the capex cost over time, reducing annual payments. Longer terms for SSPPPs also result in less frequent re-tendering costs.

**Replicability:** the localized nature of SSPPPs means that there are opportunities to replicate successful projects in other locations. They are well-suited for a “pilot, then roll-out” strategy, where lessons and templates from the first project can be incorporated in subsequent iterations.

## 2.2 Justifiable Concerns? Constraints and Potential risks of SSPPPs

*“Small-scale municipal PPPs suffer from lack of scale, lack of capacity and weak credit position.” (Global Platform for Sustainable Cities, 2017)*

*“Deals sized at less than €30m should be treated cautiously (they’re probably too small for PPPs and involve the same effort for low lending volumes).” (Bain, 2009)*

*“Small PPP projects may not make sense because of the relatively high transaction costs—although there is evidence of a few cases in which small PPPs have been successful.” (PPP Knowledge Lab, 2017)*

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<sup>1</sup> In KSA forex risk is relatively low, since the SAR exchange rate is fixed to the USD and the rate has been unchanged since 1986 (R Alkhareif, 2016), while the country’s hard currency earnings for oil products mitigate the risk of hard currency shortages.



There are constraints and risks associated with SSPPPs that larger projects may not face to the same extent. One of the key concerns is that the costs of preparing, procuring and managing PPPs do not vary significantly with the size of the project. SSPPPs still need thorough due diligence, comprehensive VFM analysis, a fair and transparent tender process, and subsequently contract management. If SSPPP contracts terms are short, these costs will also be incurred more frequently as projects are re-tendered. SSPPPs are also more likely to include a significant services component and/or focus on social infrastructure (schools, clinics, government buildings, etc.). The “Unitary Charge” revenue models used for these types of project tend to be relatively complex and costly to manage.

### 2.2.1 Potential Implications for End-Users

Compared to the benefits, the potential negative impacts are relatively few.

**Affordability:** the beneficiaries of SSPPPs in rural areas are more likely to be poor. User-pays projects that aim for full cost-recovery are less likely to be affordable to the poorest users. One way to mitigate this risk is to extend the contract term thereby spreading recovery of the initial investment cost over a longer period.

**Disruption during construction:** in urban areas the most likely negative impact is temporary, limited to the construction phase. This might include traffic congestion caused by heavy construction vehicles and road closures, as well as dust, noise and other environmental impacts. Many of these impacts can be mitigated by careful planning.

### 2.2.2 Potential Implications for Contractors & Lenders

Potential Contractors and lenders also face constraints.

**Too small to attract experienced investors:** bid participation costs can be significant for potential Contractors. International firms and larger local companies may view SSPPPs as too small to justify the cost and effort. As mentioned above, this does have a potential benefit in reducing the level of competition faced by smaller local firms.

**Local Contractors, SMEs less experienced with PPPs:** SSPPPs may provide more opportunities for local Contractors and SMEs, however, these firms are less likely to be experienced with PPP procurement. Since sub-national Procuring Authorities may also lack experience, this combination is more likely to result in failed projects.

**Higher cost and reduced availability of financing:** banks have an incentive to favor larger loans, for similar reasons to those of governments favoring larger PPPs: the costs of review, approval and administration are not directly related to loan size, so the cost per unit borrowed will be higher for smaller loans. Banks may also prefer to lend to larger companies that are better known. For local banks in particular, loan officers are less likely to be familiar with PPPs and will price that additional perceived risk into the cost.

On larger PPPs, most of the preparation (due diligence, modelling, etc.) would be led by larger, more experienced (often international) banks. This allows smaller and/or local banks to participate with minimal effort. There are also likely to be more banks involved, which spreads the project’s risk over a number of lenders. These benefits are less likely to be available on SSPPPs since loan sizes are smaller and more likely to be fulfilled by a small number of local banks or even a single bank.

### 2.2.3 Potential risks and constraints for the Procuring Authority

The greatest risks associated with SSPPPs fall on the PA. This is partly because SSPPPs are more likely to be procured by municipal and regional authorities, which face significant resource constraints.

**Small PPPs cost almost the same as large ones to procure:** As cited in (A Ahmad, 2014), *“The institutional structure for processing PPP projects from conception through development, appraisal, approval, and procurement stages is not suitable for small projects.”* Many of the costs of project preparation, procurement and monitoring are unrelated to the size of the project. Therefore, a smaller project will need to generate proportionally more VFM to counterbalance the larger fixed cost. Furthermore, PPP frameworks, institutions, governance and processes are designed for large national bodies and projects. It is difficult and costly for sub-national organizations to comply with procedures designed for national level institutions implementing large scale projects.

There is also a risk of “reinventing the wheel”. Without central co-ordination, regions or municipalities may tender similar projects without learning from each other’s experiences.

**Staffing, know-how and experience:** municipal authorities are likely to have fewer, less experienced staff than their national counterparts, and those staff are likely to have fewer opportunities to gain experience by working on transactions. In addition, the staff that are available may have other responsibilities rather than being dedicated solely to PPPs.

**Budget constraints:** municipalities face many calls on their budgets and limited scope to increase local revenues. This limits the number of Government-pays PPP transactions that they can afford to undertake and may engender a bias towards user-pays projects even where they may not be the best solution. Municipalities often face financial constraints even on traditional procurement projects. The resulting reputation for persistent late payments will impact on the attractiveness of SSPPPs to potential Contractors.

**Credit profile and bankability:** sub-national government bodies are viewed as a higher credit risk by lenders. Even if the loan is to the project SPV, banks will look to the parties behind the project. The value of a municipality guarantee, in terms of improving bankability, is significantly less than one from the national Ministry of Finance. Reflecting this risk, commercial borrowing will be more expensive for sub-national PPPs than for national PPPs.

**Local focus can lead to political influence:** local government bodies are more likely to be influenced by local politics and potentially are more vulnerable to corruption. This will destroy VFM.

**Higher cost rural projects:** operating and maintenance costs can be higher for projects covering a large rural area or in a remote settlement. This has a direct impact on government-pays projects but also affects affordability on user-pays PPPs.

**Higher cost urban projects:** urban areas are more densely populated and it should be easier to access users. However, costs can be higher for other reasons, such as traffic congestion, higher salaries for project staff, higher cost of land, more regulations to comply with, more costly designs (e.g., railways need to be elevated), and the need to compensate businesses for disruption during construction. Public opposition is easier to mobilize in an urban setting and negative publicity is more likely, which increases the need for public communication and consultation.

### 2.3 Key Findings

Based on the qualitative analysis presented above, it appears that the additional benefits of SSPPPs largely accrue to the users, while the additional costs largely impact on the project sponsor (public sector). The focus on traditional quantitative VFM calculations may undervalue the benefits and over-emphasize the costs to the PA, leading potentially beneficial SSPPPs to be rejected.

It is clear that there is no single aspect that drives down VFM in SSPPPs. Rather, it is a combination of factors, including procurement costs, capabilities of the PA, capabilities of private Contractors and bankability. This means that there is no “magic bullet” that will guarantee the viability of SSPPPs. The ideal solution will involve a combination of approaches to address different risks and constraints.

### 3. Experience of other countries

A number of countries have put in place policies to support SSPPPs. Most of these address only one aspect of the constraints. For example, allowing projects to be bundled to meet a size hurdle is a way to spread some of the preparation costs. It is unlikely to have much impact on contract management costs or on the capabilities of the PA. This Section assesses measures that were put in place by other countries to enable and support SSPPPs.

