Regional and Municipal Governance of Public Private Partnerships

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Introduction

This module concentrates on the issues important to those who will be setting up PPPs and who are involved in government at a regional or municipal level. The module is centred on five tasks, namely:

- How to identify PPP opportunities and to find the best private sector partners for a PPP;
- How to organize a PPP programme within a government by enhancing cooperation amongst the relevant departments and ministries, local, regional and national authorities;
- How to be an effective manager and leader in a dynamic PPP unit;
- How to engage public support for PPPs;
- How to use international instruments to increase investor confidence.

Each task is treated as a section in its own right. Each section begins by identifying the relevant learning outcomes to be achieved in terms of the specific skills to be developed and the knowledge that is to be gained. The training commences by presenting an outline of the relevant knowledge, drawn from an extensive literature review of PPP projects in the UK, Canada, Australia and mainland Europe. In addition, lessons learned from in-depth research of early PPP projects in the Republic of Ireland are drawn upon. Solutions to the issues that are central to each section, which have been developed and refined in these markets, are identified. Each section ends with a proposal of a training activity that will develop the skills for the section.
Section 1. Identifying PPP opportunities and finding the best private sector partners for a PPP

Learning Outcome:

- The trainees will be able to identify projects that are suitable to PPP;
- The trainees will understand the criteria to be applied in identifying the best private sector partners for a PPP.

Knowledge:

- The different types of PPP
- The issues to be considered in determining suitability of a project to PPP
- The ideal type of private sector partner for a PPP
- The building of the Partnership relationship.

Skills:

- Development of PPP suitability criteria
- Application of criteria for PPP suitability
- Reporting on suitability of projects to PPP
- Partnership building

There is a significant amount of advice available in the public domain on this task. However, there are several different types of PPP and it is better to first decide on the types of PPP that are appropriate for your circumstances. From there, the needs for provision of public sector services and facilities should be assessed and the best PPP opportunities identified.

PPP can be defined as a contractual arrangement between the public sector and the private for the purpose of designing, planning, financing, and constructing and operation of projects which would be regarded traditionally as being within the remit of the public sector. This is a broad definition that encompasses all types of PPP. However, the main types used are summarised as shown in Table 1.
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<td>Build Own Operate (BOO)</td>
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Table 1: Types of PPP

**General Considerations**

The general issues that must be considered in choosing the PPP type will include:

- The requirement to examine the project needs, so that typical suitable projects can be identified;
- The authority making the decision on project type should be very clear as to which public body will be in ultimate control of the project;
- The bankability of the project must be obvious. Otherwise, the private sector will not be interested. A profile of the potential users should be considered to establish whether or not the users alone will pay the amounts required to make the project feasible;
- Ultimately, either the users or the pubic sector must pay the private sector for what is provided. The manner in which this return will be made available must be decided upon;
- The relative importance of the needs of competing projects must be assessed;
There must be a clear case for carrying out the project with a justification for replacement of what is currently provided.

In addition there are a number of specific issues that must be explored such as:

- Demography
- Risk
- Capital Value and Deal Flow
- Availability of Capital
- The type(s) of private sector partner(s) required

### Demography

A PPP project will only deliver value if it is used to the planned extent for the full duration of the project. Consequently, the demography of the locality in which it is situated, and the projections for changes in that demography over the lifetime of the project, must be considered. In addition, the extent to which the demographical make up of the locality would be suitable for a PPP must be considered. The public sector will therefore consider questions such as:

- Will the population exist to justify the project over its entire life span?
- Are there any indications that there will be a change in the make up of the population that might change the demand for the project?
- Are there likely trends to the population that indicate the changes that will be necessary to the project over its life span?

