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MANAGING
CONSULTANTS

Municipal Public-Private Partnership Framework

05

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1.0

Purpose of this Module

This module provides practical guidance on how municipalities should oversee, review, and manage consultants during each of the specific stages in the PPP project management cycle. Municipalities should rely on the support of experienced, external consultants to help prepare and implement

PPP projects, bringing in their knowledge and experience on project design and implementation. Municipalities need to be able to comfortably review the analyses, project documents, and the recommendations prepared by these specialist advisers.

2.0

The Role of PPP Consultants

PPP projects are complex, requiring detailed analysis and preparation. The workload of analyzing and preparing PPP projects is heavily front-loaded meaning that detailed technical, financial, legal, and other analysis and structuring work must be done during project development,

when assessing feasibility of the project, as compared to public projects.

The consultant can play five key roles: project selection, feasibility assessment, transaction advice, implementation support and adviser.

2.1 Selection

The early work of selecting projects likely to succeed as a PPP requires a preliminary review of many projects in an effort to identify a short list of good candidate projects. The consultant can help the municipality identify the form of concept note to be used, establish criteria for selection, gather data on potential projects, review data provided, and make assessments of projects. Most importantly, the consultant will inform project selection based on his/her experiences and learnings from other similar or not-so-similar projects to identify issues and challenges that projects need to address. Advice from a consultant can help justify some

of the difficult decisions a municipality needs to make about the use of public money to support project proposals. However, project selection is often motivated by factors that go beyond pure rational analyses and some municipal staff may try to influence consultants to select specific projects. Senior management needs to ensure that consultants are able to provide advice based on their expertise.

The consultant is generally paid a fixed fee per task to be performed, at this stage of project development. See Module 2: Project Concept



Notes

There is often political pressure to develop projects with PPP that achieve political priorities, but do not meet basic criteria of good PPP projects. A failed project, even if politically well intentioned, can set back the entire PPP program significantly.

Assessment Tool and Module 3: Project Concept Note.

2.2 Feasibility Assessment

Consultants are generally used to develop feasibility studies in an effort to obtain an objective, independent assessment of the project, and to ensure sufficient detail and technical expertise is used to develop the study. See Module 4: Feasibility Study.

During the feasibility stage, the consultant objectively analyzes the selected project to determine if it is feasible and what combination of risk allocation, risk sharing, and financial structures are needed for the PPP to be bankable and deliver important long-term VFM benefits.

The municipality must review the recommended option, and also bring to bear its local understanding and knowledge, and decide if it is affordable and meets its long-term sector goals. Municipalities should not treat a feasibility assessment study undertaken by the consultant as a contentious process, as a 'municipality versus consultant' scenario. The municipality and consultant should work together, using their respective skills and expertise in a collaborative manner. This would imply that the municipality shares its knowledge, experience, and so on, of the local environment with the consultant so that the consultant can analyze the project's feasibility in the relevant context. This close collaboration also allows municipal staff to improve their PPP capacity, by learning while doing.

Feasibility studies tend to suffer from optimism bias—those developing the study are invested in its development and therefore tend to perceive the project in a more positive light than it might merit. A feasibility study developed by an independent consultant can help manage this bias (though the municipality needs to be aware that most consultants also come with their own biases from work on similar projects in other countries). The municipality will need to challenge consultant assumptions and consider options carefully, with this potential for bias firmly in mind. Consultants also try and gauge their client's bias toward projects and 'structure' their feasibility reports accordingly. Municipalities need to guard against this and display their desire to undertake feasibility studies as objectively as possible.