#### 3.1 Specific Examples

<b>Country</b>	<b>Singapore (Ministry of Finance, n.d.)</b>
<b>Initiative</b>	Allows combinations of similar projects to achieve economies of scale and meet the USD50m minimum size hurdle. However, the bundle must still meet VFM requirements. Also <i>“Some projects less than \$50m can also be considered for PPP if the circumstances justify it.”</i>
<b>Constraints addressed</b>	Reduces average preparation and tendering costs by spreading the fixed component over more projects. In practice, similar projects will be able to use similar structures and contracts, and can be tendered at the same time. It is not clear whether the bundle is retained for the actual tender (i.e., whether it will be marketed as a single project). If this is the case, the larger scale could be more attractive to international bidders and potentially lenders.

<b>Country</b>	<b>Australia, Victoria state (Partnerships Victoria, 2013)</b>
<b>Initiative</b>	Allows bundling of projects to meet the hurdle of AUD50m investment in capital goods. In 2013, Partnerships Victoria indicated that it was <i>“developing a streamlined model for smaller scale projects”</i> , starting by identifying suitable pilot projects.
<b>Constraints addressed</b>	Bundling will spread some of the preparation, structuring and tender costs over a larger base. It is not clear whether the bundle will subsequently be marketed as a single project for a single Contractor. In doing so, it will be more attractive to larger investors and potentially lenders. Streamlined procurement should reduce tendering costs although risks may increase if checks and balances are diluted too much.

<b>Country</b>	<b>UK (HM Treasury, 2003) (HM Treasury, 2011)</b>
<b>Initiative</b>	Policy towards SSPPPs has changed during the course of the PFI program. Initially, no distinction was made on the basis of project size. This began to change in 2003, when HM Treasury noted that <i>“Whilst PFI’s record of performance has been similarly good for major schemes and for projects with a capital value of less than £20 million, there is however also evidence that smaller projects face a number of difficulties that need to be addressed to ensure that this success is not obtained at disproportionate cost.”</i> (HM Treasury, 2003) At that time, the solution adopted was to reduce preparation and tendering costs for the program as a whole.  The 2003 document introduced a number of measures to increase VFM for all PFIs, primarily by reducing procurement timescales and costs. These would apply equally well to SSPPPs. The measures included:

- Improve public sector procurement skills;
- “Rigorously enforce” standardization of PPP contracts;
- Enhance monitoring of procurement by local authorities;
- Increase national government support for standardization and capacity building.
- Accreditation of advisors;
- Sharing best practice in procurement across the public sector.

In 2010, the House of Commons Treasury Committee concluded that *“Our further recommendations for reducing the cost of procurement are to...avoid the use of PFI for smaller projects where the transaction costs of PFI do not represent value for money. It needs to be considered case by case, but as a ballpark figure we think PFI should be avoided for projects of less than £20 million.”* (HM Treasury, 2011). A minimum hurdle to qualify for PFI was introduced and set at GBP20m (USD26m) investment cost. Projects could be bundled together to meet the hurdle value provided that this was justified in terms of VFM.

**Constraints addressed** A holistic package, addressing procurement costs, timing and capacity of the PA.

**Country** Lithuania (PPP Association Lithuania, Invest Lithuania, 2018)

**Initiative** Lithuania is a relatively small country (population 2.8 million). Even at national level, projects are likely to be relatively small. Parliamentary approval is required for projects where state liabilities exceed EUR58m (USD66m).

The approval process for local authority-sponsored projects is significantly more complex than those sponsored by national government. Specifically, there are 4 more decision points than for national level projects, since the main approvals need to be granted by both national and local institutions. This additional oversight may reflect the country’s early experience with small, local government PPPs where a lack of long term planning and market consultation led to *“the creation of albeit eye-catching, sub-optimal and commercially unattractive infrastructure which led to several unsuccessful tenders.”* (PPP Association Lithuania, Invest Lithuania, 2018)

**Constraints addressed** Appears to address the procurement and structuring capacity constraints of local authorities, by increasing oversight and regulation by national government.

**Country** The Netherlands (F. Hobma, 2006)

**Initiative** Proposes an “Alliance Model” for SSPPPs as an alternative to the more typical Concession approach. This involves joint responsibility and control with the two parties sharing responsibility for resource inputs, risks and rewards. The PPP contract is a Co-operation Agreement rather than a Concession Agreement. Most examples are for inner city development projects. *“‘Trust’ is an important condition for success...An alliance is a joint venture. It is not about dividing responsibilities and risks, but about sharing responsibilities and risks. In a sense it is real partnership.”* The example cited in the paper, Haarlemmermeer Recreation Puddle Pool, was awarded by direct negotiation rather than competitive tender.

<b>Constraints addressed</b>	Enhances the capacity of local authority sponsors to develop, tender and manage PPP contracts by sharing these responsibilities with private partners.
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<b>Country</b>	<b>Fiji (D. Marett, 2018)</b>
<b>Initiative</b>	<p>This initiative focuses on supporting small-scale off-grid renewable energy electricity systems. To qualify for the support measures, the system must have at least 25 users and no connection to the national electricity grid.</p> <p>The PPP framework for these projects is in line with best practices for larger PPP projects, with requirements for market consultation, competitive tender, and establishment of a SPV. There are templates for key documents (including the main PPP contract) and a methodology for calculating tariffs.</p>
<b>Constraints addressed</b>	The framework makes it easier for local authorities to run PPP tenders for small renewable energy power projects by providing a clear process to follow, along with all the necessary documentation.

<b>Country</b>	<b>Greece (Karaiskou, 2007) (S Kyvelou, 2011)</b>
<b>Initiative</b>	The “Thisseas” scheme was established in 2004 to strengthen local authorities. One significant component is designed to support local level PPPs. It includes funding for the preparation of masterplans, for legal and technical advisors and in some cases, for local authorities’ financial obligations from PPP contracts. As of May 2007, the scheme had supported 136 projects with an average value of around EUR13m (USD15m). By 2011 a total of 171 projects had been approved. These covered economic and social infrastructure, including tourism, environment, energy, parking, real estate, industrial parks, marinas and sports.
<b>Constraints addressed</b>	Thisseas addresses the capabilities of local authorities to plan, prepare and tender PPPs by funding masterplans and transaction advisors. It can also improve bankability by funding the authorities’ financial obligations under PPP contracts.

<b>Country</b>	<b>Korea (Kim, 2011), (J Kim, 2011) (KDI, 2017) (World Bank, 2017)</b>
<b>Initiative</b>	The Build-Transfer-Lease (BTL) PPP structure was introduced in 2005, primarily to facilitate SSPPPs, although it can also be used for larger projects. It is used for low risk, low return (IRR <3%) government-pays PPPs. Under BTL, the Contractor finances and builds the facility. On completion, ownership transfers to the PA, which makes fixed lease payments for the remainder of the contract term (20 years). Between 2005 and 2018, 452 PPPs using the BTL structure were closed, amounting to a total investment of USD23.6 billion (KRW28 trillion). Small-scale examples include Anwha High School (USD0.8m) and Chungju Military Accommodation (USD16.3m).
<b>Constraints addressed</b>	Standardization reduces transaction costs to both parties, while the simplicity of the lease payment reduces contract management costs and enhances bankability. BTL also eliminates demand risk for the Contractor.