### Risk

PPP projects are often promoted as a means of spreading risk onto the private sector. However, it is important to note that, whilst the private sector is very well placed to carry some risks, there are also some of the risks that are best carried by the public sector. In fact inappropriate transfer of risk will result in a lowering of the value for money of the project as a PPP. The public sector will therefore consider such issues as:

- The long-term risk profile of PPP projects (see Figure 1);
- What are the risks that the public sector wishes to transfer to the private sector?
- At what price is the private sector likely to accept these risks – if at all?
- What risks are appropriate for the public sector to retain? What risk cannot reasonably be carried by the private sector?
Bidding for a PPP is expensive. For example, it has been estimated in Ireland that the total bidding costs of a PPP project with a capital value of €100 million where three consortia are involved, can be in excess of €6 million.² Clearly, the longer a consortium stays in the bidding process the greater the loss will be in the event of being unsuccessful. Bidders will therefore only engage in such an expensive process if the rewards of success outweigh the risks of failure. In addition, the public sector costs of bringing the project to the market are also higher as consideration must now be given to the ongoing management of the operational period and to the projections of the income/expenditure relating to the project over its entire lifespan. As a result, the projects that are considered for PPP are all of a large scale nature. In Ireland, it is highly unlikely that a PPP project with a capital value less than €35 million would be procured as the economies of scale would not exist to justify PPP for such a project. In addition, private sector bidders are reluctant to bid for one-off projects of relatively low capital value. However, if it is likely that a series of such projects will come to the market, the private sector will then be able to spread some of its bidding costs across a number of projects, thereby reducing the risks associated with losing a bid. This release of a series of similar projects is known as Deal Flow.

**Availability of Capital**

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The cost of a PPP will be greatly influenced by the availability of capital on the global money markets at the time of release of the project. Bearing in mind that the project lifespan will typically be anything from 20 to 35 years, the projections for the cost of capital over the project lifespan will determine the overall cost of the project to the public sector. In addition, the cost of capital to a government is likely to be lower than the cost to a private sector organization. However, this difference should be assessed in relation to the cost of the risk to be transferred and in the efficiencies that the private sector operator might bring to the operation of the project. It is also worth remembering that, of the total lifecycle costs of a building, at least 80% is accounted for in the operational phase of its life. It is possible therefore for significant savings to be achieved in the operational phase through the use of PPP thereby outweighing the cost advantage of government borrowing for the capital cost of the facility.

**The type(s) of private sector partner(s) required**

In any partnership, the compatibility of the partners is crucial to its success. In a PPP, the partners will have a working relationship stretching over a period up to three decades or beyond. Considering that the bidding and negotiation period can be as short as a few months, it is essential that the public sector partners are in no doubt as to their requirements in a private sector partner.

In its narrowest sense, a partnership can be defined as a contract between persons engaged in a business. Development of the true partnership environment is concentrated more on a wider view of partnership. A true partnership consists of three levels as shown in Figure 2.

![Figure 2: The Levels of Partnership](image)

The “Spirit” level represents the willingness of each partner to examine means by which a common approach can be found to resolving an issue. At this level, there must be a common understanding of the issue to be resolved and a willingness to

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work together to solve the issue. Once the Spirit level has been achieved, the partners can enter the “Cooperation” level and set about cooperating to resolve the issue. This would involve the setting of joint goals and deciding on the means by which the resolution of the issue would be approached. The “Formal Partnership Agreement” level is the point whereby a legally binding agreement is drawn up and entered into by the partners.

The effectiveness of the operation of the partnership at each level is therefore dependent on the degree to which the partners have first worked through the preceding outer level. Regrettably, the emphasis is often placed on the Formal Partnership Agreement level with much less emphasis being placed on the preceding levels. This reflects the public sector attitude that the rules of the partnership are of primary importance in that accountability can be assured. The private sector attitude would be more concerned with the outcome of the partnership. As a result of this difference in attitude and the fact that the public sector attitude defines the way in which the partnership operates, there is often no evidence of agreement on common project aims, of cooperation to identify and reduce project risk or of trying to maximise value as a team. As the two sectors have traditionally worked for decades under adversarial contracts, it is not surprising that such a spirit of partnership and level of cooperation would not exist.

The ultimate aim of a PPP is to produce a facility for a period of 25 plus years in a manner that will provide best value for the state and its citizens. To achieve this aim, it will be necessary to fully understand the needs of the users, the working needs of the people who operate the facility and the needs of the community that the facility is to serve. It will also be necessary for the users and the community at large to be aware of the limits to which the state can go in order to meet these needs. Consequently, it will be necessary for the public sector to spend some time in gaining the necessary understanding of the needs of the eventual users and in briefing the users on the limits to which it can go to meet these needs.

