



Establishing Public-Private Partnerships for ICT Initiatives

26 February – 1 March 2007
Amman, Jordan



Tendering & Procurement Techniques for PPPs in ICT

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February 27, 2007

Session Overview:

1. Purpose, Goal & Objectives of PPP Procurement
2. PPP Procurement Options
3. Stages of Competitive Tendering
4. Lessons Learned & Good Practices
5. Case Example

Goals of PPP Procurement

The process and the result of selecting a private PPP contractor should be:

- ✓ **Fair:** All qualified and interested private bidders should have an equal opportunity to participate in the selection
- ✓ **Equitable:** The outcome should offer equal treatment to affected groups & stakeholders
- ✓ **Transparent:** The process should be publicly defensible and open to independent review
- ✓ **Competitive:** Competition is necessary in order to maximize Value for Money. Without competition the overall benefits of PPP are severely challenged.
- ✓ **Cost Effective:** Competitive tendering for large PPPs can take a long time (1.5+ years), significantly adding to its “transaction costs.” Selection of procurement techniques should weigh the relative size of transactions costs against the projected Value for Money benefits.

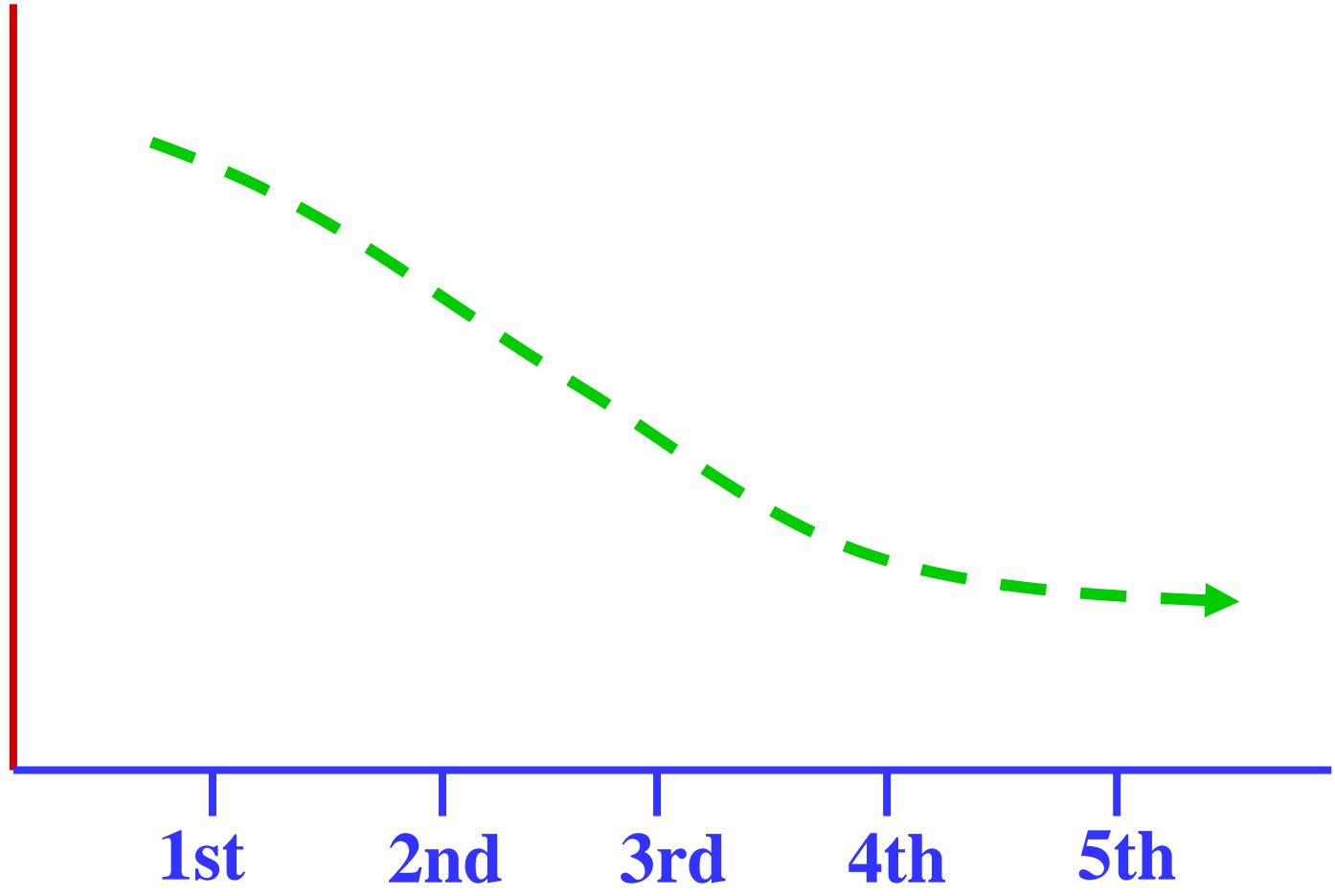
Is Competitive Tendering for PPP Necessary?

