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CAPACITY BUILDING

Municipal Public-Private Partnership Framework

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1.0

Purpose of this Module

This module provides guidance on the skills that municipalities should possess to sustainably develop, implement, and manage municipal PPP projects.

2.0 PPP Capacity Requirements

The municipality is not required to possess all the detailed PPP skills and expertise on its own to pursue PPP projects. Instead, municipalities should be supported by experienced PPP consultants and advisers.

Consultants are more often available to municipalities for the development of feasibility studies and transaction advice.¹ This means that municipality staff will likely be on their own during the early phases of the PPP project cycle (recognizing and identifying potential PPP projects),

the procurement and management of consultants, and the understanding of the outputs of the consultants for decision making.

While PPP projects require different key approaches to service delivery (for example, output-based contracting, private finance, performance-related remuneration, longer duration, and risk transfer),² the municipality's own experience and capacities in the sector remain applicable and important in a municipal PPP.

2.1 PPP Capacity Requirements in Project Execution

In table 1, PPP project management functions during the development and implementation of municipal PPP projects are matched with the required PPP skills and capacities to perform such roles, identifying those skills that may be different from publicly procured infrastructure

project management. A municipality may also opt to assign individual staff to further 'specialize' in a particular skill (for example, PPP financial modelling, economic cost-benefit analysis, and so on).

Table 1: Required Project Execution Capacities and Skills

Phase 1: Inception		
Roles	Required Capacity	Required Knowledge/Skills
<ul style="list-style-type: none"> • Identification of potential PPP projects to be subjected to screening. • Screening of potential municipal PPP projects. • Preparation of project concept notes. 	<ul style="list-style-type: none"> • Identify the long-term infrastructure needs in the municipality and develop an annual/multi-annual master plan to address such needs. • Recognize and assess, at an early phase of the project cycle, characteristics that determine the potential viability and desirability of a project as a PPP. 	<ul style="list-style-type: none"> • Understand basic concepts and requirements of PPP. • Knowledge about the infrastructure sector, economic viability, environmental and social issues. • Understand advanced concepts about PPP requirements and options. • Knowledge of concepts and models of private involvement in the development and management of public infrastructure. • Ability to implement PPP screening methodologies. • Advanced knowledge about the infrastructure sector, economic viability, environmental and social issues. • Ability to translate and summarize specialized PPP and infrastructure issues and analyses into clear, non-technical reports for senior decision makers.

¹ See Module 5: Managing Consultants and Module 6: Sample Consultants Terms of Reference.

² See Municipal PPP Framework - Guidance Note.

Phase 2: Development and Approval

Roles	Required Capacity	Required Knowledge/Skills
<ul style="list-style-type: none"> Procurement of specialist PPP consultants. 	<ul style="list-style-type: none"> Determine the required scope and depth of the PPP feasibility study³ (and transaction advisory support) and come up with a sufficient cost and resource estimate. Translate the above in clear terms of references for the specialist consultants. 	<ul style="list-style-type: none"> Technical knowledge about the infrastructure for which the municipality is responsible. Understand the requirement of local procurement laws and regulations (for consulting services).
<ul style="list-style-type: none"> Oversight and management of specialist PPP consultants.⁴ Review of feasibility study documents, findings and recommendations. Recommendation of preferred PPP project option, including the preferred procurement option (PPP or non-PPP). 	<ul style="list-style-type: none"> Review, monitor, and challenge findings and recommendations of all PPP consultants so that the feasibility study is coherent, completed on time, and according to terms of reference. Ability to interpret and question the findings of the PPP feasibility study to determine the best technical and procurement option. 	<ul style="list-style-type: none"> Understand advanced PPP concepts about PPP feasibility, especially affordability and bankability. Understand key requirements of output standards versus input specifications in the context of PPPs. Technical knowledge about the infrastructure for which the municipality is responsible. Intermediate-level knowledge on the following (that is, enough to comprehend and discuss the methodologies utilized in the PPP feasibility study as well as interpret its findings): <ul style="list-style-type: none"> Whole life cycle costing of infrastructure VFM analysis of PPP projects PPP financial modelling Economic cost-benefit analysis Demand analysis and forecasting Risk analysis, mitigation, and management Ability to translate and summarize different specialized PPP topics and issues into clear, non-technical reports for senior decision makers.