Once PPP has been identified as a potential route, a PPP Assessment should be carried out to confirm whether or not PPP is to be the preferred method of procurement. On completion of this exercise, the public sector must place all available information in the public domain and invite prospective private partners to join in the development of the initial level of “Spirit” in the partnership. In most countries, a mechanism for this process already exists at present in the public briefings that the public sector conducts in order to establish market interest in the project. Following from this, the “Cooperation” stage can begin with open consultation whereby the private sector can be invited to work with the public sector in establishing overall project aims and in defining the outcomes that can be expected from the project. From there, the bidding phase can proceed, resulting in the “Formal Partnership Agreement” i.e the PPP contract.
Training Exercise

Scenario
Two cities 100km apart are currently linked by a single carriage road that carries in excess of 20,000 vehicles per day. The road is in a poor state of repair and requires replacement.

Exercise
Divide the training group into small groups of 4/5 people. Each group must spend 15 minutes addressing one of the considerations addressed above, i.e:

- Demography
- Risk
- Capital Value and Deal Flow
- Availability of Capital
- The type(s) of private sector partner(s) required

Each group should use a flip chart to record the issues to be investigated. After 15 minutes, each group rotates and the next group adds their thoughts to the original group’s findings. This continues until all groups have addressed all of the considerations. The original groups then return to their initial flip charts and summarises for the entire training group, the entirety of what is to be addressed under each consideration.
Section 2. Enhancing cooperation to organize a PPP programme

**Learning Outcomes:**

- The trainees will be able to establish where PPP is most likely to be successful;
- The trainees will be able to identify the role to be played by a central government body with responsibility for national level PPP.

**Knowledge:**

- The concerns that individuals have about PPP
- The criteria for choosing a suitable pilot project
- The way in which common policies were developed elsewhere

**Skills:**

- Comparative analysis of two or more potential PPP pilot projects.
- Gathering information for compilation of a report
- Presentation of a report about suitability of a project as a PPP pilot.

In embarking on PPP, a government meets numerous obstacles. There is often reluctance in the public sector to accept that the private sector should have a role in providing public services. There is a fear of loss of employment opportunities, a suspicion that the private sector is being allowed to make excessive profits from services that are paid for from the public finances and a fear that it may increase the possibility of corruption. In addressing these fears, the government must take a systematic approach to PPP use and, in doing so, must broach the following questions:

- What are the arguments in favour of PPP?
- Which departments are most likely to be receptive?
- What are the issues that will need co-operation?
- Which projects would make good pilots?
- What similar initiatives have been tried in similar countries?
- What are the advantages of development of common policies?
- What are the circumstances that require the support of a Central PPP Unit?

**Why PPP?**

Many countries have an infrastructural deficit, which has arisen from inadequate investment in infrastructure over a number of decades. Few countries have the funds to directly provide the capital for the required infrastructural development PPP from their own resources. In addition, many new developments in technology have appeared in the construction and facilities management markets and these
developments have been adopted by the private sector in a bid to gain competitive advantage. Large state organisations, not being in a position where they are subject to such competitive forces, now see that the private sector may be in a position to provide facilities traditionally provided by the public sector at a price below that the public sector can provide the facility itself. In such circumstances, it is appropriate that a mechanism is used to procure the facilities concerned by non-traditional means.

Two issues arise immediately in the move to PPP. Firstly, there must be a transparent mechanism that will establish whether or not the private sector can provide the same level of service over the life of the contract at the same or lower cost to the state. A number of mechanisms have been developed for this purpose, such as the Public Sector Benchmark (PSB) which is used to establish the feasibility of PFI projects in the UK. This is a complex instrument and requires strong expertise in the prediction of financial markets as well as in-depth knowledge of the actual costs of current public services. Secondly, PPP provides an opportunity to transfer certain elements of the project risk to a private sector partner. With such risk transfer, it is essential that only those risks that are best carried by the private sector are transferred.