- Funds spent on Unitary Payments to PPPs are *public* funds and they tend to be quite large. Public Confidence in PPP is increased if selection of contractor's is open to fair competition.
- Value for Money is maximized through competition
- According to analyses of over 2,500 PPP transactions, PPP contracts awarded through open competition are much less likely to be renegotiated, to have unscheduled prices/tariffs increases, to enter into dispute, to be cancelled, or to impose new “implicit liabilities” on fiscus. (WB PPI Database & L. Gausch)
- Competition incentivizes both public & private sectors to thoroughly analyze risks, allocate risks, and prepare risk mitigation *up-front*. Without competition, too many risks are left to be dealt with later... (at the expense of public's VFM)
- Competitively procured PPPs have shorter construction periods
- However, competition does impose costs of longer procurement periods and higher bid preparation costs on both public & private sectors

PPP Procurement Frameworks must reduce transaction costs over time to be sustainable

**PPP
Transaction
Costs (\$):**

- Preparation Times,
- Development Costs,
- Financing Risk Premia
- Opportunity Costs, etc.



Sequence of PPP Transactions

PPP Procurement Standardisation:

- ✓ Standardised Templates for PPP Feasibility Studies & Project Structuring Proposals (PSCs, RA-PSCs, VFMs, Risk Analyses & Allocations, etc.)
- ✓ Standardised Pre-Qualification Documents (RFQs) & Shortlisting Procedures
- ✓ Standardised Requests for Proposals (RFPs) & Bid Evaluation Procedures
- ✓ Standardised PPP contracts:
 - General, cross-sector standard PFI contract provisions
 - Standardised sector contracts (hospitals, schools, roads, Office Space, public facilities, water, IT, etc.)
- ✓ Standardised PPP Contract Management & Performance Monitoring structures

PPP Procurement Options:

- **Larger PPP Projects:**
 - Open Competitive Tendering (among qualified, short-listed bidders)
- **Smaller PPP Projects:**
 - Competitive Negotiations
 - Swiss Challenge: Allow others to beat the incumbent bid
 - Direct Negotiations (“Sole Sourcing”)
 - Unsolicited Proposals

Step 1: Appoint the Govt. Project Procurement Team:

- Headed by Project Manager given full-time responsibility. Manager should have had substantial procurement experience
- Team should also include technical, legal, financial and project management experts. Recently some teams have included a “Pro-Poor Specialist” to ensure that poverty reduction opportunities are maximized
- Project team should have power to make decisions, to accept feasibility study, to implement its recommendations, to select & hire transaction advisors, and to approve final awards.
- Steering committee should have broad representation in the Government, and include some public members
- Continuity: Members should serve thru final negotiations

STEP 2: Implementing the Recommendations of PPP Feasibility Analyses & Proposed Structure

