Qualitative Value-For-Money Guidance & Toolkit for Assessing PPP Projects in Developing Countries in Asia and the Pacific

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Abbreviations

Capex	Capital Expenditures
Opex	Operating Expenditures
PPP	Public-Private Partnership
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VFM	Value-for-Money

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1 Introduction to the Guidance & Toolkit

1.1 Background

Across emerging markets, much needed economic growth is hampered by a shortage of roads, mass rapid transit systems, telecommunications, power plants, sanitation, medical facilities and other basic infrastructure, all of which are much needed to achieve sustainable development.

Facing budgetary constraints, many developing countries consider Public-Private Partnerships (PPPs) as a way to mobilize private sector resources, bridge their infrastructure gaps and improve services delivery.

PPPs are, however, not suitable for all types of projects. Government officials have to take into account different factors when determining whether PPP is the best procurement route for delivering public services.

The toolkit presented in this document highlights a set of criteria that government officials need to consider when assessing whether a project is likely to achieve "Value-for-Money or VfM" if delivered as a PPP.

1.2 Value-for-Money

Government contracting agencies will achieve VfM through PPPs if the latter compares favourably to traditional public sector provisions in terms of quality of service and related costs over the lifetime of an infrastructure asset. In other words, this means that an infrastructure project is likely to bring more value if implemented as a PPP rather than through the traditional procurement process.[1]

VfM can be realized in a PPP project only under certain conditions, including (but not limited to) when:

- The private sector is given space to innovate and incentivize to improve service delivery;
- The risks are properly allocated between the public and private partners;

[1] For an explanation of the main differences between PPP and traditional procurement, the reader can refer to the ESCAP E-learning series (http://www.unescap.org/our-work/transport/financing-and-private-sector-participation/public-private-partnership-course/module-1)

- The private partner is selected through market competition; and
- The performance of the private partner is carefully monitored and penalty clauses for non-delivery of services are enforced;

1.3 Financial Considerations

Proper project identification is particularly important as PPP projects have significant financial implications. Indeed, using a PPP structure does not mean that public infrastructure services will be provided "for free". To be developed as a PPP, a project must have a commercially-viable business case for the private partner. This means that users and/or tax payers have typically to pay for the project to be delivered profitably by a private company.

PPP contracts can also entail long-term budgetary commitments and contingent fiscal liabilities such as those related to public guarantees. Therefore, care is needed to ensure that PPP contracts are affordable to the government over their entire period and that they do not threaten fiscal stability in the long run.

Private financing is also more expensive than public financing so the project delivered as a PPP needs to create sufficient additional value to offset the higher financing and transaction costs.

1.4 Project Identification

By identifying at the early stage projects suitable to be delivered on a PPP basis, governments can make better use of available resources and increase successful project delivery.

This is precisely the objective of this project appraisal toolkit, which is designed to support developing countries in improving early stage identification and selection of projects that are suited to further development as PPPs.

There have been mixed experiences with project identification in various countries. Common difficulties encountered include:

- Identifying large numbers of "priority" projects with limited implementation follow through;
- Selecting dream projects ("flagships") which are so large, complex and ambitious that they have no hope of being delivered by PPP or otherwise;
- Delivering the "good projects" via the traditional approach, and leaving the more difficult and less viable projects for PPP delivery;

- Choosing projects for PPP delivery that are not feasible or viable.

The consequence of flawed project identification is that the available and usually limited PPP development resources in a country are wasted on attempts to deliver projects that have limited or no potential to ever be delivered through the PPP mechanism.

By improving their project selection process, government agencies can avoid wasting time on projects that are clearly not fit for PPP implementation, hence, time and human resources of the government agencies will be better utilized. Likewise, this toolkit can help government officials to prioritize projects to focus on those with the highest potential (i.e. those projects that are most PPP-ready and the most likely to be successfully bid-out).

1.5 Using the toolkit – appraising individual and multiple projects

The guidelines and toolkit presented are intended to provide support in selecting PPP projects and a rational way of assessing and analyzing projects at an early stage. Both the guidelines and toolkit are based on established international best practice, thereby providing a strong basis/platform from which to work. However, they are generic in their nature, meaning that they do not take into account any country-specific requirements regarding project selection. When using the toolkit in a particular country it will therefore be important to take into consideration any specific requirements that may exist.

The project appraisal can be used in at least two situations, namely:

- **Individual project appraisal** – appraising an individual project to decide whether or not to proceed and develop it as a PPP
- **Multiple project appraisal** – appraising many projects to rank them or select those with greatest potential to be implemented successfully as PPPs

The toolkit is built around a set of criteria which generally indicate whether a project has potential to provide VfM when delivered through the PPP mechanism. Projects which meet these criteria or rank higher on these criteria than others should have greater potential to result in a successful PPP project, delivering better VfM than the public alternative. The criteria are principally of a qualitative nature, taking into consideration the early stage of project identification and probably the lack of quantitative data on projects. In practice, for many projects some or most of the project information may well be missing, or of questionable reliability at this initial stage. The guidance and toolkit can still be useful for thinking logically through the various issues that will be required for the project to be a successful PPP.

Each project criteria is described briefly to assist the user in using the appraisal toolkit. The description includes why the criteria is important, how it can be used, and how it contributes to VfM.

The project screening process is divided into two stages:

- **Elimination Stage (Initial Screening)**
- **Selection Stage (Secondary Screening)**

The Elimination Stage includes PPP eligibility questions that can be easily answered and judge whether the project is eligible for development as a PPP or not. It is important to conduct this Elimination Stage first, as one can then immediately determine whether any further time should be spent on the project or not.

