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Screening for PPP Potential

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At some point in the process of identifying priority public investments, or sector reform options, projects may be **screened for their potential to be implemented as a PPP**. The objective of this screening is to identify—based on the available information—whether the project may provide better value if implemented as a PPP.

In practice, different governments do this PPP screening at different stages, as described in PPP Selection in the Public Investment Planning Process. Some may screen all projects, as part of a comprehensive procurement options analysis, as described in (Burger and Hawkesworth 2011, 47–50). Others may consider PPP only for certain project types—as may be established in the PPP Policy (see PPP Program Scope). In many countries, the initial impetus to develop a project as a PPP is left to the discretion of the implementing agency.

PPP Selection in the Public Investment Planning Process

The PPP process can be seen as a branch of the broader public investment management process—that is, at some point a project is selected as a potential PPP, and thereafter follows a PPP-specific process. However, this branching can occur at different points in the public investment process. For example, this could be:

- **After budgeting as a public investment project**, as is the case in Australia and the Netherlands, where procurement options (including PPPs) are assessed only after a project has been approved and budgeted for as a public investment project. If the project is subsequently implemented as a PPP, then budget allocations are adjusted accordingly.
- **After project appraisal and approval as a public investment**. In Chile, all public investment projects undergo a cost-benefit analysis by the National Planning Commission and must also meet a specified social return rate for public investments. PPP projects are also taken from this list.
- **After pre-feasibility or strategic options analysis**. In the Republic of Korea, a potential PPP is identified after a pre-feasibility analysis and a detailed project appraisal (such as technical feasibility studies or a cost-benefit analysis). These are part of the PPP appraisal process. A similar approach is followed in South Africa, where PPP implementation is part of an initial needs analysis and options assessment of a potential public investment project.

Well-defined PPP processes typically mirror public investment management processes—for example, requiring approvals by the same bodies, as described further in Institutional Responsibilities: Review and Approval.

Sources: Irwin & Moktad paper on managing Contingent Liabilities (for Chile and Australia) (Irwin and Mokdad 2010); PPP projects from the Republic of Korea (Kim et al. 2011, 63); **South Africa PPP manual** (ZA 2004a, Module 4, 1–13)

To support this screening process, many governments introduce criteria or checklists for PPP potential against which projects can be compared. PPP Potential Screening Factors in South Africa provides an example of such a checklist from the **South Africa PPP Manual** (ZA 2004a). Similar criteria may be also used for more detailed appraisal, as described in Assessing Value for Money of the PPP—at the screening stage, the idea is to check if the criteria are likely to be met for the project to proceed to the next level of development.

PPP Potential Screening Factors in South Africa

The South Africa PPP Manual lists the following, as factors to consider when deciding whether a project could achieve value for money as a PPP:

- **Scale of the project**—are transaction costs likely to be justified? PPP Policy describes how some governments set a minimum size for their PPP projects.
- **Outputs capable of clear specification**—is there reason to believe we can write a contract that will hold provider accountable?
- **Opportunities for risk transfer** (and other PPP value drivers)—is there good reason to believe that a PPP will provide value for money compared to the alternative of traditional public procurement? That is: appropriate risk allocation should assign risks to the party best able to control or bear them—and capitalize on the PPP value drivers set out in PPP Value Drivers.
- **Market capability and appetite**—is there a potentially viable commercial project and a level of market interest in the project? Assessing market appetite may require initial market sounding with potential investors.

Source: South Africa PPP Manual (ZA 2004a, Module 4, 13)

The following resources provide further suggestions and guidance on the factors to consider when screening potential PPP projects:

- **India's online PPP toolkit** (IN) includes a suitability filter that guides the user to consider the same issues described in PPP Potential Screening Factors in South Africa, as well as the support of the public sector for the project (including an assessment of the public sector capacities to implement the project as a PPP). It also considers potential barriers to project implementation (based on information from the pre-feasibility study) and other factors, such as the expected effort and resources needed to develop the PPP. For example, the availability of standard contracts should be assessed.
- In **Colombia**, the implementing agency must present an Executive Report to the PPP Unit, ANI, requesting authorization to implement the project as a PPP. The analysis in this report—such as pre-feasibility analysis—is described in the **PPP Manual** (CO 2014, 34–38).
- The **Government of Hong Kong's Guide to PPPs** (HK 2007, 31–32) describes a list of criteria that a PPP should meet at the initial screening stage (or *stage one business case*) to be considered as a PPP candidate.
- The **Caribbean PPP Toolkit** (Caribbean 2017, Module 3) provides guidance using Caribbean examples with global relevancy.

The **UNESCAP Qualitative Value-for-Money Toolkit** (UNESCAP 2017) contains a set of criteria that governments may use for prioritization and helps identify project weaknesses. Ministries, departments, or sector agencies often need support to overcome initial unfamiliarity or reluctance to adopt PPPs. A central PPP unit can play this role, as described in Dedicated PPP Units. Developing and implementing a PPP transaction is typically more expensive than the equivalent process for a traditional public investment project, which may deter agencies from identifying PPPs. Additional funding for PPP development can help level this

playing ground. For example, the India Infrastructure Project Development Fund (IN 2013a) was established as a revolving fund, and can fund up to 75 percent of PPP project development expenses.

The outcome of this screening process is a pipeline of PPP projects set in the context of a national infrastructure program and sector strategic plans. Making this PPP pipeline public can be a good way to build private sector interest in investing in PPPs. The Chilean PPP unit, Coordinación de Concesiones de Obra Pública, shares all relevant information on their project pipeline on their website. **Farquharson et al** describes the advantages of defining the investment framework for a PPP program—including the PPP pipeline and other planned infrastructure investments that complement it (Farquharson et al. 2011, 21–22).

Related Content

- **INTRODUCTION**
- **PPP BASICS: WHAT AND WHY**
- **ESTABLISHING THE PPP FRAMEWORK**
- **PPP CYCLE**
- **Identifying PPP Projects**
- **Appraising Potential PPP Projects**
- **Structuring PPP Projects**
- **Designing PPP Contracts**
- **Managing PPP Transactions**
- **Managing PPP Contracts**
- **Dealing with Unsolicited Proposals**

- **Key References - PPP Cycle**

Additional Resources

- Selected World Bank Tools

Find in pdf at PPP Reference Guide - PPP Cycle or visit the PPP Online Reference Guide section to find out more.

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