EKITI STATE GOVERNMENT

PUBLIC-PRIVATE PARTNERSHIP (PPP) MANUAL FOR EKITI STATE

EKITI STATE DEVELOPMENT AND INVESTMENT PROMOTION AGENCY (EKDIPA)

EKDIPA
EKITI STATE DEVELOPMENT AND INVESTMENT PROMOTION AGENCY

PUBLIC-PRIVATE PARTNERSHIP UNIT

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Abbreviations

1	**BLT**	Build, Lease and Transfer
2	**BOOT**	Build, Own, Operate, and Transfer
3	**BOT**	Build-Operate-Transfer
4	**BPP**	Bureau of Public Procurement
5	**BTO**	Build, Transfer and Operate
6	**CMP**	Contract Management Plan
7	**DBFOM**	Design, Build, Finance, Operate and Maintain
8	**DBO**	Design-Build-Operate
9	**DBOT**	Design, Build, Operate and Transfer
10	**DOT**	Develop, Operate, and Transfer
11	**DRB**	Dispute Resolution Boards
12	**EIO**	Expression of Interest
13	**FBC**	Full Business Case
14	**EKSG**	Ekiti State Government
15	**EKDIPA**	Ekiti State Development and Investment Promotion Agency
16		
17	**EoDB**	Ease of Doing Business
18	**EOI**	Expression of interest
19	**ERR**	Economic Rate of Returns
20	**ESIA**	Environmental and Social Impact Assessments
21	**ExCo**	Executive Council
22	**FDI**	Foreign Direct Investment
23	**ICC**	International Chamber of Commerce
24	**ICRC**	Infrastructure Concession Regulatory Commission
25	**ITB**	Invitation to Bid
26	**JD**	Joint Development
27	**KPIs**	Key Performance Indicators
28	**MDAs**	Ministry, Department and Agencies
29	**MOF**	Ministry of Finance
30	**OBC**	Outline Business Case
31	**OM**	Operate and Maintenance
32	**PPPs**	Public-private partnerships
33	**RFP**	Request for Proposals
34	**ROT**	Rehabilitate, Operate, and Transfer
35	**SPV**	Special Purpose Vehicle
36	**TOD**	Transit-Oriented Development
37	**UNCITRAL**	United Nations Commission on International Trade Law
38	**VfM**	Value for Money
39	**VGF**	Viability Gap Funding

Message by the Governor of Ekiti State on the Public-Private Partnership (PPP) Manual

Our administration has prioritized creating an enabling environment for businesses to thrive. We recognize that economic growth is the foundation of improved livelihoods, job creation, and overall societal well-being. To this end, we have taken deliberate steps to enhance public private partnerships in Ekiti State.

The Ekiti State Public-Private Partnership (PPP) Manual is a comprehensive guide designed to facilitate and formalize collaborations between the public and private sectors. This manual underscores our belief that partnerships are the cornerstone of sustainable development.

Key Features of the PPP Manual:

- **Transparency:** Clear guidelines on the roles, responsibilities, and expectations of both public and private stakeholders.
- **Standardization:** A structured framework for project identification, feasibility assessments, procurement, and implementation.
- **Accountability:** Mechanisms to ensure that all parties meet their obligations and that projects deliver the intended outcomes.
- **Innovation and Sustainability:** Provisions that encourage innovative solutions and adherence to environmental and social standards.

The PPP Manual is not just a document; it is a call to action. It represents our readiness to partner with private entities to accelerate the delivery of key infrastructure and services, from healthcare and education to agriculture and industrial development.

Ladies and gentlemen, our vision is clear: to transform Ekiti State into a hub of economic excellence and opportunity. By fostering a business-friendly environment and leveraging public-private partnerships, we aim to attract investments that will unlock the vast potential of our state and its people. I urge all stakeholders—government officials, investors, development partners, and civil society—to embrace this vision. Let us work together to build an Ekiti State that is prosperous, inclusive, and resilient.

I wish to express my gratitude to all who have contributed to the development of the PPP Manual and our broader ease of doing business agenda. Your dedication and expertise are invaluable.

As we move forward, I assure you of our administration's full support and commitment to fostering partnerships that will propel Ekiti State to greater heights. Together, we will achieve extraordinary results.

Thank you, and may God bless Ekiti State.

Signed,
Biodun Abayomi Oyebanji
Governor, Ekiti State

Foreword by the Director-General, Ekiti State Development and Investment Promotion Agency (EKDIPA)

It is with great enthusiasm and a sense of purpose that I present the *Public-Private Partnership (PPP) Manual for Ekiti State*. This document reflects our commitment to fostering sustainable development through innovative partnerships that harness the expertise and resources of the private sector in alignment with the strategic goals of Ekiti State. Ekiti State has long been recognized for its dedication to excellence, transparency, and efficiency in governance. The PPP framework outlined in this manual is a testament to our government's determination to advance these principles while addressing the infrastructural and developmental needs of our people. It provides a comprehensive guide for stakeholders, ensuring clarity, accountability, and mutual benefit throughout the PPP lifecycle.

Our vision for Ekiti State is one of economic vitality, social progress, and environmental sustainability. Achieving this vision requires collaboration and innovation—principles that are at the heart of the PPP model. By leveraging private sector expertise, capital, and efficiency, we aim to deliver world-class infrastructure and services that enhance the quality of life for our citizens and create an enabling environment for investment and entrepreneurship.

This manual is the result of extensive research, consultation, and the collective effort of dedicated professionals committed to the development of Ekiti State. It is designed to be both a roadmap and a resource, providing detailed guidance on processes, policies, and best practices for initiating, implementing, and managing PPP projects. As you engage with the content of this manual, I encourage all stakeholders to embrace the spirit of collaboration and innovation that it embodies. Let us work together to unlock the vast potential of Ekiti State, transforming challenges into opportunities and laying the foundation for a prosperous future.

On behalf of the Ekiti State Development and Investment Promotion Agency, I extend my gratitude to everyone who has contributed to the development of this manual. I also urge all partners—current and prospective—to leverage this tool as we collectively advance the sustainable development of Ekiti State. Together, we can achieve remarkable milestones and set a benchmark for excellence in PPPs across Nigeria and beyond.

Director-General

Ekiti State Development and Investment Promotion Agency (EKDIPA)

27th December, 2024

1.0 Introduction

"Public-private partnership" (PPP) means an arrangement whereby a private party and a government entity enter into a contract for the provision of a public asset or service by the private party, and the private party bears the significant risk and management responsibility, and remuneration is linked to performance (section 59, Ekiti State Public Private Partnerships Law, 2020). PPP play a vital role in enhancing infrastructure development, improving service delivery, and boosting economic growth by leveraging the private sector's expertise, efficiency, and funding. The Ekiti State Government is dedicated to promoting PPPs as a strategic tool for fostering sustainable development in accordance with its long-term agenda. Public-Private Partnerships (PPPs) are collaborative ventures between the public sector (Ekiti State Government) and private sector entities to plan, finance, construct, operate, and maintain infrastructure or provide services. In line with Section 4(i) of the Ekiti State PPP Law 2020, which provides that "*The Agency may, with the approval of the Governor, make regulations generally for the purpose of this Law and in particular, without prejudice to the generality of the foregoing provisions, make regulations"*, Ekiti State Development and Investment Agency (EKDIPA) is producing this manual subject to the approval of Mr Governor. This manual aims to provide clear guidance for the development, implementation, and management of Public-Private Partnership (PPP) projects in Ekiti State.

This manual is expected to be published in the official gazette of the State as mandated by Section 4(2) of the PPP Law 2020 with the provision that "*All regulations issued shall be published in the official gazette of the State*". This manual is designed to ensure that these projects are carried out with complete transparency, accountability, and fairness, ultimately benefiting both the Ekiti State Government and the private stakeholders involved. It provides detailed procedures, best practices, and guidelines to facilitate the successful execution of PPP projects, emphasizing the importance of equitable collaboration and effective project governance.

2.0 Overview of Public-Private Partnerships.

Public - Private Partnerships (PPPs) are contracts whereby the private sector is engaged by the public sector to manage public services and/or to design, build, finance and operate infrastructure to enhance efficiency, broaden access, and improve the quality of public services. Physical infrastructure, such as transport, power, water and sanitation, agricultural facilities and communications are highly capital-intensive in nature and exert a strain on public finances and developing nations which have limited resources at their disposal to finance these types of infrastructural development. Consequently, public sector authorities are continually seeking additional sources of funding to support their initiatives. One avenue they often explore is the involvement of the private sector through Public-Private Partnerships (PPPs). This collaboration allows for private sector investment in public projects and services, providing an opportunity to leverage the expertise and resources of both sectors for the benefit of the community. PPP arrangements have been used successfully for decades by governments as a way of increasing access to infrastructure services for their citizens and economies.

3.0 Objectives of Public-Private Partnership (PPP) in Ekiti State

i. Enhance Shared Prosperity and Economic Development:
To attract private sector investment to foster economic growth, create jobs, and drive innovation within Ekiti State.

ii. Enhanced Service Delivery: to provide high-quality public infrastructure and services by leveraging private sector efficiency.

iii. Efficient Use of Public Resources: to maximize the impact of public spending by attracting private investment into the State's public projects for sustainable and responsible use of State resources.

iv. Risk Sharing: to ensure that risks (financial, operational, etc.) are shared between the public and private sectors in a fair and balanced manner.

v. Capacity Building: to build long-term partnerships that enhance the technical and managerial capacity of the State Government.

vi. To ensure value for money in the provision of public infrastructure.

vii. To leverage the expertise, efficiency, and innovation of the private sector.

4.0 Key Principles of Public-Private Partnerships

4.1 Public-Private Partnerships (PPP) are based on several key principles that guide their structure, implementation, and operation. Here are the essential principles of PPP:

i. <u>Value for Money (VfM)</u>

PPP projects should deliver better value for money than traditional public sector procurement. This is achieved by leveraging private sector efficiency, innovation, and expertise. The Projects must demonstrate that they offer increased value in terms of cost-effectiveness, efficiency, quality, and overall benefits when compared to traditional public procurement methods.

ii. <u>Risk Allocation</u>

Risks associated with a particular project (e.g. financial, operational, and market risks) should be allocated between the public and private partners in a manner that reflects their ability to manage them. The assignment of risks should be carefully considered and allocated to the party that has the most knowledge, expertise, and resources to effectively manage and mitigate those risks.

iii. <u>Transparency and Accountability</u>

PPP procedures must adhere to principles of transparency, fairness, and compliance with the statutory regulations of Ekiti State. The processes involved in the selection and management of PPP projects must be transparent to prevent corruption and ensure that stakeholders are held accountable for their actions.

iv. <u>Sustainability</u>

Projects should be financially viable and contribute to the long-term growth and sustainability of the state's economy.

v. <u>Innovation and Flexibility</u>

PPPs should encourage innovative solutions from the private sector while providing the flexibility to adapt to changing circumstances or requirements over the life of the project. PPP arrangement is expected to encourage the adoption of innovative solutions to infrastructure and service delivery challenges.

vi. Public Interest

The partnerships should prioritize the public interest, ensuring that services provided meet the needs and expectations of the community while adhering to transparency and accountability.

vii. Long-term Commitment

PPP agreements are typically long-term contracts that require both parties to have a shared vision for the project's goals and sustainability over time

viii. Performance-based Contracts

Contracts should clearly outline the expected performance outcomes, with specific metrics in place to assess the quality and efficiency.

ix. Stakeholder Engagement:

Effective communication and involvement of key stakeholders (including the public, local communities, and relevant government departments) are crucial for the success of PPP initiatives.

x. Regulatory Framework

A robust legal and regulatory framework is essential to provide guidelines for partnerships, protect public interests, and ensure fairness in procurement processes.

xi. Capacity Building

It is vital to develop the skills and capabilities of public sector personnel to manage and oversee PPP projects effectively.

4.2 By adhering to these principles, PPPs can create mutually beneficial relationships between the public and private sectors, leading to improved service delivery and infrastructure development.

5.0 Characteristics of a PPP Project

5.1 Long-Term Contracts

PPP projects requiring investment are generally long-term in nature, typically ranging from 10 to 30 years or more (note: PPP projects not requiring investment, such as management contracts, could be for shorter terms). The tenure of the contract is such that it typically covers the entire economic life of the asset to ensure that the private sector partner takes a whole life-cycle view for the development of the asset. The asset is then designed, constructed, operated, and maintained such that the whole life-cycle

cost of the project is minimised, and the private sector operator ensures that the asset is well-maintained throughout its entire economic life.

5.2 Special Purpose Vehicle

Given the capital-intensive nature of PPP infrastructure projects and the risks associated with them, private sponsors of the project often form a separate independent PPP Company, often under a Special Purpose Vehicle (SPV) structure. The rationale for SPVs is that the risks associated with a project are unique to that project and therefore should be limited to that project. In addition, when a government tender goes to market, interested private sector parties often pool skills and finances in a consortium that will form the basis of the SPV, so the implementing partners often are also unique to that project. The SPV also allows the private sector consortium to raise limited recourse funding restricted to the SPV thus protecting the parent companies from the risks of project failure.

5.3 Allocation of Risks

One key factor to achieving successful implementation of a PPP project is the optimal sharing of risks and responsibilities between the public and private sectors. The guiding principle adopted in identifying and allocating responsibilities is that the party best able to manage a particular activity should be responsible for the risks associated with that activity and receive the associated rewards or losses. For example, PPP risks typically assigned to the private sector include the proper designing and construction of the assets and that financial returns are adequate to repay loans. The public sector, on the other hand, often assumes risks related to macroeconomic stability (e.g. inflation) and land acquisition from public and private landowners.

5.4 Output Standards and Specifications

Output specifications form a vital part of encouraging innovation in PPP projects. Producing effective output specifications involves defining the ends without being prescriptive about the means for meeting these outputs. The public agency concerned states the public service requirements for the facilities and services while leaving room for the private sector to produce innovative, cost-effective solutions. The output specifications detail what needs to be achieved and not how it is to be achieved. In these types of PPP contractual arrangements, the public agency concerned makes payments to the private sector based on whether the outcome/output specifications have been met (e.g. a certain number of new electricity connections are made).

5.5 Performance-based Payment Mechanisms

A PPP can be structured in such a manner that the contract includes a performance-based payment mechanism, whereby the public sector only pays when services are delivered by the private sector. Moreover, the recurrent payment may depend on whether the services provided meet the specified performance standards as well. For example, it is not just expected that a new water distribution PPP project will provide customers with an adequate quantity of water, but also that the potable water is above specified quality standards.

5.6 Private Financing

In a PPP structure, the responsibility of financing the project assets often rests with the private sector partner, depending on the service delivery model adopted. In the models that involve funding the project assets by the private sector, the private sector partner raises project finance through equity and/or debt finance. The project is usually owned (or leased) by one or more equity investors during the project term. Some of these shareholders may also be contractors to the project, who carry out construction, design or management of the assets. Others may be pure financial investors. Debt finance, in the form of bank loans or bonds, also can be raised to at least partially finance the construction and operation of the project.

5.7 User Fees

Unlike some forms of public infrastructure, PPP projects will often recover many of their costs from users. In these cases, the PPP Company will need to recover their investment from the project revenues, i.e. mainly user fees rather than from the government directly. For example, many public, mostly government-funded, highways do not charge vehicle tolls, whereas most PPP road projects are structured as toll roads that collect revenue directly from cars and trucks.

5.8 Viability Gap Funding or Availability Payments

The PPP route will not be viable if the business case does not demonstrate that the private sector can achieve an acceptable rate of return for the risks it takes in financing the project's assets. Under such circumstances, and to cover any shortfall in income to cover total project costs, the public sector may provide a payment to part-finance the project costs, which in turn will raise the return to the private sector making the project more financially attractive. This payment called a Viability Gap Funding (VGF) or availability payment, is provided on the basis that the assets involved in the project which are used to provide the infrastructure services, are available 24 hours every day for the whole year, except for periods of pre- arranged maintenance and therefore continue to pass part of the risk to the private sector, which is one of the main benefits and objectives of a PPP structure, instead of a capital grant to assist with debt coverage and/or operating costs. A PPP is only structured to include VGF when total income does not cover total project costs to make the project financially viable and bankable and to attract private investors. Availability payments but not VGF, are also used in PPP social infrastructure or soft infrastructure projects, where the user charges are payable to the SPV or private sector services provider solely by the public sector, as part of the agreed payment mechanism for the provision of those services. In this case, the assets used to provide the services are divided into areas on the basis of importance or priority. If any of these areas are not available, then through the payment mechanism formula, the user charges that are payable by the public sector, are reduced by a percentage based on the importance or priority of the area concerned and the time that the area is unavailable, after deduction of an agreed time allowance for the SPV or service provider(s) to bring the area back to full availability.

5.9 Service Performance Standards

To ensure that the private sector concessionaire or service operator fully understands the minimum service levels that the public sector requires for the PPP project in question, the public sector project sponsor must describe in general details in the

Request for Proposal (RFP), a full set of minimum performance standards for the requested services, covering the availability of the assets provided by the private sector concessionaire and the required minimum service levels. Detailed service performance standards are then negotiated with the selected preferred bidder, as part of the PPP concession contract negotiations. These performance standards are backed by an incentive or penalty system for rewarding or punishing the private sector operator for service levels delivered above or below the agreed performance standards. In extreme cases of continuous poor performance below the agreed performance standards, the PPP contract will be terminated, or the Lenders Direct Agreement will come into operation. The incentive/penalty system is usually points-based, which translates into a monetary amount at agreed periods. The benefit to the public sector sponsor is that any penalties that are levied due to poor service performance, go straight to reduce the equity return thereby encouraging the private sector SPV management to take immediate corrective action.

6.0 Definitions of Type of PPPs

6.1 There are several types of PPP models depending on the stakeholders involved, their ownership arrangements, and risk allocations between the private and public partners. The choice of a PPP model depends on the objectives of the government (e.g. improving service efficiency, transferring investment risk, and maintaining service control).

6.2 **Public Private Partnership Arrangements** - According to section 59 of the Ekiti State PPP Law, 2020, there are several types of PPPs depending on the PPP arrangements. The different types of models for PPPs include the following:

i. Design, Build, Operate and Transfer (DBOT)
This is is a project delivery model often used in infrastructure, energy, and large-scale public-private partnership (PPP) projects. In this model, a private entity (or consortium) is responsible for designing, constructing, and operating a project for a specified period before transferring ownership to the client, typically a government entity or private organization

ii. Build, Own, Operate and Transfer (BOOT)
The Build, Own, Operate, and Transfer (BOOT) model is a project financing approach where a private entity is responsible for the design, construction, ownership, and operation of an infrastructure project for a specified period. After successfully managing the project and fulfilling its operational obligations, the private entity transfers ownership of the project to the public sector or the designated authority. This model allows for the efficient management of resources, innovation in project execution, and the ability to leverage private capital for public infrastructure development. It is commonly used in various sectors, including transportation, energy, and water services, facilitating long-term investments and enhancing service delivery.

iii. Rehabilitate, Operate and Transfer (ROT)
This is a project delivery model commonly used for upgrading and modernizing existing infrastructure or facilities. In this model, a private entity is contracted to rehabilitate or refurbish an existing asset, operate it for a specific period to recover the investment, and then transfer it back to the client, often a government or public entity

iv. Joint Development (JD)

Joint Development (JD) is a collaborative project delivery model where two or more parties, typically from the public and private sectors, work together to plan, fund, develop, and manage a project. The partners share resources, risks, and rewards based on an agreed framework, leveraging their respective strengths to achieve mutual goals.

Examples of Joint Development Projects

Transit-Oriented Development (TOD): Public transit authorities collaborate with private developers to build mixed-use facilities around transit hubs.

Energy Partnerships: Joint ventures between governments and private firms to develop wind farms or solar parks.

Public-Private Mixed-Use Projects: Developing public facilities alongside commercial spaces to fund public infrastructure.

v. Operation and Maintenance (OM)

Operation and Maintenance (O&M) is a project delivery and management model where a private entity is contracted to operate and maintain an existing asset or infrastructure for a specified period. This model is focused on ensuring the efficient functionality, longevity, and performance of the asset without transferring ownership.

Examples of O&M Contracts

Highway Toll Management: A private operator manages toll collection and road maintenance.

Water Utility Services: A company operates and maintains water treatment and distribution systems.

Power Plants: An operator ensures uninterrupted electricity generation and equipment upkeep.

vi. Design, Build, Finance, Operate and Maintain (DBFOM)

is an advanced project delivery model widely used in Public-Private Partnerships (PPPs) for large-scale infrastructure projects. In this model, a private entity is responsible for every phase of the project's lifecycle, from design and construction to financing, operation, and maintenance. Ownership typically remains with the public sector, but the private partner assumes significant responsibility and risk.

vii. Build, Lease and Transfer (BLT)

BLT is a project delivery model commonly used in Public-Private Partnerships (PPPs) where a private entity builds infrastructure or a facility, leases it to the client (usually a government or public entity) for a defined period, and eventually transfers ownership to the client. This model allows the client to use the infrastructure immediately without bearing the full upfront cost.

viii. Build, Transfer and Operate (BTO)

BTO is a project delivery model often used in infrastructure development and Public-Private Partnerships (PPPs). In this model, a private entity is contracted to design and construct an asset, transfer ownership to the client (usually a government or public entity) upon completion, and then operate the facility for a specified period under a separate agreement. The BTO model is ideal for projects where ownership must reside with the public sector but operational efficiency and expertise can be achieved through private sector involvement. It provides a

balanced approach to sharing responsibilities and risks while ensuring the asset aligns with long-term public interests.

ix. Develop, Operate and Transfer (DOT)

Develop, Operate, and Transfer (DOT) is a project delivery model in which a private entity is responsible for the development (including planning, financing, and construction) of an asset, operates it for a specified period to recover its investment and earn a profit, and then transfers the ownership or operational control of the asset to the client, typically a government or public entity. The DOT model is well-suited for projects where private sector expertise is essential in the early stages, but ownership or operational control is intended to revert to the public sector after a specified period. This model ensures resource optimization, risk-sharing, and the delivery of critical infrastructure while aligning with long-term public objectives

x. Rehabilitate, Own and Transfer (ROT)

Rehabilitate, Own, and Transfer (ROT) is a project delivery model often used in Public-Private Partnerships (PPPs), where a private entity rehabilitates or upgrades an existing asset, owns it for a specified period to recover its investment and earn a profit, and then transfers ownership back to the client, typically a government or public entity, at the end of the agreement. The ROT model is particularly useful for revitalizing existing infrastructure that is deteriorated or inefficient. It ensures that public assets are upgraded and operated effectively, while the private sector benefits from a temporary ownership and revenue generation opportunity.