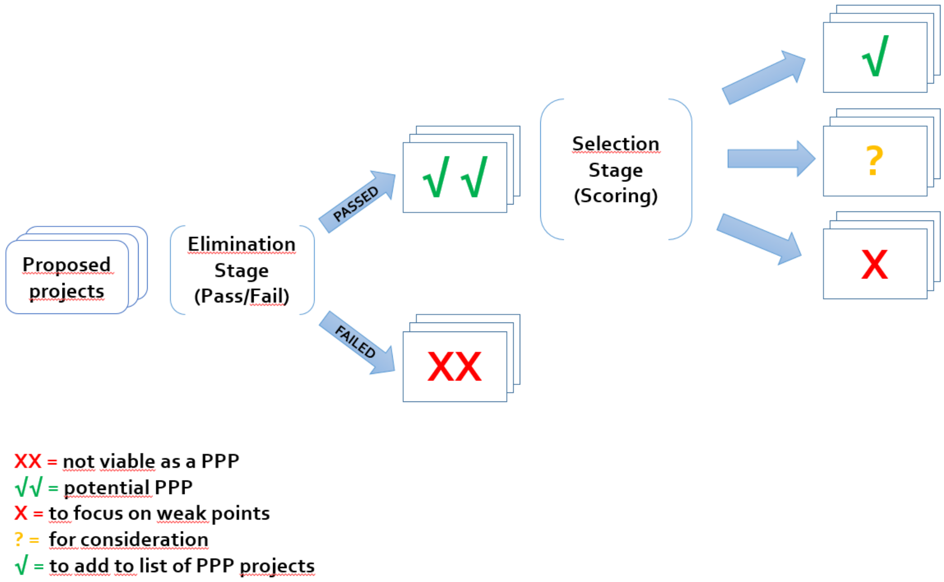
The Selection Stage concerns only projects that have passed the Elimination Stage. A more refined and detailed assessment is made with multiple criteria such as private sector interest, government readiness and project PPP suitability.

Projects that pass the Selection Stage may merit further development as PPPs. These projects will require a more detailed pre-feasibility study and/or feasibility study to be undertaken, leading to transaction structuring, preparation of bidding documents and procurement.[2]

The project appraisal toolkit does not replace the need for this further development work on the project, but it ensures that these investments are more likely to lead to successful PPP project delivery.

[2] For an explanation of the PPP Project Cycle, the reader can refer to the ESCAP E-learning series (http://www.unescap.org/our-work/transport/financing-and-private-sector-participation/public-private-partnership-course/module-5)

The project appraisal toolkit is shown graphically below:



Projects which are not eligible can be relatively easily eliminated or rerouted during the first stage of the appraisal process. For eligible projects, the further appraisal not only suggests the general PPP potential of the project, but it also guides where further work may be required on the project (e.g. missing data and information) or where particular attention may be needed (e.g. particularly weak aspects of the project) if that project is developed further. As such the toolkit should not be used statically (a one-off project analysis), but rather as an active guide (used to guide further consideration of the project).

2 Elimination Stage

The ***Elimination Stage*** is important to undertake for any project, whether it is an individual project being appraised or multiple projects. It easily allows one to determine whether the project is eligible and merits further assessment. This ensures that time and resources are not wasted on developing ineligible project ideas.

2.1 Pre-selection criteria

The pre-selection criteria are principally qualitative, and lend themselves to straightforward "yes / no", or "pass / fail" answers. They are detailed in the table below:

Elimination (pre-selection) Criteria		Evaluation	
		Pass	**Fail**
1	***The project is an eligible public infrastructure or service under the responsibility of the government*** **Description:** The project must fall within the scope or mandate of the government and must also be a public infrastructure and/or service. Conversely, activities which are private by nature such as the industrial production of goods are not to be considered as a public service and will not qualify as a PPP.		
2	***The project is eligible within the overall PPP policy (if present)*** **Description:** This criteria concerns the compliance of the project proposed within the policy, laws or regulations concerning PPP projects, if present. If the prevailing PPP policy, laws or regulations provide restrictions on which sectors and/or project types are eligible for development as PPPs, then the project must comply with this. Projects not included as eligible sectors and/or project types should not be further developed.		
3	***The project has originated or is being proposed through relevant procedures for public project identification (if present)*** **Description:**		

Elimination (pre-selection) Criteria		Evaluation	
		Pass	Fail
	The project has been identified through proper procedures for project identification by the public sector, either for projects in general or for PPP projects in particular. In the case of an unsolicited proposal for a project, i.e. projects that were not proposed and prioritized by the government agency itself, the project has been identified in line with the procedures established for unsolicited proposals.		
4	***The project complies with or is consistent with relevant national, sector or other planning*** **Description:** Projects that potentially conflict with existing regulations and plans and/or do not contribute to the realization of the government's development objectives should not be selected.		

2.2 Appraisal outcome and project steps

During the Elimination Stage the project has been screened on a "pass / fail" basis against the pre-selection criteria.

1. **A passing project** – a project which receives a "pass" on all criteria is eligible for further PPP consideration. This project should proceed to the Selection Stage of the appraisal.

2. **A failing project** – a project which scores a "fail" on any of the criteria should not be developed further on a PPP basis and the Selection Stage should not be conducted. The project should be redirected for further development as follows:

    a. **A project which fails either criteria 1 or criteria 4** (in other words the project is not an eligible public infrastructure or service under the responsibility of the government, or it does not contribute to meeting the government or public objectives) should not be continued by the government;

b. **A project which fails criteria 2 but passes other criteria** (in other words it is an eligible public project, but not eligible as a PPP) may be further developed as a public project (i.e. not as a PPP)

c. **A project which fails criteria 3 but passes other criteria** (in other words it has not been submitted via the relevant procedures) may be resubmitted following proper procedures for public project identification or for unsolicited proposals as appropriate.

