Public Private Partnership (PPP) - The Singapore Experience

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Outline

• What is PPP?
• Why PPP?
• When to use PPP?
• PPP for ICT Projects – Considerations
• Case Models
• Common misunderstandings about PPP
Public Sector ICT Expenditure in Singapore

- No. of public ICT Tenders to be called in FY08 : 390
- Estimated Tender Value : S$1.14 billion (US$768 million)
- Public sector ICT systems and services largely outsourced to private sector service providers:
  - Developing and implementing ICT systems is not the core business of government
  - Insufficient internal capacity to meet demands for ICT solutions and aggressive timelines
Case Study– Government Electronic Mail System (GEMS)

- A standard email platform for the government employees
  - mailbox services
  - government-wide email directory
  - anti-spam, mail filtering, virus

- Government to enjoy economies of scale and simplify contract management.

- For the private company, it provides a steady annual revenue stream.
Case Study – Government Electronic Mail System (GEMS)

• Government
  – owns the email contents
  – determines the Quality of Service (QoS) measurements
  – engages independent auditor for audits
  – pays for services consumed

• Private Sector
  – owns hosting environment
  – pays for capital & operating costs
  – responsible for Quality of Service (QoS)
Lifestyle Portal for the National Service (NS) Community

- A single portal for the NS community to interact
  - e-services such as Exit Permit and Booking of Tests
  - commercial services

- Ministry of Defence does not simply want another self-contained website

- Private company has access to the NS community for commercial services
Lifestyle Portal for the National Service (NS) Community

- Government
  - owns and maintains the eServices
  - pays a fixed annual base fee to cover the initial capital costs
  - responsible for government data

- Private Sector
  - exclusive rights to operate the portal
  - pays for capital & operating costs
  - revenue thru hosting costs of commercial services and advertisements
  - responsible for Quality of Service (QoS)
World’s First Solution: TradeNet
World’s first nationwide trade clearance system

Implemented: January 1989

<table>
<thead>
<tr>
<th>Before TradeNet</th>
<th>After TradeNet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processing time/permit</td>
<td>2 – 7 days</td>
</tr>
<tr>
<td>Documents Processed</td>
<td>Up to 10,000 per day</td>
</tr>
<tr>
<td>Number of documents</td>
<td>3 – 35 docs</td>
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</tbody>
</table>
Singapore government invests US$28 mil to build TradeXchange® – a neutral IT platform to cater to B2G and B2B document exchanges

TradeXchange - New IT Platform for Trade & Logistics
Enhanced efficiency & cost savings for the industry

**Customs streamlines trading process**

It announces 2 schemes to enhance S'pore as trade hub

By MATTHEW PHAN

SINGAPORE — an online interface that simplifies the regulatory processes of import and export, among other things, and is expected to save traders $75 million over 10 years. The second improves the Zero-GST Warehouse Scheme (ZGS), which is an expansion of the Bonded Warehouse Scheme that suspends the goods and services tax (GST) for unsold goods held in warehouses.

A typical trade involves “multiple parties logging on to a number of different systems to exchange information and documents” and “requires multiple access to various systems and repetitive data entry for the same consignment of goods”, said Mrs Lim Hwee Hua, Minister of State for Finance and Transport yesterday.

90,000 registered traders in Singapore.

Meanwhile, Singapore Customs also presented ZGS licences to 11 companies yesterday. There are three types of ZGS licences.

**TradeXchange to ease flow of trade**

By GABRIEL CHEN

SINGAPORE Customs yesterday announced a new online trade initiative that will make it easier to move goods and services in and out of the country.

**Called TradeXchange, it will link various computer systems used by importers and exporters with the aim of creating a seamless platform among regulators, shippers and traders.**

“Many have been lobbying for the Government to take the lead to build a trade infrastructure that would provide a single common access to all these systems,” said Mrs Lim Hwee Hua.

The system is expected to go live in October 2007 and will support an estimated 90,000 registered traders in Singapore.

**There will be savings of about $75 million for the entire industry over 10 years, said Mrs Lim.**

The Minister was speaking at the presentation of licences for the Zero GST Warehouse Scheme (ZGS) yesterday.

Eleven companies, including Katoen Natie Sembcorp Jurong, YCH Global Logistics and Hawk Forwarders, were given their ZGS licences.

Under the scheme, importers will not have to pay the goods and services tax (GST) upfront on goods they bring into the country.

They pay only when the goods are released into the local market.

Even goods sitting in the warehouse will not incur GST, as they do now.

Other benefits for qualifying companies include flexibility in registering multiple warehouses under a single licence and the ability to submit consolidated payment permit declarations to the Singapore Customs.

Traders, shippers, freight forwards, carriers and government agencies.

TradeXchange is expected to “serve as a major booster to the competitiveness of the trade and logistics industry and put Singapore another step ahead as the logistics hub for the region”, said Mrs Lim Hwee Hua, Minister of State for Finance and Transport in a speech yesterday to announce the new system.

Mrs Lim also unveiled the Zero-GST Warehouse Scheme, impact of Goods and Services Tax (GST) on re-exporters and commodity traders.

Under the previous Bonded Warehouse Scheme, at least 80 per cent of imports had to be re-exported to enjoy GST suspension. Under the Zero-GST Warehouse Scheme, the export requirement will be scrapped for qualifying operators.