6.3 **Risk Allocations between the Private and Public Partners** – there are types of PPPs, defined by the degree of private-sector involvement and risk-sharing.

Table 1: Different Types of PPP Delivery Models

Contract Type (Duration)	Characteristics				Service & Payment to Private Sector Contractors
	Asset Ownership	O&M	Capital Investment	Commercial Risk	
Service Contract (1-3 years)	Public	Public & Private	Public	Public	A definitive, often technical service fee paid by the government to the private sector for specific services
Management Contract (3-8 years)	Public	Private	Public	Public	Private sector manages the operation of a government service and receives fees paid directly by the government
Lease Contract (5-10 years)	Public	Private	Public	Private	Private sector manages, operates, repairs and/or maintains a public service to specified standards and outputs. Fees are charged to consumers/users and the service provider pays the government rent for the use of the facility.
Concession, BOT, BOO, etc. (10-30 years)	Private & Public	Private	Private	Private	Private sector manages, operates, repairs, maintains and/or invests in infrastructure to specified standards and outputs. Fees are charged to consumers/users. The service provider may also pay a Concession Fee to the government

6.3.1 Service Contracts

Under a service contract, the government (public authority) hires a private company or entity to carry out one or more specified tasks or services for a period, typically one to three years. The public authority remains the primary provider of the infrastructure service and contracts out only portions of its operation to the private partner. The private partner must perform the service at the agreed cost and must typically meet performance standards set by the public sector.

Under a service contract, the government pays the private partner a predetermined fee for the service. Often there may be some financial incentives in the contract to reduce operating costs and/or improve operating performance. The government is responsible for funding any capital investments required to expand or improve the system. One financing option involves a cost-plus-fee formula, where costs such as labour are fixed, and the service contractor receives a premium over the fixed costs for its efforts.

Advantages include:

- Relatively low-risk option for expanding the role of the private sector.
- Quick and substantial impact on system operation and efficiency.
- Means for technology transfer and development of managerial capacity.

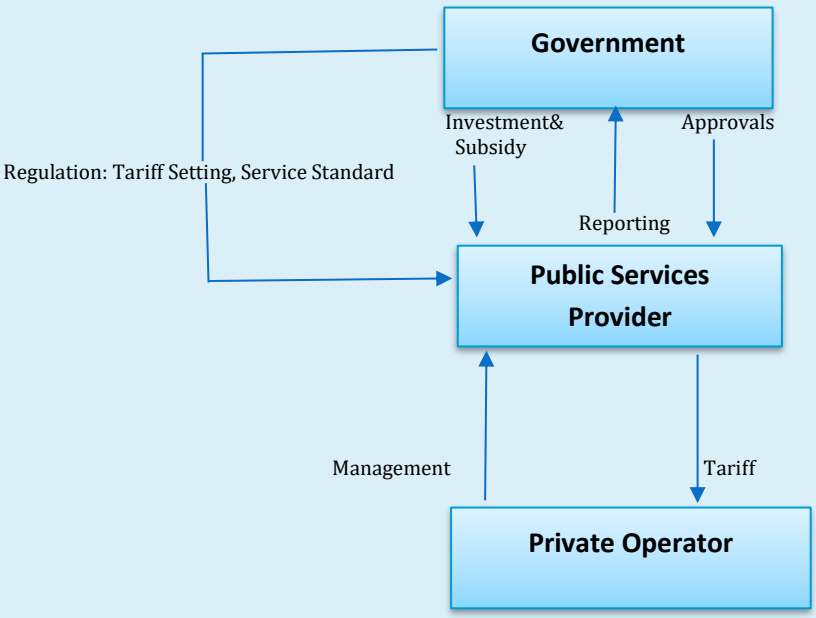
Disadvantages include:

- Require strong enforcement of contracts and laws by public sector.
- Does not attract capital investment from the private sector.
- Private partner's incentives are limited and therefore may not encompass overall objectives.

6.3.2 Management Contracts

A management contract is a comprehensive service contract that covers all of the management and operational components of the public utility or service provider. Although the ultimate obligation for service provision remains with the public sector, daily management control and authority are assigned to the private partner. The private contractor is paid a predetermined rate for labour and other anticipated operating costs and, often, to provide an incentive for performance improvement, the contractor is paid an additional amount for achieving pre-specified targets. In most cases, the private partner provides some working capital, but the public sector retains the obligation for major capital investments, particularly those required to expand or substantially improve the system.

Figure 1: Structure for Management Contracts



Advantages include:

- Operational gains from private sector management can be realized without transferring the assets to the private sector partner.
- Less difficult to develop and less controversial than some of the other PPP models.
- Relatively low-cost contracts requiring no major capital from private operators.

Disadvantages include:

- Private contractor does not have authority over the labour force and, as a result, deep and lasting changes are hard to achieve.
- Private contractor often has limited authority to disconnect services, raise tariffs, etc.

6.3.3 Lease Contracts

Under a lease contract, the private partner is responsible for the service in its entirety and undertakes obligations relating to quality and service standards. Except for major capital investments, which remain the responsibility of the public authority, the operator provides the service at his expense and risk. In particular, the operator is responsible for losses and for unpaid consumers' debts. Given the increased risk burden on the private sector, the duration of a leasing contract is typically longer than a service or management contract. Leases do not involve any sale of assets to the private sector, however, advantages include:

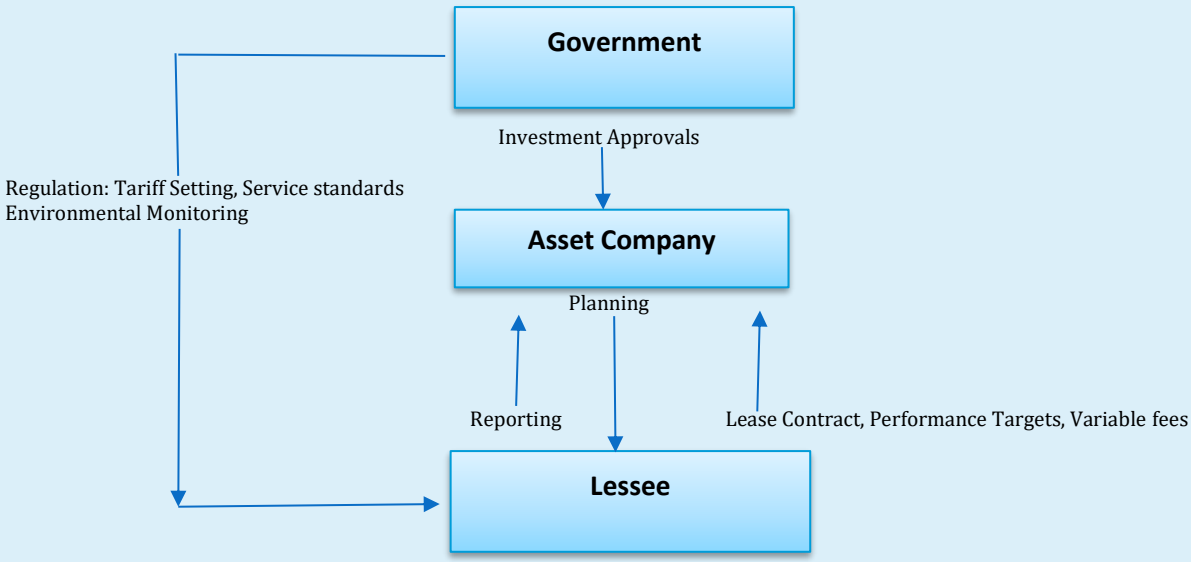
- Separate the use of the facilities from the ownership of the facilities.

- Allows the private sector to make tough management decisions (e.g. labour reductions).
- Public authority receives stable stream of cash flows without having to manage operations and maintenance of the facilities.

Disadvantages include:

- Responsibility for capital investment remains with the government and no private investment capital is mobilized.
- Private sector cannot improve physical infrastructure on its own so technical losses may not be improved much.

Figure 2: Structure of Lease Contracts



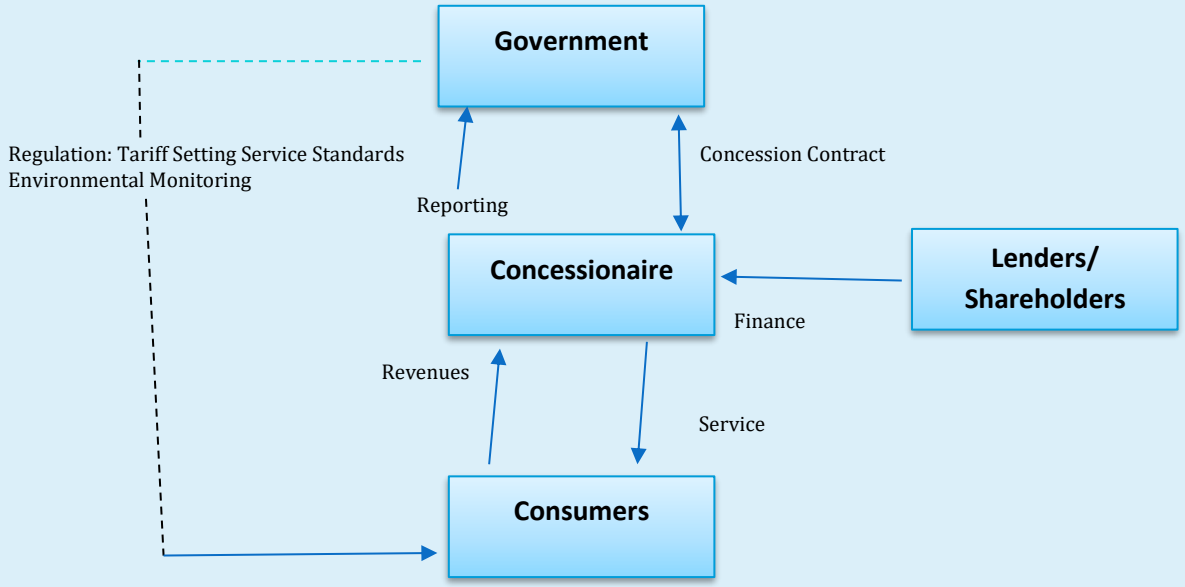
6.3.4 Concessions

A Concession makes the private sector operator (Concessionaire) responsible for the full delivery of services in a specified area, including construction, operation, maintenance, collection, management, and rehabilitation of the system. Although the private sector operator is responsible for providing the assets, such assets often remain publicly owned and are returned to the government at the end of the Concession period. The public sector is responsible for ensuring that the Concessionaire meets performance standards and the public sector's role subsequently shifts from being the service provider to regulating the price and quality of service.

The Concessionaire collects the user fees directly from the system's customers. The tariff is typically established by a regulator, but as part of the Concession arrangement the methodology for tariff adjustments will be established in advance. The Concessionaire is responsible for financing capital investments and working capital out of its resources and from the tariffs paid by the system users, but in certain cases, the government may choose to provide financing support (e.g. VGF) to help the Concessionaire fund its capital expenditures. Given the complexity of the arrangement

and the need for long-term financing, a Concession contract is typically valid for a much longer period than a service contract, management contract, or lease agreement.

Figure 3: Structure of Concessions



Build-Operate-Transfer (BOT), Build-Own-Operate (BOO), etc. are forms of specialized concessions in which a private firm or consortium finances and develops a new infrastructure project or a major component according to performance standards set by the government.

Table 2: Characteristics of Various Concessions

Nature of Contract (Duration)	Characteristics				Financial Responsibility
	Asset Ownership	Design	Build	Operate & Manage	
Design–Bid– Build	Public	Private by fee contract	Private by fee contract	Public	Public
Design–Build	Public	Private by fee contract	Private by fee contract	Public	Public
Build–Operate– Transfer (BOT)	Public	Private by fee contract	Private by fee contract	Private by fee contract	Public
Design-Build-Finance-Operate (DBFO)	Public	Private by fee contract	Private by fee contract	Private by fee contract	Public, Public/Private or Private
Build-Own-Operate (BOO)	Private	Private by Contract	Private by Contract	Private by Contract	Private by Contract

Advantages include:

i. Effective way to attract private finance for new construction or rehabilitate existing facilities.
ii. Initial capital construction costs may be reduced due to private sector's expertise.

iii. Motivates private sector to achieve improved levels of service as efficiency gains are translated into increased profits for the Concessionaire.

Disadvantages include:

i. Governments may need to upgrade their regulatory capacity and performance monitoring.
ii. Tenders can be complex and take long, given the scale and long-term nature of the projects.
iii. Benefits of competition are limited to the initial bidding process as a private operator often has a monopoly of the service and contracts cannot be terminated easily.
iv. Given the difficulty in anticipating events over multiple decades, contracts are often renegotiated during their life.

7.0 LEGAL AND INSTITUTIONAL FRAMEWORK

7.1 The PPP projects in Ekiti State must adhere to the following legal frameworks:

a. Ekiti State Public Private Partnership (Re-Enactment) Law 2020: Outlines the legal structure for PPPs in Ekiti State.
b. Ekiti State Development and Investment Promotion Agency (EKDIPA) (First Amendment) Law, 2023: This law governs private sector investments, including tax incentives and other benefits that may apply to PPP projects.
c. Ekiti State Procurement Law: All PPP transactions must comply with the state's public procurement guidelines.
d. Nigerian Infrastructure Concession Regulatory Commission (ICRC) Act: The ICRC regulates concession agreements and PPP projects at the federal level, which are applicable in Ekiti State.
e. Environmental Laws: All projects must adhere to national and state environmental laws, including Environmental Impact Assessments (EIAs).

7.2 To ensure efficient PPP implementation, the following institutional roles and responsibilities are defined:

- Ekiti State PPP Unit: The Unit will be housed within Ekiti State Development and Investment Promotion Agency (EKDIPA) and is responsible for managing PPP projects in the State. The PPP Unit will among others:
  i. Identify potential PPP projects in Ekiti State;
  ii. Carry out feasibility studies on PPP projects;
  iii. Develop, review, and implement PPP policies;
  iv. Carryout monitoring and evaluation of projects under PPP arrangement
  v. Coordinate with ministries, departments, and agencies (MDAs) for project development.
- Ekiti State Executive Council: the Council, chaired by the Governor, will approve PPP projects and ensure alignment with state development priorities.
- Ministry of Finance: Provides budgetary and financial oversight for PPP projects, ensuring fiscal sustainability.

- Legal and Regulatory Agencies: Ensure compliance with relevant laws and regulations.
- Ministries, departments, and Agencies (MDAs): Relevant MDAs will collaborate with the PPP unit to implement projects and provide subject-specific expertise.

8.0 PPP Project Lifecycle

8.1 The process for developing, procuring, and implementing a PPP consists of the following phases and steps. A brief description of the procurement and approval process for a PPP project in Ekiti State is provided below:

Step 1
Identification and screening of of PPP projects by EKDIPA
Step 2
Prioritization of PPP projects by EKDIPA and development of PPP Project Pipeline
Step 3
Submission of PPP pipeline by EKDIPA to Ministry of Budget, Economic Planning and Performance Evaluation for fiscal consideration and inclusion in budget consideration
Step 4
Approval of Pipeline by EKDIPA Board
Step 5
Approval of PPP Projects Pipeline by State Executive Council
Step 6
Appointment of Transaction Adviser by EKDIPA
Step 7
Preparation of Outline Business Case by EKDIPA with support from MDA and Transaction Adviser
Step 8
Approval of the Outline Business Case by the EKDIPA Board
Step 9
Selection of private developer through an open competitive tender process
Step 10
EKDIPA Board approves the FBC and secures approval from ExCo
Step 11
MDA and EKDIPA as witnessing parties to PPP contracts with preferred bidders

8.2 The Public-Private Partnership (PPP) project lifecycle in Ekiti State, as in other jurisdictions, typically consists of several key stages. Each stage is crucial for ensuring that the PPP project is well-conceived, effectively implemented, and successfully managed. Below is an outline of the typical PPP project lifecycle that shall apply to Ekiti State:

Stage 1. Project Identification and Preparation

i. Need Assessment: identify public service needs and infrastructure gaps in Ekiti State

ii. Feasibility Study: conduct a feasibility study to evaluate the economic, financial, legal, and environmental aspects of the project.
iii. Climate Mitigation and Adaptation Assessment of PPP Project: As part of the project preliminary assessment, climate mitigation and adaptation assessment shall be conducted to ascertain the impact of a project on the climate, environment, and community, as well as social acceptability and public benefit.
iv. develop a project business case that includes a detailed risk analysis, financing structure, and implementation plan.
v. secure approval from the State Executive Council.
vi. Stakeholder Engagement: Engage with stakeholders (government agencies, communities, private sector) to gather input and build support.

Stage 2. Project Development

i. Detailed Feasibility Study: undertake a thorough feasibility study that includes financial modelling, risk assessment, and demand analysis.
ii. PPP Structure Selection: determine the appropriate PPP model (e.g., Build-Operate-Transfer, Build-Own-Operate, etc) based on project requirements and stakeholders' input.
iii. Legal and Regulatory Compliance: Ensure compliance with national and State regulations governing PPPs.

Stage3. Procurement Process:

The procurement process for PPP projects must adhere to the following principles:

- Transparency: Open bidding processes with clear evaluation criteria and guidelines.
- Fairness: Equal opportunity for all qualified bidders, ensuring a competitive process.
- Value for Money: Evaluation of bids must focus on achieving optimal value for the state, considering cost, efficiency, and project outcomes.

The PPP procurement process typically involves the following steps:

a. **Advertisement of Request for Proposals** (RFPs): develop and issue an RFP or invitation to BID to solicit proposals from qualified investors and operators.
b. **Pre-qualification of bidders** based on technical and financial criteria.
c. **Bid Evaluation** based on a clear scoring system. Assess submitted bids based on predefined criteria, including technical capability, financial stability, and proposed value for money.
d. **Negotiation** with the selected bidder to finalize the contract terms. Enter negotiations with selected bidders to finalize the terms of the PPP contract, including risk allocation and performance standards.
e. **Contract Award** and financial closure. Execute the PPP arrangement, detailing the roles, responsibilities, and expectations of both parties.

Stage 4. Project Implementation

i. Construction and Development: Oversee the construction or modification of infrastructure according to agreed specifications and timelines.

ii. Monitoring and Reporting: Establish a framework for monitoring project progress, adherence to timelines, and quality standards.

E. Operation and Maintenance

i. Service Delivery: The private partner operates the facility and delivers services as stipulated in the contract.
ii. Performance Monitoring: Continuously monitor performance against contract obligations and service level agreements.

Stage 5. Project Evaluation and Handover

i. Project Evaluation: Evaluate project outcomes, including quality of service delivered, and financial performance.
ii. Handover Process: At the end of the concession period or contract duration, hand over the facility back to the government or extend the partnership as needed.

Stage 6. Post-Implementation Review

i. Post-completion performance monitoring to ensure sustained service delivery.
ii. Conduct a review to identify lessons learned, successes, and areas for improvement in future PPP projects.
iii. Establish a process for ongoing stakeholder feedback to improve future PPP initiatives

11.3 This PPP project lifecycle provides a structured approach to managing projects involving collaboration between the public and private sectors in Ekiti State. By following these stages, the state can maximize the benefits of PPPs, ensuring sustainable infrastructure development and improved public service delivery.

9.0 The Public-Private Partnership Process

9.1 Government Capacity

The ability of the public sector to understand the project requirements in detail ensures appropriate identification and allocation of risks among the contract partners. To ensure an appropriate understanding of its roles, and to get expert guidance at each step of the project implementation, the Ekiti State Government (EKSG) will need support from external advisers. However, many tasks cannot be outsourced, and often government does not have the skills internally to manage complex PPPs, or the dedicated team required to address the time-intensive upfront structuring needs. Consequently, the State Government may need to hire specialised personnel or train existing staff to properly manage PPP procurement and operations.

9.2 Institutional Development

The success or failure of PPPs can often be traced back to the initial design of PPP policies, legislation and guidance. In most countries that successfully use the PPP model, a comprehensive PPP policy framework should first be in place setting out the government's clear intentions for PPP. This should be followed by a PPP Law which stipulates the sectors for private sector participation, details the PPP awarding process (in compliance with the extant Ekiti State Public Procurement Law), and provides the governance structure for operational PPPs. In addition, guidelines and other forms of

institutional frameworks are often required to provide more detail on the overall roles and responsibilities of the participating PPP parties.

9.3 Sector Planning

Before determining whether a PPP model is the right approach for specific infrastructure, Ekiti State Government must first understand what its broad-based sectorial objectives are. Sector planning provides a comprehensive map to achieving overall infrastructure goals once this plan is in place. The EKSG can determine if a PPP model may be the most appropriate vehicle for achieving components of the overall infrastructure sector's goals.

The development of PPP projects is generally initiated by Ministries, Departments and Agencies (MDAs) within their functional and geographical jurisdiction. The MDAs conceptualise the project and submit it to the Ekiti State Development and Investment Promotion Agency (EKDIPA) for various preparatory studies to develop the project and take the project through various stages of approvals and reviews for inclusion into the PPP Projects Pipeline. This will ensure the procurement process itself is professionally managed, covering the government's oversight responsibilities for the full PPP lifecycle, and having a system for any PPP fund transfers (i.e. subsidies going out or royalties coming in). A critical first step is for the sponsoring MDA to secure the necessary funding to cover all of the government's responsibilities from the appropriate budget and planning entities.