**Which Departments will be likely to be receptive to PPP**

In adopting PPP, a government department is taking on a new way of operation. Traditional project procurement involves securing central funding, producing a design, putting the project out to tender, appointing a contractor, supervising the work in progress, accepting the finished project and handing it over to another part of the public sector which will run the newly constructed facility.

PPP requires a different process. Firstly, an assessment as to the suitability of the project for PPP is carried out. This is followed by a detailed appraisal stage that includes the compilation of the Public Sector Benchmark, a risk assessment and an Output Specification. The Output Specification is a major departure from the traditional process in that it abandons the use of a technical specification of the required facility and instead defines the criteria against which fitness for purpose of the new facility will be judged. Thirdly is the procurement of a PPP. This usually requires a 3 stage process comprising an initial expression of interest followed by a pre-qualification stage before submission of a detailed bid. Fourthly, the contract negotiation will follow the detailed bid stage before the contract is awarded. Fifthly, the supervision of the construction phase is different in that it is only concerned with ensuring that statutory requirements are complied with before the operational phase begins. Finally, under PPP the public sector will also have a new role in monitoring of the operation of the service or facility to agreed contract conditions.

To choose the most appropriate department it is necessary to answer two key questions, namely; which department is run by the individuals that are most open to change? And, which department has an urgent need for facilities that have been provided as pilot project elsewhere? It is likely that the answers to these questions will reveal the department most likely to be receptive to PPP.

**What are the issues that will require co-operation?**

PPP is a new way of doing business and therefore will require an acceptance of change by all involved. To achieve this change, it is necessary to bring together all of those affected and to clearly define the processes that are to be used. In most cases, the fears of those to be involved are resolved by providing information on the process
and providing training in the new tasks to be performed. In addition, new relationships across the public sector may be required. For example, the Finance department may be required to commit funds to a project before municipal planning is completed. Or state agencies may be required to work in closer cooperation – for example in the development of a new transport hub. Many issues will arise as a consequence of the scale of the projects rather than as a consequence of the use of PPP and the lessons learned from embarking on previous large scale projects will be invaluable in defining the issues.

**Which projects make good pilots?**

The pilot projects that are the most successful are varied. Roads or other transport related projects are often used as pilots as the income can come exclusively from the users through tolls. However, projects in Water/Waste Water and in Schools have also been successfully used. The most appropriate for a specific country will probably be chosen for political reasons. An outline of the types of PPP projects undertaken in Europe up to and including 2006 is shown in Table 2. Similar projects have been embarked upon in several other countries across the world.

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*Table 2: Sectoral PPP Analysis by European Country*

**What similar initiatives have been tried in similar countries?**

PPP is now established worldwide in a wide range of countries. These countries vary in the types of political system that they and in the financial state of their economies. Lessons can be learned from all of them. However, research has shown that a form of

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PPP which will work in one country will not necessarily be as successful when used in a different country. In adapting a PPP initiative from one country to another, it is essential to consider the differences between the countries under the headings of:

- Social
- Legal
- Economic
- Environmental
- Political
- Technical

For example, the social structures of Denmark and India are quite different, as are the political structures of China and Italy, the economical factors at play in Germany and Sri Lanka, the environmental factors in South Africa and Iceland and the technical issues in constructing in a climate such as exists in Russia compared with that in sub Saharan Africa.

What are the advantages of development of common policies?

PPP is a complex process. Acceptance of the process and development of confidence in the use of PPP only comes after experience in the process has been gained. Research shows that public sector workers are generally cautious by nature and require clear rules within which to operate. Clear policies and procedures are therefore essential.

However, initial development of a PPP programme sometimes sees different practices developing across different departments, resulting in different interpretations of the policies. There is a danger that this will in turn create uncertainty in the private sector thereby increasing the perception of the level of risk that pertains to different projects. Ultimately, this could result in higher bid prices as the market attempts to insulate itself against risk.

In developing the initial policies, it is essential that all government departments are working from the same set of rules. This brings clarity to the responsibilities of the public sector employees and increases the transparency that is required to develop private sector confidence in the emerging PPP market.

What are the circumstances that require the support of a Central PPP Unit?