Optimism Bias or Bad Incentives - How Planning Goes Wrong

Planning and forecasting need to reflect benefit to the government (as a proxy for the broader society), through cost-benefit or VFM assessments. But such assessments tend to involve incentives for those performing them to emphasize benefits and deemphasize costs, whether consciously or not.¹ There is a similar bias toward new build rather than refurbishing what exists and maintaining it properly. Maintaining an asset properly is three to seven times less expensive than maintaining it poorly and rebuilding later. However, the socio-political incentive is to build something big and new that can carry the name or be identified with a politician or political party. Khan and Levinson (2011) highlight the failure of the U.S. national highway system to maintain roads properly due in part to the tendency for federal monies to be allocated to new build projects rather than maintenance or refurbishment.²

Proper planning and monitoring can help. The Private Infrastructure Investment Management Center in Republic of Korea routinely rejects 46 percent of proposed projects (compared with 3 percent before its creation) at a savings of 35 percent to the government on poorly planned or selected projects. Similarly, Chile's national Public Investment System rejects 25–35 percent of projects proposed.³

Source: McKinsey Global Institute. 2013. "Infrastructure Productivity: How to Save \$1 Trillion a Year."

¹ See Flyvbjerg, B. 2009. "Survival of The Unfittest: Why The Worst Infrastructure Gets Built – And What We Can Do About It". Oxford Review of Economic Policy 25 (3): 344-367. doi:10.1093/oxrep/grp024; and McKinsey Global Institute. 2013. "Infrastructure productivity: How to save \$1 trillion a year". McKinsey & Company. Accessed September 2019. <https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/infrastructure-productivity>.

The consultant is generally paid a fixed fee for different elements of the feasibility study, and for the delivery of the final feasibility study, including consultation processes and workshops with the municipality. The consultant's economic bias also comes into play if the municipality has built in any

2.3 Transaction Advice

Once the municipality has decided to proceed to tender, a consultant will support the completion of a transaction, such as the award of a PPP tender or reaching financial closure for the PPP (often known as a 'transaction adviser'). The consultant helps the municipality attract investor interest from potential

'success' related fee for the feasibility study. Where the municipality has procured services of the consultant with an integrated terms of reference of feasibility study assessment as well as transaction advice, the consultants have a significant economic incentive to declare a project to be feasible.

private bidders, package and promote the PPP transaction, and ensure that it reaches commercial closure (the signing of a PPP contract) and financial closure (securing all debt and equity financing for the project so that construction can begin). See Module 7: Procurement.

Sometimes the same consultant is used to deliver the feasibility study and the transaction advice. This can save time and money as the same consortium will perform both tasks, with no need to educate a new set of consultants. The difficulty with this approach is that the consultant will be incentivized to find the project feasible, as the consultant will want to earn fees from the transaction advice stage. The municipality will need to manage this risk possibly through a second opinion on the study from another consultant or need to have two different consultants for feasibility study and for transaction advice.

The consultant's reputation should be a critical factor while selecting a transaction adviser. Municipalities need to ensure that the consultant does not have any biases toward some bidders for the project and also that the consultant is 'strong' enough to resist influence from potential bidders or from decision makers within the municipality.

The municipality should nominate its own team to work closely with the consultants at this stage of the PPP process, particularly in determining the pre-qualification and qualification criteria (to ensure that they are not too stringent to discourage competitive bidding or are not being designed for one or a select few potential bidders) and also at the stage of technical bid evaluation.

The consultant is generally paid a fee for each phase of the transaction advice, with an important part of the fee paid only after commercial close and after financial close. In light of the large quantum of the 'success fee', municipalities need to ensure that there is adequate thoroughness of evaluation and that closure is not being pursued at the cost of diligence. In an effort to reach closure as early as possible, the consultant may propose a level of government support and risk allocation inconsistent with government interests.

2.4 Implementation

After financial close, the real work starts. The municipality may want to hire a consultant to help during implementation and ensure the project is built, operated, and delivered in accordance with the PPP agreement. One of the most critical consultants at this stage of the PPP process is the independent engineer, who oversees and certifies the quality of the construction. The reputation of the

independent engineer of independence, objectivity, and not being 'influenced' is critical. See Module 12: Contract Management.

Consultant fees during implementation are often on a per task basis, but may also be on a daily or monthly rate for longer-term engagement.

