

**SUMMARY PRACTICAL ADVICE
FOR DECISION MAKERS**



Global
Platform for
Sustainable
Cities



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**Municipal
Public-Private
Partnership
Framework**

20

The Municipal Public-Private Partnership Framework can be found at www.thegpsc.org and www.worldbank.org/ppplrc

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1.0

Introduction

The following summarizes the key messages for policymakers and practitioners provided in this framework. They are organized around five main concepts related to PPP project delivery: selection, funding, preparation, procurement, and implementation. Where relevant, reference is made to case summaries that help to show the relevance of these messages in the context of actual municipal PPP projects.

2.0 Selection

Select projects purposefully. Understand exactly what you want from the project (more access, investment, lower prices, etc.), and select accordingly.

- **Caution:** Planning and forecasting need to reflect benefit to the government, through cost-benefit or VfM assessments. But such assessments tend to involve incentives for those performing them to emphasize benefits

and de-emphasize costs, whether consciously or not. Be mindful of optimism bias.¹

- **PPP is by nature flexible.** Look first at what you need, then design your approach based on those needs. Do not look first at what others have done, as your context may be very different. That said, learn from the experiences of others.



Case Examples

- **Bucharest Water and Sanitation System, Romania:** PPP project designed and structured specifically to accomplish the municipal authority's three distinct aims: (i) improving the consumer service level with minimal tariff increases; (ii) making the system as self-sufficient as possible by transferring most of the investment responsibilities to the private sector; and (iii) avoid a private monopoly. (Project Summary No. 18)
- **Municipal Waste Thermal Treatment Plant in Poznań, Poland:** In response to new European Union regulations on waste management, municipal authority decides to pursue a PPP for a waste-to-energy power plant due to its lack of experience in developing this type of project and related interest in having a seasoned partner manage the operation of the plant. (Project Summary No. 27)
- **Qiaoxi District Central Heating, China:** PPP for central heating infrastructure developed to address poor performance of state-owned heating company, including inefficiencies resulting from poor maintenance and monitoring as well as poor collection rates for installation fees and usage tariffs. Project is structured as a joint venture between the municipality and the private partner, to help ensure knowledge and technology transfer. (Project Summary No. 63)

Select good projects for PPP. Ensure there is a clear and objective rationale for using a PPP approach. Garbage-in-garbage-out; just say "no" to bad projects.

- **A good selection process** will maximize infrastructure development, by allocating projects with a high likelihood of success to PPP and thereby freeing up limited public resources for projects that need them. Select robust, viable projects for PPP, these are more likely to be financed on a competitive basis and are therefore more likely to provide value for money.
- **A poor selection process** is likely to lead to failure. A project might be selected based

on political priorities, rather than economic or commercial. Projects selected for political reasons or priorities will create a perception of increased political risk amongst investors. Or, it might be a project that could not be financed in any other way and was allocated to PPP as a last resort. Projects suffering from bad design, dubious demand, or weak fundamentals are more likely to fail and may weaken the entire PPP program in the process.

Avoid narrow focus on new build. Do not overlook opportunities for PPPs to expand, refurbish, or better manage existing assets.

¹ See Module 5: Managing Consultants, Section 2.2, box on "Optimism Bias or Bad Incentives - How Planning Goes Wrong."



Case Examples

- **Transportation Exchanger in Moncloa, Madrid, Spain:** PPP used to significantly expand and renovate exchange facility that integrates different public transit systems (i.e., railway, bus, and metro), more than doubling the number of users. (Project Summary No. 1)
- **Qiaoxi District Central Heating, China:** Responsibility for the operation, maintenance, and expansion of existing central heating infrastructure transferred to private company, resulting in significant improvements in efficiency, quality of service, collection rates, and user satisfaction, in addition to expanding the service coverage area and freeing up public capital for other projects. (Project Summary No. 63)

Consider bundling small projects. Small projects present a number of disadvantages for delivery as PPPs. Aggregating small projects (i.e., pooling or bundling them into one project), can leverage

economies of scale to reduce total cost and speed development, while also making the investment larger and more attractive for more experienced investors and lenders.



