Workshop on the Toolkit for PPP in Roads and Highways

PPP PHASES
(TOOLKIT MODULE 5)
### PPP PROJECT LIFE CYCLE

**TOOLKIT MODULE 5**

|---------------------------|------------------------|----------------------|--------------------------|

#### 1. Project Identification
- **Activities**
  - a. Identification and definition
  - b. Pre-feasibility study
  - c. Socio-economic CBA
  - d. Mapping of financial sources
  - e. Public Affordability analysis

#### 2. Project Preparation
- **Activities**
  - a. Project organization
  - b. Business Case
  - c. Public Private Comparator

#### 3. Project Tendering
- **Activities**
  - a. Development of procurement plan
  - b. Preparation of key procurement documents
  - c. Evaluation and selection of bids
  - d. Value for money measurement (PSG)

#### 4. Project Implementation
- **Activities**
  - a. Management of contracts and relationships
  - b. Management of Public Finance implications
  - c. Monitor and measure performance
  - d. Risk management
  - e. Manage and resolve disputes
1. PROJECT IDENTIFICATION PHASE

Objective

- Gather as much information on the project as possible, **without considering the procurement route**.

- Focus on identifying specific project objectives, public service objectives and project stakeholders.

- Central question: is this a **good** project?
1. PROJECT IDENTIFICATION PHASE

Activities

- In order to meet the objective of this phase, it is advisable to go through the ‘sub-stages’. Results from these stages should be integrated and combined in a pre-feasibility report.
1. PROJECT IDENTIFICATION PHASE

a. **Identification & Definition:** To be able to start studying a project, its specifications need to be defined. At this point, the project is defined through a number of conceptual, well-documented steps:

   - **Needs assessment:** gap between current situation and an ‘ideal type’ desired situation.
   - **Generating and assessing solution options:** connection high priority needs to potential solutions and assessing them.
   - **Project identification, objective and scope:** defining a proper objective is key to a successful proceeding of the project. Project scope describes the limits that apply to the project and is also vital in this phase.
1. PROJECT IDENTIFICATION PHASE

b. Pre-feasibility study: determines potential for financial feasibility. The pre-feasibility study consists of the following steps:

- Determine total costs incurred during the project life cycle: investments, maintenance, operation etc.;

- Estimate the results of the project in terms of expected usage and the incoming cash flow potential; create an income statement showing trends in project results and cash flow throughout the project life cycle;

- Assess the Net Present Value (NPV) of all future cash flows

\[
\text{NPV} = - \text{investments} + \sum \frac{\text{future cashflows}}{1 + \text{discount rate}}
\]

\[
\text{NPV} > 0 \rightarrow \text{100% private finance possible}
\]

\[
\text{NPV} < 0 \rightarrow \text{public financial support required}
\]
1. Project Identification Phase

c. **Social-economic Cost Benefit Analysis**: Public budgets have to be allocated in a way that produces maximal benefits to society. When a Public Authority examines the possibilities of developing a certain project, the main question is whether (public) investments in the project are justified.

- **The social-economic cost-benefit analysis (CBA) is the economic tool to provide a plausible answer to that question.** A CBA takes into account the entire impact of the project on local and regional society as a whole.

- A social-economic CBA answers the question whether a public investment in a project is justified taken all economic costs and benefits for society into account from a welfare economic point of view.
1. Project Identification Phase

The following summarizes the main steps in a socio-economic CBA:

- Define project alternatives, no-project alternative and effects
- Formulate (economic) scenarios
- Partial CBA: Direct effects
- External effects, incl. environment and safety
- Effects not expressed in money, including distribution effects
- Business Analysis
- Indirect effects and national economic analysis
- Transport effects / market and competition analysis
- General CBA: national effects
- Decision
- Define project alternatives, no-project alternative and effects
- Partial CBA: Direct effects
- General CBA: national effects
- Decision
1. Project Identification Phase

d. Mapping of financing sources: The possible financing sources for the project need to be explored. Various financing sources of national and international financial institutions might be available for co-financing the project.