There a number of circumstances that prevails on developing PPP as a procurement option within a country which will require the support of a Central PPP Unit. Firstly, standard PPP policies and procedures must be developed. These must be developed in a consistent manner and clearly lay out the process from choosing suitable projects up

EATON, D., AKBIYIKLI, R., DE LEMOS, T., GUNNIGAN, L., OZEN KUTANIS, R., CASENSKY, M., LADRA, J. & EL SAWALHI, N. (2007) An Examination of the Suitability of a UK PFI Model within the Czech Republic, the Republic of Ireland, Palestine (Gaza-West Bank), Portugal and Turkey International Journal of Construction Innovation, Vol 7, No 1


to and including the means by which the operational phase and eventual handover will be approached.

Secondly, there is a need for support of the diverse agencies of government that will use PPP to procure facilities and services. Many of these agencies will not have a regular level of involvement in the PPP market but will need to use PPP should it prove to be the most appropriate procurement route. The lessons learned from involvement of a diverse number of such agencies and departments in the Irish PPP pilot programme resulted in a Centre of Expertise in Procurement (CEP) being formed within the Central PPP Unit, to manage the PPP process up to the operational phase. This central unit does not manage projects in the roads sector or the water/wastewater sector as these sectors have developed significant in-house management structures and have established a considerable level of on-going deal flow in their project type. The CEP however, is particularly relevant to the sectors in which significant deal flow has not yet developed.

Thirdly, there is a need to take an overview of the developing PPP market internationally and to develop an awareness of changes that are occurring that could have an effect on the domestic PPP market. This can be achieved through developing links with similar Units in other countries and becoming involved with international initiatives in PPP. It is necessary that a Central Unit would perform this function as the smaller agencies/departments are unlikely to have the resources to do so.

Fourthly, there is a need to keep an overview on the ongoing need for development of the policies and procedures so that they are always appropriate to a PPP market that is continuing to develop worldwide.

Training Exercise

Scenario

A group of senior public sector employees have been asked to prepare a report for government on the feasibility of introducing PPP.

Exercise

Divide the training group into small groups of 4/5 people. Each group must spend 30 minutes preparing a presentation for section of the report that addresses one of the questions in this section. Each group will then make a 10 minute presentation to the entire training group and accept questions on the issues raised.
Section 3. Effective management and leadership in a dynamic PPP Unit

Learning Outcome:

- The trainees will be able to establish specific tasks that will arise in a PPP;
- The trainees will able identify the expertise needed to address these tasks.

Knowledge:

- The role of the two different levels of PPP Unit
- An appreciation of the range of expertise needed to manage a PPP

Skills:

- Management of a PPP Unit
- Leadership skills

There are two types of PPP Unit, that which is a central unit with an overarching role across all of the public sector PPP activity and that which confines itself to the activity of one government agency or department. This section will provide commentary on the effective management and leadership dynamic of both types of PPP units. In doing so it will examine such issues as:

- Defining the necessary expertise
- Getting the right people
- Developing the policies
- Providing support to pilot projects
- Providing information to private sector on new projects
- Developing deal flow
- Developing a public sector benchmark

Defining the necessary expertise

It is often stated in academic publications that the public sector PPP related skills of financial management and risk management are not as well developed as those of the private sector. However, there is a shortage of actual evidence to back up these statements. Public sector employees who interact on a commercial level with the private sector will already have many of these skills although they will not necessarily be specific to the requirements of PPP. To alleviate this, it is common that a number of consultants in the legal and financial fields are employed by the public sector. As these consultants are themselves private sector people, this brings a new dimension to the operation of the public sector team.

The PPP process follows through a number of stages as illustrated in Figure 3. Each stage will require the development of a number of different skills to address the following tasks:
• the compilation of a PPP Assessment at Detailed Appraisal Stage;
• preparation of a detailed Risk Assessment;
• use of Output Specification as the primary means of providing information on which a tender is based;
• the management of the procurement and construction phases of the PPP;
• the development of a contract that will exist for 20-30 years;
• the need for the public sector to adopt a regulatory role during construction;
• the operation of the facility or service by the private sector;
• the role of the relevant government agency in the monitoring of the operation of the service or facility to agreed contract conditions;
• the process of review of the PPP contract.