Phase 3: Procurement and Award

Roles	Required capacity (general)	Required skills (detailed)
<ul style="list-style-type: none"> Oversight and management of PPP transaction advisers. Review of PPP tender documents for procurement of PPP project. 	<ul style="list-style-type: none"> Review, monitor, and challenge the findings and recommendations of transaction advisers so that all PPP tender documents and the draft PPP agreement are coherent, completed on time and according to terms of reference, and consistent with municipal objectives. Ability to understand and review PPP tender documents specifically the qualification requirements, technical output specifications, financial bid parameters, and draft PPP agreement. 	<ul style="list-style-type: none"> Understand advanced PPP concepts about tendering and procurement. Understand VFM analysis requirements and issues of PPP projects. Understand requirements of output-based standards for procurement of PPP contracts. Understand requirements of local procurement laws and regulations.
<ul style="list-style-type: none"> Conduct of procurement procedure, leading to selection of private partner. Supervision of winning bidder's compliance with post-award requirements. 	<ul style="list-style-type: none"> Ability to efficiently manage the procurement procedure in accordance with local legal requirements and fair competition. 	<ul style="list-style-type: none"> Ability to conduct bid consultations and negotiations with third parties. Understand requirements of local procurement laws and regulations. Administrative law. Understand project financing and the likely requirements of PPP financiers.

³ See Module 4: Feasibility Study.

⁴ See Module 5: Managing Consultants.

Phase 4: Contract Management and Monitoring

Roles	Required capacity (general)	Required skills (detailed)
<ul style="list-style-type: none"> Overseeing of specialist advisers designing the PPP contract management plan. Review and finalization of the contract management plan. 	<ul style="list-style-type: none"> Ability to update/review the contract management plan in accordance with the obligations and responsibilities of the municipality indicated in the provisions of the signed PPP agreement. 	<ul style="list-style-type: none"> Understand advanced PPP concepts on requirements for organizational design, technical performance, price/cost review, and legal management of PPP contracts. Understand requirements for drafting and reviewing PPP contracts.
<ul style="list-style-type: none"> Overseeing of contract management including monitoring of performance, managing communications, handling of claims of the PSP. Coordination and management of periodic PPP project reporting. 	<ul style="list-style-type: none"> Ability to monitor efficiently and effectively the output-based performance of the PSP. Coordinate and manage any adjustments of tariffs. Efficient processing of invoices and payments. Ability to assess and verify the validity of claims of the private partner. 	<ul style="list-style-type: none"> Verification of selected performance levels/events by the PSP. Ability to calculate and assess any requests for adjustments to tariffs. Ability to coordinate the responses to any requests to revise, update, or renegotiate PPP contracts. Implementation and management of long-term PPP contracts. Government budgeting and accounting procedures.

2.2 Capacity Requirements in Municipal Decision Making on PPPs

Decision makers in municipalities must possess intermediate-level understanding of the broad requirements of sustainable PPP preparation, implementation, and management, including

- (1) The differences between conventional procurement and PPP.
- (2) The driving factors of the costs and benefits of PPP, resulting in an understanding of the circumstances where PPP can, or cannot, create value for the municipality.
- (3) The interests and concerns of all stakeholders to a PPP project, and the key role of municipal leadership in managing and resolving stakeholder issues.⁵
- (4) Key PPP mechanisms, for example, output specifications, payment mechanisms, clear

and comprehensive risk allocation, termination provisions, and output specifications.

- (5) Characteristics of PPP financial feasibility, affordability, and bankability.
- (6) Competitive PPP procurement, and the benefits thereof.
- (7) Long-term PPP contract management and performance monitoring.⁶

The above enables decision makers to understand the reports and recommendations prepared by the municipality's staff, the consultants, and the tender committee, which will allow them to take informed, clear decisions about PPP projects review and approval.

⁵ See Module 18: Community Engagement and Module 19: Private Sector Context.

⁶ See Module 12: Contract Management.

3.0

PPP Capacity Development

There are different, complementary ways to develop the needed PPP capacities and skills within the municipality. The fastest way for the municipality to develop capacity is by recruiting staff with previous experience in the development and implementation of PPP projects, for instance, in national projects (possibly on a part-time basis, based on the volume of PPP projects or when the available resources do not warrant a full-time appointment).