- A (technical) feasibility study is *not yet* a complete PPP Project. Other feasibility analyses must be completed (tech, econ, enviro & social, financial, etc.) Plus the commercial viability (PPP) analysis
- Proposed PPP project risk structure must also be complete (risk ident., allocation matrix, & mitigation)
- Implement key feasibility analysis recommendations before PPP is viable:
 - Approval of Public Funding & Supports
 - Acquisition of Land (Donated or sold to Project Co.)
 - Adjustments of End-use Tariffs
 - Clarifications of Asset ownership, legal titles, use, etc.
 - Completion of Ancillary infrastructure (connections, feeders)
 - Permits, approvals & licenses
- Retain experienced PPP Transaction Advisors
- If necessary, revise Project Structure prior to tendering

PPP Transaction Advisors:

- Experienced PPP Transaction Advisors help procurements proceed faster & better than without
- Serious, experienced, & long-term private PPP investors have more confidence in tenders (fairness & transparency) managed by experienced transaction advisors, than without
- UK, Australia, S. Africa, New Zealand and other Govts. with long experiences in PPPs (who *could* do much of this tendering without outside advisors) still insist on using transaction advisors to best manage large “lumpy” PPP project caseloads and to ensure/incent successful closures.
- Transaction advisors usually have only their basic time & expenses “paid-as-they-go” but can only make “real money” based upon success fees paid out at financial closure
- Costs of transaction advisors can initially be met through a PPP Project Development Facility (PDF). Serious private investors are willing to pay some of these project preparation costs by buying RFQs and RFPs or by adding these costs to the financial closing costs.

Step 3: Preparing & Issuing Pre- Qualification Documents

Goals of PPP Pre-Qualifications:

- For the Govt.: Generate maximum private interest in and competition for the project
- To limit number of firms (4-6) to submit detailed bids:
 - The smaller the number of actual bidders, the greater the chances a private firm could win, and the more it is willing to invest in preparing a better quality bid (rigorous, detailed due diligence)
 - Govt. evaluators only need to evaluate 4-5 detailed, good quality bids rather than a mixture of 20 – 30 from serious bidders & “brief-case companies”
- To ensure that actual bidders have:
 - ✓ Adequate, relevant sector experience (transport, public facilities, etc.)
 - ✓ Successful prior project & PPP experience with references
 - ✓ Experienced personnel & equipment capabilities
 - ✓ Financial capacity & Project Finance experience needed
 - ✓ Ability to provide other priorities (affirmative action, etc.)

Requests for Qualification (RFQs)

- For the first PPPs, it is better to include more detailed information on the project in the RFQ package than less.
- Let interested bidders know Govt. is well-prepared and has invested a lot in analyzing & structuring the project. Bidders must also be prepared invest a lot in their bid preparation as well
- What to Include in the RFQ:
 - ✓ Clear description of the goals & purpose of the project, expressed as discrete output standards & KPIs
 - ✓ Summaries (or full copies) of feasibility analyses (tech, econ, enviro., social, etc.)
 - ✓ Descriptions of proposed risk structure & risk allocation matrix
 - ✓ Draft of PPP contract(s), if available

What to include in a PPP RFQ:

- Clear instructions to Interested Bidders to following in submitting EoIs
- Formats & Templates to follow for required submissions on:
 - Organizational & legal structure of the consortium (how will it be owned & managed? Decisions made? Who will be in charge?)
 - Listing & describing relevant technical capability (sector project experience and PPP risk experience)
 - Financial capacity of consortium, including prior experience with PFIs & project-backed financing
 - Personnel expected to work on project. Roles & CVs
 - Experience with affirmative action & other Govt. priorities
- Interested bidder's comments on the proposed risk structure of the project