3 Selection Stage

The ***Selection Stage*** involves further appraisal of a project or refining of a list of potential PPP projects which have passed the initial screening process (Elimination Stage). The Selection Stage focuses on qualitative criteria that help to determine the viability and suitability of a project for PPP development. For each criteria, a grading system of 1-4 is used; a score of 4 being optimum.

The appraisal of the project provides better insight on:

- The overall potential of the project to move forward successfully as a PPP – for example, a project that scores relatively well on most selection criteria has a higher likelihood of being successful;
- Specific challenges or weakness areas of the project – for example, the appraisal can indicate which issues related to the project score particularly low. This is useful to know since it helps in understanding how the project can best be progressed.

If the appraisal is being conducted on multiples projects, the Selection Stage provides insight on:

- The potential of each project individually, as outlined above for the appraisal of a single project;
- Comparison of projects – for example to identify patterns or differences related to the various kinds of projects, sectors, sponsors, and so on;
- Ranking of projects – for example, to be able to identify which projects out of multiple projects have the highest potential to proceed as PPP projects.

The set of PPP selection criteria are as follows:

1. **Sector readiness** – in other words, is the sector suited and prepared for implementation of the project on a PPP basis?

2. **Private sector interest and readiness** – in other words, is the private sector ready and interested to respond to the project as a PPP?

3. **Government agency readiness and local support** – in other words, is the government agency capable of developing, implementing and supporting the project as a PPP? Is there broad support for PPP projects?

4. **Project feasibility and readiness criteria** – in other words, is the project itself feasible and ready for potential implementation as a PPP?, including:

a) Project implementation complexity / Technical feasibility
b) Acceptability of socio-economic, environmental and institutional impacts
c) Commercial / Financial viability
d) Availability of supporting documentation and analysis

5. **Project specific PPP suitability** – in other words, does the project have the required characteristics to be a viable PPP project?

3.1 Sector readiness criteria

The Sector readiness criteria help in determining whether the conditions within the sector in which the project is located are sufficiently supportive of PPPs. This is important because a 'good project' might face serious difficulties in being implemented as a PPP if the organization of the relevant sector is not supportive or requires reform. A good example is the energy sector, where in many countries the energy sector was historically integrated and monopolized – i.e. a single state agency was responsible for energy generation, transmission and distribution. In such an environment, implementing a PPP for energy generation (an Independent Power Producer) could be extremely difficult even though the project itself could have a strong business case. Usually the energy sector needs to be "unbundled" first, with separation of generation, transmission and distribution, before PPPs can be more effectively introduced.

Sector readiness includes:

i. **Legal and regulatory framework:** Project implementation will be facilitated if there is an enabling legal/ regulatory framework for private sector investment and operations in place (for example, PPP Act (if any), sector level regulations and public procurement rules allowing for the use of PPPs).

Legal and Regulatory Framework - Scoring Criteria
1 – There are no plans to come up with a legal/regulatory framework for private sector investment and operations to take place.
2 – Talks are ongoing to come up with a legal/regulatory framework for private sector investment and operations to take place.
3 – A draft legal/regulatory framework for private sector investment and operations to take place is in place.
4 – There is existing legal/regulatory framework for private sector investment and operations to take place are in place.

ii. **Supportive policies for private sector participation:** When government policy is clear on the permissible deployment of private skills and capital in the sector, the potential to implement PPP projects is facilitated. The chance of legal and other challenges to a PPP project is reduced and the interest of the private sector to undertake the project should increase.

Supportive policies for private sector participation - Scoring Criteria
1 - Government policy is not willing to deploy private sector skills and capital in the sector.
2 - Government policy aims for deploying private sector skills and capital in the sector but has not taken steps to accommodate such.
3 - Government policy aims for deploying private sector skills and capital in the sector and is in the process of drafting a policy in this regard.
4 - Government policy clearly sets the aims for deploying private sector skills and capital in the sector.

iii. **Sector organization:** A sector which has been reformed (e.g. 'unbundled') may be better suited for a PPP project than a sector in which fundamental reforms still need to take place. It is important that policies are in place, responsibilities of agencies are clearly defined and so on.

Sector Organization - Scoring Criteria
1 – The sector is not well organized. There are no policies in place and responsibilities of agencies in the sector are not defined.
2 – The sector is somehow organized. There are no policies in place but responsibilities of agencies in the sector are defined.
3 – The sector is somehow organized. There are policies in place and responsibilities of agencies in the sector are defined but are overlapping.
4 – The sector is well organized. There are policies in place and responsibilities of agencies in the sector are defined.

iv. **Robust sector administration:** A sector that is administratively well-organized will improve the chances of the project's success as decisions are made concretely and delays are minimized. If a sector is not well organized administratively, officials are unlikely to take decisions on important issues on the project which may lead to an indefinite delay or cancellation of the project.

Robust Sector Administration - Scoring Criteria
1 - The sector does not have an administrative / regulating body that controls the market.
2 - The sector is governed by weak administrative / regulating bodies that do not have control over the market.
3- The sector is governed by administrative / regulating bodies that have some control over the market.
4 - The sector is governed by strong administrative / regulating bodies that effectively control the market

v. **Tariff/fee setting mechanisms:** Having a reliable mechanism to manage tariff/fee setting will reinforce investors' confidence on a project's financial viability. This reassures investors on their ability to re-coup costs through fair tariff revisions. Tariff/fee regulation can be made through an independent regulator or by contract. The government might also be willing to cede appropriate commercial controls (e.g. tariff / price setting) to the private sector to achieve project objectives.