Case Examples

- **Bundled Bridge Replacement, Pennsylvania, USA:** Repair and maintenance of more than 500 bridges bundled into a single PPP project. (Project Summary No. 15).
- **IT Network Integration, Barcelona, Spain:** Bundling a variety of information technology network infrastructure and services results in viable PPP for expanded and improved connectivity. (Project Summary No. 31)
- **PPPs for Parks in the State of California, USA:** Bundling three parks into one project results in a viable PPP for park operations and. (Project Summary No. 59)
- **Varaždin County School Program, Croatia:** Construction or refurbishment and maintenance of 22 schools and 10 gymnasiums bundled into eight PPPs executed with three SPVs. (Project Summary No. 89)
- **Public School in Belo Horizonte, Minas Gerais, Brazil:** Construction and provision of non-educational services (e.g., maintenance, utility management) for 32 preschools and five primary schools bundled into one PPP project. (Project Summary No. 90)

Confirm project viability periodically to avoid losing focus. First decide you want PPP on a rational, fundamentally sound basis, then keep reminding yourself why you chose PPP, as its implementation can be challenging, and periodically verify that the project is meeting those objectives. Continually ask, throughout the development process:

- Is the project a good deal for the municipality?
- Does the project provide better services, VfM, economic growth, jobs, benefits, etc. to the community?

3.0 Funding

PPPs are not 'free money'. PPP always includes a source of revenue sufficient to cover all operating costs and bank loans, and a reasonable return on the investor's equity. An adequate and predictable revenue stream is the lifeblood of a PPP project. This revenue will come from some combination of payments from (a) users of the service, (b) commercial revenues generated by the project, and (c) public sector. Understanding who will pay, and how much they must pay, is an essential step for the municipality before undertaking a PPP. Therefore, municipalities must always account for the fiscal risks arising from PPP

Consider all the possible revenue streams and focus on maximizing revenues from beneficiaries of the project – direct and indirect. This includes considering the use of space within, above, below, and around the project site for additional, revenue-generating activities. Only after all options for deriving sustainable revenues from beneficiaries should the use of public money or guarantees be considered.



Case Examples

- **Hong Kong Mass Transit Railway Corporation:** Municipal-owned mass transit corporation leverages real estate developments around transit stops and lines to fund infrastructure investments. (Project Summary No. 2)
- **Sheberghan City Bus Terminal, Afghanistan:** Private developer constructs and leases retail space adjacent to bus terminal to recover its investment in the new terminal. (Project Summary No. 4)
- **Commercial and Landside Operations of I Gusti Ngurah Rai International Airport, Bali, Indonesia:** Incentive-based fee mechanism for private operation of airport's landside facilities significantly increases non-aeronautical revenues and the quality of service delivery. (Project Summary No. 12)
- **Underground Parking and Commercial Services Center in San Borja, Peru:** Parking facility to be built below a public park includes commercial space to increase project revenues. (Project Summary No. 45)
- **Parking Area Under Rivera Navarrete Avenue in San Isidro, Peru:** Tariff for parking at facility built beneath a major thoroughfare assessed by the minute, not the hour, with the municipality entitled to a share in the project's monthly gross revenue. (Project Summary No. 46)
- **Street Lighting Project in Nasik, Maharashtra, India:** Private partner is paid a share of the municipality's energy cost-savings resulting from the project. (Project Summary No. 67)
- **Johannesburg City Improvement Districts, South Africa:** Private property owners may vote to establish City Improvement Districts, which then apportion the cost of urban improvement investments across the property owners in proportion to the value of each owner's property. (Project Summary No. 70)

- **Redevelopment of Library and Fire Station in Washington, District of Columbia, USA:** Rights to commercially develop adjacent properties fund private developer's construction of a fire station and public library. (Project Summary No. 73)
- **Sustainable Housing Project in Turin, Italy:** Energy efficient capital investments allow private developer to maximize rental income from affordable housing units while still keeping prices below market rates. (Project Summary No. 81)
- **James F. Oyster Bilingual Elementary School, Washington DC, USA:** Private developer granted right to commercially develop a portion of the project site to fund construction of a new public school. (Project Summary No. 88)

4.0 Preparation

Prepare well. Proper preparation of a PPP project requires time and money to prepare well. This investment will reap benefits in terms of likelihood of success of the project, lower cost of private investment due to reduced project risk and attracting better, more effective private partners. A failed project costs everyone time and money; *it is generally worth the extra money and effort to make the project a bit more robust*, obtaining information, improving planning, managing risk and considering options. The municipality needs to allocate sufficient staff and resources to deliver a quality project.

