

# Tailoring appropriate PPPs

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**Policy makers should design a PPP strategy that will identify which options will best respond the policy objectives of the national road network and the appropriate timing to implement them. Reforms of the public sector towards a more commercial management of the highway sector and the adjustment of the legal, economic and financial framework gradually result in an environment most suitable for PPP projects.**

This gradual approach does not mean that several options cannot be simultaneously implemented on separate parts of the network. Some countries have been very successful in designing a comprehensive PPP strategy involving performance-based maintenance contracts on regional roads and toll road concessions on the most heavily trafficked national roads.

It is important to bear in mind that the choice of a PPP solution should not be the result of any kind of unilateral decision and should be part of a clearly established decision making process compatible whatever the PPP solution. Designing an effective PPP should start with the identification of the main project fundamentals and in particular look at specific issues as well as considering a number of fundamental aspects.

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No two projects are identical and a solution, even with proven efficiency, cannot be replicated mechanically. This is particularly true for PPP. For any given environment, there is no single solution but a range of possibilities from among which the decision maker has to choose.

Each project characteristic is interrelated with others. Initial project evaluation may elicit some knowledge of these interrelationships but it may not be until the project preparation stage that they can be analyzed, possibly with options, and then a choice made when they are fully understood.

Experience is a key factor of success in such a delicate fine-tuning exercise. Good project preparation (studies) with the appropriate advisory support is essential for decision makers in government to be able to make these considered judgments.

Constraints imposed on a PPP project can be:

- objective constraints such as from the type of PPP (Module 1), project background and project characteristics (Module 2), the available legal framework (Module 4) or within the implementation process (Module 5) or,

- subjective constraints from choices, objectives, political and social acceptance of private participation or enforcement capacity of the Government (Modules 3, 4 and 5).

Such constraints can be thought of as areas not to be entered if the project is not to be jeopardized. The area of the possible solutions is between these boundaries.

A suitable PPP framework with an effective long-term reform process to remove those constraints will help in increasing the size of the PPP pyramid (Module 1 -> Overview of PPP Experience -> Application of PPP), opening the field to a wider range of possibilities.

## Key project characteristics

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The following key project characteristics need to be defined in order to determine the suitability of the PPP route and to identify the possible PPP options which may be suitable.

**The nature of the project:** The scope of PPP is very wide and features to be considered are significantly different (e.g. between a feeder road and a motorway)... However, any highway project may be suitable for PPP; the actual potential and type of PPP depending on the specifics of each project.

The availability of data from initial project preparation which assesses the suitability of projects for implementation under PPP, shall assist highway authorities in the planning of their overall public road program and budgets.

**Project investment cost:** Independently from the institutional setup, the cost of the project will be conditioned by the type of infrastructure (high-speed road, gravel road, bridge or urban ring road), its size (road or network length, volume and features of structures) and other features such as adverse geology, environmentally sensitive area, etc. For BOT-type concession projects, the transaction costs are generally higher than public procurement; as a result, a minimum investment cost for the PPP route is generally determined by PPP planners. Usually this minimum cost would be fixed at **USD 50 million**<sup>1</sup>, although in some cases, as much as USD 100 million can be regarded as

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<sup>1</sup> The UK PFI program is no longer considering projects with a capital value of less than £20 million (USD 40 million), as other procurement routes are deemed more appropriate.

appropriate. BOT-type projects with a low unit cost such as 2 lane highways or gravel roads would thus require more kilometers of project to be incorporated into the package. However, this limit is less of a consideration for simpler forms of PPP (eg PBC contracts).

**Sources of benefits and potential revenue:** The benefits and revenue depend considerably on the level of the transport demand (traffic volumes) with the project and they may or may not be independent of the PPP option adopted.

The implementation of tolls will require trade-offs between financial and economic objectives (Module 3 -> Sector Planning and Strategy -> Planning Process -> Socio-economic Evaluation -> Economic versus financial analysis).

The assessment of potential revenue will be the central issue in all PPP options, but the projected revenue of each project will have different implications and notably concerning Project Finance schemes. For example, a project that can charge tolls at a level such that revenues can cover costs (i.e. cost recovery) will naturally be assessed by stakeholders differently from a project that has insufficient revenues and will require some type of government support

**Socio-economic features of the project area:** This includes a description of the area of influence, population (volume and distribution), characteristics of production and exchanges, access to/from economic centers, access to social services (health, education facilities), various social aspects (gender development, etc.). If the project is a component of an overall poverty reduction oriented policy, PPP design shall take these issues into account as well as describing the monitoring process to be implemented in order to check whether these objectives are being addressed after project implementation. These features will ascertain and justify the level of government support to the project.

Function of the project in the road network and the transportation system: This is a necessary step within program and project preparation (Module 3 -> Sector Development). The pattern may vary considerably according to the characterization of the reference (no project) situation and to the response provided by the project to the gaps identified. The project will probably influence transportation time, transport cost, structure and volume of flow; but the quantification and share of each impact will be specific to a given project. Indirect effects (employment), externalities (safety, environment) also vary significantly depending on the specific functions of the project or program.

## PPP Options

**The differences in project fundamentals, country constraints and government objectives prevent policy makers from opening a catalogue and choosing a ready-made solution to identify whether PPP offers good prospects, the functions that could be entrusted to the private sector and which types of solution are appropriate and could be implemented.**

Labels used in PPP jargon such as turnkey contracts, BOT (Build, Operate, Transfer), DBFO (Design, Build, Finance and Operate) PFI, Concessions or performance-based maintenance contracts (PBC) are useful to describe some of the broad options of PPP projects but rarely have single, clear definitions (Module 1 -> Defining the Partnership -> Main Types of PPP). In fact, each PPP solution is too complex and too unique to be characterized in one word or acronym. To define clear-cut categories would always result in projects falling between two categories as their characteristics apply to several categories. In other words, there are an almost infinite number of solutions that seem better described by a continuum than by categories.

Although it will not be possible to apply universal rules and recommendations, defining a PPP solution still requires answering the following fundamental questions:

- 1 What is the scope in PPP terms of the Project i.e. what is to be assigned to the private sector to produce?**
  - Which tasks (design, build, maintenance, operation, financing, etc.) are delegated to the private sector?
  - What is the level of initiative (autonomy) allowed of the private sector and how is it controlled?
  - Will the project be implemented as a single link or as part of the network within a pooling (aggregating) system (geographical area, types of roads)?
- 2 How are risks to be managed?**
  - What are the risks and how will the project risks be allocated between the public and private sectors. How do risks evolve during construction and operation?
- 3 How will the project costs be reimbursed?**
  - What type of cost recovery system (tax payer or direct and/or indirect user, specific taxes, dedicated resources, private sector remuneration linked (or not) to recovered costs, external costs, etc.)?
- 4 What is the fiscal impact or implications for Government?**
  - Which methods of financing (Government budget through taxes and loans, national savings or international funding, private financing with or without support from Government or International Funding Institutions (IFIs) are possible and suitable)?

The fact that each of these questions has a wide range of answers resulting in an almost infinite variety of combinations leaves the project designer with the difficult task of adjusting project parameters appropriately in order to suit project needs.