The evaluation of alternative funding options will include the following steps:

- Identification of sources of finance
- Analysis of project eligibility for alternative sources of finance
- Structure the financial input of alternative funding

**Financing** includes the way in which the required investment is paid for. **Funding** includes one-off or annual sources of income which can be used to pay for the annual costs of operations and maintenance as well as debt service (interest and dividend).
1. Project Identification Phase

e. **Public affordability analysis**: In addition to the pre-feasibility study and the socio-economic cost-benefit analysis, the affordability of the project to the public budget is also relevant to the decision making process. To assess affordability, the following steps are relevant:

- Determine preliminary costs and revenues (based on the pre-feasibility study).
- Calculate the anticipated budgetary impact of the project.
- Decide whether or not the project has the potential to be affordable.

- Notwithstanding the importance of public affordability considerations, bear in mind that private financing should not be the most important driver for setting up PPP projects. Value for Money (VfM) remains the key driver for PPP.
1. Project Identification Phase

- **Documentation;** the ‘pre-feasibility’ report

  - The previous stages are combined in a document called the **pre-feasibility report**. The pre-feasibility **report** as a whole develops an outline business case for the project. It includes, but is not confined to, the aforementioned financial pre-feasibility study.
2. Project Preparation Phase

Objective:

- If a project passes the Identification phase successfully, the project changes status to an official project. In this phase it will be studied in more detail. This also includes a proper organization of the project. The preparation phase focuses on both the project details and the possibilities for a successful concession (PPP) procurement. Answers to the following questions have to be found:
  
  - How to organise the project?
  - How can the project be defined in more detail?
  - Is the project marketable?
  - Which PPP model would be most attractive?
  - Will the selected PPP model provide value for money?
2. Project Preparation Phase

Activities

In order to meet the objective of this phase, the following activities can be undertaken.

- Project organization
- Business Case
- Public Private Comparator
2. Project Preparation Phase

a. **Organization:** In the preparation phase, the project and its related activities mature. This renders it necessary to set-up a devoted Project-Team, headed by a project manager responsible for the organization of the project and the contracting of external advisors. The project team will have clearly defined:

- Objectives and scope of work;
- Division of tasks, deliverables and responsibilities;
- Institutional and decision making structures;
- Budget.

A project team consists of a mix of expertises. In general, each project team must include:

**Legal, Financial and Engineering expertise**
2. Project Preparation Phase

b. **Business Case:** The business case is the single most important piece of project documentation.

- It documents the justification for undertaking a project, based on the costs of development and the anticipated benefits to be gained.

- It provides an initial appraisal of the different options available, drives the decision making processes, and is used continuously to align the project’s progress with the achievement of public aims and targets.

- It should also be used to assess the ongoing viability of the project and secures senior management and stakeholder commitment from outside.
2. Project Preparation Phase

- The business case starts with the pre-feasibility study and the socio-economic Cost-Benefit Analysis in the identification phase and is specified during the project life cycle. After the preparation phase, the business case should demonstrate that the proposed solution:
  - Meets the identified need;
  - Is affordable and likely to achieve value for money;
  - Is feasible and achievable in the time allowed;
  - Has been chosen after exploring risks and appropriate options;
  - Is clear as to what will define a successful outcome;
  - Consistent with public policy and investment strategy;
  - Is clear as to how the benefits will be realised;

The business case is used differently in different stages of the project life cycle
2. Project Preparation Phase

c. **Public Private Comparator:** The best suitable Concession/ PPP strategy can be determined using the Public Private Comparator (PPC). The PPC adds to an understanding of different procurement strategies and to what extend they are suitable for the specific project. A PPC exists of the following steps:

- **Step 1:** Define the PPP scheme and the traditional scheme
- **Step 2:** List the differences between the PPP scheme and the traditional scheme
- **Step 3:** Value the differences between the PPP scheme and the traditional scheme as listed in step 2
- **Step 4:** Set out the value differences between the PPP scheme and the traditional scheme in time
- **Step 5:** Compute the net present value of the differences

*The steps in the PPC*
2. Project Preparation Phase

MARKET CONSULTATION

- Before placing a proposed project in the market through tendering, procurement authorities may feel it is necessary to consult market parties about certain parts of the project. In some cases, such a process may add to the attractiveness of a proposed project to market parties.