Tariff/fee setting mechanisms - Scoring Criteria
1 – There is no credible and independent regulatory mechanism in place for tariff/price setting.
2 – There is a regulatory mechanism in place for tariff/price setting but has not been credible and independent.
3 – There is tariff/price setting mechanism in place but has not been tried and tested, hence credibility and independence cannot be ascertained.
4 – There is a credible and independent regulatory mechanism on tariff/price setting.

vi. **Sector track record:** A convincing track record of similar successful PPP projects in the sector would also add to the confidence of potential investors.

Sector track record - Scoring Criteria
1 – There is no record of similar and successful PPPs in the sector in the country and the region.
2 – There is a record of similar PPPs in the sector in the region.
3 – There is a record of similar PPP in the country in other sectors.
4 – There is a record of similar and successful PPPs in the sector in the country.

A low score on ***sector readiness criteria*** would imply that projects might not be successfully implemented, or at least might need attention to sector-specific issues when implemented. Similarly, a sector that requires a long and complex restructuring process before any PPP transaction can take place will likely lead to an unsuccessful or delayed PPP project. Higher scores for sector policy, regulations and administration will correspond to an enabling and conducive environment for PPPs.

3.2 Private sector interest and readiness criteria

The private sector interest and readiness criteria evaluates whether the private sector participants will have the interest and readiness for undertaking the project. Especially in countries where PPPs are at an infant stage, it is important to consider the ability of the private sector to absorb the project in order to ensure that the resources spent on additional studies for the project will be justified.

To assess the private sector interest and readiness, the following criteria can be used:

i. **Market appetite:** the question here is whether private companies, investors and potentially banks are interested to develop the kind of PPP project being considered. At an early stage of project development, the general market appetite can be assessed by whether the private sector has already shown interest in the project itself or in similar projects. It is also important to note if the private sector has shown skepticism, criticism or general lack of interest in such projects. This may have occurred inter alia from similar projects failing to attract private sector interest. Market appetite informs whether the project is likely to attract bidders in the procurement stage, as well as whether the project will need to be strongly marketed.

Market Appetite - Scoring Criteria
1 - The private sector does not show interest to invest and operate in the respective sector.
2 - The private sector shows interest to invest and operate in the respective sector.
3 - The private sector shows strong interest to invest and operate in the respective sector and has submitted proposals to undertake this project or similar projects
4 - The private sector is already investing in and operating similar projects in the sector

ii. **Local delivery capacity:** If there are (local) companies who already have the capacity and experience of conducting the same or similar PPP projects, the project has a far better chance of being procured successfully since there will be capacity available. If no (local) companies have ever undertaken such a project, this needs to be taken into consideration.

Local Delivery Capacity - Scoring Criteria
1 - Local companies have not delivered similar projects successfully and do not have access to capital / finance to act as a credible sponsor
2 - Local companies have delivered similar projects successfully but do not have access to capital / finance to act as a credible sponsor
3 - Local companies have delivered similar projects successfully and have partial access to capital / financing.
4 - Local companies have delivered similar projects successfully and have access to capital / finance to act as a credible sponsor

iii. **Acceptable risk allocation:** Proper risk allocation is the basis of a PPP. The government needs to transfer appropriate risks to the private party to encourage it to perform well, while retaining those that it can best manage itself. While detailed risk allocation will be conducted during the project structuring stage, it is useful to know whether the private sector is likely to accept relevant project risks, such as…, and whether the envisaged (standardized) commercial terms are in accordance with international risk allocation practices.

Acceptable Risk Allocation - Scoring Criteria
1 – There are no standardized commercial terms for the project and project specific risks are not acceptable to the private sector.
2- There is no envisaged standardized commercial terms for the project and project specific risks are not entirely acceptable to the private sector but it is willing to negotiate with the government
3 - There are no envisaged standardized commercial terms for the project but typical project specific risks are acceptable to the private sector in accordance with international risk allocation practices
4 - Envisaged (standardized) commercial terms and typical project specific risks are acceptable to the private sector in accordance with international risk allocation practices

iv. **Overseas investors' interest:** When international companies' interest is strong, competition is further encouraged and would hence lead to a favorable pricing to the government.

Overseas investors' interest - Scoring Criteria
1 - Overseas investors are not investing in similar projects in the region and have not shown interest to invest in the country
2 - Overseas investors are investing in similar projects in the region but have not shown interest to invest in the country
3 - Overseas investors have shown interest to invest in the country
4 - Overseas investors are investing in similar projects in the country

v. **Access to financing:** Private sector participation does not only come in the form of an equity investor. Often the larger component of project financing is from financial institutions (banks) in the form of loans. Therefore to ensure a successful PPP project, the financial institutions must be willing to lend to the equity investors. Likewise, these institutions must also have the capacity to provide the financing required for PPP projects, which are long-term contracts. In this regard, a strong capital market could also play an important role in the financing of PPP projects in some countries.

Overseas investors' interest - Scoring Criteria
1 – Local and International Financial Institutions are not willing and capable to provide financing for the project.
2 – Only International Financial Institutions are willing and capable to provide financing for the project.
3 – Local Financial Institutions are willing to provide financing but are not capable to fund the project on their own. International Financial Institutions are required to partially fund the project and are willing to do so.
4 – Local and International Financial Institutions are willing and capable to provide financing for the project.