Figure 3: Typical Stages in a PPP

Getting the right people
It has already been stated that public sector employees are generally cautious by nature. The nature of public sector employment tends to place a high value on
protecting the interests of the state and on protecting those that make decisions on behalf of the state, by having clear rules by which public sector employees operate. In that environment, when something goes wrong, any ensuing investigation into the cause will first seek to establish if the appropriate procedures were followed. If they were, then the public sector employee is generally not held to blame, the cause being identified as a defective procedure. In the private sector, the employees are rewarded for achievement and to reach the required levels involves a degree of risk on behalf of the employee. If the employee is successful, the financial rewards usually follow.

In a PPP, the public sector employees need to understand their counterparts in the private sector and vice versa. Then, when the partnership is being formed, common project objectives can be established and all parties must work equally towards meeting these objectives. This approach was evident on the National Maritime College of Ireland (NMCI) PPP project. Whilst each partner was fully aware its own obligations, the private sector partner employed a person with maritime experience in the key operational planning position. The public sector team was given significant decision making executive authority at project level and some time after the project reached the operational stage, the primary public sector management position was filled by a commercial manager who took a view that maximizing private sector return would minimize the need for public funding for the operation of the project. The result is a very successful partnership that continues to exceed both public and private sector targets.

The right people for a PPP will be those who can see beyond the procedures and look at the outcomes of the project as a whole. These people will use the rules of the public sector to achieve the project goals rather than seek to ensure rigid application of the rules prior to considering the overall required outcomes of the project.

**Developing the policies**

There are a variety of issues to be addressed in the development of PPP policies and procedures. Firstly, the actual stages to be followed in the process must be clearly defined. These will probably loosely follow those outlined in figure 3 but will be localised as suggested in the previous section. Secondly, the procedures for addressing each of the stages will then be defined. For example, in Ireland, 15 different guidance notes were originally prepared for this purpose. Many of these were subsequently amended as the experiences of PPP identified areas where improvement could be achieved. Many of these policies will be developed from the experiences of other countries, but again it is essential to localise them to the cultural and working environment of the country in which they are to be used.

**Providing support to pilot projects**

The government agencies and departments that embark on the initial PPP projects will be at a disadvantage in that they are learning the process while building up the necessary skills. During this time, such agencies will need the support of a central unit to ensure that the correct procedures are adhered to and that expertise is made available as and when required. Support will also be needed in defining the changes that the agency will need to undergo in order to discharge its duties under the PPP Contract Agreement.
Providing information to private sector on new projects

Developing private sector confidence in an emerging PPP market requires careful planning. The private sector, in particular the financial sector, will be cautious of new untested markets and will regard them as riskier than established markets. The work of promoting the market to potential partners is an essential element of the role of a central PPP unit as the departmental units are unlikely to have the resources to organise such activities in a coordinated cross-departmental manner. As the domestic PPP market emerges, it essential that potential partners are getting the consistent coherent message that PPP is a viable option.

Developing deal flow

As stated earlier, deal flow must be established to ensure that the private sector develops confidence in the market. A PPP unit, central or departmental, should therefore endeavour to release a series of similar projects on to the market. This will build confidence and develop a healthy bidding market for PPP projects of a particular. In addition, it will build the public sector expertise in specific project types.

Developing a Public Sector Benchmark

An essential task that must be resolved in the early use of PPP is the reassuring of the public that PPP delivers as good (or better) a product or service for the same (or lower) cost. It is difficult to prove this as it needs to account for the capital cost, the operational costs over the lifespan of the project, the maintenance and repair costs and an allowance for the value of the risk transferred to the private sector. In addition, a value must be placed on the 3rd party income opportunities that will arise during the life of the facility and on the capital worth of the facility at the end of the PPP period. This must then be compared to the cost of providing exactly the same facility through traditional procurement. This comparison is carried out by compiling the PSB, an exercise that is extremely complex, particularly for the public employees embarking on PPP for the first time. Again, the public sector is likely to employ consultants to carry out this exercise, at least on the initial projects.