- PPP is not 'easy'. PPP is expensive to prepare, requiring upfront investment of staff and money to develop projects well, in particular to pay for expensive external advisers. The benefit of this up-front investment is obtained over time, since PPP provides for management and funding for the whole life of the assets and therefore addresses project risks early. If the municipality does not set aside sufficient budget to prepare the project well, it is more likely to fail.
- Be patient. PPP is not a quick fix; it takes time to develop and implement properly. Generally, more time spent in advance of procurement to prepare the project properly will save much more time and frustration later. Think through contingencies in advance, and make sure you are happy with the project structure and specification before going to procurement.
- Be wary of succumbing to time pressures. Allow for careful selection, good preparation, and thorough market engagement. By trying to be too quick to take the project to market, the municipality will often undermine the entire project and ensure its failure.

- Get help. Where internal resources are limited, look to national or state-level PPP units and other government departments and entities at the local or national level with PPP experience that can provide hands-on support. National PPP or state-level PPP units may also be able to provide funding to procure external advisers, in addition to other funding sources, such as technical assistance from development partners and special funds created for such purpose at the national or state-level.

Be sure to adequately address the following questions:

- Is the project site and necessary rights of way available and free of encumbrances? If not, what is the time-frame to do so and the likelihood of success?
- Is the project likely to earn a reasonable profit for the private partner? Are the revenues sufficiently certain, the costs manageable and demand robust?
- Is the private market interested in the project? Are there enough good, experienced potential bidders showing sufficient interest in the project to suggest that the tender process will be competitive?

Be cautious of overly optimistic forecasts, particularly with regard to demand and revenue projections. If a project seems too good to be true (for the municipality or the private partner), then it is probably too good to be true.



Case Examples

- **Challenging Case 1: Yongin Everline Light Rail Transit, Seoul, Republic of Korea:** During construction, an independent demand assessment determined that the estimated passenger volume was less than one-fourth of the original estimate, due to competing transit options. Actual demand on commencement of operations proved to be even less, resulting in significant financial liabilities for the municipal authority. (Project Summary No. 3)
- **Bus Terminal-cum-Commercial Complex in Mohali, India:** Actual demand for use of the terminal fell far short of the forecasted amount, due to users and drivers continuing to use a pre-existing bus stand and thereby avoid the usage fee charged by the new terminal. (Project Summary No. 6)

Consider all stakeholders. PPP will have a direct influence on some (in particular employees and management) and may raise political or ethical concerns amongst many more. While absolute consensus will never be reached, the municipality needs to understand fundamental concerns and address them. Ask:

- Is there broad-based support and consensus among local, provincial, and national authorities for the project?
- Does the public believe that the project is a good deal for the community/users? Is the project information made transparent to the community? Has the community been engaged in project selection and development? Has it “bought-in” to the project?

Engage and communicate with all stakeholders, including to dispel common myths surrounding PPPs, such as:

- PPPs are not anti-labor. A PPP will provide more opportunities, better training, and a performance-based employment regime. For those with vested interests in avoiding change, a PPP can be designed to provide a special regime for these staff and their representatives.
- PPP is not privatization. The project assets either remain under government ownership or will revert to government ownership at the end of the project period.



