Sustainable PPPs in Practice: 
*Project Preparation, Procurement, and PPP Contract*

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Development Reach
THE Impact of IFC Clients in PPPs:

- **70+** active PPP projects
- **6.7 million** people gained access to infrastructure & services
- **$5.7 billion** in private investment facilitated in FY17
- **$22 billion** in private investment facilitated in last 10 years

Harvesting Opportunities for Overcoming Challenges
16-17 JAN 2019
Public-Private Partnerships Conference
PPP Project cycle

1. Preparation
- Assess PPP options / perform market sounding
- Define transaction structure
- Market to investors
- Prepare Request for Proposals (RFP) and PPP Contract
- Conduct tender
- Contract Signing
- Financial Close

2. Procurement
- Due diligence and Strategic Options
- Fiscal evaluation
- Preliminary marketing
- Transaction marketing
- Pre-qualification stage
- Pre-bid conference
- Bidder due diligence (data room)
- Request for Proposals and PPP Contract - Q&A and negotiations
- Contract signing

3. Contract management
- Contract implementation
- Monitoring of KPIs
- Reporting requirements
- PPP Contract implementation

~4-6 months
~6-12 months
~17 or more years

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Sustainability in Practice: PROJECT PREPARATION

1. **Establish project need and viability (financial and bankability) in the context of government plans/priorities**
   - **Economic**: Project’s fundamental economics? Benefits/costs? Externalities?
   - **Technical**: Technical feasibility?
   - **Financial**: Cost? Revenue stream? Fiscal impact?
   - **Legal**: Sound legal and regulatory basis?
   - **E&S**: Impacts and mitigation? Are stakeholders accounted for?

2. **Assess private sector appetite and capacity early on** – what are the benefits of private sector participation?

3. **Will a PPP deliver Value for Money** – match needs with requirements, and be the best use of resources?

4. **Optimize risk allocation in the transaction structure** – identify project risks, determine how best to mitigate these, and who is in a better position to bear them

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Sustainability in Practice: PROJECT PROCUREMENT

- Competitive tender process → innovation and efficiency gains
  ✓ Know your partner – screening of minimum technical and financial capability (prequalification)

- Transparency, clarity, and fairness
  ✓ Equal sharing of information/resources
  ✓ Tender documents define clear process and requirements for bid evaluation and project implementation

- Sufficient time for bidder due diligence (data room)

- Allow review and comments of PPP Contract and Request for Proposals and limit post-award negotiation
  ✓ Pre-bid conference, Q&A and one-on-one meetings

- Define bid parameter to maximize value for money
Sustainability in Practice: PPP CONTRACT

- Identification, evaluation, allocation and management of risks – at the heart of effective PPP contract design
  - Risks should be borne by the party that is best able to manage them – least cost
  - What needs to be transferred is risk capital: feel the “pain” and “gain” of decision

- PPP Contract – robust yet flexible to withstand the test of time
  - Parties have different objectives - PPP contract needs to align incentives

| Convert performance risk into obligations structured as financial incentives or penalties related to performance | Demand risk (AP? MRG?), liquidated damages, KPI penalties, securities, long-stop date, reserve account, E&S |
| Consideration for potential shocks – demand fluctuations, FX, inflation | Tariff escalation formula, reserve accounts, refinancing |
| Build in checks and balances | Independent consultant, reporting, arbitration, step-in rights, termination |
| Mitigate residual risk e.g. political force majeure, regulatory risks | Guarantees, insurance |

*AP = Availability Payment, MRG = Minimum Revenue Guarantee, KPI = Key Performance Indicators*
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