



Mixed Capital Public Private Partnership. A Tool for Sustainable Development

1. Background

SPM is an international development group using the Mixed Capital Public Private Partnership (MC-PPP) tool to apply sustainable business based solutions to solving infrastructure challenges in the water, waste, energy efficiency and renewable energy sectors.

2. Development Challenge

- to secure the commitment of local government units (LGUs) to invest their time and resources solving their infrastructure problems using Donor Funding to leverage private sector participation.
- to insure that the technology used meets the test of eco-efficiency as defined by the World Business Council for Sustainable Development.
- to find more cost effective processes, both in time and money, for the several stages from project identification to project implementation.
- to design innovative ways to finance medium and small scale projects using inter alia user fees, local investors, and local capital markets.
- to use the project process as an instrument for local capacity building, job creation and public policy reform.
- to use the partnership development process to meet international development goals such as poverty alleviation, and the creation of sustainable livelihoods for developing communities.
- To ensure that on-going effective public consultation is an integral part of the project cycle so the new business provides an efficient utility service which meets the needs of the community in which it operates.

3. SPM's Role:

- SPM acts as a strategic broker to develop a MC-PPP.
- The brokerage role ensures that each side of the partnership – the public sector (including civil society) and the private sector – are supported through the development of the MC-PPP and enabled to participate equitably, transparently and effectively.
- SPM's international networks can access eco-efficient technology, innovative financing mechanisms and other expertise to ensure the public sector is getting the appropriate private sector involvement in the partnership.
- SPM can work with the public sector to provide any capacity building or institutional strengthening to ensure the private sector has a public sector partner which fully understands its role in the partnership, and the commercial imperatives necessary to operate a sustainable business.

4. The MC:PPP Process

- *Project identification:* in collaboration with the Donor, SPM and the local government (including civil society) review project fundamentals to provide a “reality check”. SPM determines if the LGU is committed and understands the MC:PPP process and obligations. SPM also reviews the available documentation and determines, with the

local government, whether there is a viable, sustainable commercial solution to the problem.

- Output: “Project Identification Document” (PID)
 - Elapsed time: 1 - 2 month.
- *Project Feasibility Analysis:* SPM undertakes preliminary engineering and technical analysis in partnership with the local government and develops a preliminary financial model of the project based on estimated capital and operating costs.
- Output: “Project Investment Proposal” (PIP).
 - Elapsed time: 6-9 months.
- *Investment Roundtable:* SPM and local government issue invitations to the private sector, and local and international stakeholders to attend the Roundtable where the preliminary engineering and financial parameters for the project are outlined. At this Roundtable the MC:PPP process and obligations for the Public and Private partners are made clear.
- Output: Roundtable Proceedings and formal Expressions of Interest from participants
 - Elapsed time: 2-3 days (Roundtable) 1 month for formal EOI.
- NB:** For small to medium sized projects (less than USD5 million), this process can be made less expensive and time consuming by SPM undertaking the due diligence to pre-qualify up to three private sector stakeholders and putting these to the LGU to make the final selection.
- *Investment Proposals:* those companies submitting EOI’s prepare formal proposals and submit these to the LGU and SPM. A short list is drawn up and invitations issued to make presentations to the (LGU) and the wider public sector. Following discussions and negotiations between the LGU and the candidates, the LGU decides on the preferred private sector partner. SPM acts as a technical and financial advisor during this process.
- Output: Private Sector Investment Proposals and selected partner
 - Elapsed Time: 1-2 months (depending upon project size)
- *Due Diligence and legal formalities:* the private sector partner takes on the due diligence required at their expense with a view to forming the legal partnership. The contractual obligations of both parties are finalised so the project can proceed.
- Output: Feasibility Study
 - Elapsed time for due diligence: 4 months.
- *Project Implementation:* carried and financed by the partnership. SPM can play a facilitating role and assist with the project financing issues. SPM, at the invitation of the partnership, can also have a place on the Board of the new company but would generally limit participation to a maximum of 3 years

5.The Benefits of the MC:PPP Process for Local Government

- the LGU and local civil society is engaged from the outset as an investor and partner, not aid recipient;
- the process allows for negotiations between the local government (supported by SPM) on the technical, environmental, community, and financial aspects of the project whilst retaining the benefits of competitive bidding;
- public policy reform becomes a by product of project development;
- a focus on local financing reduces currency risks and private sector investment reduces the financing burden on local government accounts; and
- capacity building at the local government level and job creation (and therefore poverty alleviation) is achieved through participation.

6.Benefits to Donors

- the use of limited Donor funds to leverage larger private sector funds into Development programmes;
- the MC-PPP process is an avenue through which Donors can meet global sustainable development goals; and
- The process creates opportunities for Donor country companies at reduced risk.

7.Benefits to the International Private Sector

- reduces commercial risk and reduces costs of commercial bidding;
- initial feasibility work undertaken by SPM.
- opens new markets and new forms of partnership