

**G:ENESIS**

**Ghana Global Public-Private Partnership  
Conference**

PPP Project Selection Criteria

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## What is a PPP

**A PPP is a long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk**

- The private sector party usually agrees to undertake the following:
  - Design and build or upgrade the public sector infrastructure
  - Assume substantial financial, technical, and operational risks
  - Receive a financial return through payments over the life of the contract from users, or the public sector, or from a combination of the two
  - Return the infrastructure to public sector ownership at the end of the contract (in some cases the private party may retain ownership of the asset).

## Types of PPPs

Two main models:

- **Concession model**

- ...the user pays (tolls, fares, etc.)
- Most countries begin with concessions, and largest proportion of PPPs (outside U.K.) are concessions
- Not a new idea, especially for roads – e.g. 18th-century Britain
- Likely to be the most immediately relevant for Ghana

- **British Private Finance Initiative (PFI) model**

- ...the public sector ministry/agency pays (usually for social infrastructure)
- adopted by many countries in the last few years

## Key principles underlying PPPs

Value for money

Affordability

Risk allocation

Transparency

Competition

## What makes a good PPP asset?

- There are four central elements that underline a suitable PPP

Large asset with a significant capital base

The capital cost of the asset should be high enough to justify the higher setup costs for this more complex type of procurement

Asset also requires long-term maintenance

Distinguishable cash flows

The asset is self-contained, i.e. it can be built and operated as one unit

Scope for risk transfer

The asset has a long life, with little risk of technological obsolescence

Stable technology

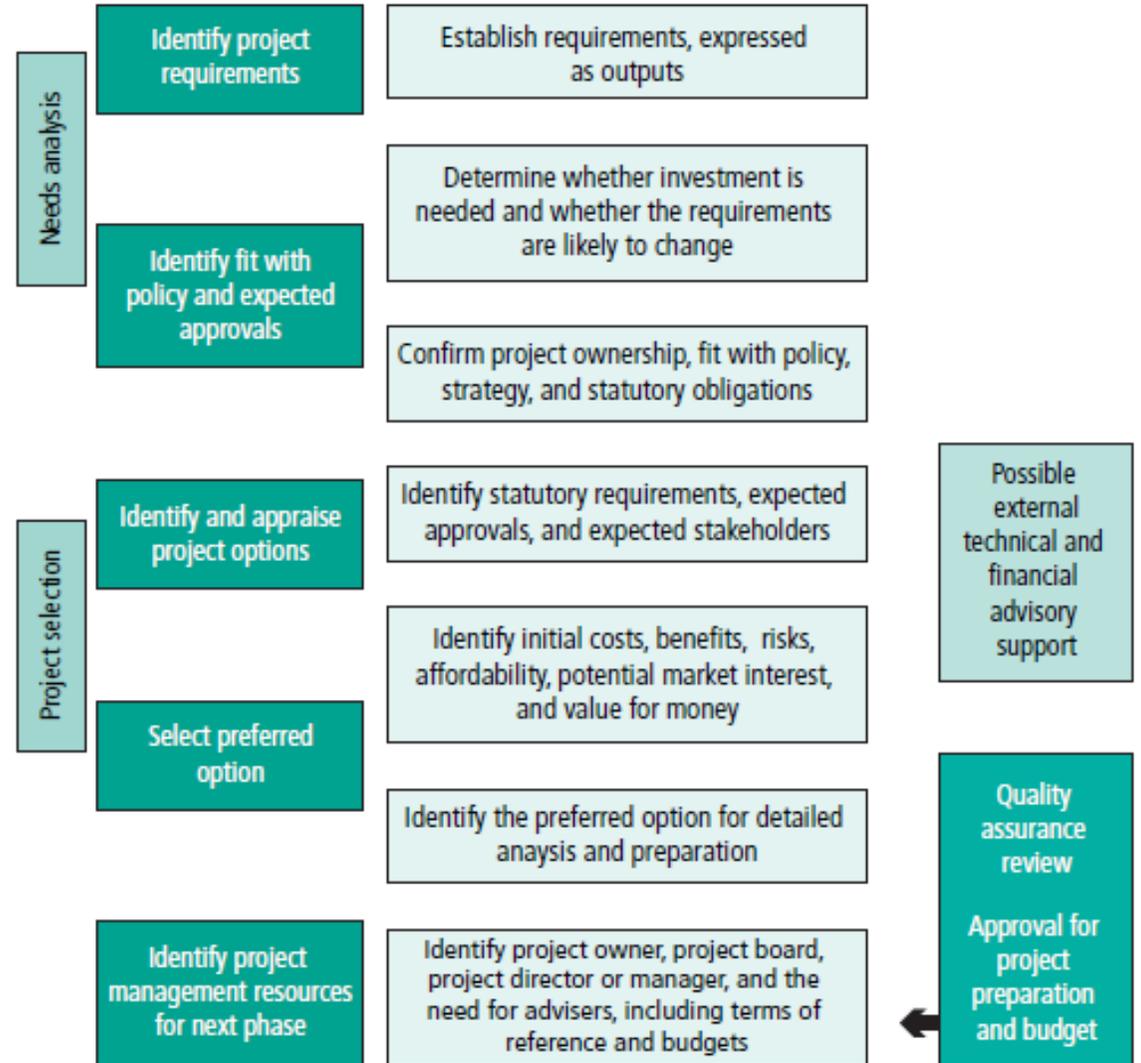
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Overview of PPPs