<b>Country</b>	<b>Worldwide (A Ahmad, 2014)</b>
<b>Initiative</b>	<p>The 2014 World Bank study, A Preliminary Review of Trends on Small-Scale Public-Private Partnership Projects (A Ahmad, 2014), provided a comprehensive analysis of trends and issues in SSPPPs and developed a number of recommendations to address these issues. The recommendations can be summarized as follows:</p> <ul style="list-style-type: none"> <li>• Institutional and policy framework: <ul style="list-style-type: none"> <li>○ Fast track development and approvals process;</li> <li>○ Fast track payments process;</li> <li>○ Standardize procurement and contract documentation;</li> <li>○ Measure and manage fiscal and contingent liabilities at municipal and aggregate levels;</li> <li>○ Harmonize upstream policy (e.g., whether small, local projects must meet the same regulatory requirements and tariff regulation as at the national level);</li> <li>○ Improve monitoring and evaluation, contract management;</li> </ul> </li> <li>• Analysis and reform of sectors that are most likely to have SSPPPs, such as urban amenities, tourism, provincial roads, urban roads, rooftop solar energy;</li> <li>• Support for financing: <ul style="list-style-type: none"> <li>○ Measures to improve bankability;</li> <li>○ Guarantee instruments;</li> <li>○ Specific funding vehicle for SSPPPs;</li> <li>○ Capital market reforms to ease constraints particularly impacting SSPPPs, such as encouraging leasing and allowing investments by pension and insurance funds in PPPs.</li> </ul> </li> </ul>
<b>Constraints addressed</b>	A holistic package of recommendations that aim to address preparation and tendering costs, specific sectoral constraints and financing.

### 3.2 Key Findings

The examples explored in this Section cover a wide range of options for addressing SSPPPs, from programs targeting specific types of project and technologies (Fiji), to those addressing the needs of specific project sponsors (Greece, The Netherlands) as well as holistic approaches that seek to mitigate a number of different types of risk (UK, World Bank).

## 5. Addressing the Constraints – A Toolkit for Supporting SSPPPs

This Section identifies and then develops more than 25 options for improving the viability of SSPPPs through addressing the constraints and risks identified in Section 2. It takes into account solutions suggested by the literature and policies that were adopted by other countries. The key feature of the proposed approach is that it is multidimensional in nature, aiming to construct a toolkit that can be used to address different aspects and types of risk to meet the needs of different situations and types of project. Many of the options are equally applicable to larger PPPs and can have a positive impact on the whole PPP program if implemented. More detailed analysis of each measure is provided in Appendix 1.

### 5.1 Analytical framework

Despite a widely-held view that SSPPPs may be difficult to justify in terms of VFM, they are still being implemented. While there are specific constraints and risks that affect SSPPPs more than larger projects, the additional benefits appear to justify those risks, at least for some cases, as described in (Kupisz, 2019).

In designing the SSPPP Toolkit, it is helpful to frame it as a package of measures designed to address specific types of constraint, as illustrated in **Error! Reference source not found.** below. To have the greatest chance of success, a pro-active policy to promote SSPPPs should address all of these dimensions.

Figure 1 A Multi-dimensional Toolkit for Supporting SSPPPs





The main options are presented on the left hand side, subsidiary tools on the right. The remainder of this Section focuses on the main options. More detail on all the tools is provided in Appendix 1.

### 5.3 Policy and institutional framework to support SSPPPs



Despite the significant potential benefits that may be derived from SSPPPs, a decision to proactively encourage smaller PPPs will have financial and resource implications for the government. Therefore, adopting a SSPPP support framework may not be suitable for every situation. Countries who are new to PPP may find it a more effective use of resources to build capacity and experience at national level before extending the program to smaller projects and sub-national strategies.

Key components of a **national strategy to support SSPPPs** will depend on the country’s specific needs and policies, including those related to local/regional government, as well as to the PPP framework. The components could include:

- Eligibility - adopt a definition of “small”, or specify the sub-national entities qualifying for support;
- Institutional framework and governance for SSPPPs and where it fits within the wider PPP framework;
- Willingness of national government to provide support, kinds of support to be provided;
- Exemptions from the national PPP process for qualifying projects – “fast track” (see Section 4.4);
- A central organization or unit for SSPPPs. A key decision concerns whether its role will be support only (a “gate-opener”) or whether it will also have decision-making responsibility (a “gatekeeper”) (see Section 4.6).

National government needs to drive the agenda on SSPPPs, to provide clarity to municipalities and to potential bidders. At the same time, the measures must be in line with overall policy on the decentralization of government, local autonomy, urban infrastructure, rural development, utilities regulation, etc.

### 5.4 Measures to address preparation and tendering costs



High preparation and tendering costs are often cited as the main argument against using PPP as a procurement method for small projects. This is understandable to the extent that government has limited capacity to implement PPP tenders and many projects to choose from. As such, it makes sense to focus and utilize resources on larger projects that have the potential to generate greater benefits for similar resource input.

However, it is also reasonable to argue that some standards can be lowered for smaller projects, since there is less at stake for either party, yet there can still be significant potential benefits.

Measures identified to address preparation and tendering costs for SSPPPs are as follows:

- Establish a Fast Track SSPPP process;
- Encourage replication of successful SSPPP projects;
- Bundle similar projects together;
- Compile and publish the SSPPP Program;
- Reduce Advisor costs by bundling mandates and/or using framework contracts;
- Establish a Project Development Fund;
- Standardize documentation and develop templates;
- Provide a resource base of relevant material;
- Take measures to reduce bid costs for Contractors.

Adopting a **Fast Track SSPPP Process** is a crucial component for supporting eligible SSPPPs. However, it needs to balance the desire to cut costs and speed up the process against the need to identify and address potential risks. A Fast Track system works best with standard projects and documents; it would be less appropriate for a “first of its kind” or “one-off” project.

There still needs to be a degree of external governance to provide the necessary checks and balances. However, to speed up the process this authority can be delegated to a national level SSPPP Support Unit or similar organization, as discussed in Section 4.5 below.

The aim of the Fast Track SSPPP process is to reduce the time needed to prepare, structure and tender qualifying projects and therefore reduce the associated costs. This could involve the following:

- Minimize the number of decisions made outside the PA;
- Incorporate fixed response times for internal actions and decisions;
- Eliminate or at least minimize the scope for negotiations on the PPP contract. Adopting standard contracts will facilitate this;
- Consider a “limited shortlist” approach – instead of including all qualified bidders, just invite the top 3-5. This will reduce tendering time and effort as well as minimizing bid costs for those that don’t make the cut;
- Relax any rules linking contract terms to capex, allowing SSPPPs to recover investment costs over longer periods;
- Use standardized documentation as much as possible, such as RFQ, RFP, proposal and contract templates.

Eligibility for the Fast Track can also be used to trigger other measures.

Successful localized SSPPPs provide templates that can be **replicated** in other locations, extending the benefits and spreading at least part of the initial development costs over more projects. Publicizing these successes, providing templates and disseminating know-how could be an effective way for national government institutions to achieve encourage replication.

Another potentially important measure is to establish a **Project Development Fund**. This would provide technical assistance and funding to support municipalities and other sub-national entities in identifying, preparing and procuring SSPPPs (see, for example, the Greek Thisseas program). Specific support provided may include:

- Feasibility study, business case/VFM analysis;
- Technical and transaction advisors;
- Direct technical assistance, e.g., from experienced Ministry officials or direct funding of key staff;
- Capacity building/training.