3.3 Government agency readiness and local support criteria

The government agency readiness and local support criteria assesses whether the government agency has the ability to implement the project and has sufficient resources to fund the additional studies that would need to be undertaken to provide reassurance to the private sector in bidding for the project. Likewise, the criteria also assess whether there would be any deal-breakers relating to opposition from high level officials that may take a toll on the procurement or implementation of the project. A government agency that is perceived as capable to undertake the implementation of a project adds to the success of the project. Likewise, if a champion (process driver) in the form of a high level official is in place, the success of the project is further strengthened.

To assess government agency readiness and local support, the following criteria can be used:

i. **Existence of a mandated agency to undertake the project:** When a government agency has a clear mandate to undertake the project on a PPP basis, there is a smallness chance of legal challenge relating to the ability of an agency to undertake such a project**.**

… - Scoring Criteria
1 - A government agency with the mandate to undertake this project on a PPP basis does not exist
2 - A government agency with the mandate to undertake this project on a PPP basis does not exist but there are talks to amend the mandate of an agency to include the project in its mandate
3 - A government agency with the mandate to undertake this project on a PPP basis does not exist but government is in the process of amending the mandate of an agency to include the project in its mandate
4- A government agency with the mandate to undertake this project on a PPP basis exists

ii. **Government agency track record:** When the government agency has a track record in procuring similar projects, the bidders are given comfort on the ability of such agency to successfully procure the project without any (limited) challenges (for example, the risk is reduced that the procurement process will be cancelled). Likewise, this also provides bidders confidence on the speed of the procurement process as well as the agency's ability to fulfill timelines specified in the contract.

Government Agency Track Record - Scoring Criteria
1 – The government agency has not procured other or similar PPP projects and prefers other modes of procurement over PPPs
2 – The government agency has not procured other or similar PPP projects but is willing to explore procurement through PPP
3- The government agency has successfully procured other PPP projects not similar to the project at hand
4 – The government agency has successfully procured similar PPP projects

iii. **Government agency capacity:** When the government agency undertaking the project has a good grasp on PPP development requirements and is willing to allocate resources (manpower and money) to the project, the project has a better chance of successful procurement.

Government agency capacity - Scoring Criteria
1 – The government agency does not have an initial understanding of PPP development requirements and is not willing to allocate resources accordingly
2 – The government agency does not have an initial understanding of PPP development requirements, however, is willing to allocate resources accordingly but does not have the capacity to
3 – The government agency has an initial understanding of PPP development requirements but is not willing to allocate resources accordingly
4 – The government agency have an initial understanding of PPP development requirements and is willing to allocate resources accordingly

iv. **High-level support:** A project is more likely to be successful when there is high-level support for example, from high-ranking government officials and policymakers - *The project and PPP implementation has the support from high level officials and supportive decisions have been taken towards the implementation of the project.*

High-level support - Scoring Criteria
1 – The project and PPP implementation do not have the support from high level officials
2 – The project implementation has the support from high level officials but not through the PPP mechanism
3 – The project and PPP implementation have the support from high level officials but supportive decisions have not been taken towards the implementation of the project
4 – The project and PPP implementation have the support from high level officials and supportive decisions have been taken towards the implementation of the project

v. Broad public support for the project: Setbacks are lessened when there is broad public support for a project. This also contributes to the success of the project. Likewise when there is general support for PPPs in the country, based on a clear understanding of what a PPP is, there are less chances of challenges and delays driven by complaints.

Broad public support for the project - Scoring Criteria
1 – The public has been protesting against the project
2 – There has been some propaganda to start protests against the project
3 – There is little public support for the project
4 – There is broad public support for the project

...

3.4 Project feasibility and readiness criteria

This set of criteria assesses the project in terms of its intrinsic characteristics and commercial potential as a PPP, as well as the level of preparedness according to the following features:

- Technical feasibility and implementation complexity
- Social, environmental, health, institutional aspects
- Commercial / Financial feasibility aspects
- Stage of development / preparation

3.4.1 Project Implementation Complexity & Technical Feasibility

These criteria assess whether the project's technical aspects are feasible and not overly complex for the local private sector expertise. Part of the considerations behind these criteria is the bank's willingness to fund a project, as more technically complex projects with unpredictable capex and opex would likely be less appealing to banks.

The following criteria can be used:

i. **Availability of land and key resources:** Availability of required resources (e.g. land for project site, construction materials, etc.) to implement a project is a key success indicator for a project. For example, the project will be easier to implement if the government already owns a piece of land suitable for the project and it is readily available. On the other hand, if such land is not readily available, the government will need time to acquire the land and this may bring/induce uncertainty with regard to the timelines of the project.

Land and Key Resources Availability - Scoring Criteria
1 – The availability of land and other key resources to build and operate the project is not ascertained
2 – The government is willing to make available land and/or other key resources to build

and operate the project but has not taken any steps yet
3 – The government is willing to make available land and/or key resources to build and operate the project but is in the process of securing such
4 – The availability of land and other key resources to build and operate the project is ascertained (readily available)

ii. **Proven technology:** A technology readily available locally and/or internationally will be an essential factor in the success of the project. This factor is greatly tied with the interested bidders pricing as well as the willingness of the banks to lend and the pricing of their loans.

Proven Technology - Scoring Criteria
1 – Project implementation requires high-technology that is not yet employed in the country
2 – Project implementation requires high-technology that is already employed in the country
3 – Project implementation can be based on low-medium tech / proven technology / technology but is not yet employed in the country
4 – Project implementation can be based on low-medium tech / proven technology / technology that is already employed in the country

iii. **Cost predictability:** The cost predictability of a project impacts the private sector's interest. If the costs can be predicted with a relatively high probability, the project will be perceived as less risky for the bidders as well as the lenders.