The political significance of the outcome of the public sector benchmark exercise should not be underestimated. Varying political pressures exist for funding for a variety of projects and the decision to choose PPP for a specific project must be justified.

Training Exercise

Scenario
The government has decided to embark on a pilot programme of PPP involving eight projects in the transport, education, waste water and health sectors.

Exercise
Divide the training group into 2 groups – one to concentrate on the concerns of a Central PPP Unit, the other on those of a Departmental PPP Unit. Each group will be further subdivided and will each address the issues that have been raised above in the effective management and leadership of a dynamic PPP Unit.
Each subgroup should use a flip chart to record the issues to be investigated. After 15 minutes, each subgroup rotates and the next subgroup adds their thoughts to the original subgroup’s findings. This continues until all subgroups have addressed all of the considerations of either the Central or Departmental PPP Unit. The two main groups then examine the differences in approach that will be needed in the development of the two Units.
Section 4. Engaging public support for PPPs

*Learning Outcomes:*

- The trainees will be able to identify the issues to be addressed in gaining public support for PPPs;
- The trainees will be able to establish a strategy for gaining public support for the use of PPP on a specific project.

*Knowledge:*

- The common public perceptions of PPP
- The requirements for a viable and profitable private sector in a developing economy
- The means by which PPP and Traditional project can be compared in terms of value and cost.

*Skills:*

- Comparative analysis of two or more potential PPP pilot projects
- Gathering information for compilation of a report
- Presentation of a report about suitability of a project as a PPP pilot.

Whilst the pressing need for political support will be an obvious consideration for a government, politicians must eventually face the electorate and be accountable for the progress that has been achieved during the period of government. Generally, the public at large will not understand the concept of PPP and, at the outset of a PPP programme; the public will be suspicious that government appears to be to privatising state services.

The fear of a loss of public sector employment will be an issue, as will the fear that the private sector will make excessive profits from the services that should be provided by the state. In addition, introduction of tolls and service charges can generate public disquiet and there may be a feeling that the new service will be totally profit focussed rather than being focussed on the end user. To address these issues, the government will require clear strategies for the following:

- Communication with the public of what is meant by PPP
- Development of an understanding of the right of the private sector to a reasonable profit for satisfactory delivery of a product/service
- Providing clarity on the alternatives to PPP and the cost of such alternatives
Communication with the public of what is meant by PPP

It is important that the public realises that:

1. PPP is not privatisation;
2. PPP is designed with value of service in mind as well as value for money;
3. Conditions of employment can change when a service is delivered by PPP but clear guidelines for such change can be written into the contract agreement;
4. People must still be employed to run the service, whether it is a PPP or otherwise;
5. The alternative to tolls and/or services charges may be an absence of the service.

Communication of these messages should be prioritised in the early stages of a PPP programme and the successes of the emerging projects highlighted. In Ireland, the opposite occurred, where a lack of public information led to wild claims being made in public of the erroneous political judgement in using PPP. The opponents of PPP had their position strengthened with the publication by a government body of a highly critical report of one particular project. What was not reported was the fact that several of these projects were successful and that one in particular (the aforementioned NMCI Project) was a world class example of how PPP can be used successfully.

Development of an understanding of the right of the private sector to a reasonable profit for satisfactory delivery of a product/service

In many minds there is a reluctance to accept that private sector profits are essential for the development of an economy. This view is particularly strong amongst those who support strong left wing political principles. It is easy to attack the concept of making a profit in public services. For example, it has been said that PPP in the health service is allowing the private sector to make excessive profits from the fact that people are ill. It is also easy for the press to create headlines from such statements. It is much more difficult to explain the need for availability of reasonable profits for private sector PPP partners. To achieve this outcome, it is advisable to set targets derived from the Public Sector Benchmark and to report progress against these on a regular basis. In addition, the level of service being delivered and the extra value of the project related specifically to it being a PPP (aggressive development of 3rd party income, for example) should be highlighted at every possible opportunity.