5.5 Measures to address contract management costs



Neglecting contract management increases the risk of project failure after the private Contractor has been appointed. It is important to monitor Contractor performance to ensure that they deliver what was agreed; it is equally important to ensure that the PA delivers on its responsibilities, especially with regard to making payments to the Contractor (in government-pays PPPs) and regulating quality and tariffs (in user-pays PPPs). Specific measures to address contract management include the following:

- Ensure that a Contract Manual is prepared and adopted for every SSPPP that reaches Financial Close;
- Incorporate standard commercial contractual provisions to penalize late- or non-payment by the PA;
- Upgrade the financial systems of the PA to incorporate PPP obligations;
- Review the budgeting process to ensure that funds are available when needed;
- Establish a Contract Management Unit within the PA;
- Incorporate quality standards, KPIs and data collection requirements within SSPPP contracts.

Of these, establishing a **dedicated Contract Management Unit (CMU)** is a crucial measure to ensure success. In the case of SSPPPs it is more efficient to establish a single unit for the PA that will be responsible for managing all PPP contracts falling under that organization. This spreads the cost over more than one project. For complex government-pays contracts with monthly billing against multiple KPIs, this will need at least some full time resource. Attention should also be given to investing in IT and systems to automate the work (such as data collection for KPIs). Specific aspects can also be outsourced to private companies where they are highly specialized and/or required infrequently (legal expertise, for example).

The CMU should include sufficient staff and other resources, as well as access to the necessary skill set (contract management, legal, technical and financial). The CMU must also have sufficient authority to be able to secure inputs from other parts of the organization and to negotiate with the Project SPV as issues arise.

Local authority **financial and budgeting systems** that were designed for traditional procurement can create obstacles to the smooth, timely payment of Contractors on government-pays projects, putting pressure on the viability of the project SPV and potentially opening the door to legal action or corruption. The national government has to ensure that these systems are fit for purpose and are implemented correctly.

A potentially more sensitive measure for the PA, but also a very important one to give confidence to investors and lenders, is to **incorporate commercial penalties for late payment into the PPP contract**. Many governments adopt one-sided “standard” contracts that provide little or no recourse for Contractors if the PA delays payment. This is a clear contravention of the principle that “risks should be allocated to the party best able to address them” since it places all payment risk on the Contractor even where the PA is responsible.

Sub-national bodies frequently face constraints on their ability to pay promptly. Consequently, this creates a significant problem for the project SPV with regards to income and cash-flow. The impact is exacerbated if the Contractors are SMEs with limited resources to support the project directly until payment is received. Chronic payment delays by the PA not only risk the failure of the project itself but potentially also the bankruptcy of the Contractors. Standard SSPPP contracts for government-pays projects should include the kind of escalating protections and penalties that are typically included in private sector commercial contracts, such as late payment interest, right to invoke dispute resolution and termination provisions, and, depending on the project, the right for the Contractor to withhold services until payment is made. The primary aim of these measures is to incentivize the PA to put the necessary systems in place to make payments promptly. Their power lies not so much in the financial cost but in the desire of the responsible officials to avoid the negative consequences of the issue being escalated to higher levels.

5.6 Measures to address PA capabilities



These measures should be delivered by a national government agency to ensure consistency and availability of resources. This could be the national PPP body or the ministry responsible for regional and local government. Specific measures include:

- Establish a Central SSPPP Support Unit;
- Provide specific support on regulation;
- Training and capacity building for sub-national Procuring Authorities;
- Disseminate relevant information;
- Develop PPP structures that are particularly suited to SSPPPs, such as Joint Ventures, Co-operation Agreements (F. Hobma, 2006) or BTL arrangements (KDI, 2017).

A **Central SSPPP Support Unit** could be a SSPPP “window” in the national PPP organization or a separate “sub-national PPP unit” either within the national PPP organization or in the ministry responsible for regional and local government. The provision of central government support to sub-national government entities is a familiar component of decentralization programs for example in Greece (Karaiskou, 2007). Services provided by such a Unit could include the following:

- Delivery of other measures identified in this Section, including the Project Preparation Fund, training, dissemination of information and standards, advice on upgrading financial systems;
- Provide direct technical assistance on specific projects;

- Establish a library of relevant resources and disseminate relevant information;
- Encourage replication of successful projects by actively marketing them to other municipalities;
- Compile individual authority plans into a national SSPPP program;
- Monitor and report on programs and projects;
- Policy analysis and recommendations to improve the Fast Track program and other measures.

To speed up the process, the Unit could be authorized by Government to take certain decisions for qualifying SSPPPs, such as:

- Approve eligibility for the Fast Track Program;
- Final approval of the PPP contract;
- Enforce standards in the PPP process and transaction documents.

Delegation of these powers to the Unit would maintain the necessary level of national oversight to the SSPPP program but avoids clogging up the system by allowing the Unit to act as the gatekeeper for smaller projects.

**Regulation support:** Many PPPs incorporate “regulation by contract”, where the PA takes on regulatory responsibilities over tariffs, quality standards, technical standards, performance monitoring, consumer protection, etc. The expertise required can be quite technical and narrowly-focused, and may not be available at local level. Furthermore, it may only be needed occasionally, for a periodic tariff review or for dispute resolution, for example. It may not be economic for the PA to employ someone full time to do this.

Some power and water SSPPPs are considered to be too small to fall under national regulations, since the cost of monitoring and compliance could create an unjustifiable burden for operators. For example, a maximum tariff based on the costs of the largest operators may be too low to allow a small rural operation to be viable. In some cases, national regulators issue special regulations for small projects, which aim to provide some protection to users without imposing an untenable cost burden on the provider.

Regulatory support to the PA can be provided through a national PPP organization, a national sector regulator or the relevant sector ministry. This may include exemptions from certain regulatory requirements, technical assistance, support for regulatory reviews, documentation, etc.

### 5.7 Measures to address Contractor capabilities

Contractor Capabilities	
<ul style="list-style-type: none"> <li>• Outreach/capacity building</li> <li>• Pre-qualification – “know your bidder”</li> </ul>	

The main approach for national governments to improve Contractor capabilities is to ensure that the private parties winning SSPPP projects clearly understand what is involved and have the resources and expertise needed to undertake the project successfully. Two specific mechanisms can be used to achieve this:

- Improve the understanding of potential bidders through outreach and capacity building;
- Improve the quality of the shortlist through careful due diligence during the pre-qualification phase.

**Outreach and capacity building** efforts could include: presentations/Q&A sessions on the PPP Program and how to participate; general workshops on PPP; roadshows in key commercial and business locations; media campaigns; and conferences. If warranted, there could be specific events on, for example, the Fast Track program for SSPPPs.

It is important for the PA to “**know your bidder**”. This is achieved during the pre-qualification process, which should be designed carefully to filter out unsuitable Contractors. In addition to the Expressions of Interest (EoIs) submitted in response to the RFQ, the PA should carry out additional research on less-experienced bidders in relation to their capabilities, to ensure that they genuinely satisfy the qualification criteria.

### 5.8 Measures to address Bankability



Many of the above measures will also improve bankability, especially those relating to standardization of contracts and fiscal measures to improve the PA’s budgeting and payments. Additional specific measures could include the following:

- Provide lines of credit that commercial banks can on-lend to SSPPPs;
- Alternatively, establish a loan guarantee scheme for SSPPPs;
- Provide clarity on financial support available from the national government;
- Extend outreach/capacity building efforts to include local banks;
- Consult potential lenders as part of the market sounding during project preparation.

A “**SSPPP Window**” or **specific line of credit** at one or more local commercial banks would provide capital to be on-lent to qualifying SSPPPs. The credit can be structured to require local commercial banks to participate in the financing. This could have significant wider benefits by drawing local banks into PPP finance more generally.