Case Examples

- **Udaipur Wastewater Treatment Plant, India:** Problems related to identifying a viable project site, land acquisition, and laying pipe in busy areas only overcome through continued efforts to engage closely with local communities and reach agreement on marginal modifications to technical aspects of the project. (Project Summary No. 24)
- **Marine Sanctuary and Forest Preserve, Chumbe Island, Tanzania:** Garnering support from local fishermen and communities proved instrumental in developing and delivering a marine sanctuary and forest preserve project. (Project Summary No. 60)
- **Kruger National Park, South Africa:** Government agency’s intervention to resolve conflict between private operator and workers over employment conditions is key to preserving an otherwise successful PPP. (Project Summary No. 61)
- **Challenging Case 10: Jal Mahal Palace in Jaipur, India:** PPP for restoration and development of tourism site suspended due to political disagreements over a 99-year lease provided to the private partner as part of the PPP. (Project Summary No. 57)

Be flexible when considering sources of financing.

Be ready to mix public and private money, to improve value for money, especially in the early days of PPP or when private markets are weak. Public money also helps worthwhile projects, that are not necessarily financially viable, become more robust projects, increasing the opportunities for PPP.

- Efficiency of financing is key. There is no free ride, someone will have to pay (consumers and/or taxpayers), so make sure you get the best value for money.



Case Examples

- **Mandaluyong City Market in the Philippines:** Blended financing, including a concessional loan from a subsidiary of the Asian Development Bank, private equity, advances from shop-owners, and commercial borrowing, used to construct a public market and adjacent commercial complex. (Project Summary No. 38)
- **Pulkovo Airport, St. Petersburg, Russian Federation:** Long-term debt financing for a major airport PPP provided by a commercial syndicate and international financial institutions, including the International Finance Corporation and European Bank for Reconstruction and Development, with debt raised in three different currencies. (Project Summary No. 11)
- **Small Scale Water Infrastructure in Busembatia, Uganda:** Performance-based grants, with phased disbursement and subject to verification of output requirements, used to leverage private financing from a local bank for water supply PPP project. (Project Summary No. 19)
- **Marine Sanctuary and Forest Preserve, Chumbe Island, Tanzania:** Mixture of private equity and environmental-minded donors provides capital investment for marine sanctuary and forest preserve development project. (Project Summary No. 60)
- **Regent Park Affordable Housing Project in Toronto, Canada:** Different financing schemes deployed at different phases of the project, permitting a phased transfer of risk from the municipal authority to the private partner. (Project Summary No. 80)

Government money can be used effectively to improve PPP projects. Government is a key partner in PPP and government support a key element in successful PPP.

- Government support can improve financial viability and make a project more attractive for investors, but it will not turn a bad project into a good one.

- Use public support efficiently, in a targeted manner, to ensure government goals are achieved.
- Ensure funding mechanisms are properly resourced and incentivized to avoid political capture or inertia.



Case Examples

- **Municipal Waste Thermal Treatment Plant in Poznań, Poland:** Amount payable by the municipality to the private partner for operation of a waste-to-energy plant is reduced by the actual revenue the private operator receives from the sale of electrical power and heat. (Project Summary No. 27)
- **Municipal Solid Waste Treatment Project in Wenzhou, China:** PPP for solid waste-to-energy plant made feasible by publicly payable fee for disposal of solid waste, limited-term exemption from corporate income taxes, and permitting an immediate VAT refund. (Project Summary No. 28)
- **Tlajomulco Administrative Center in Tlajomulco Municipality, Jalisco, Mexico:** PPP for new administrative center funded by fixed, monthly lease payments agreed to and payable by the municipality and capped in accordance with local law. Municipality improved its creditworthiness by establishing a trust account and opening a contingent line of credit for the lease payments, guaranteed by federal funds. (Project Summary No. 49)