**Approach to selecting a PPP project**

# PPP project selection

- PPP project selection involves two main activities:
  - Needs assessment
  - Options analysis
- PPIAF has a useful outline of the stages of project selection



## Needs Analysis

The needs analysis gives definition to the proposed project, preparing the way for the options analysis

**Specify the outputs**

**Ensure alignment with National and Local policy objectives and needs**

**Identify Local Government financial and institutional capacity**

**Define the scope of the project**

## Needs analysis – defining the output

- In identifying a PPP project, the focus is on the output required not the input
- The Local Government's ultimate requirements must be identified clearly and unambiguously
  - This involves a switch from the traditional public procurement approach which focuses on inputs

### Components of input driven approach

- Local Government prepares detailed specifications that describe the infrastructure required to deliver a service
- Local Government is responsible for the design and planning of the project, all statutory requirements and costs that may arise due to unforeseen circumstances
- Contractor is only responsible for what is covered in tender specifications
- Specifying inputs excludes the possibility for alternative solutions which bidders could come up with

## Needs analysis – defining the output (cont.)

- PPP projects are driven substantially by output specifications, which allow for optimal risk transfer to the private party and ensure greater value for money
- The Local Government leaves the design of the infrastructure to the private party
- For policy or strategic reasons, the Local Government may provide some input requirements
- Example of outputs for a secondary school infrastructure
  - Specify the accommodation standards (no of beds per room)
  - Catering, cleaning, maintenance standards
  - **NOT the actual materials**

### Output process steps

- Describe the service the Local Government needs to deliver
- Specify the outputs required to deliver the service
- Assess whether the output specifications can meet ongoing needs
- Specify key indicators to measure performance
- Identify any linkages with other services of the Local Government

Instead of procuring infrastructure, the Local Government should be thinking of procuring the service with specified output

## Needs analysis – Alignment with policy and needs

- The project must fit into a broader policy and strategic plan or mandate
  - This will improve the likelihood of success of the project
- Alignment must be on a supply and demand basis:

### Policy alignment (supply)

- How does the project contribute to Government's policy?
- Does it provide an essential public service?
- Is there political support for the project

### Demand driven

- Is there a demand for the project?
- Can this be translated into revenue, or is purely social?
- Is there a willingness to pay?
- Is the project a priority from the users perspective?

**Projects with a combination of a clear market demand and demonstrable public sector support will be most attractive to private sector investors**

## Needs analysis – Local Government capacity

- There needs to be a clear assessment of the Local Government's capacity to manage, process, evaluate, negotiate and implement the project
- It is important to identify where a lack of capacity exists – and what form it takes
  - Technical
  - Managerial
  - Financial
- Is there sign-off on the project's outputs at the right level?
- Are there other Government departments involved?