Alternatively, rather than directly financing infrastructure, government may establish a **guarantee scheme for SSPPPs**. This could guarantee payments/revenues (for user-pays PPPs) to the project SPV or it could guarantee loan repayments to banks. Such a scheme would provide an insurance policy for commercial lenders, thus reducing their risk in lending to SSPPPs. Loan guarantee schemes are common tools for encouraging banks to lend to specific sectors or types of borrower. For example, Saudi Arabia has such a scheme to support SMEs; other countries have schemes to support renewable energy loans. Local banks are more willing to lend to projects when their payments are protected. Over time, as banks grow to understand the risk profile of the sector being supported, they become more willing to lend, even without guarantees. Many of the more successful schemes include technical assistance and capacity building that targets the banks, to support this learning curve.

## 5. Conclusions

### 5.1 Key Findings and Conclusions

Smaller PPP projects face a number of particular obstacles that increase risk and reduce VFM. At the same time, such projects may provide significant benefits to their end-users. This Research Paper argues that governments wishing to promote SSPPPs should adopt a holistic approach that addresses the different types of constraint.

The analysis suggests presented in this Paper suggests that SSPPPs can have significant benefits for end-users. Conversely, the costs are most likely to fall on the PA. This tends to support the argument that support measures targeting sub-national project sponsors such as municipalities and regional governments could generate significant economic and social benefits, focused at local levels. Replicating successful local projects can help to extend these benefits to other towns, cities and regions.

The key constraints to SSPPPs can be categorized into preparation and tendering costs; contract management costs, PA capabilities, Contractor capabilities; and bankability. This reinforces the need for a holistic approach including measures targeting each of these aspects<sup>2</sup>.

**Error! Reference source not found.** lists measures that can be combined into such a holistic approach, forming a National Strategy for SSPPPs. The most important of these address two aspects: i) the procurement process; and ii) the institutional framework. Governments wishing to support SSPPPs can combine some or all of these tools within a National SSPPP Strategy built on two foundations: a fast track preparation and tender process; and a Central SSPPP Support Unit.

Table 1 A holistic approach to SSPPPs – key support measures

Preparation & Tendering	Contract Management	PA Capabilities	Contractor Capabilities	Bankability
<b>Most important</b>				
Fast track Process	Contract Management Unit	Central SSPPP Support Unit	Outreach & capacity building	SSPPP credit line or guarantee scheme
Replication	Financial & budgeting systems	Regulation support	“Know your bidder”	
Project Development Fund	Penalties for late payment			
<b>Other measures</b>				
Bundling	Contract manual	Capacity building		Clarity on govt. Support
Publish program	Data requirements	Dissemination		Outreach & capacity building
Bundling advisors		JV and co-operation structures		Include in market sounding
Standardize				
Resource base				
Reduce Contractor bid costs				

<sup>2</sup> Many of these measures can be adapted to support larger PPPs.

## 5.2 A Way Ahead for SSPPPs

National government needs to drive the agenda on SSPPPs by providing clarity to sub-national authorities as well as to the potential Contractors. Accordingly, the measures must be in line with overall policy on decentralization of government, local autonomy, urban infrastructure, rural development, etc.

Two particular findings provide a possible way forward. Firstly, defining the “size” of a project solely in terms of the capital investment creates an inbuilt bias against SSPPPs. A significant part of the perceived benefit of PPPs comes from the Contractor addressing life cycle costs, including O&M. This suggests that life-cycle costs could provide a better measure of project size (see (Kupisz R. , 2019)). Secondly, PPP procurement costs are not necessarily as “fixed” as perceived wisdom suggests. As with much else in PPP, there is a trade-off between standards and risk. Making it easier to implement SSPPPs by relaxing oversight, for example, increases the risk of failed projects. At the same time, however, the cost of project failure will be smaller, while the potential impact in individuals could be significant. There is therefore a case to be made that relaxing some checks and balances in order to speed up the process and reduce costs may be a more acceptable trade-off in the case of SSPPPs.

The key steps in the process should include the following:

1. Decide whether proactively supporting SSPPPs is a valid policy at the current stage of the country’s PPP Program. During the early stages, it may be better to focus scarce government resources on larger national infrastructure projects that will generate the most economic benefit. Later on, when government has more experience with PPP procurement, and the potential benefits and risks are clearer, it may be more appropriate to adopt policies to encourage SSPPPs<sup>3</sup>. If the decision is to focus on larger projects, then a subsidiary decision concerns whether SSPPPs should be excluded explicitly, by setting a size hurdle, or indirectly, by adopting the same VFM standards as larger projects;
2. An alternative approach could be to base eligibility for the program on the PA rather than the size of the project, since some of the key constraints apply to, e.g., regional or local government entities, regardless of the size of the project;
3. If proactive support is selected, identify and design the support measures to be included in the package;
4. Test these measures on a pilot basis before rolling out nationally.

Key components of a national strategy to support SSPPPs/municipal PPPs will depend on the specific needs and policies of the government, including those related to local/regional government, as well as the PPP framework. The components could include:

- Eligibility - adopt a definition of “small”, or specify the qualifying sub-national entities;
- Institutional and governance framework for SSPPPs, and where it fits within the wider PPP framework;
- Willingness of national government to provide support, kinds of support to be provided;
- Exemptions from the national PPP process for qualifying projects – “fast track”;

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<sup>3</sup> There is an alternative argument that SSPPPs can unlock private resources to provide local services to remote or small communities that would otherwise not be delivered by the public sector given other calls on government resources. This would suggest that SSPPPs might be encouraged sooner rather than later, as a regional/rural/small community development tool.



- Will there be a central organization or unit for SSPPPs? Will its role be support only (a “gate-opener”) or will it also monitor and have decision-making responsibility (a “gatekeeper”)?

### 5.3 Conclusions

A perception that smaller projects cannot generate sufficient benefits to justify the additional cost of using a PPP procurement approach has led some jurisdictions to set hurdles for minimum project size. This Paper argues that such a blanket approach could lead to missed opportunities. While larger, national infrastructure projects may generate higher overall economic and social benefits, SSPPPs often concentrate their benefits on fewer beneficiaries, such that the impact on individuals can be substantial. Furthermore, at sub-national levels, public sector resource constraints may mean that the only way to finance infrastructure is by drawing on the private sector.

Examination of the potential benefits and constraints facing SSPPPs suggests that a holistic approach, addressing preparation and contract management costs, the capacity of the main public and private sector players and bankability, could increase the chances of success. Ideally, this should be within a policy framework designed specifically to encourage small-scale or sub-national PPPs. Key elements of such a package should include:

- Reduce preparation and tendering costs:
  - Adopt a fast track process for qualifying projects for the support package;
  - Encourage replication of successful local projects;
  - Make financial and technical resources available to sub-national project sponsors;
- Reduce contract management costs:
  - Require project sponsors to establish the necessary institutional framework for contract management;
  - Ensure that financial and budgeting systems are sufficient to ensure that the project sponsor is able to meet its financial obligations;
  - Ensure that PPP contracts correctly allocate payment risk;
- Improve PA capabilities:
  - Establish a central unit to provide specialist resources and support. Decision-making authority can be delegated to this unit to help speed up the tender process;
  - Establish regulatory systems suitable for smaller projects and provide specialized support;
- Improve Contractor capabilities:
  - Provide outreach and capacity building to small local companies as potential Contractors, to improve their understanding of the specific needs of PPP procurement;
  - Set appropriate standards for pre-qualification to exclude unqualified/inexperienced bidders;
- Enhance bankability. In addition to the initiatives listed above:
  - Establish a credit line or loan guarantee scheme to encourage local bank lending to smaller- or sub-national PPPs.