PPP Pre-Qual Evaluation Guidelines

- General Experience:
 - Years of experience in the sector
 - Rule of thumb = 5 years or more
 - Implications in a sector where there are few competitors
 - How to define in case of consortia or joint ventures?
- Particular Experience:
 - Required number of similar “PPP” contracts completed
 - Rule of thumb = Minimum of 2
 - Should be within the last five to twenty years, depending upon length of contract being procured
- Remaining criteria should be project-specific, for example
 - Experience meeting similar KPIs
 - Rule of thumb = Should expect bidder to demonstrate experience at a level equaling 70% of what is expected under contract being procured

PPP Prequal – Evaluation Guidelines

- Financial Requirements:
 - Required average annual turnover
 - Rule of thumb = No less than 1.5 - 2 x average annual revenue generated by service to be operated (multiplier can be lowered for larger contracts)
 - For larger contracts, will restrict the field of competitors
 - How to define in case of consortia or joint ventures?
 - Minimum required cash flow
 - Rule of thumb = Cash flow operator would require during the number of months it takes operator's invoice to be paid
 - Should not be less than 6 months
 - Audited balance sheets
 - Rule of thumb = 5 years
 - Can be reduced to 3 years for small projects
 - May have to allow exceptions for bidders that are small firms or from countries where auditing is not standard

PPP Pre-Qual – Evaluation Guidelines

- Personnel Capabilities:
 - Key management positions
 - Require CVs for key personnel
 - Rule of thumb = 5 years experience in a similar position
 - Carefully define what constitutes relevant experience
- Joint Ventures:
 - Partner limitations
 - Rule of thumb = Three to five
 - Risk of default is greater with larger number of firms
- Domestic Bidder & Affirmative Action Preferences:
 - For PPP arrangements make sure domestic private sector is very strong and credible

PPP Pre-Qual – Evaluation Guidelines

- Bidders should be allowed 4 to 6 weeks to prepare prequalification applications
- Require prequal data to be broken down by consortium member for evaluation purposes
- Require power of attorney for lead firm
- Require references for each qualifying project listed under particular and general experience and *check references*
- Require statement of litigation history
- Provide applicants with standard forms in which to present prequalification information

Sample PPP Pre-Qualification Criteria

1. Experience in financing PPP/BOT or similar limited recourse projects
2. Financial strength (size & quality)
3. Preliminary conception of financing
4. Experience in implementing PPP/BOT type projects
5. Experience in construction, maintenance, and operation of PPPs in same sector
6. Experience in advanced electronic revenue collection & customer management systems
7. Individual qualifications of key team personnel
8. Organization and management structure of project company
9. Ability & willingness to ensure large local contractor participation
10. Ability to work cooperatively with a broad range of government agencies and the public

Step 4: Developing PPP Bid Documents

- Evaluate if adjustments should be made to project output standards & KPIs based upon Expressions of Interest (EoIs). Update:
 - Affordability,
 - RA-PSC &
 - Expected VfM (PPP Reference)
- Request for Proposals/Tenders (RFP/RFTs)
 - Restate clear output levels & KPIs
 - Include full copies of all project feasibility analyses
 - Include full description of project risk structure, risk matrix and full draft of PPP contract(s)
 - Let bidders know how bids will be evaluated (ie the discount rate on costs) but **not** the affordability limit.