Cost Predictability - Scoring Criteria
1 – The capex, opex and funding is not predictable
2 - Any two of the three identified factors are unpredictable
3 – One of the three identified factors are unpredictable
4 – The capex, opex and funding is predictable

iv. **Manageable construction and operation risks:** When construction and operation risks are manageable, the private sector is incentivized to take on the project as the private sector can price it more accurately. This would also mean that pricing would be more advantageous to the government as contingencies are reduced.

Manageable Risks - Scoring Criteria
1 – Project, construction and operation risks are unmanageable
2 – Any two of the three identified risks are unmanageable
3 - One of the three identified risks are unmanageable
4- Project, construction and operation risks are manageable

v. **Performance independent on other projects:** When performance is not dependent on other projects, the private sector can assess the project on a stand-alone basis, which in turn reduces the risk that they have to absorb and the extent of due diligence to be performed. This should also translate into a better pricing from the bidders.

Self-sustaining Performance - Scoring Criteria
1 – The project's realization and operational performance is dependent on the other projects first being delivered
2 – The project's realization and operational performance is partly dependent on the other projects first being delivered
3 – The project's realization and operational performance is dependent on the other projects still under procurement
4 – The project's realization and operational performance is not dependent on the other projects first being delivered

vi. **Straightforward licensing / permitting procedures:** When licensing / permitting procedures are not complex, the bidders would be more confident with regard to the timelines in the contract. This would also hasten the ability of the proponent to deliver the project.

Straightforward Licensing and Permitting Procedures - Scoring Criteria
1 – The project requires complex licensing / permitting procedures and licenses and permits are unlikely to be obtained
2- The project requires complex licensing / permitting procedures and licenses and permits are likely to be obtained
3 – The project does not require complex licensing / permitting procedures but licenses and permits take a long time (six months or longer) to be obtained
4 – The project does not require complex licensing / permitting procedures and licenses and permits are likely to be obtained

3.4.2 Socio-economic, environmental and institutional impacts

These criteria assess whether a project is susceptible to being challenged on the basis of socio-economic, environmental and institutional concerns.

The following criteria can be used:

i. **Manageable environmental, health and safety issues:** If a project has manageable environmental, health and safety issues, the project implementation will be easier. Typically, countries have very stringent requirements for environmental issues and being able to manage them will definitely increase the chances of success for the project.

Manageable environmental, health and safety issues - Scoring Criteria
1 – Issues relating to environment, health & safety, gender or other vulnerable person issues are unmanageable and would impact adversely on project delivery and cost during construction or operations
2 – Issues relating to environment, health & safety, gender or other vulnerable person issues are unmanageable and may impact adversely on project delivery and cost during construction or operations
3 – Issues relating to environment, health & safety, gender or other vulnerable person issues are difficult to manage but should not impact adversely on project delivery and cost during construction or operations
4 - Manageable environment, health & safety, gender or other vulnerable person issues are foreseen that should not impact adversely on project delivery and cost during construction or operations

ii. **Limited land clearance and resettlement required:** Land acquisition and resettlement is one of the biggest deal-breakers for projects as it spurs resistance (in particular from local government units protecting their constituents). This is one of the delaying factors for the implementation of projects.

Limited land clearance and resettlement required - Scoring Criteria
1 – Significant land clearance / resettlement is required
2 – Significant land clearance / resettlement is required and the government has started the land clearance and resettlement process
3 – Significant land clearance / resettlement is required and the government has almost completed the land clearance and resettlement process
4 - Little to no land clearance / resettlement is required/The government has completed required land clearance and resettlement requirements of the project

iii. **No opposition expected to organizational / institutional restructuring due to the introduction of private service delivery:** When people are generally in favor of a certain project, it lessens the possibility of delaying the project by a restraining order or by an enquiry of the national assembly.

No opposition expected to organizational / institutional restructuring due to the introduction of private service delivery - Scoring Criteria
1 – Groups of people are rallying on the streets in opposition of the organizational / institutional restructuring to the introduction of private service delivery and it is being supported by influential personalities
2 – Groups of people are rallying on the streets in opposition of the organizational / institutional restructuring to the introduction of private service delivery but it is not being supported by influential personalities
3 – There are rumors of planned opposition on the organizational / institutional restructuring due to the introduction of private service delivery
4 – No opposition expected to organizational / institutional restructuring due to the introduction of private service delivery

3.4.3 Commercial / Financial Viability

The commercial / financial viability criteria assess the ability of the project to secure funding from financial institutions such as banks and from the private sector counterpart. These criteria focus on the ability of the project to generate cash flows that will enable the investor to pay its creditors and achieve its required return. For many projects a detailed financial assessment will probably not have been prepared yet at the early identification stage. It may nevertheless be possible to make initial assessments of the project based on these criteria.

The following criteria can be used:

i. **Acceptable level of fees envisaged:** When the level of fees envisaged seems acceptable, the financial viability of a project is increased as fees are likely to be within the user's willingness to pay thereby resulting in a continuous demand for the service/good.