- **Aquanova America in Saint-Die-des-Vosges, France:** After a year of considering a basic concession model to finance the project, a performance-based availability payment scheme was designed to deliver viable PPP for an aquatic center. (Project Summary No. 54)
- **Roof-top Solar Program in Gandhinagar, India:** Solar power generation PPP made feasible with a very minimal public subsidy of the tariff charged to the power purchaser. (Project Summary No. 64)
- **Croydon Council Urban Regeneration Vehicle, United Kingdom:** Innovative joint venture that uses public land contributions to leverage private capital and expertise for urban redevelopment projects. (Project Summary No. 72)
- **Varaždin County School Program, Croatia:** Availability payments, shared by the county and municipalities, used to fund PPP for the construction and refurbishment of educational facilities. (Project Summary No. 89)
- **Inkosi Albert Luthuli Hopsital in KwaZulu-Natal, South Africa:** Mixture of public capital contribution and availability payments used to structure PPP for the provision of medical equipment and all non-clinical hospital services. (Project Summary No. 93)
- **Hemodialysis Center at the National Kidney and Transplant Institute in Manila, Philippines:** Increase in revenues from expansion of clinical services provides public authority with revenues in excess of lease payments owed to private partner for providing and maintaining equipment and supplies. (Project Summary No. 96)
- **Challenging Case 5: Queen Elizabeth II Medical Center Car Parking Project, Western Australia:** Delays in the government's completion of construction works related to the project (in-kind contribution) negatively impacts private partner's revenues and contributes to fiscal liabilities due from the public authority under the contract. (Project Summary No. 47)

Be ready for challenges. In any long-term relationship, change happens. PPP is above all a partnership, it needs to be designed with challenges, changes and resolution in mind. Problems need to be elevated to appropriate levels of management before they become disputes or worse. As much as possible, potential challenges should be preempted and addressed in the contract. Ask:

- Is the partnership solid – are risks shared in a reasonable manner, and the parties mutually incentivized to make the project a success?
- Are municipality and private sector liabilities affordable and manageable?

Prepare for the future. Decide up front what happens later in the project, deferred decisions only become more expensive and contentious. Decisions to make changes need to be made in advance, such decisions later in the process, during implementation, can be expensive and time-consuming.

Risk transfer and risk sharing are essential elements of a PPP. An appropriate allocation of risks between the parties is key to a successful PPP project. Don't cram risk on the private sector, it usually is not efficient, is expensive and makes the project overly vulnerable to change and crises.

5.0

Procurement

Do not cut corners on procurement. It may seem easier to enter into direct negotiations instead of using competitive procurement, but it is not. In general, it takes longer and costs more money. Maximizing competition through good, transparent, public procurement is one of the most important benefits of a PPP.

- Be clear to bidders about what you want. Indicate clearly what results, milestones and indicators you want the investor to achieve. Help bidders to give you what you want, don't make them guess.
- Be open to discuss your expectations, bidders might have some useful suggestions. Take the time to discuss with bidders, use the competitive dialogue to improve the project.

Be cautious when selecting the winning bid. If a bid seems too good to be true (financially, technically or otherwise), then it probably is. Look carefully at the detail, whether it is a fixed and complete bid; if anything looks unconvincing it may be wise to reject it.

- Private investors may become overly competitive. A well-run tender process can be used to get the best possible bid, and the best deal for the municipality. But an overly-competitive process can result in an unrealistic bid and a project vulnerable to changing circumstances. More generally, private bidders make mistakes, and may submit unrealistic bids. While the risk of an overly optimistic bid is

generally for the private partner, a failed project will cause significant challenges and possibly costs for the municipality. The municipality should do its own analysis, replicating a reasonable bid (these are sometimes called shadow bids) to understand better the kind of bids it is likely to receive, but also to identify any overly aggressive bids. The municipality may want to exclude any such overly optimistic bids.

Listen to lender concerns. Focus on the lenders' key needs and perceived risks, but don't let them drive the agenda; make sure to protect the municipality's interests. Take the time and effort to make life a little easier for the lenders. It is likely to make your life easier in the long run.

6.0

Implementation

The municipality must regulate and monitor PPP.

This must be an integral part of project design. PPP or not, the public sector is always the final authority, and will be ultimately responsible for the provision of public services.

- Put in place the right contract management team. The project will not manage itself, failure to assign a sufficiently expert team to manage project implementation (i.e. after financial close), with necessary funding, can turn the best project into a failure.