The State Ministry of Budget, Economic Planning and Performance Management is responsible for prioritising infrastructure projects in conjunction with the relevant Ministry, Department, and Agency (MDA) of the government. The first step for the MDA is to develop a PPP project concept to be approved by EKDIPA. The project concept will usually be based on a Pre-Feasibility study or Outline Business Case (OBC) and if it is approved, will allow the project to be included in the Master Plan which sets out the EKSG's infrastructure investment strategy covering all forms of procurement, including projects that will be financed in whole or in part from the State Budget.

9.4 Selecting a PPP Model

The selection of an appropriate PPP model, depending upon the characteristics of the project, is the key to ensuring successful implementation of a project through the PPP route. The main distinction between the various PPP models is the level and nature of risk shifted from the public sector to the private sector. In addition, a major consideration is the ability of the Government to provide the required capital investment and/or operational expertise.

Strategic Needs Assessment

A case for the strategic need for the project, in terms of output, scope and objectives must be made. This involves reviewing any previous Strategic Needs Assessment studies done (if applicable) and determining the PPP project's ability to meet the MDA's objectives. The project should already be a component of the Master Plan and should therefore be justified in the major sector development plans. However, there is also a need to justify the 'why now' question.

As part of this Strategic Needs Assessment, the key elements to be included are:

- The project's contribution to the implementation of the State's policy;
- ability/capacity to implement the project;
- The relative demand for and corresponding size of the project in terms of its anticipated budget or capital expenditure;
- The desired outputs, including any minimum service/technical standards and performance requirements;
- The capacity of the private sector to provide the services;
- Any desired outcomes and impacts of the project (i.e. how it will provide additional benefits to the service area); and
- Any other major driving factors for the rationale of developing the project.

9.5 Project Development

During the preparation of the project, the government's top priority should be to evaluate key financial thresholds for the project. The first and most important task is to determine project bankability. If preliminary reviews show that the project may not be bankable under a PPP model, the government may want to have a third party, such as a multilateral agency, involved to improve creditworthiness. Often a project's bankability can be increased by making improvements to the enabling environment, such as making tariff/regulatory reforms. There may also need to be modelling around royalty/VGF or availability payments to/from the government. At the same time, potential private sponsors will need to make sure they have sufficient access to equity capital and bank loans/bond finance.

9.6 Project Procurement

Competitive Tender Process

PPP projects should always undergo a competitive bidding process. Competition not only provides transparency in the process but also provides a mechanism for selecting the best-value proposal. As a result, most international lending institutions and grant funding organisations require the use of competitive bidding as a condition for their support. Properly procuring a PPP is therefore the foundation for whether the project will provide its intended benefits and VfM. Given the complexity and monopoly aspects of PPP projects, the competitive two-stage procurement process will be longer when compared to traditional procurement. PPP bidders also incur higher bidding costs due to this increased complexity. However, neither of these characteristics of PPP procurement is necessarily negative as a longer procurement process will increase the bidder's knowledge of the project and higher bidding costs will filter away smaller players who may not have the capacity to implement the project. The key is to ensure that procurement rules are transparently followed by the government and in addition to any transaction advisors who may be hired, sufficient government planning and capacity are already in place to manage the tendering process properly.

Unsolicited Bids

An unsolicited bid is a very difficult subject as the government does not want to put off the private sector from coming up with innovative new ideas or solutions to

infrastructure development or rehabilitation, but the government has to protect itself from being exploited due to a lack of a competitive bid process. Some countries will permit unsolicited bids for PPP projects without a competitive bid process, but many international financial institutions will not provide supporting finance, as they have a policy which does not permit financing projects awarded to sole bidders. Unfortunately, the track record of PPP projects awarded on a sole bid basis has not been good, with many being unsuccessful for various reasons, often due to the costs involved. Too high a level of tolls or service charges will result in civil unrest, and/or the public sector taking over the project at considerable cost. However, some countries will accept unsolicited bids, but open the unsolicited bid, with the knowledge of the unsolicited bidder, through a competitive bid process. To encourage private sector innovation, government can give incentives to the private sector by giving the unsolicited bidder a marked advantage in the bid evaluation process so that the unsolicited bidder has an advantage over the other competitive bids.

The Government will therefore encourage Unsolicited Bids, but the project will be tendered under a transparent, competitive process which will also be managed by EKDIPA and the MDA.

9.7 Project Implementation

From a project finance perspective, the most important milestone in this stage is the disbursement of debt and equity to the PPP Company so that it can pay for project construction (or rehabilitation and maintenance of existing facilities). In the construction phase, it is essential to complete the investment on time, within the planned budget, and according to the specifications and the financing allocated to the construction contract. Cost overruns may not have financing available and therefore can jeopardize the entire project, and time delays may cause the repayment of loans to become too expensive while the project is still not generating revenue. The construction contract will therefore be based on a firm date fixed price, and time certain contract.

Once a project is physically ready for operations, project commissioning is critical as this is when the project is accepted by the government as ready-to-operate and the PPP assumes the ability to charge customers for its services. From the lender's point of view, operations and revenues should allow for more confidence that a loan can be repaid. From an equity investor's perspective, the project demand will become clearer and the PPP Company/SPV can be valued more accurately. In addition, equity income in the form of interest on mezzanine finance or quasi-equity loans may become available to the equity holder, as dividend income is normally not payable until the later stages of the PPP project when net cash flow is sufficient. Once the project has been properly accepted and commissioned one of the core risks – the completion risk – has also been eliminated.

9.8 Project Maturity

The project revenues generated should cover the project running costs and also be used to repay the financing and pay dividends to shareholders. During this operating phase, the true value of the project is understood, and equity holders will be able to receive real returns. At this operating stage, PPP projects may have also initiated other forms of financial arrangements, such as issuing bonds or listing projects on exchanges, and

project equity can be more easily sold to investors who may have had less appetite for the early-stage project completion risks. In the final stages of the operating phase, or the maturity phase, the asset is managed and continuously maintained to ensure that the assets meet minimum quality standards, which are checked by an assets survey approximately 12 to 18 months before the maturity of the concession. Any deficiencies revealed by the survey must be rectified within a given period by and at the cost of the SPV.

10.0 Project Identification and Selection Process

10.1 In Ekiti State, the projects under the PPP arrangement will be identified based on the following criteria:

i. Alignment with the state's economic development priorities.
ii. Significant infrastructure gaps in sectors such as transportation, health, education, energy, and water supply.
iii. Projects that provide measurable benefits to citizens and economic growth.
iv. Financial viability, including the potential to generate revenue or user fees.

10.2 The PPP project selection process includes the following:

i. Needs Assessment: MDAs will conduct assessments to identify gaps in infrastructure and services that could be addressed via PPPs.
ii. Preliminary Project Evaluation: The PPP Unit will evaluate the identified projects to ensure they align with state priorities, offer value for money, and are financially viable.
iii. Project Prioritization: Projects will be prioritized based on economic impact, social benefits, and feasibility.
iv. Private Sector Engagement: Early engagement with private sector entities will help shape potential projects.

10.3 The Ekiti State Government will maintain a PPP Project Pipeline. The PPP Project Pipeline is a list of potential projects that have undergone preliminary assessments for PPP suitability.

11.0 Feasibility Studies

Before launching any PPP project, a comprehensive feasibility study must be conducted to:

- Assess the technical and financial viability of the project.

- Determine the value-for-money benefits.

- Identify potential risks and mitigation strategies.

- Conduct an Environmental and Social Impact Assessment (ESIA)

- Conduct Climate Mitigation and Adaptation Assessment to ascertain the impact of a project on the climate, environment, and community, as well as social acceptability and public benefit. See the appendixes for sample

12.0 The Outline Business Case

12.1 The Rationale for an Outline Business Case

In Public-Private Partnerships (PPPs), an Outline Business Case (OBC) plays a critical role in assessing the viability, value, and strategic alignment of the proposed partnership before significant resources are committed. The OBC helps ensure that both the public and private sectors understand the project's objectives, benefits, risks, and funding needs at an early stage. The purpose of developing an Outline Business Case is to combine all project development information, including technical, legal, social, economic, financial, and environmental aspects, into one document before seeking the government's approval to proceed to the procurement phase. The Outline Business Case also sets out the proposed project structure, such as a PPP, the procurement process for awarding the contract, the required resources and proposed management arrangements. The Outline Business Case is the critical document of the project preparation phase.

The completion and approval of an Outline Business Case does not often mean that all project preparation has been completed. The government may not require that an Outline Business Case contains all studies/analyses that are necessary before contract award. For example, although screening of the project's environmental and social impact will have been done for the OBC, the full Environmental and Social Impact Assessments (ESIA) may be ongoing during the early stages of the procurement, and the costs of any mitigation against adverse impacts only estimated for the OBC. Similarly, more detailed ground investigations may be carried out in consultation with the bidders who will be preparing their outline designs during the bidding phase.

12.2 Importance of OBC in PPPs:

The Outline Business Case (OBC) is a critical component in the planning and execution of Public-Private Partnerships (PPP). Its importance can be understood through several key aspects:

i. Strategic Framework: The OBC provides a strategic framework for understanding the project's objectives and alignment with public policy goals. It outlines how the PPP can address public needs and improve service delivery.
ii. Feasibility Assessment: The OBC assesses the technical, financial, and operational feasibility of the proposed project. This includes evaluating whether it can be delivered successfully within the given constraints.
iii. Risk Analysis: The OBC identifies potential risks associated with the project and outlines strategies for risk management. Understanding risks early in the process helps to safeguard both public and private interests.
iv. Stakeholder Engagement: By clearly outlining the project's scope and benefits, the OBC facilitates stakeholder engagement. It helps communicate the intended outcomes to various stakeholders, including government agencies, private partners, and the community.
v. Financial Justification: The OBC provides an initial financial analysis, including cost estimates, funding sources, and expected returns on investment. This is crucial for attracting private-sector investment and ensuring project viability.
vi. Value for Money (VfM): The OBC evaluates the potential value for money of the PPP compared to traditional public sector delivery. It justifies the use of a PPP

model by demonstrating expected efficiency gains and better service outcomes.

vii. Decision-Making Tool: The OBC serves as a decision-making tool for government bodies. It outlines the rationale for proceeding with the project, providing evidence that supports investment decisions.

viii. Framework for Detailed Planning: Following the OBC, further detailed planning can be conducted, including the Full Business Case (FBC). The OBC sets the stage by establishing foundational elements that will guide subsequent phases of project development.

ix. Performance Measurement: The OBC establishes key performance indicators (KPIs) and desired outcomes against which the project can be measured post-implementation. This helps ensure accountability and ongoing evaluation of the partnership's success.

x. Regulatory Compliance: It aids in ensuring compliance with legal and regulatory requirements governing PPPs. This is vital for maintaining transparency and accountability in public expenditure.

12.3 Developing an Outline Business Case

The Outline Business Case process involves bringing together the following information gathered during project preparation:

i. Strategic Needs Assessment

A case for the strategic need for the project, in terms of output, scope, and objectives, must be made. This involves reviewing any previous Strategic Needs Assessment studies done (if applicable) and determining the project's ability to meet the MDA's objectives. The project should already be a component of the government's sectoral planning and therefore should be justified in the major sector development plans. However, there is also a need to justify "why now."

As part of this Strategic Needs Assessment, the key elements to be included are:

- the project's contribution to the implementation of government policy;
- the MDA's ability and capacity to develop the project;
- the relative demand for, and corresponding size of, the project in terms of its anticipated budget or capital expenditure;
- detailing the desired outputs, including any minimum service/technical standards and performance requirements;
- the capacity of the private sector to provide the services;
- any desired outcomes and impacts of the project (i.e. how it will provide additional benefits to the service area); and
- any other major driving factors for the rationale of developing the project.

ii. Analysis of the Service Delivery Options

As part of the Outline Business Case, the MDA should identify and evaluate the potential options for meeting their service delivery needs. The objective of this exercise is to list the alternatives and recommend the preferred option, and subsequently why the recommended option should be structured as a PPP project. However, even if a PPP is the preferred method the decision to procure

as a PPP will depend on several other factors (e.g. enabling environment, private sector interest, financial analysis, etc.).

When identifying all potential options for service delivery, options to include are:

- Non-asset solutions: Service needs may be met without creating additional government assets, through reconfiguring the means of service delivery, developing initiatives to manage demand more effectively, or allowing the private sector to offer the service in an openly competitive market (i.e. internet, mobile phones, etc.);
- Upgrading existing asset solutions: Consider whether existing infrastructure held by the MDA, by another government body, or under an existing or planned PPP might be used. This may involve an expansion or refurbishment to bring the infrastructure to the required standard; or
- New asset-based solutions: New infrastructure may be developed to provide the required service.

Each of the service delivery options identified in the previous step should be evaluated to identify their advantages and disadvantages, such as the associated risks and benefits; the technical feasibility elements, social and environmental impacts, potential effects on government budgets and capacity, land acquisition/site issues, legislative and procurement processes, and labour and private sector capacity issues.

iii. Technical Options Analysis

All major non-financial aspects of feasibility should be carefully analysed to ensure that the project can be practically implemented from a technical perspective. Depending upon the complexity of the project and the availability of experienced personnel within the public sector agency, the Project Team often will need to appoint consultants and other outside experts to undertake technical studies as part of the due diligence process. Typically, the technical Options Analysis involves three main components:

a. Technical (Pre) Feasibility Study,
b. Social and Environment Impact Assessment, and
c. Legal Review.

a. Technical (Pre) Feasibility Study

The Technical (Pre) Feasibility Study focuses on the engineering elements of the project. This should include:

- Field surveys of the selected project site, which may include (depending on the project) mapping, topographical and geotechnical surveys;
- Analysis of natural conditions (e.g. weather) that may impact the technical design; and
- A preliminary design of several different technical solutions that meet the preferred service delivery option.

At this stage, the technical design is not finalised and is not typically completed to the level of detail required for the final specifications. The focus here is on identifying the preferred technical solution and confirming the project's technical feasibility, determining minimum technical requirements to be specified in the procurement process, and providing a design benchmark for estimating project costs to be used in the economic and financial analysis.

b. Social and Environmental (Pre) Feasibility Study

Infrastructure projects often have significant social and environmental impacts arising from their construction and operation, which can be both positive and negative. Environmental impacts on the project location and in associated areas (for example downstream, groundwater or ambient air) include effects on natural resources, biodiversity, and sustainability due to alterations and/or pollutants. Social impacts on communities affected by the project may include, for example, resettlements of communities at the project site and the associated impact on quality of life and livelihoods, and impacts related to environmental alteration (for example on health and livelihoods). Given the importance of recognising and mitigating these impacts, social and environmental impact assessments are often a mandatory regulatory requirement of an infrastructure project's development process.

The scope of social and environmental studies covers the following:

- Quantifiable social and environmental costs and benefits;
- Non-quantifiable social and environmental costs and benefits;
- Options for mitigating adverse impacts and the cost of mitigation;
- Types of permits and licenses required;
- Health and safety standards;
- Any secondary effects should also be included;
- Public consultations as part of the process to ensure that the secondary effects are adequately captured; and
- Any additional environmental studies/analysis that will be required before the project is ready for procurement (often detailed studies are required for the major issues).

c. Legal Review

A comprehensive Legal Review must be done to ensure that all the foreseeable legal requirements are met for the development of the project. Although it may be costly to undertake a comprehensive review of all legislative and regulatory aspects of the project in this early phase, it is essential as a minimum to have a legal screening. Common legal issues pertain to land use rights, regulatory matters, governing legislation, tax laws, and other related matters.

iv. Financial Capability

It's crucial to assess the project's financial viability through a pre-feasibility study, especially for PPP projects, as the private sector's main motive is the return on investment. The first step is obviously to estimate the project's cost. The three broad categories of costs that need to be considered are:

- **Capital costs** are one-time expenses for creating an asset, including infrastructure development costs.
- **Operating costs**: Operating costs include expenses for the routine operation and use of infrastructure, such as manpower, utilities, and administrative costs.
- Maintenance costs: these costs cover all expenses for regular inspections, upkeep, and repairs to keep the asset performing as intended throughout its lifetime.

Secondly, project revenues need to be estimated. Project revenues represent the income that is generated from the provision of services to the users. These could be in the form of user charges levied, fare or toll revenue, revenue from ancillary sources like the sale of carbon credits, provision of advertising rights, etc. Project revenues may also include direct payments from the government authority in the form of VGF/availability payments. The revenue sources for various sectors could vary from one sector to another and are often dependent on tariffs or tolls that are regulated. A key component to estimating revenues is to understand the price that can be charged, and the willingness to pay for the service.

The basic inputs for the financial model include:

- Project cost as derived from the detailed project report on capital costs, pre-operational expenses (to be capitalised), cost of legal approvals, etc. with the capital costs including the risk pricing in line with the Risk Matrix, using either the optimism bias or probability analysis methodologies.
- Operations and maintenance costs as derived from the demand projections and the estimated operating expenses including the risk pricing in line with the Risk Matrix, using either the optimism bias or probability analysis methodologies.
- Financial costs split between the different sources of finance i.e. equity and debt, with the equity split between real equity and long-term loans and with the debt split between loans and bond financing and between currencies if more than one currency is involved. In addition, all financing fees should be included as well as all financial reserve requirements and financial ratios. The equity return used as input should be the result of a review of other competing investment returns available in the international and local markets, including local government bonds.
- Project revenues include the revenues that have been identified from all the sources and income from grants that may accrue to a specific project.
- Assumptions for projecting the cash flows in the future, for instance, long-term inflation rates, long-term interest rates, tax rates, etc.

The financial viability of any capital-intensive project is largely defined by the return on investment the project is expected to earn the investors (i.e. the Internal Rate of Return (IRR) of the project). These returns are calculated based on project cash flows, which are available for investors to the project (both debt and equity investors). Key

statements would have to be prepared covering both the PSC and the shadow PPP models as applicable, including Projected Profit and Loss Account, Projected Balance Sheet, Projected Cash Flows, equity and debt tables, financial ratios table, a statement of the assumptions used across the financial statements and total capital expenditure and its phasing and financing, Value for Money and Affordability.

In addition, a financial sensitivity analysis is conducted to gauge the financial robustness of the project. This analysis helps to understand how changes in key assumptions impact the project's financials. The analysis should consider the following variables:

- Changes in construction period, phasing and project duration
- Changes in inflation rate, interest rates
- Changes in construction costs
- Changes in operating costs
- Changes in market demand
- Changes in discount rate.

In cases where the project returns are not found to be sufficient or where the sensitivity shows the project to be too risky, the possibility of obtaining government financial support (e.g., guarantees, Viability Gap Funding, etc.) may be explored.

v. Economic Cost Benefit Analysis

Government policymakers should ensure the feasibility phase includes an Economic Cost Benefit Analysis to demonstrate the economic benefits of the project. The primary objective of conducting economic analysis is to evaluate and assess the potential financial implications and benefits associated with an investment decision. This process involves a comprehensive examination of the costs, risks, and expected returns to ascertain whether the investment is financially viable and justifiable from an economic standpoint. The economic assessment includes:

- The economic benefits of the project;
- The economic costs of the project;
- The balance of these is expressed in present value terms (i.e. the net economic benefit or Economic Rate of Return (ERR).

Economic analysis includes project impacts that do not have a market price and positive/negative externalities that are experienced by people who are not the direct users of the project services. For example, a new coal power plant must assess such things as job creation at local mines (positive externality) and the health costs of increased air pollution (negative externality).

The following are the elements of Economic Cost Benefit Analysis:

a. Market valuations of the inputs (land, materials, labour, etc.) to the project, adjusted for any distortions in the market (such as taxes or subsidies).
b. The valuation placed on the services by the users (i.e. the amount that the users would be willing to pay for the benefit they would receive from the service, including indirect benefits such as improved safety which cannot be

directly measured). This is not necessarily the same as what they would be charged.

c. Secondary or spill-over costs and benefits (i.e. externalities) that have an impact beyond the project itself.
d. Looking at Value-for-Money elements of the project (e.g. if the MDA delivers the same service through conventional public procurement benchmark (Public Sector Comparator).

vii. Project Implementation Plan

A Project Implementation Plan is created after conducting project feasibility to outline the timing and interrelationships of major project components. Its purpose is to provide a detailed list of remaining studies, procurement milestones, and tasks needed to complete the project.

Table 3: Sample Project Implementation Plan

S/N	Information to be covered in the implementation schedule	Timeline (weeks)	Start Date	End Date	Responsibility
1	Additional studies required before commencing procurement				
1a	List of studies to be performed				
2	Timeline for obtaining the approvals:				
2a	First draft of tender documents and other key project documents				
2b	Timetable for approval of the OBC				
3	Pre-qualification and final document preparation. Market survey				
3a	Issue Request for Qualification				
3b	Pre-qualification of bidders				
3c	Final draft of tender documents, and feedback on bid documents from bidders for complex / new sector projects				
4	Application for Final Approval of the PPP				
5	Procurement and award timeline:				
5a	Issue Request for Proposals arrange Bidders Conference				
5b	Evaluation of bids				
5c	Negotiation and award				
6	Technical and financial closure timelines:				
6a	Detailed technical studies and planning				
6b	Obtaining clearances				
6c	Arranging and finalising finance				
7	Construction timeline (for projects that involve a capital expenditure component)				
7a	Details of major milestones through the construction process				
8	Post-construction activities				
8a	Such as surveys and commissioning facilities				
9	Expected date for commencement of operations				
10	Major milestones in the operating lifecycle of the project				

viii. Compilation of the Outline Business Case

The feasibility analysis results are put together in an Outline Business Case. This case justifies moving forward with the PPP project if the studies and analyses support it. It should contain all the necessary information for the relevant approval authority to decide to initiate a procurement process, as outlined in the PPP Policy. The Outline

Business Case comprises summaries of the results of each part of the assessments, options analysis, and feasibility studies mentioned above. Most importantly, the Outline Business Case should answer these essential questions:

- ★ *Why is the project needed?*
- ★ *Why should the project be implemented as a PPP?*
- ★ *What are the expected positive benefits and negative impacts of the project?*
- ★ *What is the implementation plan going forward and how long will it take?*
- ★ *Who will implement the project?*

The Outline Business Case can then be presented to the relevant authority for approval.