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## Appendix 2: Specific Measures to Support SSPPPs

### A2.1 Policy and institutional framework

<b>Measure:</b>	<b>National strategy on SSPPPs/municipal PPPs</b>
<b>Features:</b>	Depending on the specific needs and policies (including those related to local/regional government as well as the PPP framework), components could include: <ul style="list-style-type: none"><li>• Eligibility - need to adopt a definition of “small”, or specify the qualifying sub-national entities;</li><li>• Institutional framework, where it fits within the wider PPP structures;</li><li>• Willingness to provide support, kinds of support to be provided (see below for options);</li><li>• Exemptions from the national PPP process for qualifying projects – “fast track”;</li><li>• Will there be a central organization or unit for SSPPPs? Will its role be support only (a “gate-opener”) or will it also monitor and have decision-making authority (a “gatekeeper”)?</li></ul>
<b>Constraints addressed:</b>	Provides greater certainty over whether and which SSPPPs might be supported and on the type of support available. Will also help in project identification and screening.

### A2.2 Measures to address preparation and tendering costs

<b>Measure:</b>	<b>Fast Track SSPPP Process</b>
<b>Features:</b>	Specifics will depend on the standard process required for larger PPPs; the aim will be to reduce the timescale (especially by reducing the number of approval/decision points, since these have the greatest potential for delay – on average each decision kicked up to a higher authority can add 2-6 months). <ul style="list-style-type: none"><li>• Minimize the number of decision points made outside the PA. Aim for two:<ul style="list-style-type: none"><li>○ Initial approval to use PPP procurement, including eligibility for the Fast Track;</li><li>○ EITHER: approval of the final contract;</li><li>○ OR: Approval of the selected Contractor and Proposal<sup>4</sup>;</li></ul></li><li>• Incorporate fixed response times for internal actions and decisions, such as preparation of the bid Evaluation Report, response to bidder questions and data requests. Consider adopting a “no response within [X] days means approved” provision as much as possible;</li><li>• Eliminate or at least minimize the scope for negotiations. Standard contracts will facilitate this;</li><li>• Consider a “limited shortlist” approach – instead of including all qualified bidders (to maximize competition), just invite the top 3-5. This will reduce tendering time and effort as well as bid costs for bidders (better not to make the list than to be one out of 15 bids and incur the bid preparation cost with a much lower chance of winning);</li><li>• Prepare and disseminate a Manual setting out the process, timing and the qualification and other requirements for the Fast Track process;</li></ul>

<sup>4</sup> If the recommended measures to standardize contracts and eliminate or minimize negotiations are part of the Fast Track there should be no need for third party approval of the final deal, just of the winning proposal and Contractor.

	<ul style="list-style-type: none"> <li>• Relax any restrictions on the term of SSPPP contracts. This reduces re-tendering costs and allows initial capex to be recovered over a longer period, improving affordability;</li> <li>• Use standardized documentation as much as possible, such as RFQ, RFP, proposal templates.</li> </ul> <p>Include other measures as described below, e.g., no bid bonds, access to government support for SSPPPs, etc.</p>
<b>Constraints addressed:</b>	Cost (time and money) of the procurement process, both for the PA and for bidders.

<b>Measure:</b>	<b>Project Development Fund</b>
<b>Features:</b>	<p>National government establishes a fund to support municipalities and other sub-national entities in identifying, preparing and procuring SSPPPs (see, for example, the Greek Thisseas program). This could cover:</p> <ul style="list-style-type: none"> <li>• Feasibility study, business case/VFM analysis;</li> <li>• Technical and transaction advisors;</li> <li>• Technical assistance;</li> <li>• Capacity building.</li> </ul>
<b>Constraints addressed:</b>	Technical capacity of PA to prepare and procure projects; financial support to cover advisory costs.

<b>Measure:</b>	<b>Replication of Similar Projects</b>
<b>Features:</b>	<p>The nature of sub-national authorities is that their project needs are likely to be similar. Urban centers are likely to face similar public transport and parking constraints, rural locations may face difficulties obtaining access to power, water, internet, etc. Successful projects in one location can be replicated elsewhere at a much lower procurement cost, since they will use the same structures, documentation, etc.</p> <ul style="list-style-type: none"> <li>• Proactive dissemination of information on successful small projects to other potential locations;</li> <li>• Could include marketing of success stories to encourage other authorities to adopt similar projects;</li> <li>• Ensure that lessons learned are incorporated into subsequent tenders;</li> <li>• Ensure that transaction documents and other templates are used in subsequent tenders.</li> </ul>
<b>Constraints addressed:</b>	Reduce preparation, appraisal and structuring costs by not “reinventing the wheel” every time a similar project is launched. Also improves bidder appetite and bankability, since the structure and contracts will have been proven in previous transactions.

<b>Measure:</b>	<b>Bundling Similar Projects</b>
<b>Features:</b>	<p><i>“The evidence on deals with a low capital value, ..., suggests that they can offer poor value for money because of high pre-contract transaction costs relative to their overall value. Where small individual projects are bundled together, however, value for money can be secured through increased efficiencies in procurement.”</i> (HM Treasury, 2003) Spreading the fixed part of preparation and transaction costs over a number of smaller projects.</p>

	<ul style="list-style-type: none"> <li>• Compile a number of similar projects (in terms of location/Procurement authority or type of project) into a single bundle;</li> <li>• Preparation and structuring is carried out for the bundle to minimize duplication of effort. To extract the most benefit the projects should have sufficient overlaps to create genuine savings;</li> <li>• Market and tender the bundle together. bidders should be able to bid for individual components, not take on the entire bundle.</li> </ul>
<b>Constraints addressed:</b>	Spread fixed preparation and tendering costs over more projects to reduce the average drag on VFM.

<b>Measure:</b>	<b>Compile and publish SSPPP Program</b>
<b>Features:</b>	<p>Either as a standalone item or a subset of a larger national PPP program.</p> <ul style="list-style-type: none"> <li>• Compile the SSPPP program (a list of projects that are expected to be tendered over the medium term), incorporating sub-programs from individual municipalities/regions and smaller projects from national bodies. This will involve a data collection exercise;</li> <li>• Use an iterative process to circulate information on the projects that other authorities are considering, to encourage synergies;</li> <li>• Check to ensure the projects fall within the “fast track eligibility” range so they can be included;</li> <li>• Analyze the information, identifying similarities, potential synergies and other benefits;</li> <li>• Publish the program, preferably online, making it available to bidders and other interested parties;</li> <li>• Update periodically or whenever information is submitted.</li> </ul> <p>Option: make inclusion on the SSPPP Program the first of the two external decision points in the Fast Track process; so once a project is included in the SSPPP Program it is i) eligible for the SSPPP support; and ii) automatically approved for moving to preparation and tendering, even if the PA has no plans to do so immediately.</p>
<b>Constraints addressed:</b>	Dissemination of information among local authorities, transparency and information for potential bidders, incentivizing sub-national authorities to think proactively, in terms of a PPP Program, rather than reactively, as a series of one-off PPPs.

<b>Measure:</b>	<b>Advisor costs: 1) Bundle Mandates</b>
<b>Features:</b>	<p>Reduce the time and cost of technical and transaction advisors and spread over several projects.</p> <ul style="list-style-type: none"> <li>• Bundle several smaller projects (preferably, but not necessarily, similar ones);</li> <li>• Run a single tender for Transaction Advisors and/or other technical advisors covering their services on the entire bundle.</li> </ul>
<b>Constraints addressed:</b>	Fixed component of advisory costs; time and resources needed for preparation. Appointment of advisors less likely to hold up project preparation.