Acceptable Level of Fees - Scoring Criteria
1 – The envisaged level of tariffs / fees that are foreseen under PPP delivery are beyond willingness to pay and available subsidies
2 – The envisaged level of tariffs / fees that are foreseen under PPP delivery are beyond willingness to pay but within available subsidies
3 – The envisaged level of tariffs / fees that are foreseen under PPP delivery are within willingness to pay and no subsidies are available if needed
4 – The envisaged level of tariffs / fees that are foreseen under PPP delivery are expected to be within the willingness to pay and subsidies are available if needed

ii. **Realistic financial feasibility assessment:** If a financial analysis has already been conducted and it shows that the project is feasible and realistic, the project has higher potential to proceed. If an analysis has not been conducted, it may still be possible to judge the general feasibility and realistic possibility of the project based on its general characteristics.

Realistic Financial Feasibility - Scoring Criteria
1 – There in no initial assessment of the project's financial feasibility
2 – There is an initial assessment of the project's financial feasibility but it is overly optimistic
3 – There is an initial assessment of the project's financial feasibility but it will have to be verified as it may be outdated
4 – There is a realistic initial assessment of the project's financial feasibility

iii. **Stable demand for public services (limited alternatives):** When there is a stable demand for the public service with limited alternatives, the financial viability of the project is enhanced as the threat of a competing service is low.

Stable Demand - Scoring Criteria
1 - The project's demand is not stable as there are too many supply alternatives available and/or potentially competing developments are underway
2 - The project's demand is not stable as there are too many supply alternatives and/or potentially competing developments will be restricted
3 - The project's demand is stable as there are no realistic supply alternatives with better VfM but potentially competing developments are not restricted
4 - The project's demand is stable as there are no realistic supply alternatives with better VfM and/or potentially competing developments will be restricted

iv. **Revenue streams identified:** The private sector would more likely show interest for projects that have identified revenue streams from users and/or can benefit from government financial support measures such as availability payments, minimum off-take agreements, guarantees, Viability Gap Funding (VGF) and output based subsidies. These revenue streams will be needed to recover operational expenses, to service the debt and to provide a reasonable rate of return on the capital invested.

Identified Revenue Streams - Scoring Criteria
1 - Funding sources are not identified. The eventual need for government support (e.g. minimum off-take agreements, guarantees, VGF and output based subsidies) is not identified and not assured
2 - Funding sources are not identified. The eventual need for government support (e.g. minimum off-take agreements, guarantees, VGF and output based subsidies) is identified but not assured
3 - Funding sources are identified. The eventual need for government support (e.g. minimum off-take agreements, guarantees, VGF and output based subsidies) is identified but not assured
4 - Funding sources are identified. The eventual need for government support (e.g. minimum off-take agreements, guarantees, VGF and output based subsidies) is identified and assured

3.4.4 Availability of project documentation and information

The availability of project documentation and information criteria assesses whether the project has enough information and support from the government to give the private sector sufficient reassurance to bid for the project

The following criteria can be used:

i. **Availability of pre-feasibility studies:** When there is a pre-feasibility study, the agency handling the project has more information to assess the merit of a full-fledged feasibility study. If a project is economically viable based on the pre-feasibility study, the project could merit further study.

Availability of Pre-Feasibility Studies - Scoring Criteria
1 – There are no available pre-feasibility studies for the project
2 – There is an existing pre-feasibility study for the project but it is incomplete
3- There is an existing pre-feasibility study for the project but it requires to be updated
4 - There is an existing recent pre-feasibility study for the project

ii. **Supporting government decisions taken:** The probability of the project to be successful increases if the government has already taken steps to support the project and has decided on matters that are crucial for the viability of the project.

Supporting government decisions taken - Scoring Criteria
1 – There are no plans to formulate government decisions in support of the implementation of the project
2 - Supporting government decisions towards the implementation of the project have not been taken but government officials have been vocal on its plans
3 - Supporting government decisions towards the implementation of the project are still in progress
4 - Supporting government decisions towards the implementation of the project have been taken

iii. **Project concept and output clearly defined:** When the project concept and output are clearly defined by the procuring agency, the private sector will be better able to introduce their expertise on the project. This would provide potential bidders with comfort that the government clearly knows what it wants to achieve.

Project concept and output clearly defined - Scoring Criteria
1 – The project concept is being questioned by influential personalities
2 - The project concept and outputs are not clearly defined but are supported by influential personalities
3 - The project concept is clearly defined but outputs are not clearly defined
4 - The project concept and outputs are clearly defined

iv. **Good quality information available:** When information about the project (especially related to traffic data) is reliable, the private sector will be better enabled to price their bid as they have confidence on the veracity of their forecasts given that reliable data. This would translate to better pricing as the private sector is likely not inclined to include contingencies in their bids.

Good quality information available - Scoring Criteria
1 – The information on the project is highly questionable
2 – The information on the project is outdated and will require updates
3 - The information on the project needs to be verified
4 – The information on the project is of good quality

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3.5 Project specific PPP suitability

PPP projects require several key features to be introduced, such as output specification, risk allocation, long term contracting, etc. These features may or may not be easily introduced for all projects.

The following criteria can be used:

i. **Output specifications:** One of the main motivations to undertake a project as a PPP is to tap the private sector's expertise. If project specifications can be easily defined in output terms, the private sector is given much more flexibility to introduce technologies that the government may not be well aware of. This may also have a positive impact on lifecycle costs. If on the other hand, the government purposely specified many items in input specifications, this will leave less room for innovation and would likely also limit the ability of the private sector to limit costs.