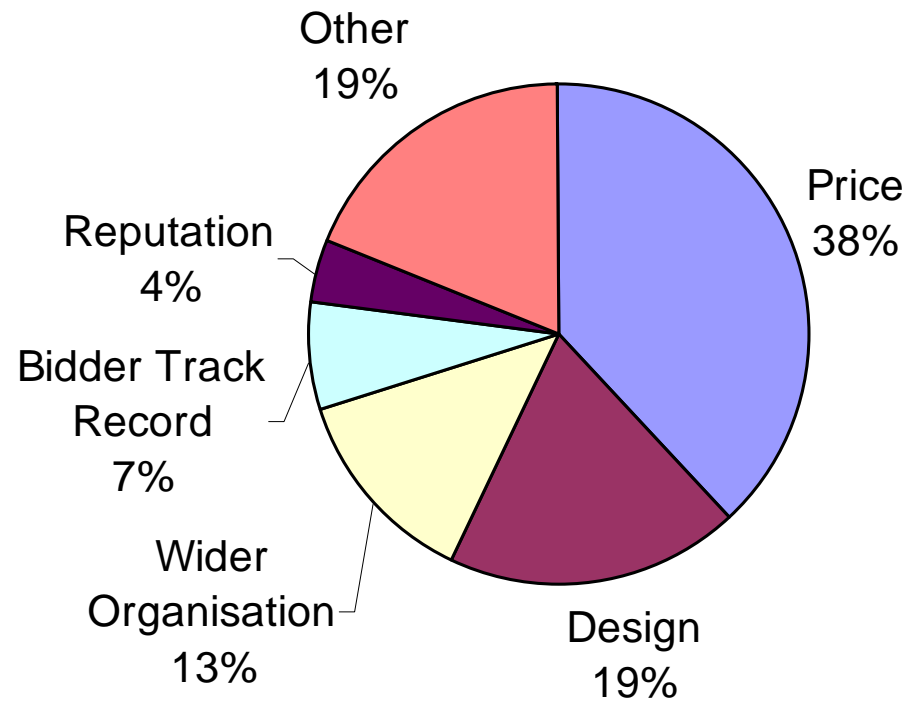
Managing Competitive PPP Bids

- Bidder's conference 21-45 Days after release of RFP
 - Instructions to bidders & Templates
- Invite bidders to submit clarification questions in writing
- Share all questions and responses to all bidders, in writing
- Depending on project need conduct a site inspection/walk-through (along right-of-way)
- Transaction advisors help ensure the process moves smoothly and delays & protestable events are minimized.

PPP Bid Evaluation: Two Envelope Process

- Minimum proposal qualification
- Technical envelope evaluated first
 - Technical clarifications requested
 - Notification of qualification (pass/fail)
 - Qualified technical proposals to next round (financial envelope)
 - Formal presentation/interview?
 - “Non Responsive” bidders’ financial envelopes are returned sealed and unopened.
- Financial envelope opened in public
- Lowest responsive bidder (on a common NPV basis) wins

United Kingdom: PFI Bidder Selection Factors



PPP Procurement Issues

- In UK, average length of time from first official advertisement of project opportunities to financial close is 27 – 29 months. Slight reduction since 1992
- In the UK, the length of procurement periods is cited by both public sector managers and private bidders as the most important constraint to PFIs.
- UK's PFI framework accepts that rigorous due diligence by both public and private sectors is the source of PFI's ability to deliver VfM, and should not be reduced.
- The level of analysis & preparation should not be reduced, but the costs can be through:
 - Enforcing the new, Revised, Standardised PFI contract
 - Developing sector specific guidelines for PFI contract for health, education & defence
 - Systematic capacity-building on PFI procurement through