In young PPP markets, nevertheless, such experts may be difficult to find and are expensive. In these cases, where temporary and specialized advice is necessary to get the PPP project or program rolling, it can be even more useful to hire a residential PPP adviser; a senior consultant who advises the municipal administration on all aspects of the establishment of the PPP program and the procurement of PPP projects (for instance, development of manuals and procedures, screening of PPP projects, procurement of consultants,⁷ financial analysis and VFM analysis, and recommendations to decision makers). The residential adviser also trains selected municipal staff members in the required PPP skills so that they can later take up the municipal responsibilities in the development and implementation of PPP projects.

Another cost-efficient way to supplement the municipality's capacity development is through exchange of experience and model documents with other municipalities or national agencies with previous experience in PPPs. For instance, if a municipality is considering establishing a PPP for water distribution, then an interview with the project manager in a neighboring municipality

already having implemented a similar project allows practical advice and sharing of the tender and contract documents used in the successful project. The municipality may also want to send staff on a temporary exchange to share PPP experience with other agencies at the local or national levels.

However, the most effective method for building capacity in the municipality is learning by doing. Staff working on projects will gain understanding and insights. The staff of the municipality can learn from the feasibility study consultants and transaction advisers who are hired to assist in the development and implementation of PPP projects. The contract with the feasibility study consultants and transaction advisers must prescribe frequent interaction with the project manager or the members of the project team,⁸ permitting the latter to learn from the consultants. One may also include explicit knowledge transfer obligations in the consultancy contract, for instance training on VFM analysis.

One useful component of PPP capacity development is formal training, such as workshops and classroom learning. The text box below presents tables of contents of training courses aimed at various levels of municipal officers and decision makers. Large municipalities with many PPP projects may organize their own training program (conducted by externally procured trainers). Municipalities may also want to send staff to follow commercial courses, or to attend training programs organized by the central government or by development partners (if available).

⁷ See Module 5: Managing Consultants and Module 6: Sample Consultants Terms of References.

⁸ See Module 6: Sample Consultant Terms or Reference.

Sample PPP Course Programs

A. Foundation Courses

1. Executive Seminar: PPPs for Municipal Senior Policy and Decision Makers

Purpose:

Raise general awareness of PPP at senior municipal government level; introduce senior executives, policy makers, and decision makers to the range of issues involved in municipal PPPs; enable informed decision making on PPP issues at the municipal level; and promote support at senior level for PPPs.

Format:

Briefings, cases, and executive workshop discussion/round tables.

Participants:

Restricted, municipal government decision makers involved in PPP; senior staff involved in supporting decision makers; and senior staff involved in policy development

Content:

- Understanding definitions and concepts around PPPs.
- Creating PPP-enabling environment and PPP-readiness at the municipal level.
- Creating conditions for a mature municipal PPP market.
- Supporting PPPs from a municipal government's perspective.
- Assessing opportunities and risks of PPPs.
- Understanding when PPP should be considered advantageous to the municipality, including how to assess VFM and how to use cost-benefit analysis for PPP projects.
- Managing fiscal risk (for example, municipal liabilities under the PPP agreement, including guarantees).

2. Introduction to Structuring, Procuring, and Managing Municipal PPPs

Purpose:

Introduce basic PPP concepts; introduce terminology and procedures; support identification of PPP projects; include PPP in investment/development planning; and

distinguish between different forms of PPP

Format:

Lectures, workshops, cases, exercises, and discussions

Participants:

Senior to mid-level municipal government staff involved in PPP project inception, development, procurement, and monitoring

Content:

- Understanding definitions and concepts around PPPs.
- Understanding the importance of having PPP legal frameworks in place.
- Assessing opportunities and risks of public sector participation in PPPs.
- Assessing PPPs as a tool to meet development objectives.
- Assessing opportunities and risks of PPPs.
- Understanding when PPP should be considered advantageous to the municipality, including how to assess VFM and how to use cost-benefit analysis for PPP projects.
- Managing fiscal risk (for example, municipal liabilities under the PPP agreement, including guarantees).
- Incentivizing promotion of PPP (for example, tax benefits and mixed-use developments).
- Recognizing the characteristics of a good PPP project from the investor's perspective.
- Assessing the importance of transparency, public disclosure, and protection of confidential information.
- Assessing different PPP structures.
- Assessing revenue-sharing options, opportunities, and risks.
- Understanding the PPP implementation and procurement process.
- Monitoring PPPs.
- Evaluating and managing USPs/ direct negotiations.
- Developing business cases: success and failure stories.