2.5 Adviser

The municipality will need general support in implementing the PPP program from external advisers or from advisers embedded in the municipal team (or PPP Unit), including:

- Advice on PPP policy development (municipal and national);
- The design and implementation of the institutional framework, processes, and procedures applicable to the PPP program, including PPP guidelines;
- Identification of potential PPP projects as and when they are submitted to the municipality;
- The terms of reference for the feasibility or transaction advisers, the process of hiring them, the process of managing them, and reviewing their deliverables;
- Review of feasibility studies produced by advisers, in particular where they are developed

under USPs;

- Advice on project procurement, including review of transaction adviser deliverables and support of the municipality during the procurement process;
- Support during implementation;
- Capacity building and training; and
- Analysis of data on the PPP program, identifying lessons learned, and opportunities to improve the program.

Consultant fees for this adviser role tends to be on a daily, weekly, or monthly basis, which requires the municipality to manage the consultant carefully to ensure VFM. Some tasks may be paid on a fixed fee basis.

² Khan, Matthew E., and David M. Levinson. 2011. "Fix It First, Expand It Second, Reward It Third: A New Strategy for America's Highways," The Hamilton Project's Project Discussion Paper 2011-2013. Brookings. https://www.brookings.edu/wp-content/uploads/2016/07/02_highway_infrastructure_kahn_levinson_paper.pdf; and McKinsey Global Institute 2013.

³ McKinsey Global Institute 2013.

3.0

Managing PPP Consultants

The following provides practical, real-world lessons learned on selecting and hiring PPP advisers. For further guidance, Module 6 provides terms of references for hiring advisers, including for project selection, feasibility assessment, and transaction advice.

- **Incentives.** Think through the incentives of the consultant, including where the consultant may be incentivized to be overly optimistic about the project (as mentioned earlier) or to avoid raising issues that are difficult for the municipality. A PPP is a long-term commitment that requires careful analysis. Incorrect incentives can undermine the value of the consultant's advice.
- **Coordination.** Different specialist firms or individuals (engineering, financial, technical, management consulting firms, and so on) should be encouraged to team up into consortia to provide the services. The consortium must appoint a leader for all communications and speak with one voice when presenting findings and recommendations. There are important interdependencies between the different components of a consultant's advice, where the inputs of one piece of analysis must come from the outputs of another piece of analysis. For example, the assessment of demand will influence design choices which will again affect demand. Therefore, municipal PPP managers and decision makers should be aware of this recurring need to update and to harmonize feasibility study findings and recommendations when monitoring and overseeing the PPP consultants' progress. Municipalities that appoint separate consultants to work on separate components (for example, technical, financial, and legal) find it difficult to reconcile two or more contradictory sets of analysis or recommendations.
- **Quality.** Ensure that the specific consultants (individuals) whose CVs were included in the proposals are the individuals who are undertaking the work and that they are investing the time that they had committed to invest on the project. Consultants might use junior resources to undertake the bulk of the work after they have 'won' the project. Municipalities need to guard against this and ensure that the knowledge and experience of consultants that the municipalities selected, and the project needs, are made available to the project.
- **Candid advice.** While the well-managed consortium is important, so too is the candid advice of each of the different specialist teams. Where there are different solutions proposed by technical and legal advisers, the municipality will want to understand these options. A consortium is often incentivized to keep such differences out of view of the client. The individual consultants should have the freedom and independence to candidly advise the municipality.
- **Invest in preparation.** It requires more time, human resources, and money to analyze and prepare a PPP compared to a traditional publicly financed, managed, and operated infrastructure project. Time and money spent early results in more easily implemented projects and greater likelihood of success, and must be budgeted accordingly. It is important that work plans are regularly updated and actively managed to minimize delays.
- **Gather data early.** Without quick and full access to available data, consultant costs will increase and delays ensue. Gathering data on such projects can be challenging, in particular where some municipal staff are resistant to the use of PPP. Early data gathering and gap identification can provide an important indication of the cost and time needed for selection and feasibility studies.
- **Stakeholder consultation.** One of the most challenging parts about making a PPP project feasible is that of managing the roles, contributions, and concerns of all stakeholders, including existing municipal staff, labor unions, regulatory bodies, local communities, and so on. Managing such stakeholders requires political leadership, and cannot simply be 'outsourced' to consultants. Consultants can assist in the process, by helping identify stakeholders, design the consultation process, and organize consultations, but the municipality should undertake this important policy and political function.
- **Challenging the results.** The PMU/CMU must feel comfortable questioning the consultant's advice/results, and not take a passive role in simply accepting the deliverables of PPP consultants. Equally, the relationship between the consultant, PMU/CMU, and municipality should be collaborative, not antagonistic—not an 'us against them'. The project belongs to the municipality; the consultant helps evaluate, design, and/or implement the municipality's project. The consultant should deliver to the municipality all background materials—