Case of Chile's "Pro-Poor" Approach to Universal Telephone Access PPPs

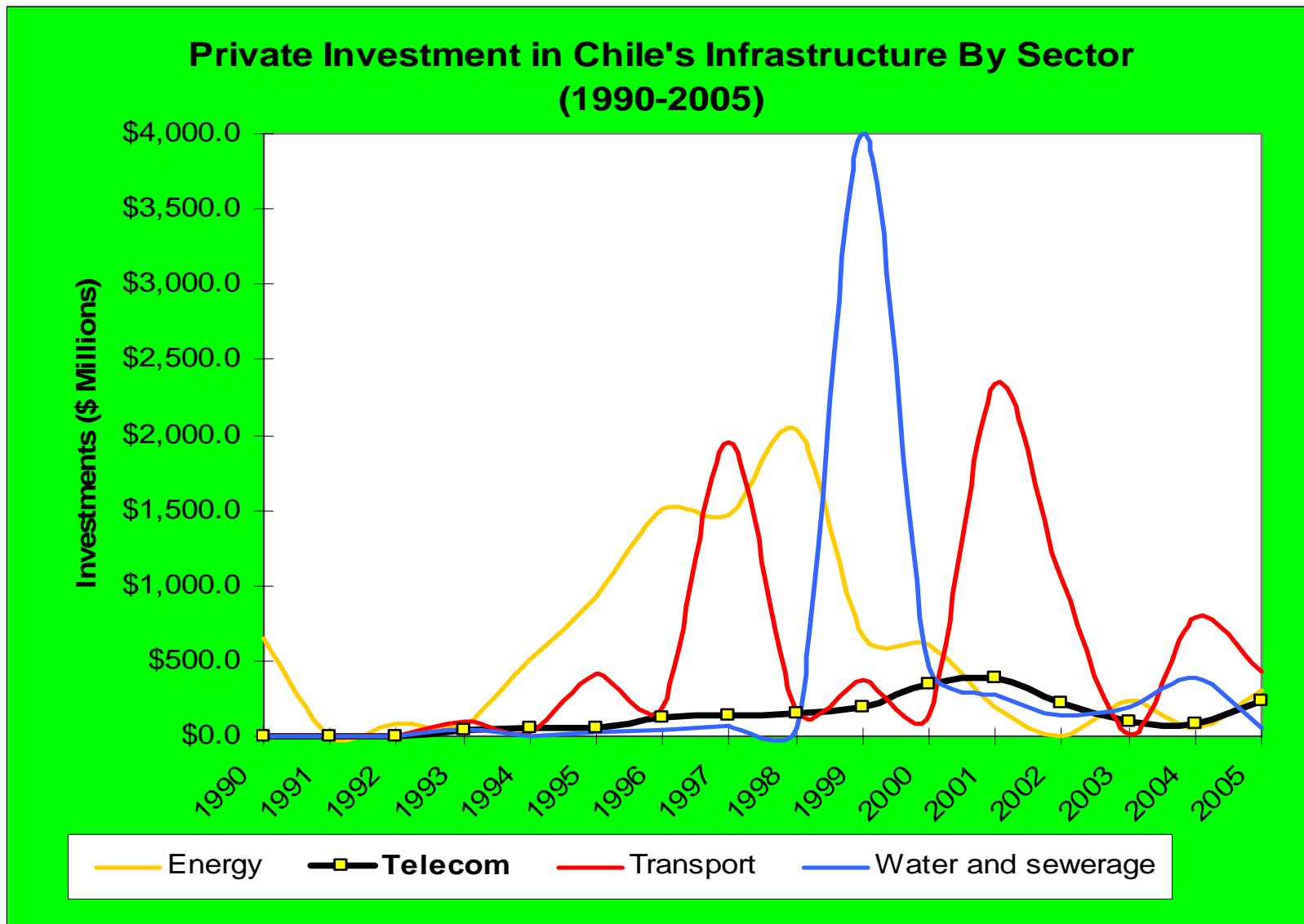
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Chile's PPP Framework:

- Beginning in the early 1980's Chile's was one of the first countries to systematically privatize commercial & industrial SOEs.
- In the late 1980's Chile was one of the first developing economies to systematically pursue PPPs in infrastructure
- With a population of just 16.0 million (2006) and GDP per capita of \$5,880 – from 1990-2005, Chile has attracted over \$25 billion of new PPP investment into its infrastructure sectors (energy, telecom, transport & water/wastewater)



Note: In 1988 the State-owned Telecom monopoly “Compania de Telefonos de Chile” was unbundled & privatized for \$478 million (\$1,400 per line) to Spanish & Italian investors

Universal Telecom Service

- While operating tariffs may be set so that low-income users can afford them, connection charges may remain unaffordable, especially in rural areas
- Universal Service in Telephony:
 - Value of the overall, national network and of each account increases as the reach of the network expands to cover entire economy, including rural areas.
 - Belief shared by regulators and by operators
 - Potential economic development on rural areas
- Who should pay for Universal Service?
 - Taxpayers?
 - Ratepayers?