B. Intermediate Courses

1. PPP Procedures and Managing the Consultant

Purpose:

Introduce core parts of the PPP transaction process; ensure government staff have the core skills required to lead a PPP through the implementation process and are able to identify and procure the missing skills from external advisers

Format:

Lectures, workshops, cases, exercises, and discussions

Participants:

Senior to mid-level municipal government staff involved in PPP project inception, development, and procurement

Content:

- Preparing approval procedures for municipal PPPs.
- Preparing terms of reference for the recruitment of the consultant.
- Recruiting and managing a consultant.
- Managing PPP projects through their life cycle.
- Developing business cases: success and failure stories.

2. PPP Project Selection and Development

Purpose:

Ensure municipal government staff has the skills required to develop a PPP from a project concept to a full-fledged feasible and bankable project

Format:

Lectures, workshops, cases, exercises, and discussions

Participants:

Senior to mid-level municipal government staff involved in PPP project inception and development

Content:

- Reviewing identified PPP candidate projects.
- Screening and selecting suitable candidate projects for PPP.
- Preparing project concept notes.
- Preparing the work plan for completing the PPP feasibility study.
- Developing the PPP project's required output levels of service.
- Designing and managing the PPP project's stakeholders consultation plan.
- Economic appraisal of projects.
- Conducting PPP project affordability analysis and willingness to pay.
- Conducting project demand analysis, including market study.
- Conducting project technical feasibility analysis.
- Developing the PPP project financial feasibility analysis.

- Preparing PPP project legal and institutional feasibility analysis.
- Preparing project environmental and social impact assessments.
- Identifying, analyzing, and mitigating PPP project risks.
- Developing the recommended PPP risk allocation structure.
- Designing tariffs adjustment mechanisms and understanding internal rate of returns, price caps, and tariff regulation.
- Designing and writing the draft PPP agreement.
- Reviewing the final PPP feasibility analyses and approval/disapproval to proceed to tendering.
- Developing business cases: success and failure stories.

3. PPP Procurement

Purpose:

Ensure that municipal government staff has the skills required to effectively procure a PPP project

Format:

Lectures, workshops, cases, exercises, and discussions

Participants:

Senior to mid-level municipal government staff involved in PPP project procurement

Content:

- Drafting RFQ documents for PPP projects.
- Evaluating submitted PPP qualifications from interested bidders.
- Drafting RFP documents for PPP projects.
- Responding to bidders' questions and completing modifications to final RFP.
- Evaluating PPP technical bids.
- Evaluating of PPP financial bids.
- Managing the final negotiation of PPP agreements.
- Designing and establishing the PPP CMU.
- Developing business cases: success and failure stories.

4. PPP Contract Management

Purpose:

Deepen contract management skills of municipal government staff to enable them to efficiently monitor PPP projects and manage contractual relationships with the private sector partner

Format:

Lectures, workshops, cases, exercises, and discussions

Participants:

Senior to mid-level specialized municipal government staff involved in PPP project monitoring

Content:

- Designing and establishing the contract management plan.
- Establishing CMUs—powers, authority, functions, duties, training, staffing, turnover, and funding.
- Ensuring continuity of knowledge and capabilities between PPP projects or programs.
- Conducting performance monitoring.
- Ensuring compliance with PPP agreement.
- Evaluating reporting mechanisms.
- Designing intervention mechanisms including economic equilibrium.
- Hiring an independent engineer.
- Understanding renegotiation options and techniques.
- Understanding refinancing.
- Managing contractual breaches, consequences, and remedies.
- Carrying out unilateral termination or early termination.
- Understanding and using step-in rights.
- Arbitrating and resolving disputes through amicable resolution.
- Engaging project stakeholders by the municipality.
- Developing business cases: success and failure stories.