13.0 The Procurement Process

The procurement process for public-private partnerships (PPP) in Ekiti State follows both national and state-specific policies. These policies aim to promote transparency, ensure value for money, and facilitate the delivery of public services through partnerships with the private sector. Below is an outline of the PPP procurement specific to Ekiti State, as it aligns both national PPP guidelines and State development goals.

13.1 Identification and Preparation of PPP Projects

- Selection of Project - The project identification and preparation stage is handled by the PPP Unit in EKDIPA. Ekiti State Government identifies projects that require private sector participation, focusing on sectors where public investment is limited. EKDIPA is the coordinating agency for all PPP Projects in Ekiti State. Potential investors approach EKDIPA (in some cases EDIPA may reach out to potential investors or through newspaper publication)
- Assessment of Project – upon the receipt of the expression of interest (EIO), EKDIPA team appraises the proposal by carrying out preliminary screening or assessment and due diligence on the proposal. A thorough pre-feasibility or outline business case is conducted to assess the technical, financial, economic and social viability of the proposed PPP project. This will help to determine if the project can attract private sector investment and if the partnership will deliver value for money. The pre-feasibility study is a decision tool prepared by EKDIPA with the MDA to provide the government with enough information at the early stage to decide on whether or not to proceed with the project, and if so under what strategy. The study should contain key documentation required for the first stage of the procurement phase such as a Project Information Memorandum that provides the bidders with the background and objectives of the project and the Prequalification Documentations.
- Submission of Business Plan – this includes project viability/profitability, information exchange and site visit (if necessary)
- Stakeholder Engagement - this involves MDAs relevant to the project to evaluate the EIO based on the following guidelines:
    - Experience on the project and technical competence
    - Financial capability

13.2 Procurement Planning

- Procurement Strategy – Ekiti State develops a procurement strategy that outlines how the project will be tendered and how private partners will be selected. This includes deciding on the type of procurement method such as open tendering, selective tendering, Request for Quotation, direct negotiation, etc
- Tender Documents – The state prepares tender documents, including the Request for Proposals (RFP) on Invitation to Bid (ITB), which detail the project requirement, evaluation criteria, and legal framework.

13.3 Request for Proposal (RFP) and Market Sounding

- Market Sounding – EKDIPA may conduct a market-sounding exercise to gauge private sector interest in the project. This helps to ensure that the project is structured in a way that is attractive to potential investors.
- Issuance of RFP – the RFP is issued to pre-qualified bidders or through an open tender process. The RFP document includes detailed technical, financial, and legal requirements, along with instructions on how bidders should submit their proposals.

13.4 Bidding Process

- Prequalification of Bidders: In some cases, a prequalification process is conducted to shortlist companies based on their technical and financial capacity to execute the project. Only qualified bidders proceed to the full proposal stage.
- Submission of Bids: Bidders submit their technical and financial proposals in response to the RFP. The bids must comply with the specifications outlined in the tender documents.
- Bid Evaluation: The submitted bids are evaluated based on criteria such as technical feasibility, financial strength, risk management, and alignment with state development goals. The evaluation is conducted by EKDIPA team, which may include representatives from relevant ministries and the State Bureau of Public Procurement.
- Issuance of RFP – the RFP documents are issued to the shortlisted bidders together with a list of the shortlisted bidders to ensure transparency.

13.5 Negotiation and Contract Award

- Preferred Bidder Selection - The bidder offering the best value for money, and whose proposal aligns with the project's objectives, is selected as the preferred bidder. A detailed negotiation process follows, where both parties discuss terms related to financing, risk sharing, performance standards, and project timelines.
- Contract Negotiation - The Ekiti State government negotiates the PPP contract, which outlines the responsibilities of both the public and private partners, risk allocation, revenue-sharing models, and dispute resolution mechanisms. In addition, there is usually a set of conditions and precedents that must be must be negotiated. This negotiation process must be carefully planned and managed to ensure that it is fair and transparent while at the same time carried out in such a manner that the confidentiality of the negotiations is strictly maintained.
- Legal and Financial Closure - Once the contract is agreed upon, the project moves to financial closure, where the private partner secures funding from investors or financial institutions. The contract is then signed, marking the official start of the

PPP agreement. Once a formal agreement is reached, it is signed by all members of the Negotiation Team and the representative of the preferred Bidder. It is then forwarded for recommendation to the appropriate approving authority for approval and signature.

- Contract Award - Once the negotiation team and the preferred bidder finalize the contract agreement and the conditions precedent are met, the MDA with Ekiti State Government will sign the agreement with the preferred bidder. After the PPP contract is awarded to the Preferred Bidder, they must achieve financial closure within an agreed timeline. While the government may assist, it's primarily the Preferred Bidder's responsibility to secure the necessary financing. Once the Contract Agreement is signed, subject to reaching Financial Close the Preferred Bidder becomes the PPP Company or incorporates the SPV if it has not already done so (also referred to as the Project Operator or Concessionaire).

14.0 Contract Management

Contracts define the frameworks under which parties are legally obligated to meet their respective project development and service delivery obligations. Managing PPP contracts is never simple and requires governments to maintain a balance between over and under-regulation during the term of the project contract. Over-regulation of the private party interferes with service delivery and limits innovation while under-regulation leads to increased risks of service delivery not meeting project objectives.

The approach followed in managing contracts is largely dependent on the sector in which the PPP project operates, the risk profile of the project and the phase which the contracts have reached. In projects or situations where the consequences of private party performance failure would be severe, a rigorous monitoring regime would be required based on agreed minimum service performance standards, backed up by a penalty/incentive system. In less critical circumstances, a more flexible monitoring system can be used. Similarly, a penalty mechanism shall be applied with greater flexibility during the development phase compared to during the implementation phase.

Some key success factors for PPP contract management include:

- Viewing the PPP arrangement as a “partnership” between the government and the private parties.
- Having a project monitoring team with the requisite skill set to effectively monitor and manage the project and the PPP relationship.
- Having well-structured contracts that explicitly detail the allocation of risks and quality of service required, with a backup incentive or penalty system for service levels above or below standard, and procedures for communication and dispute resolution.
- Establishing an effective contract management framework.
- Disputes are resolved at the appropriate level through the partnership management system without recourse to external dispute resolution.
- Changes in service delivery requirements are anticipated, and variation procedures are used to minimise any negative consequences and maximise any opportunities brought about by change.

14.1 Contract Monitoring Framework

While the private sector is responsible for the day-to-day management of a PPP project, the State Government has an important role to play in project oversight and, when necessary, enabling modifications to a project structure. Given the large number of agreements that are involved in a typical PPP project, the monitoring of the SPV's compliance will require substantial attention and resources from the government. The MDA will need to set up a Contract Monitoring Framework which covers the following major elements:

- Risk Mitigation: Managing the PPP from the perspective of risk mitigation by identifying, monitoring and managing the minimisation of risks when possible.
- Service Delivery and Performance: Ensuring that the PPP Company is achieving required service delivery to agreed-upon performance standards.
- Relationship Management: Managing the structure of authority and accountability within the PPP service delivery framework.
- Contract Administration: Following administrative processes required to make sure all procedural and documentation requirement issues are followed, such as periodic reporting and service quality reviews.

14.2. Contract Management Plan (CMP)

Contract management planning should start at an early stage during the procurement process. This ensures that the contract management requirements are included in the draft Concession Agreement and other key documents. The first step in the process is to develop a Contract Management Plan (CMP).

The CMP is a strategic management tool to guide the Contract Management Project Officer and other team members throughout the PPP project's operational phase. It clarifies the key roles and responsibilities of the government during project operations and identifies the resources that the government will require to undertake these responsibilities.

14.2.1 Components of a Contract Management Plan

i. Tools and Processes: The CMP should identify the necessary tools and processes that are needed to effectively manage the contract during its lifecycle. These tools and processes (e.g. accounting software, risk management framework, performance targets) should help the Contract Management Team to perform their regular day-to- day tasks efficiently and effectively. They should also specify how risks will be evaluated and risk adjustments will be made.

ii. Resource Availability: The availability of the relevant resources plays a dominant role in determining the tools and processes defined within the contract management framework. Such resources can be in three forms: Human, Financial, and Technological.

iii. Timeline for Development of Tools and Processes: The CMP should contain the timeline needed to develop and install these tools and processes within the contract management framework, subject to the availability of resources. It should also detail the regular contract compliance reform milestones and reporting requirements to the government.

14.3 Dispute Resolution and Management

PPP projects are long-term, so contracts should include dispute resolution mechanisms for potential disagreements about obligations. Dispute resolution under a Public-Private Partnership (PPP) contract is a critical mechanism to ensure that any disagreements between the public authority and the private partner are resolved efficiently, fairly, and without disrupting the project's progress. Given the complexity and long-term nature of PPP contracts, disputes may arise over issues like performance, payments, contract interpretation, or unforeseen circumstances. The dispute resolution mechanisms incorporated into a PPP contract typically aim to maintain the relationship between the parties while resolving issues promptly.

Methods of dispute resolution in PPP contracts in Ekiti State:

In Public-Private Partnership (PPP) contracts, disputes may arise due to disagreements over terms, performance, payments, or unforeseen events. In Ekiti State, like in many jurisdictions, the methods of dispute resolution are typically governed by the PPP agreement, local laws, and any relevant national frameworks. Below are the common methods of dispute resolution that can be applied in Ekiti State:

1. Negotiation - Most PPP contracts encourage dispute resolution through amicable negotiation between the parties as the first step. The idea is to settle disagreements informally without resorting to more formal procedures. This method is cost-effective, preserves the relationship between parties, and allows for flexible solutions. The PPP unit in EKDIPA usually invites relevant stakeholders to a meeting to resolve disputes through negotiations.

2. Mediation/Conciliation - involves a neutral third party (mediator/conciliator) who facilitates dialogue between the disputing parties to help them reach a mutually acceptable solution. These proceedings are typically private, and the mediator does not impose a decision but helps the parties find common ground. This method is less formal, faster, and more flexible than litigation or arbitration.

3. Expert Determination - For technical or specialized issues (e.g., construction delays, cost overruns), contracts may allow for disputes to be referred to an expert in the relevant field. A technical expert is appointed by Ekiti State Government to assess and resolve disputes related to specific issues. The expert's determination can be binding or non-binding, depending on the parties' agreement.

4. Dispute Resolution Boards (DRBs) - DRBs consist of a panel of independent experts who are involved from the outset of the project. This panel is established by Ekiti State Government to handle disputes as they arise during implementation. Their role is to regularly review progress and resolve any disputes that arise during the project's implementation. The DRB may issue non-binding recommendations or binding decisions, depending on the contract terms. This provides for a continuous and relatively informal means of dispute resolution, avoiding prolonged delays in the project.

5. Arbitration - Arbitration is a formal, legally binding process where an independent arbitrator (or panel of arbitrators) resolves the dispute. PPP projects that involve international investors or contractors, arbitration may be conducted under the rules of

recognized bodies like the International Chamber of Commerce (ICC) or the United Nations Commission on International Trade Law (UNCITRAL). This method is faster than court litigation, maintains confidentiality, and offers flexibility in choosing arbitrators with relevant expertise.

6. Litigation - As a last resort, disputes may be taken to court for a judicial decision. In PPP contracts with public authorities, litigation may be more common for legality, contract termination, or major breaches. Court cases can be expensive, time-consuming, and public. This process can also strain the relationship between the parties.

7. Dispute Adjudication Boards (DABs) - Some contracts provide for a Dispute Adjudication Board, which can issue decisions that are binding unless and until they are reversed by arbitration or litigation. DABs are often used in infrastructure projects where ongoing, timely decisions are crucial to avoid delays.

8. Multi-Tiered Dispute Resolution (Mediation-Arbitration) - Many PPP contracts employ a multi-tiered process where disputes must go through mediation first, and if unresolved, proceed to arbitration or litigation. This ensures that simpler disputes can be handled quickly while still providing a pathway to more formal resolution mechanisms for complex disputes.

A well-drafted Public-Private Partnership (PPP) contract will include comprehensive provisions for dispute resolution, encompassing mechanisms such as negotiation, mediation, and arbitration. These provisions will ensure that any potential disagreements between the parties involved can be effectively addressed on time, minimizing disruptions to the project and preserving the long-term stability of the partnership.

14.4 PPP Project Modifications

There may need for modification to the PPP contract due to unanticipated circumstances which may arise that were not anticipated when the PPP contract was signed, leading to changes in work, services, or delivery methods. PPP projects generally involve long-term contracts, and unforeseen changes can happen to the project's enabling environment (e.g. macroeconomic fluctuations, currency depreciations, natural disasters, etc.). If no variation provisions are included in the PPP contract, the contract may be too inflexible to handle these unforeseen circumstances. To avoid this pitfall, particularly in long-term projects, it is important to build flexibility into the PPP contract to specify the conditions in which modifications are allowed, and what the adjustment process will be. Furthermore, it is imperative to incorporate termination clauses in the contract to facilitate the unilateral cancellation of the agreement by either party in exceptional circumstances. These clauses should ensure fair and equitable compensation for the affected party if deemed necessary. There are typically four categories of modifications:

i. Modifications without Additional Costs: The government and the PPP Company should discuss the best way to implement the proposed change. If the modification reduces costs for the PPP Company, the parties need to agree on how to distribute the savings, including any potential cost reductions for the

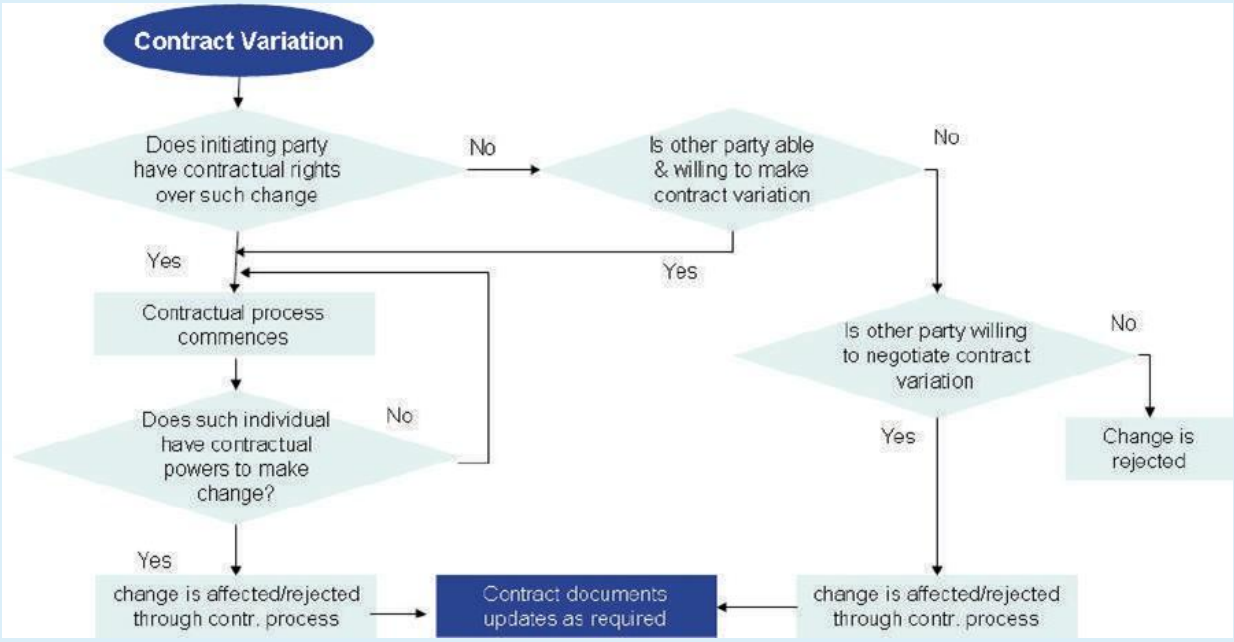
users. They should agree on modifications to the project financial model and contracts without resorting to dispute resolution procedures.

ii. Small Works Variations: Here is the shortened text you requested: These modifications cover minor, unforeseen circumstances outside of the original contracts. Disputes are resolved in accordance with procedures on a case-by-case basis with adjustments to the project's financial model.

iii. Government-request Modifications: If the government wants to change the PPP project deliverables, it needs to submit a request to the PPP Company. The proposal must describe the nature of the variation and require the PPP Company to assess the technical, financial, contractual, and timetable implications. The government must decide who will fund the modification (PPP Company, government, or users). If the PPP Company is adversely affected, they should be compensated and the project financial model adjusted.

iv. PPP Company-request Modifications: The PPP Company must submit a proposal to the government outlining the details of the variation and its impact on service delivery and the PPP contract. The government will then decide whether to accept the proposal and make any necessary adjustments to the funding regime and the project's financial model.

Figure 9: Contract Variation Process Flow



Source: Contract Management Guide, Partnerships Victoria

14.5 Other Forms of PPP Contract Contingency Planning

Contingency planning is an important element of the PPP contract management process. In the event that the private party fails to deliver the services as specified under the PPP Contract, the Government may have to act swiftly and should have the necessary planning in place to do so. Some types of additional contingency planning include:

- Business Continuity and Disaster Recovery Plan, which cover events that disrupt service delivery but do not involve default by the private party

- Step-in Plan, which covers events that disrupt service delivery and involve a default by the private party. If there is a lender's Direct Agreement in place, this will set out the agreed procedure to be followed. Default Plan, which covers private party defaults that do not result in disruption of service delivery

Government should identify all significant contingency events related to the PPP Project and develop appropriate contingency plans which should form part of the CMP.

15.0 Risk Allocation and Management

15.1 Effective risk allocation is crucial for the success of projects under a PPP arrangement. PPP projects involve various types of risks including:

i. Construction and Performance Risk: This should primarily be borne by the private partner.
ii. Financial Risk: This risk is usually managed through clear financial agreements, including performance-based contracts. Both parties will share financial risks based on agreed terms.
iii. Demand Risk: This is usually transferred to the private sector, especially in projects reliant on user fees.
iv. Regulatory and Political Risk: The state will bear the risk of changes in laws or policies. State-level support and consistency in policies will minimize political risks.
v. Operational Risk: Ensure the private partner is responsible for project operations through the agreed-upon service level agreement.
vi. Legal Risk: Adherence to national and State laws and legal frameworks will mitigate legal risks

15.2 Risk allocation will be clearly defined in the project agreement, with specific risk-sharing mechanisms for unforeseen events (e.g., force majeure).

16.0 Monitoring and Evaluation (M&E) of PPP

16.1 The PPP Unit will closely monitor the performance of PPP projects to ensure compliance with contractual obligations and performance standards. Monitoring will include:

- Regular site inspections and audits.
- Independent performance assessments.
- Transparent reporting and public disclosure of project outcomes.

16.2 Key performance indicators (KPIs) will be established at the beginning of the project and reviewed periodically.

16.3 The PPP unit will carry out regular stakeholder engagement to involve stakeholders, including civil society and local communities in the evaluation process to ensure transparency and social accountability.

17.0 Financial and Economic Considerations

17.1 Project Bankability

The term "bankability" refers to the general willingness of private sector lenders to provide financing for a PPP project. In practice, however, it is often used as a broader term to reflect the overall attractiveness of a project to equity investors as well (as they will rarely move forward without bank support). If a project is perceived to be "unbankable," then investors and lenders are unlikely to participate and as a consequence the government will not be able to move forward with the project under a PPP model.

Many factors can make a project unbankable such as a weak enabling environment, unconvincing user demand, a lack of confidence in government's long-term commitment to the project, an insufficient tariff structure, general regulatory uncertainty, poorly designed projects, and other project-level and economy-wide risks (e.g. labour unrest, currency stability, etc.). Given the variety of factors that can influence a project's perceived bankability, it is critical for governments to make the project attractive to potential lenders during the project design phase, otherwise the tendering process will be wasted as the project will be unable to reach financial closure.

Some of the major project characteristics that investors and lenders look at to determine a project's bankability include:

i. Enabling environment: To reach an investment decision, the lenders/investors would also consider the likely changes in the regulatory and political conditions over the duration of their investment. Consistency in approach to regulation can reduce regulatory risk. They will also consider whether there are any legal constraints existing to prevent the successful implementation and operation of a PPP project.
ii. Government support: If the lenders/investors are not confident about the robustness of the project cash flows, they may require financial support from the government in the form of a capital grant, guarantee, VGF/availability payment arrangement or equity contribution to provide them with additional comfort for investing in the project.
iii. Robustness of the cash flows: The lenders/investors would primarily value the likelihood of project cash flows to service debt by looking at coverage ratios, monetary reserves and margins. The lenders/ investors may securitize these project cash flows so that they can allocate risks/returns of debt most efficiently.
iv. Third-party support: International development institutions may also provide financing for the project, through loans and equity, project guarantees, country risk guarantees, partial or full risk guarantees, etc. Currency support, in the case of swaps or other forms of financial derivatives, may also be used to reduce macro-level economic risks.

17.2 Project Funding Approaches

When a project is proposed as a PPP, the responsibility for arranging the funds for financing the project typically rests with the private bidders. In general, there are two approaches to finance a PPP project: Corporate Finance which is rarely utilised and Project Finance.

(i) Corporate Finance

Corporate Finance, also sometimes referred to as Balance Sheet Finance, refers to a financial structure in which PPP project sponsors raise funding for a project from their corporate balance sheet or tie funding (at least partially) to their corporate balance sheet. The capital investment decision for the project is made at the corporate level and finance comes from the corporate coffers, either in the form of existing company funds or through outside loans/equity directly to the company.

