



Government Support for Municipal PPPs

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Content

Municipal sectors that can benefit from PPP

Challenges faced in developing and delivering PPPs in municipalities

- Policy and institutional challenges
- Capacity challenges
- Financing challenges
- Funding challenges

How governments (and others) can meet and overcome these challenges

Questions

Municipal sectors that can benefit from PPP

Local Economic Infrastructure

- Some projects are local versions of national projects
- Some might be one-off projects or projects that can be replicated throughout the municipality
- The objective of these projects will typically be to
 - Increase productivity
 - Reduce inefficiencies in public administration or private business operations
 - Reduce negative impacts on the environment
 - Increase productive activity more generally
- Thus increasing GDP and reducing poverty

Examples of applicable projects

- Energy-saving and urban renewable projects
- Solid waste collection and treatment
- Transport and logistics
- Urban water supply
- Rural transformation
- Municipal estate rationalisation

Municipal sectors that can benefit from PPP

Local Social Infrastructure

- Depends on the extent of devolution of powers to the municipal level
- Sometimes overlap with projects classified as local economic infrastructure
- Normally necessary to provide personal public services to individuals
- The objective of these projects will typically be to:
 - Increase well-being and fitness
 - Increase educational achievement
 - Improve personal and community safety

Examples of applicable projects

- Primary healthcare and diagnostic facilities
- Urban passenger transport
- Emergency services equipment
- Car parking
- Markets
- Street lighting
- Schools and student accommodation
- Social housing

Policy and institutional challenges for municipal PPPs

- Municipal projects are typically **much smaller** than national projects
- They are often less technically complex
- They serve different types of population

BUT

- Approval processes are similar, if not more extensive
- The threshold for viability gap funding is often identical
- Procurement processes are similar
- Legal and technical documentation is usually required to follow national standards
- Separate standardized documents for processing small projects are not common.
- Due diligence requirements are similar

Capacity challenges for municipal PPPs

- The capacity to carry out specific roles in
 - PPP development
 - financing
 - implementation
- Is usually severely lacking in
 - Municipalities
 - Local SMEs
 - Local banks
- Leads to over-use of expensive technical advisers

Financing challenges for municipal PPPs

- Municipalities often have poor credit-worthiness
- Shortage, if any, financing from local debt markets – no true project finance
- Local bankers do not understand small local projects – lack of experience and lack of standard processes / documentation
- Inability to use lease-financing

Funding challenges for municipal PPPs

- Municipalities projects are more likely to be net cost projects rather than user-pay projects – insufficient financial capacity to fund
- High cost of transaction advisers
- Larger viability gap because of higher transaction costs and higher risk profile of projects
- Higher cost of contract management responsibilities
- More complex assessment, monitoring and managing of contingent liabilities

How to overcome policy and institutional challenges for municipal PPPs

- Prepare separate regulations for municipal projects:
 - Harmonising policy and tariff setting
 - Fast-track project development and screening
 - Less in-depth feasibility studies and appraisal
 - Fast-track approval subject to sensible delegated limits
 - Simplified procurement with appropriate standard processes and documentation
 - Simplified contract management

How to overcome capacity challenges for municipal PPPs

- Provide municipal project development funding
- Eliminate “just-in-case” general PPP training with “just-in-time” project-based training
- Build capacity in municipalities in
 - Developing and appraising projects
 - Running a procurement
 - Managing PPP contracts
- Improve local investors’ understanding of PPP and sectoral issues
- Develop bankers’ understanding of small PPP projects and enhance project appraisal skills
- Build database of successful municipal projects
- Provide regular events for municipalities

How to overcome financing challenges for municipal PPPs

- Provide credit-enhancement (e.g. guarantees, government infrastructure funds, etc.) with or without assistance from development banks
- Minimise credit risks in the PPP standard agreement (without undermining value for money)
- Provide funds and training to build capacity within commercial banks

How to overcome funding challenges for municipal PPPs

- Subsidise net cost projects that contribute to national priorities (vgf or similar mechanisms)
- Project development fund to offset high cost of transaction advisers
- Contribute proportionally greater vgf for small projects
- Reduce risk profile of individual projects by bundling
- Simplify contract management responsibilities
- Fund capacity building in effective assessment, monitoring and management of contingent liabilities



THANK YOU FOR YOUR ATTENTION!