- After identification of those project components which require input from ‘the field’, market consultation may take on any of the following three forms:
  - Organizing one single market consultation session, during which market parties are invited to convey their opinions about technical or organizational aspects of the project.
  - Setting up a series of workshops to refine the project terms in incrementally.
  - Depending on considerations of non-disclosure, procurement authorities may also interview market parties separately.
3. Project Tendering Phase

Objective:

- During the project tendering phase, the market is informed about the project and interested bidders are invited to respond.

- The objective of this phase is to obtain qualitative bids, select a bid and negotiate a contract with the winning bidder in order to move on to the project implementation phase: the actual realisation of the project.
3. Project Tendering Phase - Activities

- Development of procurement plan
- Preparation of key procurement documents
- Evaluation and selection of bids
- Value for money measurement (PSC)
3. Project Tendering Phase

a. Development of procurement plan

The main objectives of developing a procurement plan are:

- To describe and underpin the proposed procurement strategy, its different phases and procedures
- To describe a detailed work plan for the procurement of the project
- Specify the procurement organisation as part of the contracting authority.
3. Project Tendering Phase

Activities/issues to be addressed in procurement plan:

- **Objective:** as the aim of tendering is successful procurement of the project, it is important to be clear and concise in outlining this project (based on Business Case)

- **Introduction of a pre-qualification phase:** In case it is decided to introduce a pre-qualification phase in the procedure, as a first step potential bidders are asked to express their interest in bidding for the project. In general, only limited information about the project is being shared in this phase.

Especially for (large) complex projects, proposal preparation is very demanding in terms of time and money, for these projects pre-qualification is a good idea.
3. Project Tendering Phase

- **Single or two stage bid procedures**: two main approaches can be chosen by the Government for the procurement of concessions; a single stage bid procedure or a two stage bid procedure.
  - **One-stage procedure**: If the Government has specific views on the technical options and specifications to be chosen, pre-qualified firms are asked to submit bids in strict accordance with the specifications imposed by the Government.
  - **Two-stage procedure**: In particular when uncertainties regarding technical matters remain to be clarified, it may be undesirable or impractical to prepare complete technical specifications in advance. This is typical for large and complex PPP projects. In such a case, a two-stages bidding procedure may be used.

- Possible main steps of each procedure are shown in the next slide. Whereas preparation, prequalification and drafting of the concession contract are similar in both approaches, the main differences grow evident during the bidding stage.
3. Project Tendering Phase

*Figure: one-stage procedure*

*Figure: two-stage procedure*
3. Project Tendering Phase

- **How to deal with unsolicited proposals:**
  - Prohibit by law
  - Purchase the project concept and award through competitive bidding process
  - Offer the initial proponent of an unsolicited proposal a predefined advantage in a competitive bidding process.
3. Project Tendering Phase

b. Preparation of key procurement documents

Objective:

The objective of the key procurement documents is to provide the market with all relevant project information and to establish a transparent procurement process in terms of project and procedure definitions. The procurement documents must attract the interest of private bidders, invite qualitative bids and thus guarantee project continuity.

Activities:

- **Advertisement:** typically, in case a pre-qualification phase is set up, a Call for Expression of Interest is given out, e.g. in the form of an advertisement. Most commonly, the advertisement contains neither a specified project description nor any particular procurement procedures.