Output specifications - Scoring Criteria
1 – There is no potential to specify the project on an output basis
2 – There is potential to partly specify the project on an output basis but the government is reluctant to do so
3 – There is potential to specify the project (partly) on an output basis
4 – There is potential to specify the project (majority) on an output basis

ii. **Project risks identified and allocable:** When risks are clearly identified and allocated to the party better able to handle such risk, value for money can be achieved. To give a concrete example, land acquisition and resettlement is one of the biggest challenges in any infrastructure project. If the government decides to pass on the responsibility of land acquisition and resettlement to the private party and the project requires a massive land acquisition and resettlement, the private sector would likely not even bid for the project. In practice, when it is the private sector undertaking land acquisition, the affected persons would negotiate a higher price than when transacting with a government entity. The government possesses the ability to take over private property for public use (the power of eminent domain) which enables it to better manage land acquisition and resettlement risk.

Project Risks Identified and Allocable - Scoring Criteria
1 – The specific project risks and their allocation cannot be done
2 - There are difficulties in identifying specific project risks and in allocating these
3 – Project risks are clearly identified and allocated but not allocated efficiently
4 – Project risks are clearly identified and allocated based on international best practice

iii. **Project size sufficient:** PPP projects normally entail large project preparation costs for both the government and private sector following the need to study the project and to prepare a contractual arrangement that will govern the public-private partnership over a long period of time. Project preparation costs usually include the recruitment of external advisors (by the government and private sector alike), especially when the agency has little experience in procuring PPP projects. These advisors are required in order to produce a robust bidding documentation (or assess the bidding documents) and to ensure that the government takes minimal risk in terms of legal challenges. Moreover, the private sector typically incurs a higher financing cost than a government and this will be factored in the project costs. Therefore the project size should be significant enough to justify the costs required for undertaking a project as a PPP. However, project size is not a simple black and white issue. In some countries and at certain stages of the development of the PPP market it may still be worthwhile to proceed with relatively smaller projects. This could be to enable domestic firms to take part in a PPP project and further develop their expertise while implementing lower risk projects. This could also be to demonstrate that PPP projects can be realized in a new sector.

Sufficient Project Size - Scoring Criteria
1 – Project size is not appropriate for the relevant private party interested
2 – Project size is too massive for the private party to absorb and the private sector is only willing to pursue the project if it is done in phases with payment streams done also per phase
3 – Project size is too small that it will require bundles of projects to enhance private sector interest
4 - Project size is appropriate for private party interest

iv. **Long-term nature:** At the heart of PPPs is the long-term nature of such contracts which may easily go beyond 20 years. The main motivations of undertaking projects as a PPP is for the government to manage fiscal space and tap the private sector's expertise (to reduce cost through innovation and better manage lifecycle costs). With these motivations in mind, a long term contract in comparison to a short term contract would manage fiscal space better (especially if the budgets are quite limited) and would allow the private sector sufficient time to recover its investments. PPPs are not projects that are financed by the private sector for free so it is important to keep in mind that the bankability of the project will rely greatly on the ability of the private sector to earn their required return which can be addressed by providing contracts with a long term nature.

Long-term Nature - Scoring Criteria
1 – The project cannot be structured into a long term contract
2 – The project can only be structured into a medium term contract as per relevant laws
3 – The project can be structured into a long term contract
4 – The project is structured into a long term contract

v. **Potential efficiency gains:** Efficiency gains will materialize when a project can be specified in output specifications, risks are allocated to the party better able to handle such risk, and the project size is sufficient to justify the preparation costs incurred. Efficiency gains are cost savings that the government could not have achieved if it had undertaken the project on its own. Although the government enjoys a lower financing cost compared to the private sector, financing through traditional procurement also normally requires payment upon completion of certain milestones of construction and requires that payment is in full by the completion of the facility. Because of this, the timing of cash flows occurs much earlier as compared to an amortized payment wherein the payment is spread over a long period of time which is normally in sync with the contract period in the case of a PPP. Meanwhile, the government does not possess expertise in certain sectors that the private sector has which would also translate to savings compared to a purely government implemented project.

Potential Efficiency Gains - Scoring Criteria
1 – There is no potential for a private partner to bring efficiencies in design, construction, operation, maintenance and/or the use of assets
2 – There is potential for a private partner to bring efficiencies in one out of the three factors
3 – There is potential for a private partner to bring efficiencies in two out of the three factors

4 – There is potential for a private partner to bring efficiencies in design, construction, operation, maintenance and/or the use of assets

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3.6 How is scoring done?

Scoring is done on a per readiness criteria level which means that scores relating to questions in a certain readiness criteria will be averaged. Greater weights will be provided for certain readiness criteria that are the most important factors in PPP procurement and implementation. Please refer to **MS Excel Support Tool**.

3.7 Appraisal outcome and project steps

After the Selection Stage, projects can be classified as:

"**To focus on weak points**" - Projects that have no real potential (at the moment) to be implemented (as PPP) due to structural impediments, affordability issues and/or lack of commitment and support from governments and the public at the moment. By observing the scores achieved using the appraisal guideline, the agency shall focus on the weak points of the project to be able to work on these deficiencies in order for the project to be considered as part of the PPP list in the future.

"**For consideration**" – These are projects that did not score high but did not score too low to merit immediate removal from the list of PPP projects. If the project scored equal to 3 or more in questions relating to Private Sector Interest and Readiness, and Government Agency Readiness and Local Support, the project can be considered part of the PPP list but is in no case a priority ahead of those projects that immediately passed the scoring criteria to proceed as part of the PPP list.

"To add to PPP list" - Projects that are assumed ready for adoption by the PPP Unit to be prepared as PPP transactions. For these projects further due diligence has to be undertaken to validate the projects feasibility and readiness.

4 MS Excel Support Tool

This section introduces and explains the MS Excel Support Tool that is provided for conducting project appraisals.