Case Examples

- **Kruger National Park, South Africa:** Public partner must intervene to address staff dissatisfaction and poor quality of customer service by instructing the private partner to find a new technical partner, produce an operation manual, improve skills development, and implement an incentive program for the staff. (Project Summary No. 61)
- **Reconstruction, Management, and Maintenance of Street Lighting and Other Public Facilities in Juvignac, France:** Municipality must monitor private partner's street lighting failure rate, which per the PPP agreement is not to exceed 0.5 percent with outages to be remedied in less than one hour. (Project Summary No. 69)
- **Challenging Case 2: Amritsar Intercity Bus Terminal, India:** Actual demand for new bus terminal falls far below the forecasted amount, due in part to municipality's failure to enforce requirement that all intercity buses use the terminal, rather than operating outside the terminal to avoid paying the usage fee. (Project Summary No. 7)
- **Challenging Case 4: Urban Transport Services in the Municipality of Peja, Kosovo:** PPP agreement suspended after municipality failed to enforce exclusivity provision by ending the operations of informal, illegal bus and taxi services that competed with the project. (Project Summary No. 9)

Prepare for change during the project. It is not possible to anticipate or make every risk decision in advance, mechanisms will be needed to address change and other challenges. A proactive, collaborative framework must provide partners with the platform for resolution.

- Stability is the goal, prepare for every

eventuality, but realize it is impossible to anticipate every eventuality.

- Ensure a practical fallback position that protects consumers. Make sure that if all else fails, the public is in the position to take the infrastructure and services back quickly to ensure continuity.

- Keep the revenue stream as certain, foreseeable and ring fenced as possible. It is the lifeblood of the project.

Be flexible and prepare for conflict resolution. No contract can contemplate every eventuality, so expect to need to resolve challenges collaboratively - i.e. it should be managed like a partnership.

- Renegotiation can be an opportunity, and can provide the parties and all stakeholders with the opportunity to improve the PPP arrangements and protect the most vulnerable.
- Be proactive. Establish mechanisms intended to catch disputes as early as possible. Early in the process, options are varied, relative cost is low, and the likelihood of immediate value-added resolution is higher.

- Facilitation can help. Softer processes are designed to use and develop relationships as the basis for finding mutually satisfactory solutions and can work better than more formal processes.

Crisis does not change the fundamentals of PPP, and PPP is sufficiently flexible to be adjusted to market conditions. Be willing to reconsider each aspect of the PPP, to find the best solution. E.g. phase or scale down investment to fit accessible finance and reduced demand, and consider replacing some of the desired private financing with public funding (to the extent public funding is available) until such time as market conditions make private financing better value.



Case Examples

- **Transportation Exchanger in Moncloa, Madrid, Spain:** In response to a new regulation that significantly increased the project cost and differences between expected and actual passenger demand, partners and stakeholders successfully worked together to modify the project's design to ensure its continued viability. (Project Summary No. 1)
- **Qiaoxi District Central Heating, China:** Public and private partners successfully work together to overcome challenges that arose concerning the transfer of staff to the private project company and community opposition to paying new pipeline installation fees. (Project Summary No. 63)
- **Challenging Case 3: Bus Terminal and Commercial Complex in Dehradun, India:** Halfway through concession period, there are claims the private operator has not properly maintained the facility and a protracted dispute over maintenance and lease payments has delayed the second phase of the project. The PPP agreement remains in place because the municipal authority is unwilling to assume liability for the senior debt for the first phase of the project. (Project Summary No. 8)
- **Challenging Case 5: Queen Elizabeth II Medical Center Car Parking Project, Western Australia:** Government policy on parking fees results in claim for compensation by the project company, in turn prompting a public inquiry aimed at reviewing and amending the PPP agreement in relation to policy changes that may trigger compensation. (Project Summary No. 47)
- **Challenging Case 6: Multi-level Car Parks in Thimphu City, Bhutan:** Private partner requests extension of key contract dates (i.e., construction and concession periods) due to changes in the project design and increases in the scope of work, which nearly doubled the project cost. (Project Summary No. 48)
- **Challenging Case 7: Jakarta Drinking Water Supply, Indonesia:** Occurrence of the Asian Financial crisis necessitates revisions to PPP agreements. (Project Summary No. 20)