There are certain advantages to a Corporate Finance approach for funding. If the PPP project is considered risky for lenders/investors to finance directly, the recourse to the sponsors' overall corporate balance sheet offers a higher level of security. If the sponsor is a publicly listed company, then information on its performance and viability is usually available through stock markets, rating agencies, and other market-making institutions. This combination of security, liquidity, and information availability allows debt to be issued at a lower cost than through project finance. Further, because the enterprise's overall risk is diversified over all the activities that it is engaged in, the cost of equity is also usually lower. Therefore, the financing of a PPP project by corporate finance usually makes both the cost of debt and equity capital less expensive but exposes the sponsor companies to additional risks. This form of financing of PPP projects is the exception to the rule in international PPP projects.

(ii) Project Finance

A common approach to financing PPP projects is to structure the PPP Company as a Special Purpose Vehicle (SPV). The investors/lenders have rights to the cash flows of only the SPV itself and no or limited recourse to the cash flows of the project sponsor. In other words, project loans and investments are only secured by the project assets with no claim on the assets of the project sponsor. A sponsor structures projects this way to safeguard their company from the complex and ever-changing project risks.

To get a project finance arrangement started, the SPV receives seed money financed with debt and/or equity from one or more sponsoring firms, recoverable as development costs from the first drawdown of the loans arranged to finance the PPP project. However, the specific assets and liabilities of the SPV do not appear on the sponsors' balance sheet and, as a result, the SPV does not have access to internally-generated cash flows of the sponsoring firm.

After the SPV receives some seed capital from its sponsors, the SPV will approach the market for additional financing. Investors and lenders are asked to only consider the bankability / financial opportunity of the particular project for which the SPV was created. As a result, all the interest, loan repayments, and equity returns come only from the cash flows generated from the project. The term of the investment is also limited, as the SPV is dissolved once the project is completed and the concession reaches maturity, although this may not be for up to 30 years.

Since the SPV is a standalone, legally independent company, the debt and/or equity is structured without recourse to the sponsor. This can make the cost of debt and equity higher, although it may also provide a higher risk/reward return to equity investors.

17.3 Sources of Finance

PPP projects are financed using some or all of the following sources of funding:

i. Equity: ownership of the project company and the associated risks and rewards;
ii. Senior debt/bond financing: priority for payment and first rights over project cash flows; and
iii. Mezzanine funding and quasi-equity: secondary call on the project cash flows.
iv. Government Support: capital grants or VGF/availability payments from the government. Each type of investor or lender receives a consideration from the project by way of a return on their investment. The lenders (banks, bondholders) receive interest and the equity holders receive dividends (some projects allow for hybrid models). The key is who has priority or order for payment.

i. Equity

Equity is provided by 'project sponsors' (those who have an operational interest in the contract) or 'financial investors' (those who have only an investment interest). Often the private project sponsor is required by government or lending institutions to invest a certain percentage of equity capital in the PPP project. This can be done either by the private project sponsor alone or be contributed by a consortium of operational investors. The advantage of funding PPP projects through a consortium of equity investors is that the consortium can be constituted to minimise project risks by assigning each consortium member to manage the risks that correspond to their area of functional expertise.

Equity can be raised by:

- Internal Resources/Retained Earnings: The parent company contributes funds out of surplus funds available in its existing business.
- Equity Issuances: Equity may be raised by the project sponsors separately or by a fund set up to invest in the project or by PPP Investment Funds. It can be classified as public issuance, rights issuance, or private placement.
- Equity can also be provided in the form of Mezzanine Debt or Quasi Equity. The advantage is that the interest payable can be offset against corporate tax, whereas dividends are payable from taxed earnings. In addition, interest can be earned from the start of the operating period, whereas dividends can only be paid in the later stages of the project when net cash flow is sufficient.

ii. Debt

Debt is defined as an amount owed to a person or organization for funds borrowed. Debt can be represented by a loan agreement, loan note, bond, mortgage or other form stating repayment terms and interest requirements. These different forms all imply intent to pay back an amount owed by a specific date, which is set forth in the repayment terms. Debt can be raised by:

- Bank Loans: These represent the most common form of debt funding and can be availed in various forms with respect to the repayment facilities, tenure of the loan, interest payment options (floating or fixed), and currency denomination. Bank

loans are structured on the basis of the expected project cash flows, with a moratorium or grace period, interest payment, and principal repayment schedule. Bank loans are generally fully secured and have recourse to project assets in the event of any default. Given that PPP projects are highly capital intensive in nature, they are often funded using a high proportion of debt (to reduce overall funding costs). To reduce individual exposure, banks often prefer to be part of a consortium or 'syndicate' of banks. One bank often acts as the "lead or arranging bank".

- Bonds: Bonds represent the debt funding raised for a project from the capital markets. The benefit of a bond issuance is that many different investors can be brought together, many of which only take a small piece of the project loan. Investors in a bond issue can be broadly categorised as (1) banks and financial institutions; (2) insurance companies, provident funds, and pension funds; (3) mutual funds; and (4) retail investors.
- Multilateral Agencies: International institutions, such as the World Bank private sector lending organisation, the International Finance Corporation, European Investment Bank, and the various regional development banks are major financiers of PPP projects globally in developing countries. While multilateral agencies follow the same debt structures as purely private lenders, they do have some unique characteristics that make them good partners for infrastructure projects. For example, multilateral agencies typically lend for long-duration projects, are focused on projects with high economic development impacts, and provide technical guidance throughout the project lifecycle. They can also take the back-end loan maturities where national and international banks will only provide short to medium-term loan maturities. In addition, with the requirement of banks for higher debt-equity ratios with resultant higher equity amounts being required, they can participate in the equity of the SPV.
- Pension Funds, Insurance Companies, Sovereign Wealth Funds, and Infrastructure Funds: Like multilateral institutions, certain types of funding groups focus on infrastructure projects given their unique characteristics and long-term, predictable cash flows. Speciality funds, such as those that come from pensions, insurance, sovereign government resources, and dedicated infrastructure funds, are often managed by investment banks or managers.

iii. Mezzanine Funding or Quasi Equity

As mentioned above, in addition to more traditional equity and debt arrangements, infrastructure projects may wish to raise secondary or complementary funding. Mezzanine financing or quasi-equity represents a form of equity midway between senior debt and real equity and has features of both kinds of financing. It can assume the forms of subordinated loans, convertible subordinate loans, redeemable preference shares, or debt issued with stock warrants, and takes greater risks than senior debt since it is generally subordinate in terms of collateral rights over security and rights to cash flow. Such debt, at times, is usually also unsecured other than by the project cash flow in which case the rate of interest charged would be significantly higher than that charged for senior debt. It can have one other major advantage. The interest on quasi-equity can be offset against SPV corporate tax, whereas dividends are paid from post-corporate tax revenue. The use of quasi-equity can therefore lower the cost of equity and reduce the cost of any necessary government support.

iv. Government Support

In specific cases, especially in high-risk and/or high developmental impact projects, Federal or State governments shall contribute funds to enhance the viability of the project. A key reason for this may be to make the project "bankable" or more viable to the private sector. Some reasons for government support may include:

- Supporting economically and socially weaker sections of society who cannot pay commercial prices for basic services;
- Encouraging the use of public amenities or environmentally beneficial options like public transport systems by charging concessional prices;
- Executing their social mandate to provide certain services without charging citizens, such as senior citizens.

18.0 Project Operation

Public-Private Partnership (PPP) project operation refers to the management and execution of projects developed through a collaboration between government entities and private sector companies. The operational phase is critical as it involves the delivery of services and maintenance of infrastructure over the life of the project. Here are some key aspects of PPP project operation:

The operational phase of a PPP project is essential for its long-term success and sustainability. Through effective management, continuous engagement with stakeholders, and proactive risk management, PPP operators can ensure that infrastructure projects deliver the intended benefits while minimizing operational challenges. Successful PPP operations lead to improved public services, enhanced infrastructure, and optimized resource utilization.

The oversight of the project will shift to the project executing MDA at this stage. At the commencement of the project, if it entails construction, the MDA should appoint Independent Engineers jointly with the developer, to review and audit the construction activities. The Independent Engineers ensure that the construction conforms to contractual commitments and notify the MDA of any deviations. After the project is constructed and begins operating, the MDA, supported by EKDIPA, monitors the performance of the SPV throughout the concession period. The monitoring should include:

- Service delivery by the PPP Company;
- Fulfilment of obligations to the MDA, including payment obligations, if any, by the PPP Company;
- Project monitoring and financial audit by the MDA or any other government authority.

The Project Implementation stage is predominantly the responsibility of the MDA, with some oversight from EKDIPA.

19.0 Project Insurance

Insurance in a Public-Private Partnership (PPP) project plays a crucial role in managing and mitigating risks. PPP projects, particularly in infrastructure, involve long-term, large-scale commitments where the risks are shared between public and private

sectors. The insurance strategy is designed to protect both parties and ensure that the project remains viable in case of unforeseen events. PPP project insurance is a crucial component in managing risks associated with collaborative infrastructure projects between public entities and private companies. Given the complexity and scale of these projects, various forms of insurance are required to protect the interests of all stakeholders involved. Here are some key aspects of PPP project insurance.

19.1 Key Types of Insurance in PPP Projects:

i. Construction Insurance - The insurance covers damages to the project during construction, including physical damage to project works, equipment, materials, and more. It also protects against claims from third parties for injury, death, or property damage resulting from construction activities.
ii. Operational Insurance - After the project is completed and in operation, this insurance covers damage to the infrastructure and facilities from risks like fire, floods, or equipment breakdown. It provides compensation for loss of income due to disruptions in the operation caused by an insured event, such as property damage. This insurance protects against claims for damages due to design errors, professional negligence, or failure to meet project specifications.
iii. Public Liability Insurance - Protects against claims arising from injuries or damages to members of the public caused by the project or its operations. This is critical for projects that involve public facilities or spaces (e.g., toll roads, airports, utilities).
iv. Environmental Liability Insurance - Many PPP projects, especially those in infrastructure, can have significant environmental impacts. Environmental insurance covers liabilities related to pollution, contamination, or other environmental damages that may arise during construction or operation.
v. Political Risk Insurance - Especially for international PPP projects, political risk insurance covers risks such as expropriation, changes in law, currency inconvertibility, or political violence (war, terrorism, civil unrest). This type of insurance is crucial when the private partner is investing in a country with a high level of political uncertainty.
vi. Force Majeure Insurance - This protects against extraordinary events or circumstances beyond the control of the parties, such as natural disasters (earthquakes, floods), pandemics, or terrorist attacks. In some cases, these events might not be covered under general insurance policies, so specific provisions are made under the PPP contract.
vii. Key Person Insurance - In projects where certain key personnel are essential to the success of the venture, this insurance covers the financial loss that may occur if those individuals become incapacitated or pass away during the project.
viii. Financial Risk Insurance - Protects the project's investors and lenders from losses caused by the private partner's failure to meet financial obligations. It is used in certain cases to protect against risks that could affect the ability to repay project loans (e.g., construction delays, and operational issues).
ix. Subcontractor Insurance - If subcontractors are involved in the project, they must carry appropriate insurance for their scope of work (e.g., liability,

professional indemnity). PPP contracts typically require subcontractors to maintain certain levels of coverage.

19.2 Importance of Insurance in PPP Projects:

i. Risk Management: Insurance acts as a risk transfer mechanism, allowing risks to be shared among stakeholders.
ii. Financial Viability: Securing appropriate insurance can enhance the financial stability and attractiveness of a project to investors and financiers.
iii. Compliance: Often, regulatory bodies may require insurance as a condition for project approval.
iv. Credibility: Having comprehensive insurance coverage can boost the confidence of all parties involved, from public authorities to private investors.

19.3 Insurance Requirements in a PPP Contract

In a typical PPP contract, the insurance requirements are explicitly defined, detailing:

- The types of insurance required
- The minimum coverage amounts
- The allocation of responsibility for obtaining and maintaining insurance (usually assigned to the private partner)
- The terms and conditions for how claims are handled
- Whether the insurance should extend to both the construction and operational phases of the project

19.4 Insurance Challenges in PPP Projects:

- High Premiums: Given the complexity and scale of PPP projects, insurance premiums can be substantial. Negotiating favourable terms while maintaining adequate coverage is a delicate balance.
- Policy Exclusions: Ensuring that the insurance policies do not exclude key risks (such as force majeure events) is critical to the project's viability.
- Coordination Among Insurers: With various types of insurance involved, ensuring coordination among insurers and clarity regarding what each policy covers can be challenging.

20.0 Capacity Building and Knowledge Transfer

Capacity building and knowledge transfer are essential components of Public-Private Partnership (PPP) arrangements, particularly when the public sector seeks to improve its skills, expertise, and institutional capacity through collaboration with the private sector. The complex nature of PPP projects often requires specialized technical, financial, and operational expertise, which the public sector may lack. The private sector can play a significant role in filling these gaps by transferring knowledge and building the public sector's capacity, ensuring the long-term sustainability of the project and enhancing public service delivery.

Ekiti State will prioritize building the capacity of its public officials involved in PPP projects. This includes:

- Regular training programs for public officials on PPP structuring, risk management, contract negotiation, and legal frameworks.
- Collaboration with international PPP bodies and institutions to strengthen local capacity in PPP project delivery.
- Knowledge transfer programs from private partners to public officials during the life cycle of the project.

21.0 Project Hand-Back/Termination

Termination and handover of a Public-Private Partnership (PPP) project mark the conclusion of the private sector's involvement and the transition of the project back to public ownership or management. This process is crucial, as it ensures that the public sector can maintain and operate the asset or service effectively, securing long-term benefits for the public. PPP project termination can occur in several ways: upon the natural expiration of the contract, early termination due to default or mutual agreement, or an event triggering force majeure. The completion of the contract period involves the exit from the project by the PPP Company, the transfer of land and assets back to the MDA, and the decision by the MDA on appropriate next steps, including re-tendering the project to the private sector. The MDA may have the option to extend the project term, and most PPP projects have a specified concession duration of 10-30 years. At the end of the concession contract, the private sector must hand over the project assets to the government in good operating condition. At this time, there is a set of obligations that both the private sector and the government need to fulfil, which are usually detailed in the Concession Agreement. The Concession Agreement should:

- specify the standard required of the assets on the handover date;
- Lay out a process for monitoring the asset standards over a period leading up to the contract end date;
- Specify financial penalties for failure to meet the required standards.

The government should aim to avoid a situation where it only discovers at the very end of the contract that the asset condition is sub-standard. Because assets can be allowed to deteriorate over a long period before the end of the contract, it is important to regularly follow the CMP and monitor the asset conditions in terms of the standard required.

The Contract Management team should also manage the handover of relevant documents and records and the government should plan for the continuity of service delivery and maintenance of service standards either in the form of an extension to the contract, a new project development or through other means.

For more information on sector-specific PPP Toolkits, please see the following resources. http://www.ppiaf.org/page/knowledge-center/toolkits

22.0 Conclusion

The PPP Guidelines and Manual for Ekiti State are comprehensive documents that aim to provide a detailed framework for the development and management of Public-Private Partnership (PPP) projects within the state. These guidelines outline the specific steps and procedures to be followed when initiating, implementing, and overseeing PPP projects. By adhering to the principles and guidelines detailed in this document, the state can effectively facilitate sustainable and mutually beneficial partnerships between public and private entities. This, in turn, can lead to the successful execution of infrastructure projects, improved service delivery across various sectors, and ultimately contribute to the overall economic growth and development of Ekiti State.

Ekiti State remains committed to creating an enabling environment for PPPs

Appendixes

1.0 A MODEL OUTLINE BUSINESS CASE(OBC) STRUCTURE

The Outline Business Case Report should provide all the relevant information for the Ministry Department or Agency (MDA) to make a well-informed decision on whether or not to proceed with the suggested PPP option for each project. It should incorporate all of the issues described in the Scope of Work, above.

A model outline of the Outline Business Case is provided below:

1. Introduction

- Executive summary
- Introduction
- Project background
- Approach and methodology to the OBC study

2. Strategic and Local Context of Project

- Policy context and strategic objectives
- Needs analysis (including future demand and sensitivity to economic/social factors)
- Service objectives and performance measures

3. Value for Money Assessment

- Base Public Sector Comparator (PSC)
- Risk Adjusted PSC
- Affordability
- Procurement choice
- Information verification

4. Project Appraisal (Cost/Benefit Analysis)

- Technical cost estimation (capital, maintenance, operating)
- Social and environmental impact costs and benefits
- Traffic and revenue projections

5. Risk Analysis

- Identification and categorization of risks
- Risk register with risk analysis and quantification
- Proposed risk allocation

6. Financial and Economic Appraisal

- Financial model and sensitivity analysis
- Assessment of economic and financial viability

7. Options Analysis

- Assessment of alternative forms of both conventional procurement and PPP
- Evaluation of PPP options considered
- Recommendations on preferred option
- Key contractual terms

8. Implementation Recommendations

- Recommendations for further project preparation (feasibility studies, technical studies, due diligence, etc.)
- Proposed project timetable
- Recommendations on procurement strategy and procedures

The Outline Business Case: Explanatory Notes

The purpose of the Outline Business Case (OBC) is to seek approval from the government for the preferred project and procurement options and to obtain funding if the project is not financially free standing. It also contains justifications for the preferred project and procurement options. It provides information regarding the expected value for money of the preferred project and procurement options. A typical outline business case consists of the following sections:

(1) Executive Summary

The executive summary should provide a summary of the development process of the outline business case, and the key conclusions arising. It should be strategically focused and succinct, and should effectively convey the key messages arising from the appraisal process such that decision makers gain a good appreciation of the need for change, the appropriateness of the recommended option, and the implications of the decision to proceed. The following should be included in the executive summary of the outline business case:

- A summary of the key conclusions and recommendations arising from developing the appraisal process, and an analysis of the next steps required for taking forward the project;
- A statement of the support and commitment of the public sector client (and other key stakeholders);
- An analysis of the strategic context in which the service is provided, the business need for the service (including details of the contribution that the service should make to the department's corporate strategy) and the synergies that exist between the service and the public sector client's corporate objectives;
- An overview of the existing services provided, including analysis of existing service strengths and weaknesses, key service standards, outputs, the condition of the current assets or infrastructure, and trends in public opinion about the service;
- A summary of the public sector client's objectives for the service, as used in conducting the appraisal of project and procurement options (and subsequently to be used throughout the procurement process);
- A brief description of the options appraisal process that was followed in order to identify the preferred project and procurement option (including a summary of the financial and non-financial outcomes).
- An assessment of the economic benefits, value for money, affordability and bankability of the preferred service delivery option. This should include confirmation that the private organizations expressed their in the preferred service delivery option.
- An overview of the public sector client's approach to developing and delivering the project, including consideration of contractual terms, the balance sheet treatment and project management arrangements.

(2) Strategic Context and Business Need

The OBC should include a review of the public sector client's vision and objectives for the service, the key strategies and objectives of the public sector client. It should also provide the conditions of the existing services and projections of need or demand and highlight the insufficiencies of existing services, if any.

It is also be useful to summarize any evidence of public perceptions of the existing service. For example:

- How the public perceptions have developed over time;
- How they reflect demand for better quality or more efficient services, any public and community opinion surveys on trends in relation to the performance of the service;

- The results of any consultation process in relation to the service;
- Analysis of the numbers and frequency of requests for service and/or complaints;
- Analysis of the requests for improvements to the service; and
- The results of other surveys/initiatives where improvements to the service have been cited as a means of improving the efficiencies of other department's activities.

The OBC should demonstrate that there is a business need for the proposed project by showing that:

- the current service fails to maximize its contribution to the public sector client's strategies;
- the services delivered by the project can contribute to the broader strategies of the public sector client;
- the project forms a logical and coherent part of the public sector client's strategies and plans; and
- there is a fit of the project within the wider strategic and policy context.

(3) Service or Project Objectives

The OBC should list the objectives of the proposed project. The provides the basis against which the government can assess on the suitability of the proposed project option recommended by the public sector department and to propose alternative options based on the objectives of the proposed project, if necessary.

(4) Preferred Project Option and Procurement Option

The OBC should give recommendations on the preferred project option and procurement option.

The Preferred Project Option

The list of options that have been considered in the options appraisal stage should be described. The benefits, costs and consequences of each option and those options which are being progressed for further analysis should be included in the OBC. In general details of two or three options are included in the OBC. The two options which are most likely to deliver the desired outcomes and the 'do nothing' or 'do minimum' option are included. The impact on related services and assets and opportunities for integration with other government services demonstrating consideration of joined-up government can also be included.

The Procurement Options

The OBC should identify the procurement options that have been considered in the delivery of the preferred project option, give recommendations on the procurement option that create the best value for money to the department with justifications. It should also describe the evaluation framework upon which different procurement options are to be evaluated. These should include:

- Comparison between the cost of delivering the preferred project option through traditional procurement method, the PSC, compared to that delivered through private delivery option, the PFP;
- To demonstrate that the private parties have the capability to deliver the required services, within any constraints set by the public sector client, the service delivery would be sufficiently reliable, and that such delivery would provide value for money;
- To justify that the risks and rewards inherent in providing the required outputs represent a genuine commercial opportunity;
- To confirm that the finance market at the time will support the proposal; and
- To illustrate that there are opportunities for cost effective risk transfer.

(5) Project Delivery Arrangements

This section of the OBC should document the public sector client's intended approach to the procurement of the project and set out the key issues that are to be addressed in the subsequent development, procurement and delivery of the project. The key elements to be included are:

- Output Specification: The OBC should include a summary of the key elements of the draft output specification and commentary on how the output specification will be developed further.
- Proposed Performance Measurement and Payment Mechanism: The OBC should identify the key performance indicators which will measure performance and the key components of the payment mechanism. Discussions should cover the relationship between payments from the public sector client and the related necessary level of performance.
- Indexation, Benchmarking and Market Testing: The OBC should set out the public sector client's initial views on indexation, benchmarking and market testing, which will be included as part of the payment mechanism and contract for the services.