<b>Measure:</b>	<b>Advisor costs: 2) Framework contracts</b>
<b>Features:</b>	<p>Reduce the time and cost to appoint technical and transaction advisors for specific projects by essentially pre-qualifying them and agreeing rates in advance:</p> <ul style="list-style-type: none"> <li>• Run a competitive tender;</li> <li>• bids comprise track record and committed fee rates for different categories of staff;</li> </ul>

- Select a shortlist of candidates;
- Sign Framework contract with each selected firm. This commits them to provide the specified categories of staff at the agreed rates, over an agreed timeframe (3-5 years). It may also include a specific budget from the PA, to speed up the approval process;
- When a specific project comes up either i) select an advisor from the list; or ii) select 2-3 to compete;
- Provide them with Scope of work; they submit a proposal on how to complete the work including an approach, timeframe and resource requirements (person-days for each grade, reimbursable expenses);
- Select the preferred proposal (potentially after negotiation) and agree purchase order for the project.

**Constraints addressed:** Time needed for tendering advisors and approving the final selection and budget.

**Measure: Standardize Documentation**

**Features:** Develop standard structures and contracts for specific types of SSPPP, for example, rural power or water projects, urban transport services or parking, school construction and facilities management (the Korean approach), primary health care facilities.

- Disseminate to sub-national Procuring Authorities, either pro-actively or as part of a knowledge resource they can access;
- Templates could include: RFQ, RFP, advertisements, bid evaluation report, financial models, standard scope of work/contracts/RfPs for technical and transaction advisors, contract management manual, contracts for particular types of project, standard contract provisions that apply to all PPPs;
- Use in conjunction with replication and bundling options.

**Constraints addressed:** Cost of preparing the necessary documentation; cost of advisors (reduced but not eliminated entirely); quality of documentation; bankability of contracts.

**Measure: Resource Base of templates, case studies and other relevant information**

**Features:** Establish a national knowledge base of relevant resources that can be accessed by sub-national authorities. This could include:

- Relevant case studies from the same country and from elsewhere;
- Template transaction documents and contracts;
- General reference and training materials;
- Database of completed SSPPPs including contact details of relevant officials for follow up;
- Database of experienced advisors;
- Regulations, manuals.

**Constraints addressed:** Cost of preparing the necessary documentation; cost of advisors; quality of documentation; bankability of contracts; capacity of the PA.

**Measure: Reduce Contractor bid Costs**

**Features:** PPP bid costs can be significant, particularly where they require bidders to prepare designs or demand forecasts. *“One private sector Contractor has suggested that their bid costs, as a proportion of a project’s capital value, are 33 per cent lower for a £50 million project compared to a project costing £20 million.”* (HM Treasury, 2003) The

Fast Track process can include specific measures to reduce Contractor bid costs, such as:

- Set reasonable time limits (e.g., for completing the evaluation);
- Eliminate the “ticket price” for participation – administration charges, bid Bonds<sup>5</sup>;
- Provide standards and templates for pre-qualification and bid submissions;
- Provide as much relevant information as possible in the Data Room, including market studies, technical studies, preliminary designs or at least clear design criteria;
- Consider providing all bidders with a copy of the Financial Model;
- Consider allowing technical proposal to include preliminary or pre-final, rather than final, designs;
- Use techniques to limit negotiations;
- Consider limiting the shortlist (3-5 bidders) to improve the chances of success;
- Allow communications, bids, etc, to be submitted by email rather than hand delivered or by courier.

**Constraints addressed:** Tender costs – some of the above measures can also reduce the PA’s costs, e.g., limiting the number of bids they will need to review, using proposal templates that are designed to highlight information relevant to the evaluation criteria, use of email for communications.

### A2.3 Measures to Address Contract Management Costs

<b>Measure:</b>	<b>Contract Management Units</b>
<b>Features:</b>	<ul style="list-style-type: none"> <li>• Establish a contract Management Unit within the PA;</li> <li>• Its responsibilities would normally be included in the PPP contract;</li> <li>• It should include sufficient staff and other resources to carry these out, as well as the necessary skill set (contract management, legal, technical and financial). Not all of these require full time staff or in house resources – advisors can be brought in as needed. However, there needs to be sufficient continuity of staff to minimize any learning curve as issues arise;</li> <li>• It must also have sufficient authority to be able to secure inputs from other parts of the organization (e.g., Finance, IT) as needed, as well as to negotiate with the Project SPV as issues arise;</li> <li>• It is likely to be more efficient to establish a single Unit for all PPPs from that PA.</li> </ul>
<b>Constraints addressed:</b>	Cost and efficiency of managing SSPPP contracts.

<b>Measure:</b>	<b>Late Payment Penalties</b>
<b>Features:</b>	Many governments adopt one-sided “standard” contracts that provide little or no recourse to Contractors for payment delays. This is a clear contravention of the principle that “risks should be allocated to the party best able to address them” since it places all payment risk (in a government-pays PPP) on the Contractor. Sub-national bodies frequently face constraints on their ability to pay promptly, a particular problem if that is the only source of income for the project SPV. Standard SSPPP

<sup>5</sup> If the pre-qualification process has been thorough and the project is well structured, the risk of a bidder pulling out for no reason should be low. Other risks (such as corruption) can be addressed by national legislation. Don’t under-estimate reputational risk as a tool for ensuring bidder performance during the tender.



	<p>contracts for government-pays projects should include the kind of escalating protections and penalties in typical private sector contracts, such as:</p> <ul style="list-style-type: none"> <li>• Stage 1: Interest payable on late payments;</li> <li>• Stage 2: Contractor may withhold services for persistent or chronic delays;</li> <li>• Stage 3: Contractor may start the dispute resolution process and ultimately terminate.</li> </ul> <p>Other methods of addressing payment risk are discussed in Section 4.3.7.</p>
<b>Constraints addressed:</b>	Ability to process payments promptly, payment risk, bankability.

<b>Measure:</b>	<b>Upgrade Financial Systems</b>
<b>Features:</b>	Need to ensure that municipality financial systems and standards are suitable for government-pays PPPs that involve regular payments subject to Contractors meeting KPIs. This should be done at national level to ensure consistency of implementation. The specifics will depend on the particular systems in place in that particular country.
<b>Constraints addressed:</b>	Ability to make the correct payments efficiently and without unnecessary delay.

<b>Measure:</b>	<b>Review Budgeting Process</b>
<b>Features:</b>	government-pays PPP involve a long-term, predictable and contractually committed payment stream. However, government budgeting processes tend to have a short time horizon (usually 1 year) and are sensitive to fluctuations in revenue. The budget process should at least ring-fence and preferably prioritize PPP obligations to avoid creating unnecessary obstacles to the payment of legitimate invoices. There may also be a need to lock-in PPP commitments at a national level, since much of the revenue of sub-national institutions is likely to come from the national treasury rather than local sources.
<b>Constraints addressed:</b>	Availability of funds to pay legitimate PPP contract obligations without unnecessary delay.

<b>Measure:</b>	<b>Contract Manual</b>
<b>Features:</b>	<p>It is good practice for every PPP that a contract manual be prepared after Commercial Close. This translates the legal drafting of what can be a large document, into a clear set of obligations and responsibilities for all parties, and sets out the procedures, templates, etc, needed to translate the contract into a living document.</p> <p>It may help to involve the Contractor in its preparation, since they will also have to live with it.</p>
<b>Constraints addressed:</b>	Ability to manage complex, long term, contracts combining infrastructure and services.

