

WHAT IS A GREENFIELD SOLICITED HYBRID PUBLIC-PRIVATE PARTNERSHIP (PPP) PROJECT?

A **greenfield project** refers to a project which entails the creation of an entirely new facility, which does not depend on the improvement of an existing facility. The New Manila International Airport Project is a greenfield project as it involves the construction of a new airport and related facilities in Bulacan.

A **solicited project** refers to projects identified and developed by the implementing agency (IA) based on the list of their priority projects. In a solicited project, the IA formally solicits the submission of bids from the interested and qualified investors, and the selection of the private partner is done through a competitive public bidding. A solicited project refers to projects identified and developed by the implementing agency (IA) based on the list of their priority projects. In a solicited project, the IA formally solicits the submission of bids from the interested and qualified investors, and the selection of the private partner is done through a competitive public bidding.

Hybrid PPP refers to an arrangement whereby components of an infrastructure project are taken on by the government through official development assistance (ODA),² government financing, or a combination of both, while other components and the operations and maintenance (O&M) of the facility are done through a PPP contract.

PPP projects may be implemented as a hybrid PPP project, if during the conduct of the feasibility study, the project is found to yield the best value for money for the government and its risks are found to be minimized under the hybrid structure.

As a definition, a **greenfield solicited hybrid PPP** project is a project identified and developed by the IA to create a new facility, where certain project components are taken on by the government through ODA or government financing while its operation and maintenance is done through PPP.

WHAT ARE THE FACTORS THAT SHOULD BE CONSIDERED IN DEVELOPING AND IMPLEMENTING A GREENFIELD SOLICITED HYBRID PROJECT?

According to the PPP Governing Board Resolution No. 2019-07-02 there are three main factors that IAs may consider in undertaking greenfield solicited hybrid PPP projects.

1. Early establishment of public service outcomes

The target service levels for the construction and O&M components are defined and aligned with the minimum performance standards and specifications (MPSS)³ and key performance indicators (KPIs)⁴ from the start.

Take for example an airport project wherein the construction of the airport facilities is undertaken via government funding and the O&M is bid out to the private sector as a PPP. If the MPSS for the O&M requires an average check-in queuing time of five minutes, the IA should ensure that the design of the facility to be constructed provides sufficient check-in counters to be able to achieve this. In case there are design constraints that limit the number of counters to be built, the IA should then consider revising the queuing time target to reflect this restriction.

For ODA-financed government contribution to the hybrid PPP, it is recommended that the MPSS and KPIs be among the terms to be negotiated with the development partner.

2. Determining optimal allocation of components vis-à-vis the various sources of financing

The IA may consider the following elements in determining the source of financing for each project component to maximize the value for money for hybrid PPPs:



To illustrate, below is a sample component allocation in a railway project:

Government	Private Sector
<ul style="list-style-type: none"> • Civil works (e.g., viaducts, stations, rails) • Station electro-mechanical systems (e.g., signaling lights and computers) 	<ul style="list-style-type: none"> • Rolling stocks • Signaling and train control systems • Commercial assets

The above table illustrates that the government, with its ability to borrow funds at a lower rate, may take on the civil works and station electro-mechanical systems to reduce the overall capital expenditure cost. On the other hand, with the private sector's recognized experience in O&M, it may take on the critical O&M components such as rolling stocks, signaling, and train control systems. Additionally, since the private sector is more experienced at managing operations and maximizing revenue, management of the assets may be allocated to the private partner to optimize overall value for money.

The IA may also consider to:



Consult with prospective bidders and lenders through market sounding activities to determine the most suitable assignment of project assets to be developed and managed.



Hire the services of an expert transaction adviser and solicit inputs from key agencies such as the Department of Finance, the National Economic and Development Authority, and the PPP Center.⁵

¹ Based on the PPP Governing Board Resolution No. 2019-07-02

² Official development assistance (ODA), as defined in Republic Act No. 8182, is a loan or a grant administered to promote sustainable social and economic development and welfare of the Philippines.

³ Minimum performance standards and specifications (MPSS) refer to the detailed minimum technical specifications and minimum required performance levels of a project based on the demand study, as well as existing local and international industry standards and best practices. These could also be based on local laws and building regulations as well as target service levels by the IA.

⁴ Key performance indicators (KPIs) refer to critical indicators of progress toward an intended result

⁵ Sec. 3.3 of PPPGB Resolution No. 2019-07-02 states that in hybrid PPPs involving ODA financing, these suggested guidelines apply only when the government has flexibility to choose which components of the project will be financed by the development partner.

3. Addressing inherent hybrid PPP risks

The IA may take into consideration the following risks that are inherent in hybrid PPPs:

- Risk of not having seamless coordination among the IA's project teams handling different project components. Ensure seamless coordination for the various project components by establishing a single project team within the IA to procure and delivery all project components. Maintain strong coordination and harmony between project teams to ensure alignment of objectives.
- Systems integration risk. In hybrid PPPs, where different components are allocated to different developers, there is a risk that the project components end up being incompatible with each other. To prevent such risks and to avoid potential issues on conflict of interest, the IA may hire a systems integrator to ensure the different components of the project are integrated and managed properly.
- Interface risk. In hybrid PPPs, there is a risk that outputs and delivery schedules are not aligned, which may result in variations and consequent delays and cost over-runs. To avoid these risks, the IA may establish interface protocols between stakeholders and create incentives for stakeholders to work together, such as:



a) Aligning bid documents and design requirements in EPC contract with the MPSS and KPIs in O&M contract



b) Commencing procurement of O&M provider prior to/in parallel with procurement of EPC contractor



c) Permitting O&M provider to specify its operational and maintenance requirements, to be contractually imposed on the EPC contractor



d) Providing the O&M provider with appropriate recourse against the EPC contractor in cases of defects, delays, or default



e) Exploring alliancing agreements for projects with complex interfaces

- Handover risk. Hybrid PPPs also carry a risk that the engineering, procurement, and construction (EPC) contractor is unable to finish construction, resulting in the IA failing to handover the infrastructure to the O&M provider within the agreed period.

The IA may mitigate this risk by including remedy provisions in the O&M contract, such as allowing the O&M provider to take on the EPC contractor's unfinished obligations and complete the construction.

For a more detailed discussion on these factors, the full guidelines can be downloaded via: <https://bit.ly/GreenfieldSolicitedHybridPPPs>



ARE THERE AVAILABLE RESOURCES WE CAN TAP TO HELP US UNDERTAKE A HYBRID PPP PROJECT?

IAs interested in undertaking a hybrid PPP project may avail of the technical and advisory support from the PPP Center in all stages of the PPP project cycle:

- Provision of PPP trainings and other capacity building activities
- Project development assistance and advisory, including review of project studies and unsolicited proposals
- Assistance in developing PPP ordinances, guidelines, and policies
- Assistance in market sounding and market activities
- Assistance in project approvals and project evaluation
- Assistance during bid process, including review of bid documents and concession agreements
- Technical advisory on project implementation and contract management

For more information, you may visit: <https://www.ppp.gov.ph> or email us via info@ppp.gov.ph

PRIMER ON MANAGING GREENFIELD SOLICITED HYBRID PPP PROJECTS