- Contractual Terms: The OBC should set out how the public sector client will develop the contract for the project. It should indicate how the public sector client expects to deal with the key contractual issues associated with the particular type of project.
- Risk: The OBC should identify all material risks associated with the project, specifying the external and project development risks for the public sector client, the project risks to be allocated to a private party, and those to be retained by the public sector client. It should also include any project transition risk, such as interest rate or planning risks that may be carried by the public sector client until allocated to the private party when contracts are operating. This is a key area of the business case, as optimal risk allocation is fundamental driver of value for money. For risks that are proposed to be retained by the public sector client, the business case needs to explain why the public sector client is considered better able to manage or mitigate these risks. The business case should include at least a preliminary view on the cost to the public sector client of the risks which are to be built into the PSC.
- Implementation and Project Management Plan: The outline business case should document the public sector client's approach to the development of the project management arrangements if the project secures approval to go into procurement, and describe the arrangements that are in place, or to be put in place, to ensure an efficient procurement. It should identify the members of the project team, the delegations and reporting arrangements that have been agreed for the procurement stage, and the arrangements for involving stakeholders in the procurement process. The OBC should also set out the approval process required for the OBC, details of the commitment of members to funding the project, and evidence of the support of key stakeholders.
- Project Timetable and Resourcing: An indicative project timetable should show each of the key stages such as procurement stage, construction stage, and delivery of service in the whole process and the estimated time for service delivery to begin. Regarding the procurement timetable, indicative periods for each sub-stage, such as invitation to expression of interests, in the procurement process should be given. The procurement timetable will need to be updated as the procurement proceeds, and should serve as both project management tool, and as a means of communication. Discussion should also deal with the resources required to deliver the project,

how they will be secured, internally or externally, and the expected costs of the procurement team.

2.0 A Checklist for Public-Private Partnership Projects[1]

[1] Prepared by the Staff of the World Bank Group August 2014

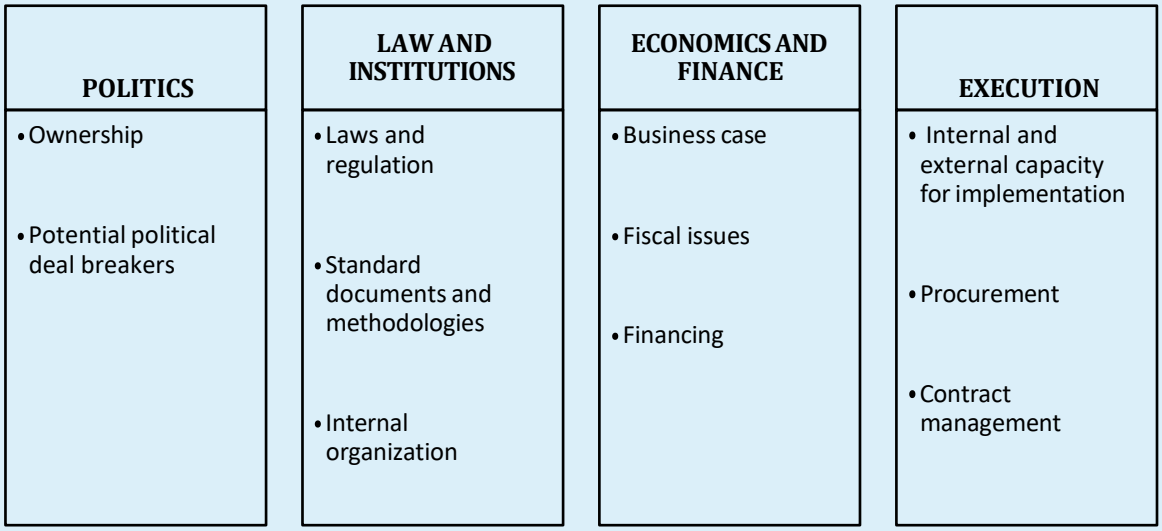


Figure 1: Approach to the PPP Checklist

POLITICS

It is important to ensure that the project has broad stakeholder support, there is political commitment and stability, and potential political deal-breakers have been flagged / addressed early on in the process.

Ownership	° Is there an approved national/ regional/ local infrastructure plan / PPP pipeline/ program which has clear support from the highest levels of government (Office of the President/Governor/Prime Minister, the Ministry of Finance and the line ministries; and from equivalent levels in the state and local body in the case of sub-national projects) and which clearly communicates the rationale for doing PPPs? **Project specific** ° Does the proposed project derive from the approved national infrastructure plan/ program and does it have clear support from the highest levels of government? ° Are there disagreements among internal stakeholders serious enough to jeopardize the project? ° Is there sufficient support for the project among important stakeholders (political parties, unions, private sector, users, media, political commentators, think tanks, civil society organizations and any other)? ° Is there a strategic communication plan with clearly defined roles, responsibilities and timelines to engage with key internal and external stakeholders?
Potential political deal breakers	**Project specific** ° Can the government implement key project actions and activities including project closure within its remaining term? Or alternatively, is there cross-party consensus for the project such that there is certainty that it can be completed under a future government? ° Has there been a credible social and environmental impact assessment of the project? ° Are there specific issues raised in the social and environmental impact assessment that might have implications for the development and implementation of the project? ° Is there likely to be substantial requirement for land acquisition, resettlement or other approvals that might lead to delays in the project? ° Will other infrastructure upon which the project may depend be ready in time? ° If a "brownfield" project, will there be substantial layoffs in personnel/staff which may result in delays or stand-offs?

LAW AND INSTITUTIONS

For a successful PPP, it is important that there are sound, well-functioning and transparent legal and regulatory institutions, fiscal and financial frameworks, supportive and credible institutional processes, and the capacity and structures to implement them.

Laws and regulation

PPP frameworks

- Are there PPP legislation/ rules / regulations that provide clarity on the definition of PPP and lay out a process for approval, procurement and regulation of projects through construction and approval stages and specify which public authorities can sign the PPP agreements?
- Does the procurement law treat all bidders (including overseas bidders) equally, fairly and transparently?
- Do the legislation/ rules/ regulations include any requirement for initial or final parliamentary approval of PPP project proposals?
- What types of PPP does the framework allow (e.g. management type, leases, BOT, availability-based, concessions, asset sales, other)?
- Are there specific policies and procedures integrated within the PPP framework to select, appraise, procure (competitively or through direct negotiation) and implement projects initiated by private sector proponents through unsolicited proposals?
- Are there sector laws, regulations or policies that provide a basis for charging tariffs and establish clear methodologies for tariff setting, increases and periodic reviews, fostering financial sustainability while at the same time ensuring reasonable and affordable levels of tariff?
- Are there simple, transparent and predictable requirements for licenses, permits and planning approvals??
- Does the legal framework allow for compensation to the parties in the event of termination?

Other related frameworks

- Does land acquisition legislation provide for speed and ease of acquisition while ensuring appropriate compensation and/or rehabilitation?
- Are the labor laws sufficiently flexible to allow maximum productivity and efficiency?
- Are there land and security laws (e.g. mortgages / charges etc.) which confer enforceable rights on lenders/contractors, and permit "step in" and rescue of distressed PPPs?
- Are there tax laws that are well-established and predictable and is their application in the case of PPPs clear?
- Is there an established consistent and respected court system with a reputation for treating all litigants, including foreign litigants, on a fair and equal basis with local litigants?
- Are there alternative forms of dispute resolution which are consistent with widely accepted international good practice?
- Are international arbitration awards recognized and can they be enforced?
- Can the public authority claim sovereign immunity and is there provision for waiver?
- Does the law provide for unilateral contract termination by government?
- Is there protection against expropriation or nationalization of project assets?

Functioning of frameworks

- Does the court system provide timely redress?
- Is there a sound track record of compliance with law and contract obligations: for e.g. are there instances of government reneging on its contractual obligations, including payments?
- Have there been instances of unilateral contract termination by government or expropriation of project assets in the past?

Standard documents and methodologies	° Are there standard methodologies and guidance for technical costs, value for money (VfM) analysis, economic cost benefit analysis, affordability analysis, discounting etc. with established benchmarks comparable to international norms? ° Are there performance standards that are comparable to international benchmarks? ° Are there standard documents and templates for different phases of the project, including standardized contracts that define the rights and obligations of the parties and allocate risks to the entity best able to manage them?
Internal organization	**Structure** ° Is there a PPP Unit in the Ministry of Finance/ elsewhere with a clearly defined role and responsibilities, and adequately staffed with appropriately skilled public servants who can provide specialized expertise, guidance and oversight? ° Are there dedicated teams in line ministries/ contracting agencies for developing projects? ° Are there dedicated teams for PPP project appraisal, approval, procurement and contract management? **Processes** ° Are there transparent and time limited processes for PPP project appraisal, approval and procurement including appropriate quality control procedures? ° Are there established processes for contract management which define roles and responsibilities clearly and ensure timely monitoring, evaluation, feedback and correction in performance of projects? ° Are there established processes for contract renegotiation which ensure transparent negotiations, emphasis on value for money outcomes and protection of the interests of all stakeholders?
Transparency and accountability	**Disclosure framework** ° Are there methods for ensuring transparency in the PPP process, including, among others, disclosure of key pre[4] and post-procurement information, such as information relating to the bid process, project progress, fund deployment from government, projected commitments, contingent liabilities and project performance? ° Is there clear guidance on the recommended approach to confidential information with clear reflection in the standard contract documentation? **Audit framework** ° Is there a clear and established framework for financial, performance and forensic audit of PPP? ° Does the supreme audit institution have the capacity and skills to undertake PPP audit and do they publish their audits?

[4] This includes disclosure during the procurement process.

ECONOMICS AND FINANCE

The project should make technical, economic, fiscal and financial sense with an adequate business case and an optimal allocation of risks. It should provide value for money. Financing of appropriate tenure should be available either domestically or internationally, and any foreign exchange and capital controls should be transparent, predictable and allow investors to repatriate their investments.

Business case

Project specific

Project scope

- Is there a clear articulation and substantiation of the need for the project?
- Is the project objective realistic and does it provide sufficient articulation and justification of the technical, economic, social, fiscal, programmatic and other drivers?
- Does the project deliver critical public infrastructure services?
- Has the market for the services been defined, geographically and clientele wise?
- Are there competing projects (current or future) in the defined market and has the impact of these been considered in the business case?
- Is there long term certainty on future requirements of the identified infrastructure services?
- Is the scope of the transaction and technical design as defined sufficient to achieve the project outputs and outcomes?
- Are the defined outputs in line with existing standards?
- Are the functional responsibilities of different organizations appropriately defined?
- Are the project scope and functional responsibilities as defined compatible with the current legal, regulatory and institutional framework and processes?
- Have insights from earlier similar project transactions been taken into account while developing the business case?

Costs and revenues

- Are the technical cost estimates in line with the required output specifications and based on established national/international benchmarks?
- Are all cost categories accounted for, including the costs of social and environmental impacts?
- Is there an assessment of the ability and willingness to pay (especially if this is a new project with no previous experience of user charges)?
- Are revenue estimates, whether based on user charges or government payments, backed by sound demand projections/ guaranteed demand? Are the timing and level of expected revenues based on realistic assumptions?

Site

- Is there a site suitability assessment which includes an evaluation of different options?
- Is the recommended site for the project the best among the assessed options based on extent of fulfillment of project requirements as well as cost?

Rationale for the preferred option

- Is there a rigorous process which bases the choice of PPP modality on an evaluation of the full range of project delivery options from traditional procurement to various PPP models and is the selection of modality based on a robust assessment of VFM?

Market sounding

- Has a market sounding exercise been conducted that included feedback on the availability of private sector skills, experience and interest necessary to undertake the project and deliver services to the required standard, both in terms of technical capability and project scale; constraints to risk allocation, financing and other project features?
- Did the market sounding include a variety of participants (industry players, equity providers, lenders, etc.) with experience and knowledge of similar projects?
- Has the market sounding been undertaken by a competent third-party advisor?
- Has the feedback been appropriately incorporated into the project design, business case and the bidding documents?

Timelines

- Are the recommended timelines for each stage of the process realistic taking into account the time needed for all approvals and also allowing for a realistic timetable for bidders to develop bids? Is each organization involved in the project aware of its responsibility and associated timelines?
- Are the timelines updated and tracked, to ensure accountability?

Fiscal issues

Framework

- Do the fiscal policy priorities of the government include a focus on PPP with budgetary allocations for ongoing government support to infrastructure, including for operations and maintenance?
- Is there a well-functioning budgetary system which supports multi-year fiscal commitments to infrastructure and PPPs where such support is required, and assesses whether the proposed PPPs are affordable?
- Is there a framework for government support to PPPs with clear rules on providing support to individual projects?
- Is there a clear process for accounting treatment of PPPs in terms of classification as on- or off – balance sheet assets/liabilities of government and reporting of government commitments to PPP projects?
- Is there provisioning in the budget for unexpected losses arising out of contingent liabilities?

Project specific

- Where the project requires government support, does the proposal include an assessment of the economic feasibility of the project and an assessment of the various options and instruments of support with a clear rationale for the recommended option?
- Is there an assessment of the various options to minimize the amount of support such as additional sources of revenue, tariff adjustments, reducing the scope of the project, assessing if contract term matches the useful life of assets etc.?
- Is the project affordable to government in terms of the potential fiscal commitments and contingent liabilities it generates through its entire term?
- Are budgetary allocations available for the project, including funding for development of detailed documentation and procurement?

Financing and project structuring

Framework

- Do the major sources of debt (commercial bank debt, capital markets, other), including domestic and external borrowing, provide reasonably long tenors?
- Are there restrictions on external borrowing by domestic firms?
- Is there a robust project finance market which supplements the traditional corporate finance market?
- Are credit enhancement and risk mitigation products (guarantees, etc) available to support project financing?
- Do the current regulations and rules support investments in infrastructure projects by long-term investors including pension and equity funds?

- Is there a reasonable secondary market available for refinancing debt and equity?
- Are there readily available and affordable mechanisms for interest rate and foreign currency hedging?
- Are there restrictions including caps on foreign equity investments and ownership?
- Are any controls on foreign exchange or capital movements predictable and stable?
- Are there adequate levels of foreign currency reserves?
- Are there restrictions on repatriation of profits?

Project specific

- Are all the key modeling assumptions clearly articulated?
- Are the assumptions justified and backed up by sound sources and reflective of market conditions?
- Is the methodology and rationale for identification, assessment and allocation of risks clearly explained and reflect international best practices?
- Is there an outline risk register? Are recommended risk sharing options suitable given the project delivery model and risk managing capacities of the public and private parties?
- Has a robust sensitivity analysis been conducted and what implications does it have for risk allocation as well as the VfM of the project?

EXECUTION

A disciplined approach needs to be adopted, with particular emphasis on mobilizing adequate capacity, adhering to timelines and following a sound procurement process. Post-contract performance management is of particular importance in PPPs.

Internal and external capacity for implementation	**Project specific** ° Have project teams been identified and their roles and responsibilities clearly defined? Do they have the skills and capacity required for carrying out their assigned roles and responsibilities? ° Are the potential bidders capable of understanding and completing the bidding documents (RFQ/RFP)? ° Have the transaction advisors/ consultants (including technical, legal and financial) been procured competitively and do they have prior experience and expertise with similar projects? ° Does the transaction team include local consultants or consultants familiar with local projects? ° Are there any conflicts of interest with the advisory team?
Procurement	° Is the bid documentation including draft contract discussed and agreed substantially before launching the procurement? ° Does the bid documentation include clear information on key project features and what is expected of the bidders and when? ° Is the contract management team involved in the development of bid documentation for the project? ° Does the qualification process ensure maximum competition amongst bidders with appropriate skills and expertise? ° Are there provisions in the terms and conditions of the bid to protect against aggressive and unsustainable bids such as requiring additional financial, technical or other information from bidders or appropriate performance bonds or parent company guarantees of bidder obligations? ° Have feedback mechanisms been incorporated into the procurement process in order to ensure feedback from bidders or other interested members of the public? **Financial bid** ° Does the preferred bidder show any financing commitments as part of the bid (especially in the case of large and complex projects)? ° Is the financial bid backed by sound costs, revenues and assumptions comparable to the national/ international benchmarks and does it provide value for money to the government? ° Are the negotiation parameters in place to initiate negotiations with the preferred bidder? If the law does not allow for negotiations after the preferred bidder is selected, have all matters been adequately addressed in the PPP agreement issued in invitation to submit Best and Final Offer (BAFO) to ensure deliverability of the bid by the preferred bidder?
Contract management	**Managing the contract** ° Are the required resources, tools and processes available to the contract management team and does the team clearly understand the provisions of the contract? ° Is there a contract management plan capable of assessing project performance, and does it include planning for potential contingency events during the contract term? ° Are all the financing agreements in place and the conditions precedent in the contract on a good course towards completion? ° Have the site (if a government site) and assets (if any) been handed over according to timelines? ° Are all stakeholders being kept informed through periodic release of information into the public domain?

- Have there been specific changes such as any refinancing that is not a part of the bidder's original financial model requiring sharing of gains, or any change in ownership that requires government approval??
- Has a post implementation review been undertaken and does it show achievement of the expected outcomes, VfM and/or the need for mid-course corrections?

Managing renegotiations

- Are there changes in the contract attributable to either the public authority or the private party that go beyond the provisions of the contract and that require renegotiation?
- Are the renegotiation parameters and necessary approvals in place for initiation of renegotiation?
- Is the project with the proposed amendments affordable and does it continue to provide VfM for government?
- In case of failure of renegotiation, is there a clear forward strategy with time lines?

Completion of term

- Has an asset inspection been carried out by an independent expert to verify that asset condition meets the hand-back standards/ requires rectification in accordance with any terms in the contract?
- Is any termination compensation required to be paid out on hand back of the assets on completion of term?
- Is there a public sector plan in place for management of the assets and continuity of services following expiry of contract including any process for re-letting of the PPP contract?

3.0 GOVERNMENT SUPPORT EXAMPLES

Country	Key Instruments of Government Support	Description
South Africa	Construction Capital Grant	Capital grant provided to ensure reasonable returns
	Unitary Payment Mechanism	Mechanism of compensating a concessionaire for construction cost, operating cost, and financing cost through lease payments/service payments
Chile	Construction S/Capital Grant	Competitively bid capital grant, provided mainly to ensure that highway tolls are at reasonable levels
	Minimum Revenue Guarantee	Guarantee by government to compensate a concessionaire for actual traffic being less than projected traffic
	Operational Grant /availability payments	Grant provided during the operation phase of a project; primarily routed from the surpluses generated from other profitable projects and passed on to less viable highway projects
European Union	Project Grant (Used as construction grant for PPP projects)	Grants from structural and cohesion funds; the grants are used by member-states to provide construction grants to PPP projects
India	Viability Gap Financing Grant	Competitively bid capital payment, specifically to enhance the viability of PPP projects
	Grants from Central Road Fund (used as construction grant on highway BOT projects)	Allocations from the Central Road Fund (fund generated by the levy of fuel cess) for national highways and used to enhance the viability of highway BOT projects
South Korea	Construction Grant	Capital grant provided to ensure reasonable returns and reasonable tolls or given as compensation to a concessionaire for large fluctuations in currency exchange rates
	Minimum Revenue Guarantee	Guarantee by government to compensate a concessionaire for actual traffic being less than projected traffic
	Build Transfer Lease Scheme	Mechanism of compensating a concessionaire for construction cost, operating cost, and financing cost through lease payments/service payments
	Infrastructure Credit Guarantee	Guarantee by a statutory entity in favour of infrastructure SPVs borrowing funds from financial institutions
UK	Unitary Payment Mechanism	Mechanism of compensating a concessionaire for construction cost, operating cost, and financing cost through lease payments/service payments
	PFI Credit Mechanism	Mechanism of supporting capital expenditure in projects implemented at local levels
	Construction Grant	Capital grant provided for specific projects, only for exceptional circumstances
	DBFO Programme of Highways Agency	Mechanism of compensating a concessionaire for construction cost, operating cost, and financing cost through shadow tolls/availability payments

4.0 Sample Feasibility Study Checklist

SN	Particulars (Tick "U " the applicable box)	Provided	Not Provided	Not Applicable
1	General			
1.1	Name of the Project			
1.2	Type of PPP (BOT, BOOT etc.)			
1.3	Location (Province/District/Town)			
1.4	Responsible Ministry/Department			
2	Project Description			
2.1	Brief description of the project			
2.2	Justification for the Project			
2.3	Possible alternatives, if any			
2.4	Estimated capital costs with break-up under major heads of expenditure also indicate the basis of cost estimated			
2.5	Phasing of investment (if required)			
3	Financing Arrangements			
3.1	Sources of financing (equity, debt, mezzanine capital, etc.)			
3.2	Indicate the revenue streams of the Project (annual flows over project life). Also indicate the underlying assumptions			
3.3	Indicate the Net Present Value (NPV) of revenue streams with appropriate discounting			
3.4	Who will fix the tariff/user charges? Please specify in detail			
3.5	Have any financial institutions been approached? If yes, their response may be indicated			
4	IRR			
4.1	Economic IRR (if computed)			
4.2	Financial IRR (project and equity), indicating various assumptions			
5	Clearances			
5.1	Status of environmental clearances			
5.2	Clearance required from the MDA and other local bodies			
5.3	Other support required from the MDA			
6	Federal and/or State Government Support			
6.1	Viability Gap Funding/capital grant or availability payment support if required			
6.2	Federal Government of Nigeria guarantees being sought, if any			
7	Concession Agreement			
7.1	Heads of Terms of the proposed Concession Agreement			
8	Criteria for short listing at RFQ stage			
8.2	Indicate the criteria for short listing			

