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Public Policy Issues in PPP

Proinversion and World Bank

Requirements of a PPP Program

- 1. Overall Program requirements.
 - A. Legislative framework.
 - B. Central agency leadership:
 - Finance or treasury or PM or President.
 - C. Single procurement agency.
 - Clear powers. Political independence. Expertise in decision making. Low turnover.
 - D. Access to external expertise - technical, legal, financial.

Requirements for a PPP Program

- E. Transparent, credible process.
 - More bidders, better prices.
- F. Planning requirements.
 - Early engagement. Ruthless focus on outcomes not mechanisms.
- G. Stakeholder engagement
 - Unions
 - Union pension funds.
 - Opinion leaders
 - Academics
 - Media

Requirements for a PPP Program

- H. Smart Planning
 - Early Wins
 - (BF in Ontario)
 - Public ownership of the asset
 - 5 principles
 - Protecting existing jobs
 - Union support (neutrality)
 - Language can matter, PPP vs. AFP vs. Sustainable Infrastructure
 - Public opinion survey

Requirements for a PPP Project

- A. Competitive marketplace?
- Is there technical ability in marketplace?
 - Are there local companies capable?
 - Consider BF training?
- What is financial appetite locally?
- Investor knowledge?
- Lenders
 - Market tour? See Israel example.
 - Banks vs bonds.
 - Lifeco's
- Equity players
 - Pension funds of unions
- Local content requirements.

Requirements of a PPP Project

- B. Planning cycle and political stability
 - Non-political process:
 - Technical assessment
 - Value for money
 - Choice of winning bidder
 - Political choices:
 - Support of a P3 program
 - Creating community/public support
 - Choice of investments for public funds
 - Local content requirements (transparent)
- Short timeframes, limited extensions:
 - Increases interest:
 - Less cost
 - Less uncertainty of closing
 - Reduces time for political backlash or new party

Requirements for a PPP Project

- C. Output specifications and public consultation.
 - Stakeholder acceptance
 - Doctors, nurses, patients, hospital boards
 - Other government agencies
- D. Value for Money assessment
 - Legitimacy tool.
 - Clear, transparent assessment.
 - Timing: Before proceeding with P3.
 - After bid submission
 - Who makes decision to proceed

Requirements for a PPP Project

- E. Project Management skills for government team
 - Coordinates government approach
 - Decision-making authority on like-to-have vs must-have
 - Keeps process moving.
 - Assesses market risk appetite (when is no bid a real risk?)

Requirements for a PPP Project

- F. RFQ Requirements and process
 - 3 bidders required
 - Ontario IT example

Requirements for a PPP Project

- G. Project Agreement
 - Value for money assessment on risk allocation (during negotiations)
 - What risks remain with public sector and why.
 - Early engagement of lender input - key arbiters of risk allocation.

Requirements for a PPP Project

- H. Design and specification review process.
- I. Financial commitment at bid submission.
 - Proposal validity period
 - Reduce post bid changes.
 - Fewer lender imposed changes and delays after bid. (Lender commitment to close at bid.)

Requirements for a PPP Project

- J. Ensuring Operational Oversight
 - Project Agreement provisions
 - Monitoring expert and reporting
 - Line Ministry or procurement agency decision-making?
 - Expertise in relevant agency

When PPPs fail

- One-off P3s can be risky for the public sector
 - Insufficient experience on both sides to transfer risk or price it properly
 - Higher transaction costs
 - Insufficient public sector expertise
 - Insufficient focus on output specifications
 - Experienced P3 markets will deal better with P3s than markets that do fewer P3s.
- Insufficient long term capital
- Counterparty risk – government or agency rating and reliability
- Inefficient and lengthy process
 - Unclear or changing criteria
- Inadequate risk transfer

When PPPs fail

- Asset class issues
 - IT, technology
 - Technology challenges (nuclear)
- Overly ambitious programs
 - Insufficient market readiness
 - Overly aggressive risk transfer (price and legitimacy challenges)
- Legal process issues
 - Enabling legislation inadequate
 - Legal climate uncertain
- Preventing public failures
 - Agency reactions: 2008 crisis reactions
 - Substantial completion payments
 - Refinancing
 - Flexibility