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Annex 1.
The lifecycle of a PPP project

Annex 1: The lifecycle of a PPP project[1]

Stage 1: Identifying PPP projects

Steps	Aim	Potential methods
Identify priority public investment projects	To identify public investment projects that address clearly identified socioeconomic objectives	The processes and methodology used by governments vary; identification of priority public investment projects can include setting out sector/infrastructure strategies/objectives, analyses of the project options' ability to meet identified objectives, feasibility and cost-benefit analyses, and prioritisation of projects within the government's overall public investment budget
Screen for PPP potential	To establish – based on the available information – whether the project provides better value if implemented as a PPP rather than through traditional public procurement[2]	Analyses can include the scale of the project, opportunities for risk transfer/risk allocation, potential barriers to project implementation, availability of resources and market capability and appetite
Build an initial PPP pipeline	To identify which projects to develop first from the pipeline of PPP projects created through the screening process	Measure projects against an additional criterion to decide which to develop, first taking into account the level of development of projects, the project's ability to respond directly to identified needs and which projects have the highest likelihood of success

Stage 2: Appraising potential PPP projects

Steps	Aim	Potential methods
Assess preliminary PPP structure and design[3]	To know what the PPP project is (in terms of PPP aspects) in a preliminary way, to assess feasibility	Appraisal of the PPP aspects
Assess project feasibility and economic viability	To determine whether the project provides environmental and/or social benefits, is technically feasible in the medium term and represents the best cost-benefit option for achieving the intended results	Economic viability analysis, feasibility analysis (technical feasibility studies, legal due diligence, environmental and social impact assessments)
Assess commercial/financial viability	To determine whether the project can attract sponsors and lenders and make sufficient revenue	Financial analysis (constructing a financial model for a project and assessing its cash flows, returns and financial stability)

[1] These tables and their categories are based on the World Bank (2017), PPP Reference Guide 3.0, Module 3, Washington, DC.

[2] This screening is done at various times, depending on where in the government's broader public investment management process a project is identified as a potential PPP. It then follows a PPP-specific process. The definitive screening for PPP suitability may take place during the appraisal stage, rather than before it.

[3] Most of the aspects covered in the next stages (PPP structure and design) are addressed and appraised in a preliminary way in stage 2.

Steps	Aim	Potential methods
Assess value for money of the PPP	To determine whether developing the project as a PPP is the best value for money compared with traditional public procurement (or other options)	Qualitative value-for-money analysis; in, some cases, quantitative value-for-money assessment (comparison of the PPP option against a public-sector comparator)
Assess fiscal implication	To determine whether the project fits into the government's central budget and does not impact its broader public investment aims	Project financial model (to estimate the value of direct fiscal commitment and the cost of contingent liabilities)
Assess project management capabilities	To confirm the contracting agency has the capacity and resources to prepare, tender and manage the contract during its term	Appraisal of the current capacity of the procuring authority and any future needs

Stage 3: Structuring PPP projects[4]

Steps	Aim	Potential methods
Identify risk	To identify any risk factors that could have a negative impact on the project's value (for some or all stakeholders	Risk register
Allocate risk	The allocation of risk creates incentives for the parties to manage risk well, resulting in better value for money	Risk allocation matrices
Translate risk allocation into contract structure	To allocate responsibilities and risks together	Payment mechanisms following on from the allocation of functions and risks

Stage 4: Designing PPP contracts

Steps	Aim	Potential methods
Set performance requirements	To outline in the PPP contract what is expected in terms of quality, asset type(s) and services to be provided by the private partner and assign detailed responsibilities for each party	The PPP contract should set out: output requirements, how performance will be monitored, consequences for failure to reach performance targets (specifying penalty payments and payment deductions for poor performance and outlining a performance warning procedure) and step-in rights for the public party
Establish payment mechanism	To define how the private partner to the PPP will be remunerated	The core elements of the payment mechanism can include user charges collected by the private partner, government payments to the private party, bonuses or penalties

[4] Stage 3 and stage 4 are typically integrated process with substantial iteration, but for clarity purposes they are separated here.

Steps	Aim	Potential methods
Establish adjustment mechanisms	To establish well-defined guidelines and limits for change	For example, this can include financial equilibrium clauses that entitle an operator to modify key financial terms of the contract to offset the impact of certain uncontrollable events
Detail the dispute resolution mechanisms	To ensure disputes are resolved quickly and effectively without severely impacting the project	These mechanisms can be outlined in the PPP contracts and include mediation, conciliation, expert determination, international arbitration, recourse to a sector regulator and, in some cases, involvement of the judicial system (courts)
Detail the termination provisions	To outline termination of the PPP, contract close, asset handover or early termination provisions	The contract term and asset handover and provisions for early termination (alongside any relevant compensation payment) are typically defined in the PPP contract

Stage 5: Managing PPP transaction

Steps	Aim	Potential methods
Decide procurement strategy	To identify the procurement strategy that offers the best value for money solution to the project objectives and select a competent firm to implement this	The process and criteria for selecting the PPP contractor. This can include the pre-qualification process, the bid process, the process for negotiation with bidders and the basis for reward
Market PPP	To interest prospective bidders (as well as potential lenders and subcontractors)	This involves advertising the launch of the PPP tender process, following government requirements
Identify qualified bidders	To identify qualified bidders to be invited to submit proposals (Note: not all countries do this in advance – some assess qualification as part of the open bidding process)	This includes preparing and issuing a request for qualifications and then selecting qualified firms or consortia
Manage bid process	To select a preferred bidder	This includes preparing and issuing a request for proposals, interacting with bidders as they prepare proposals, evaluating bids received to select a preferred bidder and finalising the contract with the bidder
Reach closure	To achieve contract effectiveness and financial closure	The commercial and financial close stage is achieved when all the project and financing agreements have been signed, all conditions on those agreements have been met and the private party to the PPP can begin to draw down the financing to initiate work on the project

Stage 6: Managing PPP contracts

Steps	Aim	Potential methods
Establish contract management structures	To ensure the asset delivers a high-standard service in line with the contract, with payments or penalties being made accordingly	This usually involves appointing a specifically designated PPP contract manager (or management team) within the implementing agency, as well as establishing roles for other entities within government to help manage the PPP
Monitor PPP delivery and risk	To ensure contractual risk allocations are maintained and the parties are properly managing respective risks	This involves establishing reporting mechanisms to monitor risk and project delivery throughout the PPP cycle
Manage contract expiry and asset hand back	To ensure the required outputs for the contract have been achieved and the hand-back provisions are met	The hand-back provisions should be clearly outlined in the contract, which should include how asset quality will be defined and assessed, whether a payment will be made on asset handover and how much