5.0 Commercial Case Checklist

SN	Particulars (Tick "U " the applicable box)	Yes	No	Unsure
1	Is the project expected to achieve a satisfactory rate of return?			
	Explanatory Notes			
2	Are projected financing ratios satisfactory?			
	Explanatory Notes			
3	Is the project likely to achieve Value-for-money (VFM)?			
	Explanatory Notes			
4	Are the project outputs, services levels and performance requirements clearly specified?			
	Explanatory Notes			
5	Are credible proposed financing arrangements in place?			
	Explanatory Notes			

6.0 Readiness for Procurement Checklist

SN	Particulars (Tick "U " the applicable box)	Yes	No	Unsure
1	Is a robust procurement strategy in place, including for the management of deviations?			
	Explanatory Notes			
2	Has the proposed procurement procedure been evaluated and, in particular, its compliance with legal requirements confirmed?			
	Explanatory Notes			
3	Has stakeholder consultation confirmed the acceptability of the project and procurement strategy?			
	Explanatory Notes			
4	Is there adequate knowledge of the market and potential suppliers/operators?			
	Explanatory Notes			
5	Is progress in obtaining permits, approvals and clearances satisfactory and in accordance with the procurement strategy?			
	Explanatory Notes			

7.0 Procurement Plan Checklist

SN	Particulars (Tick "U " the applicable box)	Yes	No	Unsure
1	Are the project budget and timetable under control?			
	Explanatory Notes			
2	Does the project team have adequate skills and resources, including appropriate external advisors?			
	Explanatory Notes			
3	Have remaining project activities been timetabled, defined and resourced?			
	Explanatory Notes			

8.0 Sample Template for Optional Analysis

Sr. No.	Section	Description
1	Executive Summary	This section should provide a summary of the findings of the options analysis. Sufficient information should be included to allow key decision-makers to understand the issues and the rationale for the selected short-listed options. Necessary clarification of the implications of the proposed initiative should also be specified.
2	Description of service requirements	This section provides a description of service requirements.
3	Project functions, objectives and critical success factors	This section provides a description of the Project functions, objectives and critical success factors.
4	Alignment with strategic objectives	This section provides a description of the strategic objectives of the parties.
5	Stakeholder identification	This section provides a description of the stakeholders involved.
6	Options Analysis	The range of feasible possibilities should be considered. A qualitative description of the advantages and disadvantages may be used to assist in evaluating the options. For major project proposals, risk-adjusted estimates (of revenue, costs, duration and benefits) need to be applied to address project characteristics, level of knowledge and degree of confidence in the estimates. In completing the template, the following criteria must be considered: Options would generally include: Base Case (do nothing) minimal approach non-asset solutions. For example, these may include: demand management, service transformation, optimising existing operations or asset use, alternative maintenance strategies, re-investment in replacement/renewal, enhancement of existing infrastructure investment in new assets. Public Procurement Option and PPP Option. The evaluation of options would include: rating of achievement of project objectives; rating of achievement of strategic objectives; capital cost (present value) (including confidence levels); recurrent costs (including confidence levels); potential revenues (including confidence levels); environmental benefits; social benefits and where these benefits are distributed, key assumptions and risk matrix ; timing of service delivery and the results associated, should the project not proceed.
7	Project Delivery Alternatives	For each of the above proposal options, all appropriate project procurement delivery approaches should be considered. These may range from traditional public procurement to design-construct or PPP Project procurement delivery, depending on the nature of the investment proposal.
8	Preliminary Risk Assessment	For each option, a high-level analysis of potential risks is required to estimate their likelihood and consequences and determine the risk level. These highest-ranking risks should be listed in the options Risk Matrix assessment along with potential cost implications, responsibility for/sharing of individual risks and any indicative risk reduction strategies.
9	Preferred Option	Based on the options analysis and the preliminary risk assessment, a prioritised short-listing of options and any clear preferred option for further analysis is provided. Reasons for the preferred option or prioritised short-listing should be documented, including key assumptions made, the details of the ranking process and the assessment criteria. The preferred timing and sequencing for the project should also be documented.
10	Actions to progress to business case	Actions required to further progress the proposal should be listed. These may include: further iterations of the options analysis; determining the impacts of deferring the project; issues to be specifically addressed in the business case; timeframe required to develop the outline business case and further the full business case; further studies for addressing information gaps.
11	Supporting Documents	All documentation that supports the finding of the options analysis.

9.0 Preliminary Project Assessment Form

<table>
<tr><th>SN</th><th>Particulars</th><th>Details (To be filled in by the MDA)</th></tr>
<tr><td>1</td><td>Project name</td><td>Provide the name of the Project</td></tr>
<tr><td>2</td><td>MDA name</td><td>Provide the name of the MDA acting as the procuring entity</td></tr>
<tr><td>3</td><td>Brief description of the project</td><td>Provide a description of the project including location, capacity, size etc.</td></tr>
<tr><td>4</td><td>Project being implemented under which MDA</td><td>Provide the Line Ministry under which the project is implemented</td></tr>
<tr><td>5</td><td>Objective of the project and expected outcomes</td><td>The objective for pursuing this project and the outcomes expected are to be provided here</td></tr>
<tr><td>1.</td><td>Technical feasibility</td><td>The MDA's preliminary view on the technical feasibility of the project. Successful precedent of similar projects may be included here</td></tr>
<tr><td>6</td><td>Legal framework</td><td>The MDA's view on the legal framework for the implementation of the project</td></tr>
<tr><td>2.</td><td>Project impact and suitability</td><td>The MDA's preliminary view on the likely impact of the project on the environment and community, as well as social acceptability and public benefits of the project. Long-term impact on the goals and position of the MDA. Please add more details as an annexure to this form.</td></tr>
<tr><td>3.</td><td>Brief description of social and community requirements</td><td>Please add more details as an annexure to this form</td></tr>
<tr><td>4.</td><td>Estimated capital expenditure</td><td>This should be a preliminary estimate and need not be a detailed calculation.</td></tr>
<tr><td>5.</td><td>Estimated O&M expenditure over the asset life in present value terms</td><td>This should be a preliminary estimate and need not be a detailed calculation. The projected O&M expenditure over the asset life should be discounted to arrive at the present value.</td></tr>
<tr><td>6.</td><td>Estimated investment</td><td>Summation of Capital Expenditure and Present Value of O&M Expenditure</td></tr>
<tr><td>7</td><td>Revenue generating potential</td><td>State the various sources of revenues for this project. If available, also include the preliminary annual expected revenues</td></tr>
<tr><td>8</td><td>Proposed means of financing</td><td>State the various proposed means of financing the project, indicative proportions and amount.
<table>
<tr><th>Source</th><th>Proportion (%)</th><th>Amount (Naira Mn)</th></tr>
<tr><td>Private Sector</td><td></td><td></td></tr>
<tr><td>MDA</td><td></td><td></td></tr>
<tr><td>Kaduna State Government</td><td></td><td></td></tr>
<tr><td>Any other (Specify)</td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td></td></tr>
</table></td></tr>
<tr><td>9</td><td>Estimated project IRR (Internal Rate of Return) (where developed)</td><td>If estimation of returns is very difficult at this stage then, do not include at this stage.</td></tr>
</table>

SN	Particulars	Details (To be filled in by the MDA)
10	Key risks envisaged	The key risks identified for this project should be provided under this section.
11	Does the preliminary assessment show that the project is suitable for PPP	Reasons and necessity for involving Private Sector in the Project and analysis of suitability of alternative models of project delivery. Roles of MDA and Private Sector.
12	Estimated project development expenses (Naira)	

Signature and seal
Name of the authorised signatory:
Designation of authorised signatory:
Name of MDA:

Date:

10.0 Summary of Contract Management Framework

PPP Lifecycle Phase	Key Functions		
	Service Management	**Relationship Management**	**Contract Management**
PPP Inception and Feasibility	Identify & specify • Service delivery specifications • Affordability limit • PSC/PPP and Value-for-Money benchmark • Risk Allocation framework	Undertake following tasks • Appoint the Project Officer & Project Team • Decide on project type & procurement method	Establish following systems and processes for • Document tracking & management • Financial management
PPP Procurement	Develop and prepare • Performance management plan • Payment mechanism • Risk management plan	Undertake following tasks • Develop the relationship management plan • Identify and establish the PPP contract management team • Prepare the PPP contract management plan	Develop and prepare the PPP contract management plan
PPP Development	Establish, monitor and manage • Risk control procedures • Performance management systems • Progress of project towards completion	Establish and implement • Relationship management plan • Transition management plan • Change management measures	Establish procedures and systems • Financial administration • PPP contract maintenance • Variation management • Recording penalties • Updating the PPP contract management manual
PPP Delivery	Monitor and Manage • Risk • Performance in relation to standards specified • Variations	Undertake following tasks • Review and revise partnerships • Commission independent reviews • Review and revise PPP contract management plan	Review, monitor and update • Financial administration • PPP contract maintenance • Variation management • Recording penalties • PPP contract management manual
Exit	Review and assess • Deliverables • Value-for-money • Quality of Innovation Identify means of service delivery through • MDA • Contract extension • New PPP project Organise post implementation review	Undertake following tasks • Manage Change • Organise closure • Record the lessons of the PPP project	Implement and monitor • Hand over procedures • Transition to new/alternate service delivery

11.0 A Model Full Business Case Structure

1. Introduction

This document is prepared by any Ministry Department or Agency (MDA) and it aims to establish all the information needed to support a decision to award a contract and commit actual funding, as well as provide a basis for the necessary project management, monitoring evaluation and benefits realization. The FBC captures all activities leading to negotiations with the preferred concessionaire.

Key contents include;

1. Value for Money Testing
2. Bidding process
3. Draft PPP Agreement
4. Financing Term Sheets
5. Details of Ownership & Shareholder Structure of the Preferred Bidders

A Full Business Case (FBC) is prepared for seeking approval prior to subsequent award of contract.

The Full Business Case should:

- Outline the report on the conclusions of the Request for Proposal and set out the full scope and cost of the project;
- Be a supporting document to a public sector client's submission once a preferred bidder has been selected;
- Include the qualitative assessment of the preferred bidder and a Public Sector Comparator (PSC) and
- Provide government with an indication of the public sector client's forward plan for proceeding with the project and finalizing a contract with the preferred bidder.

2. Report Out

The FBC will be developed in the same format as the Outline Business Case (OBC). Where there is material change between what was anticipated in the OBC and what is negotiated with the preferred bidder, this should be articulated and captured in the FBC. An FBC should include but not limited to: (1) executive summary, (2) project objectives, (3) financial issues and affordability, (4) stakeholder consultation, (5) procurement process and competition, (6) risk allocation and accounting treatment, and (7) contract and payment mechanism.

(1) Executive Summary

This section of the FBC should provide a short summary of the key issues included in the detailed sections of the FBC. It should include a succinct description of the negotiated project on the following issues:

- The Service Provider
- Terms of the Contract

- The estimated investment regime included in the Contract
- The expected economic benefits and non-economic benefits of the project
- The fit of the project with other public sector client's policies and strategies
- The quality of the service delivery arrangements and negotiated design against that envisaged in the OBC
- A summary of the performance standards and performance targets agreed with the Service Provider, including where appropriate how these fit with any statutory targets.

(2) Project Objectives

The FBC should set out how the proposals in the negotiated Contract meet the objectives developed as part of the OBC, and if there are departures from those objectives, the reasons for the departure should be stated.

If the objectives have been developed further since the OBC was approved by members, or if new requirements have come to light during the procurement of the project, such as successor standards to those envisaged at the time the OBC was prepared, appropriate commentary should be included in the FBC.

(3) Financial Issues and Affordability

This section of the FBC sets out the negotiated position on each of the following topics:

- Value for Money: an estimate of the value of money savings anticipated from procuring the service through a PPP arrangement would have been included in the OBC. This should be updated with out-turn costs of the PPP scheme. In addition, if there have been material changes to the assumptions used in determining the PSC at the OBC stage, appropriate commentary should be included on these with an updated PSC calculated and included in the FBC.

- Affordability: The public sector client will have made an assessment of the affordability of the project at the OBC stage. This computation should be updated using out-turn figures for the negotiated PPP contract. Commentary should be included on how any material changes since the OBC was prepared are to be dealt with.

(4) Pre-Contract Project Monitoring and Stakeholder Consultation

The FBC should capture site visits undertaken to determine market sounding in terms of projected expectations and the peculiarities that may be a cause of setback to the project. It should also outline how the relevant stakeholders have been consulted throughout the procurement of the PPP project. This commentary might refer to each of the following:

- Internal stakeholders: Outlining how the project has been developed by the procurement board, in consultation with members, the strategic/stakeholder board, relevant departments and other internal stakeholders.
- Community and Staff: outlining how the local community and relevant staff have been consulted throughout the process.
- The FBC should also explain post PPP Contract consultation arrangements for the concession period.

(5) Procurement Process and Competition

The FBC should include a summary of the competitive process followed to select the Service Provider and the decisions taken at each stage of the procurement process. As a minimum, it is suggested that appropriate commentary be included in the FBC in respect of the following stages:

- Evaluation Team-selection & approval
- Evaluation criteria & grading
- The Invitation to Expression of Interest/ Request for Qualification
- Pre-qualification and short-listing
- Request for Proposal
- Bidders conference
- Selection of Preferred Bidder
- Negotiations to Financial Close

(6) Risk allocation and accounting treatment

A section should be included in the FBC summarizing the negotiated position as regards the allocation of key risks in the PPP project. In particular, there should be appropriate commentary on those areas where there has been departure from the risk allocation position envisaged at the time the OBC was prepared.

(7) PPP Contract and Payment Mechanisms

The FBC should set out the position on whether any statutory processes still have to be completed, such as planning permissions, and if appropriate, how and when those statutory processes will be progressed and where the risk and responsibilities for completing that work lie.

The FBC should include a summary of the key contractual issues negotiated as part of the PPP contract. A copy of the negotiated contract should be submitted with the FBC. Commentary should also be included in this section of the FBC on pertinent aspects of the payment mechanism agreed with the Service Provider, such as the key components of the payment mechanisms, and how the performance of the Service Provider will be monitored.

Commentary on the key commercial issues specific to this project, such as the following, may be included as well. They are:

- The position agreed on the treatment of taxation
- The anticipated third-party revenues included or anticipated in the Contract
- The proposals included in the Contract as regards any revenue-sharing arrangements
- Any proposals for benchmarking and market testing.
- Risk-sharing regime
- Conditions precedent for PPP Contract execution.

(8) Due Diligence Enquiry (DDE)

In line with the ICRC DDE requirements, the FBC will capture a due diligence report of the preferred/successful bidder prior to negotiations. The due diligence (DD) exercise will guided by the submitted ICRC DDE guide. The DDE model template is expected to be tailored in-line with the peculiar transaction dynamics of the specific project to allow an effective DD exercise.

THE FULL BUSINESS CASE: EXPLANATORY NOTES

Before awarding the contract to the preferred bidder, there is the need to seek approval from the government. A Full Business Case (FBC) is prepared for seeking approval prior to the subsequent award of the contract.

The Full Business Case should:

- report on the conclusions of the Request for Proposal and set out the full scope and cost of the project;
- be a supporting document to a public sector client's submission once a preferred bidder has been selected;
- include a qualitative assessment of the preferred bidder and a Full PSC comparison against the preferred tender to confirm that best value for money is achievable; and
- provide the government with an indication of the public sector client's forward plan for proceeding with the project and finalizing a contract with the preferred bidder.

Contents of Full Business Case (FBC)

The FBC should be presented in the same format as the Outline Business Case (OBC). Where there are any material changes between what was envisaged and presented at OBC and what is proposed to be agreed with the proposed Service Provider, this should be highlighted in the FBC. A FBC should consist of; (1) executive summary, (2) project objectives, (3) financial issues and affordability, (4) stakeholder consultation, (5) procurement process and competition, (6) risk allocation and accounting treatment, and (7) contract and payment mechanism. (8) Due Diligence Enquiry (DDE) Report

(1) Executive Summary

This section of the FBC should provide a short summary of the key issues included in the detailed sections of the FBC. It should include a succinct description of the negotiated project on the following issues:

- The Service Provider
- Term of the Contract
- The expected investment regime included in the Contract
- The estimated economic benefits and non-economic benefits of the project
- The fit of the project with other public sector clients' policies and strategies
- The quality of the service delivery arrangements and negotiated design against that envisaged in the OBC

- A summary of the performance standards and performance targets agreed with the Service Provider, including where appropriate how these fit with any statutory targets.

(2) Project Objectives

The FBC should set out how the proposals in the negotiated Contract meet the objectives developed as part of the OBC, and if there are departures from those objectives, the reasons for the departure should be stated.

If the objectives have been developed further since the OBC was approved by members, or if new requirements have come to light during the procurement of the project, such as successor standards to those envisaged at the time the OBC was prepared, appropriate commentary should be included in the FBC.

(3) Financial Issues and Affordability

This section of the FBC could usefully set out the negotiated position on each of the following topics:

- Value for money: an estimate of the value of money savings anticipated from procuring the service through a PFI arrangement would have been included in the OBC. This should be updated with the out-turn costs of the PFI scheme. In addition, if there have been material changes to the assumptions used in determining the Public Sector Comparator (PSC) at the OBC stage, appropriate commentary should be included on these and an updated PSC calculated and included in the FBC.

- Affordability: The public sector client will have made an assessment of the affordability of the project at the OBC stage. This computation should be updated using out-turn figures for the negotiated PFI contract. Commentary should be included on how any material changes since the OBC was prepared are to be dealt with.

(4) Stakeholder Consultation

The FBC can usefully outline how the relevant stakeholders have been consulted throughout the procurement of the PFI project. This commentary might usefully refer to each of the following:

- Internal stakeholders: Outlining how the project has been developed by the procurement broad, in consultation with members, the strategic/stakeholder board, relevant departments and other internal stakeholders.

- Community and Staff: outlining how the local community and relevant staff have been consulted throughout the process.

The FBC could also usefully explain how the consultation arrangements are to continue throughout the term of the contract.

(5) Procurement Process and Competition

The FBC should include a summary of the competitive process followed to ultimately select the Service Provider and the decisions taken at each stage of the procurement process. As a minimum, it is suggested that appropriate commentary be included in the FBC in respect of the following stages:

- The Invitation to Expression of Interest
- Pre-qualification and short-listing
- Evaluation of Request for Proposal
- Selection of Preferred Bidder

- Negotiations to financial close

(6) Risk allocation and accounting treatment

A section should be included in the FBC summarizing the negotiated position as regards the allocation of key risks in the PFI project. In particular, there should be appropriate commentary on those areas where there has been departure from the risk allocation position envisaged at the time the OBC was prepared.

(7) Contract and Payment Mechanisms

The FBC should set out the position on whether any statutory processes have still to be completed, such as planning permissions, and if appropriate, how and when those statutory processes will be progressed and where the risk and responsibilities for completing that work lie.

The FBC should include a summary of the key contractual issues negotiated as part of the PFI contract. A copy of the negotiated contract should be submitted with the FBC. Commentary should also be included in this section of the FBC on pertinent aspects of the payment mechanism agreed with the Service Provider, such as the key components of the payment mechanisms, and how the performance of the Service Provider will be monitored.

Commentary on the key commercial issues specific to this project, such as the following, may be included as well. They are:

- The position agreed on the treatment of taxation
- The anticipated third-party revenues included or anticipated in the Contract
- The proposals included in the Contract as regards any revenue-sharing arrangements
- Any proposals for benchmarking and market testing.

(8) Due Diligence Enquiry (DDE). Due Diligence Report

12.0 Sample of Expression of Interest (EOI)

EKITI STATE DEVELOPMENT AND INVESTMENT PROMOTION AGENCY (EKDIPA)

REQUEST FOR EXPRESSION OF INTEREST FOR PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENT IN RELATION TO STATE-OWNED ENTITIES (SOEs)

FOUNTAIN HOLDINGS LIMITED

(INVESTMENT ARM OF THE GOVERNMENT OF EKITI STATE)

PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENT IN RELATION TO STATE-OWNED ENTITIES (SOEs) REQUEST FOR EXPRESSION OF INTEREST

INTRODUCTION

To create a conducive environment for investments and development in Ekiti State, EKSG is keen on the commercialization of two state-owned assets – Ikogosi Warm Springs & Resort and Fountain Hotel Ekiti State Government (EKSG" or "the State") through Ekiti Development and Investment Promotion Agency (EKDIPA") is inviting interested participants to submit an Expression of Interest (EOI) to be able to participate in the bid process rot these assets.

OVERVIEW OF IKOGOSI WARM SPRINGS AND RESORTS

Ikogosi is a fascinating tourist attraction situated at Ikogosi, Ekiti State and sits on a land size of 43,535m2. Ikogosi has a unique feature, it is the only natural resort in Africa where natural warm spring meets and flows side by side with cold spring with each maintaining its thermal properties. The tourist attraction contains rooms for lodging, swimming pool, a restaurant and, an event centre.

OVERVIEW OF FOUNTAIN HOTEL

Fountain Hotel is a choice hotel located within the trade complex in Ado-Iyin Road, Ado Ekiti spanning across 22,700m2 land area. With hospitality experience spanning over 20 years, the 32- room hotel is distinctive and renowned for its excellent customer service. The hotel comprises exquisite rooms and suites, a restaurant, an Olympic-sized swimming pool and gym and much more, in a spacious structure.

SUBMISSION OF EXPRESSION OF INTEREST

Interested participants must provide proof of their technical capability, organizational structure, legal status and experience in the hospitality and tourism Industry within the last 10 years.