Providing clarity on the alternatives to PPP and the cost of such alternatives

In the provision of public sector facilities and/or services, the government must choose from a number of procurement routes that potentially could deliver the desired outcome. In such circumstances, the options should be assessed and each should be considered under the same criteria of value for money, risk, and quality of service. Using common these criteria should indicate the most appropriate alternative, and the outcome of the assessment should be available in order to dispel the fears of the
opponents of specific procurement routes. It can emerge that there is no viable alternative to PPP. Nevertheless, it is still necessary to produce a Public Sector Benchmark in these circumstances to show the real cost of the alternative to the public.

**Training Exercise**

**Scenario**

A new road is required between two major towns. Due to the amount of capital and the potential for design difficulties with a bridge on the route, the government agency with responsibility for transport is understood to prefer PPP as the procurement strategy. However, it is anticipated that there would be considerable opposition to tolling of the route, as the current road is not tolled. A group within the Central PPP Unit has been assigned to examine the alternatives and report back to the government department with responsibility for roads.

**Exercise**

Divide the training group into three small groups. Each group must spend 30 minutes preparing a presentation for section of the report that addresses one of the following issues comparing the choices consequences of choosing the project by PPP or by traditional procurement:

- Value for money
- Risk
- Quality of the facility

Each group will then make a 10 minute presentation to the entire training group and accept questions on the issues raised.
Section 5. Use of international instruments to increase investor confidence

Learning Outcome:
- The trainees develop a basic understanding of some of the international instruments that can be used to increase investor confidence.

Knowledge:
- Bonding of investments
- Export guarantees

Skills:
- Analysis of potential PPP projects in terms of bonding criteria
- Analysis of the issues that overseas investors will take into account when considering investment in PPP in your country.

The finance for a PPP project will be raised by the private sector using a combination of equity, internally generated cash flows and debt. The private sector project partners will generate some of this finance from within their own resources, but usually some further finance will be required from other investors. In most cases, these investors are international financial organisations that will be cautious of investing in markets that have untested PPP markets. In such cases they will protect their investments by taking out insurance through a monoline credit insurer. A monoline credit insurer only insures credit lines and is now common on PPP project. Monoline insurers will base their costs on the risk rating applied to each project across a range of risks. The lower the overall risk on the project the higher the investment is rated. Ratings run from triple A (AAA), for a highly rated investment and drop down through, AA, and A to BBB and below for less attractive investments. The majority of monolines will seek to insure only the AAA rated investments.

The Central PPP unit should therefore make itself aware of the criteria that are used to produce the rating and endeavour to ensure that the project can produce a rating that will attract investment from the foreign investment markets.

Another mechanism for attracting investment is to enter an agreement with another state, where in order to boost trade with your country, the other state will partially, or wholly in some circumstances, act as an underwriter for an investment of one of its native companies in your country. These agreements work as export guarantees, where the service of financial investment is being sold. Similarly to the circumstances where a physical product is exported, the investment is now the item being exported and guaranteed.

These agreements are made at a very high level between countries and will be out of the control of the PPP Unit. However, the unit must develop the awareness of the
decision makers that the possibility for such agreement exist and thereby gain access to trade missions to and from countries that might consider providing such guarantees. As with the

Training Exercise

Scenario
A core group of public sector workers has been convened to establish the issues, relating to potential domestic PPPs, which must be highlighted to an overseas trade mission.

Exercise
Working as a full group, prepare a list of the main points to be considered. Record these on a flip chart.
Break into separate sub groups of 4/5. Each sub group will consider separate points for 20 mins, using flip charts to record their thoughts. Then rotate the sub groups so that each can add to the work of the others.
Conclusion

This module concentrates on the issues important to those who will be setting up PPPs and to those who are involved in government at a regional or municipal level. The module presents training that is centred on five tasks, namely:

- How to identify PPP opportunities and to find the best private sector partners for a PPP;
- How to organize a PPP programme within a government by enhancing cooperation amongst the relevant departments and ministries, local, regional and national authorities;
- How to be an effective manager and leader in a dynamic PPP unit;
- How to engage public support for PPPs;
- How to use international instruments to increase investor confidence.

Each task has been considered separately and a training exercise presented through which specific issues can be explored and the skills needed to undertake the tasks can be developed. This entire module can be used as a course or as a series of short training exercises depending on the needs and availability of the trainees.