Calculating the Universal Service Subsidy - Example

Cost Zone (Pop./km2)	Cost of Basic Universal Service	Nationwide Average Price	Basic Universal Service Subsidy	No. of Access Lines (\$millions)	Basic Universal Service Subsidy (\$millions)	Total Costs of Service Provision
0 - 10	\$50.00	\$28.00	\$22.00	2	\$44.00	\$100,000,000
10 - 100	\$40.00	\$28.00	\$12.00	1	\$12.00	\$40,000,000
100 - 500	\$20.00	\$28.00	(\$8.00)	2	(\$16.00)	\$40,000,000
500 - 1000	\$15.00	\$28.00	(\$13.00)	4	(\$52.00)	\$60,000,000
1,000 - 5,000	\$15.00	\$28.00	(\$13.00)	6	(\$78.00)	\$90,000,000
Total:	\$28.00	\$28.00	\$0.00	15	\$0.00	\$330,000,000
			Total Subsidy =		\$56	

Universal Service Subsidy:

- Subsidies would create incentives for new PPP entrants in rural telecom sector
- Neutral Funding Mechanism
- Total Subsidies = \$56 million
- Total Costs of Service = \$330 million
- $\$56 \text{ m} / \$ 330 \text{ m} = 16.9\%$
- Revenues generated are pooled and made available by the Neutral Funding Mechanism to authorized service providers to offer subsidized basic service

Chile's Universal Telecom Access Policy

- Chile: pop. 16 m (2002) GDP/Capita = \$9,180
- 10% of Chile's pop. (1.5 million) in rural areas have no access to basic telephony
- 500,000 households found it unaffordable
- 1994 Govt. set up the Telecommunications Development Fund to increase access to public telephones in rural and low-income areas
- Fund financed by national budget, administered by Council chaired by Telecommunications Minister, staffed by sector regulator Subsecretaria de Telecomunicaciones (SUBTEL)
- Council selects the rural telephone projects eligible for subsidies and awards them through competitive bidding by private telecom providers

Chile's Telecommunications Development Fund

- 1994 SUBTEL compiled list of 2,300 rural localities needing public telephones
- Grouped localities by geographical proximity into projects. “Access” defined as < 50 kms.
- Conducted cost-benefit analyses to estimate the subsidy needed to install one public telephone
- 1995 – First round of 46 highest ranked projects (covering 1,285 rural localities & 460,000 pop.)
- Total Universal Service subsidy provided by Telecommunications Development Fund = \$4.3 billion

Chile's Rural Telecom PPP Bidding Terms:

- Bidding documents contained:
 - Service obligations (10 yrs. term Available 24 x 7, to begin within 6 – 20 months)
 - Rates
 - Interconnections principles
 - Bidding requirements
 - Rules for awarding bids
 - Project locations
 - Number of public telephones required
 - Maximum subsidy available
- Winning bidder given nonexclusive operating license
- Licensee can set rate up maximum \$0.07 for 5 min. per call (allowable price increases indexed to wholesale inflation rate)

Chile Rural Telecom Subsidy Results

- Maximum subsidy available from TDF ranged from \$300 - \$26,000 per locality
- Average subsidy per locality = \$3,340
- Subsidy paid in current pesos as lump sum upon completion and inspection of facilities
- No further subsidies available for each facility => incentive to start up service quickly

Chile TDF Subsidies: Results

- TDF contributed 48% of the budget to complete 90% of the program
- 16 projects received bids for zero subsidy. These covered 51% of localities, or 59% of the unserved population.
- Most of the other 22 projects received bids at or near the maximum subsidy set by SUBTEL.
- Using competition and subsidies to extend service access to low income and rural residents

Questions?



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