including assumptions, analysis, and financial models—to help the municipality understand the consultant’s work. The financial model should be modifiable and flexible so that it can be used to answer practical questions, such ‘What happens if the level of demand or revenues is lower than expected? What happens if construction costs are higher than anticipated? Is the project still financially viable?’ The municipality should test the viability and flexibility of the PPP financial model. The PMU/CMU may want to hire a separate consultant to review all deliverables. PPPs are long-term commitments for a municipality; the decision to enter into such important partnerships must be based on

a clear understanding of the assumptions and findings.

- **Interactive workshops.** PPP consultants will prefer to simply submit their deliverable reports. The terms of reference for PPP consultants should require that PPP consultants present and explain all their assumptions, methodologies, findings, and recommendations (including the financial model) in a workshop setting, to allow decision makers to understand and appropriately ‘challenge’ them. This is an important part of building capacity in the municipality, making municipal staff part of the process, and learning while doing.



Case Example

A municipality in eastern Europe was undertaking a feasibility study for a PPP to collect municipal solid waste, to sort and recycle. The private partner would receive the bulk of its revenues from the sale of recycled wastes to bulk purchasers. An important assumption in the PPP consultant’s financial model was the expected price per ton of each category of recycled products being within the existing regional market of bulk recycled products. The consultants’ financial model simply listed prices per ton for paper and cardboard, plastics, glass, and for organic compost—but it did not list a source for these important numbers. When questioned, the consultant revealed that these numbers were taken from a study undertaken by an international donor of the regional market for recycled wastes four years previously. The PPP consultants were requested to conduct a first-hand analysis of market prices for these recycled products rather than simply copying from an older report by another donor. Their revised financial model also showed the impacts on the financial sustainability of the PPP of different scenarios of changes in the prices of each of the bulk recycled products.

- **Do not rush.** Municipalities are often in a hurry to award their PPP projects, reasoning that the sooner the PPP tender documents are released the sooner the contract can be awarded, and the private partner can start delivering the needed public services. As a result, municipalities can often issue PPP tender documents that are unclear or incomplete, with the expectation that these issues can be resolved later. However, such practices regularly create more delays and problems during PPP tendering, with confused bidders, financiers, and municipal staff. It is much better to spend additional time early to resolve issues before releasing the tender documents. Consultants may have the same ‘rushed’ approach to ensure that their work is finished early and they get their fees early. However, usually such ‘rush’ ultimately either results in inordinate delays or much higher costs because bidders price in all the unknowns (or the confusion).
- **Support for tender evaluation.** Members of the PPP tender evaluation committee will need support to understand the dynamics of a PPP procurement process. PPP tender evaluation is different from tender evaluation for public projects, in the criteria to be applied and the structures to be assessed.
- **Help with financial close.** During financial closure, the municipality should ask to be informed about progress. Municipalities should make all relevant information readily available to lenders as needed and the consultant should be ready to respond to requests from lenders for additional information to facilitate their due diligence. The consultant’s scope of work should include financial closure of projects and there should be a significant fee associated with the project achieving financial close.
- **Prepare for dispute resolution.** The relationship between the municipality and the consultant is often intense, is frequently long term, and may involve conflict. The parties should identify conflict as soon as possible and coordinate to resolve the same as amicably as possible to strengthen the partnership through management of adversity.

4.0

List of References

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