- **Key procurement documents:** key procurement documents include the Terms of Reference (ToR), describing the Scope of Work. As with any document in this phase, key to writing an effective ToR is aligning it with the overall purpose of obtaining bids from interested candidates.
Overview of key procurement documents

- Procurement documents:
  - Essence and timeline of the Procurement Procedure
  - Objective and structure
  - Procedures for Preparation of Documents and Contract Award
  - Instructions to Bidders
  - Data Sheet
- The Procurement Procedure
  - Evaluation and Qualification Criteria
  - Applicable form
  - Evaluation Committee
- Information on The Client
  - The Contracting Authority
  - The Advisor
- Terms of reference (Scope of Works)
  - Basis for the Project
  - Project Concept
  - Project Characteristics
  - Works Requirements
  - Project Monitoring Plan
  - Project Design Plan
  - Draft contract conditions
  - Performance security forms

- Advertisement, ie. a Request for Proposals (RFP).
  
  A Request for Expressions of Interest (EOI’s) is given out in case a pre-qualification phase is set up. Most commonly, this advertisement contains neither a specified project description nor any particular procurement procedures.
3. Project Tendering Phase

c. Evaluation and selection of bids

Objective:

The objective is to evaluate the bids and select the winning bid in a transparent, fair and objective manner. It may therefore be recommended to work with an independent evaluation team that evaluates the bids according to pre-set evaluation criteria.
3. Project Tendering Phase

d. Value for money measurement – Public sector Comparator (PSC)

OBJECTIVE:

- To provide insight in total costs, income and risk over the project life-cycle using public procurement
- Results can be used as a benchmark
- The benchmark can be used to make a comparison with the final PPP/Concession tender proposal. The results of the comparison show whether the PPP bid is better value for money than the traditional public procurement option
- Besides, the PSC model gives insight in the project costs during the complete project life-cycle

Value for Money assessment:

Compare the PSC model with the financial model of the project under a PPP contract
3. Project Tendering Phase

d. Value for money measurement – Public sector Comparator (PSC)

ACTIVITIES:

1. Inception report
2. Crude PSC
3. Risk Analysis
4. Supplementary financial considerations and sensitivity analysis
5. Final report

The PSC is an instrument for making FINANCIAL comparison. It does not include the non-financial aspects that have to be taken into consideration.
3. Project Tendering Phase

d. Value for money measurement – Public sector Comparator (PSC)

PREPARATION:

Before the PSC is undertaken, the following background information is needed:

- Clear and detailed project definition
- Risk analysis and allocation of risk
- Output specification
- Definition of public procurement option
- Public Private Comparator – a tool that is used to assess whether or not a PPP/Concession approach is the preferred approach for the specific project, both qualitatively (non-financial issues) as quantitatively (financially)

A good PSC is based on very detailed input and preparation is very important
4. Project Implementation

Preparation

a. **Management of contracts and relationships**: Managing a concession contract is different from managing a traditional contract. The division of tasks between the Contractor and the Contracting Authority requires a completely different approach from both partners. This also requires specific contractual regulations on the rights and obligations of the Contracting Authority and the Contractor.

b. **Management of Public Finance implications**: A concession contract is a long term contract that has to be entered into the public accounts in a manner different from traditional contracts.

The management of contracts and relationships is crucial to the success of the partnership between all contract parties.
4. Project Implementation - Activities

a. Management of contracts and relationships
b. Management of Public Finance implications
c. Monitor and measure performance
d. Risk management
e. Manage and resolve disputes
4. Project Implementation

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4. Project Implementation

d. **Monitor and measure performance:** To get an idea of the best practices and flaws of the concession project, several vital aspects need to be evaluated. This would include the procurement process, contract structure and other aspects of the project. Furthermore, the Contracting Authority has to constantly monitor and measure performance of the contractor.

e. **Risk management:** Risk management is important during the entire project lifecycle. During the preparation phase, a risk analysis has been carried out (in the PSC).

f. **Manage and resolve disputes:** Contracts typically include Dispute Resolution Clauses, which stipulate how to act in case of a dispute and what the rights and obligations are of each contract party. In case the dispute is not being resolved between both parties, arbitration or mediation is an option to consider.
THANK YOU!