**EXAMPLE**

Genesis is currently exploring a PPP for a Hydro Power Plant across two African countries

### Local Capacity issues:

- Lack of ownership from Government departments
- Different Ministries involved, with little communication
- No clear outline of what each Government is responsible for
- Key sign-off Ministry (Ministry of Finance) is barely involved

## Needs analysis – Local Government capacity (cont.)

- **Financial capacity is crucial**
- What is the capacity of the Local Government to finance the project?
  - Fully, in part?
- It is usually assumed that the Local Government will not be fully able to finance the project, hence the consideration of a PPP
- What is the financial capacity for future budgetary commitments
  - How much will be required over what period of time (contingencies for escalations must be included!)
  - What is the revenue model for the project (Are users going to be charged?)
- Is financing going to come from other Government sources?
  - National
  - Other departments?

## Needs analysis – defining scope of the project

- Defining the project's scope is to bring clarity to the process.
- The projects scope summarises the main elements of the needs analysis and must include the following:

Summary of output specifications

Summary of how the project aligns with needs and objectives

List of local Government capacity and gaps

Identify available budget and financing

## Options analysis

The options analysis sets out the range of possible technical, legal and financial options for delivering the required service to the output specifications

**Identify and List  
all options**

**Evaluate each  
option**

**Choose the best  
solution option**

## Options analysis – Listing all options

- The Local Government must list all possible options it has considered
- This must cover the range of the most viable options for providing the specified outputs
- What are some options?
  - Will it be a greenfield or expansion of some existing infrastructure?
  - Lease an existing infrastructure?
  - Pure Public provision or will the private sector play a role in some form?
  - What kind of Government support is possible?
- Beyond just a list – each solution option must be clearly described, outlining its key components, assumptions and dependencies
- A solutions matrix can be developed

## Options analysis – Evaluating each option

- Each option must be clearly evaluated against a standard set of criteria

### Legislation and regulations

- Does a particular option comply with relevant legislation and regulations?
- Is it possible for a private party to provide a particular solution option? (e.g. state security functions)

### Human resources

- What are the human resources requirements and costs for each solution?
- What is the impact on the Local Government's institutional capability?

### Market capability

- Is there capability in the private sector to deliver the required service?
- Do the output specifications restrict which suppliers can be used? (facilitating competition)

## Options analysis – Evaluating each option (cont)

### Financial impacts

- Provide a preliminary view of financial impact of each options
- Show estimated initial capital and operational expenditure over the project cycle

### Funding and affordability

- How will each option be funded?
- Which options are affordable?

### Risk

- Preliminary discussion about the risks to Government
- Also assess which risks could be passed to a private party

## Options analysis – Evaluating each option

- Each option must be clearly evaluated against a standard set of criteria

### Technical analysis

- A comprehensive technical analysis must be presented for each option
- Each proposed technology must be assessed for appropriateness

### Service delivery arrangements

- What are the arrangements for each option, and how will they be enforced?
- What are the implications of each option for linkages with other services?

### Socio-economic impact

- What are the impacts on the surrounding society?
- How does the project align with the Local Government's social mandate?

## Options analysis – selecting the best option

- A matrix approach can be used to weigh up the evaluation of each option against another

	Legislation	Market capability	Financial Impact	Funding	Risk
Option 1					
Option 2					
Option 3					
Option 4					

- The best solution will:
  - maximize the likelihood of achieving project objectives
  - minimize the likelihood of problems occurring later
  - improve management of risk and its consequences
- Not doing the project in certain circumstances is a viable option

## Options analysis – assessing the project for a PPP

**A PPP is NOT a solution option. A PPP may be a procurement choice for a preferred solution option**

- In evaluating each solution option, there should be an initial assessment of its potential as a PPP
- If the solution option looks likely to be able to be procured through a PPP, it will be fully tested as such subsequently
- If more than one option is recommended for which PPPs may be possible, each must be separately assessed
- If the preferred solution option cannot be procured through a PPP, the Local Government should identify if other funding options are available
  - If not, it may be necessary to revisit the needs analysis to redefine the projects outputs and scope

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