<b>Measure:</b>	<b>Incorporate Data Requirements in the PPP contract</b>
<b>Features:</b>	The cost of data collection can be reduced by incorporating appropriate obligations to automate data collection and automatically provide a feed to the PA. Not all KPIs will be amenable to this, however.

	<ul style="list-style-type: none"> <li>• When setting the KPIs, as well as being SMART (Specific, Measureable, Appropriate, Relevant and Timely) attention should be paid to the ease and cost of data collection;</li> <li>• The Contractor should be responsible for installing and maintaining the necessary sensors; ideally the information the Contractor will need to collect for their own purposes anyway;</li> <li>• Other types of information (eg random spot checks on the Contractor, public opinion surveys) should be paid for by the PA.</li> </ul>
<b>Constraints addressed:</b>	Cost of managing the contract.

#### A2.4 Measures to address PA capabilities

<b>Measure:</b>	<b>Central SSPPP Support Unit</b>
<b>Features:</b>	<p>Establish some kind of centralized support unit. This could involve:</p> <ul style="list-style-type: none"> <li>• An SSPPP “window” in a national PPP organization; or</li> <li>• A “sub-national PPP unit” in the national PPP organization or in the ministry responsible for local and regional government.</li> </ul> <p>Services available could include:</p> <ul style="list-style-type: none"> <li>• Implementation of other measures identified in this Paper, including: Project Preparation Fund, training, dissemination of information, new financial systems;</li> <li>• Direct technical assistance on specific projects (e.g., participating in Working Teams and Strategy Committees);</li> <li>• Establish a library of relevant resources and disseminate relevant information;</li> <li>• Encouraging replication of successful projects by actively marketing to other municipalities;</li> <li>• Compiling individual authority plans into a national SSPPP program;</li> <li>• Monitoring and evaluation of programs and projects;</li> <li>• Policy analysis and recommendations to improve the Fast Track program and other measures.</li> </ul> <p>A more proactive approach could include:</p> <ul style="list-style-type: none"> <li>• Approval for eligibility for the Fast Track Program;</li> <li>• Final approval of the PPP contract;</li> <li>• Enforcement of standards in the process and transaction documents.</li> </ul>
<b>Constraints addressed:</b>	Capacity of the PA to implement SSPPPs.

<b>Measure:</b>	<b>Regulation Support</b>
<b>Features:</b>	<p>Many PPPs involve “regulation by contract”, where the PA takes on responsibilities over tariffs, quality standards, technical standards, performance monitoring, etc. The expertise required may be quite technical and narrowly-focused and may not be available at local level. Furthermore, it may only be needed occasionally, for a periodic tariff review or for dispute resolution, for instance, so it would not be economic for authority to employ someone full time.</p> <p>Some SSPPPs are considered to be too small to fall under national regulations, since the cost of monitoring and compliance would be too great. For example, a maximum tariff that is set based on costs of the largest operators may be too low for a small rural operation to be viable. In some cases, national regulators issue special</p>

regulations for qualifying projects, which aim to provide some protection to customers without imposing an impossible cost burden on the provider.

Support could be provided centrally, through a national PPP organization, a national sector regulator or the relevant sector ministry. This could include technical assistance, support for regulatory reviews, documentation, etc, where there is regulation by contract.

**Constraints addressed:** Know-how and expertise of the PA; affordability.

**Measure:** **Capacity Building**

**Features:** Provision of relevant training, workshops, materials to relevant PA personnel. This should include senior officials (to provide a general understanding of PPPs) and the staff that would be working in the project team and the contract management unit. This should be repeated periodically to allow for staff changes.

**Constraints addressed:** Understanding and skills of PA staff.

**Measure:** **Dissemination**

**Features:** Circulating relevant information to sub-national Procuring Authorities, such as case studies, reports, document templates, designs for replicable projects. Communication of SSPPP successes.

**Constraints addressed:** Know-how and expertise of the PA.

**Measure:** **Special contract Structures**

**Features:** (F. Hobma, 2006) argued that SSPPPs relied more on trust between the public and private parties and cited the Netherlands' Alliance approach that makes greater use of Joint Ventures and Co-operation Agreements.

**Constraints addressed:** Know-how and expertise of the PA.

#### A.2.5 Measures to Address Contractor Capabilities

**Measure:** **Outreach/Capacity Building**

**Features:** Extend outreach and capacity building efforts to potential private Contractors. This could include:

- Presentations/Q&A sessions on the PPP Program and how to participate;
- General workshops on "PPP for the Investor";
- Roadshows in key commercial and business locations, highlighting upcoming opportunities;
- Media campaigns;
- Conferences.

If warranted there could be specific events on SSPPPs and the measures adopted to promote them, as well as how to partner with more experienced/international Contractors.

**Constraints addressed:** Understanding and know-how of potential bidders.

<b>Measure:</b>	<b>Pre-qualification - “Know Your bidder”</b>
<b>Features:</b>	Set qualification criteria that are in line with the needs of the specific project. As part of the pre-qualification process, carry out additional research on less-experienced bidders to understand their capabilities. Provide detailed feedback to those that do not make the cut and leave the way open for them to partner up with companies that did qualify.
<b>Constraints addressed:</b>	Quality of qualified bidders and ability of the winning bidder to undertake the project.

#### A.2.6 Measures to Address Bankability

<b>Measure:</b>	<b>National government Financial Support</b>
<b>Features:</b>	governments can provide financial support to SSPPPs in various ways, including in-kind contributions (land, existing infrastructure and assets), capital grants, loans, equity contributions, Viability Gap Funding (VGF), etc. Providing clarity on the options available for SSPPPs, including qualification requirements, will help Contractors and lenders, and demonstrate government’s commitment to SSPPPs.
<b>Constraints addressed:</b>	Availability of financing, revenue risk.

<b>Measure:</b>	<b>SSPPP Window/Credit Line</b>
<b>Features:</b>	Could include a “SSPPP Window” or specific line of credit at state-owned development banks or at one or more local commercial banks. This can be structured to require local commercial banks to participate in the financing.
<b>Constraints addressed:</b>	Availability of financing, revenue risk.

<b>Measure:</b>	<b>SSPPP Guarantee Scheme</b>
<b>Features:</b>	Rather than directly financing infrastructure, government establishes a guarantee scheme for SSPPPs. This could guarantee payments/revenues (for user-pays PPPs), but more typically it would guarantee loan payments. This effectively acts as an insurance policy for commercial lenders, reducing their risk and making them more willing to lend to SSPPPs.
<b>Constraints addressed:</b>	Availability of financing, capacity of local commercial banks.

<b>Measure:</b>	<b>Outreach/Capacity Building</b>
<b>Features:</b>	Extend outreach and capacity building efforts to include potential lenders. This could include: <ul style="list-style-type: none"> <li>• Presentations/Q&amp;A sessions on the PPP Program and how to participate;</li> <li>• Roadshows in key commercial and business locations, highlighting upcoming opportunities;</li> <li>• One-to-one meetings.</li> </ul> The focus would be on SSPPPs, the risks and any measures that are being adopted to support the market.
<b>Constraints addressed:</b>	Understanding and know-how of potential lenders.

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<b>Measure:</b>	<b>Early Consultation</b>
<b>Features:</b>	For specific SSPPPs, include potential lenders in the market sounding to gauge their appetite for the project and obtain feedback on the structure and other issues.
<b>Constraints addressed:</b>	Bankability, interest of lenders.

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