Requisite experience includes:

- Prior experience in services of similar nature and complexity;
- Thorough knowledge of the hospitality and tourism industry, Including regulatory frameworks, pricing, taxation, economic, financial and commercial issues;
- Possession of at least ten years of relevant experience, including a proven track record in managing similar transaction processes locally, internationally, and in countries of comparable development as Nigeria;
- Participants may enter the bidding process Individually as a company or as a Consortium

Expression of interest from eligible company/consortium should include the following information as basis for pre-qualification for submission of a proposal:

- Cover letter duly signed by authorized signatories of the company/ consortium;
- Profile of company/consortium including ownership structure and in the case of a consortium, the role of each member of the consortium, and their full contact details (email and mobile);
- Copy of Certificate of incorporation / registration with Corporate Affairs Commission (CAC)
- Names and curriculum vitae of key staff of the company, or companies in the case of a consortium, who will be involved in the assignment, including their qualification and individual experience in handling similar assignments;
- Financial statements for the last three years (2017 to 2019);
- In the case of a consortium, evidence of alliance or Memorandum of Understanding (MoU);
- Evidence or tax and other fiduciary filings for the last 5 years for the Company and at least two (2) Directors;and

- Evidence of registration with Ekiti State Bureau of Public Procurement

Participants must submit one original plus three copies of the requested documents. The origin of the completed hard copy bid is to be clearly marked on the front cover “original”; the copy must be marked “copy“. The hard copies must be submitted in a sealed envelope clearly marked “EXPRESSION OF INTEREST- PUBLIC PRIVATE PARTNERSHIP ARRANGEMENT IN RELATION TO IKOGOSI WARM SPRINGS AND RESORTS AND/OR “EXPRESSION OF INTEREST- PUBLIC PRIVATE PARTNERSHIP ARRANGEMENT IN RELATION

FOUNTAIN HOTEL” and delivered not later than 5pm on or before Monday, August 17, 2020 at the address below. Two soft copies of the entire bid must be submitted as separate attachments at the emails listed below.

13.0 Standard Request for Qualifications

Standard Request for Qualifications

Public Private Partnership Projects

[*insert logo of the Contracting Authority***]**

REQUEST FOR QUALIFICATION (RFQ)

FOR [*insert name of the PPP Project***]**

in [*insert location***]**

[*insert month and date of issue***]**

NOTE:

This RFQ has been prepared as a simplified, standardized version of a "normal" RFQ for PPPs. It provides a simplified treatment of most matters and some matters are not dealt with at all. The aim is to ensure the document is as understandable and easy to use as possible while retaining the essential elements of an RFQ for a PPP.

Specific project and legal due diligence should be carried out and the document adjusted to reflect the actual Project and the law applicable to the Project.

Sections and paragraphs starting with NOTE plus the footnotes contain guidance and instructions for the use of the document. They should be read, acted on and then deleted from the final version.

NOTE:

This Standard Request for Qualification (RFQ) is intended for use by the Contracting Authority in qualifying Applicants who express an interest in entering a Public Private Partnership for small national projects under National and International competitive bidding procedures where the financial and technical capacity are of primary importance. It includes:

1. An Introduction;
2. The Instruction to Applicants;
3. The Evaluation Criteria
4. A Standardized Letter of Application; and
5. Information Forms attached as Schedules for the Contracting Authority and Applicants to complete.

Section 1: Introduction

This Section clearly spells out the Contracting Authority's purpose for issuing the RFQ and includes a brief description of the bidding process.

No changes should be made to the wording of Section 1. Information relating to a particular Project should be entered by the Contracting Authority at Schedule 1.

Section 2: Instruction to Applicants

This Section provides the Instruction to Applicants that will apply for this RFQ. It provides relevant information to help Applicants prepare their Application for Qualification (AFQ). Information is also provided on the submission, opening, and evaluation of AFQs and on short-listing of qualified Applicants.

Section 3: Evaluation Criteria

This Section contains the criteria that must be applied by the Contracting Authority for the short-listing of bidders.

Care should be taken when preparing the RFQ to ensure the evaluation criteria are clear and explicit and that they refer to the needs and characteristics of the PPP Project.

Section 4: Schedules

This section provides for Schedules which contains Project specific information to be completed by the Contracting Authority and the format for submission of the AFQ. Schedule 1 should be completed by the Contracting Authority. It allows the Contracting Authority to define clearly the objectives, goals, and scope of the PPP Project and provides background information to enable the Applicants to prepare the AFQ. It also includes the tender timeline and related deadlines. The remainder of the Schedules should be completed by the Applicants. The Schedules contain a standardized letter of application, the details of the Applicant, the Applicant's technical and financial capacity and undertakings of the Applicants on anti-bribery, anti-money laundering etc.

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14.0 Financial Analysis

For PPP projects, financial analysis forms a key element of the due diligence to be undertaken. Both the private sector and contracting authority need to know the project's projected financial performance and for the public sector, this is provided by the Stage 2 financial analysis. The analysis will also indicate whether the project needs fiscal support and/or guarantees from Government.

Clearly, the assumptions used by the public and private parties may not/will not be the same. This would account for the differences in the results from financial analysis. Very likely these differences will be a basis for negotiation at a later stage.

Two commercial issues are relevant to this section, and comprise tariffs and fiscal support. These are discussed below.

Financial analysis uses costs and revenues and is focused on assessing the project from an investment viewpoint, usually from the point of view of the private sector or a corporation (Sometimes referred to as a Special Purpose Vehicle or Company (SPV or SPC)), specially created for the execution of the project.

The financial analysis is based on the standard methodology used by the private sector, and by the public sector for private sector oriented projects, in the analysis of project feasibility. The financial analysis uses debt service, the commercial weighted cost of capital, the return on equity and is expressed in current terms (i.e. with inflation/escalation). It therefore differs from the standard financial analysis used by donor agencies and public sector.

It should be assumed, at least initially, that PPP projects will either not need any financial support from the government, or if needed, such support will be targeted and minimized.

Based on its assumptions, the financial analysis is able to show:

- If the project is financially viable (or bankable may be a better word, since a bankable project will always be financially viable, but a financially viable project may or may not be bankable) and sets out the financial performance, including direct financial risk, of the project over its life. It should be noted that all risks have a financial dimension. Direct here is used in the sense of sensitivity of the project's financial performance to the variables used in the model e.g. toll rates, demand, costs, debt service etc.

- What would be needed to make the project viable (bankable or acceptable to the private sector) if it turns out to be only marginally viable; and
- The clear identification, approximate costing and timing of any proposed project support measures, and through which financial instruments this support may be provided, minimized and scheduled.

Financial Model Inputs

In order to assess a project in financial terms, it is necessary to develop a financial model. This is provided in the Toolkit (Module 6 -> Financial Models). By necessity, this is usually more complicated than the economic analysis in that in particular (i) revenue streams and (ii) debt servicing need to be detailed and projected based on a number of scenarios and assumptions. However, economic analysis of large multi facetted development projects can be equally complex.

The following are the key factors needed to be input to a financial model:

- Financial Project Costs (construction, land, engineering, surveys etc.) and by the year incurred
- Demand (traffic by type)
- First Year Tariffs (by type) and Tariff Escalation Formula(s)
- Annual Operating and Maintenance Costs (base year estimate plus an inflation-related increase or can be related pro rata to the inflation-related revenue)
- Types of Equity
- Debt to Equity Ratio (usually varies between 80:20 and 60:40, commonly 70:30)
- Debt service arrangements and costs (types of debt and interest rates, grace and repayment periods)
- Weighted average (opportunity) cost of capital
- Tax rates (national corporate rates)
- Depreciation basis allowed (national regulations)

The financial model structure, and these types of inputs, will be largely similar for all PPP projects. Road projects have much simpler traffic groups

than say airports or ports where there are many more revenue streams.

Costs can be calculated by building up direct, indirect and overhead costs based on historical data or more usually as a percentage of project costs or as a per cent of revenue. It should be noted that historical/actual data is paradoxically usually quite unreliable and the percentage (rule of thumb) basis is at least as good and much easier to generate at this stage.

All projects suffer from forecasting difficulties and this should be borne in mind at both the modelling stage and risk assessment stage where inaccuracies in demand forecasts may substantially outweigh uncertainties in other model inputs/assumptions.

Project costs will be initially in base year values (i.e. when the analysis is undertaken) but price contingency will be added for each construction year and revenue and costs inflated by an appropriate index.

The Request for Proposals (RFP) should include the proposed index, or the proposed tariff escalation rates, which will be allowed under the contract. Tariff escalation should be a criterion in bidder procurement allowing bidders to compete on initial as well as future tariffs.

Financial Model Outputs

The model then outputs the Profit and Loss statement and the Cash Flow statement providing estimates of the key data for each project year. (Other supplementary accounting outputs are usually needed later, such as balance sheets).

These statements show:

- The overall project cash flow.
- The cash flow available to the equity participants (investors).
- Profitability/Viability: The Financial Internal Rate of Return/Return on Equity (project FIRR/or ROE). This is based on the same mathematical process as the

EIRR but instead uses financial costs and revenues over the project life. Further, it does not use incremental costs and benefits but actual costs and actual revenues.

- Cost recovery; the number of years to pay back the equity investment (the norm is 5-7 years for commercial projects but infrastructure projects may only generate payback over 10-15 years or more).

- Debt Service Cover Ratio (the projected cash flow must, at a minimum, be adequate to finance the projected debt service. (The usual requirement is that the net cash flow each year must be at least 1.2 times (depends on the risk profile) the debt payment due in that year)
- The estimated FNPV. (It may be useful to distinguish the NPV from the SCBA and financial analysis by using ENPV and FNPV).
- Quantitative risk analysis are also increasingly standard model outputs.
- Together, these make up most of the quantitative basis of bankability, although other aspects can also be important such as non-quantified risk.

Financial Model Assessments

Models can be used to assess the:

- Length of contract needed to generate an acceptable return on equity.
- The financial impact of different types of debt and equity and thus the optimum debt equity ratio.
- Losses in early years (if applicable) that need to be met by the PPP concessionaire (and/or by fiscal support/guarantees).
- Fiscal support that may be needed (and as input to the projection of the cost of guarantees)
- The financial impact and the subsequent optimum timing of the 'claw back' of subsidies (fiscal support).
- Corporate Tax revenue to government (when profits are made).
- Impact of changing key variables such as tariff, projects costs etc.
- Government returns if an equity participant (and if on different terms to the private sector e.g. secondary equity).

Hence key parameters are input to the model which then produces the financial estimates from which decisions on the PPP project can be made.

Generally, if a project is financially viable, it is usually economically viable. However, an economically viable project may or may not be financially viable as the revenue may not be adequate (Traffic or Tariff or both). For

example, road projects generate high economic benefits but tariffs are set to be 'socially/politically' responsive.

15.0 Social Impact Assessment

The social impact analysis can address a very broad set of issues related to changes in the social, economic, and cultural condition in which the surrounding community live and work. Specific types of social issues and possible impacts associated with a project can vary considerably depending on the nature of the project, its size and location.

In other words, different projects may have a very different list of social issues. For example, a school project in a remote rural area may have a much narrower set of social impacts than a greenfield toll road that crosses several communities. In all cases, experienced professionals should use their technical judgment to determine which issues should be subject to inquiry. The following list is a minimum set of socials issues, which should be addressed as a part of the social feasibility exercise.

- Will the project produce any population or demographic movement, such as the change in size of the communities affected by the project?
- Will the project significantly alter the economic structure of the local economy or generate any significant change in relative prices, such as land value?
- What kind of social impacts can these economic changes produce?
- Will there be a significant change in the general access that the communities have to natural resources, such as drinking water and energy?
- Does the local community have effective governance mechanisms to deal with the long-term effects of the project in areas such as land use regulation, negotiations over business transactions, and other such issues?
- Will the project increase or decrease the demand for public goods or services, such as education or health?
- Are there groups (indigenous groups, women, ethnic minorities, and so on) who will be differentially impacted by the project?
- Will the project interfere with the local labor market during or after construction?

- Does the background of project staff (for example, urban, educated, skilled, foreign language-speaking, expatriates, different customs, and so on) differ significantly from local communities and provide the potential for misunderstanding and conflict? And
- Will an influx of newcomers seeking opportunities associated with the project disrupt traditional social structures and create undesirable effects, such as crime, violence, disease, or conflict due to religious and ethnic rivalries?

The answer to these questions can help to determine the extent of the impact, as well as any unmanageable social obstacles ahead of the project. This allows for the anticipation of any adverse significant social effects of the infrastructure and for avoiding, minimizing, or offsetting them. See box below for the six principles of social impact assessment

The Six Principles of the Social Impact Assessment (SIA)

Principle 1: Achieve extensive understanding of local and regional populations and settings to be affected by the proposed action, program, or policy.

Principle 2: Focus on the key elements of the human environment related to the proposed action, program, or policy.

Principle 3: The Social Impact Assessment is based upon sound and replicable scientific research concepts and methods. The SIA process subscribes to the ethic that good science (scholarship) will lead to informed and better decisions.

Principle 4: Provide quality information for use in decision-making. The 'good science' ethic requires the collection of quality data representative of all issues and perspectives, as well as clearly-presented, holistic and transparent analyses of information and alternatives.

Principle 5: Ensure that any environmental justice issues are fully described and analyzed. SIA practitioners must identify the disadvantaged, at risk, and minority populations (for instance, by race, national origin, gender, disability, and religion) affected by the proposed action, program, or policy and incorporate information about these populations into the Social Impact Assessment descriptions and analyses.

Principle 6: Undertake project, program, or policy monitoring and evaluation, and propose mitigation measures if needed. Use of the research design and databases established for the assessment of impacts should provide the basis for monitoring and evaluating the actual impacts of the chosen alternative (project).

Source: Principles and Guidelines for Social Impact Assessment in the USA, The Inter-organizational Committee

16.0 Environmental Impact Assessment

The project team, typically with specialized consultants, must address a fundamental question during the environmental feasibility analysis: is there any specific aspect of the project that makes environmental approvals impossible or the costs to obtain them prohibitive?

To approach the question adequately, four steps are necessary. They allow an effective assessment of the environmental aspects of a PPP project.

The first step is the identification of all legal and regulatory aspects relevant for obtaining the environmental approvals. It requires an analysis of the institutional environment of the country where the approvals will be conducted. Responsibility for approval may rest with a supra-national agency (for example, the European Union), with a centralized agency of national government, or with a sub-national government, and the process may include several levels of approval.

Effectively, each country imposes its own environmental regulations and determines standards to be met by infrastructure projects as well as defining processes for obtaining approvals, including the definition of compensation measures. At this stage, the project team needs to produce a thorough and detailed evaluation of those regulations, specifically searching for the following.

- What are the stages for environmental approval?
- What is the level of detail required in each of those phases?
- What is the content of the environmental assessment needed for the approvals?
- What are the sector-specific requirements? And
- How long will the process take, given the size and sector of the project?

Once the environmental regulations regarding the specific sector of the project are fully mapped, good practice suggests the design of an environmental requirements log that will serve as a guide for the project's environmental due diligence.

The second step is a thorough due diligence effort to identify, describe, and as far as possible, quantify the environmental impacts of the project. Several countries call this exercise an Environmental Impact Assessment (EIA). The EIA should be a formal report that addresses the project's environmental impact from a comprehensive perspective. It also needs to address the issues identified in the environmental log. Its content depends significantly on the sector and specific characteristics of the project. However, it generally includes the following.

- A full description of the area to be influenced by the project in order to characterize the main environmental fragilities before the construction of the infrastructure. This should include both the physical (land, water, and so on), and biological (flora, fauna, and so on) characteristics of the area;
- An analysis of the project's environmental impact on the area previously described (including direct and secondary impacts), immediate or long-term effects, and temporary or permanent consequences. These effects, depending on the nature of infrastructure, may involve greenhouse gas emissions, fauna disruption, waterway interventions, wastewater disposal, and so on;
- An identification of the consequences of the construction of the asset in terms of its main inputs, such as material consumption, water usage, and energy sources; and

- A full description of the physical and biological aspects of the area after the construction and operation of the infrastructure.

The third step is the definition of a strategy to mitigate the specific effects. There should be a focus on the most significant environmental effects, and mechanisms should be identified to minimize them. These could include feedback of the technical requirements to alter aspects of the design (of the infrastructure or output specification) when such changes can significantly reduce the environmental costs. For example, small changes in road design can be enough to avoid a valuable headwater region, dramatically reducing the corresponding environmental impacts.

This mitigation strategy should also focus on measures to compensate for inevitable environmental consequences, such as tree replanting in the face of deforestation. The aim here is not to neutralize environmental impacts, but specifically to mitigate unintended consequences given the regulatory requirements that will need to be considered for the final environmental approvals.

The fourth step is to obtain, wherever possible, the environmental permits and final approvals needed for construction of the infrastructure. It should be recognized that in many cases it will not be possible to obtain the final environmental approvals during the Appraisal Phase because the level of information demanded by the environmental authorities might only be available in later phases of the PPP process, specifically for large projects. Also, in some countries, the costs to obtain the full studies and file for environmental approvals are exceptionally high, particularly in environmentally complex projects. In these cases, the permits should not be initiated before the green light decision to procure the project is taken at the end of the Appraisal Phase.

Thus, in most large infrastructure projects, the environmental feasibility assessment concluded in the Appraisal Phase is not going to provide the level of detailed environmental investigation required to obtain full approval. It has to be noted that it is good practice to obtain the environmental permits, at least in a preliminary or “provisional” mode, before launching the project. In fact, the higher the certainty about environmental approvals before the procurement phase, the less risky and more effective the procurement process will be. Independently, the official approval (at this stage), the analysis of the regulatory framework, and the assessment of the project’s environmental impact should be able to provide the answer to the following questions.

- What are the total costs for environmental licensing in terms of future investigations?
- What are the costs of compensation measures? And
- What is the estimated time to obtain full environmental licensing?

The answers to these questions are a key result of this exercise, and they largely contribute to the quality of the information considered at the final green light decision at the end of the Appraisal Phase. In some countries, the process of Environmental Impact Analysis is integrated with the Social Impact Analysis.

Source:https://ppp-certification.com/ppp-certification-guide/131-process-assessing-environmental-feasibility-

15.0 Climate Screening Assessment

It is an assessment of the PPP pipeline on adaptation and mitigation measures aimed to evaluate the alignment of the intended project (or projects' pipeline) to the overarching goals of international agreements, the national climate targets/priorities, and the broader national strategies and action plans

Climate Screening Assessment should be done as part of the preliminary screening in project selection. At a minimum, the screening assessment must include the following questions:

i. What is the primary purpose of the projects?
ii. Do the project's specific goals align with the country's national climate-change mitigation and adaptation target?
iii. Does the project contribute to negative, zero or very low Greenhouse gas emissions (GHG) emissions?
iv. Does the project incorporate mitigation features that contribute to the transition towards a net-zero future?

A sample of PPP Project Climate Screening Assessment Report of Ekiti State is presented in the table below:

PROJECT NAME: CONTSRUCTION OF 20,000 BED SPACE HOSTEL		
LOCATION : EKITI STATE		
SECTOR: EDUCATION		
VALUE : 4,630,000,000.00 (NAIRA)		
S/N	**Assessment Domain**	**Remarks**
1	PRIMARY PURPOSE OF THE PROJECT	The decision to construct this hostels follows the realization that there is generally a critical shortage of modern and adequate students' hostels in most of the the tertiary institutions in the country and Ekiti State University campus is not excepted. Shortage of modern and adequate hostels at the school is negatively affecting students' enrolment and students' academic performance. Again, most of the students that are enrolled at the university stay off campus and travel long distances to access university facilities. It is therefore anticipated that the project will assist to increase students' enrolment and will enhance students' academic performance as the project will help to create more bed spaces which will assist to accommodate more students on campus. The construction of the 20,000 bed space hostel is expected to provide living quarters for students who are attending the State's university away from their hometowns. This is particularly important because Ekiti State University is located in area where it is not feasible for most students to commute daily. In addition, the construction of the hostels aim to create an environment that fosters social interaction and offers a unique experience for students.
2	ALIGNMENT WITH THE COUNTRY'S NATIONAL CLIMATE-CHANGE MITIGATION AND ADAPTATION TARGETS	Environmental and Social Impact Assessment was carried out in respect of the project to ensure its adherance with the National Climate Change Policy (NCCP) 2021. A total of 80 samples of soil were collected for laboratory analysis in line with the following legal documents Ekiti State Environmental, Health and Sanitation (Re-Enactment) Law 2020 (https://www.hoa.ekitistate.gov.ng/dashboard/doc/No.%2021%20of%202020%20-%20EKITI%20STATE%20ENVI%20&%20SANITATION%20LAW,%202020.pdf) and Ekiti State Water and Sanitation Law 2013 (https://www.slideshare.net/EkitiState/ekiti-state-water-and-sanitation-law-2013-passed-aug-14-2013). The legal documents were used to check if the project was in tandem with NCCP 2021
3	CONTRIBUTION TO GREENHOUSE GAS EMISSIONS (GHG) EMISSIONS	The construction of buildings contributes to greenhouse gas emissions through various processes such as the extraction and transportation of raw materials, manufacturing of construction materials, construction activities, and energy use during the building's lifespan. Additionally, the operation of buildings also contributes to GHG emissions through energy consumption for heating, cooling, lighting, and appliances. It is therefore expected that this project would contribute to negative, zero or low GHG emissions
4	MITIGATION FEATURES THAT CONTRIBUTE TO THE TRANSITION TOWARDS A NET-ZERO FUTURE	(i) Material selection: choose materials with a low carbon footprint, such as recycled or reclaimed materials; use materials sourced locally to reduce transportation-related emissions; (ii) Construction Practices - opt for prefabricated construction methods to reduce on-site construction time and waste; (iii) Renewable Energy - incorporate on-site renewable energy sources, such as solar panels or wind turbines, to power construction activities and building itself; (iv) Design and contruct buildings to meet Leadership in Energy and Environment Design (LEED) standards, which promote environmentally responsible and sustainable practices; (v) Educate, empower, and engage citizens to take action to take actions to reduce individual and community vulnerability to climate changes through both mitigation and adaptation;
For further information, refer to the Public Private Partnership Law, 2023 or contact the PPP Unit, Ekiti State Development and Investment Promotion Agency or call the EKDIPA Customer Service Centre on +2348169221481. You can also send email to ekdipa@ekitistate.gov.ng or visit our website at www.ekdipa.com.ng		