These companies will also be able to submit consolidated payment permit declarations to Singapore Customs instead of making individual declarations.
And to TradeXchange®: A Next Generation Trade Facilitation Platform

TradeXchange - A robust and neutral platform that simplifies interactions between businesses & between businesses-Government.
Case Study: TradeXchange - Key Considerations

• IP Ownership
  – Foreground IP vest with Government. IP to be licensed to operator for purposes of executing contract
  – Background IP & enhancements continue to vest with industry
  – Business processes, Trademarks and related URLs vest with Govt

• Co-Funding by Govt (10 year contract)
  – Upfront application development costs
  – Recurrent Costs
  – Variable Costs
  – Adoption
Case Study: TradeXchange - Key Considerations

• Data Ownership & Data Privacy
  – Information and data collected by agencies as a result of statutory and regulatory requirements will be owned by Government.
  – Commercial data will continue to be owned by the companies that create the data
  – Consent to share data to be obtained from owner of data

• Termination
  – Government to have right to terminate
    • Due to Operator’s breach of contract or if Operator is insolvent
    • For convenience after year 5 (with 2 yrs notice)
  – Supplier have no right to terminate
    • As TradeXchange is an essential service
Case Study: TradeXchange – Procurement Approach

- 2 Stage Tender
  - Pre-qualify interested companies/consortia
    - Demonstrated capabilities to undertake large-scale IT projects
    - Demonstrated domain expertise and experience

- Applying PPP best practices
  - Standard Terms and Conditions are not sufficient
  - Cater for sufficient time for market feedback
  - Be open to feedback

- Payment to Operator
  - Fixed Fee – as a steady stream of income for operator; CPI-x% was applied annually to drive efficiencies
  - Variable Fee – volume-dependent to incentivise operator to drive adoption
Case Study - Wireless@SG

- > 6,200 hotspots
- 620,000 users have signed up
Case Study - Wireless@SG

• Wireless@SG is Singapore’s new wireless broadband programme
• 3 years of free (basic tier) wireless connectivity at up to 512 kbps speeds in key public locations
• Premium services at a fee
• Government co-fund 30% of total costs
• Three Providers:
  – iCELL Network Pte Ltd
  – QMAX Communications
  – Singapore Telecommunications Ltd
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General Misconceptions

• **MISCONCEPTION:** PPP may lead to poor design due to
  – Limited input specs in PPP
  – Provider seeks to economize

• **FACT:** Design can be factored into evaluation criteria e.g. Sports Hub
  – Separately consider design via two-envelop system
General Misconceptions

- **MISCONCEPTION**: Necessary to engage advisors for all PPP projects
  - Lengthen project timeline and increase costs
- **FACT**: Advisors not necessary if expertise is present in-house
  - TradeXchange – Only engaged legal advisors as IDA has the technical expertise
  - Desalination Plant – Advisors for legal, financial and technical aspects of deal
General Misconceptions

- **MISCONCEPTION:** PPP is only attractive for projects where there is third party revenue
- **FACT:** The unitary payment from the procuring public agency forms the main stream of revenue for the PPP provider
General Misconception

- **MISCONCEPTION:** PPP will increase fees and charges payable by the public

- **FACT:** PPP is merely an alternative form of procurement
  - Does not affect the agency’s revenue or subsidy policy
  - PPP should not increase fees and charges set by the agency
  - User charges set by the agency

- Agency can specify fees and user charges as part of the service requirement

- Agency may also set – desired level of output, subsidy policy, industry structure, legislation
Thank you
Backup Slides
VFM Assessment

- Optimum combination of whole lifecycle cost and quality
- Does not always mean lowest bid
- Conducted at two crucial phases
  - Pre-Tender – PPP vs Traditional Procurement
  - Pre-Award – Award vs Non-award
    - PPP provider offers VFM?
Pre-Tender VFM assessment

• **Viability** – Desired outcomes are adequately specified into output terms
  – Outcomes, operational flexibility

• **Desirability** – Benefits of PPP likely to outweigh any increases in costs
  – Risk management, innovation, incentive and monitoring, lifecycle costs

• **Achievability** – Deal structure attracts private sector participants
  – Transaction costs and capacity, competition
Pre-award VFM assessment

- Determine whether potential PPP provider can deliver better VFM than traditional procurement (TP)
- Assess whether to award tender
- Compare bid price of recommended PPP tender’s base offer with best estimate of cost under TP to procure same level of service. Other factors that contribute to VFM should also be considered in the evaluation process
- The agency should award the contract to the recommended PPP bidder if:
  - The recommended PPP bid price is not significantly higher; or
  - The recommended PPP bid price is higher but the additional costs are justifiable.
Pre-award VFM assessment

• The agency may consider not awarding the PPP tender if:
  – The recommended PPP bid price is significantly higher than the estimated bid cost of TP; AND
  – The additional costs are not justified,

• Agencies should, however, be aware of the implications of non-award:
  – Additional costs, time and time delays of recalling tender via TP
  – More expensive in overall economic terms to abort a PPP tender after complex and lengthy procurement process
Pre-award VFM assessment

Compare bid price of recommended PPP’s tender base offer with best estimate of procuring the same level of services under traditional procurement.

Is recommended PPP bid price significantly higher?

Yes

Evaluate other factors that contribute to value for money in the PPP bid, not just the bid price.

No

Are the additional costs justified?

Yes

Award contract to recommended PPP bidder.

No

Consider not awarding the contract.
Pre-award VFM assessment

• Limitations of prescribed VFM approach
  – Some VFM factors difficult to quantify in dollar terms
    • Improved service delivery, private sector management, innovation
  – Lack of references for pathfinder projects
  – Robustness of estimate of project cost under TP